CAJA RURAL DE CASTILLA-LA MANCHA, SOCIEDAD COOPERATIVA DE CRÉDITO

Independent Auditor’s report
on the consolidated annual accounts
and the consolidated Director’s Report
December 31, 2016

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

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the Cooperative Shareholders of Caja Rural de Castilla-La Mancha, Sociedad Cooperativa de Crédito:

Report on the consolidated annual accounts

We have audited the accompanying consolidated annual accounts of Caja Rural de Castilla-La Mancha, Sociedad Cooperativa de Crédito (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company´s Directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Caja Rural de Castilla-La Mancha, Sociedad Cooperativa de Crédito and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as Directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Caja Rural de Castilla-La Mancha, Sociedad Cooperativa de Crédito, and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' Report for 2016 contains the explanations which the parent company´s Directors consider appropriate regarding Caja Rural de Castilla-La Mancha, Sociedad Cooperativa de Crédito and its subsidiaries' situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the consolidated annual accounts for 2016. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Caja Rural de Castilla-La Mancha, Sociedad Cooperativa de Crédito and its subsidiaries' accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Alejandro Esnal

March 22, 2017

CAJA RURAL DE CASTILLA-LA MANCHA,
SOCIEDAD COOPERATIVA DE CRÉDITO

Consolidated Annual Accounts at 31 December 2016 and
Consolidated Directors' Report for 2016

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CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2016 AND 2015

		Thousand of euros	
ASSETS	**Note**	**2016**	**2015(*)**
Cash, cash balances at Central Banks and other demand deposits (**)	**6**	**399,880**	**1,224,208**
Financial assets held for trading		-	-
Derivatives		-	-
Equity instruments		-	-
Debt securities		-	-
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum items, lent or delivered as guarantee with disposal or pledge rights		-	-
Memorandum items, lent or delivered as guarantee with disposal or pledge rights	**8**	**54,459**	**52,542**
Equity instruments		-	-
Debt securities		43,274	38,428
Loans and advances		11,185	14,114
Central banks		-	-
Credit institutions		11,185	14,114
Customers		-	-
Memorandum items, lent or delivered as guarantee with disposal or pledge rights		-	-
Available-for-sale financial assets	**9**	**2,182,725**	**2,291,232**
Equity instruments		44,631	39,778
Debt securities		2,138,094	2,251,454
Memorandum items, lent or delivered as guarantee with disposal or pledge rights		-	-
Loans and receivables	**10**	**3,283,643**	**3,171,014**
Debt securities		-	-
Loans and advances		3,283,643	3,171,014
Central banks		-	-
Credit institutions		205,627	299,541
Customers		3,078,016	2,871,473
Memorandum items, lent or delivered as guarantee with disposal or pledge rights		*767,832*	*852,036*
Held-to-maturity investments	**11**	**1,056,341**	**479,434**
Memorandum items, lent or delivered as guarantee with disposal or pledge rights		-	-
Derivatives – Hedge accounting	**7**	**507**	**285**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Investments in subsidiaries, joint ventures and associates	**12**	**-**	**-**
Controlled companies		-	-
Associated companies		-	-
Reinsurance assets		**-**	**-**
Tangible assets	**14**	**44,252**	**43,470**
Property, plant and equipment		44,252	43,470
For own-use		44,252	43,470
Leased out under an operating lease		-	-
Social proyects		-	-
Investment property		-	-
Of which Leased out under an operating lease		-	-
Memorandum items: acquired in financial lease		-	-
Intangible assets	**15**	**557**	**752**
Goodwill		-	-
Other intangible assets		557	752
Tax assets	**25**	**33,127**	**35,856**
Current tax assets		908	4,188
Deferred tax assets		32,219	31,668
Other assets	**16**	**13,495**	**25,630**
Insurance contracts linked to pensions		-	-
Inventories		293	230
Other		13,202	25,400
Non-current assets and disposal groups classified as held for sale	**13**	**24,791**	**27,272**
TOTAL ACTIVO		**7,093,777**	**7,351,695**

(*) Presented solely and exclusively for the purposes of comparison. The information has been adapted to the new structure of financial statements of Bank of Spain Circular 5/2014 (Note 2.d).
(**) See Cash Flow
Notes 1 a 35 y los Anexos I, II y III are an integral part of the consolidated balance sheet at 31 December 2016.

CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2016 AND 2015

LIABILITIES	Note	2016	2015(*)
		Thousand of euros	
Financial liabilities held for trading		**-**	**-**
Derivatives		-	-
Short positions		-	-
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Marketable debt securities		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Marketable debt securities		-	-
Other financial liabilities		-	-
Memorandum items: subordinated liabilities		-	-
Financial liabilities measured at amortised cost	**17**	**6,592,140**	**6,910,339**
Deposits		5,567,318	6,389,648
Central banks		220,000	1,055,012
Credit institutions		890,692	977,778
Customers		4,456,626	4,356,858
Marketable debt securities		999,675	498,149
Other financial liabilities		25,147	22,542
Memorandum items: subordinated liabilities		-	-
Derivatives – Hedge accounting	**7**	**5,383**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Provisions	**18**	**15,725**	**6,809**
Pensions and other post employment defined benefit obligations		187	237
Other long term employee benefits		-	-
Pending legal issues and tax litigation		-	-
Commitments and guarantees given		847	1,698
Other provisions		14,691	4,874
Tax liabilities	**25**	**20,725**	**22,762**
Current tax liabilities		1,960	1,809
Deferred tax liabilities		18,765	20,953
Capital social reembolsable a la vista		-	-
Other liabilities	**16**	**26,137**	**29,289**
Mandatory transfer to welfare projects and funds	*24*	*5,449*	*6,383*
Liabilities included in disposal groups classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**6,660,110**	**6,969,199**

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CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2016 AND 2015

EQUITY	Note	Thousand of euros	
		2016	2015 (*)
Shareholder's equity	**22**	**391,869**	**331,955**
Capital		**93,012**	**50,919**
Paid up capital		93,012	50,919
Unpaid capital which has been called up		-	-
Memorandum items: uncalled up capital		-	-
Share premium		**-**	**-**
Equity instruments issued other than capital		**-**	**-**
Equitycomponent of the compound financial instrument		-	-
Equity instruments issued		-	-
Other equity		**-**	**-**
Accumulated retained		**-**	**-**
Revaluation reserves		**10,602**	**10,677**
Other reserves		**265,766**	**248,735**
Reserves/ accumulated loss investments in entities under joint contro		-	-
Other		265,766	248,735
(-) Own shares		**-**	**-**
Profit attributable to shareholders of the parent	**23**	**22,489**	**21,624**
(-) Interim dividends		**-**	**-**
Accumulated other comprenhensive income	**21**	**41,798**	**48,292**
Items that will not be reclassified to profit or loss		**-**	**-**
Actuarial gains or (-) losses on defined benefit pension plans		-	-
Non-current assets and disposal groups classified as held for sale		-	-
Share of the recognised income and expense of investments in subsidiaries, joint ventures and associates		-	-
Other valuation adjustments		-	-
Items that may be reclassified to profit or loss		**41,798**	**48,292**
Hedge of net investments in foreign operations (Effective portion)		-	-
Foreign currency translation		-	34
Hedging derivatives. Cash flow hedges (Effective portion)		380	213
Available-for-sale financial assets		41,418	48,045
Debt instruments		41,905	48,492
Equity instruments		(487)	(447)
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates		-	-
Minority interests (Non-controlling interests)	**20**	**-**	**2,249**
Accumulated Other Comprehensive Income		-	2,251
Other ítems	23	-	(2)
TOTAL EQUITY		**433,667**	**382,496**
TOTAL EQUITY AND LIABILITIES		**7,093,777**	**7,351,695**
MEMORANDUM ITEMS	**19**	**667,514**	**730,365**
Contingent liabilities		311,623	383,502
Contingents commitments		355,891	346,863

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Notes 1 a 35 y los Anexos I, II y III are an integral part of the consolidated balance sheet at 31 December 2016.

CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

	Note	Thousand of euros 2016	2015 (*)
Interest income	27	115,487	123,768
Interest expense	27	(29,935)	(37,159)
Non-called up capita		-	-
NET INTEREST INCOME		**85,552**	**86,609**
Dividend income		48	55
Share of results of entities accounted for using the equity method		-	-
Fee and commission income	28	34,356	27,622
Fee and commission expense	28	(5,985)	(4,897)
Gain or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	9	5,334	9,989
Gain or (-) losses on financial assets and liabilities held for trading, net		(143)	(586)
Gain or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	8	717	(2,839)
Gain or (-) losses from hedge accounting, net		-	-
Exchange differences [gain or (-) loss], net		163	124
Other operating income	29	6,038	5,213
Other operating expenses	29	(10,418)	(13,006)
Mandatory transfer to welfare projects and funds	29	(2,066)	(5,356)
Income from assets under insurance and reinsurance contracts		-	-
Expenses from liabilities under insurance and reinsurance contracts		-	-
TOTAL OPERATING INCOME		**115,662**	**108,284**
Administrative expenses		(66,039)	(64,991)
Staff expenses	30	(44,349)	(40,759)
Other administrative expenses	31	(21,690)	(24,232)
Depreciation	14 y 15	(3,074)	(2,858)
Provisions or (-) reversal of provisions	32	(11,202)	(3,010)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss		(4,644)	(6,809)
Financial assets measured at cost		-	1,568
Available-for-sale financial assets	9	356	(1,320)
Loans and receivables	10.3	(5,000)	(7,057)
Held-to-maturity investments		-	-
PROFIT FROM OPERATIONS		**30,703**	**30,616**
Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates		(50)	-
Impairment or (-) reversal of impairment on non-financial assets		(26)	(50)
Tangible assets		-	-
Intangible assets		-	-
Others		(26)	(50)
Gain or (-) losses on non financial assets and investments, net	33	(1,434)	(719)
investments in subsidiaries, associates and joint ventures		-	-
Negative goodwill recognised in profit or loss		-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discounted operations	33	(2,579)	(4,128)
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**26,614**	**25,719**
Tax expense or (-) income related to profit or loss from continuing operations	25	(4,125)	(4,097)
PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**22,489**	**21,622**
Profit or (-) loss after tax from discontinued operations		-	-
PROFIT OR (-) LOSS FOR THE YEAR		**22,489**	**21,622**
Attributable to minority interest [non-controlling interest]		-	(2)
Attributable to owners of the parent		22,489	21,624

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Notes 1 a 35 y los Anexos I, II y III are an integral part of the consolidated balance sheet at 31 December 2016.

CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

a) Statement of Recognised Income and Expenses for the years ended 31 December 2016 and 2015

	Note	2016	2015 (*)
		Thousand of euros	
PROFIT OR LOSS FOR THE YEAR		**22,489**	**21,622**
OTHER COMPREHENSIVE INCOME		**(6,494)**	**(19,668)**
Items that will not be reclassified to profit or loss		**-**	**-**
Actuarial gains and losses on defined benefit pension plans		-	-
Non-current assets disposal groups held for sale		-	-
Share of other recognised income and expense of entities accounted for using the equity method		-	-
Other valuation adjustment		-	-
Income tax relating to ítems that will not be reclassified		-	-
Items that may be reclassified to profit or loss		**(6,494)**	**(19,668)**
Hedges of net investments in foreign operations (Effective portion)		**-**	**-**
Valuations gains or losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Foreign currency translation		**(47)**	**425**
Translations gains or losses taken to equity		(30)	425
Transferred to profit or loss		(17)	-
Other reclassifications		-	-
Cash flow hedges (Effective portion)		**224**	**(683)**
Valuation gains or losses taken to equity		224	15
Transferred to profit or loss		-	(698)
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Available-for-sale financial assets		**(8,835)**	**(25,966)**
Valuation gains or losses taken to equity	9.3	(5,361)	(15,918)
Transferred to profit or loss	9.3	(3,474)	(10,048)
Other reclassifications		-	-
Non-current assets and disposal groups held for sale		**-**	**-**
Valuation gains or losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates		**-**	**-**
Income tax relating to items that may be reclassified to profit or loss		**2,164**	**6,556**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**15,995**	**1,954**
Attributable to minority interest [Non-controlling interests]		-	(2)
Attributable to owners of the parent		15,995	1,956

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CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

b) Consolidated statement of total changes in equity for the year ended 31 December 2016

												Minority interest		
	Capital	**Share premium**	**Equity instruments issued other than equity**	**Other equity instruments**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(-) Own Equity instruments**	**Parent result for the period**	**Dividendos a cuenta**	**Other comprehensive income accumulated**	**Other comprehensive income accumulated**	**Other items**	**Total**
Opening balance at 01/01/16 (*)	**50,919**	**-**	**-**	**-**	**-**	**10,677**	**248,735**	**-**	**21,624**	**-**	**48,292**	**2,249**	**-**	**382,496**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 01/01/16 (*)	**50,919**	**-**	**-**	**-**	**-**	**10,677**	**248,735**	**-**	**21,624**	**-**	**48,292**	**2,249**	**-**	**382,496**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22,489**	**-**	**(6,494)**	**-**	**-**	**15,995**
Otras variaciones de patrimonio neto	**42,093**	**-**	**-**	**-**	**-**	**(75)**	**17,031**	**-**	**(21,624)**	**-**	**-**	**(2,249)**	**-**	**35,176**
Issuance of ordinary shares	96,628	-	-	-	-	-	(4,843)	-	-	-	-	-	-	91,785
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	(54,535)	-	-	-	-	-	-	-	-	-	-	-	-	(54,535)
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	(75)	21,874	-	(21,624)	-	-	(2,249)	-	(2,074)
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which: discretionary allocation to works and social funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Saldo de cierre al 31.12.2016	**93,012**	**-**	**-**	**-**	**-**	**10,602**	**265,766**	**-**	**22,489**	**-**	**41,798**	**-**	**-**	**433,667**

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CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

b) Consolidated statement of changes in equity for the year ended 31 December 2015 (*)

												Minority interest		
	Capital	Share premium	Equity instruments issued other than equity	Other equity instruments	Retained earnings	Revaluation reserves	Other reserves	(-) Own Equity instruments	Parent result for the period	Dividendos a cuenta	Other comprehensive income accumulated	Other comprehensive income accumulated	Other items	Total
Opening balance at 01/01/15 (*)	**50,594**	**-**	**-**	**-**	**-**	**10,752**	**233,371**	**-**	**18,868**	**-**	**67,960**	**2,027**	**-**	**383,572**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 01/01/15 (*)	**50,594**	**-**	**-**	**-**	**-**	**10,752**	**233,371**	**-**	**18,868**	**-**	**67,960**	**2,027**	**-**	**383,572**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,624**	**-**	**(19,668)**	**(2)**	**-**	**1,954**
Otras variaciones de patrimonio neto	**325**	**-**	**-**	**-**	**-**	**(75)**	**15,364**	**-**	**(18,868)**	**-**	**-**	**224**	**-**	**(3,030)**
Issuance of ordinary shares	557	-	-	-	-	-	-	-	-	-	-	-	-	557
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	(232)	-	-	-	-	-	-	-	-	-	-	-	-	(232)
Dividends	-	-	-	-	-	-	(3,026)	-	-	-	-	-	-	(3,026)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	(75)	18,390	-	(18,868)	-	-	224	-	(329)
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which: discretionary allocation to works and social funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Saldo de cierre al 31.12.2015	**50,919**	**-**	**-**	**-**	**-**	**10,677**	**248,735**	**-**	**21,624**	**-**	**48,292**	**2,249**	**-**	**382,496**

(*) Presented solely and exclusively for the purposes of comparison.The information has been adapted to the new structure of financial statements of Bank of Spain Circular 5/2014 (Note 2.d).

Notes 1 a 35 y los Anexos I, II y III are an integral part of the consolidated balance sheet at 31 December 2016.

CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

	Note	2016	2015 (*)
		Thousand of euros	
CASH FLOWS FROM OPERATING ACTIVITIES		**(784,870)**	**1,050,623**
Consolidated profit for the period		**22,489**	**21,622**
Adjustments made to obtain the cash flows from the operating activities		**24,572**	**21,524**
Depreciation	14 y 15	3,074	2,858
Other adjustments		21,498	18,666
Net increase/(decrease) in operating assets:		**(5,262)**	**844,363**
Financial assets held-for-trading		-	-
Financial assets designated at fair value through profit or loss		(1,916)	(7,130)
Available-for-sale financial assets		108,754	(98,409)
Loans and receivables		(119,139)	970,640
Other operating assets		7,039	(20,738)
Net increase/(decrease) in operating liabilities:		**(826,669)**	**163,114**
Financial liabilities held-for-trading		-	-
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities at amortised cost		(820,282)	186,371
Other operating liabilities		(6,387)	(23,257)
Income tax recovered/(paid)			
CASH FLOWS FROM INVESTING ACTIVITIES		**(578,405)**	**(441,695)**
Payments:		**(580,568)**	**(443,781)**
Tangible assets		(3,560)	(4,267)
Intangible assets		(101)	(80)
Investments		-	-
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		-	-
Held-to-maturity investments		(576,907)	(439,434)
Other proceeds related to investing activities		-	-
Proceeds:		**2,163**	**2,086**
Tangible assets		-	-
Intangible assets		-	-
Investments		-	-
Subsidiaries and other business units		-	-
Non-current assets and disposal groups classified as held for sale and liabilities included in disposal groups classified as held for sale		2,163	2,086
Held-to-maturity investments		-	-
Other proceeds related to investing activities		-	-
CASH FLOW FROM FINANCING ACTIVITIES		**538,947**	**495,079**
Payments:		**(4,672)**	**(3,396)**
Dividends		-	(3,026)
Subordinated liabilities		-	-
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		(2)	-
Other payments related to financing activities		(4,670)	(370)
Proceeds:		**543,619**	**498,475**
Subordinated liabilities		-	-
Issuance of own equity instruments		543,619	498,475
Disposal of own equity instruments		-	-
Other proceeds related to financing activities		-	-
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**-**	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(824,328)**	**1,104,007**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**1,224,208**	**120,201**
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**399,880**	**1,224,208**
Memorandum items			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		**399,880**	**1,224,208**
Del cual: en poder de las entidades del Grupo pero no disponible por el Grupo			
Cash		32,915	32,835
Cash equivalents at central banks		136,980	131,285
Other financial assets		229,985	1,060,088
Less - Bank overdrafts refundable on demand		(784,870)	1,050,623

(*) Presented solely and exclusively for the purposes of comparison.

Notes 1 a 35 y los Anexos I y II are an integral part of the consolidated balance sheet at 31 December 2016..

CAJA RURAL DE CASTILLA-LA MANCHA GROUP

NOTES TO THE CONSOLIDATED ANNUAL ACOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

a) Nature of the Parent Entity

Caja Rural de Castilla-La Mancha, Sociedad, Cooperativa de Crédito (hereinafter the Parent Entity or the Savings Bank) is a credit institution created through an agreement by the founding cooperatives on 27 February 1963. It is a not-for-profit entity with its own legal personality and full capacity to operate, with a foundation and social benefit nature. Its sole and exclusive corporate purpose is to contribute to the attainment of general interests through economic and social development in its area of influence and to do so its fundamental purposes are, among others, facilitate the creation and capitalization of savings, attend to the needs of its customers through the granting of credit transactions and to create and maintain Community Projects on its own or through collaborative agreements.

At a meeting held on 29 April 2011 the General Assembly of the Savings Bank approved a change in its name from “Caja Rural de Toledo, Sociedad Cooperativa de Crédito” to “Caja Rural de Castilla-La Mancha, Sociedad Cooperativa de Crédito”.

b) Activity of the Parent Entity

The typical and habitual activity carried out by the parent entity is the receipt of public funds through deposits, loans, the temporary assignment of financial or other similar assets linked to with a repayment obligation, applying them to the granting of loans, credit or other similar transactions to attend to the financial needs of its members and third parties. In this connection it may carry out all types of asset and liability transactions and authorized services for other credit institutions, preferably attending to the financial needs of its members, including insurance, which will primarily take place in the rural environment. To facilitate and guarantee the business transactions that are carried out to pursue its corporate purpose, it may enter into corporate agreements or create consortia with any legal or natural person. This area of operations includes all of Spain, notwithstanding the fact that it may carry out those transactions that are allowed outside of that area.

The Entity's domicile is located at Calle Méjico 2 in Toledo, and it carries out its activity through 373 offices distributed throughout Spain, of which 119 are branches (373 offices in 2015, of which 132 are branches), with 847 employees (844 employees in 2015).

The Parent Entity is governed by the rules established by Law 27/1999 (16 July) on Cooperatives and by Law 13/1989 (26 May) on Credit Cooperatives, and all other supplementary legal provisions.

The Parent Entity forms part of the Deposit Guarantee Fund for Credit Institutions and the Single Resolution Fund.

The Savings Bank is classified as a "Qualified Savings Bank" which allows it to enter into collaboration agreements with official credit entities and to obtain the benefits that are established by the regulations issued by the Ministry of the Economy and the Treasury. It also forms part of the Deposit Guarantee Fund for Credit Institutions created by Royal Decree-Law 18/1982 (24 September) and it has been entered into the Registry of Cooperatives-Central Section-of the Ministry of Employment and Social Security in the Registry Book for Cooperative Companies in Volume XXI, Sheet 2051, entry 28, as well as the Registry of Credit Institutions and Bank of Spain, under number 3081.

The Entity is governed by its bylaws, which were approved by the General Assembly meeting held on 30 June 1993 and all matters not covered by those bylaws are governed by Law 13/1989 and Royal Decree 84/1993 on Credit Cooperatives and all enabling regulations, notwithstanding any legal provisions that may be approved within the competencies attributed in this area by the Autonomous Regions in which it operates. It is also subject to the rules that generally regulate credit institution activities, as well as all other applicable legal provisions. On a supplementary basis it is subject to legislation governing Cooperatives.

Those Bylaws were amended in order to adapt them to the rules and principles established by Law 27/1999 (16 July) on Cooperatives as a result of a resolution adopted by the Extraordinary General Assembly of the Parent Entity held on 26 April 2002, and the amendment was approved by the Ministry of the Economy Order dated 16 October 2002.

Since the approval of the Extraordinary General Assembly held on 4 May 1989 the Savings Bank's area of operations covers all of Spain, as is stipulated by Article 5 of its Bylaws.

The Entity is subject to certain regulations that govern, among other things, aspects such as:

- Maintaining a minimum percentage of resources on deposit with the Bank of Spain to cover the minimum reserve coefficient. In January 2012 the amendment of the legislation applicable to minimum reserves entered into force such that the reserve coefficient fell from 2% to 1% of eligible liabilities in this respect (Note 6).

- Distribution of part of the net surplus for the year to the Mandatory Education and Development Reserve Fund.

- Maintenance of a minimum level of capital and reserves (Note 2.e.).

- Annual contribution to the Deposit Guarantee Fund and the Single Resolution Fund in addition to that provided to the Entity's creditors based on its capital and reserves (Note 2.f)

c) Consolidated group

The Parent Entity, together with its subsidiaries Castilla La Mancha Servicios Tecnológicos S.L.U., CRCLM Mediación Operador Banca y Seguros Vinculado S.L., Viveactivos, S.A.U., Caja Rural Castilla-La Mancha, Sociedad de Gestión de Activos, S.A.U. and Rural Broker, S.L., form a consolidated group of credit institutions, Caja Rural de Castilla-La Mancha Group (hereinafter the Group).

Castilla La Mancha Servicios Tecnológicos S.L.U. primarily engages in computer services and development and is domiciled in Toledo.

CRCLM Mediación Operador de Banca y Seguros Vinculado S.L. primarily engages in bancassurance insurance agency activities and is domiciled in Toledo.

Viveactivos, S.A.U. and Caja Rural Castilla La-Mancha, Sociedad de Gestión de Activos, S.A.U. were incorporated by the parent entity on 5 December 2012, is domiciled in Toledo and their corporate purpose primarily consists of:

- Real estate sector activities, particularly the administration and disposal, directly or indirectly, of the assets contributed to them, specifically:
  - Land development, sub-division, etc. to encourage the sale of land.
  - Building developments for subsequent sale.

Rural Broker, S.L. is an insurance brokerage that engages in the sale of private insurance and reinsurance and it is domiciled in Toledo. The company has been registered with the Directorate General for Insurance and Pension Funds since 7 April 2014.

The most relevant information regarding the subsidiaries at 31 December 2016 and 2015 is as follows (thousand euro):

	Thousand euro					
	Total assets	**Share capital**	**Profit and loss account brought forward**	**Other shareholder contributions**	**Profit/(Loss) for the year**	**Auditor**
2016						
Castilla La Mancha Servicios Tecnológicos S.L.U.	7,360	1,442	522	-	1,430	PwC
CRCLM Mediación Operador de Banca y Seguros Vinculado S.L.	14,783	6,000	443	-	272	PwC
Viveactivos, S.A.U.	11,755	700	(4,063)	16,152	(1,048)	PwC
Caja Rural Castilla La-Mancha, Sociedad de Gestión de Activos, S.A.U.	2,621	800	(1,329)	3,150	(6)	PwC
Rural Bróker, S.L.	601	500	(29)	-	95	PwC
2015						
Castilla La Mancha Servicios Tecnológicos S.L.U.	6,447	1,442	(158)	-	680	PwC
Rural Patrimonios Agrupados, S.I.C.A.V., S.A.	4,373	5,806	(1,481)	-	(4)	PwC
CRCLM Mediación Operador de Banca y Seguros Vinculado S.L.	13,242	6,000	428	-	15	PwC
Viveactivos, S.A.U.	12,124	700	(3,505)	15,481	(559)	PwC
Caja Rural Castilla La-Mancha, Sociedad de Gestión de Activos, S.A.U.	2,627	800	(1,259)	3,150	(71)	PwC
Rural Bróker, S.L.	488	500	(61)	-	32	PwC

At 31 December 2016 y 2015, Caja Rural de Castilla–La Mancha wholly owns the company Castilla la Mancha Servicios Tecnológicos, S.L.U.

Variations in the scope of consolidation

At 31 December 2015, Caja Rural de Castilla-La Mancha holds a direct 47.95% stake in Rural Patrimonios Agrupados, S.I.C.A.V., S.A. and it was fully consolidated since as is indicated in Note 3.k), the parent entity has the capacity to exercise control and it is exposed to, or it is entitled to, variable returns from its interest in the investee companies and it has the capacity to use its power over the company to influence those returns.

On 26 April 2016, investee was sold for €2,067 thousand, generating a loss of €23 thousand, recorded under "Impairment of value/reversal of the impairment of investments in Joint or associated companies "in the consolidated income statement.

Caja Rural de Castilla-La Mancha wholly owns CRCLM Mediación Operador Banca y Seguros Vinculado S.L. at 31 December 2016 and 2015 and it is fully consolidated.

Caja Rural de Castilla-La Mancha wholly owns Viveactivos, S.A.U. at 31 December 2016 and 2015 and it is fully consolidated.

Caja Rural de Castilla-La Mancha directly wholly owns Caja Rural Castilla La-Mancha, Sociedad de Gestión de Activos, S.A.U. at 31 December 2016 and 2015 and it is fully consolidated.

Caja Rural de Castilla-La Mancha wholly owns Rural Broker, S.L. at 31 December 2016 and 2015 and it is fully consolidated.

All significant balances and transactions between the group companies have been eliminated in the consolidation process.

These consolidated annual accounts have been prepared by the Parent Entity's Governing Council at the meeting held on 7 March 2017 and have been signed by the Directors. They have yet to be approved by the General Assembly but the Directors of the Parent Entity believe that they will be approved without any change being made.

2. BASIS OF PRESENTATION AND OTHER INFORMATION

a) Basis of presentation of the consolidated annual accounts

On 1 January 2005 the obligation to prepare Consolidated Annual Accounts in accordance with International Financial Reporting Standards adopted by the European Union (hereinafter IFRS) entered into force for those entities that have issued securities and are listed on a regulated market in any Member State of the European Union at the date on which their balance sheet was closed, in accordance with the provisions of European Parliament Regulation 1606/2002 (19 July).

Since 2009 the Group prepares its consolidated annual accounts in accordance with IFRS.

The Group's consolidated annual accounts for 2016 have therefore been prepared based on the accounting records maintained by the entities making up the Group in accordance with IFRS, taking into consideration Bank of Spain Circular 4/2004 and all subsequent amendments such that they present a true and fair view of the Group's equity, financial situation and consolidated results at 31 December 2016, as well as changes in equity and cash flows during the year then ended. Circular 4/2004 and its amendments required the development and adaptation of the Spanish credit institution sector to IFRS-EU. The measurement principles and standards applied are listed in Note 3 of these notes to the consolidated annual accounts. No mandatory accounting principle or standard that has a significant effect on the consolidated annual accounts has been omitted.

The consolidated annual accounts have been prepared on the basis of the accounting records kept by the Group and by the other entities within the Group. However, given that the accounting principles and valuation criteria applied in the preparation of the Group's consolidated anual accounts for the year 2016 may differ from those used by some of the entities included in the Group, the consolidation process has been introduced the adjustments and reclassifications necessary to homogenize such principles and criteria among themselves and to adapt them to the IFRS-EU applied by the Entity.

These consolidated annual accounts have therefore been prepared in accordance with IFRS and do not present any significant deviations with respect to the requirements of Bank of Spain Circular 4/2004 and subsequent amendments.

These consolidated financial statements, unless otherwise stated, are presented in thousands of euros.

b) Use of judgments and estimates when preparing the financial statements

The information included in the consolidated annual accounts is the responsibility of the Directors of Caja Rural de Castilla-La Mancha, Cooperativa de Crédito (Parent Entity). When preparing certain information included in these consolidated annual accounts the Directors have used judgments and estimates based on assumptions that affect the application of accounting policies and standards and the amounts of the assets, liabilities, income, expenses and commitments recognised therein.

The most significant estimates used to prepare these consolidated annual accounts refer to:

- Impairment losses on financial assets (Note 3.i)

- The assumptions used in the actuarial calculation of liabilities and commitments for post-employment benefits (Note 3.r).

- Impairment losses and the useful life of property, plant and equipment and intangible assets (Notes 3.ñ and 3.o).

- The fair value of certain financial assets not listed on official secondary markets (Note 9).

- The reversal period for timing differences (Note 25).

- Losses on future obligations deriving from contingent risks (Note 8).

- The fair value of certain guarantees covering the collection of assets.

The estimates and assumptions used are based on past experience and other factors that have been considered to be most reasonable at the present time and they are reviewed on a regular basis. If as a result of these reviews or future events there is any change in those estimates, the effect would be recognised in the income statement for that period and successive periods.

c) Changes in accounting policies and error corrections

Changes in accounting policies

Changes in accounting policies, either because they amend an accounting regulation that governs a certain transaction or event or because the Governing Council decides to change the accounting policy for justified reasons, are applied retroactively unless:

- It is impractical to determine the effect in each specific year deriving from a change in an accounting policy regarding comparative information from a preceding year, in which case the new accounting policy is applied at the start of the oldest year so that retroactive application becomes practicable. When it is impractical to determine the accumulated effect, at the start of the current year, deriving from the application of a new accounting policy to all preceding years the new accounting policy is applied on a prospective basis as from the oldest date on which it is practical to do so or,

- The accounting rule or regulation changes or establishes the application date.

Standards and interpretations issued by the International Accounting Standards Board (IASB), which enter into force in 2016

During the financial year 2016, the following Standards and Interpretations adopted by the European Union have taken effect:

- Annual Improvements to IFRS, 2010-2012 cycle: In December 2013, the IASB published the Annual Improvements to IFRS for the 2010-2012 cycle. The main amendments incorporated relate to:

    - IFRS 2 “Share-based Payment”: The definition of "condition for the irrevocability of the concession" is modified.

    - IFRS 3 “Business Combinations”: The criterion of accounting for a contingent consideration in a Business Combination is modified.

    - IFRS 8 “Operating Segments”: The information disclosed on the aggregation of Operating Segments and reconciliation of the total assets allocated to the segments on which the assets of the entity are reported, are modified.

    - IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”: The criteria for the proportional restatement of accumulated amortisation are modified when the revaluation model is used.

    - IAS 24 “Related Party Disclosures”: Entities providing key management personnel services as a related party are included.

- Modification of IAS 19 "Employee Benefits”: The amendment allows that the contributions linked to the service that do not vary with the duration of the service are deducted from the cost of the benefits accrued in the financial year in which the corresponding service is rendered. The contributions linked to the service, which vary according to the duration of the service, must be extended during the period of service provision using the same allocation method that is applied to the benefits.

- Modification of IFRS 11 "Joint Arrangements": Requiring to apply the accounting principles of a business combination to an investor who acquires a share in a joint business operation.

- Modification of IAS 16 and IAS 38 “Acceptable methods of depreciation and amortisation": This amendment clarifies that it is not appropriate to use methods based on ordinary income to calculate the depreciation of an asset because the ordinary income generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits incorporated into the asset.

- Modification of IAS 27 "Equity method in separate financial statements": IAS 27 is amended to reinstate the option of using the equity method to account for investments in subsidiaries, joint ventures and associates in the separate financial statements of a entity. The definition of separate financial statements has also been clarified.

- Annual Improvements to IFRS. Cycle 2012-2014: Main modifications refer to:

    - IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”: The methods of alienation are modified.

    - IFRS 7, “Financial Instruments: Disclosures”: The continued involvement in management contracts is modified.

    - IAS 19, “Employee Benefits”: It affects the determination of the discount rate on post-employment benefit obligations.

    - IAS 34, “Interim Financial Reporting”: The information presented in the interim financial information is modified.

- Modification of IAS 1 "Presentation of Financial Statements": The amendments to IAS 1 encourage companies to apply professional judgment in determining what information is disclosed in the financial statements.

- Modification of IFRS 10, IFRS 12 and IAS 28 "Investment entities: Applying the exception to Consolidation ": These amendments clarify aspects of the application of the requirement for investment entities to value subsidiaries at fair value instead of consolating them.

These changes have not had a significant impact on these consolidated financial statements.

Standards, amendments and interpretations that have not yet come into force, but which may be adopted in advance for financial years beginning on or after 1 January 2016.

At the date of preparation of these consolidated financial statements, the IASB and the IFRS Interpretations Committee published the standards, amendments and interpretations set out below, which are mandatory to apply as from 2017 financial year, although the Group has not adopted them in advance.

- IFRS 9 "Financial Instruments": Addressing the classification, valuation and recognition of financial assets and financial liabilities. The full version of IFRS 9 was published in July 2014 and replaced the guidance in IAS 39 on classification and valuation of financial instruments. IFRS 9 maintains, but simplifies, the mixed valuation model and establishes three main categories of valuation for financial assets: amortised cost, at fair value through profit or loss and at fair value with changes in other comprehensive income. The classification base depends on the entity's business model and the characteristics of the contractual cash flows of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at the beginning of the presentation of changes in fair value in other comprehensive non-recyclable income, provided that the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in results. In relation to financial liabilities, there were no changes with respect to classification and valuation, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. Under IFRS 9 there is a new model of impairment losses, the expected credit loss model, which replaces the model of impairment losses incurred in IAS 39 and which will lead to a recognition of losses rather than as losses. IAS 39. IFRS 9 relaxes the requirements for the effectiveness of the hedge. Under IAS 39, a hedge must be highly effective, both prospectively and retrospectively. IFRS 9 replaces this line by requiring an economic relationship between the hedged item and the hedging instrument and the hedged ratio is the same that the entity actually uses for its risk management.

The documentation is still necessary but is different from the one that was being prepared under IAS 39. Finally, extensive information is required, including a reconciliation between the initial and final amounts of the provision for expected credit losses, assumptions and data, and a reconciliation in the transition between the original classification categories under IAS 39 and the new classification categories under IFRS 9.

IFRS 9 is effective for financial years beginning on or after 1 January 2018, although early adoption is permitted. IFRS 9 is to be applied retroactively but comparative figures will not be required to be restated. If an entity chooses to apply IFRS 9 in advance, it must apply all the requirements at the same time. Entities that had applied the standard before 1 February 2015 had the option of applying the rule in phases. The Group has not applied this option.

- IFRS 15 "Revenue from Contracts with Customers": In May 2014, the IASB and the FASB jointly issued a convergent standard for the recognition of revenue from contracts with customers. Under this standard, revenues are recognised when a customer gains control of the good or service sold, that is, when it has both the ability to direct the use and to obtain the benefits of the good or service. This IFRS includes a new guide to determining whether to recognise income over time or at a particular time in it. IFRS 15 requires extensive information on both the recognised income and the income expected to be recognised in the future in relation to existing contracts. It also requires quantitative and qualitative information on the significant judgments made by management in determining the income that is recognised, as well as on the changes in these judgments. IFRS 15 will be effective for financial years beginning on or after 1 January 2018, although early adoption is permitted.

The entry into force of such amendments is not expected to have a significant impact on the Group.

Standards, amendments and interpretations to existing standards whose effectiveness is subsequent to the date of these consolidated annual accounts or have not yet been adopted by the European Union

At the date of preparation of these consolidated annual accounts, the most significant standards and interpretations that had been published by the IASB but have not yet come into force either because their effective date is after the date of the consolidated annual accounts, or either because they have not yet been adopted by the European Union are as follows:

- *IFRS 10 (Modification) and IAS 28 (Modification) "Sales or contributions of assets between an investor and its associate/joint venture":* These amendments clarify the accounting treatment of sales and contributions of assets between an investor and its associates and joint ventures that will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". The investor will recognise the full gain or loss when the non-monetary assets constitute a "business". If the assets do not meet the definition of business, the investor recognises the gain or loss to the extent of the interests of other investors. The amendments will only apply when an investor sells or supplies assets to its associate or joint venture.

Originally, these amendments to IFRS 10 and IAS 28 were prospective and effective for financial years beginning on or after 1 January 2016. However, at the end of 2015, the IASB made a decision to postpone the effective date of (without setting a new specific date), as it is planning a more comprehensive review that may result in simplifying the accounting of these transactions and other aspects of accounting for associates and joint ventures.

- *IFRS 16 "Leases":* In January 2016, the IASB published a new lease standard, which repeals IAS 17 "Leases", the result of a joint project with the FASB. The IASB and the FASB have reached the same conclusions in many areas related to the accounting of leases, including the definition of a lease, the requirement, as a general rule, to reflect leases on the balance sheet and the valuation of liabilities for leases. The IASB and the FASB also agreed not to incorporate substantial changes to the accounting by the lessor, maintaining similar requirements to those previously in force. Differences remain between the IASB and the FASB regarding the recognition and presentation of lease-related expenses in the income statement and in the statement of cash flows.

  Under IFRS-IASB, IFRS 16 is compulsorily applicable as of January 1, 2019. It is possible to opt to apply IFRS 16 in advance, but only if IFRS 15 "Revenue from Contracts with Customers" is applied at the same time. IFRS 16 has not yet been approved by the EU.

- *IAS 12 (Modification) "Recognition of deferred tax assets for unrealised losses":* The amendments to IAS 12 clarify the requirements for recognising deferred tax assets on unrealized losses. The amendments clarify the accounting treatment of deferred tax when an asset is valued at fair value and that fair value is below the tax base of the asset. It also clarifies other aspects of deferred tax assets accounting.

  These changes will be effective for financial years beginning on or after 1 January 2017.

- *IAS 7 (Modification) "Disclosure initiative-Principles of disclosure - Amendments to IAS 7":* This limited scope amendment incorporates an additional breakdown requirement in the financial statements that allows users of financial statements to assess changes in liabilities derived from financing activities. In this regard, the following changes in the aforementioned liabilities must be disclosed: i) changes arising from financing cash flows; ii) changes resulting from the acquisition or loss of control of subsidiaries or other businesses; iii) the effect of changes in exchange rates; iv) changes in fair value; and v) other changes.

  The amendment is effective for financial years beginning on or after 1 January 2017, although early adoption is permitted.

- *IFRS 15 (Modification) Clarifications to IFRS 15 "Revenue from Contracts with Customers":* The IASB has amended IFRS 15 to clarify guidance for the identification of performance obligations, accounting for intellectual property licenses and the main versus agent evaluation, to include new and modified illustrative examples for each of these areas of the guide and to provide additional practical resources related to the transition to the new standard. These changes do not change the fundamental principles of IFRS 15, but do clarify some of the more complex aspects of this standard. The changes could be relevant to a wide variety of entities and consideration should be given to how the Management evaluates the impact of IFRS 15.

This amendment shall be effective for financial years beginning on or after 1 January 2018 subject to its adoption by the EU.

- *IFRS 2 (Modification) "Clarifications of classification and measurement of share based payment transactions":* The amendment to IFRS 2, which was developed through the IFRS Interpretations Committee, clarifies how to account for certain types of transaction based payments In shares. In this sense, it provides requirements for the accounting of the effects of the conditions for irrevocability and of the non-determining conditions for the irrevocability of the concession in the valuation of the payments based on shares liquidated by cash; Share-based payment transactions with a net settlement characteristic for tax withholding obligations, and a change in the terms and conditions of a share-based payment that changes with the classification of the transaction from cash settled to settled through equity.

  The amendment is effective for financial years beginning on or after 1 January 2018, although early adoption is permitted.

- *IFRS 4 (Modification) Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts":* The amendments to IFRS 4, which were published by the IASB in September 2016, introduce two optional approaches for Insurance: a) a temporary exemption until 2021 for IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and b) the "overlapping approach": it will provide all companies that issue insurance contracts with the option of recognising in other comprehensive income, rather than in profit or loss, the volatility that could arise when IFRS 9, "Financial Instruments" is applied before the new standard of insurance contracts is published.

- IFRS 4 (including amendments now published) will be superseded by the next new insurance contract standard. Consequently, both the temporary exemption and the "overlapping approach" are expected to cease to apply when the new insurance standard comes into force.

- Annual improvements to IFRS. Cycle 2014 - 2016: The amendments affect IFRS 1, IFRS 12 and IAS 28 and will apply to financial years beginning on or after 1 January 2018 in the case of amendments to IFRS 1 and IAS 28 and 1 January 2017 for those corresponding to IFRS 12, all of which are subject to adoption by the EU. The main changes relate to:

  - IFRS 1, "First-time Adoption of International Financial Reporting Standards": Elimination of short-term exemptions for entities adopting IFRS for the first time.
  - IFRS 12, "Disclosure of Interests in Other Entities": Clarification on the scope of the Standard.
  - IAS 28, "Investments in Associates and Joint Ventures": Valuation of an investment in an associate or a joint venture at fair value.

- IAS 40 (Modification) "Transfers of investment property": This amendment clarifies that to transfer to or from investment property there must be a change in use. In order to conclude whether there has been a change in use there must be an assessment of whether the property meets the definition of a real estate investment. This change must be supported by evidence. The IASB confirmed that a change in intention, in isolation, is not sufficient to support a transfer.

  The amendment will be effective for financial years beginning on or after 1 January 2018. Early application is permitted.

- IFRIC 22 “Foreign Currency Transactions and Advance Consideration": This IFRIC addresses how to determine the date of the transaction when the standard on foreign currency transactions, IAS 21, is applied. Interpretation applies when an entity pays or receives a consideration in advance for contracts denominated in foreign currency. The date of the transaction determines the exchange rate to be used for the initial recognition of the corresponding asset, expense or revenue. The issue arises because IAS 21 requires the use of the "transaction date" exchange rate, which is defined as the date the transaction first qualifies for recognition. The question is, therefore, whether the date of the transaction is the date on which the asset, expense or income is initially recognised, or the earliest date on which the anticipated consideration is paid or charged, resulting in an advance payment or income deferred. The interpretation provides guidance for when a single payment/collection is made, as well as for situations in which there are multiple payments/collections. The purpose of the guide is to reduce diversity in practice.

  The interpretation will be effective for financial years beginning on or after January 1, 2018, although early application is permitted.

Therefore, during 2016 financial year, there were no changes in the accounting rules applicable to the Entity with respect to the one applied in the previous year, in addition to what is indicated in note 2.d) below. In addition, it is not expected that the entry into force of these rules will have a significant impact on the Group.

<u>Accounting errors</u>

Errors in the preparation of prior-year annual accounts are the result of omissions or inaccuracies resulting from the failure to employ or use reliable information that was available when the annual accounts for those periods were prepared and the Entity should have used when preparing those statements.

Errors relating to prior years are corrected retroactively in the first annual accounts that are prepared after discovery, as if the error had never taken place:

- o Re-expressing the amounts of the various financial statements affected by the error, including the notes to the consolidated financial statements that are published in the annual accounts for the purposes of comparison, which relate to that year and prior years, if applicable.

- o Re-expressing the opening balance for the oldest year for which information is presented if the error took place before the first financial statements that are presented for the purposes of comparison.

When it is impractical to determine the effects arising in each specific year from an error involving comparative information from a preceding year, the opening balances for the oldest years are re-expressed, where possible. In the event that it is not practical to determine the accumulated effect, at the start of the current year, of an error involving all prior years, the comparative information is re-expressed correcting the error on a prospective basis as from the earliest date possible.

Errors from prior years that affect equity are corrected in the year discovered using the relevant equity account. Under no circumstances are errors from prior years corrected through the income statement for the year in which they are discovered, unless they have no relative importance or it is impractical to determine the effect of the error based on the provisions of the preceding paragraph.

In 2016 and 2015 no significant error corrections relating to prior years were carried out.

d) Changes in accounting estimates

A change in an accounting estimate is an adjustment to the carrying value of an asset or liability, or the regular consumption of assets, arising after an evaluation of the current situation faced by the item concerned, as well as future expected benefits and the obligations associated with the assets and liabilities concerned.

Changes in accounting estimates are the result of obtaining additional information or knowledge about new events and therefore are not error corrections. These changes are recorded on a prospective basis in the income statement for the year and in future years affected by the change.

During the 2016 financial year, Circular 4/2016 of 27 April, which amended Circular 4/2004 of 22 December, came into force with credit institutions, on public and reserved financial information standards and models of Financial Statements, and Circular 1/2013, of May 24, on the Central of Information of Risks: the objective of this Circular is the update of the Circular 4/2004, mainly of its annex IX, to adapt it to the last developments in banking regulation, maintaining its compatibility with the IFRS accounting framework.

The update of Annex IX introduced by this Circular seeks to deepen the application of the current accounting framework by strengthening the criteria that affect: i) policies, methodologies and procedures for credit risk management, including those related to guarantees Received, in those aspects related to accounting; ii) the accounting classification of operations on the basis of credit risk; and iii) individual and collective estimates of provisions. Likewise, criteria for estimating the recoverable amount of assets awarded or received in payment of debts are introduced. The following notes detail the accounting policies and valuation methods for the impairment of financial assets and the recoverable amount of assets awarded or received in payment of debts taking into account the changes introduced by this Circular.

In accordance with the first transitory provision of the aforementioned Circular, the first application of this Circular has been prospectively treated as a change in the accounting estimates, from which no significant equity impacts have been derived in these annual accounts.

In addition, Royal Decree-Law 18/2012 of 11 May established that the assets awarded or received in payment of debts referred to in Article 1.1 of Royal Decree-Law 2/2012, of 3 February 3, should be provided by credit institutions to a public limited company. Likewise, other assets awarded or received in payment of debts after 31 December 2011 had to be contributed. In general, the contributions to the company were valued at their fair value and had to be made as of 31 December 2012. In the absence of fair value or when there is difficulty in obtaining it, were valued at their book value, which was determined taking into account the provisions that the assets must have constituted pursuant to article 1.1 of Royal Decree-Law 2/2012, of 3 February and article 1.1 of Royal Decree-Law 18/2012, of 11 May. In the event that, at the time of contribution to the company, the assets did not constitute the provisions mentioned in the previous paragraph, these provisions had to be completed by the company receiving the contribution on the dates that were due in accordance with Provided for in both Royal Decree-Law.

For the purposes of article 67 of Spain's Corporate Enterprises Act, the valuation calculated in accordance with the method described above substituted for the independent expert valuation contemplated in that article, insofar as the contribution was made within the provisioning timeline to which the contributing firm was bound.

Pursuant to the terms of Spanish Royal Decree-Law 18/2012 (of 11 May 2012), on 5 December 2012, the Entity incorporated Viveactivos, S.A.U. and Caja Rural de Castilla-La Mancha, Sociedad de Gestión de Activos, S.A.U., companies to which it transferred all of the assets foreclosed or received in lieu of payment referred to in article 1.1 thereof. The assets foreclosed in 2016 were transferred in December 2016.

The tax regime contemplated in chapter VIII of Title VII of Royal Decree-Law 4/2004 (of 5 March 2004), enacting the Consolidated Text of Spain's Corporate Enterprises Act, for the transactions referred to in article 83 thereof, including their effects on other taxes, applies to real estate asset transfers in the financial sector, even when they do not correspond to the transactions referred to in articles 83 and 94 thereof.

As for the loan-loss coverage provisions established in the above-mentioned Royal Decrees, article 1 of Spanish Law 8/2012 (of 30 October 2012) on the write-down and sale of real estate assets by financial institutions, stipulated that if at 31 December 2013, the balance of provisions stipulated had not been utilised in full for its original intended purpose, the remaining balance, if any, would be allocated to cover the assets so determined by the Bank of Spain. Against this backdrop, on 5 February 2014, the Bank of Spain published Circular 1/2014, specifying the assets to which the Entity had to allocate the outstanding provisions as at 31 December 2013 set up to cover the impairment of real estate development and construction loans classified as 'normal' or performing exposures at 31 December 2011, and corresponding to the business in Spain, that had not subsequently been utilized as a result of their classification as 'doubtful' or 'substandard' or non-performing assets or as a result of the foreclosure or receipt of assets in lieu of repayment. As a result, the generic loan-loss provisions recognised in accordance with Royal Decree-Laws 2/2012 and 18/2012 that had not been utilised at 31 December 2013 were reallocated as a function of the risk analysis performed by the Entity in this respect.

In addition, Bank of Spain Circular 5/2014 (of 28 November 2014), amending Circular 4/2004 (of 22 December 2004), on credit institutions, introduced changes to credit institutions' public and confidential reporting requirements and financial statement templates.

<u>Comparative information</u>

As required under IAS 1, the information contained in the accompanying consolidated financial statements in respect of 2015 is provided solely and exclusively to enable its comparison with that relating to the year ended 31 December 2016 and does not, by extension, constitute the Group's 2015 consolidated financial statements.

On this note, and albeit without undermining the comparability of the information provided, it is worth highlighting the first-time effectiveness of certain changes in the structure of the public consolidated financial statements contemplated in Bank of Spain Circular 5/2014 (of 28 November 2014), amending Bank of Spain Circular 4/2004. The 2016 consolidated financial statements were prepared in accordance with the IFRS-EU and the new statement structure stipulated in the above Circulars and the information corresponding to 2015 has been adapted accordingly.

The main reclassification for presentation purposes affects the asset side of the consolidated balance sheet, specifically demand deposits at banks which were removed from 'Loans and receivables' and included under “Cash, cash balances at central banks and other demand deposits” in the amount of €271,481 thousand at 31 December 2016 (€1,031,544 thousand at 31 December 2015). The other reclassifications affecting the consolidated financial statements are not material.

e) Minimum capital and reserves

On 1 January 2014 the new legislative framework regulating minimum capital and reserves for credit institutions both individually and as consolidated groups entered into force and stipulates how this capital is measured. This includes the processes to be followed for the self-assessment of capital and the information to be made public. This legislative framework consists of:

European Parliament and Council Directive 2013/36/EU (generally known as CRD-IV), of 26 June, relating to access to the credit institution business and the prudential supervision of credit institutions and investment companies, which amends Directive 202/87/EC and repeals Directives 2006/48/EC and 2006/49/EC.

European Parliament and Council Regulation (EU) 575/2013 (CRR), of 26 June 2013, on prudential requirements for credit institutions and investment companies, which amends Regulation (EU) 648/2012.

As a Spanish credit institution, the Group is subject to the CRD-IV Directive, through which the European Union has implemented the capital standards set out in the Basel III Accord issued by the Basel Committee on Banking Supervision (BCBS) using a phase-in model up until 1 January 2019. The CRD-IV Directive has been partially implemented in Spain through (i) Royal Decree-Law 14/2013 (29 November) on urgent measures to adapt Spanish legislation to European Union regulations governing the supervision and solvency of financial institutions, and (ii) Law 10/2014 (26 June), on the organisation, supervision and solvency of credit institutions.

The CRR Regulation, which is immediately applicable to Spanish credit institutions, implements the requirements established by the CRD-IV Directive and allows the competent national authorities to make use of certain options. By virtue of the authorisation provided by Royal Decree-Law 14/2013 the Bank of Spain published Circulars 2/2014 and 3/2014 on 31 January and 30 July, respectively, through which it made use of some of the regulatory permanent options established by the CRR Regulation, including the rules applicable to the transitional capital requirements and deduction treatment systems.

In accordance with the requirements established in the CRR Regulation credit institutions must meet a total capital ratio of eight percent at all times. However, it should be noted that the regulators may exercise their authority under the new legislative framework and require entities to maintain additional levels of capital.

In accordance with the aforementioned new legislative framework, starting on 1 January 2014 the provisions of Bank of Spain Circular 3/2008 that go against the European legislation mentioned above were repealed.

Capital resources are classified into categories based on their capacity to absorb losses, their degree of permanence or their degree of subordination. The categories of capital, from higher to lower permanence, capacity to absorb losses and subordination are common equity and other top tier capital instruments, the sum of which represent Tier 1 capital and capital instruments in the second category (Tier 2 capital). The total capital base is obtained as the sum of tier 1 and tier 2 capital.

Law 10/2014 (26 June), on the organisation, supervision and solvency of credit institutions, continued with the transposition of CRD-IV into Spanish legislation and was subsequently supplemented by Royal Decree 84/2015 (13 February), which enables Law 10/2014 and adapts Spanish legislation to the European rules regarding the Single Supervisory Mechanism (SRM).

On 9 February 2016 the Official State Journal published Bank of Spain Circular 2/2016 (2 February) which covers the supervision and solvency of credit institutions and completes the adaptation of Spanish legislation to Directive 2013/36/EU and to Regulation (EU) 575/2013, with respect to the options not exercised by Bank of Spain Circulars 2/2014 and 3/2014. Circular 2/2016 enables certain aspects of the transposition of Directive 2011/89/EU of the European Parliament and Council of 16 November 2011 with respect to the additional supervision of the financial institutions that form part of a financial conglomerate and introduces the definition of component authority, which will be the European Central Bank or the Bank of Spain in accordance with the assignment and distribution of competencies established in Regulation (EU) 1024/2013, which is completed by Regulation (EU) 468/2014 of the European Central Bank (16 April 2014).

That all constitutes current legislation regulating capital and reserves that must be maintained by Spanish credit institutions, both individually and as consolidated groups, and stipulates how this capital is measured. This includes the processes to be followed for the self-assessment of capital and the information to be made public.

At 31 December 2016 and 2015, the Group's eligible capital was as follows:

	2016	**2015**
Tier 1 capital	**389,531**	**336,811**
Share capital	93,012	50,919
Retained earnings	284,363	270,357
Accumulated prior-year gains	*265,766*	*248,735*
Admissible profits	*18,597*	*21,622*
Other retained profits	41,418	48,045
Other reserves	10,601	10,677
Minority shareholdings recognised in ordinary tier 1 capital	-	2,249
Other intangible assets	(557)	(752)
Excess items deducted from additional tier 1 capital	(223)	(451)
Other transitional adjustments to ordinary tier 1 capital	(36,571)	(42,132)
Additional deductions from ordinary tier 1 capital	(2,512)	(2,101)
Tier 2 capital	**23,457**	**24,687**
Supplementary coverage for insolvency risks	23,457	24,687
Total Group eligible capital and reserves	**412,988**	**361,498**
Total required minimum capital and reserves	**195,316**	**198,388**

At 31 December 2016 and 2015 the most significant data relating to the Group's minimum capital are as follows:

	2015	2015
Tier-one capital ratio	15.95%	13.58%
Tier-two capital ratio	0.97%	1.00%
Total capital ratio	**16.92%**	**14.58%**

At 31 December 2016 and 2015, the Group's eligible capital exceeds the minimum requirements laid down by the aforementioned law on each of these dates.

On 5 January 2017, the Entity notified Spain's securities market regulator, the CNMV, in a price-sensitive filing, of the results of its Supervisory Review and Evaluation Process (SREP). The Bank of Spain is requiring the Parent Entity, in the wake of the SREP results, to maintain a Common Equity Tier 1 (CET 1) ratio of at least 7.13% in 2017 and a Total Capital ratio of at least 10.63%, both of which measured as a percentage of capital articulated on a phase-in basis.

These capital adequacy ratios include the minimum required in respect of Pillar 1 (a CET 1 ratio of 4.5% and a Total Capital ratio of 8.0%), the minimum Pillar 2 requirement (1.38%) and the capital buffer (1.25%).

f) Deposit Guarantee Fund, National Resolution Fund and Single Resolution Fund

f.1) Deposit Guarantee Fund

The Entity is a member of the Deposit Guarantee Fund.

Royal Decree-Law 19/2011 amended Royal Decree 16/2011 and established that the amount of the contributions by Entities to the Deposit Guarantee Fund for Credit Institutions would increase from 1 per thousand to 2 per thousand of the calculation base.

The expense arising from ordinary contributions referred to in the preceding paragraph accrues as the Entity renders its services to customers, such that at the end of the year the balance sheet recognises the liability for the contribution which is paid in during the second month of the subsequent year.

On 30 July 2012 the Deposit Guarantee Fund Management Committee adopted a resolution to apply an extraordinary charge to member entities, payable by each entity in 10 equal annual instalments. The amount of the extraordinary payment for the Entity total €6,533 thousand (ten annual instalments of €653 thousand each). These instalments will be deducted from the annual ordinary contribution that the entity pays, if appropriate, and up to the amount of the ordinary contribution. The present value of the amount pending payment is recognised under the heading Other financial assets in "Loan Investments-Customer Loans" in the balance sheet (€3,628 thousand at 31 December 2016 and €4,172 thousand at 31 December 2015) and under "Other liabilities" (€3,628 thousand at 31 December 2016 and €4,172 thousand at 31 December 2015).

In order to reinforce the funding of the Deposit Guarantee Fund for Credit Institutions, Royal Decree-Law 6/2013 established that the annual contribution stipulated by Article 3 of Royal Decree 2606/1996 (20 December) on Deposit Guarantee Funds for Credit Institutions to be made by member entities based on deposits at 31 December 2012 would increase one time on an exceptional basis by an additional 3 per thousand.

This increase was effectively paid in two tranches:

a) The first tranche equivalent to two-fifths of the total, payable within 20 business days of 31 December 2013. That tranche was reduced as a result of the deductions established by regulations to the amount of €1,628 thousand, which was recognised as an expense in the 2013 income statement.

b) The second tranche equivalent to three-fifths of the remaining amount totalling €4,883 thousand, payable starting on 1 January 2014 in accordance with the payment schedule established by the Management Committee. In accordance with the matters indicated in Note 2c, this expense was considered to have accrued at the time at which the aforementioned Royal Decree-Law entered into force (24 March 2013), since it involved a contribution that did not depend on the Entity's future activity and had to be recognised in full at that date, regardless of the payment date.

Law 11/2015 (18 June) was approved in June 2015 and governs the recovery and resolution of credit institutions. Final Provision Ten amends Royal Decree-Law 16/2011 (14 October) which creates the Deposit Guarantee Fund and thereby partially transposes the European Directive on Deposit Guarantees into Spanish law.

Royal Decree 1012/2015 (6 November), which enables Law 11/2015, amends Royal Decree 2606/1996 (20 December), on credit institution deposit guarantee funds.

The new legislation has introduced a new way of calculating the contributions. The contributions made by entities will be calculated based on a formula whose result depends on:

- The base amount of the calculation of the deposits that are guaranteed by each entity. Their determination will be based on the provisions of Bank of Spain Circular 8/2015 (18 December). This is a significant decrease compared with the basis of calculation used previously.

- The contribution rate for all member entities. Established as a quotient of the sum of the contributions made by member entities (determined by the Deposit Guarantee Fund) and the sum of the deposits guaranteed at each of the entities (reported by them).

- The adjustment for the risk profile of each member entity. The methodology will be established by the Bank of Spain in accordance with Directive 2014/49/EU of the European Parliament and Council (16 April 2014), relating to deposit guarantee systems. This methodology will take into consideration at least capital, liquidity, financing and asset quality indicators.

For contributions relating to 2015, and in the absence of approval from the Bank of Spain of the methodology to apply a risk adjustment to each entity, at 2 December 2015 the Deposit Guarantee Fund sent a letter to the entities to report that the Fund Management Committee had determined the contributions for 2015 relating to the various compartments of the fund and they must be calculated as follows:

- This compartment of the deposit guarantee was set at 1.6 per thousand of the calculation base.
- This compartment of the DGF securities guarantee was set at 2 per thousand of the calculation base.

In 2016, the expense incurred by the Entity in respect of all contributions to this Fund totaled €5,249 thousand (€5,094 thousand in 2015) and is recognised in the heading “Other operating charges “in the accompanying consolidated income statement (Note 29).

f.2) National Resolution Fund

Article 53.1.a) of Law 11/2015 (18 July), on the recovery and resolution of credit institutions and investment service companies, covers the creation of the "National Resolution Fund" as one of the mechanisms to finance the measures established by that Law. In turn, additional provision four stipulates that the portion relating to the National Resolution Fund will be transferred to the Single Resolution Fund in the amount and manner established by Regulation (EU) 806/2014 of the European Parliament and Council (15 July 2014), the rest of the applicable European Union Law and the agreement on the transfer and mutual structuring of the contributions made to the Single Resolution Fund concluded on 21 May 2014.

The financial resources of the National Resolution Fund must be 1% of the amount of guaranteed deposits before 31 December 2024, raised through contributions made by credit institutions and investment service companies established in Spain and these contributions are mandatory starting in 2015. In order to attain this level, the executive resolution authority and, therefore, the National Resolution Fund management entity, will report and collect the ordinary contributions due from entities at least on an annual basis.

In 2016 the expense recognised by the bank in the heading "Other operating charges" in the accompanying consolidated income statement relating to the National Resolution Fund contributions for the 2016 contribution period amounts to €1,682 thousand (in 2015 €965 thousand), recognised in the heading "Other operating expenses" in the accompanying income statement (Note 29).

f.3) Single Resolution Fund

Article 67 of Regulation (EU) 806/2014 of the European Parliament and Council (15 July 2014) created the "Single Resolution Fund" as an essential element of the Single Resolution Mechanism (SRM) which was initiated by Directive 2014/59/EU of the European Parliament and Council (15 May 2014).

This fund started to operate on 1 January 2016 and is administered by the Single Resolution Board, which is also responsible for calculating the contributions that the credit institutions and investment service companies defined by Article 2 of the aforementioned Regulation must make. This calculation must take into account the provisions of the rules defined by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements.

In accordance with Article 103 of Directive 2014/59/EU, the available financial resources that will be taken into account to attain the target level established by the Single Resolution Fund may include irrevocable payment commitments, backed by low risk asset guarantees free of third-party encumbrances and which are freely available and assigned for the exclusive use of the resolution authorities for the purposes specified in the Directive. The portion of the irrevocable payment commitments will not exceed 30% of the total amount through the ex-ante contributions.

g) Business segment reporting

The activity carried out by the Group's parent entity is essentially Retail Banking and there are no other major business lines that require an analysis and detailed report on their operations, as if each one of them were a self-standing business with its own separate own resources.

Along the same lines, no geographical differences have been found in the area where the Entity operates which justify a segmented, differentiated report on activity on this basis.

3. ACCOUNTING PRINCIPLES AND STANDARDS APPLIED

The most important accounting principles and standards that were applied when preparing these annual accounts are summarised below and they meet the provisions of Bank of Spain regulations:

a) Going-concern principle

The information contained in these annual accounts has been prepared taking into consideration that the Group will continue to operate in the future and therefore the accounting standards have not been applied with the objective of determining the value of equity for the purposes of its universal or partial transfer, or for a hypothetical liquidation.

b) Accruals principle

These annual accounts, except with respect to the cash flow statement, have been prepared on the basis of the actual flow of goods and services, irrespective of the date of payment or collection.

c) Offset of balances

Only debtor and creditor balances arising on transactions which, under contract or legislation, provide for possible offset and are to be settled at their net amount, or simultaneously realised and paid, are offset and therefore presented in the balance sheet at their net amount.

d) Transactions denominated in foreign currency

The functional and presentation currency in these annual accounts is the euro, and any other currency is considered to be a foreign currency.

On initial recognition receivables and payables in foreign currency have been converted to euro using the spot exchange rate. After that time the following rules are applied to convert balances denominated in foreign currency to euro:

- Assets and liabilities of a monetary nature are converted to euro using the average official spot exchange rates published by the European Central Bank at the end of each year.

- Non-monetary items measured at historic cost are converted at the exchange rate on the date of acquisition.

- Non-monetary items measured at fair value are converted at the exchange rate on the date on which fair value is determined.

- Income and expenses are converted using the exchange rate in force on the date of the transaction.

- Depreciation/amortisation is converted at the exchange rate applied to the asset concerned.

Exchange differences arising on the conversion of foreign currency balances are recognised in the income statement, with the exception of the differences arising on non-monetary items measured at fair value whose adjustment to fair value is taken to equity, indicating the exchange rate component of the restatement of the non-monetary item.

At the end of 2016 the total assets expressed in foreign currency amount to €853 thousand (€728 thousand at 31 December 2015) and the total amount of liabilities expressed in foreign currency at the end of that year is €578 thousand (€528 thousand at 31 December 2015).

The breakdown of the assets and liabilities expressed in foreign currency, classified by heading at 31 December 2016 and 2015, is as follows:

	Thousand euro	
	2016	**2015**
Cash and deposits at central banks	271	200
Bank deposits	582	528
Total Assets	**853**	**728**
Customer deposits	578	528
Total Liabilities	**578**	**528**

e) Recognition of income and expenses

As a general policy, income is recognised at the fair value of the consideration received or that will be received, less any discounts, credits or commercial reductions. When the entry of cash is deferred over time, the fair value is determined by discounting future cash flows.

Recognising any income in the income statement or under equity is subject to compliance with the following premises:

- The amount may be reliably estimated.

- It is likely that the entity will receive the financial benefits.

- The information may be verified.

When there are doubts regarding the collection of an amount previously recognised under income, the amount that is no longer likely to be collected is recognised as an expense and not as a reduction in income.

All those debt instruments that are classified individually as impaired by the Entity, as well as those for which the impairment losses have been calculated collectively as the amounts have been outstanding for more than three months, no longer accrue interest.

Interest and dividends are recorded in the income statement based on the following criteria.

- The effective interest rate method is used to recognise interest in the income statement.

- Dividends are recognised when the right of shareholders to receive payment required.

Notwithstanding the above, interest and dividends accrued before the date on which the instrument was acquired and not yet collected do not form part of the acquisition cost and are not recognised as income.

f) Financial instruments

A “financial instrument” is a contract that gives rise to a financial asset at one entity and a financial liability or capital instrument at another.

The financial instruments issued by the Group and their components are classified as financial liabilities or equity instruments on the date of initial recognition, in accordance with their financial substance when it does not coincide with their legal form.

Financial instruments are initially recognised in the balance sheet only when the Group becomes party to the relevant contract, in accordance with the terms of that contract. The Group recognises debt instruments, such as loans and cash deposits, from the date on which the legal right to receive or the legal obligation to pay cash arises, and financial derivatives are recognised starting on the contract date. Transactions carried out in the currency market will be recognised on the settlement date and financial assets treated on Spanish secondary securities markets, if concerning equity instruments, will be recognised on the contract date and, if concerning debt securities, on the settlement date.

Financial instruments sold with a repurchase commitment are not eliminated from the balance sheet and the amount received on the sale is considered to be financing received from third-parties and recognised as a temporary assignment of assets.

f.1) Financial assets

Classification

The Group's financial assets are classified on its statement of financial position using the following criteria:

i) Cash, cash balances at central banks and other demand deposits, which correspond to balances held in cash and balances held at the Bank of Spain, other central banks and credit institutions.

ii) Financial assets held for trading, a category that includes financial assets acquired principally for the purpose of selling them in the short term that are part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit-taking and derivatives that have not been designated as accounting hedges.

iii) Financial assets designated at fair value through profit or loss, a category which includes financial assets that, not qualifying as financial assets held for sale, are considered hybrid financial instruments and are measured in their entirety at fair value and those that are managed together with liabilities under the scope of insurance or reinsurance agreements measured at fair value or with financial derivatives with the aim and effect of significantly reducing exposure to changes in their fair value and those managed together with financial liabilities and derivatives with the aim of significantly reducing overall exposure to interest rate risk.

iv) Available-for-sale financial assets, corresponding to debt securities not classified as held-to-maturity investments, financial assets designated at fair value through profit, loans and receivables or financial assets held for trading and equity instruments that are not investments in subsidiaries, associates or joint ventures and that have not been classified in either of the financial assets held for sale or financial assets designated at fair value through profit categories.

v) Loans and receivables, a category which includes financial assets with fixed or determinable payments that are not quoted in an active market, need not be measured at fair value and for which the Entity expects to recover all of its initial investment, other than because of credit deterioration. This encompasses the investments deriving from the Entity's ordinary lending activity, such as the amounts of cash drawn and pending repayment by customers in the form of loans and the deposits lent to other entities, no matter their legal form, and unquoted debt securities and the debts assumed by the buyers of goods and users of services in the ordinary course of the Entity's business operations.

vi) Held-to-maturity investments, which are debt securities quoted in an active market with fixed or determinable payments and fixed maturities that the Entity has, from the outset and at any later date, the positive intention and ability to hold to maturity.

vii) Derivatives - accounting hedges, corresponding to financial derivatives acquired or issued by the Entity that qualify for hedge accounting.

viii) Changes in the fair value of the hedged items in portfolio hedges of interest rate risk, corresponding to the balancing entry to the amounts recognised in the statement of profit or loss in connection with the measurement of the financial instrument portfolios whose interest rate exposure is efficiently hedged by means of a fair value hedge.

ix) Non-current assets and disposal groups classified as held for sale, corresponding to the carrying amount of the individual headings of a financial nature comprising a disposal group or forming part of a business unit that is to be sold (discontinued operations) and whose sale is considered highly likely, in the assets' present condition, within one year from the date of the financial statements. Accordingly, these financial assets' carrying amount is expected to be recovered principally through the price fetched in a sale transaction. Note that the Group has classified other *non-financial* non-current assets and disposal groups as held for sale.

x) Investments in subsidiaries, joint ventures and associates, meaning equity investments in Group entities, jointly controlled entities and associates.

Subsidiaries are investees that constitute a decision-making unit over which the Entity has the power, directly or indirectly through other investees, to exercise control. The power to exercise control is evidenced, generally albeit not exclusively, by interests of 50% or more, held directly or indirectly via other investees, in an investee’s voting rights. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control may be exercised at shareholdings below the above-mentioned threshold.

A joint venture is an investee which, not being a subsidiary, is jointly controlled by the Entity and one or more unrelated companies. Joint ventures are contractual agreements under which two or more parties or venturers undertake operations or hold assets in an entity under an arrangement in which strategic, financial and business decisions affecting the joint venture require the unanimous consent of all of the venturers, without such operations or assets being integrated into financial structures distinct from those of the venturers.

Associates are investees over which the Entity has significant influence. Significant interest is evidenced, generally albeit not exclusively, by interests of 20% or more, held directly or indirectly via other investees, in an investee's voting rights.

xi) Other insurance agreements related to pensions, which correspond to the right to claim reimbursement from insurance firms of some or all of the outlay needed to cancel a defined benefit obligation when the insurance policies do not satisfy the conditions for qualifying as a plan asset.

Recognition and measurement

As a general rule, financial assets are recognised initially at their acquisition cost. They are subsequently measured at each reporting date in keeping with the following criteria:

i) Financial assets are measured at fair value except for loans and receivables, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner, investments in subsidiaries, joint ventures and associates and financial derivatives whose underlying is such an equity instruments and are settled by means of physical delivery of that instrument.

ii) The fair value of a financial asset on a given date is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is quoted prices in an active market, meaning an organised, transparent and deep market.

If there is no quoted price for a given financial asset, its fair value is estimated using prices from recent transactions involving similar instruments and if this information is not available, using sufficiently corroborated valuation techniques. This exercise also factors in the characteristics specific to the asset being valued and, most particularly, the various classes of risk to which the financial asset is exposed. However, the limits intrinsic to the valuation models developed and possible inaccuracies in the assumptions required by these models could mean that the fair value so estimated for a given financial asset does not coincide exactly with the price at which it could be bought or sold on the measurement date.

iii) The fair value of financial derivatives with a quoted price in an active market is the daily quote price; if, for exceptional reasons, its price cannot be obtained on a given date, they are valued using similar methods to those used to value OTC financial derivatives.

The fair value of OTC financial derivatives is the sum of future cash flows deriving from the instrument discounted to the valuation date using generally accepted valuation methods.

iv) Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial asset was acquired minus principal repayments, the accumulated amortisation in profit or loss, using the effective interest method, of any difference between that initial amount and the maturity amount, and any reduction (directly or through the use of an allowance account) for impairment. In the case of loans and receivables hedged by fair value hedges, the Group recognises any changes in their fair value related to the risk or risks thereby hedged.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount of the financial asset considering all the contractual terms of the instrument, such as prepayment options, but without considering future credit losses. For financial instruments at fixed rates of interest, the effective interest rate coincides with the contractually stipulated rate established upon acquisition plus any fees and commissions deemed an integral part of the effective interest rate. For financial instruments at floating rates of interest, the effective interest rate coincides with the prevailing yield in respect of all items until the first scheduled benchmark rate reset date.

v) Investments in the equity of other entities whose fair value cannot be determined in a sufficiently objective manner and financial derivatives whose underlying is such an equity instrument and is settled by means of physical delivery thereof are carried at acquisition cost less any impairment losses sustained.

vi) Investments in subsidiaries, joint ventures and associates are carried at their acquisition cost less any impairment losses sustained.

Changes in the carrying amounts of financial assets are recognised, as a general rule, with a balancing entry in the statement of profit or loss, distinguishing between those deriving from the accrual of interest and similar items, which are recognised in 'Interest and similar income', and those corresponding to other items, which are recognised at their net amount in 'Gains/(losses) on financial assets and liabilities held for trading (net)' or 'Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss (net)' in the statement of profit or loss.

However, changes in the carrying amounts of instruments classified as available-for-sale financial assets are deferred temporarily in other comprehensive income (OCI) within equity, unless they derive from exchange differences. The amounts included under OCI within equity are kept in equity until the originating asset is derecognised, at which time they are cancelled with a balancing entry in profit or loss in 'Gains/(losses) on the derecognition of financial assets and liabilities not carried.

Reclassifications

Reclassifications between financial instrument portfolios are only permitted under the following circumstances:

i) Other than under the exceptional circumstances indicated in item iv) below, the financial instruments classified as 'Financial assets designated at fair value through profit or loss' cannot reclassified out of this category once acquired or while issued or held.

ii) If a financial asset no longer qualifies as a held-to-maturity investment as a result of a change in the intention or ability to hold it to maturity, it is reclassified to 'Available-for-sale financial assets'. In this instance, if the amount of the reclassified financial asset represents a material amount in relation to the total balance of assets classified as held-to-maturity investments, the reclassification shall apply to all the financial assets classified in this category, unless such reclassification qualifies for one of the circumstances provided for in prevailing accounting standards (sales or reclassifications very close to maturity or after substantially all of the original principal has been collected, etc.).

The Group did not carry out any sales not permitted under the standards applicable to financial assets classified as held-to-maturity investments in either 2016 or 2015.

iii) The debt instruments classified within 'Available-for-sale financial assets' may be reclassified to 'Held-to-maturity investments' because of a change in the Entity's intention or ability or because the stipulated 'two preceding financial years' holding period for financial assets has passed. In this instance, the fair value of these financial instruments at the date of reclassification becomes the new amortised cost and the difference between this amount and their redemption value is recognised in profit or loss using the effective interest rate method over the residual life of the instrument.

No such reclassifications took place in either 2016 or 2015.

iv) A non-derivative financial asset can be reclassified out of 'Financial assets held for trading' if it is no longer held for the purpose of being sold or repurchased in the near term, so long as one or more of the following circumstances is met:

a. In rare and exceptional circumstances, so long as the assets would have met the definition of loans and receivables. For this purpose, rare and exceptional circumstances mean those arising from an isolated event that is unusual and whose recurrence in the foreseeable future is considered highly improbable.

b. When the Entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity, so long as the asset would have met the definition of loans and receivables upon initial recognition.

Under these circumstances, the asset is reclassified at its fair value at the reclassification date, without reversing any gains or losses already recognised in profit or loss, and this value becomes its new amortised cost. Assets so reclassified may never again be reclassified within 'Assets held for trading'.

None of the financial assets included in the held-for-trading or available-for-sale categories were reclassified in either 2016 or 2015.

f.2) Financial liabilities

Classification

The Group's financial liabilities are classified on its statement of financial position using the following criteria:

i) Financial liabilities held for trading, a category which includes financial liabilities incurred principally for the purpose of realising them in the short term, that are part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit-taking, derivative instruments not designated as accounting hedges or arising from the firm sale of financial assets acquired under repurchase agreements or received on loan.

ii) Financial liabilities designated at fair value through profit or loss, corresponding to financial liabilities so designated by the Entity upon initial recognition or when so doing results in more relevant information because either:

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented

risk management or investment strategy, and information about the group is provided
internally on that basis to the entity's key management personnel.

iii) Financial liabilities at amortised cost, a category which includes financial liabilities that do not fit into any other statement of financial position heading and arise pursuant to the standard deposit-taking activities of financial institutions, no matter their legal form or maturity date.

iv) Derivatives - accounting hedges, corresponding to financial derivatives acquired or issued by the Entity that qualify for hedge accounting.

vi) Changes in the fair value of the hedged items in portfolio hedges of interest rate risk, corresponding to the balancing entry to the amounts recognised in the statement of profit or loss in connection with the measurement of the financial instrument portfolios whose interest rate exposure is efficiently hedged by means of a fair value hedge.

vi) Liabilities associated with disposal groups classified as held for sale, corresponding to the balances payable deriving from the non-current assets and disposal groups classified as held for sale.

vii) Capital repayable upon demand, which includes the amount of financial instruments issued by the Entity the substance of which, despite having the legal form of an equity instrument, does not meet the requirements for classification as equity.

Recognition and measurement

Financial liabilities are measured at amortised cost with the following exceptions:

i) The financial liabilities included within financial liabilities held for trading and financial liabilities designated at fair value through profit or loss are measured at fair value.

ii) The financial derivatives with equity instruments as underlying whose fair value cannot be determined in a sufficiently objective manner and are settled by means of delivery of the said instruments are measured at cost.

Changes in the carrying amounts of financial liabilities are recognised, as a general rule, with a balancing entry in the statement of profit or loss, distinguishing between those deriving from the accrual of interest and similar items, which are recognised under 'Interest and similar expense', and those corresponding to other items, which are recognised at their net amount in 'Gains/(losses) on financial assets and liabilities held for trading (net)' or 'Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss (net)' in the statement of profit or loss.

g) Transfer and derecognition of financial instruments

Transfers of financial instruments are accounted for depending on the manner in which the rights and rewards of ownership of the financial assets are transferred, on the basis of the following criteria:

i) If the risks and rewards of ownership of the transferred assets are substantially transferred, such as unconditional sales, sale of a financial asset together with an option to repurchase the financial asset at its fair value at the time of repurchase, a sale of a financial asset together with a put or call option that is deeply out of the money, the securitisation of assets in which the assignor does not retain subordinated interests or grant any form of credit enhancement to the new holders, etc., the transferred financial asset is derecognised and any rights and obligations created or retained in the transfer are recognised separately as assets.

ii) If the Entity retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset in its entirety and continues to measure it using the same criteria as before the transfer. However, the Entity recognises an associated financial liability at an amount equal to the consideration received (which is subsequently measured at amortised cost). In subsequent periods it recognises any income from the financial asset transferred but not derecognised and any expense incurred under the new financial liability.

iii) If the Entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it must determine whether it has retained control of the financial asset:

- If the Entity has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

- If the Entity has retained control, it continues to recognise the financial asset to the extent of its continuing exposure to changes in the value of the financial asset and recognises an associated financial liability in an amount equivalent to the consideration received. That liability is subsequently measured at amortised cost, unless it qualifies for classification as a financial liability designated at fair value through profit or loss. Given that it does not constitute a present obligation, when measuring this financial liability, the Entity deducts the amount of any financial instruments (such as covered bonds and loans) that it owns that constitute a source of financing for the entity to which the financial assets have been transferred insofar as those instruments specifically finance the transferred assets. The net carrying amount of the transferred asset and associated liability is accordingly the amortised cost of the rights and obligations retained if the transferred asset is measured at amortised cost or the fair value of the rights and obligations retained if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the contractual rights to the cash flows from the financial asset expire or the rights and rewards of ownership of the financial asset are substantially transferred. Similarly, financial liabilities are only derecognised when the obligation is extinguished or when they are acquired with the intention of cancelling or reissuing them.

As of December 31, 2016 and 2015, the Bank does not maintain financial assets or financial liabilities that are derecognised as a result of the previous applicable legislation before 1 January 2004.

<u>Equity instruments</u>

The contributions to the capital of the Cooperative (Entity) by its partners are considered equity instruments and are recognised as equity when there is an unconditional right on the part of the Cooperative to refuse its reimbursement or there are prohibitions, legal or statutory, to perform this. If the prohibition of repayment is partial, the refundable amount above the prohibition is recorded in a specific item in the balance sheet "Capital with a nature of financial liability". Contributions for which there is an obligation to remunerate, even when conditional on the existence of results of the cooperative, are treated as financial liabilities. The remuneration of the contributions are recorded as financial expenses for the year if they correspond to contributions recorded as financial liabilities and directly against the equity of the cooperative in the remaining cases.

However, the First Transitory Provision of Bank of Spain Circular 4/2004, established that for the Credit Cooperatives, the application of this criterion would not be mandatory until 31 December 31 2006.

The Ordinary General Assembly held on 28 April 2006 approved the obligatory transformation of contributions from partners with reimbursement rights in contributions whose reimbursement can be unconditionally refused by the Governing Council. Thus, since that date all contributions to the cooperative are considered as "Equity instruments".

Likewise, the remuneration of the contributions will be fixed at any time by the General Assembly of the Entity (Note 22.1).

Emissions, amortisations and consideration received or delivered from equity instruments are recorded directly against the Bank's equity, and the changes in the value of these instruments are not recorded in the financial statements. In addition, costs related to this type of transaction are deducted directly from equity, once less any related tax effect.

The remuneration, changes in book value, as well as the results associated with the repurchase or refinancing of financial liabilities are recorded in the income statement as a financial expense. The profit and loss account also records the costs of issuing financial liabilities using the effective interest rate method. In any case, the remunerations of the capital with the nature of financial liabilities classified as expenses are presented in a separate item.

i) <u>Hybrid financial instruments</u>

The Entity issues hybrid financial instruments that include a principal contract other than a derivative and a derivative financial contract, called an embedded derivative. These embedded derivatives are segregated from these main contracts and are treated independently for accounting purposes if the economic characteristics and risks of the embedded derivative are not closely related to those of the main contract that is not a derivative if a different instrument with the same conditions than those of the embedded derivative would meet the definition of derivative and if the hybrid contract is not valued at fair value through profit and loss.

The initial value of the implicit derivatives that are separated from the main contract and which are options, is obtained on the basis of their own characteristics, and those that are not options have an initial value null. When the Entity is unable to reliably estimate the fair value of an embedded derivative, it estimates its value by difference between the fair value of the hybrid contract and that of the main contract, provided that both values can be considered as reliable; If this is also not possible, the Entity does not segregate the hybrid contract and treats for accounting purposes the hybrid financial instrument as a whole as included in the portfolio of "Financial assets at fair value through profit and loss". The main contract that is not a derivative is treated for accounting purposes independently.

The financial assets and liabilities with which the Entity usually operates are:

- Financing granted and received from other credit institutions and clients regardless of the legal form in which they are implemented (loans, credits, advances, etc.).

- Securities representing both debt (bonds, bonds, promissory notes, etc.) and equity instruments (shares).

- Derivatives; Contracts whose outcome is related to the evolution of the value of an underlying asset (interest rate, exchange rate or similar reference), with an initial non-significant or zero payout and settled at a future date. In addition to providing a result (loss or gain), if certain conditions are met, they may eliminate all or part of the financial risks associated with the Entity's balances and transactions.

j) Financial guarantees

Financial guarantees are those contracts whereby the Institution undertakes to pay specific amounts for a third party in the event of not doing so. The main contracts included in this heading, which are included in the "Pro memoria" information at the end of the balance sheet, are guarantees (both financial and technical), guarantees, irrevocable documentary credits issued or confirmed by the Bank, insurance contracts, if any, credit derivatives in which the Entity acts as a protection seller.

Financial guarantees are classified, depending on the risk of insolvency attributable to the customer or the operation and, if applicable, the need to set up provisions (Note 18) to cover credit risk, applying criteria similar to those used for Determine the impairment losses on financial assets classified in the "Loans and receivables" portfolio, described in Note 3.

k) Investments in subsidiaries, jointly controlled entities and associates

The Entity's shareholdings, as well as its most relevant information, are included in Note 14 to the Entity's individual annual accounts and in Note 1.c). The Entity classifies its holdings in subsidiaries, jointly controlled entities or associates according to the following criteria:

- Dependents: These are those that together with the Entity form a group of credit institutions to form a decision unit. The Entity assumes that there is a decision-making unit when it holds the majority of the voting rights, has the power to appoint or dismiss the majority of the members of the management body, may, under agreements with other partners, The majority of the voting rights or has exclusively designated the majority of the members of the administrative body with their votes.

- Multi-group: These are those, which are not dependent, and which according to a contractual agreement, are jointly controlled by two or more entities, among which is the Entity or other entities of the group.

- Associates: These are those on which the Entity, individually or together with the other entities of the group, has a significant influence, and is not a dependent or multigroup entity. For the existence of significant influence, the Bank considers, among other situations, representation in the Board of Directors, or equivalent management body of the investee, participation in the policy-making process, including those related to dividends and other the existence of significant transactions between the Entity and the investee, the exchange of senior management personnel and the provision of essential technical information, although usually this significant influence is manifested in a participation (direct or indirect) equal or More than 20% of the voting rights of the investee.

Investments in subsidiaries, jointly controlled entities and associates are recorded at cost and corrected with impairment losses if there is evidence of impairment. For the calculation of impairment losses, the Bank compares the recoverable amount (the greater of its fair value less costs to sell and value in use) with its carrying amount. Impairment losses as well as recoveries of the value that are evidenced by this valuation are immediately recorded in the income statement of the Entity.

At December 31, 2016 and 2015, all the holdings held by the Entity are classified as Group companies.

l) Impairment of financial assets

The carrying amount of the financial assets is adjusted by the Entity against the income statement when there is objective evidence that an impairment loss has occurred.

Debt instruments measured at amortised cost

In order to determine impairment losses, the Entity monitors individual debtors, at least for all significant ones, and collectively, for groups of financial assets that present similar credit risk characteristics Indicative of the capacity of the debtors to pay the outstanding amounts. When a particular instrument can not be included in any group of assets with similar risk characteristics, it will be analysed exclusively on an individual basis to determine if it is impaired and, where appropriate, to estimate the impairment loss.

The Entity has policies, methods and procedures to estimate the losses that can be incurred as a result of the credit risks that it maintains, both for the insolvency attributable to the counterparties and for the country risk. Said policies, methods and procedures are applied in the concession, modification, evaluation, monitoring and control of the operations of debt instruments and off-balance sheet exposures, as well as in the identification of their possible deterioration and, if applicable, in the calculation of the amounts necessary to cover the estimated losses.

Accounting classification based on credit risk due to insolvency

The Entity has established criteria to identify borrowers who present weaknesses or objective evidence of impairment and classify them according to their credit risk.

In the following sections the principles and classification methodology used by the Entity are developed.

Definition of classification categories

Debt instruments not included in the portfolio of financial assets held for trading, as well as off-balance sheet exposures, are classified, based on the credit risk due to insolvency, in:

i) Normal risk:

a) Operations that do not meet the requirements to classify them into other categories.

b) Normal risk in special surveillance: operations that, without complying with the criteria to classify them individually as a doubtful or failed risk, present weaknesses in their solvency that may imply losses greater than those of other similar operations classified as normal risk.

ii) Doubtful risk:

a) Due to the bad debt of the holder: transactions with an amount overdue by principal, interest or expenses contractually agreed, generally, more than 90 days old, unless classifying them as unsuccessful. Also included in this category are the guarantees granted when the guarantor has incurred in the delinquency of the guaranteed operation. It also includes the amounts of all trades of a holder when transactions with amounts overdue generally, as indicated above, of more than 90 days old, are higher than 20% of amounts pending recovery.

b) For reasons other than the holder's non-performing loans: operations in which, without concurring the circumstances to classify them into the categories of failed or doubtful due to delinquency, reasonable doubts arise about their total repayment in the terms contractually agreed; As well as off-balance-sheet exposures not classified as doubtful due to the delinquency whose payment by the Entity is probable and its doubtful recovery.

iii) Failed risk:

This category includes debt instruments, due or not, for which, after an individualised analysis, their recovery is considered remote due to a noticeable or irrecoverable deterioration in the solvency of the operation or the holder. The classification in this category will entail the full write-down of the gross carrying amount of the transaction and its total write-off of the asset.

Criteria for classification of operations

The Entity applies a variety of criteria to classify borrowers and operations into the different categories based on their credit risk. Among them are:

i) Automatic criteria;

ii) Specific criteria for refinancing, and

iii) Criteria based on monitoring models, based on monitoring of certain parameters.

The automatic factors and the specific classification criteria for refinancing constitute a classification and cure process and are applied over the entire portfolio. Likewise, in order to allow an early identification of weaknesses and deterioration of operations, the Entity establishes a follow-up model that allows the corresponding treatment, depending on the different levels of default risk, to be allocated.

Transactions classified as doubtful are reclassified to normal risk when, as a result of the total or partial collection of the amounts outstanding in the case of doubtful for reasons of delinquency, or because they have exceeded the cure period in the case of doubtful reasons for reasons other than The delays, the causes that in its day led to its classification in doubtful, disappears, unless other reasons exist that advise its maintenance in this category (for example, maintenance of overdue amounts of more than 90 days of seniority in other live operations of the borrower) .

As a result of these procedures, the Entity classifies its creditors in the categories of normal in special or doubtful surveillance for reasons of the holder's default, or maintains them as normal.

Individual Classification

The Institution has established a threshold in terms of exposure to consider the borrowers as significant, set at a total risk exposure in excess of €500 thousand. Also included in this classification are those operations that, after the analysis of the Doubtful Committee, their recovery is considered remote.

For the significant creditors a predictive model of default is established that is formed by a system of variables / alerts with which it tries to detect the future situations of customer default, to calibrate and to quantify its severity and to establish different levels of probability of risk of default . An expert team of risk analysts analyses the creditors with active alerts to conclude on the existence of weaknesses or objective evidence of impairment and, in the case of evidence of impairment, whether that event or events causing the loss have an impact on the estimated future cash flows of the financial asset or its group.

<u>Collective classification</u>

For creditors who do not exceed the threshold of significance and who, moreover, have not been classified as doubtful, the Entity has established parameters, once overcome, assume their automatic classification as normal risk in special surveillance (as a general criterion, higher defaults to 30 days and less than 90 days).

<u>Refinancing and restructuring operations</u>

The credit risk management policies and procedures applied by the Entity guarantee a detailed follow-up of the borrowers, highlighting the need to make provisions when there is evidence of deterioration in their solvency. For this reason, the Entity constitutes the provisions for insolvencies required for those operations in which the situation of its borrower so requires prior to formalising the restructuring/refinancing operations, which should be understood as:

- Refinancing operation: an operation that is used for economic or legal reasons related to financial difficulties (current or foreseeable) of the holder to cancel one or more operations granted, by the entity itself or by other entities in its group, to the owner or to other entities in their economic group, or by which they are totally or partially paid up, in order to facilitate the payment of their debt (principal and interest) to the holders of canceled or refinanced operations because they can not , or it is expected that they will not be able to comply in a timely manner with their conditions.

- Restructured operation: the financial conditions of an operation are changed for economic or legal reasons related to the current or foreseeable difficulties of the holder, in order to facilitate payment of the debt (principal and interest) because the holder can not, or It is anticipated that it will not be able to comply, in a timely manner, with those conditions, even if such modification is provided for in the contract. In any case, the operations in which their conditions are modified to extend their maturity period, vary the amortisation table to reduce the amount of the quotas in the short term or reduce their frequency, or establish or the term of grace of principal, interest or both, unless it can be shown that the conditions are modified for reasons other than the financial difficulties of the owners and are analogous to those that would be applied by other entities in the market for similar risks.

If an operation is classified in a given risk category, the refinancing operation does not represent an improvement in its risk consideration. Refinanced operations establish their initial classification according to their characteristics, mainly that financial difficulties arise in the borrower and that certain clauses concur as extended periods of grace. As a general rule, the Entity classifies refinancing and restructurings with normal risk under special supervision, unless they meet the criteria for classification as doubtful. Likewise, the Entity assumes that there is a restructuring or refinancing in the following circumstances:

- When all or part of the payments of the modified transaction have been overdue for more than 30 days (not classified as a doubtful risk) at least once in the three months prior to its modification, or would have expired more than 30 days without such modification.

- When, simultaneously with the granting of additional financing, or at a later time, the holder has made payments of principal or interest of another operation, all or part of whose payments have been overdue for more than 30 days at least once in the three months prior to its refinancing.

- When approving the use of implicit restructuring or refinancing clauses with debtors that have outstanding amounts due for 30 days or that would have expired 30 days if these clauses were not exercised.

This type of operations is identified specifically in the information system in a way that allows an adequate accounting classification and its monitoring.

Subsequent to the initial rating of the operation, the rating to a lower risk category will be justified by significant evidence of improvement in the expected recovery of the operation, either because the borrower has been servicing for an extended and sustained period of time their payment obligations, because the initial debt has been repaid in a significant percentage or because more than 2 years have elapsed since the date of formalisation of the operation.

<u>Determination of coverages</u>

The Entity applies the criteria described below for the calculation of the coverage of losses due to credit risk.

In relation to operations identified with no appreciable risk (mainly those carried out with central banks, financial institutions, mutual guarantee societies and public administrations, all of them belonging to the European Union or certain countries considered to be without risk), a percentage of coverage of 0%, except in the case of operations classified as doubtful, in which an individualised estimate of impairment is made.

<u>Individualised coverage estimates</u>

They are object of individualised estimation:

i) The coverage of the doubtful transactions of individually significant creditors.

ii) Where applicable, transactions or credits whose characteristics do not allow a collective calculation of impairment.

iv) The hedges of operations identified as having no appreciable risk classified as doubtful, both for reason of default and for reasons other than this.

The Entity has developed a methodology for estimating these hedges, calculating the difference between the gross carrying amount of the transaction and the current value of the estimate of the cash flows expected to be collected, discounted using the effective interest rate. This takes into account the effective guarantees received.

Two methods are established for the calculation of recoverable value in assets evaluated at individual level:

i) Estimates of cash flows: debtors for whom the ability to generate future cash flows is estimated with the development of the business itself, allowing, through the development of the activity and the economic and financial structure of the borrower, the return of part or all of of the debt incurred. It implies the estimation of cash flows obtained by the borrower in the development of his business. Additionally, it is possible that such flows may be complemented with potential sales of non-essential assets for the generation of the aforementioned cash flows.

ii) Execution of guarantees: debtors with no ability to generate cash flows with the development of their own business, being forced to liquidate assets to pay their debts. It implies the estimation of cash flows based on the execution of guarantees.

<u>Collective estimates of coverage</u>

They are object of collective estimation:

i) Exposures classified as normal risk (including those classified under special surveillance), for which the Entity considers that the loss has been incurred but has not been reported, as the impairment in individual transactions has not been shown.

ii) Exposures classified as doubtful that are not evaluated through the individualised estimation of hedges.

The impairment estimation process takes into account all credit exposures, both debt instruments and off-balance sheet exposures. In this sense, the Entity has used the parameters and methodology established by the Bank of Spain, based on statistical data and models that aggregate the average performance of banking sector entities in Spain and supports its full compatibility with the framework conforming to IFRS, in relation to the classification and calculation of the impairment of the balance sheet and off-balance sheet exposures maintained by the Entity with its customers. The aforementioned methodology takes into account the credit risk segment to which the transaction belongs, the effective collateral and personal guarantees received, the economic and financial situation of the debtor and, if applicable, the age of the overdue amounts.

In estimates of credit risk losses, the amount to be recovered from real estate guarantees will be the result of adjusting its reference value, by the adjustments necessary to adequately capture the uncertainty in its estimate and its reflection in potential value declines up to its execution and sale, as well as execution costs, maintenance costs and selling costs.

The Entity determines the amount to be recovered from effective collateral by applying over its reference value the discounts estimated by the Bank of Spain in its Circular 4/2004, based on its experience and the information it has from the Spanish banking sector.

<u>Classification and Coverage for credit risk by country risk ratio</u>

Country risk is considered to be the risk that exists in counterparties resident in a particular country due to circumstances other than the usual commercial risk (sovereign risk, transfer risk or risks derived from international financial activity). The Entity classifies the operations carried out with third parties in different groups according to the economic evolution of the countries, their political situation, regulatory and institutional framework, capacity and experience of payments, assigning to each of them the percentages of provision for insolvency, according to what is established in the current regulations.

Doubtful assets due to the materialisation of the country risk are considered to be those operations with final obligors resident in countries that present prolonged difficulties to service their debt, being considered doubtful the possibility of recovery, as well as off-balance sheet exposures whose recovery is considered remote due to the circumstances attributable to the country.

The levels of provision for this concept are not significant in relation to the impairment charges established by the Entity.

Guarantees

Those real and personal guarantees for which the Entity demonstrates its validity as a mitigation of credit risk are considered effective. The analysis of the effectiveness of the guarantees takes into account, inter alia, the time necessary for the execution of the guarantees and the capacity of realisation of the same on the part of the Entity, as well as their experience in the realisation of the guarantees.

Under no circumstances, those whose effectiveness depends substantially on the credit quality of the debtor or the economic group of which he is a party are considered as effective guarantees.

In compliance with these conditions, the following types of guarantees may be considered as effective:

i) Real estate guarantees instrumented as real estate mortgages with first load:

  a. Buildings and components of finished buildings:

    - Households.
    - Offices and commercial premises and multipurpose vessels.
    - Rest of buildings, such as non-multipurpose buildings and hotels.

  b. Urban land and urbanisable orderly.

  c. Other real estate (buildings and elements of buildings under construction, and other land).

ii) Collateral on financial instruments:

  - Money deposits.
  - Debt securities or equity instruments issued by issuers of recognised solvency.

iii) Other security rights:

  - Movable property received as collateral.
  - Second and successive mortgages on real estate.

iv) Personal guarantees that involve the direct and joint responsibility of the new guarantors before the client, being those persons or entities whose solvency is sufficiently demonstrated in order to guarantee the integral amortisation of the operation according to the agreed conditions.

The Entity has valuation criteria of the real guarantees for the assets located in Spain aligned with the current regulations. In particular, the Entity applies criteria for the selection and contracting of valuation providers aimed at guaranteeing their independence and the quality of valuations, all of which are companies and rating agencies registered in the Special Registry of Valuation Companies of the Bank Spain and valuations are carried out according to the criteria established in Order ECO / 805/2003 on standards for the valuation of real estate and certain rights for certain financial purposes.

The real estate guarantees of credit operations and real estate are valued at the time of their concession or discharge, the latter either through purchase, award or payment and when the asset suffers a significant fall in value. In addition, a minimum update criteria is applied, guaranteeing an annual frequency in the case of impaired assets (special surveillance, doubtful and property awarded or received in payment of debts) or triannual for high-value debts in normal situation without risk symptoms latent. Statistical methodologies are used for the updating of appraisals only for the previous assets when they are of reduced exposure and risk, although at least a full ECO valuation is carried out at least every three years.

Debt instruments measured at fair value

The amount of impairment losses incurred on debt securities included under available-for-sale financial assets is equal to the positive difference between their cost of acquisition, net of any principal repayment, and their fair value less any loss for impairment previously recognised in the income statement.

When there is objective evidence that the decrease in fair value is due to impairment, the unrealised losses recognised directly under "Other accumulated net income" in equity are immediately recognised in the income statement. If all or part of the impairment losses are subsequently recovered, the amount is recognised in the profit and loss account of the recovery period.

In the case of debt securities classified under Available-for-sale financial assets and/or financial assets held for trading, the Bank considers that there has been a deterioration in the event of default of principal or coupon of more than 90 Days or in the event of loss of more than 40% of its cost and credit rating.

In the case of debt instruments classified under "Non-current assets and disposal groups" of items that have been classified as held for sale, losses previously recorded in equity are recognised as realised in the income statement in the date of their classification.

Equity Instruments

There is objective evidence that capital instruments have impaired when, after their initial recognition, an event or a combination of them occurs that supposes that it is not possible to recover their book value.

In the case of equity instruments measured at fair value and included in the "Available-for-sale financial assets" portfolio, the impairment loss is calculated as the difference between their acquisition cost and their fair value less impairment losses previously recognised. Unrealised losses recognised directly as "Other accumulated global result - Items that may be reclassified into income" in "Equity" are recorded in the income statement when it is determined that the decrease in fair value is due to impairment. If all or part of the impairment losses are subsequently recovered, the amount is recognised under "Other accumulated result - Items that may be reclassified into profit and loss" in "Equity".

In the case of equity instruments measured at cost in the "Available-for-sale financial assets" portfolio, the impairment loss is calculated as the difference between their carrying amount and the present value of expected future cash flows at the market rate of return for other similar securities. For the determination of the impairment, the net worth of the investee company is taken into account, except for "Other accumulated net income - Items that can be reclassified into income" due to cash flow hedges, corrected for the unrealised capital gains existing at the date of the valuation. These losses are recorded in the profit and loss account by directly reducing the equity instrument, without its amount being recoverable subsequently except in the case of sale.

m) <u>Accounting hedges</u>

The Entity uses financial derivatives (swaps, forward contracts, futures, options and combinations of these instruments), bilaterally negotiated with the counterparty in the margin of organised markets ("OTC derivatives").

These instruments are contracted by the Bank to enable its clients to manage the risks inherent to its activities, as well as to manage the risks of the Entity's own positions and its assets and liabilities ("hedging derivatives"), or, in order to benefit from price variations ("trading derivatives").

All financial derivatives (including those initially contracted with the intention of providing hedging) that do not meet the conditions that allow them to be considered as hedges are treated for accounting purposes as "trading derivatives".

For a financial derivative to be considered hedging, it necessarily has to:

a) Covering one of the following three types of risk: 1) Variations in the value of assets and liabilities due to fluctuations in prices, interest rate and/or exchange rate subject to the position or (2) The changes in estimated cash flows arising from the highly probable financial assets and liabilities, commitments and planned transactions expected to be carried out by an entity ("cash flow hedges"). Cash ") and 3) Net investment in a foreign operation (" net investment coverage in foreign operations ").

b) Efficiently remove any risk inherent in the hedged item or position over the entire term of the hedge, which implies that it is expected to act with a high degree of effectiveness ("prospective effectiveness") and evidence sufficiently that coverage has been effective over the life of the covered item or position ("retrospective effectiveness").

c) It is documented that the contracting of the financial derivative took place specifically to serve as a hedge, including how it was intended to achieve and measure effective hedging; in accordance with the Entity's risk management policy.

The effectiveness of the coverage of derivatives defined as hedging is duly documented by means of the efficiency tests carried out by the Entity to verify that the differences caused by changes in market prices between the hedged item and its coverage maintains in reasonable parameters throughout the life of the operations, thus fulfilling the forecasts established at the moment of the contracting.

The Entity considers that a hedging relationship is highly effective when, from its inception and during the life of the operation, changes in cash flows or in the fair value of the hedged items caused by the hedged risks are almost entirely offset by changes in cash flows or in the fair value of their coverage. This requirement is fulfilled when the results of the hedge have oscillated with respect to those of the hedged item in the range of 80% to 125%.

When this relationship ceases to be fulfilled, hedging operations would cease to be treated as such and reclassified as trading derivatives.

The hedges can be applied to individual items or balances as well as to financial asset and liability portfolios. In the latter case, the financial assets or liabilities of the covered portfolio must expose the Bank to the same type of risk.

The Entity only makes hedges in which all the financial terms of the hedging transaction fully match the terms of the hedged transaction to ensure its full effectiveness.

The Entity classifies its accounting hedges based on the type of risk they cover in fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

Accounting for fair value hedges

The gain or loss arising when the hedging instruments are measured at fair value and that attributable to the hedged risk is recognised immediately in the profit and loss account, even if the hedged item is valued at amortised cost, ie a financial asset Included in the category of available-for-sale financial assets.

When the hedged item is valued at amortised cost, its carrying amount is adjusted to the amount of the gain or loss recorded in the income statement as a result of the hedge. Once this item is no longer hedged with changes in its fair value, the amount of such adjustment is recognised in the profit and loss account using the effective interest rate method recalculated on the date that it ceases to be adjusted, be fully amortised at maturity of the hedged item.

Accounting for cash flow hedges

The gain or loss arising from the fair value of a hedging instrument (for the effective portion of the hedge) is recognised temporarily in the caption "Other accumulated global result - Items that may be reclassified to income" in equity. The part of the instrument value corresponding to the ineffective part of the hedge is immediately recognised in the profit and loss account.

Accumulated gains or losses on hedging instruments recognised under "Other accumulated net income - Items that may be reclassified in profit or loss" in equity are retained in the income statement until they are recorded in the income statement for the periods in those items designated as hedges affect that account, unless the hedge corresponds to an intended transaction that ends in the recognition of a non-financial asset or liability, in which case the amounts recorded in equity are included in the cost of Active or passive when it is acquired or assumed. If it is expected that all or part of a loss temporarily recorded in equity can not be recovered in the future, its amount is immediately reclassified to the profit and loss account.

When the hedge is interrupted, the accumulated result of the hedging instrument recognised under "Other accumulated global result - Items that may be reclassified into results" of the "Equity" while the hedge was effective continues to be recognised in that item until the hedge covered transaction occurs, at which time the criteria indicated in the previous paragraph are applied, unless it is anticipated that the transaction will not be made, in which case it is immediately recognised in the profit and loss account.

The Group does not have net investment hedges in foreign operations.

k) <u>Transfers of financial assets</u>

The Group eliminates a transferred financial asset from the balance sheet when it fully transfers all contractual rights to receive cash flows that the asset generates or, when these rights are maintained, it assumes the contractual obligation to pay them to the assignees and when the risks and benefits associated with the ownership of the asset have been substantially transferred.

In the case of the transfer of assets in which the risks and rewards associated with the ownership of the assets are substantially retained, the transferred financial asset is not written-off from the balance sheet and an associated financial liability is recognised in an amount the compensation received, and it is subsequently measured at amortised cost. The transferred financial asset continues to be measured using the same criteria applied before the transfer. The income from the transferred financial asset and the expenses relating to the associated financial liability, are recognised in the income statement without being offset.

In the case of transfers of assets in which the risks and benefits associated with the ownership of the asset are neither transferred or substantially retained and the Group maintains control over the asset, a financial asset is recognised in an amount equal to its exposure to changes in the value of transferred financial asset together with a financial liability associated with the transferred financial asset, which is measured such that the carrying value of both instruments is equal to:

- When the transferred financial asset is measured at amortised cost: The amortised cost of the rights and obligations retained by the Group.

- When the transferred financial asset is measured at fair value: The fair value of the rights and obligations retained by the Group, measured separately.

In the event that the Group does not retain control over the transferred financial instrument, it is eliminated from the balance sheet and any right or obligation that is retained as a result of the transfer is recognised.

The Group has not recognised assets and liabilities relating to transfers that took place before 1 January 2004 in accordance with the exception established in Transitional Provision One of Circular 4/2004. At 31 December 2016 and 2015 the Parent Entity records securitised assets that were eliminated under the previous legislation totalling €14,395 thousand and €16,137 thousand, respectively, and if they had not been cancelled they would have basically represented an increase in the Group's assets and liabilities by those amounts at that date.

At 31 December 2016 the Parent Entity records securitised assets that are fully recognised in the balance sheet totalling €295,798 thousand (€326,333 thousand in 2015) (Note 10.2).

l) Property, plant and equipment

Property, plant and equipment includes the amounts for properties, land, furnishings, vehicles, computer equipment and other items owned by the Group or being acquired under finance leases. Property, plant and equipment items are classified based on their intended use: property, plant and equipment used by the Group, investment properties, other assets assigned under operating leases and property, plant and equipment associated with the Education and Development Fund.

Property, plant and equipment used by the Group mainly includes offices and bank branches (both already built and under development) in the Group's possession. These assets are measured at cost, less accumulated depreciation and any impairment loss.

The cost of property, plant and equipment includes payments initially made at the time of their acquisition or production, and subsequently if there is any expansion, replacement or improvement when, in all cases, future financial benefits are likely to be obtained from their use.

The Group considered that the acquisition cost of certain items used by the Group and freely available to the Group at the date of transition to Circular 4/2004 (1 January 2004) was the market value of those items as verified by appraisals performed by independent experts. The accounting impact of that restatement totalled €17,875 thousand, net of taxes.

The acquisition or production cost of property, plant and equipment, net of its residual value, is depreciated on a straight-line basis in accordance with the estimated useful lives of the various assets, as follows:

	Useful life (years)	Depreciation rates used
Buildings for own use	50 to 75	1% to 2%
Furnishings	15	5% to 10%
Plant	15 to 20	5% to 10%
Vehicles	14	5% to 10%

Repair and maintenance expenses that do not increase the useful life of the asset concerned are charged to the income statement in the year in which they are incurred.

The financial expenses incurred on the financing obtained to acquire property, plant and equipment do not increase the acquisition cost and are recorded in the income statement in the year in which they are incurred.

Assets acquired through deferred payments are recognised at an amount equal to their cash price and a liability equal to the amount that is pending payment is recognised. In those cases in which the deferral exceeds the normal deferral period (180 days for properties, 90 days for all other assets) the expenses deriving from the deferral are discounted from the acquisition cost and they are taken to income statement as a financial expense.

Property, plant and equipment is eliminated from the balance sheet when they are disposed of, even when assigned under a finance lease, or when they are permanently withdrawn from use and no future financial benefits are expected to be obtained on their disposal, assignment or abandonment. The difference between the selling price and their carrying value is recognised in the income statement for the period in which the asset is eliminated.

The Group regularly evaluates whether or not there are internal or external indications that any property, plant and equipment may have become impaired at the date to which the financial statements refer. For those identified assets it estimates the recoverable amount of property, plant and equipment which is understood to be the higher of: (i) fair value less amount of necessary selling costs and (ii) value-in-use. If the recoverable value calculated in this manner is less than the carrying value the difference between both figures is recognised in the income statement by reducing the carrying value of the asset to the recoverable amount.

The accounting principles applied to assets assigned under operating leases and non-current assets for sale are indicated in Notes 3.

m) Intangible assets

Other intangible assets

The Group classifies as intangible assets those non-monetary assets for which the estimation is that financial benefits are likely to be received and when their cost may be reliably estimated.

Intangible assets are recognised initially at cost and are subsequently measured at cost less any accumulated amortisation and any impairment losses.

The useful lives and amortisation rates used with respect to the intangible assets are as follows:

	Useful life (years)	Amortisation rates used
Computer software	6	16.67%

Intangible assets are classified by the Group as having a defined useful life (amortised over the useful life of the asset concerned).

Intangible assets with a defined life are amortised accordingly using criteria that are similar to those applied for the depreciation of property, plant and equipment.

In both cases, the Group recognises any impairment loss the assets and makes a balancing entry in the caption “Asset impairment losses – Other intangible assets” in the income statement. The criteria for recognising impairment losses on these assets and any recovery of impairment losses recognised in past years are similar to those used for property, plant and equipment (Note 3.ñ).

n) Leases

The Group classifies lease contracts as finance or operating leases on the basis of the financial substance of the transaction, irrespective of its legal form. Finance leases are those leases under which the Group substantially transfers all risks and benefits inherent to the ownership of the asset covered by the agreement, while operating leases consist of all other leases. At 31 December 2016 and 2015 the Group does not record any assets being required under finance leases.

Finance leases

Loans consisting of finance leases are reflected on the asset side of the balance in the amount of net investment in the lease, which is equal to the restated value of the amounts that will be received by the lessor from the lessee over the term of the lease, plus any residual value whose payment has been directly or indirectly secured for the lessor by the lessee, or by third parties with sufficient financial capacity, and any residual value that is not secured that corresponds to the lessor.

Initial direct costs, which are understood to be those attributable to the negotiation and contracting of the lease, are included in the initial measurement of the loan and decrease the income to be recognised over the term of the lease, except when the Group is the manufacturer or distributor of the asset.

Financial income will be recognised in the income statement through the application of the effective interest rate method, such that a constant financial yield is obtained on the net investment made by the lessor.

The accounting standards applied to impairment losses and eliminations from the balance sheet are the same as those applied to all other financial assets, as indicated in Notes 3.

In sale transactions involving assets that include the subsequent finance lease of the same asset, the Group does not eliminate the asset sold or recognise any possible profit resulting from the transaction in the income statement and records the total amount of the sale as a financial liability.

Operating leases

Assets assigned under an operating lease have been classified in the balance sheet in accordance with their nature.

The income deriving from operating leases is recorded on a straight-line basis in the income statement over the term of the lease. The initial direct costs attributable to the lessor are added to the carrying value of the leased asset and are recognised as an expense over the term of the lease applying the same criteria utilised when recognising lease income.

The amounts received when contracting rights relating to the lease classified as an operating lease are treated as a pre-payment by the lessor and are amortised over the term of the lease, as the financial benefits arising from the leased asset are assigned.

The accounting standards applied by the Group with respect to the depreciation of the leased asset, as well as its impairment, have been described in Note 3.ñ) on property, plant and equipment.

The results deriving from firm asset sale operations including the subsequent lease of the same asset are recognised in the income statement provided that the sale has taken place at the fair value of the asset. If this is not the case, when the difference between the fair value and the selling price is:

- Positive: The loss that is offset against instalments that are lower than market rates is deferred and attributed to the income statement in proportion to the instalments paid during the period in which the asset is expected to be used.

- Negative: The difference is deferred and taken to the income statement over the period during which the asset is expected to be used.

q) Non-current assets and Liabilities associated with disposal groups classified as held for sale

Non-current assets and disposal groups classified as held for sale on the statement of financial position correspond to the carrying amount of the individual headings comprising a disposal group or forming part of a business unit that is to be sold (discontinued operations) and whose sale is considered highly likely, in the assets' present condition, within one year from the date of the financial statements. Interests in joint ventures and/or associates that meet the above requirements are similarly considered non-current assets and disposal groups held for sale.

Accordingly, the carrying amount of these assets and liabilities, which may be financial or non-financial, is expected to be recovered principally through a sale transaction rather than through continuing use.

As a result, the real estate assets and other non-current assets received by the Entity from its debtors to satisfy, in full or in part, their payment obligations to it are considered non-current assets and disposal groups held for sale, unless the Entity has decided to give these assets continuing use.

Meanwhile, 'Liabilities associated with disposal groups classified as held for sale' includes the accounts payable associated with the Entity's disposal groups or discontinued operations.

The assets classified as 'Non-current assets and disposal groups held for sale' are measured, as a general rule, at the lower of their carrying amount at the time of their classification as such and their fair value less estimated costs to sell, except for assets of a financial nature. For as long as they continue to be classified as non-current assets and disposal groups held for sale, depreciation of fixed assets subject to depreciation is ceased.

Real estate assets foreclosed or received in lieu of repayment, regardless of the legal form used, are recognised initially at the lower of the carrying amount of the financial assets they offset, i.e., their amortised cost, factoring in any estimated impairment, and their fair value at the date of foreclosure or receipt of the asset less estimate costs to sell, this being understood as the market value determined pursuant to full, individual appraisals, less costs to sell.

All costs associated with court proceedings are recognised in profit or loss in the year of the foreclosure. Property registry costs and property taxes paid may be added to the initially recognised amount so long as the resulting figure does not exceed the appraisal value less costs to sell referred to above. All costs incurred between the date of foreclosure and the date of sale in order to maintain and safeguard the asset, such as insurance or security services, are recognised in the statement of profit or loss in the year in which they accrue.

Subsequent to the date of foreclosure or receipt, the valuation or appraisal used as the benchmark for the fair value estimation is updated. For the purpose of determining fair value less costs to sell, the Entity takes into consideration the appraisals performed by the various appraisal firms duly registered in the Bank of Spain's official registry, as well as the discounts to the benchmark value estimated by the Bank of Spain on the basis of its experience and insight into the Spanish bank sector. If a given property has a fair value of €250,000 or less, these updates are carried out using automated valuation models. Whenever these properties have been carried on the Entity's statement of financial position for three years, the update takes the form of a full appraisal. Moreover, the appraisal firm used in this instance to update the valuation shall be a different firm to that commissioned to perform the original appraisal.

In the event that the carrying amount exceeds the fair value of the assets less costs to sell, the Entity writes them down for impairment by the amount of the surplus, with a balancing entry under 'Gains/(losses) on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations' in the statement of profit or loss. In the event that the fair value of these assets subsequently increases, the Entity increases the carrying amount of the assets up to the limit implied by their carrying amount before any impairment was recognised, with a balancing entry under 'Gains/(losses) on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations' in the statement of profit or loss.

p) Personnel expenses and retirement benefits

Current compensation

This type of remuneration is measured, without adjustment, at the amount payable for the services received and recorded, in general, as staff costs for the year and a liability accrual account is recorded for the difference between the total expense and the amount already paid.

Pension commitments

In accordance with the current Collective Wage Agreement, the Parent Entity is required to supplement Social Security benefits for a widow/widower or orphans of deceased active employees and to maintain an accident insurance policy for its employees with a capital base of €18,000. It must also pay a loyalty bonus to employees that have worked for the Entity for 20 years or more upon their retirement, total or absolute permanent disability or great disability, in the amount established by the Collective Wage Agreement. The accident insurance policy is regulated by Article 41 of the Commercial Code, widow/widower and orphan income by Article 40 of the Commercial Code and the loyalty bonus by Article 26 of the Commercial Code.

The Parent Entity is also required to pay pension supplements to retired personnel or employees declared to be disabled that were already receiving such payments on 1 June 1989.

In 2000 the Parent Entity externalised all of the aforementioned commitments for which it obtained five insurance policies to cover pension risks and commitments from Rural Vida, S.A.

During 2015 two of the policies that had been obtained from this company were changed to CNP Partners de Seguros y Reaseguros, S.A. the Bank is the policyholder for the policy structuring defined contribution commitments. Retirement risk coverage accrued for pensions yet to be activated is structured through the policy that the Bank has obtained from CNP Partners de Seguros y Reaseguros, S.A., and the Insurance Company assumes the demographic and interest rate risks. The risk of permanent disability is structured in the same policy as a supplementary benefit.

In compliance with the provisions of Legislative Royal Decree 1/2002 (29 November) which approves the Law Regulating Pension Funds and Plans, and Royal Decree 1588/1999 (15 October) which approves the Regulations on the Structuring of Company Pension Commitments with employees and beneficiaries, the coverage of those commitments by the Parent Entity has been fulfilled through a group insurance policy is obtained from the aforementioned insurance company.

The Parent Entity's pension commitments are configured as defined benefit plans and the relevant actuarial measurement is performed on an annual basis by an independent expert in accordance with financial and biometric assumptions, and the normal cost of the annual risk is financed through a premium that the Parent Entity also pays on an annual basis.

In 2013 Bank of Spain Circular 4/2004 was amended by Circular 5/2013 with respect to Employee Compensation, in accordance with IFRS. That amendment gave rise to a change in the accounting treatment of defined-benefit plans and actuarial gains and losses must be immediately recognised under Equity, as well as in Other recognised income and expense within the recognised income and expense statement prepared by the Parent Entity. The cost of interest and the expected return on the assets in the defined benefit plans are replaced under the amended regulation by a net interest amount calculated by applying the interest rate used in the estimation of the present value of the obligation at the start of the year to the commitment liability (or asset). Finally, the amendments also gave rise to changes in the presentation of the cost components in the income statement. At 31 December 2016 and 2015, the actuarial gains and losses recognised in the heading "Reserves" under Equity total €90 thousand and €-82 thousand.

The Parent Entity calculates the present value of its legal and constructive obligations deriving from its defined benefit plan at the date of the financial statements, after deducting any actuarial loss or gain and the fair value of the assets in the plan, as is stipulated by current legislation. The figure obtained in this manner is recognised as a provision (asset) for defined benefit pension funds.

The Parent Entity considers plan assets to be those that have the following characteristics:

- They are owned by a legally separate third-party that is not a related party.

- They are exclusively available to pay for or finance commitments with employees.

- They cannot be refunded to the Parent Entity except when commitments with employees have been settled or to repay the Parent Entity for benefits previously satisfied by the Entity.

- They are not non-transferable instruments issued by the Parent Company.

Changes in the recognised provision will be recorded:

- In the income statement: the cost of the services for the current period, the net interest on the provision (asset) for interest costs, the cost of past services and any gain or loss arising at the time of settlement.

- In the statement of changes in equity: new measurements of the provision (asset) deriving from actuarial gains or losses, the yield on plan assets that was not included in the net interest on the provision (asset), as well as changes in the present value of the asset as a result of changes in the present value of available cash flows for the parent entity that are not included in the net interest on the provision (asset). The amounts recognised in the statement of changes in equity will not be reclassified to the income statement in a subsequent year.

The main assumptions used to measure these commitments were:

	2016	2015
Mortality and survival tables	PERM/F 2000 P	PERM/F 2000 P
Technical interest rate agreed in the policies	1.40%	1.80%
Inflation	1.5%, cumulative	1.5%, cumulative
Pre-retirement salary growth	2.5%, cumulative	2.5%, cumulative
Salary growth	2.5%	2.5%
Changes in Social Security contribution bases:	n/a	n/a
Date of retirement.	The first age at which the employee is entitled in accordance with current Social Security legislation. If the theoretical retirement age in accordance with the above does not give rise to the payment of the benefit, the age at which the right to collect the benefit is taking into consideration, up to a maximum of 70 years.	The first age at which the employee is entitled in accordance with current Social Security legislation. If the theoretical retirement age in accordance with the above does not give rise to the payment of the benefit, the age at which the right to collect the benefit is taking into consideration, up to a maximum of 70 years.
Rotation	No	No

The results of the actuarial measurements performed are set out below, breaking down the value of the pension commitment, the fair value of the assets (insurance policy) associated with the coverage of those commitments, as well as the amounts recognised under assets, liabilities and in the consolidated income statement.

In accordance with those assumptions, the measurement of pension commitments and risks was:

	Thousand euro	
	2016	**2015**
Commitments for current pensions (1)	268	269
Pension risks on future pensions	5,491	5,162
Accrued (2)	2,249	2,217
Not accrued	3,242	2,945
Commitments to be covered (1) + (2)	2,517	2,486
Fair value of the plan's assets (policies)	2,330	2,249
Asset (Liability) to be recognised in the balance sheet (Note 18)	**(187)**	**(237)**

The amounts recognised in the income statement were as follows:

	Thousand euro	
	2016	**2015**
Cost of the services (Note 30)		
Current year	138	137
Past services	-	-
	138	**137**
Net interest on the liability (asset)		
Interest expense	46	45
Expected yield on plan assets	(39)	(47)
	7	**(2)**
Recognised actuarial loss (gain) during the year (*)	-	-
(Income)/expense recognised in the income statement.	**145**	**135**

(*) As was previously mentioned, actuarial losses and gains in 2016 and 2015 totalling €172 thousand and €-369 thousand, respectively, have been recognised directly under equity.

At 31 December 2016 and 2015 there is no shortfall between the commitments to be covered and the fair value of the policies and therefore there are no internal pension funds.

In addition to the aforementioned commitments, the Governing Council at the Parent Entity held a meeting on 28 June 2005 and adopted a resolution to obtain a group capital insurance policy for retirement totalling €1,142 thousand to be distributed among the employees of the Parent Entity at that date. Those employees could surrender that policy in the following cases:

- Total or partial retirement
- Death
- Permanent absolute or total disability

This group capital insurance policy (defined contribution) was obtained after the surrender by the Parent Entity of the mathematical reserves created for the policy that covered the widow/widower and orphan commitments relating to retired personnel, as this commitment was eliminated from the collective wage agreement for Credit Cooperative Companies. The amount surrendered in 2005 totalled €1,142 thousand.

This group insurance policy was funded through a single contribution and the Parent Entity does not have any commitment whatsoever to supplement this insurance in future years.

Termination benefits

Termination benefits are recognised as a provision for pension funds and similar obligations and as a personnel expense only when the Parent Company is demonstrably committed to terminating an employee or group of employees before their normal retirement date, or to pay remuneration as a result of an offer made as an incentive for the voluntary resignation of the employees.

q) Other provisions and contingencies

The Group makes a distinction between provisions and contingent liabilities. The former are balances payable that cover present obligations at the balance sheet date arising as a result of past events from which financial harm may be caused to the Group and when they are considered the likely to occur, they are certain in terms of their nature but uncertain in terms of their amount and/or time of settlement, while the latter are possible obligations arising as a result of past events whose materialisation is subject to the occurrence, or not, of one or more future events outside of the Group's control.

The Group's annual accounts include all significant provisions for obligations that are considered to be more likely to arise than not. Contingent liabilities are not recognised in the consolidated annual accounts, although information is provided in the memorandum accounts.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are re-estimated at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Court proceedings and/or claims in progress

Against the backdrop of the recently published Royal Decree-Law 1/2017 (of 20 January 2017), on urgent measures protecting consumers affected by mortgage floors, and before that, the sentence handed down by the European Court of Justice on 21 December 2016, it is hereby disclosed that the Entity recognised provisions totalling €14 million at year-end 2016 in order to cover this contingency (note 18).

As a result, and due to the measures taken, Caja Rural Castilla La Mancha, S.C.C does not anticipate any additional impact on its 2016 financial statements as a result of application of the provisions stipulated in the above Royal Decree-Law.

Elsewhere, neither the European Court of Justice sentence nor Royal Decree-Law 1/2017 question or uphold the legality of the mortgage floors included in mortgage contracts arranged by the Entity, which conducts its business with its customers with the utmost transparency.

At the year-end, there were several ongoing legal proceedings and claims against the Group arising from the ordinary course of its business. The Group's legal advisers and its Directors understand that the outcome of these proceedings and claims will not have a material effect on the consolidated annual accounts in the years in which they are completed.

r) Fees

The Group classifies the fees it receives or pays into the following categories:

Financial fees

Financial fees are those that form an integral part of the return on, or effective cost of, a financial transaction, are received or paid in advance, and in general are allocated to the income statement over the expected life of the financing, net of directly related costs, as an adjustment to cost or the effective return on the transaction.

Non-financial fees

These types of fees arise on the rendering of services by the Group and are recognised in the income statement over the course of the period in which the service is executed or, if involving a service that is executed in a single act, at the time the single act takes place.

s) Swaps of property, plant and equipment and intangible assets

In swaps of property, plant equipment and intangible assets the Group measures the assets received at the fair value of assets delivered plus, if appropriate, the monetary consideration delivered in exchange unless there is clearer evidence of the fair value of the asset received. When it is not possible to measure the fair value in a reliable manner, the assets received are recognised at the carrying value of the assets delivered plus, if appropriate, any monetary compensation provided in exchange.

Losses arising on asset swap transactions are immediately recognised in the income statement, while any gains are only recognised if the swap is of a commercial nature and the fair value of the swapped assets can be reliably measured.

t) Education and Development Fund

The Group records the allocations made to the Education, Training and Development Fund as liabilities and if they are mandatory they are recognised as an expense for the year and if additional in nature they are recognised as an application of profits.

The application of this fund normally takes place by charging cash, except when the amount of the community projects fund is materialised through the Group's own business in which case the Education, Training and Development Fund is reduced, simultaneously recognising income in the income statement.

u) Corporate income tax

The current income tax expense is calculated as the tax payable on taxable profit for the year, adjusted for the changes arising during the year in the assets and liabilities recognised as a result of temporary differences, tax credits and allowances and tax-loss carryforwards.

Corporate income tax expense is recognised in the income statement except when the transaction is recorded directly under equity and for business combinations for which the deferred tax is recognised as an additional equity item within that transaction.

In order for deductions, credits and tax hiking loss carryforwards to be affected they must meet the requirements established by current legislation and it must be likely that they will be recovered either due to sufficient deferred taxes or having arisen due to the occurrence of specific situations that are unlikely to occur again in the future.

The tax effect of temporary differences is included, if appropriate, under the relevant tax prepayment accounts or deferrals recorded under the headings "Tax assets" and "Tax liabilities" in the accompanying balance sheet.

At least at each account closing the Group reviews all recognised deferred taxes and therefore the related tax assets and liabilities and makes all measurement adjustments that are necessary in the event that those deferred taxes are not current or are not recoverable.

v) Off-balance sheet customer funds

The Group uses memorandum accounts stated at the fair value of funds provided by third parties for investments in companies and investment funds, pension funds, insurance-savings policies and discretional portfolio management contracts, and it makes a distinction between the resources managed by other group companies and those marketed by the Group but managed by third parties outside of the Group.

Memorandum accounts also recognise the assets acquired on behalf of the Group by third parties and debt securities, equity instruments, derivatives and other financial instruments held on deposit, as collateral or fees by the Group, and for which it has a liability with respect to those third parties. These items are stated at their fair value or at cost in the event that there is not a reliable estimate of their amount.

The fees collected for the rendering of the services are recognised under the heading "Fees received" in the income statement, as described in these annual accounts.

w) Cash flow statement

The cash flow statement uses the following headings, whose definitions are as follows:

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

- Operating activities: typical banking activities and other activities that are not investing or financing activities.

- Investing activities: those relating to the acquisition, sale or disposal by other means of non-current assets and other investments not included under cash or cash equivalents.

- Financing activities: activities that alter the amount and structure of equity and liabilities that are not operating activities.

x) Statement of changes in equity

The statement of changes in equity presented in these consolidated annual accounts shows all changes affecting equity during the year. This information is, in turn, presented in two statements: the recognised income and expenses statement and the statement of changes in total equity. The main characteristics of the information contained in both parts of the statement are set out below:

a) Effects of changes in accounting policies and effects of error correction: including changes in equity that arise as a result of the retroactive restatement of the balances of the financial statements resulting from changes in accounting criteria or in the correction of errors.

b) Total global result for the financial year: collects, in an aggregate manner, the total of the items recorded in the statement of Income and Expenses recognised public previously indicated.

c) Other changes in equity: includes all other items recorded in equity, such as capital increases or decreases, distribution of results, operations with equity instruments, payments with equity instruments, transfers between equity items Net and any other increase or decrease in equity.

aa) <u>Statement of recognised income and expense</u>

This part of the statement of changes in equity shows the income and expenses generated by the Bank as a result of its activity during the financial year, distinguishing those recorded as income in the income statement for the year and other income and expenses recorded, in accordance with the provisions of current legislation, directly in equity.

Therefore, the following is presented in the statement:

- The profit or loss of the financial year.
- The net amount of recognised incomes and expenses that will not be reclassified to incomes.
- The net amount of incomes and expenses temporarily recognised as adjustments for the valuation in equity.
- The net amount of incomes and expenses definitively recognised in equity.
- The accrued income tax by the concepts indicated in the two previous paragraphs.
- Total recognised incomes and expenses, calculated as the sum of the previous letters.

Changes in incomes and expenses temporarily recognised in equity as valuation adjustments are broken down into:

- Valuation gains/(losses): include the amount of incomes, net of expenses incurred in the financial year, recognised directly in equity. The amounts recognised in this heading are retained under this heading, although in the same year they are transferred to the income statement, the initial value of other assets or liabilities or reclassified to another item.
- Amounts transferred to the profit and loss account: include the amount of the valuation gains or losses previously recognised in equity, even in the same period, which are recognised in the income statement.
- Amount transferred to the initial value of the hedged items: it includes the amount of the valuation gains or losses previously recognised in equity, even in the same financial year, recognised in the initial value of the assets or liabilities as a consequence of Cash flow hedges.
- Other reclassifications: include the amount of transfers made during the financial year between valuation adjustments in accordance with the criteria established in the regulations in force.

The amounts of these items are presented at their gross amount, showing, except as indicated above for the items corresponding to valuation adjustments of entities accounted for using the equity method, their corresponding tax effect under the heading "Expenses/Incomes for taxes on profits from continuing activities" of the statement.

ab) Recognition of income and expenses

Set out below is a summary of the most significant accounting policies employed by the Group to recognise income and expense:

In general, interest income and expense and similar items are recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the Company becomes entitled to receive them.

Income and expenses relating to other commissions and similar fees, which are not included in the calculation of the effective interest rate of operations and/or do not form part of the acquisition cost of financial assets or liabilities, except for those carried at fair value through the income statement, are recognised in the income statement using different methods depending on their nature. The most significant are as follows:

- Amounts associated with the acquisition of financial assets and liabilities carried at fair value through profit or loss are recognised in the income statement at the time of their settlement.

- Amounts associated with the acquisition of financial assets and liabilities carried at fair value through profit or loss are recognised in the income statement at the time of their settlement.

- Amounts arising from non-current transactions or services are recognised in the income statement over the term of those transactions or services.

- Amounts relating to a singular event are recorded in the income statement when that event takes place.

Non-financial income and expenses are recognised on an accrual basis.

Deferred payments received and made are carried at the amount obtained by discounting forecast cash flows at market rates.

ac) Business combinations

At the acquisition date, i.e. when control over the assets and liabilities is obtained:

- The buyer includes the assets, liabilities and contingent liabilities from the acquired business in its individual or consolidated financial statements including, if appropriate, any intangible assets not recognised by the latter that at that date meet the requirements to be recognised as such items, measured at fair value calculated in accordance with the measurement criteria indicated by Bank of Spain Circular 4/2004 (2 December) and all subsequent amendments.

- The cost of the business combination will be the sum of the fair value of the assets delivered, the liabilities incurred and any equity instruments issued by the buyer, and any other costs directly attributable to the business combination such as fees paid to legal advisors and consultants to carry out the combination. The costs of contracting and issuing the financial liabilities and equity instruments are not included in this category.

- The buyer will compare the cost of the business combination against the acquired percentage of the net fair value of the assets, liabilities and contingent liabilities recognised by the acquired company and the resulting difference from this comparison will be recorded:

  - When positive, as goodwill under assets and under no circumstances will it be amortised but on an annual basis it will be subject to the impairment test established by Rule Thirty of Bank of Spain Circular 4/2004 (22 December) and all subsequent amendments.

  - When negative it will be recognised in the income statement as income under the heading "Negative differences on business combinations", after again verifying the fair values assigned to all equity items and the cost of the business combination.

4. DISTRIBUTION OF RESULTS

The distribution of 2016 profits that the Governing Council at the Group's Parent Entity will propose to the General Assembly for approval, together with the 2015 distribution approved by the General Assembly on April 2016 is set out below:

	Thousand euro	
	2016	**2015**
Distribution		
Compensation for capital contributions	3,331	-
To the Mandatory Reserve Fund	15,494	20,086
To the Voluntary Reserve Fund	3,098	1,339
Total distributed	**21,923**	**21,425**
Profit for year	**21,923**	**21,425**

The results from the remaining companies forming part of Caja Rural de Castilla-La Mancha Group will be distributed as decided by their respective Governing Bodies.

5. FINANCIAL RISK MANAGEMENT

a) Credit risk

Credit risk arises from possible losses triggered by the breach of contractual obligations by the Parent Entity’s counterparties. In the case of refundable financing granted to third parties (in the form of credits, loans, deposits, securities and other) credit risk arises as a consequence of non-recovery of principal, interest and other items in the terms regarding amount, period and other conditions stipulated in the contracts. In the case of off-balance sheet risks, it arises from the failure by counterparties to fulfil their obligations to third parties, thus forcing the Bank to assume them by virtue of the commitment undertaken.

Credit risk is the most significant risk faced by the Parent Entity as a result of its banking activity and it extends to include the risk that the counterparty will not be capable of fully repaying the amounts owed.

Credit risk management is an integral and homogeneous process at the Parent Entity that starts when a customer requests financing through the branch office network until all of the loaned funds are repaid. The various basic criteria for admitting credit risk by the Parent Entity have been established together with the minimum mandatory documentation that is necessary to comply with current legislation in force at any given time, always referenced to fundamental aspects regarding liquidity, security, profitability and collateral business.

In order to establish a more agile and specialised process for studying and analysing asset transactions with our customers, the Parent Entity has defined areas and specialised units based on the segment or type of transaction which, due to their characteristics, have or should have a different treatment. This is an attempt to respond to customers in a more professional and agile manner and to better reach a final decision to obtain a portfolio with the best possible credit quality.

The Parent Entity has assistance and support tools for the final decision and scoring systems and they are currently in operation for the retail customer (mortgages, consumer loans and credit cards) and micro-company segments (revenues of less than €1 million).

In the case of both micro-companies and individual customers the system evaluates the likelihood of default in a risk transaction by analysing the customer/transaction binomial.

For companies with revenues exceeding €1 million there is a rating that provides a score of between 1 and 8 (1 is the lowest score with the highest likelihood of default, and 8 is the best score), regarding the company's position with respect to the likelihood of default.

The following table shows the total exposure to credit risk at the end of 2016 and 2015:

	Thousand euro	
	2016	**2015**
Customer loans	3,078,016	2,871,473
Bank deposits	216,812	313,655
Debt securities	3,237,709	2,769,316
Derivatives	507	285
Contingent liabilities	311,623	383,502
Total Risk	**6,844,667**	**6,338,231**
Contingent commitments	355,891	346,863
Total exposure	**7,200,558**	**6,685,094**

The distribution of the heading "Customer loans" prior to 31 December 2016 and 2015, based on the business sector to which customers pertain, is set out the following table:

				Thousand euro
		2016		2015
	Risk	Distribution %	Risk	Distribution %
Resident and non-resident sectors				
Agriculture, livestock, hunting, forestry and fishing	185,911	6,25	142,548	5,11
Industry	149,379	5,02	119,425	4,28
Construction	91,120	3,06	89,338	3,20
Services:	286,817	9,65	156,996	6,20
Commerce and restaurants	188,458	6,34	141,065	5,06
Transportation and communications	40,210	1,35	26,596	0,95
Other services	58,149	1,96	(10,665)	0,19
Financial mediation	36,530	1,23	27,548	0,99
Real estate and business services	13,457	0,46	51,736	1,85
Credit granted to individuals:	2,209,989	74,33	2,181,327	78,37
Housing	2,002,946	67,37	1,950,078	70,08
Consumer and other loans	188,477	6,34	217,036	7,78
Unclassified	18,566	0,62	14,213	0,51
Total	2,973,203	100	2,768,918	100
Public entities	208,931	-	212,830	-
Measurement adjustments	(104,118)	-	(110,275)	-
Total	**3,078,016**	**100**	**2,871,473**	**100**

The distribution of "Customer loans" based on their status at the end of 2016 and 2015 is as follows:

		Thousand euro
	2016	2015
Normal	3,081,260	2,838,288
special supervision	*56,343*	-
Sub-prime	-	48,642
Doubtful	100,874	94,818
Measurement adjustments	(104,118)	(110,275)
Total	**3,078,016**	**2,871,473**

As regards the degree of credit risk concentration and in accordance with the provisions of Bank of Spain Circular 3/2008 on equity and subsequent modifications, as it relates to large risks, (defined as those which exceed 10% of equity) no exposure to a person or group may exceed 25% of equity, except for those risks deducted from eligible equity due to exceeding the limits of large risks. Moreover, major risks taken as a whole may not exceed an amount equal to eight times equity. The Entity's risk concentration policy takes the aforementioned limits into account and risk limits have been established by counterparty which are consistent with such requirements and procedures for controlling exceeded limits.

Information regarding refinanced and restructured items

The Bank has a policy of refinancing, restructuring, renewal and renegotiation of operations, approved by the highest governance body and included in the Entity's loan policy and manual. This policy details the requirements, conditions and situations under which a range of measures is offered to assist clients of the entity that are experiencing financial difficulties.

The Entity has adapted its management, identification and monitoring systems for credit risk transactions to the definitions contained in Bank of Spain Circular 4/2014, with the latest amendments incorporated by Bank of Spain Circular 4/2016, which came into force on 1 October 2016. Specifically, the Entity has a policy of refinancing, restructuring, renewal and renegotiation of operations, which details the requirements, conditions and situations under which it is offered a range of measures to assist clients of the entity that are experiencing financial difficulties.

In general terms, these renegotiated transactions do not include changes in conditions considered substantial, in addition to extensions of the terms of the agreements, inclusions or extensions of deficiency, or improvements in the guarantees associated with such operations, and, for accounting purposes, entail the loss of the original assets and the subsequent recognition of new assets at fair value.

The policies and procedures applied in risk management allow individual monitoring of lending operations. In this sense, any operation that may require modifications in its conditions as a result of deterioration in the creditworthiness of the borrower, already has, at the date of its novation, the corresponding provision for impairment. Therefore, since the operations are correctly valued, there is no evidence of additional requirements for impairment provisions on refinanced loans.

As regards the accounting treatment of interest, it does not recognise accrued interest after the doubtful transfer of receivables. In the event that due to the refinancing or restructuring of a delinquent transaction the interest is outstanding, they are recorded as income in the income statement for the year.

The normal risks are those operations that, as a result of the refinancing, present to the Bank a reasonable assurance that the client will be able to pay against the planned schedule. In order to do so, a number of factors are taken into account, such as the provision of new, effective guarantees. As a consequence, in such cases, a lower need for correction for credit risk coverage can be shown for these operations. Renegotiated or refinanced assets are classified according to their risk based on aspects such as the determination of repayment capacity of the borrowers, the updated valuation of the guarantees provided and, in addition, other factors such as the periods of lack of operations or the number of times a transaction has been restructured.

Subsequent to the initial rating, there are prudent criteria of cure, so that the subsequent development of the operations may allow them to be reclassified to normal risk. In line with Bank of Spain Circular 4/2004, these criteria are based on an effective repayment of the refinanced operations, so that doubts about the collection are cleared, taking into account both the repayment amount and the repayment amount. Time taken by the borrower to fulfill his payment obligations.

The detail of the balances of refinancing and restructuring at 31 December 2016 and 31 December 2015 is as follows:

				Thousand euro
	2016		2015	
	Total	Of which: Doubtful	Total	Of which: Doubtful
Gross amount	**79,598**	**46,482**	**121,466**	**42,766**
Value adjustments for impairment of assets	**(18,105)**	**(16,982)**	**(22,526)**	**(19,226)**
Net amount	**61,493**	**29,500**	**98,940**	**23,540**

As of 31 December 2016, the value of the collateral received was €69,459 thousand, the value of other collateral was €66 thousand.

At 31 December 2016, the detail of the refinanced and restructured operations, according to the criteria of Bank of Spain Circular 4/2004 and subsequent amendments, is as follows:

							Thousand euro
							31 December 2016
	Total						
	With guarantee				Without guarantee		
			Maximum amount of the guarantee that can be considered				
	Nº of operations	Gross amount	Real estate guarantee	Other guanrantee	Nº of operations	Gross amount	Impairment of losses at fair value due to credit risk
Credit institutions	-	-	-	-	-	-	-
Public Administrations	-	-	-	-	-	-	-
Other financial companies and individual entrepreneurs (financial business)	1	25	-	-	3	22	-
Non-financial companies and individual entrepreneurs (non-financial business)	350	42,152	32,526	58	377	7,786	(13,484)
Of which: financial construction and real estate development (including land)	*35*	*12,157*	*11,605*		*1*	*84*	*(3,545)*
Other households	380	27,795	25,328	8	206	1,818	(4,621)
	731	**69,972**	**57,854**	**66**	**586**	**9,626**	**(18,105)**
Additional Information							
Financing classified as non-current assets and diposal groups of ítems that have been classified as held-for sale	-	176	-	-	-	81,689	-

	Of which: With breaches/doubts						
	With guarantee				Without guarantee		
			Maximum amount of the guarantee that can be considered				
Thousand euro 31 December 2016	Nº of operations	Gross amount	Real estate guarantee	Other guanrantee	Nº of operations	Gross amount	Impairment of losses at fair value due to credit risk
Credit institutions	-	-	-	-	-	-	-
Public Administrations							
Other financial companies and individual entrepreneurs (financial business)	-	-	-	-	2	20	(5)
Non-financial companies and individual entrepreneurs (non-financial business)	168	28,020	19,424	-	205	3,985	(13,903)
Of which: financial construction and real estate development (including land)	*24*	8,439	7,886	-			(2,997)
Other households	175	13,250	11,699	2	148	1,207	(3,074)
	343	**41,270**	**31,123**	**2**	**355**	**5,212**	**(16,982)**
Additional Information							
Financing classified as non-current assets and diposal groups of ítems that have been classified as held-for sale	-	-	-	-	-	-	-

As of 31 December 2015, the detail of refinanced and restructured operations, in force at the close of financial year 2015, is as follows:

Thousand euro 31 December 2015	Full real estate mortgage guarantee		Other guarantees		Whithout guarantees		
	Nº of operations	Gross amount	Nº of operations	Gross amount	Nº of operations	Gross amount	Specific coverage
Normal Risk							
Public Administrations	-	-	-	-	1	103	-
Other legal persons and individual entrepreneurs	178	15,892	6	461	195	2,177	-
Of which: financing for construction and promotion	*7*	*1,838*	-	-	-	-	-
Other physical persons	516	34,575	9	706	35	578	-
Total Normal Risk	**694**	**50,467**	**15**	**1,167**	**231**	**2,858**	**-**
Substandard Risk							
Public Administrations	-	-	-	-	-	-	-
Other legal persons and individual entrepreneurs	102	10,910	5	283	123	3,349	2,157
Of which: financing for construction and promotion	*15*	*4,825*	-	-	*1*	*131*	*807*
Other physical persons	107	9,256	5	408	4	2	1,143
Total Substandard Risk	**209**	**20,166**	**10**	**691**	**127**	**3,351**	**3,300**
Doubtful Risk							
Public Administrations							
Other legal persons and individual entrepreneurs	103	17,192	24	8,603	246	3,559	15,230
Of which: financing for construction and promotion	*14*	*4,124*	*8*	*4,629*	-	-	*3,309*
Other physical persons	133	9,211	37	3,638	*51*	*563*	3,996
Total Doubtful Risk	**236**	**26,403**	**61**	**12,241**	**297**	**4,122**	**19,226**
Total	**1,139**	**97,036**	**86**	**14,099**	**655**	**10,331**	**22,526**

The carrying value 31 December 2016 and 2015 of "Customer loans" recognised by the Group and broken down by business and purpose, including details of the type of collateral and distribution by tranche, based on the percentage of the carrying value of the financing compared to the amount of the latest available appraisal or collateral measurement is as follows:

								Thousand euro
								31 December 2016
								Secured loans Loan to value
	Total	Of which: Real estate collateral	Of which: Rest of real guarantees	LTV ≤40%	40%< LTV 60%	60%< LTV ≤ 80%	80%< LTV ≤ 100%	LTV 100%
Public entities	193,385	-	-	-	-	-	-	-
Other financial institutions	39,624	-	-	-	-	-	-	-
Non-financial companies and self-employed	665,966	319,534	5,802	132,983	98,397	60,382	15,915	17,659
Real estate development and construction	31,263	30,734	-	14,700	12,387	2,271	1,376	-
Execution of civil works	24,593	11,578	315	5,578	3,709	1,823	440	343
Other purposes	610,110	277,222	5,487	112,705	82,301	56,288	14,099	17,316
Large companies	32,065	2,925	-	1,039	1,404	-	-	482
SMEs and self-employed	578,045	274,297	5,487	111,666	80,897	56,288	14,099	16,834
Other household and non-profit	2,179,041	2,071,797	1,025	431,047	535,671	664,378	269,011	172,715
Homes	2,040,356	2,010,771	475	398,525	516,683	657,324	267,509	171,205
Consumer	25,703	2,266	170	1,090	801	314	142	89
Other purposes	112,982	58,760	380	31,432	18,187	6,740	1,360	1,421
	3,078,016	**2,391,331**	**6,827**	**564,030**	**634,068**	**724,760**	**284,926**	**190,374**
Total								
Refinancing, refinanced and restructured transactions	61,493	49,186	32,539	33,918	15,731	13,437	6,202	12,437

								Thousand euro
								31 December 2015
								Secured loans Loan to value
	Total	Of which: Real estate guarantee	Of which: Rest of real guarantees	LTV ≤40%	40%< LTV ≤ 60%	60%< LTV ≤ 80%	80%< LTV ≤ 100%	LTV 100%
Public entities	200,779	-	134	134	-	-	-	-
Other financial institutions	38,293	-	-	-	-	-	-	-
Non-financial companies and individual businesses	592,944	303,460	4,375	146,910	96,366	45,995	7,882	10,682
Real estate development and construction	46,947	45,877	-	24,155	18,412	2,439	871	-
Execution of civil works	22,516	11,210	255	6,420	3,013	1,719	37	276
Other purposes	523,481	246,373	4,120	116,335	74,941	41,837	6,974	10,406
Large companies	10,339	2,017	-	-	-	2,017	-	-
SMEs and self-employed	513,142	244,356	4,120	116,335	74,941	39,820	6,974	10,406
Other household and non-profit	2,071,219	1,990,738	1,258	480,827	621,154	737,639	132,764	19,612
Homes	1,925,596	1,915,452	488	440,436	598,239	728,560	131,539	17,166
Consumer	19,447	1,772	237	843	293	642	140	91
Other purposes	126,176	73,514	533	39,548	22,622	8,437	1,085	2,355
Total	**2,903,235**	**2,294,198**	**5,767**	**627,871**	**717,520**	**783,634**	**140,646**	**30,294**
Refinancing, refinanced and restructured transactions	98,940	91,479	194	33,935	31,580	21,019	3,116	2,023

(*) For presentation purposes, at 31 December 2015, the total does not include €31,762 thousand in value adjustments for impairment of assets not attributed to specific operations.

At 31 December 2016 and 2015 the breakdown of the concentration of risk by activity and geographic area is set out below:

					Thousand euro
	Total	Spain	Rest of European Union	America	Rest of world
Credit institutions	1,283,579	1,099,323	100,862	64,568	18,826
Public entities	2,631,319	2,399,884	231,435	-	-
– State Administration	2,236,816	2,005,381	231,435	-	-
– Other	394,503	394,503	-	-	-
Other financial institutions	81,857	53,709	28,148	-	-
Non-financial companies and individual businesses	1,079,298	1,047,808	26,490	5,000	-
– Real estate construction and development (b)	31,263	31,263	-	-	-
– Execution of civil works	24,593	24,593	-	-	-
– Other purposes	1,023,442	991,952	26,490	5,000	-
Large companies (c)	467,403	435,913	26,490	5,000	-
SMEs and self-employed (c)	556,039	556,039	-	-	-
Other household and non-profit	2,180,712	2,177,925	1,312	1,023	452
– Housing (d)	2,040,356	2,038,162	1,237	505	452
– Consumer (d)	25,703	25,680	16	7	-
– Other purposes (d)	114,653	114,083	59	511	-
TOTAL	**7,245,189**	**6,778,649**	**376,671**	**70,591**	**19,278**

					Thousand euro
	Total	Spain	Rest of European Union	America	Rest of world
Credit institutions	2,085,665	1,952,111	92,936	33,076	7,542
Public entities	2,170,945	2,116,489	54,456	-	-
– State Administration	1,758,554	1,704,098	54,456	-	-
– Other	412,391	412,391	-	-	-
Other financial institutions	65,853	30,733	35,120	-	-
Non-financial companies and individual businesses	1,052,817	1,037,738	10,087	4,992	-
– Real estate construction and development (b)	46,950	46,950	-	-	-
– Execution of civil works	25,066	25,066	-	-	-
– Other purposes	980,801	965,722	10,087	4,992	-
Large companies (c)	438,428	423,349	10,087	4,992	-
SMEs and self-employed (c)	542,373	542,373	-	-	-
Other household and non-profit	2,098,752	2,097,069	945	580	158
– Housing (d)	1,946,982	1,945,612	901	398	71
– Consumer (d)	19,447	19,437	10	-	-
– Other purposes (d)	132,323	132,020	34	182	87
TOTAL	**7,474,032**	**7,234,140**	**193,544**	**38,648**	**7,700**

The definition of risk for the purposes of the preceding table includes the following items in the public balance sheet: deposits at credit institutions, customer loans, debt securities, equity instruments, traded derivatives, hedge derivatives, shares and contingent risks.

Thousand euro

	Regional Administrations																		
2016	Andalucia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla LM	Castilla L.	Cataloni a	Extremadura	Galicia	Madrid	Murcia	Navarre	Region of Valencia	Basque Country	La Rioja	Ceuta and Melilla	Total
Credit institutions	11,265	-	-	-	-	-	12,512	-	72,274	38,337	-	883,220	-	-	-	81,715	-	-	1,099,323
Public entities	20,275	19,123	-	-	-	-	161,176	40,534	-	4,849	21,809	86,015	-	20,032	-	5,492	15,198	-	2,399,884
– State Administration: (*)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,005,381
– Rest	20,275	19,123	-	-	-	-	161,176	40,534	-	4,849	21,809	86,015	-	20,032	-	5,492	15,198	-	394,503
Other financial institutions	-	-	-	-	-	-	9,732	-	-	-	-	43,977	-	-	-	-	-	-	53,709
Non-financial companies and self-employed	1,325	31	82	1,435	26	78	535,069	8,995	29,416	5,472	77	462,569	288	-	2,838	107	-	-	1,047,808
– Real estate construction and development (b)	-	-	-	-	-	-	18,346	496	-	-	-	12,421	-	-	-	-	-	-	31,263
– Execution of civil works	46	-	-	-	-	-	20,703	251	-	12	-	3,525	-	-	56	-	-	-	24,593
– Other purposes	1,279	31	82	1,435	26	78	496,020	8,248	29,416	5,460	77	446,623	288	-	2,782	107	-	-	991,952
Large companies (c)	-	-	-	1,397	-	-	48,547	-	29,390	2,259	-	354,320	-	-	-	-	-	-	435,913
SMEs and self-employed (c)	1,279	31	82	38	26	78	447,473	8,248	26	3,201	77	92,303	288	-	2,782	107	-	-	556,039
Other household and non-profit	9,169	844	935	750	1,606	778	1,350,760	28,916	2,241	4,582	1,279	765,684	1,880	288	7,197	709	76	231	2,177,925
– Housing (d)	8,408	839	917	742	1,588	763	1,259,637	26,633	2,131	4,363	1,245	721,484	1,647	224	6,613	700	-	228	2,038,162
– Consumer (d)	141	2	12	3	8	-	19,796	1,005	15	14	9	4,399	8	-	268	-	-	-	25,680
– Other purposes (d)	620	3	6	5	10	15	71,327	1,278	95	205	25	39,801	225	64	316	9	76	3	114,083
TOTAL	42,034	19,998	1,017	2,185	1,632	856	2,069,249	78,445	103,931	53,240	23,165	2,241,465	2,168	20,320	10,035	88,023	15,274	231	6,778,649

NOTE: Excludes impairment adjustments.
(*) Indicated in the column "Total" as they are not distributed by Region

Thousand euro

	Regional Administrations																		
2015	Andalucia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla LM	Castilla L.	Cataloni a	Extremadura	Galicia	Madrid	Murcia	Navarre	Region of Valencia	Basque Country	La Rioja	Ceuta and Melilla	Total
Credit institutions	106,788	-	-	-	-	-	6	-	104,477	-	-	1,662,292	-	-	-	78,548	-	-	1,952,111
Public entities	28,046	30,783	-	-	-	-	162,792	28,334	-	-	33,421	89,487	-	20,120	-	4,200	15,208	-	2,116,489
– State Administration: (*)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,704,098
– Rest	28,046	30,783	-	-	-	-	162,792	28,334	-	-	33,421	89,487	-	20,120	-	4,200	15,208	-	412,391
Other financial institutions	-	-	-	-	-	-	2,817	-	-	-	-	27,916	-	-	-	-	-	-	30,733
Non-financial companies and individual businesses	659	51	13	45	31	98	532,065	6,101	31,200	4,405	99	461,313	289	2	-	1,241	126	-	1,037,738
– Real estate construction and development (b)	-	-	-	-	-	-	32,828	527	-	-	-	13,594	-	-	-	1	-	-	46,950
– Execution of civil works	18	-	-	-	-	-	21,457	252	-	14	-	3,315	-	-	-	10	-	-	25,066
– Other purposes	641	51	13	45	31	98	477,780	5,322	31,200	4,391	99	444,404	289	2	-	1,230	126	-	965,722
Large companies (c)	-	-	-	-	-	-	38,665	-	30,297	2,186	-	352,202	-	-	-	(1)	-	-	423,349
SMEs and self-employed (c)	641	51	13	45	31	98	439,115	5,322	903	2,205	99	92,202	289	2	-	1,231	126	-	542,373
Other household and non-profit	8,920	891	1,036	549	1,757	822	1,317,174	27,034	2,511	4,749	1,434	720,593	1,826	260	92	6,365	757	299	2,097,069
– Housing (d)	7,982	846	911	525	1,718	801	1,223,430	25,233	2,273	4,475	1,324	667,625	1,582	173	-	5,713	707	294	1,945,612
– Consumer (d)	98	-	-	-	9	-	14,477	641	11	29	13	3,975	13	-	-	171	-	-	19,437
– Other purposes (d)	840	45	125	24	30	21	79,267	1,160	227	245	97	48,993	231	87	92	481	50	5	132,020
TOTAL	**144,413**	**31,725**	**1,049**	**594**	**1,788**	**920**	**2,014,854**	**61,469**	**138,188**	**9,154**	**34,954**	**2,961,601**	**2,115**	**20,382**	**92**	**90,354**	**16,091**	**299**	**7,234,140**

During 2016 and 2015 the Group has not carried out any significant renegotiations of credit transactions that change their original conditions such that it obtained additional collateral to provide higher coverage for the Entity with respect to its payments and most of the renegotiated transactions have been maintained as impaired.

Exposure to the real estate construction and development sector

Furthermore, following the recommendations of the Bank of Spain regarding transparency for the financing of real estate reduction and development, financing for the acquisition of homes and assets acquired in lieu of payment together with the measurement of financing needs in markets using the disclosure models established by Bank of Spain Circular 5/2011 (30 November), the Entity provides the following information:

Financing for real estate construction and development and its hedges at 31 December 2016 and 2015 are as follows:

			2016
	Gross amount	**Excess above the value of the guarantee**	**Measurement adjustments due to asset impairment: Specific coverage**
Financing for real estate development and construction (businesses in Spain)	50,268	48,783	8,135
Of which: doubtful	*14,275*	*12,791*	*4,855*
Memorandum item:			
Failed assets	1,860		

Memorandum item:	**Carrying value**
- Total customer loans, excluding public entities (businesses in Spain)	42,132
- Total assets (total businesses)	7,102,216
- Measurement adjustments and provisions for credit risk	3,280

			2015
	Gross amount	**Excess above the value of the guarantee**	**Measurement adjustments for asset impairment: Specific coverage**
Financing for real estate development and construction (businesses in Spain)	55,607	5,024	8,587
Of which: doubtful	*12,721*	*4,309*	*4,708*
Of which: sub-prime	*26,733*	*572*	*3,879*
Memorandum item:			
Failed assets	-		

The following table shows the breakdown of financing for construction, property development transactions and the acquisition of housing at 31 December 2016 and 2015:

	Financing for real estate construction and development: Gross amount	
	2016	2015
With no mortgage guarantee	5,580	1,084
With a mortgage guarantee	44,688	54,523
Finished buildings	44,265	48,406
Housing	44,265	48,199
Rest	-	207
Buildings under construction	366	1,564
Housing	366	1,457
Rest	-	107
Land	57	4,553
Developed land	57	2,799
Other land	-	1,754
	-	
Total	**50,268**	**55,607**

At 31 December 2016 and 2015 the breakdown of household loans for the acquisition of homes (excluding rehabilitation and improvements to) was as follows:

	2016		2015	
	Gross amount	Of which: doubtful	Gross amount	Of which: doubtful
Home acquisition loans	2,016,526	32,972	1,908,235	32,668
With no mortgage guarantee	96,218	738	13,337	131
With a mortgage guarantee	1,920,308	32,234	1,894,898	32,537

The breakdowns of loans secured by a mortgage guarantees for the acquisition of homes, based on the percentage represented by the total risk involving the amount of the latest available appraisal at 31 December 2016 and 2015 are as follows:

	Risk compared with the latest appraisal available (loan to value) 2016					
	Less than or equal to 40%	Exceeding 40% and less than or equal to 60%	Exceeding 60% and less than or equal to 80 %	Exceeding 80% and less than or equal to 100%	Exceeding 100 %	Total
Gross amount	307,965	525,756	639,527	264,595	182,465	1,920,308
Of which: doubtful	2,044	4,287	7,052	3,543	15,308	32,234

	Risk compared with the latest appraisal available (loan to value) 2015					
	Less than or equal to 40%	Exceeding 40% and less than or equal to 60%	Exceeding 60% and less than or equal to 80 %	Exceeding 80% and less than or equal to 100%	Exceeding 100 %	Total
Gross amount	412,330	586,002	727,860	136,576	32,130	1,894,898
Of which: doubtful	1,833	3,516	6,818	3,965	16,405	32,537

The breakdown of the assets received in lieu of payment at 31 December 2016 and 2015 is as follows:

		2016		2015
	Carrying value	Measurement adjustments for asset impairment	Carrying value	Measurement adjustments for asset impairment
Real estate assets from financing provided to construction and real estate development companies	**11,246**	**(3,286)**	**11,902**	**(2,566)**
Finished buildings	8,406	(2,114)	8,976	(1,428)
Housing	8,097	(2,046)	8,651	(1,362)
Other	309	(68)	325	(66)
Buildings under construction	2,085	(587)	2,193	(594)
Housing	2,085	(587)	2,193	(594)
Other	-	-	-	-
Land	755	(585)	733	(544)
Real estate assets from mortgage financing to acquire homes	**19,056**	**(4,172)**	**18,055**	**(2,403)**
Other real estate assets received as payment of debt	**3,480**	**(1,533)**	**3,550**	**(1,266)**
Total	**33,782**	**(8,991)**	**33,507**	**(6,235)**

Pursuant to Law 8/2012 of 30 October on the reorganisation and sale of real estate assets of the financial sector, on 27 December 2016, the Entity has transferred to the two companies created for this purpose (Notes 2.d and 13) real estate assets from financing for construction and real estate development companies awarded during the 2016 financial year amounting to €667 thousand. On 23 December 2015 the Entity transferred to these companies real estate assets from financing for construction and real estate development companies awarded during the financial year 2015 in the amount of €1,278 thousand (Note 13).

Policies and strategies established for the management of problematic risk associated with the development sector

In accordance with the provisions of Bank of Spain Circular 5/2001, which amends certain aspects of Circular 4/2004 (22 December), the Entity applies a group of policies and strategies to manage financing that is of problematic recovery used to finance real estate projects, focusing on the reduction and refinement of current exposure, without ignoring new business that is identified as viable. The management of these risks has allowed a significant reduction of its exposure over the past few years (-10.60% in 2015 and -8.87% in 2016), and the portfolio is diversified.

Those policies and procedures include, among other things, criteria regarding the following aspects:

- An individual analysis performed by specialised personnel in the Risk Division, specifically by the Risk Analysis, Monitoring and Authorisation Department, the Recovery Department and the Legal Department is also involved.

- Using the advisory services provided by Risk Analysis, Monitoring and Authorisation Department new payment facilities backed by additional collateral may be evaluated.

- Support for the sales management carried out by the Commercial Network, suggesting that offered prices adapt as quickly as possible to demand.

- In the event of foreclosure, in order to optimise sales management the Recovery and Asset Realisation Departments coordinate with the Commercial Network and evaluate the formal aspects of the marketing of these properties through the Sales Committee.

b) Market risk

Market risk consists of the risks arising from possible adverse variations in the interest rates on assets and liabilities, in the exchange rates of the currencies in which the on- (asset and liability) or off-balance sheet aggregates are denominated, and in the market prices of marketable financial instruments.

b.1) Interest rate risk

This risk is understood to be the sensitivity of the Parent Entity's financial margin to changes in market interest rates. Responsibility for the management of this risk is assigned the Entity's Asset and Liability Committee. Regular reports are prepared that use the Structural Balance Sheet method, which is characterised by the use of financial instruments to modify the gap between assets and liabilities that basically derives from retail banking operations. On a regular basis the Entity's Asset and Liability Committee analyses and monitors the evolution of the structural balance sheet, taking corrective action whenever deemed necessary.

The Parent Entity analyses the sensitivity of the Financial Margin to changes in interest rates. This sensitivity is subject to mismatches affecting maturity dates and the review of interest rates that arise between the various items in the balance sheet.

The measurement used by the Parent Entity to control interest risk in the balance sheet management is the interest rate gap. The analysis of the gap is supplemented with simulations of the main balance sheet figures that are subject to interest rate risk.

The analysis of interest rate gaps addresses the mismatches between revaluation periods of assets and liabilities in both balance sheets (assets and liabilities) and memorandum accounts. It provides a basic illustration of the balance sheet structure and enables period interest risk concentration to be detected.

The following table summarises the Group's exposure to interest rate risk in which it groups together and the carrying value of financial assets and liabilities based on the interest rate review date, or the maturity date in the case of fixed-rate transactions. The carrying value of financial derivatives, which are primarily used to reduce the Entity's exposure to interest rate risk, is included in "Other assets" and "Liabilities". To create the accompanying table the contractual interest rate review dates were used in the case of variable-rate transactions. The contractual maturity date was used in the case of fixed-rate transactions. The table is expressed in euro, since it is the only currency with relevant exposure.

	Within 1 month		1 to 3 months		3 months to 1 year		1 to 2 years		2 to 3 years		3 to 4 years		4 to 5 years		More than 5 years		On demand	Total
Financial year 2016	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**Thousand of euros**
Assets																		
Cash, cash balances at Central Banks and other deposits on demand	354,461	0.00%	-	-	9,504	0.30%	-	-	-	-	3,000	0.65%	-	-	-	-	32,915	**399,880**
Financial assets held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	54,459	**54,459**
Available-for-sale financial assets	65,500	1.72%	189,694	2.49%	729,241	2.62%	412,900	4.27%	202,465	2.98%	269,398	3.53%	236,100	2.46%	948,343	2.95%	(870,916)	**2,182,725**
Loans and receivables	497,579	1.46%	930,129	1.45%	1,650,293	1.56%	109,423	1.65%	37,083	2.79%	16,949	4.50%	12,249	4.25%	27,741	3.32%	2,197	**3,283,643**
Held-to-maturity investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,056,341	**1,056,341**
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	116,729	**116,729**
Total	**917,540**	**1.26%**	**1,119,823**	**1.63%**	**2,389,038**	**1.88%**	**522,323**	**3.72%**	**239,548**	**2.95%**	**289,347**	**3.59%**	**248,349**	**2.55%**	**976,084**	**2.96%**	**391,725**	**7,093,777**
Liabilities																		
Financial liabilities held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial liabilities at amortised cost	1,509,252	-0.10%	458,798	0.35%	1,762,102	0.25%	353,009	-0.22%	202,676	0.06%	115,525	0.01%	595,217	0.74%	1,543,391	0.30%	52,170	**6,592,140**
Other liabilities and equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	501,637	**501,637**
Total	**1,509,252**	**-0.10%**	**458,798**	**0.35%**	**1,762,102**	**0.25%**	**353,009**	**-0.22%**	**202,676**	**0.06%**	**115,525**	**0.01%**	**595,217**	**0.74%**	**1,543,391**	**0.30%**	**553,807**	**7,093,777**
Interest rate futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
-Options on interest rates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gap	**(591,712)**	**-**	**661,025**	**-**	**626,936**	**-**	**169,314**	**-**	**36,872**	**-**	**173,822**	**-**	**(346,868)**	**-**	**(567,307)**	**-**	**(162,082)**	**-**
Accumulated Gap	**(591,712)**	**-**	**69,313**	**-**	**696,249**	**-**	**865,563**	**-**	**902,435**	**-**	**1,076,257**	**-**	**729,389**	**-**	**162,082**	**-**	**-**	**-**

	Within 1 month		1 to 3 months		3 months to 1 year		1 to 2 years		2 to 3 years		3 to 4 years		4 to 5 years		More than 5 years		On demand	Total
Financial year 2015	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**	**Thousand of euros**	**% average**
Assets																		
Cash, cash balances at Central Banks and other deposits on demand	1,178,931	0.03%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,277	**1,224,208**
Financial assets held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial assets designated at fair value through profit or loss	-	-	-	-	5,000	0.75%	5,850	6.00%	15,000	3.33%	10,000	-	10,000	-	5,000	0.80%	1,692	**52,542**
Available-for-sale financial assets	408,907	2.24%	154,278	1.26%	503,573	2.12%	305,002	3.25%	276,100	4.25%	151,265	3.10%	145,398	4.33%	159,138	4.20%	187,571	**2,291,232**
Loans and receivables	481,078	2.25%	907,955	1.83%	1,586,011	1.83%	64,633	2.85%	97,176	1.53%	27,953	2.67%	8,825	5.70%	14,597	5.35%	(17,214)	**3,171,014**
Held-to-maturity investments	-	-	-	-	-	-	-	-	-	-	-	-	4,000	-	433,683	-	41,751	**479,434**
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	133,265	**133,265**
Total	**2,068,916**	**1.02%**	**1,062,233**	**1.74%**	**2,094,584**	**1.90%**	**375,485**	**3.22%**	**388,276**	**3.53%**	**189,218**	**2.87%**	**168,223**	**4.10%**	**612,418**	**3.26%**	**392,342**	**7,351,695**
Liabilities																		
Financial liabilities held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial liabilities at amortised cost	2,029,183	0.09%	719,966	0.51%	2,311,927	0.74%	137,301	0.40%	146,989	0.14%	95,277	0.08%	78,500	0.07%	1,368,417	0.38%	22,779	**6,910,339**
Other liabilities and equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	441,356	**441,356**
Total	**2,029,183**	**0.09%**	**719,966**	**0.51%**	**2,311,927**	**0.74%**	**137,301**	**0.40%**	**146,989**	**0.14%**	**95,277**	**0.08%**	**78,500**	**0.07%**	**1,368,417**	**0.38%**	**464,135**	**7,351,695**
Interest rate futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Options on interest rates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gap	**39,733**	**-**	**342,267**	**-**	**(217,343)**	**-**	**238,184**	**-**	**241,287**	**-**	**93,941**	**-**	**89,723**	**-**	**(755,999)**	**-**	**(71,793)**	**-**
Accumulated Gap	**39,733**	**-**	**382,000**	**-**	**164,657**	**-**	**402,841**	**-**	**644,128**	**-**	**738,069**	**-**	**827,792**	**-**	**71,793**	**-**	**-**	**-**

The Asset and Liability Committee (COAP) is the body responsible for managing the Entity's interest rate risk, proposing the optimal management policy that is compatible with the guidelines established by senior management and issued by the Governing Council. The COAP takes on this task from two clearly different perspectives:

- Analysing the impact on the interest margin or profits through the flow of interest: assuming that financial assets and liabilities at 31 December 2016 remain stable until maturity or settlement, a 100 basis point increase in interest rates would decrease the financial margin the following year by €3,646 thousand (€8,084 thousand in 2015). A 100 basis point decline in interest rates would decrease the financial margin the following year by €413 thousand (€1,439 thousand in 2015).

- Analysing the impact on equity (or the financial value) of the Entity, which is understood to be the difference between the market value of the assets and liabilities in the balance sheet: assuming that financial assets and liabilities at 31 December 2016 remain stable until maturity or settlement, a 100 basis point increase in interest rates would increase the Entity's financial value by €19,256 thousand (€24 thousand increase in 2015). A 100 basis point decline in interest rates would increase the Entity's financial value the following year by €3,870 thousand (decrease €1,692 thousand in 2015).

The main assumptions used to determine the above amounts were:

- Maintaining customer spreads in loan and deposit transactions.

- Effect of minimum rates on rate renewals.

- The reviews were made starting in the second month.

- Evolution of the Entity's balance sheet in line with past years.

- Maintaining of the current structure of references used.

- On-demand liabilities considered to be of low sensitivity and term liabilities considered to be eight times more sensitive.

- Forecast of movements in interest rates discounted by the market at the date the reports were prepared.

b.2) Price risk

This risk is defined as that which arises from changes in market prices, other than the two previous categories, due either to factors specific to the instrument itself or to factors that affect all instruments traded in the market. Given the small size of the trading portfolio, the mechanism that is used as the risk measurement instrument is a comparison against monthly market values. Exposure is also estimated at the time the product is acquired as well as when considered necessary using the VaR method.

VaR (Value at Risk) is defined as the maximum likely loss at a certain confidence level over a specified time horizon. The Entity currently measures this risk for the various portfolios in the Treasury and Capital Market area as well as for the overall positions maintained in the markets. VaR is also calculated taking into consideration the various risk factors that affect the Entity's positions, identifying the highest concentration of risk by factor.

Market Risk, in terms of monthly VaR for the financial instrument portfolios at 31 December 2016 totals €405 thousand for the investment fund portfolio (€576 thousand in 2015) and €0 thousand for the portfolio of assets denominated in foreign currency (€722 thousand in 2015) and €11,387 thousand for the fixed income portfolio (€14,897 thousand in 2015).

The Parent Entity is using a co-variance matrix with a 99% confidence level and a time horizon of 1 month.

b.3) Exchange rate risk

The Group does not have significant exposure to exchange rate risk at the reference dates in the consolidated annual accounts.

c) Liquidity risk

This risk reflects the possible difficulties for the Group to have available, or to have access to, liquid funds, of sufficient amount and at appropriate cost for meeting its payment obligations at all times. The body responsible for supervising liquidity risk at the Entity is the Asset and Liability Committee.

The measures used to control liquidity risk when managing the balance sheet are the Liquidity Profile Ratio and the Dynamic Liquidity Gap.

The Liquidity Profile Ratio compares available liquid assets available for sale (after applying discounts and all appropriate adjustments) against all due liabilities, including contingencies. This ratio shows the Group's capacity to provide an immediate response to the commitments it has assumed.

The breakdown of financial instruments by residual maturity terms at 31 December 2016 and 2015 is set out below. The maturity dates that have been taken into consideration to create the accompanying table are the contractual maturity or cancellation dates:

Thousand euro

2016	On demand	Up to 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 and 5 years	More than 5 years of age	Maturity indeterminate and unclassified	Total
Assets									
Cash and deposits at central banks	399,880	-	-	-	-	-	-	-	**399,880**
Bank deposits	-	70,882	40,204	57	40,000	95,000	-	(29,331)	**216,812**
Customer loans	-	72,409	85,255	102,899	234,913	899,534	1,674,327	8,679	**3,078,016**
Debt securities	-	65,500	116,594	580,496	140,746	1,151,963	998,343	184,067	**3,237,709**
Other	-	-	-	-	-	-	-	161,360	**161,360**
Total	399,880	208,791	242,053	683,452	415,659	2,146,497	2,672,670	324,775	**7,093,777**
Liabilities									
Deposits at central banks	-	-	-	-	-	220,000	-	-	**220,000**
Deposits at credit institutions	-	877,914	8,000	-	-	302	4,486	(10)	**890,692**
Customer deposits	2,260,889	249,209	383,680	622,913	852,269	74,631	50	12,985	**4,456,626**
Debts represented by marketable securities	-	-	-	-	-	500,000	500,000	(325)	**999,675**
Other	-	-	-	-	-	-	-	526,784	**526,784**
Total	**2,260,889**	**1,127,123**	**391,680**	**622,913**	**852,269**	**794,933**	**504,536**	**539,434**	**7,093,777**
Gap	**(1,861,009)**	**(918,332)**	**(149,627)**	**60,539**	**(436,610)**	**1,351,564**	**2,168,134**	**(214,659)**	**-**
Cumulative gap	**(1,861,009)**	**(2,779,341)**	**(2,928,968)**	**(2,868,429)**	**(3,305,039)**	**(1,953,475)**	**214,659**	**-**	**-**

Thousand euro

2015	On demand	Up to 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 and 5 years	More than 5 years of age	Maturity indeterminate and unclassified	Total
Assets									
Cash and deposits at central banks	1,224,208								**1,224,208**
Bank deposits	-	46,583	40,083	84,055	-	147,362	-	(4,428)	**313,655**
Customer loans	-	78,548	75,731	93,270	197,711	811,819	1,612,987	1,407	**2,871,473**
Debt securities	-	408,907	135,479	326,154	174,919	947,915	598,821	177,121	**2,769,316**
Other	-	-	-	-	-	-	-	173,043	**173,043**
Total	1,224,208	534,038	251,293	503,479	372,630	1,907,096	2,211,808	347,143	**7,351,695**
Liabilities									
Deposits at central banks	-	855,000	200,000	-	-	-	-	12	**1,055,012**
Deposits at credit institutions	613,894	348,189	8,000	525	-	-	6,836	334	**977,778**
Customer deposits	1,238,722	506,552	456,154	970,662	1,109,889	73,244	50	1,585	**4,356,858**
Debts represented by marketable securities	-	-	-	-	-	-	500,000	(1,851)	**498,149**
Other	-	-	-	-	-	-	-	463,898	**463,898**
Total	**1,852,616**	**1,709,741**	**664,154**	**971,187**	**1,109,889**	**73,244**	**506,886**	**463,978**	**7,351,695**
Gap	**(628,408)**	**(1,175,703)**	**(412,861)**	**(467,708)**	**(737,259)**	**1,833,852**	**1,704,922**	**(116,835)**	**-**
Cumulative gap	**(628,408)**	**(1,804,111)**	**(2,216,972)**	**(2,684,680)**	**(3,421,939)**	**(1,588,087)**	**116,835**	**-**	**-**

In accordance with past experience, the average expected period for the cancellation of the Group's assets is 4,9 years at 31 December 2016 (4 years at 31 December 2015).
The Group applies criteria of maximum prudence when managing its liquidity and attempts not only to minimise the cost but also to avoid concentrations in time or markets.

In the case of the Parent Entity, as a credit institution focusing on retail banking, this risk arises mainly due to the existence of a very significant volume of liabilities (on-demand customer deposits) whose repayment is uncertain although the entity's past experience shows very stable behaviour over time with respect to this group of liabilities.

d) Fair value of financial instruments

This risk relates to the changes that arise in the fair value of financial instruments, as is defined in Note 3.

As is described in Note 3, except for the financial instruments classified under the headings "Loan investments" and "Held-to-maturity investment portfolio" and for those equity instruments whose fair value cannot be reliably estimated, or derivative instruments that have such equity instruments as the underlying asset, the Entity's financial assets are recognised in the balance sheet at their fair value.

Similarly, except for the financial liabilities recognised under the heading of Financial liabilities at amortised cost", the rest of the financial liabilities are recognised at their fair value in the balance sheet.

Given that most of the financial assets and liabilities recognised in the headings "Loan investments" and "Financial liabilities at amortised cost" are variable rate items that are revised at least on an annual basis, the Directors believe that their fair value does not differ from values at which they are recognised in the balance sheet, considering that they only takes into account the effects of changes in interest rates. Fixed-rate assets and liabilities not associated with fair value hedge situations that are recognised under these headings mainly have residual maturity dates of less than one year and therefore any changes in their fair value as a result of movements in market interest rates would not be significant.

The following table summarises the fair value and carrying value of the various financial asset and liability portfolios that are not recognised at fair value in the accompanying balance sheet:

	Thousand euro			
	Carrying amount		Fair value	
	2016	2015	2016	2015
Financial assets				
Available-for-sale financial assets				
Other equity instruments (*)	13,176	3,675	-	-
Loan investments	3,283,643	3,171,014	3,283,643	3,171,014
Held-to-maturity investments	1,056,341	479,434	1,056,341	479,434
Financial liabilities				
Financial liabilities at amortised cost	6,592,140	6,910,339	6,592,140	6,910,339

(*) Investments that the Parent Entity has recognised at cost since it is not possible to reliably determine their fair value (Note 9.2)

The breakdown of the fair value of the various financial asset portfolios (excluding loan investments and investments held-to-maturity), indicating the method of calculating their fair value, is as follows at 31 December 2016 and 2015:

	Thousand euro	
	Fair value	
	2016	2015
Financial instruments at fair value based on published price quotes on active markets.		
Available-for-sale debt securities (Note 9.1)	2,138,094	2,251,454
Financial instruments measured at fair value (Note 9.2)	31,455	36,103
Total	**2,169,549**	**2,287,557**
Financial instruments at fair value based on a measurement technique supported by observable market data.		
Other financial assets at fair value through profit or loss (Note 8)	54,459	52,542
Derivatives – assets (Note 7)	507	285
Total	**54,966**	**52,827**
Liabilities		
Financial instruments at fair value based on a measurement technique supported by observable market data.		
Derivatives – liabilities (Note 7)	5,382	-
Total	5,382	-

The effect on the income statement heading "Profit on financial transactions" by changes in the fair value of financial instruments, based on the technique used to measure their fair value, is set out below.

	Thousand euro	
	2016	2015
Financial instruments at fair value based on published price quotes on active markets.		
Available-for-sale financial assets	5,334	9,989
Financial instruments at fair value based on a measurement technique supported by observable market data.		
Trading portfolio	(143)	(586)
Other financial instruments at fair value through changes in profit or loss	717	(2,839)
Other	-	-

The fair value of the Group's financial instruments has been determined using the listed market prices for identical assets or liabilities that the Group has accessed at each of the measurement dates (Tier 1), except for the portfolio "Other financial assets at fair value through changes in profit or loss" (Note 8) for which the fair value has been calculated using data other than the listed prices included in Tier 1 that are directly or indirectly observable for assets or liabilities (Tier 2).

6. CASH AND DEPOSITS AT CENTRAL BANKS

The composition of the heading "Cash and deposits at central banks" in the accompanying consolidated balance sheet at 31 December 2016 and 2015 is as follows:

	Thousand euro	
	2016	2015
Cash	32,915	32,835
Deposits at Bank of Spain	136,980	131,285
Other deposits	229,985	1,060,088
Total	**399,880**	**1,224,208**

The account maintained at the Bank of Spain is subject to compliance with the minimum reserve ratio which at 31 December 2016 and 2015 is set at 1% of eligible liabilities, in accordance with current legislation. At 31 December 2016 and 2015 the Entity complies with those ratios.

The Parent Company and Banco Cooperativo Español, S.A. have signed an agreement whereby the Parent transfers funds to Banco Cooperativo Español, S.A. so that the latter invests them exclusively in the interbank or monetary market, with the Bank responding to any losses that may arise as a result of such investments.

As of 31 December 2016 and 2015, in relation to the aforementioned agreements, the Bank maintains cash on hand for €121,421 thousand and €970,626 thousand respectively, which are recorded under "Other demand deposits".

The liability assumed by the Bank under these agreements amounts to €196,410 thousand and €262,323 thousand at 31 December 2016 and 2015, respectively. These amounts are shown under "Other contingent risks" in memorandum accounts (Note 19.1).

The interest accrued in 2016 on the account maintained at the Bank of Spain totalled €3 thousand (€18 thousand in 2015), and the average yield was 0.01% and 0.05% in 2016 and 2015, respectively, Note 27).

For the purposes of preparing the cash flow statement, the Group has considered the balance in this balance sheet having to be "Cash and cash equivalents".

7. TRADING PORTFOLIO AND HEDGE DERIVATIVES

Trading portfolio

At 31 December 2016 and 31 December 2015 the Group does not have any assets in the Trading portfolio.

Hedge derivatives

At 31 December 2016 and 2015 contracted derivatives designated as hedging and the items hedged are mainly as follows:

- Interest Rate Swaps, which hedge mortgage loans issued by the Savings Bank. The Interest rate swap was issued by Banco Cooperativo Español, S.A.

- Interest Rate Swaps, which hedge mortgage bons linked to inflaction issued by the Savings Bank. The Interest rate swap was issued by Banco Cooperativo Español, S.A.

The measurement methods used to determine the fair value of the OTC derivatives have been the discounted cash flow method to measure interest rate derivatives. The listed price for official market transactions has been considered to be an indicator of their fair value.

Set out below is a breakdown by type of product, fair value and notional value of those derivatives designated as hedging instruments in cash flow hedging operations at 31 December 2016 and 2015:

						Thousand euro
		Notional		**Fair value**		**Fair value**
		Memorandum accounts	**Assets**	**Liabilities**	**Assets**	**Liabilities**
	2016	**2015**	**2016**	**2016**	**2015**	**2015**
By market rate						
UNORGANISED MARKETS	366,861	345,809	507	5,383	285	-
By product type						
Term operations	-	-	-	-	-	-
Swaps	366,861	345,809	507	5,383	285	-
Options	-	-		-	-	-
Other products	-	-		-	-	-
Total	**366,861**	**345,809**	**507**	**5,383**	**285**	**-**
By counterparty						
Credit institutions. Residents	366,861	345,809	507	5,383	285	-
Total	**366,861**	**345,809**	**507**	**5,383**	**285**	**-**
By remaining term						
Up to 1 year	-	-	-	-	-	-
From 1 to 5 years	-	-	-	-	-	-
More than 5 years of age	366,861	345,809	507	5,383	285	-
Total	**366,861**	**345,809**	**507**	**5,383**	**285**	**-**
By type of hedged risk						
Interest rate risk	366,861	345,809	507	5,383	285	-
Total	**366,861**	**345,809**	**507**	**5,383**	**285**	**-**

The notional amount of the contracts executed does not represent the real amount assumed by the Entity in relation to such instruments.

The Group applies fair value hedge accounting mainly to those operations where it is exposed to changes in the fair value of certain assets and liabilities which are sensitive to interest rate fluctuations, i.e., mainly assets and liabilities linked to a fixed interest rate, which is transformed into variable interest through the relevant hedging instruments.

8. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this balance sheet asset heading at 31 December 2016 and 2015, classified by nature, is as follows:

	Thousand euro	
	2016	**2015**
Hybrid financial assets		
Secured capital	43,274	38,428
Other	11,185	14,114
Total	**54,459**	**52,542**

The financial assets recorded under this heading correspond to debt instruments that incorporate an implicit derivative that the Group has decided not to segregate, recording the instrument as a whole at its fair value with changes in profit and loss.

The average return on assets classified in this portfolio was 0.20% and 0.44% for 2016 and 2015, respectively.

During 2016 the Group obtained income from this portfolio totalling €101 thousand (€202 thousand in income in 2015), recognised in the heading Interest and similar yields in the consolidated income statement.

The movements recorded in 2016 and 2015 financial years generated gains of €717 thousand losses of €2,839 thousand, respectively, which are recorded under the caption "Gains (losses) on financial assets and liabilities designated at fair value Reasonable with changes in results, net" in the accompanying consolidated income statement.

The breakdown by remaining maturity periods in this heading is described in Note 5.c) on Liquidity Risk.

9. AVAILABLE FOR SALE FINANCIAL ASSETS

An analysis of this asset heading in the accompanying consolidated balance sheet is as follows:

	Thousand euro	
	2016	**2015**
Debt securities	2,138,094	2,251,454
Other equity instruments	44,631	39,778
Total	**2,182,725**	**2,291,232**

9.1. Debt securities

Details of the debt securities classified based on the counterparty are as follows:

	Thousand euro	
	2016	**2015**
Spanish Public Administrations	1,601,353	1,685,946
Resident and non-resident credit institutions	84,479	54,456
Other resident sectors	346,996	386,171
Other non-resident sectors	106,597	126,726
Value adjustments for impairment	(1,331)	(1,845)
Total	**2,138,094**	**2,251,454**

The interest accrued in 2016 on debt securities totalled €30,682 thousand (€42,093 thousand in 2015) (Note 27), and the average yield was 1.78% and 2.23% in 2016 and 2015, respectively.

Of those assets and those acquired from credit institutions under repurchase agreements (Note 10.1) the Group has not assigned any effective amount to customers at 31 December 2015.

The breakdown by remaining maturity periods in this heading is described in Note 5.c) on Liquidity Risk.

Movements during the year in debt securities are as follows:

		Thousand euro
	2016	2015
Balance at 1 January	**2,251,454**	**1,952,305**
Additions	1,024,621	1,144,332
Disposals	(1,104,021)	(801,430)
Measurement adjustments	(34,474)	(42,433)
Value adjustments for impairment	514	(1,320)
Balance at 31 December	**2,138,094**	**2,251,454**

At 31 December 2016 the nominal pledged amounts in this portfolio totalled €1,037,525 thousand to secure Monetary Policy transactions and €1,037,525 thousand to secure transactions with Bolsas y Mercados Españoles (BME) - Clearing. At 31 December 2015 the nominal pledged amounts in this portfolio totalled €1,179,156 thousand to secure Monetary Policy transactions and €35,050 thousand to secure transactions with Bolsas y Mercados Españoles (BME) - Clearing.

9.2 Other equity instruments

The breakdown of the balance at 31 December 2016 and 2015 of this heading, based on the issuer's activity sector, is as follows:

	Thousand euro	
	2016	2015
From credit institutions	1,566	1,566
Other resident sectors	14,665	2,730
Other non-resident sectors	28,400	35,482
Total	**44,631**	**39,778**

At the end of 2016 and 2015 the heading "Other equity instruments “presents the following composition, based on whether or not the included shares are listed for trading or not, as well as the percentage that they represent compared with the total:

	Thousand euro			
	2016		2015	
	Amount	**% of total**	**Amount**	**% of total**
Listed	31,455	70%	36,103	91%
Cost	32,103	-	36,700	-
Measurement adjustments	(648)	-	(597)	-
Impairment	-	-	-	-
Not listed	13,176	30%	3,675	9%
Cost	13,176	-	3,675	-
Impairment		-	-	-
Total	**44,631**	**100%**	**39,778**	**100%**

Investments considered to be listed mainly include shares in domestic and international investment funds.

The breakdown of the investments classified into this portfolio that the Group has recognised at cost instead of at fair value, since it is not possible to reliably determine their fair value in accordance with the requirements established by Circular 4/2004, is as follows:

	Thousand euro	
Company	**2016**	**2015**
Espiga, Sociedad de Capital Riesgo	58	58
Colegio Mayol (*)	600	600
Sociedad de procedimientos de pagos S.L.	11	-
K Fund, F.C.R.E.	93	-
Olimpo Real Estate Socimi, S.A.	8,000	-
Visa Inc.	252	-
Caja Rural de Jaén	531	531
Acc. Aval Castilla La Mancha	750	750
Banco de Crédito Social Cooperativo, S.A.	1,000	1.000
Servired	18	18
Redsys	17	17
Espiga Equity Partners	1,839	694
Toletum Visigodo, S.L.	7	7
Logipostal	<1	<1
	13,176	**3,675**

(*) This shareholding, which was acquired in 2006, is associated with the Education and Development (Note 24).

Para estas inversiones, el Grupo determina anualmente la existencia de deterioro en base al último valor teórico contable disponible.

The Group's dominant Entity has received dividends from assets assigned to the portfolio valued at cost and to the portfolio valued at fair value, amounting to €19 thousand and €27 thousand in 2016 and 2015 respectively, which are recorded under "Dividend income" in the accompanying consolidated income statement.

The Parent company has made 3 capital contributions to Espiga Equity Partners for the financial year totaling €1,191 thousand. The Bank made contributions on 26 July, 11 July and 16 September for the sum of €435 thousand, €171 thousand and €585 thousand, respectively. On 11 July 2016, the Bank realised a loss of €46 thousand in the participation of Espiga Equity Partners. The net movement for the year amounted to €1,145 thousand.

The dominant Entity on 2 December 2016 has signed an investment commitment with the K Fund, F.C.R.E., whose Management Company is Kanoar Ventures S.G.E.I.C., S.A., for an amount of €2 million. As of 31 December 2016, the Bank has paid the first Capital Call in the amount of €58 thousand and a compensation commission in the amount of €35 thousand.

On 29 December 2016, the parent company has subscribed a capital increase of the Entity AC Olimpo Real State Socimi S.A. for a total of 8 million shares at a nominal value of €1, which makes a total of €8 million.

Movements during the year in Other equity instruments are as follows:

		Thousand euro
	2016	**2015**
Balance at 1 january	**39,778**	**240,276**
Additions	294,556	425,110
Disposals	(293,805)	(629,429)
Measurement adjustments	4,102	2,253
Value adjustments for impairment	-	1,568
Balance at 31 December	**44,631**	**39,778**

The write-offs recorded in financial instruments classified in the available-for-sale portfolio in 2016 and 2015 financial years, have generated gains of € 5,334 thousand and €9,989 thousand respectively, which are recorded under "Gains (losses) when derecognising assets and financial liabilities not measured at fair value through profit or loss, net " in the accompanying consolidated income statement.

9.3 Impairment losses

The breakdown of impairment losses recognised by the Group at the end of 2016 and 2015 with respect to assets in the Available-for-sale financial asset portfolio is as follows:

	Thousand euro	
	2016	**2015**
Beginning balance	1,845	2,093
Net provision (recovery) for the year-	(514)	(248)
Ending balance	**1,331**	**1,845**

The aforementioned amounts include €356 thousand and €1,320 thousand for the general allocation of debt securities classified in the category of Available-for-sale financial assets" in 2016 and 2015, respectively.

The breakdown of the heading "Measurement Adjustments" in equity at 31 December 2016 and 2015 resulting from changes in the fair value of the assets included in this portfolio is as follows:

	Thousand euro	
	2016	**2015**
Debt securities	41,905	48,492
Other equity instruments	(487)	(447)
Total	**41,418**	**48,045**

Movements in the heading "Measurement adjustments" in equity due to the transactions securities classified as "available-for-sale" and through changes in fair value, were as follows:

	Thousand euro	
	2016	**2015**
Beginning balance	48,045	67,519
Measurement gains / (losses)	(5,361)	(15,918)
Transferred to income statement	(3,474)	(10,048)
Tax effect	2,208	6,492
Ending balance	**41,418**	**48,045**

The breakdown of this portfolio by residual maturity periods is included in Note 5.c).

10. LOANS AND RECEIVABLES

The analysis of this consolidated balance sheet asset heading 31 December 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Bank deposits	205,627	299,541
Customer loans	3,078,016	2,871,473
Total	**3,283,643**	**3,171,014**

10.1 Deposits at credit institutions

This heading breaks down as follows based on the nature of the instrument:

	Thousand euro	
	2016	**2015**
Term deposits	169,042	260,180
Repos	19,169	19,648
Other accounts	16,536	19,286
Checks drawn on credit institutions	313	79
Measurement adjustments		
Accrued interest	567	348
Total	**205,627**	**299,541**

The breakdown by remaining maturity periods in this heading is described in Note 5.c).

The average annual interest rate in 2016 and 2015 on deposits from credit institutions was 0.00% and 0.22%, respectively.

10.2 Customer loans

The breakdown of this heading in the accompanying consolidated balance sheet, based on the type and status of the loan, interest rate, currency and the counterparty's sector, is set out below:

	Thousand euro	
	2016	**2015**
By loan type and status:		
Commercial portfolio	39,995	39,199
Secured loans	2,183,246	2,226,576
Other receivables	819,944	592,323
Finance leases	9,098	6,956
Loans on demand and other	28,977	21,876
Doubtful assets	100,874	94,818
Measurement adjustments	(104,118)	(110,275)
Total	**3,078,016**	**2,871,473**
By depositor sector:		
Spanish Public Administrations	193,385	200,779
Other resident sectors	2,881,842	2,669,050
Other non-resident sectors	2,789	1,644
Total	**3,078,016**	**2,871,473**
By type of interest rate		
Fixed interest rate	244,612	162,618
Variable rate	2,833,404	2,708,855
Total	**3,078,016**	**2,871,473**
By currency		
In euro	3,078,016	2,871,473
in foreign currency	-	-
Total	**3,078,016**	**2,871,473**

The breakdown by remaining maturity periods in this heading is described in Note 5.c).

“Receivables secured by real guarantees" includes €2,159,996 thousand in secured mortgage loans at 31 December 2016 (€2,220,473 thousand at 31 December 2015). The figure under "Other receivables" includes subordinated loans totalling €21,118 thousand at 31 December 2015 (€21,619 thousand at 31 December 2015)

Doubtful assets that have loan collateral at 31 December 2016 and 2015 are as follows:

	Thousand euro
2016	99,745
2015	92,556

The average annual interest rate in 2016 and 2015 was 0.56% and 0.53% respectively.

In 2009 and prior years the Parent Entity securitised customer loan transactions (mortgage loans) whose active balance at 31 December 2016 and 2015 totals €295,798 thousand and €326,333 thousand, respectively. The breakdown of these assets based on whether or not they were cancelled in accordance with the policy described in Note 3) is as follows:

	Thousand euro	
	2016	**2015**
Securitised assets:		
Loan investments		
Cancelled	14,395	16,137
Not cancelled	295,798	326,333
Total	**310,193**	**342,470**

The above assets were transferred to a securitisation fund and the Parent Entity retained a significant portion of the risks associated with those assets (credit risk), which is why they have not been eliminated from the balance sheet. The breakdown of the securitised assets that remain on the balance sheet at 31 December 2016 and 2015 with the consideration that a substantial portion of the risks and benefits associated with the transferred financial assets have been retained is set out below:

	Thousand euro		
	Securitised assets	**Balance at 31 December 2016**	**Balance at 31 December 2015**
Assets transferred to:			
Rural Hipotecario XI, Fondo de Titulización de Activos	153,920	78,198	86,896
Rural Hipotecario XII, Fondo de Titulización de Activos	369,300	217,600	239,437
Total	**523,220**	**295,798**	**326,333**

At 31 December 2016 the Parent company has bonds issued by the securitisation funds in the portfolio to which these assets were transferred for an effective amount of €269,782 thousand (€306,012 thousand in 2015). Subordinated loans were also granted to those funds in the amount of €21,118 thousand at 31 December 2016 (€21,118 thousand at 31 December 2015). At 31 December 2016 and 2015 the amount of those bonds is presented as a net amount in the account "Issued shares" in the heading Customer Deposits in the accompanying consolidated balance sheets (Note 17.3).

The breakdown of the measurement adjustments applied to transactions classified as "Customer loans" is as follows:

	Thousand euro	
	2016	**2015**
Measurement adjustments:		
Asset impairment adjustments (Note 10.3)	(101,673)	(103,985)
Accrued interest	4,242	1,143
Fees	(6,717)	(7,466)
Others	30	33
Total	**(104,118)**	**(110,275)**

Movements in 2016 and 2015 in impaired financial assets written off because recovery is considered remote are as follows:

	Thousand euro
Balance at 31 December 2014	**57,817**
Additions	
Remote recovery	5,439
For other reasons	6,455
Recoveries	
Collection in cash without additional financing	(2,531)
Due to the foreclosure of property, plant and equipment	(530)
Condoned and other	-
Balance at 31 December 2015	**66,650**
Additions	
Remote recovery	5,837
For other reasons	4,763
Recoveries	
Collection in cash without additional financing	(1,769)
Due to the foreclosure of property, plant and equipment	(175)
Balance at 31 December 2016	**75,306**

The amount of accumulated financial and other income not recognised in the income statement in 2016 and 2015 from impaired customer loans totals €4,763 thousand and €6,455 thousand, respectively.

The classification by age of unimpaired mature assets yet to be collected is as follows:

Financial year 2016	Within 6 months	6 to 9 months	9 to 12 months	More than 12 months	Total
Secured transactions	5,663	841	1,135	20,421	28,060
Transactions secured by real property	6,257	2,128	715	13,082	22,182
Unsecured transactions	5.419	3,210	4,184	37,819	50,632
	17,339	**6,179**	**6,034**	**71,322**	**100,874**

Financial year 2015	Within 6 months	6 to 9 months	9 to 12 months	More than 12 months	Total
Secured transactions	12,261	1,142	409	11,094	24,906
Transactions secured by real property	11,041	810	563	8,444	20,858
Unsecured transactions	5,541	4,409	5,967	33,137	49,054
	28,843	**6,361**	**6,939**	**52,675**	**94,818**

The classification by age of unimpaired mature assets yet to be collected is as follows:

				Thousand euro
2016	**Less than 1 month**	**1 to 2 months**	**2 to 3 months**	**Total**
Operations not secured by real property guarantee	2,619	1,353	780	4,752
Operations secured by real property guarantees on finished residential properties	58	131	218	407
Other operations secured by real property guarantees	11	65	70	146
With a partial pledge guarantee	-	-	-	-
Total	**2,688**	**1,549**	**1,068**	**5,305**

				Thousand euro
2015	**Less than 1 month**	**1 to 2 months**	**2 to 3 months**	**Total**
Operations not secured by real property guarantee	2,175	774	591	3,540
Operations secured by real property guarantees on finished residential properties	652	293	603	1,548
Other operations secured by real property guarantees	305	108	265	678
With a partial pledge guarantee	2	-	-	2
Total	**3,134**	**1,175**	**1,459**	**5,768**

10.3. Impairment losses

The breakdown of impairment losses recognised at the end of 2016 and 2015 with respect to assets in the Loan Investment portfolio is as follows:

	Thousand euro		
	Customer loans		
2016	Specific	Collectively	Total
Balance at 31 December 2015	**72,223**	**31,762**	**103,985**
Net appropriations against income	10,192	7,062	17,254
Determined individually	10,192	-	10,192
Determined collectively	-	7,062	7,062
Appropriations recovered taken to income	(13,289)	(1,819)	(15,108)
Allocations for the year reflected in the income statement.	(3,097)	5,243	2,146
Elimination of defaulting balances against created provisions	(15,473)	-	(15,473)
Transfer between funds	(13,868)	24,883	11,015
Balance at 31 December 2016	**39,785**	**61,888**	**101,673**

	Thousand euro		
	Customer loans		
2015	Specific	Collectively	Total
Balance at 31 December 2014	**75,497**	**30,221**	**105,718**
Net appropriations against income	15,565	1,554	17,119
Determined individually	15,565	-	15,565
Determined collectively	-	1,554	1,554
Appropriations recovered taken to income	(10,034)	(13)	(10,047)
Allocations for the year reflected in the income statement.	5,531	1,541	7,072
Elimination of defaulting balances against created provisions	(5,135)	-	(5,135)
Transfer between funds	(3,670)	-	(3,670)
Balance at 31 December 2015	**72,223**	**31,762**	**103,985**

At 31 December 2015 the specifit provision included €28,072 thousand corresponding to the sub-standard provision, for cobert sub- estándar risk, whose risk amount was €48.642 thousand.

During 2016 and 2015 there was a net allocation for defaulting operations totalling €92 thousand and net recoveries totalling €15 thousand, respectively, which are included in the heading "Asset impairment losses (net)-Loan investments" in the accompanying consolidated income statement.

Set out below is an analysis of the heading "Impairment losses-Loan investments" in the income statement at 31 December 2016 and 2015:

	Thousand euro	
	2016	2015
Net appropriation for the year	2,146	7,072
Suspense account items recovered	(1,045)	(325)
Assets directly written off	3,899	310
	5,000	**7,057**

11. INVESTMENTS HELD-TO-MATURITY

The detail of the held-to-maturity investment portfolio at the close of the financial years 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
By classes of counterparties:		
Resident Public Administrations	506,892	146,124
Non-resident Public Administrations	146,956	-
Other resident sectors	285,893	251,024
Other non-resident sectors	116,600	82,286
	1,056,341	**479,434**
By type of instrument:		
Spanish Public debt	451,189	368,970
Obligations and bonds of the State	*451,189*	*368,970*
Other Spanish Public Administrations	55,702	28,177
Other non-resident Public Administrations	146,956	-
Issued by other entities	292,835	-
Issued by financial institutions	109,659	82,287
	1,056,341	**479,434**

During the 2016 and 2015 financial years, the amount of accrued interest on the held-to-maturity investment portfolio amounted to €9,987 thousand and €2,178 thousand, respectively.

The average return on assets classified in this portfolio was 1.29% and 1.92% for the 2016 and 2015 financial years, respectively.

12. SHAREHOLDINGS

At 31 December 2016 and 2015 the Group's shareholding balance is zero. Relevant information regarding interests held in subsidiaries that have been consolidated using the full consolidation method at 31 December 2016 and 2015 is included in Note 1.

13. NON-CURRENT ASSETS FOR SALE AND LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS FOR SALE

Set out below is a breakdown of this heading in the consolidated balance sheet at 31 December 2016 and 2015:

	Thousand euro			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment	33,782	-	33,508	-
Value adjustments for impairment	(8,991)	-	(6,236)	-
Total	**24,791**	**-**	**27,272**	**-**

The fair value of foreclosed assets calculated by independent experts does not significantly differ from their carrying value.

The movements in this consolidated balance sheet heading in 2016 and 2015 are as follows:

	Thousand euro	
	Assets	Liabilities
Balance at 31 December 2014	**35,415**	**-**
Additions	7,651	-
Disposals	(9,558)	-
Balance at 31 December 2015	**33,508**	**-**
Additions	5,403	-
Disposals	(5,129)	-
Balance at 31 December 2016	**33,782**	**-**

At 31 December 2016 and 2015 the breakdown of non-current assets for sale is indicated in Note 5.

Al 31 December 2016 and 2015, the classification of non-current assest for sale are classified as show below:

2016	**Book value**	**Impairment**	**Net**
Primary residence	13,182	(3,106)	10,076
Non-primary residence	16,056	(3,700)	12,356
Local	3,607	(1,591)	2,016
Land	755	(585)	170
Other	182	(9)	173
Total	**33,782**	**(8,991)**	**24,791**

2015	**Book value**	**Impairment**	**Net**
Primary residence	12,407	(1,698)	10,709
Non-primary residence	16,493	(2,662)	13,831
Local	3,593	(1,267)	2,326
Land	734	(545)	189
Other	281	(64)	217
Total	**33,508**	**(6,236)**	**27,272**

Movements during 2016 and 2015 relating to measurement adjustments due to the impairment of non-current assets for sale held by the Entity are as follows:

	Thousand euro	
	2016	**2015**
Beginning balance	**(6,236)**	**(8,851)**
Allocations (Note 33)	(3,794)	(988)
Recoveries (Note 33)	788	1,425
Applications (*)	251	2,178
Ending balance	**(8,991)**	**(6,236)**

(*) Relates to applications of the provision as a result of the sale of foreclosed assets.

As is mentioned in Note 2.d), in 2012 the Parent Entity created the companies Viveactivos, S.A.U. and Caja Rural de Castilla-La Mancha, Sociedad de Gestión de Activos, S.A.U., to which it transferred all foreclosed assets or assets received in lieu of payment as referred to by Article 1.1 of Royal Decree-Law 18/2012 (11 May).

14. PROPERTY, PLANT AND EQUIPMENT

Set out below is a breakdown of this heading in the consolidated balance sheet at 31 December 2016 and 2015:

	Thousand euro	
	2016	**2015**
Own use	44,974	44,192
Impairment losses	(722)	(722)
Total	**44,252**	**43,470**

The breakdown of this heading in the consolidated balance sheet and movements during 2016 and 2015 are shown below:

					Thousand euro
Own use	**Computer hardware**	**Furniture, Installations and Other**	**Buildings**	**Buildings in course of construction**	**TOTAL**
Cost value					
Balance at 31.12.14	**10,468**	**26,865**	**39,906**	**-**	**77,239**
Additions	1,616	1,082	1,588	-	4,286
Disposals	(125)	(15)	-	-	(140)
Transfers	3	(3)	-	-	-
Balance at 31.12.15	**11,962**	**27,929**	**41,494**	**-**	**81,385**
Additions	1,159	2,985	30	-	4,174
Disposals	(316)	(841)	-	-	(1,157)
Transfers		-	-	-	-
Balance at 31.12.16	**12,805**	**30,073**	**41,524**	**-**	**84,402**
Accumulated depreciation					
Balance at 31.12.14	**(7,506)**	**(15,632)**	**(11,727)**	**-**	**(34,865)**
Additions	(872)	(1,205)	(373)	-	(2,450)
Disposals	173	(51)	-	-	122
Transfers	(53)	53	-	-	-
Balance at 31.12.15	**(8,258)**	**(16,835)**	**(12,100)**	**-**	**(37,193)**
Additions	(1,079)	(1,314)	(385)	-	(2,778)
Disposals	316	227	-	-	543
Transfers	-	-	-	-	-
Balance at 31 December 2016	**(9,021)**	**(17,922)**	**(12,485)**	**-**	**(39,428)**
Impairment losses					
Balance at 31.12.14	**-**	**-**	**-**	**(722)**	**(722)**
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Balance at 31.12.15	**-**	**-**	**-**	**(722)**	**(722)**
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Balance at 31.12.16	**-**	**-**	**-**	**(722)**	**(722)**
Carrying Value at 31.12.15	**3,704**	**11,094**	**29,394**	**(722)**	**43,470**
Carrying Value at 31.12.16	**3,784**	**12,151**	**29,039**	**(722)**	**44,252**

No property, plant and equipment is being acquired under finance leases.

At 31 December 2016 and 2015 the Group does not have any property, plant and equipment that is temporarily out of service or withdrawn from active use.

At 31 December 2016 and 2015 the Group did not have any firm purchase or sale commitment regarding property, plant and equipment for any significant amount

In accordance with the provisions of Bank of Spain Circular 4/2004, the Parent Entity restated "Buildings for own use" and those that were freely available on 1 January 2004. The accounting impact of that restatement totalled €17,875 thousand, net of taxes. The Parent Entity does not carry out regular appraisals unless there is evidence of potential impairment. However, the Directors of the Parent Entity request an independent expert to perform an annual analysis of the market for that asset and any impairment that may arise is recognised in the income statement. The Directors therefore understand that the fair values of property, plant and equipment do not significantly differ from the recognised amounts.

There is no significant property, plant and equipment for which there are any use or ownership restrictions or which the Entity has pledged to secure the repayment of borrowings.

15. INTANGIBLE ASSETS

The detail of this heading of the consolidated balance sheet at 31 December 2016 and 2015 was as follows:

	Thousand euro			
	Cost	**Amortisation**	**Impairment**	**Carrying value**
Balance at 31.12.14	**10,517**	**(7,436)**	**(2,000)**	**1,081**
Additions	80	(409)	-	(329)
Disposals	(7,583)	5,583	2,000	-
Balance at 31.12.15	**3,014**	**(2,262)**	**-**	**752**
Additions	101	(296)	-	(195)
Disposals	-	-	-	-
Balance at 31.12.16	**3,115**	**(2,558)**	**-**	**557**

16. OTHER ASSETS AND LIABILITIES

These headings on the asset and liability side of the accompanying balance sheets for 2016 and 2015, break down as follows:

	Thousand euro	
	2016	**2015**
Assets:		
Prepayments and accrued income income:		
Other accrual items	1,138	1,062
Other assets		
Inventories	293	230
Other items	12,064	24,338
Total	**13,495**	**25,630**
Liabilities:		
Accruals	2,502	2,641
Deferred income	8,154	8,244
Other liabilities		
Transactions in progress	10,032	12,021
Social welfare fund	5,449	6,383
Total	**26,137**	**29,289**

17. FINANCIAL LIABILITIES AT AMORTISED COST

The analysis of this consolidated balance sheet liability heading 31 December 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Deposits at central banks (Note 17.1)	220,000	1,055,012
Credit institution deposits (Note 17.2)	890,692	977,778
Customer deposits (Note 17.3)	4,456,626	4,356,858
Debts represented by negotiable securities (Note 17.4)	999,675	498,149
Other financial liabilities (Note 17.5)	25,147	22,542
Total	**6,592,140**	**6,910,339**

17.1 Deposits at central banks

The composition of the balance of this heading in the consolidated balance sheets is as follows:

	Thousand euro	
	2016	**2015**
Bank of Spain	220,000	1,055,000
Measurement adjustments		
Accrued interest	-	12
Total	**220,000**	**1,055,012**

At 31 December 2016 and 2015 the Parent Entity maintained a credit facility with the Bank of Spain involving the pledge of securities and other assets and whose limit totalled €924,360 thousand and €1,108,925 thousand, respectively. At 31 December 2016, the amount drawn down from this facility totalled €220,000 thousand (€1,055,000 thousand at 31 December 2015).

The amount drawn down is secured by fixed income securities recognised under the account “Available-for-sale financial assets Debt securities” in an equivalent amount, in addition to the securitisation bonds described in Note 10.2.

17.2 Deposits at credit institutions

The breakdown of this liability heading in the consolidated balance sheet at 31 December 2016 and 2015, based on the nature of the instrument, is as follows:

	Thousand euro	
	2016	**2015**
Term deposits	14,788	17,361
Asset repos	19,041	240,158
Money market operations through counterparties	748,725	611,841
Other accounts	108,109	108,367
Measurement adjustments		
Accrued interest	29	51
Total	**890,692**	**977,778**

The breakdown by remaining maturity periods in this heading is described in Note 5.c).

At 31 December 2016 the nominal amount of the asset repos totals €15,000 thousand and they relate in full to Banco Cooperativo Español. At 31 December 2015 the nominal amount of the asset repos totals €220,000 thousand and they relate in full to Banco Cooperativo Español.

As of 31 December 2016 and 2015, there are temporary assignments of assets with central counterparties (MEFF) for a nominal amount of €660,000 thousand and €530,000 thousand, respectively, in which the contracting entity is Banco Popular, Credit Agricole Paris and CECA as of 31 December 2016 and Societe General, Unicaja and Banco Santander as of 31 December 2015. The effective amount recorded at 31 December 2016 and 2015 amounts to €748,725 thousand and €611,841 thousand respectively. The amount of accrued interest, at those dates, to €2,316 thousand and €417 thousand, respectively, recorded under "Interest income". During 2016 and 2015, the average rate of such assignments amounted to 0.34% and 0.07%, respectively.

The average annual interest rates on Deposits at credit institutions in 2016 and in 2015 were 0.18% and 0.08% respectively.

17.3 Customer deposits

The composition of this liability heading in the accompanying consolidated balance sheet at 31 December 2016 and 2015, in accordance with the counterparty and type of financial liability, is indicated below:

	Thousand euro	
	2016	**2015**
Spanish Public Administrations	237,799	156,084
Other resident sectors		
Demand deposits		
Current accounts	644,954	545,044
Savings deposits	1,421,761	1,192,452
Electronic money	323	247
Fixed- term deposits		
Time deposits	2,114,739	2,429,657
Home saving accounts	656	732
Shares issued	25,970	20,212
Measurement adjustments	1,547	4,098
Other non-resident sectors	8,877	8,332
Customer deposits	**4,456,626**	**4,356,858**
By currency		
In euros	4,456,049	4,356,330
Currency	577	528
Total	**4,456,626**	**4,356,858**
By type of interest rate		
Fixed interest rate	3,514,501	3,351,764
Variable rate	942,125	1,005,094
Total	**4,456,626**	**4,356,858**

The amount included under "Valuation adjustments" in "Customer deposits" corresponds almost entirely to accrued interest. The average annual interest rate during the 2016 and 2015 financial years of Customer Deposits was 0.39% and 0.74%, respectively.

The breakdown by maturity of this caption is detailed in Note 5.c).

17.4 Debts represented by marketable securities

Debt certificates including bonds comprise bearer or demand debt securities such as cash or treasury bonds, covered bonds, mortgage securities, debentures, commercial paper, certificates of deposit and similar instruments.

Set out below is a breakdown by instrument of the marketable securities issued by the Company and held by third parties, which are carried at amortised cost:

	Thousand euro	
	2016	**2015**
Mortgage securities		
Mortgage certificates issued (maturing in 2021)	500,000	500,000
Mortgage certificates issued (maturing in 2024)	500,000	-
Premiums/Issue discounts (Maturing 2021)	(1,830)	(1,830)
Premiums/Issue discounts (Maturing 2024)	(345)	-
Measurement adjustments		
Accrued interest	3,728	1,100
Premiums/ Discounts	407	76
Transaction costs	(2,285)	(1,197)
Total	**999,675**	**498,149**

The heading "Mortgage securities" reflects the outstanding balance held by third parties of successive Covered bonds issued in accordance with the Base Fixed Income and Structured Securities Prospectus officially registered with the National Stock Market Commission. The name of the issue is “I Emisión y II Emisión de Cédulas Hipotecarias Caja Rural Castilla La Mancha Sociedad Cooperativa de Crédito”. The mortgage bonds are securities that represents a debt for the issuer, they accrue interest and may be redeemed on the date or dates established under the issue conditions.

The securities making up this issue have a nominal amount of €500,000 thousand represented by 5 thousand mortgage certificates with a unit nominal value of 100 thousand. The issue price is 99.63% (Vto. 2021) and 99.93% (Vto. 2024) and therefore the effective amount of the issue is €498,170 thousand and €499,655 thousand and the effective unit amount is €99,634 thousand and €99,931 thousands.

Details of the issue are as follows:

ISIN	Balance Issued	Isuue date	Maturity date	Unit nominal amount	Interest rate
ES0457089003	500,000,000	01/10/2015	01/10/2021	100,000	0.8750
ES0457089011	500.000.000	27/05/2016	27/05/2024	100,000	0.8840

The mortgage bonds covered by this issue their interest for holders at a fixed annual nominal interest rate from the payment date (included) up to the redemption date (excluded) totaling 0.875% and 0,884% annually, calculated on a base ACT/non-adjusted ACT. The final coupon will be paid on the maturity date of the issue (maturity date is 1 October 2021 and 27 May 2024). The payments of coupons and principal will be handled by Banco Cooperativo Español, S.A.

Movements in 2016 and 2015 in the heading "Debts represented by marketable securities" is as follows:

	Thousand euro	
	2016	**2015**
Opening balance	498,149	-
Issues	500,000	500,000
Premiums/Issue discounts (Maturing 2021)	(345)	(1,830)
Premium rewards / Discouts Issuances	330	76
Transactions costs	(1,087)	(1,197)
Net movement of accrued interest	2,628	1,100
Closing balance	**999,675**	**498,149**

Al 31 December 2016 and 2015 movements in the active nominal value of the issue are indicated below:

	Thousand euro	
	2016	**2015**
Active nominal value at the start of the year	500,000	-
Nominal value issued	500,000	500,000
Nominal value repaid	-	-
Active nominal value at the end of the year	**1,000,000**	**500,000**

On 6 March 2012 the CNMV approved the issue called "First Promissory Note Program of Castilla-La Mancha", the main characteristics of which are as follows:

- Securities offered: promissory notes represented by book entries.
- Nominal amount: the maximum amount to be issued will be limited by the active balance of promissory notes which, at any given time, cannot have a nominal value exceeding €250,000 thousand.
- Unitary nominal amount: the promissory notes have a unit value of €10 thousand.
- Issue price: based on the interest rate and term that is applied at any given time.
- Maturity date: the maturity dates fall between 3 business days and 548 days.
- Warranty: The promissory notes issued under the "First program" do not have real guarantees or third-party guarantees and are not secured by the Deposit Guarantee Fund. They are therefore secured by the Entity's equity.

During 2016 and 2015 the interest accrued on the debts represented by marketable securities (Promissory notes) totalled €7,003 thousand and €1,100 thousand, respectively, which was included in the consolidated income statement under the heading "Interest and similar charges" (Note 27).

17.5. Other financial liabilities

All the financial liabilities recognised under this heading in the accompanying consolidated balance sheet have been classified to the "Financial liabilities at amortised cost" portfolio and they are therefore measured at amortised cost. It includes the amount of bonds payable that are of a financial liability nature and are not included in the headings.

The analysis of other financial liabilities grouped by type of financial instrument is as follows:

	Thousand euro	
	2016	2015
Amounts payable	8,880	10,586
Tax collection accounts	9,834	7,463
Special accounts	5,453	3,210
Other items	980	1,283
Total	**25,147**	**22,542**

18. PROVISIONS

Set out below is a breakdown of this heading in the consolidated balance sheet at 31 December 2016 and 2015:

	Thousand euro	
	2016	2015
Fund for pensions and other obligations	187	237
Provisions for contingent risks and commitments	847	1,698
Other provisions	14,691	4,874
Total	**15,725**	**6,809**

Movements in these headings in 2016 and 2015 are analysed below:

	Thousand euro			
	Pension fund	Provisions for contingent risks	Other Provisions	Total
Balance at 31.12.14	**-**	**1,619**	**2,076**	**3,695**
Allocations (Note 32)	-	189	2,981	3,170
Recoveries (Note 32)	-	(160)	-	(160)
Other movements	237	50	(183)	104
Balance at 31.12.15	**237**	**1,698**	**4,874**	**6,809**
Allocations (Note 32)	-	313	11,459	11,772
Recoveries (Note 32)	-	(570)	-	(570)
Other movements	(50)	(594)	(1,642)	(2,286)
Balance at 31.12.16	**187**	**847**	**14,691**	**15,725**

19. CONTINGENT RISKS AND COMMITMENTS

19.1 Contingent risks

The breakdown of contingent risks, which are understood to be those amounts that the Entity must pay on behalf of third parties in the event that the original obligated parties do not is shown below for 2016 and 2015:

	Thousand euro	
	2016	**2015**
Financial guarantees	97,228	102,380
Other contingent risks	214,395	281,122
Total	**311,623**	**383,502**

A significant part of these amounts will mature without any obligation arising for the Institute and therefore the sum of the balances relating to these commitments can not be considered as an actual future need for financing or liquidity to be granted by third parties to the ICO.

The income obtained from financial guarantees is recognised under the heading "Fees received “in the income statement and it is calculated by applying the rate established in the relevant agreement to the nominal amount the guarantee.

At 31 December 2016 and 2015 the Entity did not record any assets that secured transactions carried out by the Entity itself or by third parties.

19.2 Contingent commitments

The breakdown of contingent commitments at 31 December 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Credit commitments	348,766	342,468
Other contingent commitments	7,125	4,395
Total	**355,891**	**346,863**

This heading records the irrevocable commitment to provide financing in accordance with certain conditions and for previously established terms. All loan commitments that the Parent Entity has are immediately available.

The breakdown of loan commitments in 2016 and 2015, grouped by counterparty, is as follows:

	Thousand euro	
	2016	2015
Credits available to third parties		
Credit institutions	23	14
Public entities	41	37
Other resident sectors		
Credit cards	39,912	41,813
Immediately available accounts	205,672	195,148
Other	103,067	105,404
Non-residents	51	52
Total	**348,766**	**342,468**

The average interest rate offered for these commitments was 1.53% in 2016 (1.93% in 2015).

20. MINORITY SHAREHOLDINGS

Below is the breakdown of this heading in the consolidated balance sheet at 31 December 2016 and 2015:

	Thousand euro			
	2016		2015	
	Non-controlling shareholdings	Profit attributable to minority interests	Non-controlling shareholdings	Profit attributable to minority interests
Rural Patrimonios Agrupados, S.I.C.A.V., S.A.	-	-	2,251	(2)
Total	-	**-**	2,251	**(2)**

21. MEASUREMENT ADJUSTMENTS

This balance sheet heading records the net amount of changes in the fair value of the assets classified as available for sale that, in accordance with Note 9.3, must be fully included as part of the Entity's equity. These changes are recognised in the income statement when the originating assets are sold.

Movements in the balance of this heading in 2016 and 2015 are as follows:

	Thousand euro	
	2016	**2015**
Beginning balance	48,292	67,960
Changes in the fair value of debt securities	(5,111)	(15,526)
Changes in the fair value of equity instruments	(39)	(3,948)
Changes in the fair value of cash-flow hedges	(1,310)	11
Changes in fair value due to exchange differences	(34)	(205)
Ending balance	**41,798**	**48,292**

22. SHAREHOLDERS' EQUITY

The consolidated statement of total changes in equity for 2016 and 2015, which forms an integral part of the statement of changes in equity, presents the movements that took place during those years in the headings "Equity-Capital" and "Equity-Reserves".

22.1 Authorised capital

As is indicated in Royal Decree 84/1993 (22 January), which approves the Enabling Regulations for Law 13/1989 (26 May), and in the Parent Entity's Bylaws, authorised capital consists of the equity contributions made by the members that comply with the conditions established by law.

With the publication of Bank of Spain Circular 7/2012 (30 November), mandatory and voluntary contributions were made equal so that both receive equal financial and voting rights. This amendment gave rise to the revision of the nomenclature used in the Entity's bylaws, which were duly approved by the General Assembly on 19 April 2013 although in practice it did not have any effect on the members of the Entity since before that Circular was published the rights falling to both types of contributions were already equal.

On 15 June 2012 the General Assembly adopted a resolution to allow contributions to Share Capital for a maximum amount of €123 million and a maximum term of 5 years, and delegated authority to execute this resolution to the Governing Council. In accordance with that delegated authority, the Governing Council held a meeting on 26 February 2013 and decided to admit voluntary contributions to Share Capital up to a maximum of €41,202 thousand, the main characteristics of which are:

- Nominal amount: 60.11 euros
- Maturity date: Indefinite
- Representation Registered shares
- Compensation: That which is set at any given time by the Parent Entity's General Assembly for mandatory contributions. However, the remuneration is subject to the condition that sufficient net profits or freely available resources exist and the Entity must comply with the solvency ratio or the minimum equity amount established by regulations.

At 31 December 2013 share capital was €50,321 thousand after the share capital increase process that was open between 13 March and 7 August 2013, and no distinction was made between voluntary and mandatory contributions.

As of 31 December 2016 and 2015, capital amounted to €93,012 and €50,919 thousand, respectively, which is fully subscribed and paid up.

The General Assembly on 29 April 2016 approved to increase the nominal of the shares by €5.71 per share, passing the nominal of the shares from €60.11 to €65.82. This increase in the nominal value of the shares is based on the balance sheet at 31 December 2015. The maximum amount of this increase is limited to the use of €4.8 million of the Entity's voluntary reserves, which has finally risen to €4,843 thousand at 31 December 2016.

The Extraordinary Governing Council of 30 November 2016 approved a second capital increase to be made in December for a maximum amount of €45,000 thousand. During the month of December the subscriptions to the capital increase amounted to €36,881 thousand. At the Governing Council on 20 December, it was decided to extend this deadline to January 2017. The total capital increase at 31 January 2017 amounted to €37,256 thousand.

The contributions to the Parent Entity comply with all the requirements established by Royal Decree 80/19 93 (22 January) and Bank of Spain Circular 5/1993 to form part of share capital, as is indicated in the Entity's Bylaws, and consist of:

- The payment of remuneration is effectively subject to the existence of net profits or sufficient freely-available reserves to make payment, and the latter would be subject to the prior authorisation of the Bank of Spain.
- They have an indefinite term.

- Any future reimbursement is subject to the condition that there is sufficient coverage of the minimum mandatory capital, reserves or equity solvency ratio.

The Entity's bylaws include, among other things, the following matters relating to share capital:

- The Entity's share capital, which is of a variable nature, is set at a minimum of €4,808 thousand and it will be fully subscribed and paid in.

- All contribution shares will be registered and will have a par value of €65.82. Each natural person must possess at least one contribution share. However, in the case of legal persons, at least five shares must be held.

- The total amount of the contributions that are directly or indirectly controlled by each member cannot exceed 5% of share capital when involving a legal person and 1.5% when involving a natural person. Under no circumstances may the group of all legal persons that are not cooperatives possess more than 50% of share capital.

Furthermore, as is explained in Note 3), at the General Assembly meeting held on 28 April 2006 the Parent Entity's bylaws were amended to adapt capital contributions to cooperatives in order to meet the requirements established by Bank of Spain Circular 4/2004 and to be considered to be "Equity instruments”.

The contributions have not accrued during financial year 2015 any interest. The 2016 financial year will be set by the General Assembly to be held in 2017.

22.2 Reserves

The breakdown by item of the balances in these consolidated balance sheet headings is shown below:

	Thousand euro	
	2016	**2015**
Parent Entity Reserves		
Mandatory reserves (Mandatory Reserve Fund)	216,626	196,540
Voluntary reserves	49,631	53,059
Revaluation reserves	10,602	10,677
Other reserves	(938)	(1,110)
	275,921	**259,166**
Reserves in consolidated companies		
CRCLM Mediación Operador de Banca y Seguros Vinculado S.L.	443	428
Castilla La Mancha Servicios Tecnológicos S.L.U.	-	(190)
Rural Patrimonios Agrupados, SICAV, S.A.	-	6
Viveactivos, S.A.U.	1	1
Rural Bróker, S.L.	2	1
Caja Rural Castilla La-Mancha, Sociedad de Gestión de Activos, S.A.U.	1	-
	447	**246**
Total	**276,368**	**259,412**

The contributions made to the Mandatory Reserve Fund (which cannot be distributed to members) through the application of surpluses from prior years took place in accordance with the provisions of Law 13/1989 (26 May) on Credit Cooperatives, partially amended by Law 20/1990 (19 December) on the Tax System for Cooperatives and the Entity's bylaws. In accordance with the Entity's current bylaws, at least 75% of available surplus in each year must be allocated to this fund.

23. CONSOLIDATED PROFITS

The contribution by company to consolidated profits, net of consolidation adjustments, in 2016 and 2015 is as follows:

	Thousand euro			
	2016		2015	
	Group	Minority interests	Group	Minority interests
Caja Rural de Castilla–La Mancha (Entidad dominante)	21,923	-	21,425	-
Castilla La Mancha Servicios Tecnológicos, S.L.U.	230	-	190	-
Rural Patrimonios Agrupados, S.I.C.A.V., S.A.	-	-	(2)	(2)
CRCLM Mediación Operador Banca y Seguros Vinculado, S.L.	273	-	14	-
Viveactivos, S.A.U.	(4)	-	-	-
Rural Broker, S.L.	66	-	(2)	-
Caja Rural de Castilla La-Mancha, Sociedad de Gestión de Activos, S.A.U.	1	-	(1)	-
		-		
Total	**22,489**	**-**	**21,624**	**(2)**

24. EDUCATION AND DEVELOPMENT FUND

In accordance with the provisions of Law 13/1998 on Credit Cooperatives, Law 27/1999 on Cooperatives and the Entity's bylaws, the Education and Development Fund must be used for activities that have one of the following purposes:

a) The training and education of members and employees of Caja Rural regarding cooperative principles and values, or regarding specific areas of its business or its employment activity, and any other cooperative activity.

b) The extension of cooperative arrangements, as well as the promotion of relationships between cooperatives.

c) Cultural, professional and assistance activities in the local environment or the community in general, as well as the improvement of quality of life and development in the community, including environmental protection action.

The General Assembly will establish the basic lines for applying the Education and Development.

In order to comply with the Fund's purposes, collaborative arrangements may be reached with other companies and entities and the contribution may be fully or partially provided.

The Education and Development Fund cannot be encumbered and its allocations must be stated on the liability side of the balance sheet separately from other items in accordance with the provisions of the regulations governing credit institution activities.

In 2016 and 2015, in line with the basic guidelines established by the General Assembly, the Education and Development Fund was applied such purposes through the following activities:

	Thousand euro	
	2016	**2015**
Training	642	561
Cooperative and professional development	1,222	1,359
Cultural and assistance development	404	1,198
Caja Rural de Castilla-La Mancha Foundation	830	668
Educational entities	14	7
Total	**3,112**	**3,793**

The number of grants totalled: **923**

	Thousand euro	
	2015	**2015**
Less than €1,000	673	706
More than €1,000	250	296
Total	**923**	**1,002**

The budget for expenses and investments relating to the Education and Development Fund in 2016 totalled €2,892 thousand (€3,983 thousand in 2015).

Movements in the Education and Development Fund in 2016 and 2015 were as follows:

	Thousand euro	
	2016	**2015**
Beginning balance	6,383	4,546
Amount committed the preceding year (*)	(1,026)	(600)
Maintenance expenses for the year	(3,112)	(3,793)
Surpluses	112	274
Amount not committed (**)	2,492	5,356
Available-for-sale financial assets (Note 9)	600	600
Ending balance	**5,449**	**6,383**

(*) Represents the application of the surplus for 2016 and 2015, respectively, and the amount invested in available-for-sale financial assets.

(**) During the financial years 2016 and 2015, it corresponds to the mandatory provisions for funds of the social work recorded in the income statement for the amount of €2,066 thousand and €5,356 thousand, respectively, together with the surplus of €426 thousand in 2016 (no amount in 2015).

25. CORPORATE INCOME TAX

Group companies file their tax returns separately. The Parent entity is open to inspection for the past four years. Due to the different interpretations that may be afforded to the tax regulations applicable to the Company's operations, in the years open to inspection, there could be certain contingent tax liabilities which cannot be objectively quantified. However, the Parent Company's Directors believe that the probability that such tax contingencies will actually arise in future tax inspections is remote and, in any event, any liability arising therefrom would not significantly affect the accompanying consolidated annual accounts.

The reconciliation of consolidated profits for the year and the tax bases for 2016 and 2015, not taking into account corporate income tax expense arising on transactions directly recognised in equity, is as follows:

	Thousand euro	
	2016	**2015**
Consolidated book profit before taxes	**26,614**	**31,076**
Increases (decreases) due to permanent differences:	(13,142)	(15,384)
Adjusted consolidated book profit and loss	13,472	15,692
Increases (decreases) due to temporary differences	3,871	404
Offset of prior year tax loss carryforwards	(1,176)	(255)
Tax base	**16,167**	**15,841**
Gross tax (25% of profits from the cooperative, 30% of profits from non-cooperative activities)	4,830	4,153
Deductions and credits	-	-
Net Tax payable	4,830	4,153
Withholdings	(955)	(2,362)
Interim payments made	(3,523)	(3,819)
Net tax payable	**(352)**	**(2,028)**

The amount to be settled with the Treasury is included in the heading "Current tax assets" in the accompanying consolidated balance sheet.

Al 31 December 2016 and 2015 the reconciliation of the consolidated corporate income tax expense (income) is indicated below.

	Thousand euro	
	2016	**2015**
Adjusted consolidated book profit and loss	**13,472**	**15,692**
Accrued tax (25% profits for cooperative activities, 30% of non-cooperative activities)	4,124	4,110
Adjustments to prior year corporate income tax expense	1	(12)
Income tax expense (income)	**4,125**	**4,098**

The balance in the heading "Tax assets “records the tax amounts to be recovered over the coming twelve months ("Tax Assets-Current") and the tax amounts to be recovered in future years, including those originating from tax-loss carryforwards or tax deductions or credits that have yet to be offset ("Tax assets-Deferred"). The balance in the heading "Tax liabilities" includes all tax liabilities, making a distinction between current and deferred items, except for tax provisions that are recognised under the heading "Provisions" in the accompanying consolidated balance sheet.

The Group companies have applied the tax benefits relating to corporate income tax credits and deductions stipulated by the provisions of corporate income tax legislation.

On 30 November 2013 Royal Decree-Law 14/2013 (29 November) entered into force and amended the Corporate Income Tax Act to establish, effective for tax periods commencing on or after 1 January 2011, the impairment adjustments for loans or other assets arising from the potential insolvency of borrowers not related to the taxpayer, as well as allocations or contributions to retirement systems and, if appropriate, early-retirement, that have generated deferred tax assets, which will be included in the tax base in accordance with the provisions of the Corporate income tax act up to the limit of the positive tax base prior to including those items and the offset of tax-loss carryforwards. The entry into force of this legislation did not have any effect on the Group since it has sufficient positive tax bases to apply the reversal of existing deferred tax assets.

The aforementioned Royal Decree stipulates that deferred tax assets relating to allocations for the impairment of loans or other assets deriving from the potential insolvency of borrowers not related to the taxpayer, as well as allocations or contributions to retirement systems and, if appropriate, early-retirement, will be converted into a credit that may be obtained from the tax authorities (and may be monetised) in those cases in which the taxpayer presents book losses or if the entity is liquidated or declared by a court to be insolvent. The amount of the tax assets that may be monetised at 31 December 2016 totals €21,952 thousand, of which €21,117 thousand relates to allocations for the impairment of loans. The amount of the tax assets that may be monetised at 31 December 2015 totals €21,406 thousand, of which €21,304 thousand relates to allocations for the impairment of loans. The Entity considers the classification of the deferred tax assets that may be monetised as a tax asset and not as a financial asset is adequate, as they are based on tax legislation.

Subsequently, on 28 November 2014 Law 27/2014 on corporate income tax was published and is valid for the tax periods commencing on or after 1 January 2015, except for the Final Provisions Four through Seven which entered into force on 29 November 2014.

The main amendments to Law 27/2014 that have a potential impact on the closing at 31 December 2014 are as follows:

- Tax-loss carry forwards yet to be offset at 1 January 2015 may be offset in subsequent tax periods, without any time limit whatsoever.

- Modification of the general tax rate from 30% to 25%. However, the Law stipulates that Financial Entities and their tax consolidation groups will maintain the 30% rate, although the tax rate for corporate activities is established at 25%.

- A limitation is placed on the inclusion of deferred assets that may be monitised in the tax base and the offset of tax bases (25% in 2014 and 2015; 60% in 2016 and 70% in 2017 and subsequent years).

On 3 December 2016, Royal Decree-Law 3/2016 was published, which adopts measures in the tax field aimed at consolidating public finances and other urgent social measures. Said Royal Decree, in relation to Corporate Income Tax, includes, among others, the following measures with effect for the years beginning on or after 1 January 2016:

- Limitation on the offsetting of negative tax bases: The offsetting of negative tax bases from previous financial years for large companies (with a turnover of more than €60 million) is limited to 25% of the tax base.

- Limitation on the application of double taxation deductions: A new limit is established for the application of international or domestic double taxation deductions, generated or pending to be applied, which amounts to 50% of the total tax for companies with a net turnover of at least €20 million.

- Reversal of impairment of investments: The reversal of impairment of investments that were tax deductible in tax periods prior to 2013 must be carried out at least on a straight-line basis for five years.

Details of the headings Tax Assets and Liabilities at 31 December 2016 and 2015 are as follows:

	Thousand euro			
	2016		2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Current	908	1,960	4,188	1,809
Deferred	32,219	18,765	31,668	20,953
Total	**33,127**	**20,725**	**35,856**	**22,762**

The breakdown of deferred tax assets and deferred tax liabilities by item is as follows:

	Thousand euro	
	2016	**2015**
Deferred tax assets	32,219	31,668
Financial asset impairment losses	21,766	21,304
Available-for-sale financial assets	42	60
Origination fees pending accrual	186	102
Premiums for pension insurance	2,924	1,366
Allocation among special and early-retirement funds	7,301	8,836
Other		
	18,765	20,953
Deferred tax liabilities	4,581	4,606
Restatement of property, plant and equipment	13,911	16,004
Other	273	343

Movements in the current and deferred tax asset and liability headings in 2016 and 2015 are as follows:

	Thousand euro							
	2016				**2015**			
	Tax assets		**Tax liabilities**		**Tax assets**		**Tax liabilities**	
	Current	**Deferred**	**Current**	**Deferred**	**Current**	**Deferred**	**Current**	**Deferred**
Beginning balance	4,188	31,668	1,809	20,953	2,545	31,164	238	27,538
Additions	575	4.475	1,960	7,126	2,415	3,041	1,808	15,448
Disposals	(3,855)	(3,924)	(1,809)	(9,314)	(772)	(2,537)	(237)	(22,033)
Other	-	-	-	-	-	-	-	-
Ending balance	**908**	**32,219**	**1,960**	**18,765**	**4,188**	**31,668**	**1,809**	**20,953**

Law 35/2006 (28 November) established a 30% tax rate for the tax periods starting on or after 1 January 2008. However, based on the fact that the Entity's corporate form is a Cooperative Company, the tax rate for cooperative activities is 25%.

The estimated reversal periods for the Entity with respect to deferred tax assets and liabilities are indicated below.

	Thousand euro	
	Assets	**Liabilities**
2016	145	282
2017	148	263
2018	135	428
2019	152	922
2020 y siguientes	31,639	16,870
Total	**32,219**	**18,765**

26. RELATED PARTIES

26.1 Balances and transactions with related parties

The balances recorded by the Group at 31 December 2016 and 2015 with related parties are as follows:

	Thousand euro	
	Other related parties (*)	
	2016	2015
ASSETS		
Credits	9,941	9,874
LIABILITIES		
Deposits	23,234	28,120
Other liabilities	-	-
MEMORANDUM ACCOUNTS		
Contingent liabilities	220	205
Available	42	38
Securities on deposit	4,000	6,749
PROFIT AND LOSS		
Income:		
Interest, similar yields, fees received and other	140	171
Expenses:		
Interest, similar charges and fees paid	81	209

(*) Includes balances with members of the Governing Council, senior management and companies related to them.

Loans and credit facilities granted to members of the Governing Council and companies associated with the Directors accrued an annual interest rate of between 0.0% and 11.4% in 2016 (an annual interest rate between 0.0% and 11.4% in 2015).

26.2 Compensation for Directors and Senior Management

The gross compensation received by the members of the Entity's Governing Council in 2016 and 2015 was as follows:

Thousand euro

	Current compensation		Post-employment benefits		Other long-term benefits		Termination benefits		Equity instruments	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
D. Javier López Martín	52	26	-	-	-	-	-	-	-	-
D. Andrés Gómez Mora	214	217	-	-	-	-	-	-	-	-
D. Gregorio Gómez López	43	31	-	-	-	-	-	-	-	-
D. Francisco Buenaventura Mayol Solis	14	8	-	-	-	-	-	-	-	-
D. Paulino Estrada Fernández	42	28	-	-	-	-	-	-	-	-
D. Humberto Carrasco González	37	26	-	-	-	-	-	-	-	-
D. José Luis Álvarez Gutiérrez (*)	41	28	-	-	-	-	-	-	-	-
D. Pablo Díaz Peño	41	32	-	-	-	-	-	-	-	-
D. Prosper Lamothe Fernández	1	8	-	-	-	-	-	-	-	-
D. Esteban Ceca Magán	11	9	-	-	-	-	-	-	-	-
Dª. María José Suero Suñe	9	7	-	-	-	-	-	-	-	-
D. José María Arcos González	11	9	-	-	-	-	-	-	-	-
D. Jose Maria Perez De Vargas Muñoz	11	10	-	-	-	-	-	-	-	-
D. Javier de Antonio Arribas	11	-	-	-	-	-	-	-	-	-
D. Angel Mayordomo Mayordomo	2	-	-	-	-	-	-	-	-	-
Dª Angela María Bejarano de Gregorio	5	-	-	-	-	-	-	-	-	-
D. Alberto Fernando Azaña Rodriguez (*)	1	1	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-
Total	**546**	**440**								

(*) Members that are also employees of the Entity

“Short-term compensation” includes amounts relating to per diems and expenses for attending the Governing Council or Committees to which the Director pertains. Furthermore, Directors that are also employees of the Entity received compensation totalling €77 thousand in 2016 (€74 thousand in 2015).

The Parent Entity has obtained a liability insurance policy that covers the members of the Governing Council.

The Parent Entity does not maintain any pension or life insurance obligations with the current or previous members of its Governing Body, except for those relating to Directors that represent employees as a result of the general policies established in the collective wage agreement.

The Parent Entity, in accordance with the provisions of article 32 of Law 10/2014, of 26 June, on the management, supervision and solvency of credit institutions, applies the requirements regarding the remuneration policy on the members of the collective Identified, in particular, on "senior managers, employees who take risks, those who exercise control functions, and any worker who receives a global remuneration that includes it in the same remuneration scale as that of senior managers and employees who take risks".

In addition to the members of the Governing Board, the professionals who, during the 2016 financial year, formed the group are the Board of Directors of the Caja Rural de Castilla-la Mancha, formed by 9 members, and those responsible for Regulatory Compliance, Money Laundering Prevention Unit and Financial Risk Unit, a total of 12 professionals, whose total remuneration amounted to €2,116 thousand; during the 2015 financial year, the identified group was comprised of 10 members of the Management Committee, and those responsible for Regulatory Compliance, Money Laundering Prevention Unit and Financial Risk Unit, a total of 13 professionals, whose total compensation amounted to €2,111 thousand.

The Parent Entity has the commitment of paying an indemnity in the case of removal or dismissal affecting certain members of the Management Committee in addition to the indemnity established by law. At 31 December 2016 and 2015 no provision had been created as the Entity has not taken any decision in this respect.

27. INTEREST AND SIMILAR YIELDS, INTEREST AND SIMILAR EXPENSES AND NET RESULTS FROM FINANCIAL TRANSACTIONS

The breakdown of the balances of this caption in the accompanying consolidated statements of income is as follows:

	Thousand euro	
	2016	**2015**
Interest and similar income		
Deposits at central banks (Note 6)	3	18
Bank deposits	1,165	3,041
Customer loans	66,618	72,923
Debt securities	40,669	44,271
Doubtful assets	543	509
Rectification of revenues owing to hedging operations	2,287	2,307
Insurance products linked to pensions	40	47
Other interest	4,062	652
Total	**115,487**	**123,768**
Interest and similar expenses		
Deposits at central banks	191	419
Deposits at credit institutions	1,454	591
Customer deposits	17,432	30,246
Deposits represented by marketable securities	7,647	1,229
Other interest	3,211	4,674
Total	**29,935**	**37,159**

28. COMMISSIONS

The headings "Fees received" and "Fees paid" in the accompanying consolidated income statement record the amount of all fees received by or paid or payable by the Parent Entity that accrued during the year, except those that form an integral part of the effective interest rate for financial instruments. The criteria followed for their recognition in profit or loss are described in detail in Note 3).

The breakdown by products that generated income or expense in 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Fees received		
Contingent risks	3,205	3,405
Contingent commitments	531	508
Currency and foreign bank notes exchange	39	38
Collection and payment services	13,494	11,727
Securities services:	1,004	352
Marketing of non-bank financial products	11,947	10,280
Other fees	4,136	1,312
Total	**34,356**	**27,622**
Fees paid		
Commissions ceded to other banks and correspondent banks	1,387	1,234
Fees paid on securities transactions	24	34
Credit and debit cards	512	324
Other fees	4,062	3,305
Total	**5,985**	**4,897**

29. OTHER OPERATING INCOME AND EXPENSES

The breakdown of the heading "Other operating income" in the accompanying consolidated income statements for 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Sales and income from non-financial services rendered	4,084	3,195
Income from real estate investment	3	-
Offsetting financial fees of direct costs	1,684	1,628
Other non-recurring products	8	-
Other products	259	390
Total	**6,038**	**5,213**

The breakdown of the heading "Other operating expense" in the accompanying consolidated income statements for 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Contribution to Deposits Guarantee Fund (Note 2.f)	5,249	5,094
Mandatory transfer to welfare projects and funds	2,066	5,356
National Resolution Fund (Note 2.f)	1,682	965
Other	1,421	1,591
Total	**10,418**	**13,006**

30. PERSONNEL EXPENSES

The composition of this income statement heading is as follows in 2016 and 2015:

	Thousand euro	
	2016	**2015**
Salaries and bonuses to current personal	30,533	29,941
Social Security payments	8,580	8,441
Contributions to defined benefit plans (Nota 3 p)	138	137
Severance indemnities	4,999	2,176
Other personnel expenses	99	64
Total	**44,349**	**40,759**

In 2016 and 2015 the average number of employees at the Group and their distribution by professional category were as follows, indicating the annual average and percentage:

	2016		2015	
	Male	**Female**	**Male**	**Female**
Parent of the group				
Senior management	1	-	1	-
Group I	6	1	6	1
Group II				
- Level I	2	-	2	-
- Level II	24	1	23	2
- Level III	20	5	23	5
- Level IV	8	4	13	4
- Level V	7	5	11	5
- Level VI and VII	249	162	248	148
- Level VIII, XI and X	153	194	154	193
Group III	4	1	4	1
	474	**373**	**485**	**359**
Employees of other Group companies	29	22	15	20
Total	**503**	**395**	**500**	**379**

At 31 December 2016 and 2015, the company has 9 employees with disabilities greater than or equal to 33%.

Compensation for employees at the Parent Entity is determined by the provisions of current employment legislation in general and, in particular, by the applicable Collective Wage Agreement for Credit Cooperatives, consisting of 12 ordinary monthly payments, 4 extraordinary payments and three-quarters of one monthly payment as profit-sharing, as stipulated by Article 27 of the XXI Collective Wage Agreement, assistance for education and a holiday fund.

Benefits in kind are considered to be the personal and home acquisition loans granted, measured at the difference between the interest rate agreed in the applicable Collective Wage Agreement and the current asset rate in force and the market rate of reference.

31. OTHER GENERAL ADMINISTRATIVE EXPENSES

The breakdown of the balances of this caption in the accompanying consolidated statements of income is as follows:

	Thousand euro	
	2016	**2015**
Property, plant and equipment:	5,473	5,505
Computers	4,540	6,269
Communications	4,287	3,586
Advertising and publicity	884	1,526
Court and attorney's fees	324	373
Technical reports	981	1,100
Security and armoured car services	2,249	2,045
Insurance premiums and self-insurance	419	607
Governance and Control bodies	619	772
Entertainment and travel expenses	556	657
Association fees	91	295
Fees and taxes	866	1,103
On property	678	*978*
Other	187	*125*
Other expenses	401	394
Total	**21,690**	**24,232**

32. ALLOCATIONS / (RELEASE) TO PROVISIONS

The breakdown of the balances of this caption in the accompanying consolidated statements of income is as follows:

	Thousand euro	
	2016	**2015**
Allocation (release) of the provision for liabilities and charges (Note 18)	(257)	29
Allocation (release) of other provisions (Note 18)	11,459	2,981
Total	**11,202**	**3,010**

33. OTHER PROFIT AND LOSS

The breakdown of the balances of this caption in the accompanying consolidated statements of income is as follows:

	Thousand euro	
	2016	**2015**
Gains/(losses) on derecognition of non-financial assets and shares, net		
Other equity instruments	-	(719)
Other Gains/(losses)	(1,434)	-
Total	**(1,434)**	**(719)**
Gains/(losses) arising from non-current assets and disposal groups of items classified as held-for-sale not eligible as discontinued operations		
Net provision foreclosed (Note 13)	(3,006)	(709)
Gains/(losses) on sale of foreclosed assets	425	(1,436)
Other	2	(1,983)
Total	**(2,579)**	**(4,128)**

34. OTHER INFORMATION

34.1 Information per business segment

The main business of the parent company is retail banking, without there being other significant business lines that require, according to the regulations, that the Entity segment and manage its operations in different lines of business.

The parent company develops its activity in the national territory being the typology of the similar clientele throughout the territory. Therefore, the parent company considers a single geographical segment for all the operations of the parent company.

34.2 Fiduciary businesses and investment services

A breakdown of customer funds off the Group's consolidated balance sheet at 31 December 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Investment funds and companies	159,673	178,649
Pension Allowance	160,002	144,939
Insurance products	102,634	49,005
Resources marketed but not managed by the Group	**422,309**	**372,593**

The Parent Entity does not directly manage funds under administrative or financial agreements, but rather only performs marketing tasks.

Net income from the fees generated by the preceding activities in 2016 and 2015 was as follows:

	Thousand euro	
	2016	**2015**
Marketing fees		
Investment Funds and companies	1,101	1,120
Pension Allowance	1,355	1,392
Insure	8,696	7,151
Total	**11,152**	**9,663**

The Group's Parent Entity renders securities administration and custody services for customers. The commitments assumed by the Entity at 31 December 2016 and 2015 with respect to this service are as follows:

	Thousand euro	
	2016	**2015**
Securities owned by third parties		
Equity instruments	47,700	47,696
Debt instruments	81,468	31,181
Total	**129,168**	**78,877**

34.3 Information regarding the issuers in the mortgage market and the special accounting register

As is indicated in Note 10.2 and Note 17.4, the Parent Entity has issued mortgage bonds and, therefore, information is provided below regarding the data in the special accounting register kept by the issuing entity referred to by Article 21 of Royal Decree 716/2009 (24 April), by virtue of the provisions of Circular 7/2010, on credit institutions, which enables certain aspects of the mortgage market. The level of disclosure is that indicated by Bank of Spain Circular 5/2011 (30 November).

a) Asset transactions

The nominal value of the entire mortgage portfolio outstanding at 31 December 2016 and 2015 totalled €2,385,192 thousand and €2,334,464 thousand, respectively, of which those that meet the conditions to be eligible (not taking into account the calculation limits established by Article 12 of that Royal Decree) total €1,647,738 thousand and €1,603,447 thousand, respectively.

The nominal value of all loans and credit facilities secured by mortgages at the Entity are presented below, together with those that are eligible in accordance with the provisions of applicable legislation with respect to the calculation of the limit for issuing mortgage bonds and debentures.

	2016	2015
Total loans (a)		
Mortgage shares issued	**307,029**	**338,947**
Of which: Loans on the balance sheet	295,251	**325,684**
Mortgage transfer certificates issued	**3,134**	**3,429**
Of which: Loans on the balance sheet	517	556
Loans backing the issue of mortgage or covered bonds (a)	**1,672,595**	**1,992,088**
Eligible loans (b)	1,672,595	1,603,447

(a) (a) Balance drawn down pending collection relating to loans secured by mortgages in favour of the Bank (including those acquired through mortgage shares and mortgage transfer certificates), even if they have been derecognised from the balance sheet, regardless of the percentage the risk represents compared with the amount of the latest appraisal (loan to value).

(b) (b) Eligible loans for the issue of mortgage and covered bonds in accordance with Article 3 of Royal Decree 716/2009, without deducting the limits from the calculation established in Article 12 of Royal Decree 716/2009.

The principal amounts of loans and securitised mortgage loans are disclosed below, in accordance with the various characteristics of those amounts at 31 December 2016 and 2015:

		2016 Loans backing the issue of mortgage or covered bonds (a)	2015 Loans backing the issue of mortgage or covered bonds (a)
1	**ORIGIN OF THE TRANSACTIONS**		
	1.1 Originated by the entity	310,163	342,376
	1.2 Subrogations by other entities	-	-
2	**CURRENCY**		
	2.1 Euros	310,163	342,376
3	**PAYMENT STATUS**		
	3.1 Normal payment status	306,785	338,064
	3.2 Other situations	3,378	4,312
4	**AVERAGE RESIDUAL MATURITY**		
	4.1 Up to 10 years	157,651	166,215
	4.2 Between 10 and 20 years	152,512	175,970
	4.3 Between 20 and 30 years	-	191
	4.4 More than 30 year	-	
5	**INTEREST RATES**		
	5.1 Fixed	-	-
	5.2 Variable	310,163	342,376
	5.3 Mixed	-	-
6	**TYPE OF COLLATERAL**		
	6.1 Finished assets/buildings	310,163	342,376
	6.1.1 Residential	310,163	342,376
	Of which: Subsidised housing	874	933

(a) Balance drawn down pending collection of the loans secured by mortgages, regardless of the percentage of the risk concerning the amount of the latest appraisal (loan to value) previously securitised.

In accordance with the criteria established by Article 12 of the aforementioned Royal Decree, the amount that is eligible to covered the issue of mortgage securities at 31 December 2016 and 2015 totalled €310,163 thousand and €342,376 thousand, respectively.

Details of the mortgage bond coverage portfolio at 31 December 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Amount	2,115,410	1,992,088
Eligible amount	1,672,595	1,603,447
% elegible	79,07%	80,49%
Number of loans	25,044	23,485
Number of eligible loans	20,553	19,330
Average amount	84,47	84,82
Average eligible amount	81,38	82,95
Legal investment level (80%)	1,338,076	1,282,758
Amount issued aoutstanding	1,000,000	500,000
Average LTV	54.87%	54.56%
Average eligible LTV	50.70%	51.03%
Outstanding for more than 90 days	3.52%	3.45%
Average rate	1.59%	1.91%
Average eligible rate	1.49%	1.83%

The Entity does not record mortgage bond issues at 31 December 2016 or 2015 and the nominal and updated values, calculated in accordance with the provisions of Article 23 of the aforementioned Royal Decree, that are still in the portfolio have been structured through mortgage shares or mortgage transfer certificates at 31 December 2016 and 2015 in the amount of €326,240 thousand and €295,798 thousand, respectively.

The distribution of the nominal values of loans and eligible mortgage loans that have not been securitised to issue mortgage bonds and other debentures based on the risk calculated as a percentage of the amount determined in the latest available appraisal for the mortgage market is as follows at 31 December 2016 and 2015:

2016	**Less than or equal to 40%**	**Exceeding 40% and less than or equal to 60%**	**Higher than 60% and Less than or equal to 80%**	**Higher than 80%**	**TOTAL**
Eligible loans backing the issue of mortgage or covered bonds (a)					
- Housing	312,794	376,584	513,510	222,997	1,425,885
- Other	101,941	82,144	37,768	-	221,853

2015	**Less than or equal to 40%**	**Exceeding 40% and less than or equal to 60%**	**Higher than 60% and Less than or equal to 80%**	**Higher than 80%**	**TOTAL**
Eligible loans backing the issue of mortgage or covered bonds (a)					
- Housing	340,045	503,021	595,357	-	1,438,423
- Other	96,436	59,239	9,349	-	165,024

(a) Eligible loans for the issue of mortgage bonds less the eligibility limits established by Article 12 of Royal Decree 716/2009, and which have not been previously securitised.

(b) (b) The loan to value will be the ratio that results from dividing the amount of the latest available appraisal by the risk in force at the reporting date.

At 31 December 2016 and 2015 the Entity had not identified replacement assets for the issue of active mortgage bonds due to the fact that it does not consider it necessary since the percentage of issues compared with total eligible assets supporting those issues was, at that time, less than the maximum rate of 80% established by Law 2/1981 (25 March), on the Regulation of the Mortgage Market.

b) Liability transactions

The issues carried out and the collateralised (issue of treasury shares) based on the Entity's loan and mortgage loan portfolio at 31 December 2016 and 2015 is as follows:

	2016		2015	
Mortgage securities	**Nominal value**	**Average residual term**	**Nominal value**	**Average residual term**
1 Active mortgage bonds issued	**-**	**-**	**-**	**-**
3 Mortgage shares issued (a)	**269,782**	**6.96**	**306,012**	**7.46**
3.1 Issued through public offerings	-	-	-	-
3.2 Other issues	269,782	6.96	306,012	7.46
4 Mortgage transfer certificates issued (a)	**-**	**-**	**-**	**-**
4.1 Issued through public offerings	-	-	-	-
4.2 Other issues	-		-	-
5. Mortage bonds	**1,000,000**	**6.8**	**500,000**	**5.83**
5.2. Issued through public offerings	-	-		
5.1. Other issues	1,000,000	6.8	500,000	5.83

(a) Amount of the mortgage shares and mortgage transfer certificates issued that solely relate to the mortgage loans recorded under assets (maintained in the balance sheet).

In accordance with the provisions of Royal Decree 716/2009 (24 April), which enables certain aspects of Law 2/1981 (25 March) on mortgage market regulations and other rules governing the financial mortgage system, the Board of Directors states that at 31 December 2012 the Bank has a set of policies and procedures to guarantee compliance with mortgage market regulations. Those policies and procedures include, among other things, criteria regarding the following aspects:

- Relationship between the amount of the loan and appraised value of the mortgaged property, as well as the influence of other supplementary and the selection of appraisal companies.

- Relationship between the borrower's debt and income, as well as the verification of the information reported by borrowers, and their solvency.

- Avoid imbalances between the flows from the hedge portfolio and those deriving from the payments made as a result of the securities issued.

34.4 Agency contracts

Appendix I presents the list of agents with which the Parent Entity has maintained "Agency contracts" in 2016 and 2015.

34.5 Audit fees

The fees charged by PricewaterhouseCoopers Auditores, S.L. relating to the audit of the 2016 consolidated annual accounts totalled €79 thousand (€77 thousand in 2015). Fees for other audit services totalled €54 thousand in 2016 (€126 thousand in 2015) and €12 thousand (€32 thousand in 2015) for services rendered by other companies that form part of the same international network, primarily relating to work performed with respect to the purchase of assets and liabilities described in Note 1.

34.6 Abandoned balances and deposits

The Parent Entity does not have any balances involved with abandonment as defined by Article 18 of Law 33/2003 (3 November) on public administration assets.

34.7. Information regarding the deferral of payments made to suppliers. Additional Provision Three. "Disclosures" established by Law 31/2014 (3 July)

In accordance with the content of final provision two of Law 13/2014 (3 December), which amends additional provision three of Law 15/2010 (5 July) that modifies Law 3/2004 (29 December), which establishes measures to combat late payments in commercial transactions and, with respect to the information to be included in the notes to the annual accounts regarding the deferral of payments to suppliers in commercial transactions calculated based on the provisions of the Resolution issued on 29 January 2016 by the Accounting and Audit Institute, details of the average deferral of payment to suppliers in 2016 and 2015 by the Company is as follows:

	2016 Days	2015 Days
Average payment period	24.99	25.11
Paid operations ratio	24.64	24.65
Outstanding payment ratio	15.71	28.46
Thousands euros		
Total payments	37,950	37,862
Total outstanding payments	1,036	717

34.8 Customer Service Office

Article 17 of Order ECO/734/2004 (11 March) issued by the Ministry of the Economy establishes an obligation for customer service departments and services and, if appropriate, customer ombudsman, at financial institutions to present an annual report to the Board of Directors explaining the development of their duties during the preceding year.

The summary of this report is as follows:

- Statistical summary of complaints and claims handled

In 2016 1,177 claims and 32 complaints were handled, which is 430 case files more than those processed in 2015. All claims were admitted and 104 remain outstanding at the end of 2016 (94 at the end of 2015).

The statistical summary of the reasons behind the complaints and claims in 2016 is as follows:

2016	**Complaints**		**Claims**		**Total**	
Matter concerned	**NUMBER**	**%**	**NUMBER**	**%**	**NUMBER**	**%**
Asset transactions	5	15.63%	744	63.21%	749	61.96%
Liability transactions	7	21.87%	215	18.27%	222	18.36%
Other	20	62.50%	218	18.52%	238	19.68%
Total	**32**	**100%**	**1,177**	**100%**	**1,209**	**100%**

The statistical summary for 2015 was as follows:

2015	**Complaints**		**Claims**		**Total**	
Matter concerned	**NUMBER**	**%**	**NUMBER**	**%**	**NUMBER**	**%**
Asset transactions	8	27.59%	420	56.00%	428	54.94%
Liability transactions	5	17.24%	185	24.67%	190	24.39%
Other	16	55.17%	145	19.33%	161	20.67%
Total	**29**	**100%**	**750**	**100%**	**779**	**100%**

- Defaults:

Defaults arising in 2016 and 2015 as a result of claims received were as follows:

	Thousand euro	
	2016	**2015**
Asset transactions	-	1.00
Liability transactions	0.75	-
Other	46.10	5.10
Total	**46.85**	**6.10**

At the end of 2016 there were 4 case files (5 case files at the end of 2015) that remained pending resolution and the total amount claimed is €0.8 thousand (€0.7 thousand in 2015).

- Areas of improvement

The number of complaints and claims filed by the customers of the Parent Entity this year and their positive evolution, which has been their trend over the past few years, reveal that is not necessary to design specific action plans.

34.9 Environmental impact

Given the activities with which the Company is involved, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be significant with respect to its equity, financial situation and results. For this reason no specific breakdowns are provided in these Notes to the annual accounts regarding environmental information.

34.10 Other commitments

At 31 December 2016 and 2015 the Group did not have any commitments in addition to those disclosed in the preceding notes:

35. EVENTS AFTER THE BALANCE SHEET DATE

Between 31 December 2016 and the date on which the Governing Council at the Parent Entity prepared the consolidated annual accounts, no significant event has taken place that should be included in the accompanying consolidated annual accounts so that they adequately reflect a true and fair view of the equity, financial situation and the results of the Group.

CAJA RURAL DE CASTILLA-LA MANCHA GROUP

NOTES TO THE CONSOLIDATED ANNUAL ACOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

EXHIBIT I: LIST OF FINANCIAL AGENTS IN 2016

Name	**Agency**
Gomez Martinez Santiago	Aldeanueva De S.Bartolome, Toledo
Mencia Fernandez Julia	Buenasbodas, Toledo
De la Flor Villarrubia Jose María	Cazalegas, Toledo
Moreno de Castro Jesus	El Puente del Arzobispo, Toledo
Garcia Garcia Antonia	Hinojosa De San Vicente, Toledo
Sanchez Gonzalez Yolanda	Pelahustan, Toledo
Perez Garcia Maria Luz	Robledo Del Mazo, Toledo
Perez Garcia Pedro Luis	Segurilla, Toledo
Muñoz Sanchez Florencia	Sevilleja De La Jara, Toledo
Martinez Chana Alvaro	Almonacid Del Marquesado, Cuenca
Jimenez Dominguez Pedro Luis	Arcas, Cuenca
Guijarro Gómez Esmeralda	Cañamares, Cuenca
Molina Lopez Raquel	Casas de Fernando Alonso, Cuenca
Gil Castillejo Eladio	Casasimarro, Cuenca
Redondo De San Juan Raymond	El Provencio, Cuenca
Arquero Urbanos Antonio	Horcajo de Santiago, Cuenca
Irnan Fernadez Ana Maria	Las Mesas, Cuenca
Cano Campos Sara	Las Pedroñeras, Cuenca
Moya Lucas David	Las Valeras, Cuenca
Ramirez García Rut	Los Hinojosos, Cuenca
Moreno Saiz Ana Maria	Motilla Del Palancar, Cuenca
Monteagudo Blesa Santiago	Sisante, Cuenca
De la Cruz de Dios María Amparo	Valverde Del Jucar, Cuenca
Alarcon Rodenas Julian	Villanueva de la Jara, Cuenca
Medina Rodriguez Maria Esther	Villar De Cañas, Cuenca
Flores Garcia Maria Del Carmen	Villarrubio , Cuenca
Cocera Villena Otilia	Abengibre, Albacete
Chillerón García Jose Antonio	Aguas Nuevas, Albacete
Jimenez Valera Maria Sirena	Alatoz, Albacete
Rubio Martinez Cristina	Alcaraz, Albacete
Moreno Gonzalez Jesus	Ayna, Albacete
Mateo Cebrian Begoña	Balazote, Albacete
Gonzalez Castillo Maria Isabel	Barrax, Albacete
Davia Gomez Maria Pilar	Casas De Juan Nuñez, Albacete
Huesca Menor Vicenta	Caudete, Albacete
Castillo Garcia Miguel	Cenizate, Albacete
Zornoza Requena Ana Jose	Corral-Rubio, Albacete
Fernadez Calero Laura	El Bonillo, Albacete
Rodriguez Hermosa Angel Ricardo	Elche De La Sierra, Albacete
Jiménez Tarraga Javier	Higueruela, Albacete
Garcia Rey Jorge	La Gineta, Albacete
Oñate Talaya Enrique	Madrigueras, Albacete
Jimenez Simarro David	Minaya, Albacete
Muñoz Megias Rafael	Montealegre Del Castillo, Albacete
Lazaro Sanchez Palmira	Ontur, Albacete
Fernadez Gabaldon Diego	Ossa de Montiel, Albacete
Callejas Moreno Juan	Peñas De San Pedro, Albacete
Fernandez Lara Miguel Jesus	Riopar, Albacete
Simarro Gomez Juan Jose	Salobre, Albacerte
Blazquez Fernandez Maria Begoña	Socovos, Albacete
Torres Torres Juan Miguel	Tarazona De La Mancha, Albacete

Bermudez Olivares Beatriz	Tobarra, Albacete
Heras Soler Lorenzo	Valdeganga, Albacete
Bermejo Castillo Mónica	Villaverde De Guadalimar, Albacete
Gonzalez Rodriguez Marta	Yeste, Albacete
Garcia Bravo Damian	Abenojar, Ciudad Real
Maria Rosa Fernandez Ramiro	Agudo, Ciudad Real
Muñoz Galvez Esther	Alcoba, Ciudad Real
Tapiador Ruiz Pedro	Alcolea de Calatrava, Ciudad Real
Sanchez Muñoz de la Nava Antonio	Almaden, Ciudad Real
Muñoz-Torrero Ruiz-Roso Azahara	Almodovar Del Campo, Ciudad Real
Morno Rincon Luis Fernando	Arenas de San Juan, Ciudad Real
Salazar Rodriguez Beatriz	Argamasilla del Alba, Ciudad Real
García Muñoz Laura	Argamasilla de Calatrava, Ciudad Real
Viñas Calvo Sheila	Brazatortas, Ciudad Real
Espinosa Moya Carlos	Calzada de Calatrava, Ciudad Real
Fernández Fernández Manuela	Carrión de Calatrava, Ciudad Real
Martinez Fernandez Rosa María	Castellar de Santiago, Ciudad Real
Privado Fernandez Raquel	El Robledo, Ciudad Real
Peinado Escaso Juan Carlos	Fuente El Fresno, Ciudad Real
Alcaide Hontanilla Elena	Horcajo de los Montes, Ciudad Real.
Nicolas Blasco Maria Jesus	Puebla De Don Rodrigo, Ciudad Real
Merino Martin Mª Luisa	Malagón, Ciudad Real
Moreno Jimenez Diego	Membrilla, Ciudad Real
Ruiz Lopez Miguel Angel	Moral De Calatrava, Ciudad Real
Castro Guillen Antonio	Piedrabuena, Ciudad Real
Gomez Garcia Juan Jose	Porzuna, Ciudad Real
Torres Bellón Carmen	San Carlos Del Valle, Ciudad Real
Garrido Villena Jesús	Santa Cruz De Mudela, Ciudad Real
Pedraza Alonso Alejandro Javier	Socuellamos, Ciudad Real
Castillo Cabrera Maria Angeles	Terrinches, Ciudad Real
Rivera Madrigal Jesús Francisco	Torralba de Calatrava, Ciudad Real
Serrano Martin Rafael	Torrenueva, Ciudad Real
Piñero Diaz Francisco Javier	Villahermosa, Ciudad Real
Fernandez Moreno Mª Dolores	Villanueva de la Fuente, Ciudad Real
Casero Blazquez Maria Del Rocio	Villanueva Los Infantes, Ciudad Real
Redondo Jimenez Mariano	Villarrubia De Los Ojos, Ciudad Real
Pedroviejo Tortuero Manuel	Alovera, Guadalajara
Castro Frias Marta	Azuqueca De Henares, Guadalajara
Portal Ecija Victor Manuel	Sacedón, Guadalajara
García Berlinches Jenaro Mariano	Paracuellos del Jarama, Madrid
Martin Fernandez Hugo	Casavieja, Ávila
Sanchez Soto Laura	Gavilanes, Ávila
Sanz Sanchez Perla	Las Navas del Marqués, Ávila
Gómez Gonzalez David	Mombeltrán, Ávila
Jimenez Escribano Ana María	Piedralaves, Ávila
Gil Gómez Alfonso	Mahora, Albacete

García Sánchez Rocio de los Angeles	Lietor, Albacete
Raez Carnero Carlos Javier	Granatula de Calatrava, Ciudad Real
Castillo Gómez, Elena	Albaladejo, Ciudad Real
Alañón Pardo, Juan Bautista	Aldea del Rey, Ciudad Real
Selas Felguera, María Jose	Villamanrique, Ciudad Real
García García María Jesús	Villamayor de Santiago, Cuenca
Fraile López, Jose Julian	Villagarcía del Llano, Cuenca
Perez Castellano, Cesar	Mira, Cuenca
León Pérez, Nuria	El Peral, Cuenca
López Carrero, Mercedes	Arevalo, Avila
López Moreta, David	Fontiveros, Avila
Fernández González, Beatriz	El Hoyo de Pinares, Avila
Rodriguez Ridriguez, Sara	Arenas de San Pedro, Avila
Castrejón Guerra Leticia	Casillas, Avila
Delgado Castells, David	Burgohondo, Avila
Sánchez García, Gonzalo	La Adrada, Avila
Bermejo Carrasco, David	Solosancho, Avila
Ruiz Blanes, Beatriz	Montiel, Ciudad Real
De la Gama Zarnero María Jose	El Viso del Marqués, Ciudad Real
Roldán Mejía David	Casas de Haro, Cuenca
Pérez Benitez Antonio	Torrejón de la Calzada, Madrid

CAJA RURAL DE CASTILLA-LA MANCHA GROUP

NOTES TO THE CONSOLIDATED ANNUAL ACOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

APPENDIX II: ANNUAL BANKING REPORT 2016

1. Bank information

Caja Rural de Castilla La Mancha, Sociedad Cooperativa de Crédito, domiciled at Calle Méjico, 2. 45004 Toledo. Tax ID No. F45003993. Registered with Cooperative Registry-Central Section-at the Ministry of Employment and Social Security, Cooperative Companies, Volume XXI, sheet 2051, entry 28, with the Toledo Mercantile Registry in volume 475, general Company Section, Book F/18. H./TO-5618, and with the Registry of Credit Institutions at the Bank of Spain, number 3081.

2. Corporate Purpose

Bank's purpose is to attend to the financial needs of its members and third parties by carrying out the activities that are habitual for credit institutions. Accordingly, it may carry out all types of deposit, lending and service operations permitted for credit institutions, which will preferably take place in rural areas.
To facilitate and guarantee the business transactions that are carried out to pursue its corporate purpose, it may enter into corporate agreements or create consortia with any legal or natural person.

3. Area of operation

This area of operations includes all of Spain, notwithstanding the fact that it may carry out those transactions that are allowed outside of that area.

4. Key indicators

Key indicators	2016
Indicators	Numbers
turnover (1)	8,585,484
Gross profit before tax (*)	28,680
Full Time Employee	893
Income tax (*)	4,125
Subsidies or aid received	-
Return on assets (2)	0.31%

(*) thousand euros

(1) Credit investment plus customer resources

Net Income/ Total Assest

CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED DIRECTORS' REPORT FOR 2016

The profit after tax of the Entity at the end of the financial year 2016 was €22,489 thousand, which represents an increase of 4.01% compared to 2015.

On the other hand, the total assets of the Entity amounted to €7,093,777 thousand, which represents a decrease of 3.51% compared to the financial year 2015.

As indicated in the Note. 2.d, the balances have been prepared with the criteria of the new states required by current regulations.

Deposits at credit institutions and available- for- sale financial assets

As a result of the increase in the possibilities regarding the active management of the Entity's cash in 2016, the figure indicated in these headings has increased.

The two groups showed positive development such that the amount directly under management by the Entity through other financial intermediaries rose from €1,347,847 thousand in 2015 to €435,172 thousand in 2016, while available-for-sale financial assets totalled €2,182,725 thousand in 2015, compared to €2,291,232 thousand in 2015.

Customer loans

The heading Loan investments, specifically the line Customer Loans without measurement adjustments, reflects an amount of €3,182,134 thousand and €2,997,703 thousand in 2015, which increase of 6,15%. We note that the Entity's default ratio was 3.17% at the end of 2015, which is one of the best ratios in the sector at the national level.

The containment of the doubtful asset balance provides a clear indication of the efforts that have been made with respect to monitoring and claiming irregular transactions, either through the courts or friendly agreements, as well as the high quality of the loan portfolio which is the result of the traditional policy of controlling, minimizing and diversifying risk. The current situation of doubtful balances at the Entity, as well as the insolvency funds, place the coverage ratio at 100.79%.

Similarly, and as a supplement, it is advisable to note the interest rate on financing transactions, especially those relating to cooperative members for which in many cases the Entity offers very competitive conditions. All of this policy is the result of the principle of solidarity and cooperation that drives the Entity in most of its actions.

(1) Doubtful / gross investment credit
(2) Hedge funds / doubtful

Customer deposits

The heading customer deposits grew by 2.29% with respect to the figure at the end of 2015, to the amount of €4,456,626 thousand, and the largest increase was with term deposits. The contribution made by the offices opened within the framework of the Entity's expansion plan is notable. (note 2.d)

With this data it is important to note the confidence that customers continue to have in Caja Rural de Castilla-La Mancha, which is the result of the excellent overall investment conditions it offers, as well as its professionalism and courteous treatment.

CAJA RURAL DE CASTILLA-LA MANCHA GROUP

CONSOLIDATED DIRECTORS' REPORT FOR 2016

Capital and reserves

In the 2016 financial year, the Entity's own funds stood at €391,869 thousand.

According to the calculations made according to the regulations in force as of 31 December 2016, computable equity amounts to €412,988 thousand, which means a solvency ratio of 16.92%.

On 5 January 2017, the Bank informed the CNMV of the relevant fact regarding the results of the Supervisory Review and Evaluation Process. The Bank of Spain (BdE) has required the Bank, after knowing the results of the supervisory review and evaluation process (SREP), to maintain a Common Equity Tier 1 (CET 1) ratio of at least 7.13% and a minimum capital ratio of 10.63%, both measures on transitional regulatory capital (Phase In).

These capital ratios include the minimum required by Pillar 1 (4.5% CET 1 and 8.0% Total Capital); the requirement of Pillar 2 (Pillar 2 Requirement) (1.38%) and capital preservation buffer (1.25%).

This, along with what is already mentioned in the heading of credit investment on the coverage of doubtful balances, continues with the path of strengthening the Bank's solvency.

Information regarding the average payment period for suppliers

The average weighted payment period for suppliers in 2016 was 24.99 days, which falls within the legal parameters that have been established.

Projections for 2017

The Bank took firm steps with respect to its consolidation as a leading entity in its sector throughout its area of influence in 2016, and it traditionally focused on the provinces of Toledo, Guadalajara, Madrid and Ávila (which adjoin the province of Toledo).

The Entity currently has 373 points of sale. In 2017 new offices will continue to be opened in various locations in the provinces covered by the expansion plan (Ciudad Real, Cuenca and Albacete).

The healthy balance sheet possessed by Caja Rural de Castilla-La Mancha at 31 December 2016 will allow the Entity's expansion plan to continue, which will bring an improvement in the structure and the services that the Entity offers to its customers and members.

Subsequent events

No events have taken place after the end of 2016 that have not been mentioned in the Entity's notes to the annual accounts.

Other information

The Company has not carried out any operations with treasury shares during the year.