



AUDITORS' REPORT

Crèdit Andorrà Group



This version of our report is a free translation from the original, which was prepared in Catalan. 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

Auditor's report issued by an independent auditor

To the shareholders of Crèdit Andorrà, SA:

Opinion

We have audited the consolidated financial statements of Crèdit Andorrà, SA (the parent Company) and other companies which make up the Crèdit Andorrà Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group at December 31, 2019, 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 (IFRS-EU) that have been also adopted in Andorra (IFRS-Andorra).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

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Responsibility of the Directors and the Audit and Risks Commission for the consolidated financial statements

The Parent company's Directors for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) that have been also adopted in Andorra (IFRS-Andorra), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit and Risks Commission of Crédit Andorrà, SA is responsible for the overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether consolidated financial statements of Crédit Andorrà SA and the other companies which make up the Crédit Andorrà Group as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to such risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by the parent Company's Directors.



Crédit Andorrà Group

- Conclude on the appropriateness of the parent Company's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors of Crédit Andorrà SA regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiency of internal control that we identify during our audit.

We also provided the Directors of Crédit Andorrà SA with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Catalan signed by
Ramón Aznar Pascua

April 6, 2020

Financial statements 2019

Crédit Andorrà Group



Crédit Andorrà Financial Group

Consolidated financial statements 2019

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Statement of financial position - Assets

Crédit Andorrà Group

In thousand euros	Note	31.12.2019	31.12.2018 (*)
Cash, cash balances in central banks and other at sight deposits	8	303,009	343,553
Held-for-trading financial assets	9.1	30,047	12,560
Derivatives		11,259	2,361
Equity instruments		5,247	3,688
Debt securities		13,541	6,511
Loans and advances		-	-
Financial assets not held for trading required to be valued at fair value through changes in profit and loss	9.2	188,299	185,903
Equity instruments		175,949	179,753
Debt securities		-	-
Loans and advances		12,350	6,150
Financial assets at fair value through changes in profit and loss	10	-	1,865
Debt securities		-	1,360
Loans and advances		-	505
Other financial assets at fair value through changes in other consolidated profit and loss	11	330,785	365,996
Equity instruments		15,606	16,069
Debt securities		315,179	349,927
Loans and advances		-	-
Financial assets at depreciated cost		3,832,281	3,764,342
Loans and advances	12	2,367,320	2,417,159
Lending institutions		94,612	55,517
Customers		2,272,708	2,361,642
Debt securities	13	1,464,961	1,347,183
Derivatives - hedge accounting	14	-	-
Changes in fair value of hedged items of a portfolio with hedged interest-rate risk	14	21,890	21,711
Investments in joint ventures and associates	3	65,703	37,046
Assets used for insurance and reinsurance contracts	20	1	3,431
Tangible assets	15	183,686	122,832
Tangible fixed assets		154,130	92,666
Real estate investments		29,556	30,166
Intangible assets	16	122,624	129,837
Goodwill		60,344	61,600
Other intangible assets		62,280	68,237
Tax assets	45	24,929	28,219
Current tax assets		2,684	1,755
Deferred tax assets		22,245	26,464
Other assets	17	45,628	52,908
Non-current assets and disposable groups of items classified as held for sale	18	106,151	112,028
Total assets		5,255,033	5,182,231

(*) Shown solely for purposes of comparison

Notes 1 to 49 are an integral part of the financial statement at 31 December 2019.

Statement of financial position - Liabilities

Crédit Andorrà Group

In thousand euros	Note	31.12.2019	31.12.2018 (*)
Held-for-trading financial liabilities	9.3	16,107	10,405
Derivatives		16,107	10,405
Short positions		-	-
Deposits		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities at fair value through profit and loss	10	49,331	71,411
Deposits		-	-
Debt securities issued		49,331	71,411
Other financial liabilities		-	-
Financial liabilities at depreciated cost	19	4,307,293	4,282,232
Deposits		4,185,153	4,195,315
Debt securities		51,578	-
Other financial liabilities		70,562	86,917
Derivatives - hedge accounting	14	37,190	35,194
Changes in fair value of hedged items of a portfolio with interest-rate risk hedging	14	-	-
Liabilities used for insurance and reinsurance contracts	20	251,815	265,650
Provisions	21	28,563	31,299
Pensions and other defined retirement benefits		11,821	12,096
Other long-term employee remunerations		5,131	6,882
Restructuring		-	-
Actions and procedural issues for pending taxes		7,345	7,558
Commitments and guarantees granted		2,882	3,402
Other provisions		1,384	1,361
Tax liabilities	45	5,355	3,085
Current tax liabilities		330	60
Deferred tax liabilities		5,025	3,025
Share capital refundable at sight		-	-
Other liabilities	23	89,714	57,587
Liabilities included in disposable groups of elements classified as held for sale	18	-	-
Total liabilities		4,785,368	4,756,863

(*) Shown solely for purposes of comparison

Notes 1 to 49 are an integral part of the financial statement at 31 December 2019.

Balance sheet – Net equity

Crèdit Andorrà Group

In thousand euros	Note	31.12.2019	31.12.2018 (*)
Capital	24	63,102	63,462
Paid-up capital		63,102	63,462
Required unpaid capital		-	-
Issue premium	24	-	-
Issued equity instruments other than capital		-	-
Components of net equity of compound financial instruments		-	-
Other issued equity instruments		-	-
Other net equity items		-	-
Other cumulative consolidated profit and loss	26	2,678	4,222
Items that will not be reclassified to profit and loss		2,474	2,440
Tangible assets		-	-
Intangible assets		-	-
Actuarial gains and losses in defined benefit pension plans		639	625
Non-current assets and disposable groups of items classified as held for sale		-	-
Holding in income and expenses recognised in investments in subsidiaries, joint ventures and associates		-	-
Changes in fair value of equity instruments valued at fair value through other overall profit and loss		1,835	1,815
Ineffectiveness in fair value hedges of equity instruments valued at fair value through changes in other consolidated profit and loss		-	-
Changes in fair value of equity instruments valued at fair value through other consolidated profit and loss (hedged item)		-	-
Changes in fair value of equity instruments valued at fair value through other consolidated profit and loss (hedging instrument)		-	-
Cumulative changes in fair value of financial liabilities at fair value through changes in credit risk		-	-
Items that can be reclassified to profit and loss		204	1,782
Net investment hedging in foreign operations (effective portion)		-	-
Foreign currency conversion		-	-3
Hedging derivatives. Cash flow hedges (effective portion)		-	-
Changes in the fair value of financial assets measured at fair value through changes in other consolidated profit and loss		204	1,785
Hedge instruments (portion not allocated)		-	-
Non-current assets and disposable groups of items classified as held for sale		-	-
Holding in income and expenses recognised in investments in subsidiaries, joint ventures and associates		-	-
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves	24	347,002	311,581
Reserves or cumulative losses of investments in dependents, joint ventures and associates		78,682	62,201
Other		268,320	249,380
(-) Treasury shares	25	-	-
Profit and loss attributable to owners of the parent company	4	46,244	36,001
(-) Interim dividends	4	-	-
Minority interests (non-controlling interest)	27	10,639	10,102
Other cumulative consolidated profit and loss		-	-
Other items		10,639	10,102
Total net equity		469,665	425,368
Total net equity and liabilities		5,255,033	5,182,231

(*) Shown solely for purposes of comparison

Notes 1 to 49 are an integral part of the financial statement at 31 December 2019.

Profit and loss accounts

Crédit Andorrà Group

In thousand euros	Note	2019	2018 (*)
Interest income	34	70,082	72,932
Other financial assets at fair value through changes in other consolidated profit and loss		2,126	5,638
Financial assets at depreciated cost		65,575	66,221
Other interest income		2,381	1,073
(Interest expenses)	34	-26,854	-26,447
(Expenditure for share capital refundable at sight)		-	-
Dividend income	35	302	704
Fee income	36	112,671	124,376
(Commission expenses)	36	-32,849	-31,081
Gains or losses due to retirement of financial assets and liabilities not valued at fair value through profit and loss, net	37	11,040	14,046
Other financial assets at fair value through changes in other consolidated profit and loss		4,509	13,105
Financial assets at depreciated cost		6,375	1,054
Financial liabilities at depreciated cost		156	-
Other		-	-113
Gains or losses due to held-for-trading financial assets and liabilities, net	37	7,928	6,203
Reclassification of financial assets from fair value through changes in other consolidated profit and loss		-	-
Reclassification of financial assets from depreciated cost		-	-
Other profits and losses		7,928	6,203
Gains or losses due to financial assets not held for trading sale compulsorily measured at fair value through profit and loss account	37	11,177	-12,462
Reclassification of financial assets from fair value through changes in other consolidated profit and loss		-	-
Reclassification of financial assets from depreciated cost		-	-
Other profits and losses		11,177	-12,462
Gains or losses due to financial assets and liabilities at fair value through profit and loss account, net	37	-1,356	11,092
Gains or losses resulting from hedge accounting, net	14	-1,883	-431
Exchange rate differences (gain or loss), net	37	1,582	3,016
Gains or losses due to retirement of non-financial assets, net	37	32,236	870
Other income and expenditure from operations	38	12,974	12,039
Other income and expenses of assets and liabilities covered by insurance or reinsurance	38	3,909	3,706
Total net result from operations		200,959	178,563

Profit and loss accounts (ongoing)

Crédit Andorrà Group

In thousand euros	Note	2019	2018 (*)
Total net result from operations		200,959	178,563
(Administration expenses)		-124,941	-129,595
(Personnel expenses)	39	-70,952	-73,419
(Other administration expenses)	40	-53,989	-56,176
(Depreciation)	41	-22,222	-15,323
(Fixed assets)	15	-10,329	-4,977
(Real estate investments)	15	-17	-21
(Other intangible assets)	16	-11,876	-10,325
(Provisions or reversal of provisions)	42	430	-2,760
(Commitments and guarantees granted)		537	-685
(Other provisions)		-107	-2,075
(Impairment of the value or reversal of impairment of the value of financial assets not valued at fair value through changes in profit and loss and gains or losses due to amendment)	43	-1,082	1,724
(Financial assets at cost)		-	-
(Financial assets at fair value through changes in other consolidated profit and loss)		-	22
(Financial assets at depreciated cost)		-1,082	1,702
(Impairment of the value or reversal of the value impairment of investments in joint ventures and associates)		-	-
(Impairment of the value or reversal of the impairment of the value of non-financial assets)		-2,164	-161
(Fixed assets)	15	-64	-
(Real estate investments)	15	-	-24
(Goodwill)	16	-2,100	-137
(Other intangible assets)	16	-	-
(Other)		-	-
Negative goodwill recognised in the profit and loss	3.6	-	2,632
Share in gains or losses of investments in subsidiaries, joint ventures and associates	44	2,297	4,098
Gains or losses from non-current assets and disposal groups of items held for sale in discontinued operations classified as inadmissible	18	655	-126
Profit and loss before tax from ongoing activities		53,932	39,052
(Income or expenses for tax on profit from ongoing activities)	45	-6,846	-2,698
Gains or losses after tax from ongoing activities		47,086	36,354
Gains or losses after tax from uninterrupted activities		-213	-
Gains or losses before taxes from uninterrupted activities (Note 3.6)		-207	-
(Income or expenses for taxes related to uninterrupted activities)		-6	-
Gains or losses for the year		46,873	36,354
Attributable to minority interests (non-controlling interest)		629	353
Attributable to owners of the parent company		46,244	36,001
Earnings per share (basic) - in euros	4	51.75	40.35
Earnings per share (diluted) - in euros	4	51.75	40.35

(*) Shown solely for purposes of comparison

Notes 1 to 49 are an integral part of the financial statement at 31 December 2019.

Consolidated profit and loss account

Crédit Andorrà Group

In thousand euros	Note	2019	2018 (*)
Gains or losses for the year		46,873	36,354
Other consolidated profit and loss		-1,544	-750
Items that will not be reclassified to profit and loss	26	34	1,534
Tangible assets		-	-
Intangible assets		-	-
Actuarial gains or losses in defined benefit pension plans		16	-312
Non-current assets and disposable groups of items classified as held for sale		-	-
Holding in income and expenses recognised in investments in subsidiaries, joint ventures and associates		-	-
Changes in fair value of equity instruments valued at fair value through other overall profit and loss		28	2,053
Gains or losses resulting from the hedge accounting of equity instruments valued at fair value through changes in other consolidated profit and loss, net		-	-
Changes in fair value of equity instruments valued at fair value through changes in other consolidated profit and loss (hedged item)		-	-
Changes in fair value of equity instruments valued at fair value through changes in other consolidated profit and loss (hedging instrument)		-	-
Changes in fair value of financial liabilities valued at fair value through changes in profit and loss attributed to changes in credit risk		-	-
Income tax related to items that will not be reclassified		-10	-207
Items that can be reclassified to profit and loss		-1,578	-2,284
Hedges of net investments in foreign business (effective portion)		-	-
Gains or losses posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Foreign currency conversion		4	-3
Gains or losses due to foreign exchange posted to net equity		4	-3
Transferred to profit and loss		-	-
Other reclassifications		-	-
Hedging derivatives. Cash flow hedges (effective portion)		-	-
Gains or losses posted to net equity		-	-
Transferred to profit and loss		-	-
Transferred to initial book value of hedged items		-	-
Other reclassifications		-	-
Hedging instruments (items not designated)		-	-
Gains or losses posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Debt instruments at fair value through changes in other consolidated profit and loss		-1,902	-2,607
Gains or losses posted to net equity		2,607	10,498
Transferred to profit and loss		-4,509	-13,105
Other reclassifications		-	-
Non-current assets and disposable groups of items classified as held for sale		-	-
Gains or losses posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Holding in income and expenses recognised in investments in subsidiaries, joint ventures and associates		-	-
Tax on profit related to items that can be reclassified to Gains or losses		320	326
Total consolidated profit and loss for the year		45,329	35,604
Attributable to minority interests (non-controlling interest)		629	353
Attributable to owners of the parent company		44,700	35,251

(*) Shown solely for purposes of comparison

Notes 1 to 49 are an integral part of the financial statement at 31 December 2019.

Statement of changes in net equity

Crédit Andorrà Group

31 December 2019

In thousand euros	Net equity attributable to parent company							
	Equity					Minority interest		
	Capital (Note 24.1)	Other cumulative consolidated profit and loss (Note 26)	Other reserves (Note 24.2)	Profit and loss attributable to owners of the parent company	(-) Interim dividends (Note 4)	Other cumulative consolidated profit and loss (Note 27)	Other items	Total equity net
Balances at 31 December 2018	63,462	4,222	311,581	36,001	-	-	10,102	425,368
Effects of error correction	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see Note 1.3).	-	-	-239	-	-	-	-42	-281
Adjusted balance at 1 January 2019	63,462	4,222	311,342	36,001	-	-	10,060	425,087
Reductions in capital	-360	-	360	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	1,472	-	-	-	-	1,472
Reclassification of financial instruments from liabilities to net equity	-	-	-	-	-	-	-	-
Transfers between net equity items	-	-	36,001	-36,001	-	-	-	-
Other increases or decreases in net equity (Note 3)	-	-	-2,173	-	-	-	-50	-2,223
Total consolidated profit and loss for the year	-	-1,544	-	46,244	-	-	629	45,329
Balances at 31 December 2019	63,102	2,678	347,002	46,244	-	-	10,639	469,665

Notes 1 to 49 are an integral part of the financial statement at 31 December 2019.

Statements of changes in net equity (ongoing)

Crédit Andorrà Group

31 December 2018 (*)

In thousand euros	Net equity attributable to parent company (*)							
	Equity					Minority interest		
	Capital (Note 24.1)	Other cumulative consolidated profit and loss (Note 26)	Other reserves (Note 24.2)	Profit and loss attributable to owners of the parent company	(-) Interim dividends (Note 4)	Other cumulative consolidated profit and loss (Note 26)	Other items	Total equity net
Balances at 31 December 2017	63,462	4,972	293,721	50,194	-	-	8,749	421,098
Effects of error correction	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see Note 1.3).	-	17,270	-26,320	-	-	-	-	-9,050
Adjusted balance at 1 January 2018	63,462	22,242	267,401	50,194	-	-	8,749	412,048
Reductions in capital	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares (see Note 24.1)	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to net equity	-	-	-	-	-	-	-	-
Transfers between net equity items	-	-	50,194	-50,194	-	-	-	-
Other increases or decreases in net equity	-	-	-6,014	-	-	-	1,000	-5,014
Total consolidated profit and loss for the year	-	-18,020	-	36,001	-	-	353	18,334
Balances at 31 December 2018	63,462	4,222	311,581	36,001	-	-	10,102	425,368

(*) Shown solely for purposes of comparison

Notes 1 to 49 are an integral part of the financial statement at 31 December 2019.

Cash flow statements

Crédit Andorrà Group

In thousand euros	Note	2019	2018 (*)
Cash flow of operating activities		-21,782	106,851
Result for the year		46,244	36,001
Adjustments to obtain cash flow of operating activities		-49,656	-3,500
Depreciation	41	22,222	15,323
Other adjustments		-71,878	-18,823
Net increase/decrease of operating assets		-11,626	354,963
Held-for-trading financial assets		-17,487	-4,151
Profit and loss from financial assets not held for trading valued compulsorily at fair value through changes in profit and loss		16,120	17,605
Financial assets at fair value through changes in profit and loss		509	23,990
Other financial assets at fair value through changes in other consolidated profit and loss		38,158	51,951
Financial assets at depreciated cost		-62,832	266,703
Other operating assets		13,906	-1,135
Net increase/decrease of operating liabilities		-6,744	-280,613
Held-for-trading financial liabilities		5,702	5,633
Financial liabilities at fair value through profit and loss		-22,080	-51,963
Financial liabilities at depreciated cost		-10,006	-211,742
Other operating liabilities		19,640	-22,541
Settlements/payments for gains tax		-	-
Cash flow of investment activities		11,005	-10,697
Payments		-19,285	-29,456
Tangible assets	15	-2,327	-3,820
Intangible assets	16	-8,294	-20,125
Investments in joint ventures and associates		-	-1,610
Subsidiary entities and other business units		-1,069	-3,901
Non-current assets and liabilities classified as held for sale		-1,383	-
Held-to-maturity investments		-	-
Other payments related to investment activity		-6,212	-
Collections		30,290	18,759
Tangible assets		-	3,467
Intangible assets		-	-
Investments in joint ventures and associates		21,590	466
Subsidiary entities and other business units		-	-
Non-current assets and liabilities classified as held for sale		8,700	14,826
Held-to-maturity investments		-	-
Other collections related to investment activity		-	-
Cash flow of financing activities		-28,887	-4,899
Payments		-80,465	-4,899
Dividends	4	-	-
Debt securities		-79,415	-
Depreciation of the entity's own equity instruments		-	-
Acquisition of the entity's own equity instruments		-1,050	-4,899
Other payments related to financing activity		-	-
Collections		51,578	-
Debt securities		51,578	-
Issue of the entity's own equity instruments		-	-
Disposal of the entity's own equity instruments		-	-
Other collections related to financing activity		-	-
Effects of variations in exchange rate		-880	1,033
Net increase (decrease) of (A+B+C+D) cash and cash equivalents		-40,544	92,288
Cash and cash equivalents at the start of the period		343,553	251,265
Cash and cash equivalents at the end of the period		303,009	343,553

(*) Shown solely for purposes of comparison

Notes 1 to 49 are an integral part of the financial statement at 31 December 2019.

Notes to the financial statements

1. Introduction, presentation bases and other information

1.1. Introduction

Crèdit Andorrà SA (hereinafter, the Bank, Entity or Parent Company), authorised in 1949, is a limited company engaged in banking activities which it carries out as a retail and private bank, subject to the rules and regulations governing financial institutions operating in Andorra. On 11 April 2011, however, the Andorran National Institute of Finance approved the application to widen the Bank's corporate object to include the investment and auxiliary services established in Articles 5 and 6 of Law 13/2010 of 13 May.

The Bank's registered offices are at Avinguda Meritxell, 80, Andorra la Vella, Principality of Andorra.

As recorded in the Companies Register of the Principality of Andorra, the Entity is the owner of the following companies: 905491-E, 907176-C, 909313-L, 910111-Y, 911727-W, 911728-V, 911729-U, 911730-P, 911731-N, 920683-J and 921634-M, under the name of Crèdit Andorrà.

Crèdit Andorrà SA is the parent company of the subsidiaries, set out in Note 3, which together with the Bank comprise the Crèdit Andorrà Group (hereinafter, the Group).

1.2. Presentation bases

The Group's consolidated financial statements have been formulated by the Board of Directors of the Bank in accordance with the regulatory framework for financial information applicable to the Group, which is established in (1) the Decree of 22 December 2016 approving the accounting framework applicable to the operating entities of the Andorran financial system and to the collective investment agencies of Andorran law in accordance with the International Financial Reporting Standards adopted in the European Union (IFRS-EU) that have been adopted by Andorra (IFRS-Andorra); (2) the Decree of 12 December 2018 approving specific International Financial Reporting Standards adopted in the European Union (IFRS-EU) and amending the Decree approving the accounting framework applicable to the operating entities of the Andorran financial system and to the collective investment agencies of Andorran law in accordance with the International Financial Reporting Standards adopted in the European Union (IFRS-EU), of 22 December 2016, and (3) the Decree of 27 December 2019 approving certain International Financial Reporting Standards adopted in the European Union (IFRS-EU) and amending the Decree approving the accounting framework applicable to the operating entities of the Andorran financial system and the collective investment agencies of Andorran law in accordance with the International Financial Reporting Standards adopted in the European Union (IFRS-EU), which were adopted by Andorra (IFRS-Andorra) on 22 December 2016.

The financial statements have been drawn up based on accounting records maintained by the Bank and the entities making up the Group, and are presented according to the applicable regulatory framework for financial information, so that they show a true and fair view of the Group's equity, statement of financial position, cash flow, and profit and loss during the corresponding financial year.

The figures are presented in thousand euros, which is the currency used for the Group's operations and presentations, rounded up or down to the nearest thousand, unless the use of another currency is expressly indicated.

The Andorran Financial Authority (AFA) formerly the Andorran National Institute of Finance (ANIF) is the body charged with the supervision and control of the entities in the Andorran Financial System, as well as the implementation and application of the regulatory framework for financial information applicable to the Group.

The financial statements of the Group, the Bank and almost all the entities forming part of the Group for the year ending 31 December 2019 are pending approval by their respective general shareholders' meetings. Nevertheless, the Bank's Board of Directors believes they will be approved without any changes.

On 30 May 2019, the Bank's General Shareholders' Meeting approved the consolidated and individual financial statements of the Bank corresponding to the 2018 financial year.

The consolidated financial statements of the Crèdit Andorrà Group corresponding to the year 2019 attached have been prepared with the same principles, accounting policies and criteria as those applied in the consolidated financial statements for the year 2018, except for the regulatory changes that entered into force on 1 January 2019, detailed in Section 1.2.1. "Standards, amendments and interpretations that are mandatory for financial years starting from 1 January 2019". Therefore, in its preparation, the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which in turn were fully adopted by Andorra (IFRS-Andorra) were taken into account by means of the Decree dated 22 December 2016, the Decree dated 12 December 2018 and the Decree dated 27 March 2019.

However, on 21 December 2018, the AFA published the Supervisory Guide on applying IFRS 9: Credit risk management (hereinafter, the Guide). As detailed in the "Introduction" section, the Guide covers supervisory expectations and good practices in the implementation of IFRS 9 by Andorran banking entities and in credit risk management. This guide is available on the Andorran Financial Authority website(https://www.afa.ad/ca/assets/normativa/niif_9).

Notes 2 and 3 summarise the most significant principles, accounting policies and valuation criteria applied in preparing these consolidated financial statements. No mandatory accounting principle or valuation criterion having a significant effect on these consolidated financial statements has been excluded.

1.2.1. Standards, amendments and interpretations that are mandatory for financial years starting from 1 January 2019.

The following are the most significant standards and interpretations for the Group that have been published by the IASB and that have entered into force in the Principality of Andorra as of 1 January 2019.

- IFRS 16 "Leases": this standard establishes the principles for measurement, presentation and breakdown of leases, as well as the information to be reported in the Group's financial statements. The first application date is 1 January 2019, which is when it replaced the International Accounting Standard (IAS) "Leases" and interpretation of the International Financial Reporting Standards Interpretations Committee (IFRS IC) number 4 "Determining Whether an Arrangement Contains a Lease", which were applicable until 31 December 2018.

The adoption of this standard is a significant change in relation to IAS 17 (see Note 1.3 "Comparing information" and Note 2 "Accounting principles and policy, and valuation methods applied"), fundamentally in lease accounting for lessees. In terms of lease accounting for lessors, the standard does not entail any changes.

The following are the rest of the standards and interpretations that have been published by the IASB and that have entered into force in the Principality of Andorra as of 1 January 2019, although they have not had any significant impact on the financial statements for the year 2019:

- Amendment to IFRS 3 "Business Combinations": The amendment to this standard determines that a previously held investment in a joint operation is re-measured when control of the business is obtained
- Amendment to IFRS 9 "Prepayment Features with Negative Compensation": the amendment to this standard defines that a party may pay or receive reasonable compensation when a contract is terminated early and, therefore, allows the financial instruments subject to the contract to be valued at amortised cost or fair value with changes in comprehensive profit and loss

- Amendment to IFRS 11 "Joint Arrangements": this amendment states that a previously held investment in a joint operation is not re-measured when joint control of the business is obtained
- IFRIC 23 "Uncertainty over Income Tax Treatments": this interpretation deals with situations in which there may be a dispute with the tax authority or an open inspection on a specific tax treatment and these may affect the registration of the assets or liabilities of the entity, whether current or deferred
- Amendment to IAS 12 "Income Taxes": this amendment prescribes that all tax effects of dividend payments be accounted for in the same way
- Amendment to IAS 19 "Plan Amendment, Curtailment or Settlement": the amendment to this standard clarifies how the cost of the asset ceiling is included in the gains or losses calculation. This amendment clarifies that the effect of the asset ceiling is dismissed when calculating the gain or loss in any liquidation of the plan and is distributed separately in other general income (ARG)
- Amendment to IAS 23 "Borrowing Costs": this amendment establishes that any specific loan originally taken out to develop an eligible asset is considered part of a generic loan when the asset is ready for use or sale
- Amendment to IAS 28 "Long-Term Interests in Associates and Joint Ventures": this amendment of the standard determines that long-term interest in an associate or joint venture, in essence, forms part of the net investment in the associate or joint venture, but for those to which the equity method is not applied, they are posted to accounting according to the requirements of IFRS 9 "Financial Instruments"

1.2.2. Standards, amendments and interpretations issued by the IASB not in force

The following are the most significant standards and interpretations for the Group that have been published by the IASB but have not yet entered into force; either because the effective date is subsequent to the date of the consolidated financial statements, or because they have not yet been adopted by the EU or the Principality of Andorra.

- Standards, amendments and interpretations that have not yet entered into application but which can be adopted in advance because they have been adopted by the EU (although not by the Principality of Andorra):
 - Amendment to IAS 1 and IAS 8 "Definition of Material"
 - Amendment to IFRS 9, IFRS 17 and IAS 39, "Interest Rate Benchmark Reform"
- Standards, amendments and interpretations to the existing regulations that cannot be adopted in advance or that have not been adopted by the EU nor by the Principality of Andorra:
 - Amendment to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"
 - IFRS 17 "Insurance Contracts" (mandatory application from 1 January 2021)
 - Amendment to IFRS 3 "Definition of a Business" (mandatory application from 1 January 2020)

The Group has decided not to exercise the option of early application in cases where it is possible.

A summary of the main standards, amendments and interpretations described previously is presented below.

Amendment to IAS 1 and IAS 8 "Definition of Material"

The amendments to these standards clarify the definition of material, introducing, in addition to omitted or inaccurate headings that may influence users' decisions, the concept of obscuring.

These amendments make the IAS more consistent, but are not expected to have a significant impact on the preparation of financial statements.

The amendments will apply to the financial years starting on or after 1 January 2020. Early application is also allowed.

Amendment to IFRS 9, IFRS 17 and IAS 39, "Interest Rate Benchmark Reform"

The amendments to these standards provide certain exemptions regarding the rate benchmark reform (IBOR). These exemptions are related to hedging accounting and have the effect that IBOR reform generally should not cause hedge accounting to cease. Any hedging ineffectiveness must, however, continue to be recognised in the profit and loss account.

The amendments will apply to the financial years starting on or after 1 January 2020. Early application is also allowed.

Amendment to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

These amendments clarify the accounting treatment of asset contributions and sales between an investor and its associates and joint ventures, that will depend on whether the non-monetary assets contributed or sold to an associate or joint venture constitute a "business". The investor will recognise the full gains or losses when the non-monetary assets constitute a "business". If the assets do not comply with the definition of a business, the investor recognises the gains or losses in the same degree as the interest of other investors. The amendments will only apply when an investor sells or contributes to its associate or joint venture.

IFRS 17 "Insurance Contracts"

In May 2017, the IASB completed a long-term project to develop an accounting standard for insurance contracts and published IFRS 17 "Insurance Contracts". IFRS 17 replaces IFRS 4 "Insurance Contracts", which currently enables a wide variety of accounting practices. IFRS 17 will fundamentally change the accounting of all entities issuing insurance contracts and investment contracts with discretionary participation components.

The standard applies to financial years beginning on or after 1 January 2021, and early application is only allowed if IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" are also applied.

Amendment to IFRS 3 "Definition of a Business"

This amendment will help determine whether an acquisition is of a business or an asset group. The amendment to the definition emphasises that the output of a business is to provide goods and services to customers, while the previous definition focused on providing returns in the form of dividends, lower costs, or other economic benefits to investors and others.

To be considered a business, an acquisition should include a good and a process that together significantly contribute to the ability to create products. To be a business without outputs, there needs to be an organised workforce.

1.3. Comparing information

The figures corresponding to 31 December 2018 included in the accompanying consolidated financial statements are presented solely and exclusively for comparative purposes.

The Group applied IFRS 9 from 1 January 2018. In Annex II, which is an integral part of this note, details are made of the changes in the classification and the valuation changes on certain items of the 2018 statement of financial position.

As indicated in Note 1.2 "Basis of presentation", the Group has applied IFRS 16 since 1 January 2019. Thus, we have decided not to reassess whether a contract is a lease or contains a lease component in accordance with the criteria of the standard and apply it exclusively to contracts that have been identified as leases in the previous standard.

In the first application of IFRS 16, the Group decided to apply the new lease criteria retroactively, using the modified retrospective approach, for all leases, and recognises the cumulative effect of the initial application of the standard as an adjustment to the Group's equity from 1 January 2019 and does not restate comparative information, in accordance with the options permitted by the standard (see Note 2.17).

In this regard, the Group has recorded a lease liability that shows the current value of the outstanding lease payments, discounted using the estimated incremental interest rate on the Group's debt.

Also, to value the asset by right of use at the date of first application, the Group has two options, applicable to each contract:

- by their book value, valuing the asset as if the Group had applied IFRS 16 from the date of commencement of the contract, discounting by applying the implicit interest rate, if it is easily determinable in the lease, if not discounted by applying the incremental interest rate on the lessee's debt, or
- for an amount equal to the lease liability, adjusted for any down payment or accrued and recognised in the statement of financial position, immediately before the date of application of IFRS 16.

In this regard, on 1 January 2019 the Group recognised assets by right of use in the amount of 70,340 thousand euros (see Note 15). It also recorded lease liabilities of 70,620 thousand euros (see Note 19.5.2), 2.21% being the weighted average rate used for the deduction of outstanding lease payments. The impact on the Group's reserves on 1 January 2019 was 281 thousand euros.

In keeping with the practical solutions defined in IFRS 16, the Group has decided not to review the derecognition of the value of assets by right of use, but has taken into account the amount of provisions for onerous contracts recognised in the statement of financial position on 31 December 2018 (0 euros).

The Group has also chosen to retroactively include extension options at the time of determining the lease term.

The main types of contracts identified that have an asset estimated by right of use and a lease liability on 1 January 2019 are real estate leases that are in use.

The reconciliation between discounted operating lease commitments on 31 December 2018 and recognised lease liabilities on 1 January 2019 is as follows:

Lease commitments at 31 December 2018 discounted	69,724
Different treatment of the lease term	896
Lease liability at 1 January 2019	70,620

The breakdowns at 31 December 2018 of the balance sheet items relating to leases in this report have not been restated, which is why they cannot be compared with the information for 31 December 2019.

However, and without affecting the total result of equity, the 2018 consolidated profit and loss account for comparative purposes includes a reclassification made to correct an error in the consolidated financial statements of the 2018 financial year related to the consolidation process of the new RSM subgroup (see Note 3.6). This reclassification led to an increase of 6,012 thousand euros in the heading "Other operating income and expenses" and a corresponding increase of 4,068 thousand euros and 1,944 thousand euros in the "Administrative expenses - Staff Expenses" and "Administrative expenses - Other administrative expenses" headings.

1.4. Critical aspects of valuation, estimating uncertainty and relevant decisions made when applying accounting policies

Preparation of the consolidated financial statements requires the use of relevant accounting estimates, the application of opinions and estimation and hypothesis processes. Below is a summary providing details of those aspects that have involved a higher degree of opinion and complexity or for which the hypotheses and estimates are significant in preparing these consolidated financial statements:

- Fair value of certain financial assets and liabilities (Note 6)
- Losses due to the impairment of certain financial assets and fair value of the associated guarantees (Note 5.2)
- Useful life of tangible and intangible assets (notes 15 and 16)
- Recovery value of goodwill, the first consolidation differences and the remaining intangible assets (Note 16)
- Losses due to the impairment of non-current assets and disposable groups of items that were classified as held for sale (Note 18)
- The actuarial hypotheses used in the calculation of liabilities for insurance contracts (Note 20) and also in the calculation of liabilities and post-employment commitments (Note 22)
- Valuation of the provisions for hedging labour, legal and tax contingencies (Note 21)
- Estimates to calculate corporation tax and deferred tax assets and liabilities (Note 45)

Although the estimates made by the Bank's directors at 31 December 2019 have been performed according to the best available information to date, events that may take place in the future may require these to be amended in the years to come. This amendment would be conducted prospectively, recognising the effects of the change in estimate in the corresponding consolidated result.

2. Accounting principles and policies, and valuation methods applied

In the creation of Crèdit Andorrà Group's consolidated financial statements corresponding to the 2019 financial year, the following accounting principles and policies and valuation criteria were applied.

2.1. Financial instruments

2.1.1. Classification of financial assets

Financial assets are included for the purpose of valuation in any of the following categories:

- Financial assets at depreciated cost
- Financial assets at fair value through changes in other consolidated profit and loss
- Financial assets compulsorily at fair value with changes in profit and loss
- Financial assets held for trading
- Financial assets not held for trading that are compulsorily valued at fair value through changes in profit and loss
- Financial assets denominated at fair value with changes in profit and loss
- Derivatives - hedge accounting

However, classification in the previous categories is done based on the following two elements:

- The **Group business** model for financial asset management

The business model is defined as the way in which financial assets are managed in order to generate cash flows. The business model is determined considering how groups of financial assets are jointly managed in order to achieve a specific objective. The business model does not therefore depend on the Group's intentions for an individual instrument but is determined for a set of instruments.

In this regard, the different business models used by the Group are:

- Maintenance of assets to receive contractual asset flows (HTC - Held to Collect). Under this model, assets are managed in order to collect their contractual cash flows and not to obtain a yield through their holding or sale. However, sales prior to the maturity of assets under certain circumstances are allowed such as (1) sales considered as infrequent or intangible, (2) sales of assets close to maturity, or (3) sales due to a significant increase in risk of credit and those carried out to manage the risk of concentration

In this regard, the Group defines as:

- Frequent or immaterial sales are those that do not represent more than 5% of the book value of the asset sold. For practical purposes, it is considered that this definition is met when the sale of an asset in a financial year does not exceed 5% of its book value divided by the number of financial years remaining until its maturity at the time of acquisition of the financial asset
- Sales of assets close to maturity such as those conducted within the last 6 months before the maturity of the security (usually with the aim of facilitating the reinvestment of the portfolio in the most beneficial way in terms of the market) and provided that the profit obtained does not exceed 5% of the book value on the date of sale

- Sales motivated by a significant increase in credit risk such as those that occur (1) after a de-rating of at least two steps has taken place since the acquisition date and (2) where this de-rating leads or may be expected to lead in the short term to a breach of the investment guidelines in force in the Group
- Sales motivated by managing the risk of concentration, such as those made with the aim of correcting a breach of the prudential limits defined at any one time by the applicable regulations or internally by the Group, as well as to avoid a foreseeable breach in the short term
- Maintenance of assets to obtain a return through their sale (HTS - Held to Sell). Under this model, the Group does not seek investment in an asset to receive contractual flows, but the objective is to take advantage of fluctuations in the market value of assets to realise them in order to obtain capital gains
- Combination of the two previous business models, i.e. Maintaining assets to receive the contractual flows of the asset and to obtain a return through its sale (HTCS - Held to Collect and Sell). This business model involves the realisation of assets more frequently and with greater value

In this regard, it should be noted that the Group's main model regarding the holding and management of financial assets is the maintenance of assets to receive the contractual asset flows (HTC), followed by the maintenance of the assets to receive the Contractual asset flows and to obtain a return through its sale (HTCS), and residual asset maintenance to obtain a return through its sale (HTS or trading).

- The **characteristics of contractual cash flows** from financial assets

A financial asset must be classified at the initial moment into one of the following categories:

- Those with consistent contractual conditions, on the specified date, to cash flows that consist only of principal and interest payments on the principal outstanding amount
- Other financial assets

For the purposes of this classification, the principal of a financial asset is its fair value at the time of its initial recognition. Interest is considered to be the sum of the consideration for the temporary value of the money, for the costs of financing and structure as well as for the credit risk associated with the principal amount outstanding for collection during a specific period, plus a margin.

If a financial asset contains a contractual clause that may amend the schedule or the amount of contractual cash flows (such as early repayment clauses or extension of the duration), the Group determines whether the cash flows generated during the life of the instrument due to exercising this contractual clause are only principal and interest payments on the principal outstanding amount. To do this, contractual cash flows that may be generated before and after the amendment to the schedule or the amount of the contractual cash flows are considered.

At the same time, should a financial asset take into account a periodic adjustment of the interest rate but the frequency of this adjustment does not coincide with the benchmark interest rate term (for example, the interest rate is adjusted every three months at the rate of one year), at the time of initial recognition, the Group evaluates this imbalance in the interest component to determine whether the contractual cash flows represent only principal and interest payments on the main outstanding amount.

The contractual conditions that at the time of the initial recognition have a minimal effect on the cash flows or depend on the occurrence of exceptional and very unlikely events (such as the settlement of the issuer) do not prevent their classification in the portfolios of depreciated cost or fair value with changes recorded in other consolidated profit and loss.

The Group therefore classifies a financial asset, for the purposes of its valuation:

- In the portfolio of financial assets at depreciated cost, when the following two conditions are met:
 - It is managed with a business model that aims to maintain financial assets to perceive contractual cash flows (HTC), and
 - The contractual conditions give rise to cash flows on specified dates, which are only principal and interest payments on the principal outstanding amount.
- In the portfolio of financial assets at fair value with changes in another global result, when the following two conditions are met:
 - It is managed using a business model the purpose of which combines the perception of contractual cash flows from financial assets and sales (HTCS), and
 - Contractual conditions give rise to cash flows on specified dates that are only principal and interest payments on the outstanding principal amount.
- In the portfolio of financial assets at fair value with changes in profit and loss: as long as the Group's business model for its management or the characteristics of its contractual cash flows is not appropriate to classify it in any of the previous portfolios
- The portfolio of financial assets compulsorily at fair value with changes in profit and loss includes all those instruments for with any of the following features:
 - They are originated or acquired with the aim of making them in the short term
 - They are part of a group of financial instruments identified and managed jointly for which there is evidence of recent actions to obtain short-term profits
 - These are derivative instruments that do not comply with the definition of a financial guarantee contract and have not been designated as accounting hedging instruments

The exceptions to the general valuation criteria described above are investments in equity instruments. In general, except for investments in collective investment schemes, the Group exercises the option in the initial recognition and irrevocably to include in the portfolio of financial assets at fair value through changes in other consolidated profit and loss investments in equity instruments that are not classified as held for trading and which, if they do not exercise the option, would be classified as financial assets obligatorily at fair value through changes in profit and loss.

2.1.2. Classification of financial liabilities

Therefore, for valuation purposes, the Group classifies financial liabilities as follows:

- Financial liabilities held for trading. This portfolio consists mainly of the financial liabilities acquired or issued with the intention of realising them in the short term or that are part of a portfolio of financial instruments, identified and managed jointly, for which there is evidence of recent actions aimed at obtaining short-term profits. Short positions are also considered held-for-trading financial liabilities, as a result of asset sales temporarily acquired with non-optional purchase agreements or borrowed securities. Finally, assets and liabilities that do not comply with the definition of a financial guarantee contract and have not been designated as hedging instruments are considered held-for-trading financial liabilities
- Financial liabilities at fair value through changes in profit and loss. Financial liabilities designated by the Group in their initial recognition, such as hybrid financial liabilities that should be fully valued at their fair value or with financial derivatives, are included, if applicable, to reduce exposure to variations

in fair value, or are managed jointly with financial and derivative liabilities in order to reduce the overall exposure to interest rate risk

In general, this category includes all those financial liabilities which, when classified, significantly eliminate or reduce incoherencies in their recognition or valuation (accounting asymmetries). Financial liabilities in this category must be permanently subject to an integrated and consistent measurement, management and control system of risks and results, which allows it to be checked that the risk is effectively reduced. Financial liabilities can only be included in this portfolio at the acquisition date or when they originate

- Financial liabilities at depreciated cost. Financial liabilities that are not classified as held for trading or as other financial liabilities at fair value through profit and loss are recorded. The balances recorded in this category respond to the typical deposit-taking activities with lending institutions, regardless of the type of implementation or maturity dates

2.1.3. Valuation of financial instruments

All financial instruments are initially recorded at their fair value, which is the transaction price unless there is evidence stating otherwise.

Subsequently, on a determined date, the fair value of a financial instrument corresponds to the amount for which it could be realised, if it is an asset, or settled, if it is a liability, in a transaction conducted between knowledgeable, willing parties on an arm's-length basis. The most objective reference of the fair value of a financial instrument is the price that would be paid for it in an active, transparent and deep market, for which the listed price or market price are used.

When there is no market price, the price of recent transactions with similar instruments are resorted to in order to estimate the fair value, and if there are none, valuation models that are sufficiently tried and trusted by the international community are used, considering the specific characteristics of the instrument to be valued, and more importantly, the different types of risk with which it is associated.

Except in trading derivatives, all variations in the value of financial instruments due to accrual of interests and similar items are recorded in the profit and loss account for the financial year in which the accrual occurred. Dividends received from other companies are recorded in the profit and loss account for the financial year in which the right to receive them arises.

Variations in valuations arising after the initial recording due to causes other than those mentioned in the previous paragraph are handled as follows, according to the type of financial asset and liability:

- The financial instruments included under the "Held-for-trading financial assets", "Financial assets not held for trading, valued compulsorily at fair value through profit and loss", "Financial assets at fair value through profit and loss", "Held-for-trading financial liabilities" and "Financial liabilities at fair value through changes in profit and loss". They are initially valued at their fair value and, subsequently, any variations are recorded with a profit and loss balancing entry
- The financial instruments included in "Financial assets at fair value with changes in consolidated profit and loss" are initially measured at their fair value and subsequently any variations therein, net of their tax impact, are recorded with a balancing entry in the section "Other consolidated profit and loss" of net equity
- Derivatives are recorded in the statement of financial position at their fair value. At the time of its contracting and unless demonstrated otherwise, the transaction price is its fair value and is recorded as an asset, if positive, and as a liability, if negative. In the event of the price differing from its fair value at the time of contracting, the difference is immediately recorded in the profit and loss account for classified derivatives at levels 1 and 2 of the fair value hierarchy

Subsequent changes to the fair value of derivatives are recorded in the profit and loss account, except in the case of cash flow hedge accounting derivatives, which are recorded in the section "Other cumulative consolidated profit and loss" of net equity

Derivatives embedded in financial liabilities can be recorded as separate derivatives when their risks and characteristics are not closely related to those of the principal instrument or contract, and provided that the embedded derivative can be provided with a reliable fair value independently. Derivatives embedded in financial assets cannot be recorded separately as derivatives and therefore the entire hybrid financial instrument must be valued at fair value in the profit and loss account

- The financial instruments included in the portfolio of "Financial assets at depreciated cost" and "Financial liabilities at depreciated cost" are valued at their depreciated cost. The depreciated cost is the acquisition cost, more or less depending on the case, corrected by principal repayments and the part recognised in the profit and loss, using the effective interest method, of the difference between the initial amount and the reimbursement value amount at maturity. Furthermore, the depreciated cost is reduced by the corrected value amount motivated by the impairment experienced by the assets

The effective interest rate is the update rate that exactly matches the initial value of a financial instrument with all its estimated cash flows of all kinds until maturity or cancellation. For fixed interest rate financial instruments, the effective interest rate coincides with the contractual interest rate, and where appropriate, the commissions and costs of the transaction that form part of the financial performance. To calculate the effective interest rate of financial instruments at variable interest rate, the variable interest rate is used as if it were fixed until the next benchmark interest rate reform

2.2. Accounting hedges

In line with the provisions of point 6.1.3 of IFRS 9, the Group, for fair value hedges on interest rates of a portfolio of financial assets or financial liabilities, applies the hedge accounting requirements of IAS 39 instead of those in IFRS 9. Taking into account that the Group only uses fair value hedges on interest rates, there are no differences in hedge accounting with the accounting policies established in IAS 39.

The group uses financial derivatives as a management tool for financial risk. When such operations meet specific requirements, they are considered hedges.

When the Group designates an operation as hedge accounting, it does so from moment the operation or instrument is included in that hedge, and the operation is documented according to current regulations. The documentation for hedging operations clearly identifies the hedged instrument(s) and the hedging instrument(s), as well as the type of risk intended to be hedged, and the criteria or methods followed to value the effectiveness of the hedging for its entire duration.

The Group considers those that are highly effective as hedge accounting operations. Hedge accounting is considered highly effective if during its planned duration the variations arising in the fair value or cash flows attributed to the risk hedged in the hedging operation, are fully compensated by the variations in the fair value or cash flows, as the case may be, of the hedging instrument(s).

Measuring the effectiveness of hedge accounting operations analyses whether from the start to the end of the duration defined for the hedge, it may be expected, prospectively, that the changes in fair value or in the cash flows of the hedged item that are attributable to the hedged risk will be almost entirely offset by changes in the fair value or in the cash flows, as appropriate, of the hedging instrument(s) and, retrospectively, that the results of the hedge will be within a range of 80% to 125% of the result of the hedged item.

The valuation methods used to estimate the fair value of hedged and hedging instruments are adjusted to best market practices, and measures, both prospective and retrospective, of the effectiveness satisfy the standard framework:

- The effectiveness of hedging is within the 80%-125% range.

The formula used for the retrospective valuation of the hedging is as follows:

$$80\% \geq \frac{(PV \text{ Variation} + \text{settled in the month}) \text{ of hedging instruments}}{(PV \text{ Variation} + \text{settled in the month}) \text{ of hedged instruments}} \leq 125\%$$

PV: present value or fair value is the current valuation of future operation flows

Reconciliations: operation flows already settled.

- The valuation is conducted at least each time the entity prepares its annual financial statements.

As mentioned, the accounting hedging operations conducted by the Group are all fair value hedges, which hedge the exposure to change in the fair value of financial assets and financial liabilities or firm commitments not yet recognised, or an identified portion of such assets, liabilities or firm commitments, attributable to the interest rate risk and provided they affect the result.

Furthermore, the Group hedges interest rate risk of a determined amount of assets sensitive to interest rate, forming part of the set of instruments in the customer loans and advances portfolio but not identified as specific instruments. These hedges, known as macro-hedges, are also of fair value.

In fair value hedges, the value differences arising in hedging and hedged items, for the part corresponding to the hedge risk type, is recognised in the profit and loss account. In fair value macro-hedging, the valuation differences of hedged items, attributable to interest rate risk, are directly recorded in profit and loss, but their balancing entry, instead of being recorded in the sections in which hedged items are recorded, are recorded under "Asset - Changes in fair value of hedged items of a portfolio with interest-rate risk hedging" or "Liability – Changes in fair value of hedged items of a portfolio with interest-rate risk hedging", depending on the nature of the hedged item.

When hedge accounting derivatives no longer meet the eligibility requirements, they are reclassified as trading derivatives. Being fair value hedges, the adjustments previously recorded to the hedged item are entered in the profit and loss account using the effective interest method at the date of discontinuation of hedge accounting.

In an individual manner, the Group hedges the market risk associated with derivative contracts with customers by contracting symmetrical derivatives on the market and both are recorded in the trading portfolio. In this manner, the position or market risk generated by this operation is of little significance.

2.3. Reclassification of financial instruments

As established in IFRS 9, assets will be reclassified if the objective of the business model for a group of financial assets undergoes significant changes, although the standards sets out that this circumstance should occur on several occasions. It is assumed that the business model for an asset or class of financial assets changes when the entity's strategy for this assets or asset class changes. In this regard, it is assumed that, once a financial asset is reclassified because the business model for this asset has changed, the business model adopted by the entity for the asset will not change until after a period of at least 18 months.

At 31 December 2019 and 2018, except for the purpose of the first-time application of IFRS 9 (see Note 1.3), there are no financial assets that have been reclassified between portfolios.

The standard does not allow the reclassification of financial liabilities.

2.4. Assets that guarantee financing operations (Asset Encumbrance)

See Note 5.3.2.

2.5. Offset of financial assets and liabilities

Financial assets and liabilities will be offset and as a result, presented in the statement of financial position with their net value only if there is the legally enforceable right to offset the amounts of the instruments mentioned, as well as the intention to settle the net amount, or to realise the asset and pay the liability simultaneously, considering the following:

- The legally enforceable right to offset the recognised amounts should not depend on a future event and must be legally enforceable under all circumstances, including cases of non-payment or insolvency of any of the parties
- Settlements that meet the following conditions will be admitted as equivalent to “settlements by net amount”: all or practically all of the credit and liquidity risk is eliminated, and the settlement of the asset and liability is performed in one single settlement process

At 31 December 2019 and 2018, the Group does not report any transactions presented for the net amount.

2.6 Retirement of financial instruments

A financial asset is fully or partially retired in the statement of financial position when the contractual rights to the cash flows of the financial asset expire or they are transferred to a third party outside of the Group.

The accounting treatment to be applied to the transfer of assets is determined by the degree and manner in which the risks and profits associated with the owner of the assets are transferred.

In this case:

- If all the risks and profits incidental to ownership of the financial asset are substantially transferred to third parties - as is the case with unconditional sales, sales with a repurchase agreement at fair value on the repurchase date, the sale of financial assets with a purchased call option or call options that are deeply out of the money, or asset-backed securitisation where the transferring party does not retain a subordinated financial liabilities or grant any credit enhancement to the new holders, among others - this asset is retired in the statement of financial position and any right or obligation retained or created as a result of the transfer is recognised simultaneously
- When the risks and rewards inherent to ownership of the transferred financial asset are retained - as is the case with sales of financial assets with an agreement for repurchase at a fixed price or for the sales price plus a lender's return, stock lending agreements where the borrower has an obligation to return them or similar assets and other similar cases -, the asset is not retired and continues to be valued with the same criteria used before the transfer, and it is recognised in accounting as:
 - A financial liability associated with an amount equal to the received consideration, subsequently measured at depreciated cost, provided that it meets the requirements to be classified as other liabilities at fair value through profit and loss
 - The income of the financial asset transferred but not retired, and the expenses of the new financial liability without offset
- If the risks and rewards inherent to the ownership of the transferred financial asset are not retained - as is the case with the sales of financial assets with a purchased call option or put options that are neither deeply in the money nor deeply out of the money, securitisations in which the transferring party retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset and other similar cases -, the following are distinguished:

- If the transferring entity does not retain control of the transferred financial asset, it is retired in the statement of financial position and any right or obligation retained or caused by the transfer is recognised
- If the transferring entity retains control of the transferred financial asset, it continues to recognise the asset in the statement of financial position, in the amount equal to its exposure to any value changes it may experience, and recognises a liability associated with the transferred financial asset. The net amount of the transferred asset and the associated liability is the depreciated cost of the rights and obligations retained, if the asset is measured by depreciated cost, or fair value of the retained rights and obligations, if the transferred asset is measured by its fair value

At 31 December 2019 and 2018, the Group has no live securitisation of financial assets.

Likewise, the financial liabilities will be retired from the liabilities of the statement of financial position when the obligations derived from the contract have been paid or cancelled, or when they have expired.

2.7. Financial guarantees

2.7.1 Financial guarantees granted

Financial guarantees are contracts that demand specific payments to reimburse the creditor for incurred debt when a certain debtor breaches its payment obligations according to contractual conditions, regardless of the manner in which the obligation is instrumented, be it a security (including bonds for participation in auctions and tenders), financial and technical guarantees, irrevocable formalised guarantee promises, insurance contracts or credit derivatives.

Financial guarantees are any kind of security that directly or indirectly guarantees debt instruments such as loans, credits, financial leasing operations and deferred payment of any kind of debt.

When financial guarantees and guarantee contracts are formalised, the transaction costs are recognised at fair value, understood as the premium received plus the current value of future cash flows, under the asset section "Financial assets at depreciated cost - Loans and advances", with a balancing entry in the section "Financial liabilities at depreciated cost - Other financial liabilities". The fair value changes of contracts are posted as financial income in the result.

The portfolios of financial guarantees and guarantee contracts, regardless of the owner, instrumentation or other circumstances, are analysed periodically to determine the credit risk to which they are exposed and, if necessary, to estimate the amount of the provisions that must be established. In this process, similar criteria to those established to quantify the losses due to the impairment of debt instruments valued at their depreciated cost are used, as mentioned in Note 5.2.1.1.

The provisions constituted by these contracts are recorded in the "Provisions – Commitments and guarantees granted" section under liabilities in the statement of financial position. The allocation and recoveries of provisions is recorded in the "Provisions or reversal of provisions" section of the profit and loss account.

Should it require the constitution of a specific provision for financial guarantee contracts, the corresponding commissions pending accrual are reclassified from the section "Financial liabilities at depreciated cost - Other financial liabilities" in the "Provisions – Commitments and guarantees granted" section.

2.7.2 Financial guarantees received

The Group has not received significant guarantees that it is permitted to sell or repledge, unless there is a default in payment by the owner of the guarantee.

2.8 Value impairment of financial assets

A financial asset is considered impaired when there is objective evidence of a negative impact on future cash flows that were estimated when the transaction was formalised, as a result of the credited party not being able to meet its contractual obligations according to the established period and in the relevant manner, or when its book value cannot be fully recovered. A decrease in fair value below the acquisition cost does not in itself constitute evidence of impairment.

The objective of the requirements of IFRS 9 on impairment is to recognise the expected credit losses of the operations, evaluated on a collective or individual basis, considering all the reasonable and substantiated information available, including prospective.

Generally speaking, the book value adjustment of financial instruments due to their impairment is performed under "Impairment of the value or reversal of impairment of the value of financial assets not valued at fair value through changes in profit and loss and gains or losses due to amendment" of the profit and loss account in the period in which said impairment arose, and the recoveries of previously recorded impairment losses, in the case of them arising, are recognised in the same heading of the profit and loss account for the financial period in which the impairment was removed or reduced.

2.8.1. Debt instruments valued at their depreciated cost

2.8.1.1. Classification based on the risk of insolvency

According to the insolvency risk attributable to the customer or operation, they are classified into some of the following categories:

- **Normal risk (Stage 1, according to terminology in English):** covers all operations that do not meet the requirements to be classified in other categories
- **Normal risk with a significant increase in risk (Stage 2, according to terminology in English):** it includes all the operations that, without meeting the criteria for classifying them individually as a doubtful or bankrupt risk, present significant increases in the credit risk from their initial recognition

The classification of operations as normal risk with a significant increase in risk is made for the amount of the risk as a whole. In order to evaluate the significant increase in credit risk, credit risk analysis is considered to be a multifactorial and comprehensive analysis. The Group shall consider the reasonable and informed information that is available without effort and without disproportionate cost and that is relevant to the specific financial instrument being evaluated

In order to determine the significant increase in the credit risk of the operations since its initial recognition, the Group has defined a threshold based on the internal negative *rating* of the accredited equivalent to the decrease of two *rating* levels from the moment of the initial origin of the operation, provided that this decrease has led the accredited to a level of *rating* equal to or less than 6 (since it would show that the conditions originally agreed would be significantly different if the operation originated or emitted again at the reference date). In this regard, the following are the main factors (watch list factors, according to terminology in English) that are considered in the process of valuation of the rating and that, therefore, are taken into account when classifying an operation as a normal risk with a significant increase in risk:

- Adverse changes in the financial position, such as a significant increase in debt levels, as well as significant increases in debt service ratios, understanding the relationship between debt and operating cash flows as such
- significant drops in business volume or, in general, recurring cash flows
- significant reduction in operating margins or recurring income available

- slowdown of business or unfavourable trends in the owner's operations that could cause a significant change in the owner's ability to meet their debt obligations sustainably
- for operations with a real guarantee, a significant deterioration in the relationship between the amount and the value of the guarantee, due to the unfavourable evolution of the value of the guarantee, or to the maintenance or increase of the amount pending depreciation due to the established payment conditions (such as long periods of non-payment of principal payments, increasing or flexible instalments, or longer periods)
- significant increases in the credit risk of the owner's other transactions or significant changes in the owner's expected payment behaviour
- a significant increase in credit risk due to problems in troubled groups to which the owner belongs or a significant unfavourable change in the behaviour of the economic activity sector to which the owner belongs, as well as an increase in difficulty for the economic group of related creditors to which the owner belongs
- adverse changes in regulatory or technological environments in which the owner operates
- action pending for the owner that could significantly affect its financial position
- owners declared bankrupt (when their classification is not considered as a doubtful risk for reasons other than default)

Unless proven otherwise, they are classified as normal risk with a significant increase in risk for:

- operations in which there are amounts more than 30 days overdue
- transactions that have presented unpaid balances older than 30 days on three occasions in the same year (the classification will be maintained for a period of time not less than 3 months from the day on which the third unpaid instalment exceeds 30 days)
- transactions with contractual payment flows with a periodicity greater than the monthly payment when they have expired amounts more than 10 days old (the classification will be maintained at least until payment of the unpaid instalment and the subsequent one)
- Doubtful assets due to default due to unpaid balances over a period of more than 90 days (classification at normal risk with a significant increase in risk will be maintained for a period of no less than 3 months, and as long as it is not found an objective evidence of impairment)

Refinancing, refinanced or restructured transactions are classified within the normal risk category with a significant increase in risk (1) when they are not classified as doubtful at the date of refinancing or restructuring, or (2) when they have been reclassified from the category of doubtful risk when fulfilling the specific criteria for reclassification. These transactions will be identified as normal risk with a significant increase in risk until all of the following requirements are met:

- that, after a thorough review of the owner's equity and financial position, it has been concluded that it is not expected that it may have financial difficulties and that, therefore, it is highly probable that it can fulfil its obligations in time and form
- that a minimum period of 2 years has elapsed since the date of formalisation of the restructuring or refinancing operation or from the date of reclassification from the category of doubtful risk, whichever comes later
- that the owner has paid the principal and interest accrued fees from the date on which the restructuring or refinancing operation was formalised or from the date of reclassification from the category of doubtful risk, whichever comes later. Additionally, it will be necessary

- that the owner has satisfied, by means of regular payments, an amount equivalent to all the amounts (principal and interest) that were expired at the date of the restructuring or refinancing operation, or which were terminated as a result of such operation;
- or, when it is more appropriate, based on the characteristics of the operations, that other objective criteria have been verified demonstrating the owner's ability to pay. The existence of contractual clauses that extend reimbursement, such as elimination periods for the principal, will imply that the operation remains identified as a normal risk with a significant increase in risk until the criteria described in this section are met;
- that the owner has no other operations with amounts more than 30 days overdue at the end of the trial period

During the 2-year period, a new refinancing or restructuring of the refinancing, refinanced or restructured operations, or the existence of amounts due in these operations over an age of more than 30 days, will involve the reclassification of these operations to the doubtful risk category for reasons other than default, as long as they were classified in the category of doubtful risk before the start of the trial period.

In general terms, without prejudice to the criteria identified above, the operations in Stage 2 are again classified as a normal risk at the time the indications and/or weaknesses identified which advised classification as special security disappear. Conversely, if these indications and/or weaknesses are confirmed, the operations become classified as doubtful.

- **Doubtful risk (Stage 3, according to terminology in English):** it includes debt instruments, whether or not overdue, in which, without the circumstances to classify them as bankrupt, they present reasonable doubts about their total reimbursement (principal and interest) by the owner in accordance with the terms agreed upon contractually, as well as off-balance sheet exposures whose payment is doubtful.

The classification of operations as doubtful risk is done for the amount of the risk as a whole. The analysis of an operation to determine whether it is appropriate to classify it as doubtful risk is done without considering the guarantees associated with these operations.

Due to customer default: consists of the total amount of debt instruments, regardless of the owner or the guarantee, that have amounts due on principal, interest or any other cost contractually agreed upon, over 90 day overdue, unless they involve write-offs. This category also includes guarantees granted in which the debtor has defaulted.

All operations of an owner or group of owners are also classified as doubtful risk due to default when the transactions with amounts more than 90 days overdue exceed 20% of the amounts pending collection of all an owner's or group of owners' transactions. For the purposes of determining the percentage indicated only, the gross book value of doubtful operations due to default with past due amounts will be considered in the numerator and, in the denominator, the gross book value of all debt instruments granted to the owner.

In the case of unhedged and other outstanding debt balances without maturity, the period for calculating the age of the foregoing amounts will be counted from the debtor's balance sheet start date.

In operations with periodic repayment instalments, the date of the first maturity for the purpose of classifying operations in this category will be the date of the oldest amount to which any amount remains due as principal, interest or contractually agreed upon expense.

For refinanced or restructured operations with the purpose of avoiding classification as a doubtful risk due to default or remaining in the category of doubtful risk, the date for calculating its age, for the

purpose of determining whether to classify it as doubtful risk due to default, will be considered as the date of the oldest expired amount that has been refinanced or restructured and remains pending payment, regardless of whether as a result of refinancing or restructuring the refinanced operations have overdue amounts or not. For these purposes, amounts that were expired on the refinancing date are considered expired amounts and the date on which they would have expired will be considered if refinancing was not performed.

Unless other reasons exist for categorising them as doubtful risk, operations classified in this category are reclassified to normal with a significant increase in risk if, as a consequence of the collection of part of the expired amounts, the causes that led to the classification as doubtful risk according to that which is indicated in the previous paragraphs disappear and the owner has no amounts more than 90 days overdue in other operations on the date of reclassification to the category of normal risk. In this regard, doubtful assets due to default that cease to present unpaid balances more than 90 days overdue remain in the category of normal risk with a significant increase in risk for a period of no less than 3 months.

For reasons other than customer default: includes debt instruments, due or not, in which, without the circumstances existing to classify them in the categories of bankruptcies or doubtful due to customer default, reasonable doubts arise about their full, principal and interest repayment within the contractually agreed upon terms, as well as off-balance-sheet exposures not classified as doubtful due to bad debts of the owner whose default is probable and recovery doubtful.

An operation is included in this category when an event or several combined events have occurred, with a negative impact on the estimated future cash flows from the operation. The following indicators are considered, among others, to determine that the event or events described have taken place:

- negative equity or decrease as a consequence of losses of the owner's equity amounting to at least 50% during the last financial year;
- continued losses or a significant decrease in the owner's business volume or recurring cash flows in general;
- widespread delay of payments or insufficient cash flows to deal with debts;
- the owner's significantly inadequate economic or financial structure or inability to obtain additional financing;
- existence of internal or external credit rating that shows that the owner is in default; and
- the existence of overdue commitments on the part of the owner of a significant amount in relation to public bodies or employees.

Thus, in general terms, the owners' operations that, after being individually reviewed, are determined to be in situations that cause a deterioration in the owner's solvency are included in this category.

As well as operations classified after individual review, this category also includes operations classified as doubtful for reasons other than default if they meet any of the following criteria:

- operations with claimed balances or on which the Group has decided to judicially claim a refund of, even though they are guaranteed, as well as operations on which the debtor has raised a claim against the decision on which the payment depends
- operations in which the process of executing the real guarantee has begun, including financial leasing operations in which the entity has decided to terminate the contract to recover possession of the asset;

- the owner's operations that are declared or for which there is evidence that they will be declared bankrupt without a request for settlement
- guarantees granted to parties declared bankrupt for which it is stated that the settlement phase has been declared or will be declared, or that suffer a marked and irrecoverable deterioration of solvency, even if the beneficiary of the guarantee has not claimed the payment
- refinancing operations which, having been classified as doubtful risk and now being classified as normal risk with a significant increase in risk during the trial period, are refinanced or restructured again or may have amounts more than 30 days overdue

Operations that lack principal and interest are classified as doubtful, unless the total recovery of contractual cash flows can be justified, and then the Group classifies them as normal risk with a significant increase in risk or normal, depending on the characteristics of the operation.

Unless proven otherwise, refinancing, refinanced or restructured refinancing operations that comply with any of the following criteria are reclassified to the category of doubtful risk:

- they are based on an inadequate payment plan. Among other assumptions, it is considered that there is no adequate payment plan when it has been repeatedly breached, modified to avoid breach or sustain expectations not confirmed by macroeconomic forecasts
- they include contractual clauses that delay the reimbursement of the transaction through regular payments. Among others, elimination periods of more than 2 years for depreciation of the principal will be considered clauses with these characteristics
- they present amounts deducted from the statement of financial position because they are considered unrecoverable that exceed the hedge that would result from applying the percentages established for the risk segment corresponding to alternative solutions for normal risk with a significant increase in risk

The refinancing or restructuring of an operation that was previously classified as a doubtful risk:

- will not cause its reclassification to the category of normal risk with a significant increase in risk or normal. In order to consider that the credit quality of the operation has improved, the owner must consistently demonstrate for a period of time its ability to meet payments with the new contractual conditions
- it will require an analysis to determine if the whole financial asset will need to be deducted from the statement of financial position in line with the policies established to that effect. When the loss is due, the new recognised financial asset will be a financial asset acquired or originated with credit impairment; when the existing asset is not retired, the Group will continue to classify it as a doubtful risk by proceeding, if applicable, to a partial loss on which it has ceased to have rights or the amounts lost

To proceed to reclassification to normal risk with a significant increase in the risk of a refinanced or restructured operation, it will be necessary to verify all the criteria that, in general, determine the classification of operations in this category and the specific criteria reflected below:

- that it has been concluded, after an exhaustive review of the owner's equity and financial situation, that the owner is not expected to have financial difficulties
- that a period of one year has elapsed since the date of refinancing or restructuring
- that the owner has paid the principal and interest maturity fees, and that the principal renegotiated has been reduced, from the date on which the restructuring or refinancing operation was formalised or from the date of reclassification of the operation to the categories of doubtful, whichever occurs

later. As a result, the transaction will not be able to present expired amounts. Additionally, it will be necessary:

- that the owner has satisfied, by means of regular payments, an amount equivalent to all the amounts, principal and interests, which were expired at the date of the restructuring or refinancing operation, or which were terminated as a result of the restructuring;
- or, when it is more appropriate, based on the characteristics of the operations, that other objective criteria have been verified that demonstrate the holder's ability to pay.

Therefore, the existence of contractual clauses that delay reimbursement, as elimination periods for the principal, will mean that the operation remains identified as a doubtful risk until the criteria described in that point are met.

- that the holder has no other operation with overdue amounts of more than 90 days on the date of reclassification to the category of normal risk with a significant increase in the risk of the refinancing, refinancing or restructuring operation

When the owner exercises the use of implicit restructuring or refinancing clauses, the entity will have to analyse the causes by which the holder has exercised these clauses and determine whether the transaction should be classified as a doubtful risk.

The risks of owners declared bankrupt without a request for settlement are reclassified to the category of normal risk with a significant increase in risk when the creditor has paid at least 25% of the credits of the entity affected by the bankruptcy - having discounted, where appropriate, the agreed fee - or after two years following approval of the creditors' agreement have passed, provided that this agreement is faithfully fulfilled and that the evolution of the assets and financial situation of the company eliminates the doubts about the total repayment of the debts, all unless interest rates are agreed to that are not lower than those of the market.

The risks that may arise following approval of the creditors' agreement will not need to be classified as doubtful provided that the agreement is complied with and there are no reasonable doubts about payment thereof.

Unless there are other reasons to classify them as doubtful, operations classified in this category may be reclassified as normal risk if the reasonable doubts about their total repayment within the contractually agreed upon terms disappear and if the owner has no more amounts 90 days overdue in other operations at the date of reclassification to the category of normal risk.

- **Bad risk:** this category includes debt instruments, whether or not overdue, which, after being individually analysed, are considered to have remote recovery possibilities and the assets are retired, notwithstanding the actions that the Group may conduct in order to try to collect them until their rights have been definitively extinguished, whether by prescription, forgiveness or other causes.

2.8.1.2. Risk hedging

The Group calculates the amount necessary to hedge the risk attributable to the owner provided that this risk has not been transferred to bad risk. The calculated hedge or provision is defined as the difference between the operation's gross book value and the updated value estimating the cash flow expected to be collected, discounted at the effective interest rate of the operation. In this regard,

- for the purpose of hedge estimates, the risk amount for debt instruments is the gross book value for off-balance-sheet exposures, the estimate of amounts expected to be disbursed;
- the calculation of the current value for estimated future cash flows of a financial asset with effective guarantees will reflect the cash flows that could result from execution of such guarantees, minus the

acquisition and sales cost of the guarantee, regardless of whether or not execution of these guarantees is probable.

According to applicable standards, the hedge calculation method is determined according to whether the creditor is individually significant, along with its accounting classification. For creditors considered individually significant (see the cases identified in the following paragraph), the specific hedge of the operations is estimated individually, and the rest are subject to collective treatment.

Based on the criteria of management and monitoring of credit risk, for the 2018 and 2019 financial years, the Group considers as significant/relevant individual creditors those that fulfil any of the following conditions:

- Creditors in situations other than doubtful with an exposure exceeding 5% of the Group's equity
- Creditors in doubtful situations with a total exposure exceeding 3 million euros

Although IFRS 9 does not require it, it should be noted that Crèdit Andorrà also applies a quantitative threshold to operations without objective evidence of deterioration (not doubtful) in terms of being eligible for an analysis using individual expert models. This decision is supported by the fact that, because of their size, it would be difficult for these operations to be considered consistent with the others and they therefore do not comply with the condition of consistency which is the basis for conducting group analysis of a segment.

Additionally, it should be noted that the Credit Risk Unit has the power to decide that an operation or group of operations be included in the population under individual analysis although a priori the guidelines established by the Group to be eligible for collective calculation are met. This fact is based on the fact that the Credit Risk Unit has the necessary information to determine whether a creditor or an operation has specific characteristics that make its behaviour, in terms of credit risk monitoring and recovery, not consistent with the other members of the segment to which it belongs (internal rating or product).

For further information on methods and models for hedge calculations, see Note 5.2.

2.8.2. Debt securities classified as financial assets at fair value with changes in other comprehensive profit and loss

The market value of quoted debt instruments is considered a fair estimate of the current value of their future cash flows.

When there is objective evidence that the negative differences arising in the valuation of these assets are due to their deterioration, they are no longer presented in the equity heading "Other cumulative consolidated profit and loss - Items that can be reclassified to profit and loss account - Changes in the fair value of financial assets valued at fair value through changes in other consolidated profit and loss" and the amount considered as cumulative impairment up to that moment is recorded in the profit and loss account. In the event of subsequent recovery of all or part of the impairment losses, this amount is recognised in the profit and loss account for the period in which the recovery arose.

2.8.3. Equity instruments classified as financial assets at fair value with changes in other comprehensive profit and loss

When there is objective evidence of impairment, such as a 40% decrease in fair value or a continuing loss situation over a period of more than 18 months, latent losses are recognised following the criteria for recording losses for impairment applied to debt securities classified as financial assets at fair value through changes in other consolidated profit and loss, except that any recovery arising from the mentioned losses is recognised under "Other cumulative consolidated profit and loss - Items that cannot be reclassified to profit and loss account - Changes in the fair value of equity instruments valued at fair value through changes in other consolidated profit and loss".

When determining if there is any impairment, the Group considers whether there are any factors in the technological, market, technical or other kind of environment in which the evaluated entity operates that could indicate that the investment cost may not be recoverable. Likewise, it also considers the volatility displayed by each owner individually in its share price to determine if it is a percentage recoverable by market sale. These considerations may lead to the existence of different thresholds for different owners or sectors mentioned in the previous paragraph.

2.8.4. Equity instruments valued at acquisition cost

Impairment losses of equity instruments valued at acquisition cost are equivalent to the positive difference between its book value and the current value of the expected future cash flows, updated to the market rate of return for other similar values. When estimating the impairment of these kinds of assets, the net equity of the investee entity is considered, except "Other cumulative consolidated profit and loss" due to cash flow hedges, which is determined according to the most recent approved statement of financial position and corrected by the tacit capital gains at the valuation date.

Impairment losses are recorded in the result of the period in which they occur, and directly reduce the instrument's cost.

2.9. Foreign currency transactions

The Group's functional and presentation currency is the euro. Consequently, all balances and transactions expressed in currencies other than the euro are considered to be expressed in foreign currency.

Functional currency is understood as the currency of the main financial environment in which the Group operates. Furthermore, the presentation currency is that in which the Group draws up its financial statements.

All transactions in foreign currency are recorded at the time of their initial recognition, applying the spot exchange rate between the functional and foreign currencies.

Monetary items in foreign currency, including unmatured foreign exchange trades contracted and not yet matured considered as hedges, are converted to euros using the exchange rate on the day on which they occur or, in the absence thereof, using the average exchange rate for the period. Non-monetary items valued at historic cost are converted into euros by applying the exchange rate on the acquisition date and non-monetary items valued at fair value are converted using the exchange rate on the date on which the fair value was determined.

Non-matured, long-term foreign exchange transactions not considered hedges are valued at the year-end exchange rate on the foreign exchange market.

Below are the exchange rates at the close of the financial year.

	31.12.2019	31.12.2018
US dollar	1.1234	1.1450
Swiss franc	1.0854	1.1269
Pound sterling	0.8508	0.8945
Japanese yen	121.94	125.84
Canadian dollar	1.4598	1.5605

The exchange-rate differences arising when converting balances from foreign currency to the Group's functional currency are recorded, as a general rule, in the profit and loss account under the heading "Exchange rate differences (gain or loss), net". The exchange-rate differences arising in variation in value of non-monetary items are recorded under net equity "Other cumulative consolidated profit and loss – Items that can be reclassified to profit and loss account – Foreign currency conversion" of the statement of financial position, until the moment they are realised, while exchange-rate differences in financial instruments classified at fair value through changes

in profit and loss account are recorded in the profit and loss account, without distinguishing them from other variations in fair value.

With the aim of integrating the individual profit and loss accounts of subsidiaries abroad with a functional currency other than the euro into the Group's profit and loss account, the following criteria are applied:

- The subsidiaries' financial statements are converted into the Group's presentation currency. The conversion is performed by applying the exchange rate used to convert balances into foreign currency, except for income and expenses, which are converted using the average exchange rate of the period
- The resulting exchange-rate difference is recorded under net equity "Other cumulative consolidated profit and loss – Items that can be reclassified to profit and loss account – Foreign currency conversion" of the statement of financial position, until retirement of the item to which it corresponds, at which time it will be reclassified in the profit and loss account

2.10. Recognition of income and expenses

The most significant criteria employed by the Group when recognising income and expenses are summarised below.

2.10.1. Income and expenditure of financial assets and liabilities

Income and expenditure of financial instruments at depreciated cost are recognised under the following criteria:

- Accrued interests are recorded in the profit and loss account using the effective interest rate of the operation on the gross book value of the transaction (except in the case of doubtful assets, in which it is applied to the net book value)
- The remaining value changes will be recognised as income or expenditure when the financial instrument is derecognised, when it is reclassified, and, in the case of financial assets, when there are losses due to impairment of value or gains due to its subsequent recovery

Income and expenditure of financial instruments at fair value through changes in profit and loss are recognised in accordance with the following criteria:

- Fair value changes are recorded directly in the profit and loss account. For non-derivative instruments, a distinction is made between the item attributable to the accrued earnings of the instrument, which will be recorded as interest or dividends according to its nature, and the remainder, which will be recorded as results of financial operations in the corresponding item

By way of exception, the Group recognises changes in value of a designated financial liability at fair value through changes in profit and loss, if applicable, as follows:

- the amount of the change in the fair value of the financial liability attributable to changes in the credit risk inherent in this liability is recognised in other consolidated profit and loss, which would be transferred directly to a reserve item if this financial liability was discharged; and
- The remaining amount of the change in fair value of the liability is recognised in the result for the year.

The income and expenditure of financial assets at fair value through changes in other consolidated profit and loss are recognised in accordance with the following criteria:

- The accrued interests or, where applicable, the accrued dividends will be recognised in the profit and loss account. For interest, the assets at depreciated cost are equally applicable

- Exchange differences are recognised in the profit and loss account when dealing with monetary financial assets, and in other consolidated profit and loss in the case of non-monetary financial assets
- In the case of debt instruments, losses due to impairment of value or profits for subsequent recovery are recognised in the profit and loss account
- The remaining value changes are recognised in other consolidated profit and loss

In this way, when a debt instrument is valued at fair value through changes in other consolidated profit and loss, the amounts that will be recognised in the result for the year will be the same as those that would be recognised if it were valued at depreciated cost.

When a debt instrument at fair value through changes in other consolidated profit and loss is discharged from the statement of financial position, the cumulative loss or gain in net equity is reclassified and passed to the result for the period.

On the other hand, when an equity instrument at fair value through changes in other consolidated profit and loss is derecognised, the amount of the loss or gain recorded in other cumulative consolidated profit and loss is not reclassified to the profit and loss account, but rather a reserve item.

Dividends received from other companies are recognised as income the moment the right to receive them arises, which is the official announcement of dividend payment by the company's appropriate body.

2.10.2. Fees

The recording of income and expenditure under the concept of fees in the profit and loss account differs according to their nature.

- Financial fees, such as loan and credit fees, form part of the overall performance or effective cost of a financial transaction and are recognised in the same chapter as financial products or costs, i.e. "Interest income" and "Interest expenditure". Fees collected in advance are entered into results during the transaction's life, except when directly related costs are offset.
- For financial instruments valued at fair value through changes in profit and loss, the fee amount is recorded immediately in the profit and loss account.
- Non-financial fees derived from the provision of services are recorded under "Income from fees" and "Fee expenditure" throughout the service provision period, except those that correspond to a single act, which are recorded at the time they occur.

2.10.3. Non-financial income and expenditure

Recognised for accounting purposes with the criterion for accrual.

2.10.4. Deferred collections and payments

Recognised for accounting purposes by the amount resulting from financially updating the forecast cash flows to market rates.

2.11. Investment funds, pension funds and other assets under management

Investment funds and pension funds managed by the consolidated companies are not recorded in the Group's consolidated statement of financial position, as their equity are the property of third parties. The fees accrued during the financial year for this activity are recorded under "Income from fees" in the profit and loss account.

The consolidated statement of financial position does not record other equities managed/advised by the consolidated companies that are owned by third parties and for which a fee is received for management/advice.

2.12. Employee benefits

This records all types of compensation awarded in exchange for services provided by Group employees or for severance payments. They can be classified into four categories:

- Short-term employee benefits
- Post-employment benefits
- Other long-term employee benefits
- Severance payments

2.12.1. Short-term employee benefits

This corresponds to employee benefits other than severance payments, where full settlement is expected within 12 months following the close of the financial year being reported, originating from the service provided by the employee during this period. It includes wages, salaries and contributions to social security; rights to paid leave and paid sick leave; profit-sharing and bonuses and non-monetary employee benefits, such as medical care and the provision of free or partially subsidised goods and services.

The cost of the services provided are recorded under "Administrative expenditure – Personnel costs" of the profit and loss account.

2.12.2. Post-employment benefits

All benefits assumed by the Group in relation to its employees that will be settled after ending the employee's employment relationship with the Group. These include retirement benefits, such as payment of pensions and one-time retirement payments, and other post-employment benefits, such as the contracting of life insurance and medical care for employees once the working relationship has ended.

2.12.2.1. Defined contribution schemes

Post-employment commitments maintained by the Group with its employees are considered defined contribution commitments when contributions of a predetermined nature are made to a separate entity, with no legal or effective obligation to make any additional contributions if the separate entity cannot make remunerations to employees related to the services provided in the current financial year and previous years. The contributions made under this item in each financial year are recorded under "Administrative expenditure – Personnel costs" of the profit and loss account.

Post-employment commitments that do not meet the previous conditions are considered defined benefit obligations.

2.12.2.2. Defined benefit schemes

Under "Provisions - Pensions and other defined post-employment benefit obligations" in the liabilities section of the statement of financial position, the current value of the defined post-employment benefits commitments is recorded, net of the fair value of plan assets (see notes 22 and 22.1).

Those with which the plan's obligations are directly settled and that meet the following conditions are considered plan assets:

- They are not owned by the Group but by a separate third party, legally and without being a linked party
- They are only available to pay or finance post-employment benefits, and are not available for the Group's creditors, even in bankruptcy. They cannot be returned to the Group, except when the assets remaining in the plan are sufficient to meet all plan or Group obligations related to post-employment

benefits, or serve to return post-employment remunerations that the Group has already paid to employees

All of the benefit obligations defined in the Bank are insured by policies contracted with Crèdit Assegurances SAU, an entity that forms part of the Group's consolidation perimeter and, as a result, these insurance contracts do not meet the conditions required to be plan assets.

The consolidation process incorporates the assets and liabilities of Crèdit Assegurances SAU, which include the mathematical provisions of the policies contracted, which means that in the consolidation process the amount recorded in the heading "Other assets - Insurance contracts linked to pensions" is removed and the heading "Liabilities covered by insurance and reinsurance contracts" is reduced by the same amount.

Post-employment benefits are recognised as follows:

- The cost of the services is recognised in the profit and loss account and includes the following items:
 - The cost of current period services, understood as the increase in the present value of the obligations arising as a result of services provided during the year by employees, is recognised under "Administrative expenditure - Personnel costs"
 - The cost of past services, which is the result of changes introduced in existing post-employment benefits or in the introduction of new benefits, as well as the cost of reductions, is recognised under "Provisions or reversal of provisions"
 - Any gain or loss that arises from a settlement of the plan is recorded under "Provisions or reversal of provisions"
- The net interest on the liability/(asset) net of defined post-employment benefits, understood as the change during the year in the net liability/(asset) for defined benefits that arise over the course of time, is recognised under "Interest expenditure" or "Interest income", where there is income, in the profit and loss account
- The revaluation of the net liability/(asset) for defined post-employment benefits is recognised under "Other cumulative consolidated profit and loss" of net equity.
 - Actuarial profit and loss generated during the financial year due to the difference between forecast actuarial hypotheses and reality, and changes in the actuarial hypotheses used
 - The performance of plan assets, excluding the amounts included in the net interest on the liability/(asset) for defined post-employment benefits
 - Any change in the effects of the asset limit, excluding the amounts included in the net interest on the liability/(asset) for defined post-employment benefits

Furthermore, different Group companies also benefit from other remuneration plans related to retirement, all of which correspond to defined contribution schemes (see Note 2.12.2.1.).

2.12.3. Other long-term employee benefits

Other long-term benefits, understood as commitments assumed with early-retirement staff (those who have stopped providing services to the Group, but are not legally retired, and continue to have economic rights in relation to the Group until they become legally retired) are treated for accounting purposes as per the previously established defined post-employment benefit plans, with the exception that actuarial profit and loss are recognised in the profit and loss account under "Provisions or reversal of provisions".

2.12.4. Severance payment

The event giving rise to this obligation is the termination of the working relationship between the Group and the employee as a result of the Group deciding to terminate it, the creation of a legitimate expectation of the employee or the employee's decision to accept benefits for an irrevocable offer made by the Group in exchange for terminating the work contract.

A liability and an expense are recognised the moment that the Group cannot take back the offer made for these benefits to the employee, or the moment when the costs of the restructuring involved in the severance pay payment is recognised. These amounts are recorded as a provision under "Provisions - Other long-term employee remuneration" in the liabilities section of the statement of financial position, until the moment they are settled.

2.13. Taxation

2.13.1. Tax on profits

At 1 December 2011, the General Council of the Principality of Andorra passed Law 17/2011, amending Law 95/2010 of 29 December on Corporate Tax (published in the Official Gazette of the Principality of Andorra, BOPA, number 80 on 28 December 2011), according to which limited companies ("societats anònimes") are subject to a general tax rate of 10%. This law came into force the day after it was published in the BOPA and is applicable to taxation periods starting on 1 January 2012.

The expenses for tax on profits is considered an expense for the financial year and recognised in the result, unless it is the consequence of a transaction whose results are directly recorded in the net equity; in this case, its corresponding tax effect is recorded in net equity.

The expenses for tax on profits is calculated as the sum of the current tax arising for the financial year, which results from applying the tax rate to the taxable base for the financial year, and the change in deferred tax assets and liabilities recognised in profit and loss during the financial year. The resulting amount is reduced by tax admissible deductions.

The temporary differences, negative taxable bases pending payment and credit for tax deductions not applied are recorded as deferred tax assets and/or liabilities. These amounts are recorded, applying the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

All tax assets are recorded under "Tax assets" in the assets section of the statement of financial position and are displayed separated into current, for amounts to be recovered in the coming twelve months, and deferred, for amounts to be recovered in subsequent financial years.

In the same manner, tax liabilities are recorded under "Tax liabilities" in the liabilities section of the statement of financial position and are also shown separated into current and deferred. Current records the amount to be paid for tax in the coming twelve months and deferred are those forecast to be settled in subsequent financial years.

Deferred tax assets are only recognised when it is deemed probable that they will be reversed in the foreseeable future and have sufficient tax profits to be recovered.

At the close of each financial year, the recorded deferred tax is reviewed to ensure that it remains valid, and if necessary is adjusted according to the estimates made.

2.13.2. General indirect tax

On 21 June 2012, Act 11/2012 was published on general indirect taxation, entering into force on 1 January 2013. In its repealing provision, this Act, which contains a general tax rate of 4.5% except for essential products and services, which are taxed at a super-reduced rate (0%) or a reduced rate (1%), and an incremental rate of 9.5% applicable to banking and financial services, repeals, among others, the Act on indirect taxation on banking and financial services of 14 May 2002.

On 3 June 2014, the General Council of the Principality of Andorra passed Act 10/2014, amending Act 11/2012 on general indirect taxation, in force until 1 July 2014. This law sets a limit for tax deductions, applicable only to the financial sector. In this manner, this special regime establishes a maximum annual tax deduction of 10% of the amounts accrued with the tax limit supported in its activity, not taking into account real estate operations.

For accounting purposes, the Group records temporary amounts corresponding to the indirect general tax payable in the assets section of the statement of financial position, in "Tax assets - Current tax assets" and any temporary amounts corresponding to the indirect general tax charged until effectively settled with the corresponding body in the liabilities section of the statement of financial position, in "Tax liabilities - Current tax liabilities".

Non-deductible tax deductions are recorded by the Group as expenditure.

2.13.3. Non-resident income tax

On 29 December 2010, Act 94/2010 was passed on the taxation of income of non-residents for tax purposes, levied on income from economic activities conducted in Andorra by individuals or entities not resident for tax purposes and on income from work received by individuals who are not resident for tax purposes.

The tax rates for those obliged to pay this tax is 1.5% for reinsurance operations, 5% for fees and 10% in general cases.

For accounting purposes, the Group records any temporary amounts corresponding to the collection of tax on the income of non-residents for tax purposes until effectively settled with the corresponding body in the assets section of the statement of financial position, under "Tax assets - Current tax assets".

2.13.4. Act 5/2014 of 24 April on Personal Income Tax

On 24 April 2014, the General Council of the Principality of Andorra passed Act 5/2014 on Personal Income Tax, which came into force on 1 January 2015.

This act is a cornerstone of the process of financially opening up the Principality of Andorra, insofar as it involves the creation of a personal income tax comparable to that existing in other neighbouring countries, in the European Union and in the OECD.

This tax, among others, is levied on the income of individual taxpayers. Specifically, interest and other financial returns (returns on investment income), capital gains or losses at a tax rate of 10%.

For accounting purposes, the Group records any temporary amounts corresponding to the collection of personal income tax until effectively settled with the corresponding body in the liabilities section of the statement of financial position under "Tax liabilities - Current tax liabilities".

2.14. Tangible assets

This includes the amount of property, land, furniture, vehicles, computer equipment and other facilities acquired as property or under a lease. The heading "Tangible assets" in the statement of financial position is broken down into two sections: "Tangible fixed assets" and "Real estate investments".

The first records the privately used tangible assets and assets leased out under an operating lease. Privately used fixed assets consist of assets held by the Group for present or future administrative purposes or for the production or supply of goods expected to be used during more than one financial year.

The "Real estate investments" section records assets that are to be leased out under an operating lease or to obtain a capital gain via their sale.

As a general rule, tangible assets are presented at acquisition cost, net of cumulative depreciation and value adjustment resulting from comparing the net value of each item with the corresponding recoverable amount.

The depreciation is calculated by applying the straight-line method to the acquisition cost of the assets less their residual value. Land is the exception and is not depreciated as it is estimated to have an indefinite life span.

The depreciation charge for tangible assets is recognised under "Depreciation" on the profit and loss account and is basically equivalent to the following depreciation percentages calculated according to the estimated useful life in years of the different items.

Useful life of tangible assets	
Real estate	30 to 50 years
Furniture	4 to 6 years
Installations	8 to 10 years
IT equipment	3 to 5 years
Vehicles	5 years

Depreciation of assets by right of use is made in return in the "Depreciation" section of the profit and loss account on the basis of the lesser between the useful life of the underlying asset and the term of the lease to which it relates. The lease terms are between 1 year and 20 years.

At the close of each accounting period, the Group analyses whether there is evidence that the net value of its tangible assets exceeds the corresponding recoverable amount, understood as the highest amount between fair value less the necessary selling costs and value in use.

If it is determined that there are indications, an impairment test is performed to verify if it is necessary to recognise a deterioration loss. If this is the case, it is recorded under "Net impairment of the value or reversal of the impairment of the value of non-financial assets" in the profit and loss account, and the book value of assets is reduced to the recoverable amount.

After the impairment loss is recognised, future charges under the concept of depreciation are adjusted in proportion to the book value and its remaining useful life.

Similarly, when it is shown that the value of assets has been recovered, the reversal of impairment loss recognised in previous periods is recorded and future charges are adjusted under the concept of depreciation. Under no circumstances may the reversal of an asset impairment loss represent an increase in its book value greater than its value if impairment losses had not been recognised in previous financial years.

Likewise, once a year as indications make it advisable, the estimated useful life of fixed asset items is reviewed and, if necessary, allocations are adjusted under the concept of depreciation in the profit and loss account for future financial years.

Conservation and maintenance expenses are charged in the heading "Administrative expenditure - Other administrative expenses" of the profit and loss account. Likewise, operating revenues from real estate investments are recorded under "Other operating income" in the profit and loss account, while the associated operating expenses are recorded under "Other operating expenses".

2.15. Intangible assets

Intangible assets are identifiable non-monetary assets with no physical appearance, arising due to acquisition from third parties or developed internally.

2.15.1. Goodwill and differences from first consolidation

Goodwill and differences arising from the first equity consolidation represent the prepayment made by the acquiring entity for future financial profits from assets that could not be individually identified or separately recognised. Goodwill is only recorded when business combinations are made for good and valuable consideration.

In business combination processes, goodwill arises as a positive difference between:

- The consideration provided plus, where applicable, the fair value of prior investments in the equity of the acquired business and the amount of external partners
- The net fair value of the acquired identified assets minus the assumed liabilities

Goodwill is recorded under "Intangible assets – Goodwill" and under no circumstances is it depreciated.

At the close of each financial year, or in the event of indications of impairment, an estimate is conducted to see if any impairment that reduces the recoverable value below the recorded net cost has arisen and if so, it is remedied with the corresponding offsetting entry in "Impairment or reversal of impairment of the value of non-financial assets - Goodwill" of the profit and loss account. Impairment losses are not subject to reversal in the subsequent period.

2.15.2. Other intangible assets

This item includes the amount of identifiable intangible assets, intangible assets arising in business combinations and IT programs, among other items.

They have an indefinite useful life when, based on the analysis conducted on all relevant factors, it is concluded that there is no foreseeable limit for the period during which the generation of net cash flows is expected in favour of the Group or the useful life defined for the remaining cases.

Intangible assets with an indefinite useful life are not depreciated. At the close of each financial year, however, or always when there is an indication of impairment, the remaining useful lives are reviewed to ensure that they continue to be identified or otherwise the appropriate steps are taken.

Intangible assets with a finite useful life are depreciated based on this basis, applying criteria similar to those used for the depreciation of tangible assets.

The depreciation expenses for these assets is recognised under "Depreciation" on the profit and loss account, and is basically equivalent to the following depreciation percentages calculated according to the estimated useful life in years of the different items.

Useful life of intangible assets	
IT applications	5 to 10 years
Other	5 to 10 years

With regard to the information broken down in the previous table, the general rule of the Group is to depreciate the intangible assets with a defined useful life in a maximum of 5 years, although there are certain assets that due to their characteristics, specificities and relevance are depreciated in 10 years. These assets relate mainly to (1)

the banking core (Avaloq), and (2) client portfolios acquired as part of business combinations for which, in the process of valuation of the acquired businesses, a useful life of 10 years or more was considered.

Losses that occur in the recorded value of these assets, whether they have an undefined or defined useful life, are recognised with a balancing entry under "Deterioration of the value or reversal of impairment of the value of non-financial assets - Other intangible assets" on the profit and loss account. The criteria for recognising impairment losses of these assets and, where applicable, the recovery of impairment losses recorded in previous financial years are similar to those applied to tangible assets.

2.15.2.1. IT programs developed by the same entity

Internally developed IT programs are recognised as intangible assets when, among other requirements, there is the capacity to use or sell them and their capacity to generate future financial profit is identifiable.

Expenditure incurred during the research phase is directly recognised in the profit and loss account during which it occurs and cannot be incorporated subsequently into the book value of the intangible asset.

2.16. Non-current assets and disposable groups of items classified as held for sale, and liabilities included in disposable groups of items classified as held for sale

Assets recorded in these sections of the statement of financial position record the book value of individual items, either integrated into a set (disposal group) or forming part of a business unit that is intended to be sold (discontinued operations), the sale of which in their present condition is highly probable within one year from the date referred to in the financial statements. Furthermore, assets expected to be sold within a year, although delays are caused by events and circumstances beyond the Group's control and with sufficient evidence that the Group remains committed to its plan to sell, can be classified as held for sale. The recovery of the book value of these items will foreseeably take place through the price obtained from their sale.

To be precise, real estate assets or other non-current assets received to fully or partially cancel the payment obligations of debtors for credit operations are considered "Non-current assets and disposable groups of items classified as held for sale", provided that a decision has been made to make continuous use of these assets.

Held-for-sale non-current assets are initially valued, in general, at the lowest amount between the applied book value of the financial assets and the fair value minus the sales costs of the asset to be defined:

- By estimating the hedging of the financial assets applied, the guarantee amount to be recovered will be understood as the fair value minus the estimated sales costs of the asset, allocated when the Group's sale ratifies its capacity to realise this asset at its fair value. This recalculated book value is compared with the previous book value, and the difference is recognised as an increase or release of hedging, as applicable
- To determine the fair value minus sales costs of the asset to be allocated, the Group starts with the benchmark value of the market value awarded in appraisals conducted by independent experts at the time of allocation or receipt. An adjustment to sales costs is applied to this market value

After the initial recognition, the Group compares the book value with fair value minus the sales costs, and records any possible additional impairment in the profit and loss account.

To do so, the Group updates the benchmark valuation serving as an estimate of the fair value with a maximum frequency of between 1 and 2 years. The aforementioned fair value is determined based on appraisals or valuations conducted by independent experts with a maximum age of 2 years. With regard to assets appearing in the statement of financial position at 31 December 2019, the Group has obtained up-to-date appraisals of 100% of non-current assets classified as held for sale.

Regarding appraisals used by the Group, they are all conducted by professionals that are independent of the Group and with sufficient staff and technical means to perform valuations.

Although there is no benchmark standard for appraisals, the Decree approving the amendment to Urban Regulations is in force in the Principality of Andorra.

The valuation methods are considered suitable for the purpose of this valuation. The main valuation methods used by the independent experts with which the Group works are:

- **Static residual method.** To determine the taxation value, the value of exhausting the development potential of the land/plot is valued adding, where applicable, the amount expected to be obtained from any alternative use of a land/plot planned for development, considering its associated cost and a correcting factor (if necessary), as well as the fees of the promoting company (consistent with the requirement of Order ECO/805/2003)
- **Comparison method.** The qualities and characteristics of the property under valuation are established. Based on this, a comparable market study is conducted to establish the market price. Subsequently, the quality indicators and characteristics of the real estate are standardised and the property price is determined based on comparisons (consistent with the requirement of Order ECO / 805/2003)
- **Cost method.** The net replacement cost is determined by calculating the amount that would be used to construct the land/plot, the additional costs (without taking into account the benefits of promotion) are added and depreciation deducted (in line with the requirements of Order ECO/805/2003)
- **Combined method.** This method is a combination of the cost method (in line with the requirements of Order ECO/805/2003) and the comparison method (in line with the requirements of Order ECO/805/2003):
 - A qualitative analysis of the property is conducted, as well as a market study to determine the value of the plot, so that its replacement cost can then be calculated
 - The market coefficient is estimated by determining the relationship between the market value of the real estate and the cost to renovate or develop it, not including promotional profits (previously obtained via the cost method)
 - The market value is the result of the product of the replacement value and the market coefficient

Held-for-sale non-current assets are not depreciated while they remain in this category.

The impairment losses of an asset, or disposal group, are recognised under "Profit (loss) due to retirement of non-current assets for sale inadmissible as discontinued operations" of the profit and loss account. The profit from a held-for-sale non-current asset due to subsequent increases in fair value (minus the sales cost) increase its book value and are recognised in the same heading in the profit and loss account, until an amount equal to the previously recognised impairment loss is reached.

2.17. Leases

2.17.1. Entry into force of IFRS 16

The entry into force of IFRS 16, on 1 January 2019, seeks to establish the principles for the recognition, measurement, presentation and breakdown of leases. The new standard has introduced a single accounting model for the lessee, which requires it to recognise in its financial statements the assets and liabilities of all its leases, similar to the lease accounting established in IAS 17 (see Note 1.3.).

For lessors, the dual model in IAS 17 is substantially maintained, distinguishing between financial leases and operating leases.

2.17.2. Lease accounting when the Group is the lessee

The lessee, at the outset, must evaluate whether the contract constitutes or contains a lease. That is, whether the contract constitutes or contains the right to control the use of a particular asset for a certain period of time in exchange for consideration. The Group, in accordance with IFRS 16, has not reassessed its contracts to determine whether they are leases, but instead considers leases to be those contracts that are leases according to IAS 17.

At first, a lease liability is recognised for the underlying asset at the present value of payments for outstanding leases, discounted using the implicit lease rate, if it is readily determinable. Otherwise, the incremental interest rate on the debt of the Group company that owns the lease is used.

Lease liabilities are recognised under "Financial liabilities at depreciated cost - Other financial liabilities" of the consolidated statement of financial position (see Note 19). Financial expenditure is recorded under the heading "Interest costs - Financial liabilities at depreciated cost" of the consolidated profit and loss account (see Note 34).

At first, an asset is recognised for the right of use, for the value of the lease liability adjusted for any payment made before or on the contract start date, for the direct costs and/or the estimation of future costs by dismantling, removing the underlying asset or returning it under the conditions required by the contract.

This asset is recognised under "Tangible assets - Tangible fixed assets" of the consolidated statement of financial position (see Note 15).

For short-term leases and leases in which the underlying asset is of little value, as permitted by IFRS 16, the Group recognises the cost directly in the profit and loss account for the year, without recognising the right of use or financial liability.

The Group measures the lease liability by increasing the book value to show interest on the lease liability and reducing the book value to reflect lease payments made.

The right-of-use asset is measured at cost less any cumulative depreciation, which is recognised under the heading "Depreciation - Tangible assets" of the consolidated incomes statement (see Note 41), less any cumulative impairment losses, reflecting any new valuation of the lease liability.

After its initial application, the standard requires that the lease liability be valued to show changes in payments, caused by changes in time, changes in options inherent in the contract or changes in updated rate payments, among others.

2.17.3. Lease accounting when the Group is the lessor

Contracts in which the Group is the lessor are classified as financial or operating leases.

2.17.3.1 Financial leases

Financial leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

In operations in which the Group acts as the lessor for the property, it is recorded as granted financing in the heading "Loans and receivables" in the assets section of the statement of financial position, in the amount resulting from the sum of the current values of cash flows to be collected from the lessee. These cash flows incorporate the price of exercising the purchase option in favour of the lessee at the expiry of the contract, in cases where this exercise price is sufficiently lower than the fair value of the property at the expiry date of the option, in such a way that it is reasonably probable that it will have to be exercised.

Financial income is recognised in the "Interest income" section.

At 31 December 2019 and 2018, the Group does not have, as a lessor, lease agreements that meet the conditions to be considered as financial leases.

2.17.3.2 Operating leases

Operating leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset, and its property, to the lessor.

The acquisition cost of leased property is recorded in the "Tangible assets" section of the statement of financial position. Assets are depreciated using the same criteria as those used for privately used tangible assets, and the revenue corresponding to these contracts is recognised in the heading "Other operating income" of the profit and loss account.

2.17.4. Sales transactions with subsequent leasing

In those transactions in which an asset owned by the Group is sold to a third party and after the sale of this asset, the Group leases the sold asset, it analyses whether the terms of the contract meet the requirements for the sale to be considered as the effective sale of the underlying asset; in other words, the transfer of control of the asset to the buyer occurs, as set out in IFRS 15 "Revenue from Contracts with Customers".

If the transfer can be considered a sale, the Group:

- Deregisters the transferred asset
- Recognises the sale at fair value
- Recognises an asset by right of use for an amount equal to the previous book value of the asset that relates to the right of use retained by the Group
- Recognises a lease liability
- Recognises only the gain or loss related to the rights transferred to the "lessor - buyer"

If the transfer does not meet the criteria for a sale, the Group continues to recognise the transaction asset and recognises a financial liability equivalent to the consideration received.

At 31 December 2019 and 2018, the Group recorded a sale and leaseback transaction corresponding to the parent company's headquarters. This transaction, which originated in 2014, was recognised as an operating lease. Following the entry into force of IFRS 16, this transaction was recognised in the consolidated statement of financial position in accordance with the new criteria established by this standard (see Note 1.3.).

2.18. Contingent assets

Contingent assets arise from unexpected or unplanned events that give rise to the possibility of an in-flow of financial profit. Contingent assets are not recognised in the statement of financial position and in this way an income is not recorded that may never materialise.

Contingent assets are subject to continued evaluation with the aim of ensuring that their development is suitably reflected in the financial statements. When the in-flow of financial profit becomes practically certain, the income and asset are recognised in the financial statement in the period in which this change occurred. If the in-flow of financial profit becomes probable, this is added to the notes on the corresponding contingent asset.

2.19. Contingent liabilities and provisions

Provisions cover present obligations at the date of preparing the financial statements that arise as a result of past events from which property losses can be derived and the occurrence is considered probable; they are specific with respect to their nature, but not determined with respect to their amount and/or cancellation time.

The Group's financial statements record all significant provisions, where it is estimated that the probability that meeting the obligation is greater than the probability that it will not be necessary. Provisions are recorded in the liabilities sections of the statement of financial position according to hedged obligations, including pension funds and similar obligations, provisions for taxes, and commitments and guarantees granted.

Provisions, quantified considering the best information available on the consequences of the event causing them and re-estimated at the end of every financial year, are used to meet the specific obligations for which they were originally recognised. The reversal is conducted, fully or partially, when the obligations no longer exist or decrease.

When there is a present obligation but an outflow of resources incorporating economic benefits is unlikely, it is recorded in contingent liabilities. Contingent liabilities can develop in an initially unexpected way and are thus subject to continuous review to determine if the outflow of resources has become probable. If it is confirmed that it is more likely than not that the outflow of resources will occur, the corresponding provision is recognised in the liabilities section of the statement of financial position.

The provisions are recorded under "Provisions" in the liabilities section of the statement of financial position according to hedged obligations. Contingent liabilities are recognised in off-balance-sheet accounts.

2.20. Insurance operations

The Group applies the requirements established in IFRS 4 "Insurance Contracts" to all the assets and liabilities of their consolidated financial statements derived from insurance contracts, according to the definition provided in this standard.

The group conducts insurance and re-insurance operations directly through the Insurance Group.

Insurance contracts involve the transfer of determined and quantifiable risk, in exchange for a periodic or single premium. The effects on the Group's cash flows will be derived from a deviation in planned payments, shortfall in the established premium, or both.

The heading "Assets covered by insurance and reinsurance contracts" includes amounts that consolidated entities have the right to receive from reinsurance contracts they hold with third parties and, more specifically, the reinsurance investment in the technical provisions constituted by consolidated insurance entities.

At least once a year it is analysed if these assets are deteriorated (if there is objective evidence, as a result of an event that occurred after the initial recognition of the asset in question, that the Group may not receive the amounts contractually established and may reliably quantify the amount that will not be received). In this case, the loss corresponding to the consolidated result will be recorded and the so-called assets will be retired.

In the heading "Liabilities covered by insurance and reinsurance contracts", the technical provisions recorded by consolidated entities are recorded in order to hedge claims arising from insurance contracts that remain valid at the end of the year.

The results of the insurance companies for their insurance activity are recorded according to nature in the corresponding headings of the consolidated profit and loss account.

According to generalised accounting practice in the insurance sector, consolidated insurance entities credit to results the amounts for premiums they issue and charge to their result the cost of damages they have to cover when final settlement thereof arises. These accounting practices obligate insurance entities to accrue/defer at the close of each financial year both the amounts credited and not yet earned at this date and the accrued costs not yet charged.

At the close of each financial year, valuations of liabilities for insurance or re-insurance contracts recognised in the consolidated statement of financial position are checked for their suitability, calculating the difference between the following amounts:

- The current estimates of future cash flows resulting from insurance contracts of consolidated entities. These estimates will include all cash flows, as well as the costs of processing claims; and
- the value recognised in the consolidated statement of financial position for insurance contracts, net of any deferred acquisition expenses or related intangible asset, such as the amount paid for the acquisition (in the assumption of purchase by the entity) of the financial rights derived from a set of policies from its portfolio in favour of an intermediary.

If a positive amount is obtained from this calculation, this shortfall is charged to profit and loss account.

The most significant items forming part of the technical provisions are as follows.

- **Provisions for unearned premiums.** This constitutes a fraction of the premium earned in the financial year that must be entered into the corresponding period between 31 December and the end of the period covered by the policy. They are determined from policy to policy, based on the premiums of fees earned during the financial year, according to the days remaining from the closing date of the current financial year to the expiry date of the contract to which the premium refers
- **Provision for benefits.** This contains the estimates made individually of the Group's responsibilities arising from claims pending settlement or payment at financial year close, as well as an estimate of the obligations that can be derived by the Group as a result of claims arising before this date and pending recording
- **Mathematical provision.** This is calculated as the difference between the current actuarial value of the Group's future obligations and those of the policyholder or insured party. It is determined on a policy by policy basis, based on the technical characteristics of each modality.
- **Provision for participation in profits and expenses.** This records the amount of profit accrued in favour of policyholders, insured parties or beneficiaries, based on the behaviour of the risk insured.
- **Technical provisions for assigned reinsurance** Assets in the statement of financial position display the technical provisions ceded to reinsurance, based on the same criteria used for direct insurance, in accordance with reinsurance contracts.
- **Technical provisions related to life insurance when the investment risk is assumed by the policyholder.** These provisions reflect the value of specifically assigned assets or the results of using fixed indices or assets as a benchmark to determine the financial value of the policy holder's rights. The corresponding provisions are recorded when the risks are not entirely assumed by the policyholder.

2.21. Cash flow statement

The concepts used in this cash flow statement presentation are as follows:

- **Cash flow:** in-flow and out-flow of cash and cash equivalents, i.e. short-term investments with high liquidity and low risk of value changes
- **Operating activities:** the indirect method is used to present cash flows of operating activities, to reflect the flow from typical activities of lending institutions, as well as other activities that cannot be classified as investment or financing
- **Investment activities:** the acquisition, sale or disposal by other means of non-current assets, strategic investments and shares, and other investments not included in cash and cash equivalents
- **Financing activities:** activities resulting in changes in the composition of net equity and liabilities that do not form part of operating activities, such as subordinated financial liabilities

2.22. Consolidated profit and loss account

This account represents the income and expenditure recognised as a result of the Group's activity during the financial year, differentiating between those recorded as profit and loss in the profit and loss account, and other income and expenditure recognised directly in net equity.

The items used in the presentation of the statement are as follows:

- Profit and loss for the year
- The net amount of income and expenditure recognised temporarily as "Other consolidated profit and loss" in the net equity
- The net amount of income and expenditure recognised definitively as "consolidated profit and loss" in the net equity
- The tax on profits applied based on the previous items
- The total consolidated profit and loss for the financial year calculated as the sum of the previous items

2.23. Statement of changes in net equity

This statement presents the changes arising in the Group's net equity, including those arising from changes in accounting criteria and error correction. The statement presents a reconciliation of the book value at the beginning and end of the year for all items forming part of the net equity.

- Adjustment due to changes in accounting policies and error corrections include changes in the net equity that arise as a result of the retroactive re-expression of financial statement balances, differentiating between those arising from changes in accounting policies and those corresponding to error correction.
- The total consolidated profit and loss for the financial year records, on an aggregate basis, the total aforementioned items recorded in the consolidated profit and loss account.

- However, other variations in net equity are presented, such as capital increases or decreases, dividend distribution, operations with privately used capital instruments, payment with privately used capital instruments, transfers between net equity items and any other increase or decrease in net equity.

3. Consolidation perimeters and principals of accounting policies

As well as the data corresponding to the parent company, the consolidated financial statements include information corresponding to subsidiaries, joint ventures, associates and if applicable, consolidated structures. The integration procedure for equity items of these companies is conducted depending on the type of control or influence to be exercised.

The consolidation of the profits and loss generated by companies making up the Group in a financial year is conducted by taking into consideration only the results for the period between the acquisition date and the closing date of the financial year. Likewise, the consolidation of results generated by companies disposed of in the financial year is conducted only considering the results for the period between the start of the financial year and the disposal date.

In the consolidation process, all important balances and transactions between companies making up the group have been eliminated, in the proportion corresponding to the consolidation method applied.

Annex II (an integral part of this note) provides significant information on companies making up the Group.

3.1. Subsidiaries

Subsidiaries are those over which the Group has control, a situation that arises when the Group is exposed to or has the right to variable returns from their involvement in the subsidiary, and has the capacity to influence these returns through its power over that entity.

In order to consider that control exists, the following circumstances must concur:

- **Power.** An investor has power over a subsidiary when it has rights in force that provide it with the ability to manage relevant activities, i.e. those that significantly affect the returns of the subsidiary
- **Performance.** An investor is exposed to, or has the right to, variable income for its involvement in the subsidiary when the results it obtains from said involvement vary depending on the financial development of the subsidiary. The investor income can be positive, negative or both positive and negative at once
- **Relationship between power and income.** An investor controls a subsidiary if the investor not only has control over it and is exposed, or has the right to variable income for its involvement in that entity, but also if it has the ability to use its power to influence the income obtained by its involvement in the subsidiary

At the time of taking control of a subsidiary, without exception due to its activity, the Group applies the acquisition method set out in the standard framework (see Note 3.5), provided it is dealing with the acquisition of an asset or group of assets.

The financial statement of the subsidiaries are consolidated with those of the parent company using the full integration model, which consists of integrating the assets, liabilities and net equity, income and expenditure, of a similar nature, that appear in their individual financial statements.

The book value of direct and indirect shares in the capital of subsidiaries is eliminated with the fraction of net equity of the subsidiaries they represent. The remaining balances and transactions between consolidated companies are eliminated in the consolidation process.

The participation of third parties in the Group's consolidated net equity is presented in the "Minority interest" section of net equity, and the item of the result for the financial year attributable to this is presented under "Result for the year - Attributable to minority interests" of the profit and loss account.

When control of a subsidiary is lost, the assets, liabilities, minority interests and other items that can be recognised in adjustments for valuation must be discharged in the consolidated statement of financial position and the fair value of the consideration received must be recorded, as well as any other remaining investment. The difference between these two values is recognised in the consolidated result.

3.2. Joint ventures

These are entities involving contractual joint control agreements, based on which decisions on relevant activities are made unanimously with the other entities sharing the control.

Investment in joint ventures are valued by applying the investment method, i.e. by the fraction of net equity representing the participation of each entity in its capital once the received dividends are considered, as well as other equity eliminations.

3.3. Associates

These are associates over which the Group has significant influence and are generally, although not exclusively, evidenced in direct or indirect ownership of 20% or more of the company's ownership rights. Associates are valued in the consolidated financial statement using the investment method.

Annexes I.3 and I.4 include details of the companies in the Group's consolidation perimeter for the investment method, where both the value at which the aforementioned holdings in individual book values (net book value) and the consolidated book value (equity method value) can be seen.

3.4. Structured entities

A structured entity is an entity that has been designed so that the voting rights or similar are not a decisive factor when making controlling decisions.

In cases where the Group has a holding in or constitutes entities, for the transmission of risk or other objectives, or with the aim of granting customers access to given investments, it is determined (as per the regulatory framework) whether there is control, as described earlier, and hence if they need to be included in consolidated accounts. In particular, the following factors are taken into consideration, among others:

- Analysis of the Group's influence on the entity's relevant activities that could influence the amount of their returns
- The Group's implicit or explicit commitments to provide financial support to the entity
- Identification of the entity's manager and analysis of the remuneration system
- Existence of exclusion rights (possibility of revoking operators)
- The Group's significant exposure to variable returns from the entity's assets

These entities include those known as "asset securitisation funds", which are consolidated in cases where it is determined that the Group has maintained control, based on the previous analysis.

In the case of companies, investment funds and pensions managed by the Group (retail funds without legal status for which investors acquire aliquot items that provide them with ownership of the managed equity), they are considered not to meet the requirements of the regulatory framework for consideration as structured entities.

In this regard, during the 2018 and 2019 financial years, the Group did not maintain investments in structured entities, and therefore the consolidation perimeter does not include any structured entities.

3.5. Business combinations

A business combination is a transaction, or any other event via which the Group obtains control of one or several businesses. The acquisition method is used to record business combinations for accounting purposes.

According to this method, the acquiring entity must recognise the acquired assets and assumed liabilities in its financial statement, while also considering the contingent liabilities, according to their fair value; including those not recognised in accounting by the acquired entity. Likewise, this method requires an estimate of the cost of the business combination, which usually corresponds to the consideration provided, defined as the fair value at the acquisition date of the provided assets, the liabilities incurred by the previous owners of the acquired business, and the equity instruments issued by the acquiring entity, where applicable.

The Group recognises goodwill in the consolidated financial statement if at the acquisition date there is a positive difference between:

- the sum of the consideration provided plus the amount for all minority interests and the fair value of prior investments of the acquired business; and
- the fair value of recognised assets and liabilities.

If the difference is negative, it is recorded under "Goodwill recognised in results" of the consolidated profit and loss account.

In cases where the consideration amount depends on future events, any contingent consideration is recognised as part of the provided consideration and measured by its fair value at the acquisition date. Likewise, to these effects, the costs associated with the operation do not form part of the cost of the business combination.

If the cost of the business combination or the fair value assigned to assets, liabilities or contingent liabilities of the acquired entity cannot be determined definitively, the initial accounting of the business combination will be considered provisional. In all cases, the process must be fully completed within a maximum period of one year from the acquisition date and with effect at this date.

The minority interests of the acquired entity are valued based on the proportional percentage of the identified net assets of the acquired entity. In the case of purchases and disposals of these minority interests, they are accounted for as capital transactions when they do not give rise to a change of control, no loss or gain in the consolidated result is recognised and the goodwill initially acknowledged is not revalued. Any difference between the consideration provided or received, and the increase or decrease in minority interests, respectively, is recognised in reserves.

3.6. Main investments forming part of the Group's consolidation, and changes in consolidation

Below is a brief description of the corporate purpose and main characteristics of the main companies or subgroups that make up the consolidation scope at 31 December 2019 and 2018.

- **Credi-Invest SA** is a fund management company.

Crédit Andorrà SA is the depositary company of the Andorran investment agencies and Banque de Patrimoines Privés SA, of the Luxembourg investment agencies.

This company, as well as the investment agencies that it manages, are subject to the supervision and control of the AFA.

The products offered by Credi-Invest SA are sold under the name of Crédit Andorrà Asset Management.

At 8 February 2011, the ANIF approved the request by Credi-Invest SA to extend its activities in order to conduct the discretionary, individualised management of portfolios and to provide investment advice.

- **Crédit Initiatives SA** is a venture capital company. At 31 December 2019 and 2018, the investee portfolio of this subgroup was formed by SPA SA (25%) and CLIGE SA (25%).
- **Patrigest SA** is a property asset management company. At 31 December 2019 and 2018, the investee portfolio of this subgroup was formed by Cassamanya Ltd. (99.97% owned directly by Crédit Andorrà SA and 0.03% by Patrigest SA), Credi-Invest SA (20%) and Private Investment Management SA (Switzerland) (100%).

The Board of Directors of Crédit Andorrà, SA, meeting on 29 October 2019, agreed to the voluntary liquidation of Private Investment Management SA (Switzerland) because of the change in the strategic model established by the Group, in which it committed to concentrating efforts on those locations that offer a higher expectation of growth and sustained and sustainable profitability. This company has therefore been discontinued under the heading "Gains or losses after taxes from uninterrupted activities" in the Group's profit and loss account.

- **Crédit Capital Immobiliari SA** is a property company whose only activity is holding and managing the Group's property.
- **Crédit Andorrà Preference Ltd.** is a 100% owned subsidiary of Crédit Andorrà SA, established in December 2005 for the issue of preferred shares (see Note 19.5.1).
- **Crédit Andorrà Panamá Holding SA** is a 100% owned subsidiary of Crédit Andorrà SA whose sole corporate purpose is to perform the functions of a parent company for the subgroup Crédit Andorrà Panamá, the vehicle used by the Bank to channel the expansion of its Latin American business.

In September 2008, the Republic of Panamá Superintendency of Banks (the supervising authority in that country) authorised an international banking licence for Crédit Andorrà. Subsequently, at 17 November 2008, Banco Crédit Andorrà (Panamá) SA was set up, fully-owned by Crédit Andorrà Panamá Holding SA, and started operations with the main purpose of conducting asset management, offering customers a wide variety of financial services and general advice.

In 2009, the Crédit Andorrà Group was granted a licence by the National Securities Commission of the Republic of Panamá to operate through the securities firm Crédit Andorrà Panamá Securities SA. This subsidiary, fully-owned by Crédit Andorrà Panamá Holding SA, focuses its services on brokerage and financial consultancy.

In order to maximise the efficiency and synergies of the subgroup, once the relevant authorisations had been obtained, at 30 June 2012, Banco Crèdit Andorrà (Panamá) SA took over Crèdit Andorrà Panamá Securities SA, the former remaining as the only company with a licence for international banking and as a securities firm.

In addition to the companies mentioned above, as at 31 December 2019 and 2018, the Crèdit Andorrà Panamá subgroup that can be consolidated also included the following companies: Crèdit Andorrà Panamá Patrimonial SA (100%) and Crèdit Andorrà Panamá Call Center SA (100%).

The Board of Directors of Crèdit Andorrà, meeting on 18 December 2019, proposed to terminate the licence for Banco Crèdit Andorrà SA (Panamá) and keep the securities licence of Crèdit Andorrà Panamá Securities SA due to the change in the strategic model in the private banking business.

At 31 December 2019, there is no discontinuity in the Group's consolidated financial statements, since when they were drawn up, the necessary steps to this end had not yet been completed before the Superintendency of Banks of Panama, including the presentation and approval of the settlement plan.

- **Informàtica Crèdit Andorrà SLU.** Holding company whose only activity is to handle the Group's ownership and management of IT-related fixed assets (both tangible and intangible).
- **Banque de Patrimoines Privés SA.** On 20 April 2011, Crèdit Andorrà completed the process to acquire 100% of the share capital of Luxembourg bank, Banque de Patrimoines Privés SA.

The acquisition of Banque de Patrimoines Privés SA was strategic and its purpose was to strengthen the Group's position in the European market and particularly in international private banking.

At 31 December 2016, Banque de Patrimoines Privés SA had a branch in Portugal which closed during the 2017 financial year.

- **Banco Alcalá SA.** At 11 October 2011, Crèdit Andorrà concluded the acquisition of 85% of the capital of the Spanish bank Banco Alcalá SA and its subsidiaries Gesalcalá SA, SGIIC and Alcalá Pensiones EGFP, SA (both 100% owned by Banco Alcalá, SA).

On 4 February 2013, having obtained the approval of the various regulators (ANIF, Bank of Spain and the Spanish Securities and Investments Board or CNMV), Banco Alcalá SA increased its capital by 15%, fully subscribed by two new local strategic partners, diluting Crèdit Andorrà's holding from 85% to 72.25%.

On 7 January 2016, the Bank acquired 9.0301% of the share capital of Banco Alcalá, SA which up until that point had been in the ownership of minority shareholders, bringing the Bank's holding at 31 December 2016 to 81.3%.

On 23 May 2018, the Bank acquired 3.7% of the share capital of Banco Alcalá, SA which up until that point had been in the ownership of minority shareholders, bringing the Bank's holding at 31 December 2018 to 85.0%.

Banco Alcalá SA focuses on global asset management for private and institutional customers and has branches in Barcelona, Madrid and Valencia.

In the course of the 2018 financial year, in compliance with IFRS 10, "Consolidated Financial Statements", the Bank recognised a liability of 3,914 thousand euros in respect of the valuation of certain sale options over shares in its Spanish subsidiary owned by the minority shareholders of Banco Alcalá SA. The balancing entry for that liability was made against reserves since the risks and benefits of ownership of

the shares remain with the minority shareholders (and not the Bank) until the time of exercise of the options. At 31 December 2019, the book value of said liability amounted to 4,057 thousand euros.

In the course of the 2018 financial year, Alcalá Pensiones EGFP SA was liquidated and so is no longer within the consolidation perimeter on 31 December 2019 and 2018.

- **CA Holding Luxembourg SARL.** A holding company domiciled in Luxembourg formed on 29 September 2011 as part of the corporate organisation designed by the Group in order to maximise the efficiency of its new Euro Zone business.

At 31 December 2019 and 2018, CA Holding Luxembourg SARL included the following companies within its consolidation perimeter:

- CA Holding España SAU (100%). Company whose only corporate purpose is that of performing the function inherent to a parent company. On 31 December 2019 and 2018, the company held the following investments: 100% of CA Life Insurance Experts Compañía de Seguros y Reaseguros SAU (100% owned by CA Holding España SAU) and 100% of CA Vincles Actuarial Chile SPA
- CA México Asesores Patrimoniales SA de CV (99.9%). Company whose corporate purpose is to provide advice on asset management in Mexico
- Crèdit Andorrà Asset Management Luxembourg SA (100%). Capital management company operating under Luxembourg law set up during 2014 in order to provide management and consultancy services on the Group's collective investment vehicles and those of third parties
- **Beta Capital Securities LLC.** At 30 September 2011, Crèdit Andorrà concluded the acquisition of 80% of the share capital of Beta Capital Management LP, a securities firm based in Miami (United States of America). Additionally, in the same operation, Crèdit Andorrà also acquired 80% of Beta Capital Management LLC (United States). Crèdit Andorrà US GP LLC was created as the holding company for the sub-group and owns 1% of the capital of Beta Capital Management LP (Crèdit Andorrà SA owns the remaining 79% of the capital) and 80% of the capital of Beta Capital Management LLC.

On 12 June 2014, Crèdit Andorrà SA acquired the minority shareholdings in Beta Capital Management LP and Beta Capital Management LLC for a total of 6,953 thousand US dollars and its holding went from 80% at 31 December 2013 to 100% at 31 December 2014. The acquisition was carried out by exercising the put option agreement held by the minority shareholders with Crèdit Andorrà SA for all their shares.

During 2015, Beta Capital Management LP changed its name to Beta Capital Securities LLC.

In the course of the 2018 financial year, the Group re-organised the ownership of shares in the companies in the Beta sub-group in order to improve management of the sub-group and increase the scope for reinvestment of the profits of its member companies. Crèdit Andorrà US GP LLC became the sole shareholder in Beta Capital Securities LLC and Beta Capital Management LLC, while Crèdit Andorrà SA remained the only shareholder in the North American holding company. Ultimate ownership of the different companies was not changed since they were already 100% subsidiaries (directly or indirectly) of Crèdit Andorrà SA.

On 16 and 28 November 2018, Crèdit Andorrà received the consent of the Financial Industry Regulatory Authority (FINRA) and the Andorran Financial Authority (AFA) to extend the business of Beta Capital Securities LLC to include self-clearing, which will allow the subsidiary to be active in the area of liquidation and custody of securities both in transactions involving Beta Capital Securities LLC and, in due course, third-party transactions. This new license will enable the North American subsidiary to extend credit as part of the services that it provides to its customers.

Once approved by the Financial Industry Regulatory Authority (FINRA), the self-clearing operation was performed on 16 October 2019.

- **CA Perú Sociedad Agente de Valores de Bolsa.** On 28 September 2012, 51% was acquired of Krese Sociedad Intermediaria de Valores SAC from the Republic of Peru. The company's original purpose was the provision of financial services related to Peru's stock market, however, its corporate purpose has been amended to include the provision of brokerage services. It was registered with the Peruvian Securities and Exchange Commission (Superintendencia del Mercado de Valores or SMV) under its current name.

At 2 October 2013, the General Shareholders' Meeting of this company agreed to reduce its share capital to zero and also agreed a simultaneous capital increase via the capitalisation of loans pending at the date, a fact that led the shareholding of Crèdit Andorrà SA to reach 100% as it was not subscribed by minority shareholders.

On 30 December 2018, CA Perú Sociedad Agente de Valores de Bolsa ceased its stock market transactions as a stockbroker and, as required by applicable local law, it commenced the process of transferring its clients to a local third-party broker.

At 31 December 2019, all the clients had been transferred and the company was performing the necessary procedures to wind up the company.

- **Crèdit Assegurances SAU.** Holding company of the Crèdit Assegurances sub-group, the purpose of which is to engage in insurance transactions and transactions to hedge risks under private law contracts, including life assurance of all kinds. It is subject to the provisions of Act 12/2017 of 22 June on the regulation and supervision of insurance and re-insurance in the Principality of Andorra (see Note 48.1.9). Its sole shareholder is Crèdit Andorrà SA.

During 2018, Enterprise Risk Management SA (ERM, SA), a company owned 90% by Crèdit Assegurances (and 10% by Crèdit Andorrà SA since July 2019) and the RSM holding company reached an agreement to combine its brokerage and consulting business. The transaction gave rise to a new sub-group which channels its investment through a holding company called Enterprise Risk Special Management, SL (ERSM). Enterprise Risk Special Management, SL is owned by ERM SA (51%) and RSM (49%) and directly holds 100% of RSM Correduría de Seguros SA, ERM Consultoría SA and ERM Correduría de Seguros y Reaseguros SL. As a result of the aforementioned operation, at 31 December 2018, the consolidated financial statement of Grup Crèdit Andorrà stood at 5,626 thousand euros of intangible assets corresponding to its customer base (see Note 16), 1,406 thousand euros of liabilities for temporary differences, 2,424 thousand euros of minority interests (see Note 27) and 2,632 thousand euros of negative differences on first consolidation.

The method used to value the business acquired through the transaction described above is the discounted cash flow method, discounting over 15 years and using an estimated rate of growth for revenue from the portfolio of 1% annual cumulative.

Crèdit Andorrà SA's purchase of the remaining 10% of Enterprise Risk Management SA in July 2019 led to the recognition of a first consolidation fund of 185 thousand euros.

During 2019, Crèdit Andorrà and Caser Seguros reached an agreement whereby the Spanish company became part of the Group's life risk insurance business in Andorra. As a result of this agreement, Caser Seguros now owns 51% of CA Vida Assegurances (a new company incorporated solely for the purpose of segregating the life-risk business of Crèdit Assegurances and thus allowing the transaction with Caser Seguros) and the remaining 49% is owned by Crèdit Assegurances. This insurance banking transaction, which was formally executed and submitted to the public before 31 December 2019, after obtaining all the authorisations from the regulators, was the first of its kind signed in the Principality of Andorra. The aforementioned operation also entailed the signing of an exclusive marketing contract for the life-risk

products through the Crèdit Andorrà network in the Principality, as well as the signing of the pertinent service delivery contracts by the parties. In quantitative terms, the transaction resulted in the recognition of capital gains of 37,911 thousand euros (see Note 37), of which 18,467 thousand euros were recognised under "Gains or losses on derecognition of non-financial net assets", for the recognition at market value of the retained equity, which has been recognised exclusively in the consolidated statement in compliance with the provisions of IFRS 10 "Consolidated Financial Statements" for operations with loss of control of an investee. For the rest of the results obtained, however, Crèdit Assegurances SAU (the selling company) recognised profits of 13,244 thousand euros in the individual profit and loss account under the same heading, "Gains or losses when derecognising non-financial net assets", and profits of 6,200 thousand euros under the heading "Gains or losses on financial assets not held for trading that are required to be measured at fair value through profit and loss account - Other gains or losses" valuation of the contingent financial asset obtained as part of the consideration received for the sale. The final collection of this financial instrument will be determined by the degree of compliance with the business plan agreed between the two parties for the next 5 financial years, in which it may be possible to collect a maximum of 6,200 thousand euros (0 euros in the worst case scenario).

At 31 December 2019 and 2018, in addition to the companies mentioned in the preceding paragraphs, the Crèdit Assegurances subgroup includes Andorran companies Actiu Assegurances SA (45%), Financera d'Assegurances SA (24.9%), Línia Asseguradora Andorrana SL (12.75%) and Consell Assegurador SA (20%).

- **CA Holding España SAU.** A holding company that currently mainly performs the parent functions of the Spanish insurance subgroup. The main holding of the Spanish holding company is in CA Life Insurance Experts Compañía de Seguros y Reaseguros SAU (hereinafter CA Life), a company that has been operating in the life insurance sector in Spain since 2013.

In 2019, Crèdit Andorrà, Mútua General de Catalunya and the Portuguese insurance company Caravela, reached an agreement in which the last two became part of the insurance business in the Group's life-risk insurance branch in Spain. As a result of this agreement, Mútua General de Catalunya and Caravela became owners of 51% and 5% respectively of CA Life, while the remaining 44% is owned by CA Holding España SAU. The agreement, which was formally executed and released to the public before 31 December 2019, once all the relevant regulatory approvals had been obtained, is part of the parties' commitment to seek strategic alliances that allow them to gain competitiveness in the Spanish life insurance market, while boosting future growth. In quantitative terms, this transaction resulted in recognising gains of 528 thousand euros (see Note 37), which were fully recognised under "Gains or losses on derecognition in accounts of non-financial net assets". This amount, as with the CA Vida operation described above, includes 86 thousand euros that CA Holding España SAU has only recognised in the consolidated statement as a recognition of the market value of the retained share in compliance with the provisions of IFRS 10 "Consolidated Financial Statements" for transactions with loss of control of an investee.

- **Esports de Neu Soldeu-Incles SA (ENSISA).** Manages the ski resort Soldeu-el Tarter at Canillo (Andorra) and owns 50% of Neus de Valira SA (Nevasa), an Andorran company whose purpose is the commercial exploitation of Grandvalira.
- **Serveis de Mitjans de Pagaments XXI SA (SERMIPA XXI).** The corporate purpose and main business of this company is to provide services related to the use of credit and debit cards and other payment methods.
- **Clínicas Geriàtriques SA (CLIGE SA).** A company in which Crèdit Andorrà has a 25% holding through its subsidiary Credit Initiatives SA. Its corporate purpose and main business is running care centres for the elderly.

- **Societat Pirenaica d'Aparcaments SA (SPA SA).** A company in which Crèdit Andorrà has a 25% holding through its subsidiary Crèdit Iniciatives SA. Its corporate purpose and main business is the management, marketing and commercial exploitation of car parks.
- **CA Vincles Actuarial SLU.** In 2019, Crèdit Andorrà SA acquired this company from Crèdit Assegurances SAU.

The change between 2019 and 2018 in "Investments in joint ventures and associates" in the Group's statement of financial position, which mainly includes investments measured by the equity method, mainly reflect the integration of the change in net equity represented by the Bank's shareholding.

The main changes to the Group's consolidation perimeter during the 2019 and 2018 financial years are described in the preceding paragraphs referring to the main subsidiaries within the consolidation perimeter.

4. Shareholder remuneration system

4.1. Proposal for the Distribution of Profits

The distribution of profits in respect of each year proposed by the Board of Directors of Crèdit Andorrà SA to the General Shareholders' Meeting for the 2019 and 2018 financial years is as follows (in thousand euros):

In thousand euros	31.12.2019	31.12.2018
Result for the year	17,704	23,676
Interim dividend	-	-
Supplementary dividend	-	-
Restricted reserve allocation Memorandum 227/12	3,626	4,430
Restricted reserve allocation to guarantee deposits	-	-
Transfer to voluntary reserves	14,078	19,246
Profit awaiting application	-	-

The profit from the Group's consolidated companies will be distributed in the manner agreed by their respective Shareholders' Meetings.

4.2. Net attributable profit per share

The net attributable profit per share is determined as the ratio between the consolidated net profit attributed to the parent company during the period, and the weighted average number of shares outstanding during the period, excluding the average number of treasury shares held over the period.

To calculate the diluted earning per share, both the amount of result attributable to ordinary shareholders and the weighted average number of shares outstanding, net of own shares, are adjusted for all purposes of the dilution inherent to the potential ordinary shares.

The calculation for earnings per share for 2018 and 2019 is as follows:

	31.12.2019	31.12.2018
A. Result attributed to the parent company (in thousand euros)	46,244	36,001
B. Weighted average number of shares outstanding	893,520	892,293
Basic earnings per share (in euros) (A/B)	51.75	40.35

The weighted average number of shares outstanding is calculated considering A Shares outstanding and E Shares, considering the period for which they have been outstanding without the holder being obliged to resell them to the Bank (see Note 24).

At 31 December 2019 and 2018 there are no potentially dilutive securities. For this reason, the basic earning per share and the diluted earning per share are the same as one another.

5. Risk management

5.1 Introduction and general overview

The risk management in the Crèdit Andorrà Group aims to reach an effective level of control of all risks to which the Group has been or could be exposed, with the aim of maintaining a moderate/low risk profile and a conservative approach to pursuing business opportunities.

The following section provides detailed information about: (1) Crèdit Andorrà Group's risk profile; (2) the Group's strategy when managing the different risks to which it is exposed, including a description of how corporate governance is structured in relation to risk management, how the independence of business areas is ensured and how risk culture is promoted throughout the entire Group, as well as (3) a detailed description of the exposure to each type of risk and the policies and procedures implemented to perform control.

5.1.1. Standard application framework and principal figures

On 23 January 2019, the Official Gazette of the Principality of Andorra published Act 35/2018 of 20 December, concerning the solvency, liquidity and prudential supervision of banking entities and investment firms (hereinafter, Act 35/2018).

This law, which entered into force on the day following its publication in the Official Gazette of the Principality of Andorra, established regulations pertaining to:

- General prudential requirements that banking entities and investment firms must comply with in relation to:
 - the requirements of shareholders' equity relating to fully quantifiable, uniform and standardised elements of credit risk, market risk, operating risk and liquidity risk;
 - requirements aimed at limiting high exposure;
 - liquidity requirements relating to fully quantifiable, uniform and standardised elements of liquidity risk;
 - the information requirements relating to paragraphs i), ii), and iii), and in relation to leverage; and
 - the requirements of public disclosure.
- The prudential supervision of entities by the AFA in a manner that is compatible with the applicable regulatory standards
- The AFA's publication requirements within the scope of the prudential regulation and supervision of entities

Also on 13 March 2019, the Official Gazette of the Principality of Andorra published the Decree approving the implementing Regulations of Act 35/2018 of 20 December, concerning the solvency, liquidity and prudential supervision of banking entities and investment firms.

Act 35/2018 requires, from 31 December 2019, that a solvency ratio of at least 8% of the weighted risk of assets and a liquidity ratio (LCR) of at least 60% be maintained.

Additionally, Act 35/2018 establishes a temporary timetable for both ratios in which the minimum requirements are updated year on year, as shown in the following table:

	2019	2020	2021	2022	2023	2024
Liquidity ratio	60%	80%	100%	100%	100%	100%
Solvency ratio	8%	8%	8.63%	9.25%	9.88%	10.50%

The aforementioned regulation seeks to transpose into the Principality of Andorra a regulatory framework equivalent to that of prudential regulation of the European Union: Directive 2013/36/EU on capital requirements (CRD IV) and Regulation 575/2013 on capital requirements (CRR), as well as the developing technical standards.

In relation to calculating the expected accounting loss, the Andorran Financial Authority developed and published in December 2018 the Supervisory Guide on the Application of IFRS 9: Credit risk management, which is the reference document in this area.

In addition, the Crèdit Andorrà Group, in its risk control, management and governance process, takes into account the main European standards and consultation documents, including:

- *Corporate governance principles for banks*, by the Bank of International Settlements
- *Guidelines on common procedures and methodologies for the Supervisory Review and Evaluation Process*, by the European Banking Authority
- *Guidelines on internal governance*, by the European Banking Authority
- *Guidelines on Credit Institutions, credit risk management practices and accounting for expected credit losses*, by the European Banking Authority

5.1.2. Governance and organisation

Crèdit Andorrà Group's Board of Directors is the highest ranking body in the establishment in relation to the approval and supervision of strategic guidelines on the subject of risk. These strategic guidelines, the internal risk control framework and limits reflective of the Group's risk appetite are set out in policies approved by the Board of Directors.

The Risk and Audit Commission, led by one of the bank's independent Board Members, has as its mission to determine and oversee the internal control framework of Crèdit Andorrà, ensuring that it is adequate and effective, that it includes the establishment of risk, compliance and internal audit functions which are competent, robust and independent and that it provides an adequate environment for the preparation of accounting and financial information. The Board of Directors has also delegated to the Committee the function of establishing and overseeing the general risk strategy and risk policy of the Bank and of its Group, including its risk tolerance and risk appetite, its risk management framework and the amounts, types and distribution of both capital and net assets required to hedge the risks of the Bank and of the Group.

Crèdit Andorrà Group's corporate governance system is structured by a framework that defines the risk management responsibilities following the three lines of defence model recommended by the Basel Committee on Banking Supervision in its Corporate governance principles for banks. These lines of defence are hierarchically separate and work in a sufficiently coordinated and independent way to achieve the objectives set out in the policies approved by the Board of Directors.

- The first line of defence is made up of the business units and support areas (including those specialising in risk) that manage risk in accordance with certain policies and limits established by the Board of Directors. Within this line there is also a first level of risk control that checks that the management and exposure to the type of risk in question is in line with that established by the Board of Directors.
- The second line of defence is provided by the Global Risk division and Legal Counsel, Prevention of Money Laundering and Regulatory Compliance area, which ensures that risks are effectively monitored and managed with the level of appetite for risk defined by the Board of Directors. The Head of the Global Risk and the Head of Legal Counsel, Prevention of Money Laundering and Regulatory Compliance Department has direct access to the Board of Directors through the CEO.
- Finally, the Internal Audit Department acts as a third line of defence. It regularly checks that the policies, methods and procedures in use are fit for purpose and effectively implemented. Group Internal Audit reports to the CEO and comes under the Audit and Risk Committee.

This three lines of defence model is complemented by a matrix-management focus on the risk coordination of the different international entities in the Group.

- The different risk management and monitoring departments within the corporate structure are responsible for establishing corporate principles which are set out in policies approved by the Board of Directors. They are also responsible for the supervision and monitoring of the risk profiles of all member companies in the Group and for overseeing compliance with corporate policies.
- Locally, each entity has a risk management unit, that in coordination with corporate areas, applies the corporate principles and adapts them to the local context according to its business model and current regulations.

Within this organisational structure with local and corporate risk management units specialised by type of risk, Global Risk and the Legal Counsel, Prevention of Money Laundering and Regulatory Compliance Department have the function of making available to senior management and specifically the Audit and Risk Committee an integral view of the profile of risks to which the Group is exposed, with a global scope of action, both regarding risk type and geographical location.

Above this organisational model of the risk monitoring and management functions, Senior Management has a number of committees to make decisions in relation to risk management.

- The Assets, Liabilities and Risks Committee (COAPiR in Catalan) is the body that establishes the policies for investing the Bank's shareholders' equity and manages assets and liabilities in accordance with the guidelines issued by the Board of Directors and the Executive Committee. As well as specialised management of the structural risk of the balance sheet, the COAPiR, as a risks committee, also conducts comprehensive monitoring of the risks to which the Group is exposed. The COAPiR meets at least once a month and also when circumstances warrant an additional meeting.
- The Senior Credit Committee (CSC in Catalan), which is a high-level independent body that approves loans to customers based on certain thresholds and when these operations meet certain characteristics that prevent them from being approved by lower levels (the Loans Division Committee and the Branch Committee, which have also been delegated some authority for approval). The CSC meets at least once a week and also when circumstances warrant an additional meeting.
- The Committee for the Prevention of Money Laundering and Terrorist Financing (CPBFT in Catalan) is the internal control and communication body established by virtue of the law on the prevention of money laundering. Its responsibilities include the organisation and monitoring of compliance with standards for the prevention of money laundering and terrorist financing. The Bank's representatives to Uifand are chosen from among its members.

5.1.3. Risk culture

The Group believes that in order to carry on investment business with a conservative and low/moderate level risk profile, it is fundamental to have a risk culture throughout the organisation founded on these principles:

- Involvement of the Board of Directors (which has two independent directors) through the approval of policies relating to risk management
- Establishment of risk management and control frameworks for each type of risk with defined responsibilities and clearly established risk assumption limits
- Creation of specialist departments in the management and control of each type of risk, to ensure suitable segregation of functions between business areas and risk control
- Development of risk management training plans for all levels of the organisational structure, according to the needs of each level of responsibility, with the aim of making everyone aware of the inherent risk of their activity, as well as the existing internal limits, procedures and policies

5.1.4. Types of risk to which the Group is or could be exposed

For the activity conducted by the Group, the main risks to which it is or could be exposed and which are the subject of the Group's risk management and control framework are as follows:

- **Credit risk, including concentration risk.** The risk of loss arising from the inability of the Group's customers (issuers or counterparties) to meet their financial obligations with the Group's entities. Credit risk includes counterparty risk arising from determined financial market transactions. Credit risk can be intensified by geographic, industry or individual concentration risk
- **Operational risk.** The risk of loss due to failure or shortfalls in internal systems, people or procedures or due to external events, including legal risk
- **Liquidity risk.** The risk of loss due to insufficient liquid assets or cash to meet payment obligations on time and at a reasonable cost
- **Interest rate structural risk.** This is the risk originating from possible variations in the interest rate with possible impact on profit or net value of assets. The interest rate risk of the trading portfolio is excluded from this definition
- **Exchange rate structural risk.** The risk of loss arising from structural net currency positions, due to adverse fluctuations in foreign currency exchange rates with respect to the Group's benchmark currency (euro)
- **Market risk.** The risk of loss due to the trading portfolio, both on- and off-balance-sheet positions, due to adverse movements of market parameters, its volatility or a correlation of both
- **Compliance risk.** Risk of loss due to administrative sanctions for breaching legal obligations set out in the regulations applicable to any of the Group's entities.
- **Money-laundering risk.** The risk of money-laundering and financing of terrorism should be understood as the risk that the Group could be used to channel, hide or convert the proceeds of crime or for the provision or assembly of funds for terrorist purposes.
- **Actuarial risk.** Risk arising from insurance activity conducted by the Group. This risk arises as a result of commitments acquired in the underwriting of life and non-life policies on the part of customers, that generate exposure to specific insurance business risk, such as premium price risk, mortality risk or claims rate increase risk

- **Strategic risk.** Risk inherent to strategic decisions and external changes, such as changes to the competitive or regulatory environment, that may affect the business model or hinder the achievement of objectives, and so affect financial outcomes and solvency
- **Reputational risk.** The possible negative impact a determined event may have on the Group's image, the quality of its services or the transparency of its management. This impact may arise from customers and employees, financial markets, shareholders, counterparties, public administrations or supervisors

5.2. Credit risk management

Credit risk is the most significant risk in the Group's statement of financial position, and is mainly derived from commercial banking and insurance activity, and treasury operations.

The distribution of the Group's maximum exposure to credit risk at 31 December 2019 and 2018 is shown below by chapter and section of the consolidated financial statements, without deduction of mortgages or credit enhancement obtained to ensure compliance with payment obligations, and is broken down by the nature of the financial instruments:

In thousand euros	Note	31.12.2019	31.12.2018
Held-for-trading financial assets	9.1	24,800	8,872
Derivatives		11,259	2,361
Debt securities		13,541	6,511
Financial assets not held for trading required to be valued at fair value through changes in profit and loss	9.2	12,350	6,150
Debt securities		-	-
Loans and advances		12,350	6,150
Financial assets at fair value through changes in profit and loss	10	-	1,865
Debt securities		-	1,360
Loans and advances		-	505
Other financial assets at fair value through changes in other consolidated profit and loss	11	315,179	349,927
Debt securities		315,179	349,927
Financial assets at depreciated cost		3,832,281	3,764,342
Loans and advances	12	2,367,320	2,417,159
Lending institutions		94,612	55,517
Customers		2,272,708	2,361,642
Debt securities	13	1,464,961	1,347,183
Derivatives - hedge accounting	14	-	-
Commitments and guarantees granted	29	469,810	468,961
Commitments for loans granted		345,550	357,263
Financial guarantees granted		124,121	111,162
Other commitments and guarantees granted		139	536
Maximum exposure to credit risk		4,654,420	4,600,117

Crédit Andorrà Group's maximum exposure to credit risk as at 31 December 2019 and 2018 does not differ significantly from the accounting values shown in the preceding table.

5.2.1 Credit risk with customers (loans, advances and commitments with customers)

The Credit Operations and Awarded Asset Management Unit is responsible for managing credit risk with customers and follows these principles:

- Criteria of prudence
- Analysis of the risk profile of each customer through an internal scoring system
- Maximisation of guarantees to mitigate credit risk
- Support for companies with their business plan

5.2.1.1. Credit risk management cycle

Admission and concession

The Lending Department is responsible for assessing the viability of transactions and the return from them in accordance with their terms through careful analysis of relevant qualitative and quantitative factors. In this regard, some of the main principles analysed and considered in the concession process are described below.

1. **Purpose and viability of the customer and transaction.** The Group's policy is to base analysis and approval of transactions on the inherent repayment capacity of those transactions. An analysis of the aim of any operation and its capacity to generate cash flow, beyond the associated security interests, constitutes repayment capacity, and as a result, credit risk.

Crèdit Andorra's relationship with its customers is committed to the future and seeks a long-term approach. In this regard, when a requesting party forms part of a certain financial group, the concession process is conducted with this fact in mind, as the requesting party's accrual is clearly conditioned by that held in the group.

To standardise the different considerations concerning the credit risk of the creditor and/or the transaction/product, and so streamline and standardise decision making (both during the application phase and in monitoring), the Group uses a credit risk evaluation system based on a combination of two factors: (1) internal ratings for customers and (2) segmentation of the product in terms of risk (different to commercial segmentation).

Internal rating is defined as a system for the assessment of credit risk in order to grant a debtor (or potential debtor) a credit rating on a numerical scale. By combining that internal rating and the nature of the risk attached to the product, the Group assigns to the transaction a probability of default against contracted obligations (or the obligations which are sought to be contracted) (the "default probability" or "DP")

As required by Group policy, the rating is set at the beginning of the credit relationship with the customer and must be reviewed periodically. The rating is valid for a maximum of 12 months and is therefore required to be renewed at least once a year, and at shorter intervals in the event of any material alert in the transaction and/or change to any factors that might affect the transaction. In this regard:

- The Branch Committee validates customer ratings for customers with transactions that require branch-level approval under the internal Standard on powers to enter into asset transactions
- The Credit Operations and Awarded Asset Management Unit Committee validates customer ratings with transactions that require Credit Committee-level approval, under the internal rule on powers to enter into asset transactions. In general terms, the Committee deals with reviewing, determining and monitoring all transactions for which it has decision-making authority up to a maximum of 1,000 thousand euros

- The Senior Credit Committee validates the ratings of customers with transactions which require Senior Credit Committee-level approval, under the internal Standard on powers to enter into asset transactions. The Senior Credit Committee is the highest level decision-making body for the approval of asset transactions, and deals with the review and determination of transactions beyond the approval authority of the Credit Committee. The Senior Credit Committee is subject to the continuous oversight of the Bank's Board of Directors, which oversees all transactions above 10,000 thousand euros

Both the Credit Operations and Awarded Asset Management Unit Committee and the Senior Credit Committee can request to review and/or change a rating, and the Credit Monitoring Department of the Credit Operations and Awarded Asset Management Unit samples ratings to monitor their currency and quality.

The Group has a standard for assessing ratings that sets out the qualitative and quantitative factors to be considered in the assignment of a rating. The same standard also defines the weighted value for each factor in the evaluation result. The value of a rating is between 1 and 10, on the basis of the capacity to pay, and is distributed as follows:

Optimal	10-9
Good	8-7
Surveillance	6
Special surveillance	5 and 4
Low	3-1

All creditors who have defaulted on payment (due to external or personal reasons), cease to have an internal rating and are classified as in default from then on. Lastly, the Group takes the rating into account as part of the risk concession process, as the internal Standard on powers to enter into asset transactions (1) limits the maximum risk amount that each Committee can grant, and (2) sets a minimum applicable credit spread limit for credit investment transactions.

Below is a table showing details of loans to customers, including the balance for guarantees and commitments granted to customers at 31 December 2019 and 2018 by internal rating.

31.12.19	Loans and advances				Commitments and guarantees				Total			
In thousand euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Rating 10 and 9	404,297	69	-	404,366	101,026	1	-	101,027	505,323	70	-	505,393
Rating 8 and 7	1,072,775	3,010	-	1,075,785	312,645	200	-	312,845	1,385,420	3,210	-	1,388,630
Rating 6	172,444	262,001	-	434,445	19,932	5,599	-	25,531	192,376	267,600	-	459,976
Rating 5 and 4	44,079	261,160	-	305,239	8,908	19,372	-	28,280	52,987	280,532	-	333,519
Rating 3, 2 and 1	-	15,685	-	15,685	-	872	-	872	-	16,557	-	16,557
Default	-	-	180,135	180,135	-	-	892	892	-	-	181,027	181,027
No rating	-	1,479	-	1,479	-	363	-	363	-	1,842	-	1,842
Gross book value	1,693,595	543,404	180,135	2,417,134	442,511	26,407	892	469,810	2,136,106	569,811	181,027	2,886,944
Credit risk hedging	-9,526	-63,306	-59,244	-132,076	-1,003	-1,620	-259	-2,882	-10,529	-64,926	-59,503	-134,958
Net book value	1,684,069	480,098	120,891	2,285,058	441,508	24,787	633	466,928	2,125,577	504,885	121,524	2,751,986

31.12.18	Loans and advances				Commitments and guarantees				Total			
In thousand euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Rating 10 and 9	523,734	2,378	-	526,112	107,901	-	-	107,901	631,635	2,378	-	634,013
Rating 8 and 7	802,730	12,075	-	814,805	252,360	479	-	252,839	1,055,090	12,554	-	1,067,644
Rating 6	150,421	236,633	-	387,054	23,623	2,850	-	26,473	174,044	239,483	-	413,527
Rating 5 and 4	78,759	393,004	-	471,763	6,636	20,991	-	27,627	85,395	413,995	-	499,390
Rating 3, 2 and 1	-3,912	110,932	-	107,020	48,096	4,276	-	52,372	44,184	115,208	-	159,392
Default	-	-	192,742	192,742	-	-	1,377	1,377	-	-	194,119	194,119
No rating	-	2,681	-	2,681	-	372	-	372	-	3,053	-	3,053
Gross book value	1,551,732	757,703	192,742	2,502,177	438,616	28,968	1,377	468,961	1,990,348	786,671	194,119	2,971,138
Credit risk hedging	-6,472	-70,882	-57,031	-134,385	-970	-2,253	-179	-3,402	-7,442	-73,135	-57,210	-137,787
Net book value	1,545,260	686,821	135,711	2,367,792	437,646	26,715	1,198	465,559	1,982,906	713,536	136,909	2,833,351

The table below presents details of credit investment by product segment in terms of risk and including the balance of commitments made and guarantees given to customers as at 31 December 2018 and 2019.

31/12/2019	Loans and advances				Commitments and guarantees				Total			
In thousand euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central Banks and National Governments	50,914	-	-	50,914	1,640	-	-	1,640	52,554	-	-	52,554
Other public bodies and semi-public bodies	66,179	-	-	66,179	20,516	-	-	20,516	86,695	-	-	86,695
Financial businesses	117,767	9,196	164	127,127	44,022	5,745	617	50,384	161,789	14,941	781	177,511
Other businesses	483,888	6,822	10,203	500,913	253,223	9,903	90	263,216	737,111	16,725	10,293	764,129
Exposures secured by mortgages on principal dwelling/business	706,982	209,075	60,210	976,267	59,574	2,637	162	62,373	766,556	211,712	60,372	1,038,640
Exposures secured by mortgages of land	99,925	312,401	109,052	521,378	7,785	7,248	5	15,038	107,710	319,649	109,057	536,416
Retail - SME	26,806	559	139	27,504	9,929	79	17	10,025	36,735	638	156	37,529
Retail leverage	30,186	977	5	31,168	18,053	13	-	18,066	48,239	990	5	49,234
Retail others	91,451	4,374	362	96,187	27,157	782	1	27,940	118,608	5,156	363	124,127
Financing of real estate speculation	-	-	-	-	-	-	-	-	-	-	-	-
Financing risk capital and alternatives	19,497	-	-	19,497	612	-	-	612	20,109	-	-	20,109
Gross book value	1,693,595	543,404	180,135	2,417,134	442,511	26,407	892	469,810	2,136,106	569,811	181,027	2,886,944
Credit risk hedging	-9,526	-63,306	-59,244	-132,076	-1,003	-1,620	-259	-2,882	-10,529	-64,926	-59,503	-134,958
Net book value	1,684,069	480,098	120,891	2,285,058	441,508	24,787	633	466,928	2,125,577	504,885	121,524	2,751,986

31.12.18	Loans and advances				Commitments and guarantees				Total			
In thousand euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central Banks and National Governments	43,865	-	-	43,865	10,812	-	-	10,812	54,677	-	-	54,677
Other public bodies and semi-public bodies	87,685	-	-	87,685	23,169	-	-	23,169	110,854	-	-	110,854
Financial businesses	50,192	5,589	129	55,910	40,566	243	-	40,809	90,758	5,832	129	96,719
Other businesses	581,759	31,879	10,672	624,310	264,185	12,106	175	276,466	845,944	43,985	10,847	900,776
Exposures secured by mortgages on principal dwelling/business	542,656	392,612	150,167	1,085,435	43,554	3,829	9	47,392	586,210	396,441	150,176	1,132,827
Exposures secured by mortgages of land	92,183	320,175	31,177	443,535	12,092	12,092	1,114	25,298	104,275	332,267	32,291	468,833
Retail - SME	27,271	571	154	27,996	14,408	235	-	14,643	41,679	806	154	42,639
Retail leverage	28,272	929	85	29,286	10,642	37	-	10,679	38,914	966	85	39,965
Retail others	97,840	5,948	358	104,146	19,188	426	79	19,693	117,028	6,374	437	123,839
Financing of real estate speculation	-	-	-	-	-	-	-	-	-	-	-	-
Financing risk capital and alternatives	9	-	-	9	-	-	-	-	9	-	-	9
Gross book value	1,551,732	757,703	192,742	2,502,177	438,616	28,968	1,377	468,961	1,990,348	786,671	194,119	2,971,138
Credit risk hedging	-6,472	-70,882	-57,031	-134,385	-970	-2,253	-179	-3,402	-7,442	-73,135	-57,210	-137,787
Net book value	1,545,260	686,821	135,711	2,367,792	437,646	26,715	1,198	465,559	1,982,906	713,536	136,909	2,833,351

2. **Operation guarantee level.** Even where the basic criteria that the repayment capacity of a transaction must be ensured by the viability of the financed transaction itself and by the creditors involved in the transaction are met, additional security may also be sought, especially in long-term transactions.

In this event, the set of assets and/or solvencies affected are considered a guarantee to ensure compliance with an obligation. According to the analysis conducted, each credit operation has a percentage of the guarantee hedge over the financed amount (value-to-loan) or (loan-to-value) in terms of financing on the guarantee amount. Minimum hedge limits are also set according to the various purposes of transactions. Those limits may be breached only rarely and only with the approval of the Credit Committee and/or the Senior Credit Committee.

However, as with the credit risk level, the collateralisation level and quality also has an implication on the price of the operation, given that eligible collateral mitigates credit risk exposure and is therefore considered a determining factor for the credit margin and price. So for example, in the case of transactions secured by a mortgage on a second home, the Group's policy to increase the risk premium for the transaction over what would apply to financing for a principal dwelling.

In the case of leveraged private banking transactions, in which often and as an exception to the rule the amount, quality and levels of liquidity of the financial collateral by which they are secured are the main factors assessed in the loan approval process, the lending value is limited on the basis of the market value of each asset and its liquidity. These lending values must be respected during the entire life of the guaranteed operation and in the event of default:

- The creditor is requested to replenish sufficient guarantees within a period of less than 7 days from moment the credit balance in relation to the guarantee market value is greater than or equal to the percentage agreed in the pledge contract (operating percentage)

If sufficient security is not provided within 7 days and/or the credit balance in relation to the market value of the security is equal to or greater than the percentage agreed in the security contract (operating percentage), the sale of all or some of the assets is instructed until the obligation under the credit arrangement is adequately guaranteed

The table below shows details of loans to customers as at 31 December 2019 and 2018 by loan to value (LTV) ratios, considering guarantees.

31.12.19	Loans and advances				Securities and monetary guarantee				Mortgage guarantee			
In thousand euros	Stage 1	Stage 2	Stage 3	Total 31.12.2019	Stage 1	Stage 2	Stage 3	Total 31.12.2019	Stage 1	Stage 2	Stage 3	Total 31.12.2019
LTV >= 100%	169,130	67,314	118,871	355,315	119,281	157	5	119,443	33,341	44,785	104,227	182,353
LTV >= 80%	196,036	46,756	3,654	246,446	62,515	17	-	62,532	156,147	52,704	3,972	212,823
LTV >= 50%	355,891	221,098	16,952	593,941	125,450	1,439	-	126,889	434,637	349,358	26,202	810,197
LTV >= 25%	452,802	171,494	27,614	651,910	508,779	11,361	-	520,140	730,614	400,650	73,678	1,204,942
LTV <= 25%	136,654	17,876	2,177	156,707	687,950	57,487	-	745,437	777,307	55,119	15,575	848,001
Personal guarantee	383,082	18,866	10,867	412,815	-	-	-	-	-	-	-	-
Gross value	1,693,595	543,404	180,135	2,417,134	1,503,975	70,461	5	1,574,441	2,132,046	902,616	223,654	3,258,316

31.12.18	Loans and advances				Securities and monetary guarantee				Mortgage guarantee			
In thousand euros	Stage 1	Stage 2	Stage 3	Total 31.12.2018	Stage 1	Stage 2	Stage 3	Total 31.12.2018	Stage 1	Stage 2	Stage 3	Total 31.12.2018
LTV >= 100%	164,688	102,788	119,262	386,738	132,531	39	12	132,582	19,410	64,155	101,926	185,491
LTV >= 80%	181,140	77,234	16,256	274,630	99,652	32	622	100,306	103,409	81,872	17,501	202,782
LTV >= 50%	326,129	317,442	12,964	656,535	144,358	1,405	-	145,763	395,382	519,075	18,903	933,360
LTV >= 25%	336,751	192,859	28,785	558,395	451,449	1,654	-	453,103	514,309	451,153	76,403	1,041,865
LTV <= 25%	136,419	24,419	2,172	163,010	465,034	11,563	336	476,933	696,802	130,088	20,471	847,361
Personal guarantee	406,605	42,961	13,303	462,869	5,698	-	-	5,698	-	-	-	-
Gross value	1,551,732	757,703	192,742	2,502,177	1,298,722	14,693	970	1,314,385	1,729,312	1,246,343	235,204	3,210,859

The segment of transactions with personal guarantee includes exposure to public administrations and semi-public entities, that as at 31 December 2019 amounted to 117,093 thousand euros (131,550 thousand euros at 31 December 2018).

3. **Terms of the operation.** The term is the duration of the requested operation and a critical variable that affects the uncertainty of the operation. The terms of operations must coincide with their aim, and consider the nature of the investment to be financed. In general, the Group foresees:

- Transactions involving lines of credit (to finance leveraged operations secured by negotiable instruments, operating capital needs of companies, temporary investment situations, etc.) have a maximum term of one year (12 months)
- Operations for a repayment period exceeding 5 years (60 months) require real guarantees or sufficient sureties

For further information on the terms of transactions included in “Loans and advances to customers” see Note 5.3.1.

4. **Price of the operation.** The price must cover the total cost and risk associated with the operation and leave the target profit for the operation as a remainder. In this regard, as already mentioned in previous points, the different risk factors and their mitigating factors form part of the concession power policies and affect admissible price thresholds in each case. The Group, however, works continuously on its internal credit risk models (based on internal ratings, risk products and analysis of external factors) with the aim of continuously improving the measurement and assessment (and hence pricing) of credit risk (see under the heading “Monitoring”).

Monitoring

Suitable credit risk management makes continuous monitoring of creditors during the entire life of their operations essential. The target for risk monitoring is creditors holding debt instruments and off-balance exposure involving credit risk.

The outcome of monitoring is (1) to reach a determination of the quality of the risk assumed with a creditor (internal rating update), and (2) based on that assessment of the level of risk, to estimate impairment of transactions involving the creditors that are subject to monitoring.

Both aims can be reached individually or collectively. The Group sets out thresholds to determine the right approach to be made based on optimisation of the cost/risk relationship.

1. **Determination of the quality of risk** assumed with a creditor (internal rating) after the time at which credit is extended.

As mentioned in the section entitled “Lending”, a rating is required to be determined and reviewed for all customers who have ongoing credit investment transactions. The rating is valid for a maximum of 12 months, so that it is required to be reviewed annually regardless of whether a new asset transaction is put forward.

The account manager and the customer’s branch manager and/or director are responsible for periodically undertaking a review process which will result in an updated rating. As mentioned in the “Lending” section, validation of ratings is ultimately carried out by the Branch Committee, the Credit Committee or the Senior Credit Committee depending internal Standard on limits of authority at any given time. The responsibility for monitoring is distributed as follows:

- **Branches.** Responsible for monitoring all customers/groups with balances of less than 5 million euros and with optimal or good internal rating
- **Monitoring Department.** Responsible for monitoring (1) all customers/groups with balances under 5,000 thousand euros and an internal rating other than optimal or good, and (2) all customers/groups with balances of over 5,000 thousand euros regardless of internal rating
- **Recovery Department.** Responsible for monitoring all customers/groups in default

This process of regular monitoring is conducted, documented and overseen more thoroughly depending on the level of risk (in terms of nominal exposure and the level of risk identified).

As described in Note 2.8.1.1. “Classification based on risk of insolvency”, the Group has set a series of thresholds in terms of changes to relevant parameters (mainly the internal rating) from the time that credit is extended/originated with the aim of identifying transactions with material increase in risk (Stage 2).

Individual and expert monitoring of creditors or business groups with significant or high risk

This individualised monitoring of significant or large risk levels is conducted through the regular drawing up of comprehensive monitoring reports. In this regard, creditors meeting the following requirements must be subject to individualised monitoring:

- All owners or groups with risk exceeding 5,000 thousand euros
- A sample of owners or groups with risk between 100,000 and 5 thousand euros, based on their ratings

The monitoring report must compulsorily cover the following aspects considered critical:

- Establish the real financial and economic situation of the creditor
- Review the valuation of guarantees that finance each risk
- Value the capacity to generate future funds based on an analysis of the market position and sector prospects
- Set out as required the policy to be followed for each borrower in the Action Plan
- Draw up a risk-returns analysis to establish suitable price policies

Lastly, the report from the monitoring process must include the reasons for the customer's rating and propose a new rating where applicable.

The Monitoring Department is responsible for the definitive rating of accredited parties when the results of the monitoring report present a rating different to that given by the branch or business areas, and in all cases where the rating from the monitoring report is less than 5.

As such, the risk quality monitoring process for a transaction or borrower culminates in the updating not only of the internal rating but also of the staging of the transaction. Staging, along with other factors, will determine the method to be used to calculate impairment provisions (see point 2 below) and for interest recognition (see Note 2.10.1.).

The movement in loans and advances to customers by type during the 2019 financial year is set out below.

In thousand euros	Loans and advances				Commitments and guarantees			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Book value at 31.12.18	1,551,732	757,703	192,742	2,502,177	438,616	28,968	1,377	468,961
Change of stage								
Transfer from Stage 1 to 2	-10,266	10,266	-	-	-1,071	1,071	-	-
Transfer from Stage 2 to 3	-	-21,555	21,555	-	-	-640	640	-
Transfer from Stage 3 to 2	-	3,259	-3,259	-	-	79	-79	-
Transfer from Stage 2 to 1	73,335	-73,335	-	-	3,482	-3,482	-	-
Net origination	78,794	-132,934	-26,977	-81,117	1,484	411	-1,046	849
Foreclosures and transfers in payment	-	-	-548	-548	-	-	-	-
Recognition of insolvency	-	-	-3,378	-3,378	-	-	-	-
Book value at 31.12.19	1,693,595	543,404	180,135	2,417,134	442,511	26,407	892	469,810

In thousand euros	Loans and advances				Commitments and guarantees			
	Normal (IAS 39)/Stage 1 (IFRS 9)	N/A (IAS 39)/Stage 2 (IFRS 9)	Normal (IAS 39)/Stage 3 (IFRS 9)	Total	Normal (IAS 39)/Stage 1 (IFRS 9)	N/A (IAS 39)/Stage 2 (IFRS 9)	Normal (IAS 39)/Stage 3 (IFRS 9)	Total
Book value as at 31.12.17 (IFRS 39)	2,471,961	-	149,459	2,621,420	477,679	-	733	478,412
Separation Staging IFRS 9	-968,166	968,166	-	-	-68,794	68,794	-	-
Book value as at 31/12/17 (IFRS 9)	1,503,795	968,166	149,459	2,621,420	408,885	68,794	733	478,412
Change of stage								
Transfer from Stage 1 to 2	-29,631	29,631	-	-	-4,590	4,590	-	-
Transfer from Stage 2 to 3	-	-127,162	127,162	-	-	-2,838	2,838	-
Transfer from Stage 3 to 2	-	1,472	-1,472	-	-	204	-204	-
Transfer from Stage 2 to 1	101,850	-101,850	-	-	23,175	-23,175	-	-
Net origination	-24,282	-12,554	-37,507	-74,343	11,146	-18,607	-1,990	-9,451
Foreclosures and transfers in payment	-	-	-30,387	-30,387	-	-	-	-
Recognition of insolvency	-	-	-14,513	-14,513	-	-	-	-
Book value at 31.12.18	1,551,732	757,703	192,742	2,502,177	438,616	28,968	1,377	468,961

2. Impairment estimate for operations and creditors.

The Risk Department has as its mission to build, maintain and monitor credit risk measurement systems. The Department is independent of the business areas, to ensure that risk assessments are not affected by commercial considerations.

Risk measurement, and hence risk coverage, is built round the **basic concepts** described below.

- **Default.** This is defined as the existence of objective evidence of impairment that ought to indicate that a creditor cannot make the payment of all of its credit exposure.

Crédit Andorrà classifies the different operations exposed to credit risk based on objective and subjective criteria, although the existence of defaults exceeding 90 days is considered irrefutable evidence of impairment.

A transaction or group of transactions can therefore be classified as doubtful or defaulted due to delays in payment by the customer or for other reasons (see Note 2.8).

- **Exposure.** Exposure at default (EAD) estimates the pending debt in the case of customer default. This scale is especially relevant for financial instruments with a depreciation structure that varies according to the provisions made by the customer (credit accounts, credit cards and, in general, any re-available financing).

This estimate is based on the contractual balance according to the repayment schedule agreed with the customer and current exposure plus a conversion factor for contingent credit risk (disposable limit) in order to give an estimate of effective exposure at the point of default. This conversion factor is determined based on the requirements of the framework benchmark standard in these cases, for the calculation of the consumption of capital by credit risk (DRDIV/CRR).

- **Probability of default.** Probability of default (PD) is an estimate of the probability that the borrower will not respond to the totality of its credit exposure.

Crédit Andorrà estimates PD on the basis of its historic experience of payment delay and incorporates the measures required to adjust the outcome to the economic cycle, in order to drive

out aggregate assessments which are relatively stable in the long term and which may be different from rates of default observed at any particular time (PD PiT for PD at a point in time).

This measurement forms part of the management of the banking business, since it is calculated from the main parameters on which the Group's management of credit risk is based: the internal rating of the borrower and the product type in terms of risk.

Grouping of operations into consistent segments that match the main management dimensions enables risks to be grouped by the same default rate and therefore forms the basis for developing price policies that are adjusted to the risk of each segment with a suitable level of guarantee.

The Group estimates the following PDs:

- i. **Lifetime PD.** This is the probability that a borrower will not meet the totality of the debt over the whole expected life of the transaction. On account of the long time horizon, the Group estimates Lifetime PD on the basis of a number of possible scenarios (central scenario, optimistic scenario and conservative scenario) through the incorporation of forward-looking parameters which over time have shown strong correlation with levels of default (principally, GDP and inflation). Thus, Lifetime PD is the weighted average of the scenarios, with a 60% weighting for the central scenario (the most probable in the Bank's view) and 20% for each of the other two scenarios
 - ii. **12-month PD.** This is the probability that a borrower will not meet the totality of the debt over the next 12 months. Given the short time horizon, to estimate the 12-month PD does not project possible scenarios using forward-looking parameters, since by definition the differences between the scenarios would be immaterial
- **Severity.** Loss given default (LGD) corresponds to the percentage debt that cannot be recovered in the event of customer default.

Crédit Andorrà conducts permanent monitoring of the results of debt recovery procedures. As a result of this procedure, based on historical observations an estimate is made for the (1) recovery expected from the execution and settlement of available guarantees (expected sale and award time, sales costs, valuation adjustments, etc.) and (2) the recovery expected directly from remedying the credited item without having to resort to allocations.

In this regard, the expected recovery value is estimated in terms of the net current value based on the initial interest rate of the operation. In the case of guarantees, the estimate is made based on the type of guarantee (financial guarantee, securities guarantee, mortgages of land and mortgages of land and buildings) and in the case of recovery directly from the borrower based on the time that has passed from the point of default.

- **Credit losses.** Relates to the difference between contractual cash flows for a financial asset and all the cash flows that are expected to be received (i.e. the aggregate shortfall of cash flow), discounted at the original effective interest rate or, for financial assets purchased or originated with credit impairment, at the effective interest rate adjusted for credit quality, of the interest rate at the date of the financial statements when the rate is variable.

In the case of loan agreements entered into, the cash flows that would flow to the Group if the agreement is performed and the flows that are expected to be received if the agreement is not performed are compared. In the case of financial guarantees granted, the cash flows that the Group expects to receive from the beneficiary of the guaranteed transaction are deducted from the payments that it expects to make.

The Group estimates the cash flows for a transaction over its expected life and, in those cases where the expected life cannot be reliably estimated, the remaining term of the contract is used.

The cash flows taken into account include those for the sale of real estate security received, bearing in mind the flows that could be obtained from its sale, less the amount of the costs to obtain those flows, maintenance and subsequent sale, and other credit enhancements which are part of the contractual terms, such as financial security granted to the Group.

- **Credit losses expected over the life of the transaction:** these are credit losses expected as a result of default events (weighted average of different scenarios) during the expected life of the transaction (see definition of Lifetime PD).
- **Credit losses expected over 12 months:** these are the part of the credit losses expected over the life of the transaction which are expected to result from default events which arise in the 12 months following the benchmark date (see definition of 12-month PD).

Method for estimating expected credit losses

Hedging calculations can be performed individually or collectively. The Group sets thresholds (see Note 2.8) to determine the most suitable approach based on requirements of accounting standards (IFRS 9) and on the degree of standardisation of transactions and optimisation of the cost/risk relationship.

Collective analysis. Crèdit Andorrà divides the process of estimating overall expected credit losses into two phases:

- a. Calculation of the hedges for expected credit losses under the “alternative solutions developed by the AFA”.

As part of the *Supervisory guidance specific to banks applying IFRS 9: Credit risk management* (see Note 1.2), the AFA has published tables of values that set out the percentages of hedges for expected credit losses for a series of segments identified by the regulator. As the guidance explains, these percentages have been estimated by the AFA on the basis of its experience as regulator for the Andorran banking system, historic payment default data, credit losses of Andorran institutions and a projection of the future trajectory of the principal macroeconomic variables. Consequently, the AFA considers that the percentages represent a reliable estimate of the expected losses from transactions entered into with economic agents in the Principality of Andorra.

- b. Fairness comparison of hedges calculated using the alternative solutions developed by the AFA against the internal models developed by the Group.

The Group, using its own internal models, estimates expected credit losses from a transaction such that the credit losses reflect:

- a weighted and unbiased amount determined by an assessment of a series of possible outcomes;
- the time value of money; and,
- the fair and credible information available at the benchmark date, without disproportionate cost or effort, as to events, current conditions and forecasts of future economic conditions.

To determine hedges for credit losses, the Bank uses models to estimate the probability of default (PD), severity in case of failure (LGD), models of recoverable value from mortgage security (haircuts) and adjustments to incorporate lifetime and forward-looking effects.

The models used to determine hedges are based on discounted expected cash flows (whether from the borrower or from security), which are estimated based on internal experience of default and recovery in the portfolios.

Thus, in the case of Stages 2 and 3 (where IFRS 9 requires recognition of the expected losses throughout the life of the transaction - Lifetime) the Group generates a base scenario for the future path of economic variables, a conservative scenario and a favourable scenario which allow the Bank to adjust estimates of expected losses based on a probability-based weighting of the scenarios. In the case of transactions in Stage 1, the Bank uses only a central scenario with a time horizon of 12 months (having more scenarios would lead to a similar outcome because on the very short time horizon used to calculate provisions). In relation to Stages 2 and 3, the scenarios referred to the preceding paragraph are incorporated through the use of weighted averages of the PDs from all the scenarios (see the definitions of Lifetime PD and 12 month PD).

Definition of scenarios for macroeconomic indicators

The aim of using different scenarios is to capture non-linearity in the calculation of accounting impairment. To that end, the provisions required in different macroeconomic scenarios are estimated.

The procedure put in place by the Group for that purpose takes into account:

- Economic, statistical and financial indicators obtained from external sources (Andorran Department of Statistics, etc.)
- Qualitative and quantitative analysis of that information

Forecasts of economic and financial variables relevant to generate the scenarios under consideration. Crèdit Andorrà Group has taken account of the following information:

- the historic (2003-2016) series of inflation indexes for Andorra, Spain and Europe
- the level of imports into the Principality of Andorra (even though there are no projections of this variable by independent institutions, it has been thought appropriate to include it in the analysis on account of its relevance to an understanding of the economic situation in the country, since historically it has behaved in a very similar way to Andorran GDP, and it allows use of a greater number of local macroeconomic variables)
- three-year projections for GDP and RPI by the Bank of Spain and the Central European Bank
- a comparison of forecasts for growth in real GDP and average inflation measured by the IHPC (harmonised consumer prices index) for the Euro Zone
- The time horizon for this analysis is three years

On the basis of forecasts in different scenarios by European financial institutions, the Group has constructed a linear model of Andorran GDP and RPI based on European GDP and the IHPC. Thus, once the robustness of the model had been confirmed (through correlation analysis using the R function²) and its significance (p-value < 0.05 in the parameter associated with the variable), Crèdit Andorrà has used projections for GDP and IHPC from the Central European Bank to extrapolate those projections to (1) GDP and RPI in the Principality of Andorra and consequently to (2) the probability of default in different segments of its credit portfolio (see Note 5.2.1.1. "Credit risk management cycle—Admission and concession").

The table below shows the projections made for GDP and RPI in Andorra, valid for 2018 and 2019:

Variable	Year projected	Central Scenario	Conservative Scenario	Optimistic Scenario
RPI	Year 1	1.71%	1.29%	2.13%
	Year 2	1.57%	0.59%	2.55%
	Year 3	1.71%	0.45%	2.97%
GDP	Year 1	3.07%	2.48%	3.65%
	Year 2	2.87%	0.92%	4.82%
	Year 3	2.68%	0.53%	4.82%

The use of scenarios allows the Bank to calculate expected losses for an exposure in as many scenarios as may be put forward, and the provision is the weighted average of the expected losses across scenarios. As has already been noted, to estimate expected losses from credit risk, the Group has determined the following weightings based on the estimated probability of occurrence: (1) base scenario with a probability of occurrence of 60%; (2) optimistic scenario with a probability of occurrence of 20%; and, (3) conservative scenario with a probability of occurrence of 20%.

Determination of retrospective tests

In order to ensure the reliability and coherence of estimates of allowances, the Group uses backtesting to compare its estimates with actual losses incurred, and reference and comparison tests (benchmarking), in which its estimates are compared with estimates of expected losses based on solvency and any other benchmark data considered relevant.

Once the outcome of using the alternative solutions developed by the AFA has been compared with the results from Crèdit Andorrà's internal models (with, where there are any, an analysis of the main differences) the Group recognises hedges for expected credit losses, preferably on the basis of the outcome of applying the alternative solutions developed by the AFA.

On 31 December 2019 and 2018, the hedges recognised according to the guidance published in its alternative solutions by the AFA were not materially different from the results derived from the internal models developed by the Group.

Individualised analysis. Specific hedging of operations is estimated by expert and detailed analysis of customer cash flows, considering the holder's situation and the flows it expects to recover.

Procedures for individualised monitoring are applied to portfolios with relevant risk exposures and/or which have particular characteristics. Those procedures consist in the preparation of periodic reports on the business groupings of borrowers with the aim of assessing the existence of objective evidence of deterioration and/or material increase in credit risk since the initial assessment of the borrower.

The Group has a handbook for conducting individual analysis compliant with IFRS 9. The handbook distinguishes:

- a. The method to be applied for individualised analysis of transactions in Stages 2 and 3 (Lifetime).

To determine the amount recoverable from borrowers subject to individualised analysis, the Group has developed a method of calculation that has a double focus under which, in the light of the specific circumstances of the credit investment, there is a method for calculating the amount of the impairment loss associated with each financial asset individually in the various scenarios defined and taking account of the available forward-looking information. The focuses of the method are these:

- Focus on discounted cash flow to debt service. Used in cases where, although there is credible evidence of material increase in credit risk, it is considered that the borrower has the capacity to generate future free cash flows from the borrower's business which will enable the borrower to repay the debt. In that sense, it is worth noting that the projections in the optimistic and base scenarios there is a last residual flow of cash with the aim of incorporating terminal value as a consequence of applying the "business as a going concern" principle
- Focus on recovery of real estate security. This assesses recoverability depending on real guarantees held by the creditor, assuming eventual realisation of collateral security. This method applies to creditors who do not have the capacity to generate free cash flows through their business, so that they will be obliged to liquidate assets to meet debt payments

In this focus, an analysis is made of the effectiveness of the securities to be taken into account. Among the factors considered in that analysis will be: the time needed to realise the security, the capacity of the entity to realise the assets and its experience of realisation

- Mixed focus. On occasion, the two focuses may be combined where the debtor has security not required for generation of cash flow for debt service which can be used to meet debt payments. The value of that security is taken into account in determining the recoverable amount (terminal value)

- b. Method to be used in individualised analysis of transactions in Stage 1 (12 months).

Individualised analysis of significant or non-homogeneous creditors in a normal situation is subject to different treatment than that described in the preceding section, under which expected credit losses are calculated over 12 months, as opposed to Stages 2 and 3, where the losses are calculated over a Lifetime horizon.

In that sense, the method does not include forward-looking information or macroeconomic scenarios, since the outcome will be similar with or without them given the 12-month time horizon. In general, the method developed is to adjust provisions arising from application of the collective model through adjustment of PD and LGD (derived from the combination of internal rating of the customer and the risk product under analysis) based on the expert view of the analyst, since their exhaustive and detailed knowledge of the financial situation of the creditor enables them to adjust the values from the collective model more specifically to the individual case.

In order to ensure the reliability and coherence of estimates of allowances, the Group uses backtesting, to compare its estimates with actual losses incurred, and reference and comparison tests (benchmarking), in which its estimates are compared with estimates of expected losses based on solvency and any other reference data considered relevant.

Customer loans and advances are described in detail below, as well as their hedging levels, according to their debt situations, the method used to calculate their hedging and, where applicable, the days of non-payment.

In thousand euros	Customer loans and advances		Commitments and guarantees granted to customers		Total customers	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Not in default (Stages 1 and 2)						
Central Banks and National Governments	50,914	43,865	1,640	10,812	52,554	54,677
Other public bodies and semi-public bodies	66,179	87,685	20,516	23,169	86,695	110,854
Financial businesses	126,963	55,781	49,767	40,809	176,730	96,590
Other businesses	490,710	613,638	263,126	276,291	753,836	889,929
Exposures secured by mortgages on principal dwelling/business	916,057	935,268	62,211	47,383	978,268	982,651
Exposures secured by mortgages of land	412,326	412,358	15,033	24,184	427,359	436,542
Retail - SME	27,365	27,842	10,008	14,643	37,373	42,485
Retail leverage	31,163	29,201	18,066	10,679	49,229	39,880
Retail others	95,825	103,788	27,939	19,614	123,764	123,402
Financing of real estate speculation	-	-	-	-	-	-
Financing risk capital and alternatives	19,497	9	612	-	20,109	9
Gross value	2,236,999	2,309,435	468,918	467,584	2,705,917	2,777,019
Individually calculated hedge	-68,964	-71,344	-1,889	-2,508	-70,853	-73,852
Collectively calculated hedge	-3,868	-6,010	-734	-715	-4,602	-6,725
Net value	2,164,167	2,232,081	466,295	464,361	2,630,462	2,696,442
In default (Stage 3)						
<= 30 days	100,066	83,062	731	1,377	100,797	84,439
<= 60 days	20	30,450	-	-	20	30,450
<= 90 days	31	929	-	-	31	929
<= 180 days	1,261	4,129	-	-	1,261	4,129
<= 365 days	12,411	2,683	161	-	12,572	2,683
> 365 days	66,346	71,489	-	-	66,346	71,489
Gross value	180,135	192,742	892	1,377	181,027	194,119
Individually calculated hedge	-53,867	-50,866	-197	-7	-54,064	-50,873
Collectively calculated hedge	-5,377	-6,165	-62	-172	-5,439	-6,337
Net value	120,891	135,711	633	1,198	121,524	136,909
Total	2,285,058	2,367,792	466,928	465,559	2,751,986	2,833,351
Accumulated write-offs	127,105	131,342	-	-	127,105	131,342
Total with write-offs	2,412,163	2,499,134	466,928	465,559	2,879,091	2,964,693

Debt recovery and management

Recovery activity is designed as an integrated management circuit which starts even before default or payment becoming overdue. The Commercial Department has primary responsibility for managing default.

Debt management principles include:

- **Prevention.** Prevention is one of the most important principles in the early detection of non-payment risk, in order to manage it and normalise the situation even before non-payment happens
- **Customer focus.** Recovery management is aimed at helping customers find solutions when facing irregular situations in their payments. This management is also a way of building customer loyalty

Incidents are managed as a unit, i.e. considering all of the customer's positions and not each position with incidents separately. It also considers the customer's link within the economic group or other customers

- **Anticipation.** Insofar as possible, attempts are made to act with maximum anticipation to reach early solutions and pre-empt the actions of other creditors, in order to achieve better positioning with regard to debtors and other creditors

The Group holds regular meetings between the heads of the Credit Operations and Awarded Asset Management unit to ensure continuous monitoring of all transactions with a suspended rating, i.e. transactions in arrears or default, and transactions which are showing signs of increased risk, such as transactions past maturity, etc. These meetings monitor the different established action plans and analyse the result of pre-debt or debt recovery processes (mainly operations with overdue balances).

Every two weeks, recovery objectives are monitored, separating those already in default from those not yet in default and, therefore, management of the remedy period is important before classification as default.

Refinancing and restructuring of operations

These operations correspond to those where the customer has presented or is predicted to present financial difficulties in meeting payment obligations under the current contract terms, and for this reason, a new operation has been amended, cancelled or formalised.

As a general rule, refinanced or restructured transactions and new refinancing transactions are placed in the normal risk with increased risk category. Furthermore, considering its specific characteristics, operations are classified as doubtful risk when they meet the general criteria defined to classify them as such. (For more information, see Note 2.8.1.1. "Classification by risk of insolvency").

The Group's exposure to operations that have been refinanced and at 31 December 2019 and 2018 have not been remedied amount to 462,692 thousand euros and 593,660 thousand euros respectively.

Assets acquired in debt payment

Although Crèdit Capital Immobiliari SA has the sole activity of property tenure and management, the policy followed by the Group is that this instrumental company administers properties for the Group's private use, and the Bank directly maintains and manages the assets acquired in the payment of debt originating as part of the banking business.

In general, the Bank acquires property assets in the payment of debt via the following channels:

- **Sold at auction** as the end of a security enforcement procedure. The bidding prices at auction are set, within the limits of the law at any given time, according to updated valuations by independent experts (see Note 2.16)
- **By means of the process** of transfer in payment by the creditors with subsequent novation or cancellation of debt. In this case, the prices are determined in reference to the latest available appraisals. For reasons of practicality and diligence, the Group's policy is wherever possible logistically and financially to prioritise transfer in payment

In either case, the Recovery Department will manage the entire process, working with the Legal Counsel, Prevention of Money Laundering and Regulatory Compliance Departments.

For further information on the volume of assets from debt payments (via award or transfer in payment), see Note 18.

The strategy designed and implemented by the Group for the management/sale of these assets, is mainly the sale via a number of agreements with different real estate agents (APIs), which are remunerated with a sales commission for each unit sold.

5.2.1.2. Movement of provisions due to impairment

The movement of provisions for impairment of financial assets granted to customers at 31 December 2019 and 2018 is as follows:

In thousand euros	Loans and advances				Commitments and guarantees			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Hedge for credit risk 31.12.2018	-6,472	-70,882	-57,031	-134,385	-970	-2,253	-179	-3,402
Movements affecting net allocations	-3,468	8,250	-5,387	-605	-33	633	-63	537
Changes to staging								
Transfer from Stage 1 to 2	41	-305	-	-264	3	-14	-	-11
Transfer from Stage 2 to 3	-	1,789	-4,709	-2,920	-	190	-197	-7
Transfer from Stage 3 to 2	-	-569	880	311	-	-52	59	7
Transfer from Stage 2 to 1	-57	2,141	-	2,084	-8	91	-	83
Changes to models (alternative solutions, updates to assumptions, methods, etc.)	-	-	-	-	-	-	-	-
Net origination and changes to estimates	-3,452	5,194	-1,558	184	-28	418	75	465
Movements with impact on Financial Margin	-	-	602	602	-	-	-	-
Impact on recognition of interest Stage 3 (see Note 2.10.1).	-	-	602	602	-	-	-	-
Movements with no change in result	414	-674	2,572	2,312	-	-	-17	-17
Foreclosures and transfers in payment	-	-	361	361	-	-	-	-
Recognition of insolvency	-	-	3,378	3,378	-	-	-	-
Other movements (currency)	414	-674	-1,167	-1,427	-	-	-17	-17
Hedge for credit risk 31.12.19	-9,526	-63,306	-59,244	-132,076	-1,003	-1,620	-259	-2,882

In thousand euros	Loans and advances				Commitments and guarantees			
	Normal (IAS 39)/Stage 1 (IFRS 9)	N/A (IAS 39)/Stage 2 (IFRS 9)	Normal (IAS 39)/Stage 3 (IFRS 9)	Total	Normal (IAS 39)/Stage 1 (IFRS 9)	N/A (IAS 39)/Stage 2 (IFRS 9)	Normal (IAS 39)/Stage 3 (IFRS 9)	Total
Provision on 31.12.17 (IAS 39)	-68,285	-	-50,542	-118,827	-1,219	-	-319	-1,538
Separation Staging IFRS 9	64,480	-64,480	-	-	718	-718	-	-
Provision on 31.12.17 (IFRS 9)	-3,805	-64,480	-50,542	-118,827	-501	-718	-319	-1,538
Adjustment for impairment IFRS 9	-2,858	-31,643	2,402	-32,099	-399	-583	-184	-1,166
Provision on 01.01.18 (IFRS 9)	-6,663	-96,123	-48,140	-150,926	-900	-1,301	-503	-2,704
Movements affecting net allocations	191	25,241	-28,941	-3,509	-70	-952	337	-685
Changes to staging								
Transfer from Stage 1 to 2	40	-483	-	-443	155	-1,112	-	-957
Transfer from Stage 2 to 3	-	24,725	-26,847	-2,122	-	67	-81	-14
Transfer from Stage 3 to 2	-	-733	1,319	586	-	-71	57	-14
Transfer from Stage 2 to 1	-560	3,400	-	2,840	-95	377	-	282
Changes to models (alternative solutions, updates to assumptions, methods, etc.)	-	-	-	-	-	-	-	-
Net origination and changes to estimates	711	-1,668	-3,413	-4,370	-130	-213	361	18
Movements with impact on Financial Margin	-	-	-1,456	-1,456	-	-	-	-
Impact on recognition of interest Stage 3 (see Note 2.10.1).	-	-	-1,456	-1,456	-	-	-	-
Movements with no change in result	-	-	21,506	21,506	-	-	-13	-13
Foreclosures and transfers in payment	-	-	7,216	7,216	-	-	-	-
Recognition of insolvency	-	-	14,513	14,513	-	-	-	-
Other movements	-	-	-223	-223	-	-	-13	-13
Hedge for credit risk 31.12.2018	-6,472	-70,882	-57,031	-134,385	-970	-2,253	-179	-3,402

5.2.1.3. Main figures

At 31 December 2019 and 2018, the default rate was 7.5% and 7.7%, respectively (6.3% and 6.5% including commitments and guarantees granted to customers). Similarly, at 31 December 2019 and 2018, the hedging ratio of provisions recorded for doubtful assets was 32.9% and 29.6%, respectively (32.9% and 29.6% including commitments and guarantees granted to customers).

5.2.1.4. Sector and geographic concentration

Crédit Andorrà Group monitors credit risk concentration. The details of credit investment by economic sector and geographic region as at 31 December 2018 and 2019 are shown below:

	Loans and advances customers		Of which in default		Hedging for credit risk	
In thousand euros	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Concentration by sector						
Public sector	90,159	83,975	-	-	-129	-
Financial companies	165,682	8,370	599	-	-891	-
Non-financial companies	1,254,001	1,236,991	103,135	116,290	-82,051	-76,853
Agriculture, livestock and fisheries	1,677	1,259	-	-	-3	-5
Extractive industries	27	442	-	1	-	-3
Manufacturing industry	20,397	18,399	57	52	-105	-203
Construction	58,835	70,602	4,251	268	-2,169	-738
Wholesale and retail trade	175,352	130,763	16,839	9,889	-8,728	-5,176
Transport and storage	13,637	17,774	-	-	-51	-126
Catering	56,186	55,102	77	2,785	-1,558	-1,664
Information and communications	6,426	3,147	-	-	-5	-28
Real estate activities	258,750	305,460	23,227	28,207	-37,000	-38,428
Professional activities	77,638	4,527	2,405	1	-1,201	-5
Public administration and social security	26,933	47,575	-	-	-12	-202
Education	2,124	2,646	-	3	-15	-25
Healthcare activities and social services	17,520	2,279	-	2	-15	-20
Artistic and recreational activities	38,234	60,999	23	-	-86	-520
Other services	500,265	516,017	56,256	75,082	-31,103	-29,710
Individuals	907,292	1,172,841	76,401	76,452	-49,005	-57,532
Total exposure by sector	2,417,134	2,502,177	180,135	192,742	-132,076	-134,385
Geographic concentration						
Andorra	1,915,834	2,122,212	179,694	191,227	-130,718	-132,318
Spain	176,902	173,791	243	1,067	-1,144	-1,729
France	2,136	4,999	-	1	-6	-4
Other countries in the Euro Zone	105,764	30,852	166	156	-126	-103
Other European countries	3,675	14,899	13	1	-17	-51
Latin America and the Caribbean	123,885	84,249	16	98	-19	-96
Other	88,938	71,175	3	192	-46	-84
Total exposure by region	2,417,134	2,502,177	180,135	192,742	-132,076	-134,385

5.2.2. Interbank deposits and debt securities

With regard to interbank deposits and the securities portfolio, Crèdit Andorrà uses the loan VaR as a management and control tool. This calculation is performed by CreditManager, a program developed by JP Morgan. Crèdit Andorrà follows the loan VaR with a timescale of one year and a confidence level of 99%.

At 31 December 2019, the VaR loan for the securities portfolio and interbank deposits was 14,567 thousand euros (15,087 thousand euros at 31 December 2018) out of a total risk exposure of 1,476,413 thousand euros (1,372,079 thousand euros at 31 December 2018). This loan VaR is below the risk limit of €70 million determined by the COAPiR. This level of loan VaR equates to having a portfolio with an average rating of A+.

5.2.2.1. Balancing entry and settlement risk

The table below shows the breakdown of the balance of loans and advances to lending institutions as at 31 December 2019 and 2018, by counter-party credit quality:

In thousand euros	At depreciated cost	
	31.12.19	31.12.18
Between AAA and AA-	-	-
Between A+ and BBB	51,354	55,304
BBB-	43,203	218
Between BB+ and B+	-	-
Between B and CCC	-	-
D	-	-
N/A	55	-
Gross book value	94,612	55,522
Credit risk hedging	-	-5
Net book value	94,612	55,517

In order to control counterparty and settlement risk, and to a large extent the risk of concentration in financial institutions, the COAPiR approves counterparty exposure limits for different timescales on- and off-balance.

At 31 December 2019 and 2018, the Group has no mature or unpaid positions with lending institutions.

At 31 December 2019 and 2018, the Group recognises its total exposure to lending institutions as being of normal risk (Stage 1).

The table below shows the breakdown of the balance of debt securities as at 31 December 2019 and 2018, by issuer credit quality and the valuation model under which they appear in the financial statements.

In thousand euros	At depreciated cost		Fair value through changes in other consolidated profit and loss		Fair value through changes in profit and loss		Total	
	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18
Between AAA and AA-	713,773	907,358	283,767	275,577	-	6,488	997,540	1,189,423
Between A+ and BBB	373,987	428,328	6,732	73,573	13,541	1,383	394,260	503,284
BBB-	377,622	11,578	24,680	777	-	-	402,302	12,355
Between BB+ and B+	-	-	-	-	-	-	-	-
Between B and CCC	143	-	-	-	-	-	143	-
D	-	-	-	-	-	-	-	-
N/A	-	-	-	-	-	-	-	-
Gross book value	1,465,525	1,347,264	315,179	349,927	13,541	7,871	1,794,245	1,705,062
Credit risk hedging	-564	-81	-	-	-	-	-564	-81
Net book value	1,464,961	1,347,183	315,179	349,927	13,541	7,871	1,793,681	1,704,981

At 31 December 2019 and 2018, the debt securities portfolio does not include any mature or unpaid positions.

At 31 December 2018 and 2109, the Group recognises its total debt securities portfolio as being of normal risk (Stage 1).

The balance of the debt securities portfolio at 31 December 2019 and 2018 with BBB+ rating includes the debt of the Government of Andorra, for an amount of 99,202 thousand euros and 101,706 thousand euros respectively.

By means of an internal model to assign counterparty exposure, the aim of which is to establish internal, objective criteria to measure the credit quality of different interbank counterparties and financial institutions, the Bank attempts to assign the maximum exposure limit in line with the range of limits being applied at any particular time. A standardised assignment is then performed for each subsidiary of the Crèdit Andorrà Group while also respecting the maximum exposure limit assigned.

With regard to the off-balance-sheet exposure of financial counterparties, a scale of ratios has been established based on asset maturity in order to weight the consumption of securities concentrated off the balance sheet. A financial counterparty cap has also been established by adding together the total consumption on and off the balance sheet.

The Global Risk Department also monitors and controls settlement risk by assigning settlement risk limits for each financial lending institution. Settlement risk is the risk that one of the parties of the financial contract fails to deliver a security or its value in cash on the settlement date agreed when the security was traded with the other counterparty.

The settlement risk limit for a financial lending institution is the maximum exposure assigned by the counterparty exposure model.

5.2.2.2. Sector and geographic concentration

Within credit risk, special attention is given to counterparty risk and to diversification in terms of sector and geographical area. These risks are regularly monitored, always keeping within the limits established by the COAPiR.

Below is a breakdown of the exposure with lending institutions by geographical area as at 31 December 2019 and 2018.

In thousand euros	<u>Loans and advances to lending institutions</u>	
	31.12.19	31.12.18
Geographic concentration		
USA	18	-
France	-	-
Spain	89,983	54,982
Germany	-	-
United Kingdom	-	-
Other	4,611	535
Total	94,612	55,517

Below is a breakdown of the debt securities portfolios by economic sector and geographic region at 31 December 2019 and 2018.

In thousand euros	<u>Debt securities</u>		<u>Credit risk hedging</u>	
	31.12.19	31.12.18	31.12.19	31.12.18
Concentration by sector				
Public sector	1,635,436	1,603,781	-439	-
Lending institutions and other financial entities	133,658	71,556	-80	-41
Non-financial companies	25,151	29,725	-45	-40
Total exposure by sector	1,794,245	1,705,062	-564	-81
Geographic concentration				
Italy	414,878	73,628	-333	-3
USA	374,384	423,525	-6	-6
France	355,890	385,225	-20	-7
Spain	188,948	202,888	-88	-48
Germany	128,817	191,626	-3	-2
United Kingdom	104,779	121,813	-10	-8
Andorra	99,333	101,887	-76	-
Other	127,216	204,470	-28	-7
Total exposure by geographical area	1,794,245	1,705,062	-564	-81

Country risk is the risk incurred by counterparties resident in a specific country due to circumstances other than those related to the normal commercial risk. The Group classifies its transactions with third parties depending on the economic development of each country, its political situation, regulatory and institutional framework and the rating given by credit rating agencies, assigning to each group a percentage for insolvency provisions resulting from this analysis.

With regard to exposure by geographical area, the COAPiR establishes percentage limits of maximum exposure for a country or group of countries, as applicable.

Additionally, and in terms of concentration by country, the investment directives approved by the COAPiR establish that the maximum exposure in a specific country must not account for more than 35% of the total country risk exposure.

The consolidated figure in euros, calculated for each country, includes the on- or off-balance sheet investments that involve exposure to a specific country.

5.2.2.3. Movement of provisions due to impairment

The movement of provisions for impairment of loans and advances to lending institutions and debt securities during the financial years ending 31 December 2019 and 2018 is shown below.

In thousand euros	31.12.18	Net allocations	Exchange rate differences and others	31.12.19
Loans and advances to lending institutions	-5	5	-	-
Debt securities	-81	-482	-1	-564
Total hedges	-86	-477	-1	-564

In thousand euros	31.12.17	Allocation IFRS 9	01.01.18	Net allocations	Exchange rate differences and others	31.12.18
Loans and advances to lending institutions	-	-	-	-5	-	-5
Debt securities	-1,153	785	-368	287	-	-81
Total hedges	-1,153	785	-368	282	-	-86

5.2.3. Derivatives

With the aim of mitigating exposure to balancing-entry risk, the Group holds a solid base of guarantee contracts. Almost all the risks assumed by operations with derivative instruments are hedged by signing standardised ISDA and/or CMOF contacts, whose clauses take into account the possibility of compensating collection and payment flows pending between the parties for all operations hedged by these contracts.

In addition, The Group has signed collateral contracts (CSA) with interbank counterparties, which guarantee the market value of transactions involving derivatives.

The Group collateralises all derivative transactions with financial institutions, and the same occurs with operations involving repurchase commitments, hedged by Global Master Repurchase Agreement (GMRA) contracts or similar.

Below is a breakdown of the net exposure to credit risk associated with derivative transactions as at 31 December 2018 and 2019:

In thousand euros	Nominal amount		Gross amount		Net collateral (CSA)		Net exposure	
	2019	2018	2019	2018	2019	2018	2019	2018
Held-for-trading assets	582,716	108,620	11,259	2,361				
Hedging assets	13,972	-	-	-				
Gross book value - Asset	596,688	108,620	11,259	2,361				
Held-for-trading liabilities	-792,599	-261,672	-16,107	-10,405				
Hedging liabilities	-154	-271,271	-37,190	-35,194				
Gross book value - Liability	-792,753	-532,943	-53,297	-45,599				
Total net exposure	-196,065	-424,323	-42,038	-43,238	44,320	37,551	2,282	-5,687

In line with market practice, CSA agreements contain clauses to determine the levels above which collateral is required to be exchanged and, as such, net exposure cannot be zero. Therefore, bearing in mind the credit quality of the counterparties and the limits on exchange of collateral, the Group considers that the credit risk associated with these transactions is not material. Similarly, the figure for "Gross amount - Liabilities held for sale" and therefore the figure for "Net exposure" for the 2018 and 2019 financial years included the value of the option in favour of shareholders in Banco de Alcalà, SA (see Note 3.6).

5.3. Managing liquidity risk

Liquidity risk is the risk resulting from potential difficulties in meeting obligations associated with financial liabilities that are settled by paying cash or through another financial asset. Liquidity risk is therefore not having sufficient funds to be able to meet payment obligations to third parties on their due date, or having to do so at a higher cost.

The Global Risks area is responsible for monitoring, control and reporting to the Assets and Liabilities and Risks Committee (hereinafter, COAPiR) of liquidity risk and of the corresponding regulatory and management liquidity ratios and metrics. COAPiR is responsible for defining liquidity management targets, determining investment strategies for portfolios and taking decisions on proposals for balance management.

The fundamental goal of liquidity-risk management is to establish a robust management and control environment to ensure that the bank can always meet its payment obligations on time, through high-quality liquid assets and other instruments and processes that exist within the Group; as well as ensuring a sufficient liquidity buffer to be able to conduct its business and achieve the Group's strategic goals.

Liquidity risk is measured from the point of view of liquidity requirements; i.e. making decisions regarding how to meet these needs. Such measures must cover the short, medium and long term and always with a global view, covering both minority and majority positions.

The Group has a liquidity risk contingency plan in place, which envisages measures at commercial and institutional levels to deal with any crisis scenarios of a systemic and/or idiosyncratic nature.

5.3.1. Exposure to liquidity risk: analysis of the maturity of financial assets and liabilities

A breakdown of balances by contractual maturity date, before any valuation or impairment adjustments, is shown below:

In thousand euros	Book value	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2019						
Financial assets (incomings)						
Cash, cash balances in central banks and other at sight deposits	303,009	218,887	-	-	38,203	45,919
Loans and receivables	2,379,670	153,767	184,419	744,284	863,433	433,767
Lending institutions	94,612	94,173	-	-	439	-
Customers	2,285,058	59,594	184,419	744,284	862,994	433,767
Debt securities	1,793,681	37,768	194,276	93,930	901,381	566,326
Derivatives	11,259	3,034	1,675	2,862	3,509	179
Book value	4,487,619	413,456	380,370	841,076	1,806,526	1,046,191
Financial liabilities (outgoings)						
Central bank deposits	59,429	38,724	2,544	12,350	5,770	41
Deposits from lending institutions	295,476	107,373	-	-	188,103	-
Customer deposits	3,830,248	115,576	318,901	530,266	2,860,157	5,348
Debt securities at depreciated cost	51,578	-	-	-	-	51,578
Financial liabilities at fair value	49,331	906	15,118	31,845	1,256	206
Financial liabilities at depreciated cost	66,080	1	864	3,670	18,783	42,762
Other financial liabilities	4,482	-	-	-	-	4,482
Derivatives	53,297	-	-	-	7,465	45,832
Book value	4,409,921	262,580	337,427	578,131	3,081,534	150,249
31 December 2018						
Financial assets (incomings)						
Cash, cash balances in central banks and other at sight deposits	343,553	327,474	-	-	-	16,079
Loans and advances	2,423,309	102,259	144,084	717,698	885,311	573,957
Lending institutions	55,517	55,299	-	-	218	-
Customers	2,367,792	46,960	144,084	717,698	885,093	573,957
Debt securities	1,704,981	7,422	61,801	597,871	354,099	683,788
Derivatives	2,361	501	741	638	150	331
Book value	4,474,204	437,656	206,626	1,316,207	1,239,560	1,274,155
Financial liabilities (outgoings)						
Central bank deposits	64,112	38,847	3,500	721	12,350	8,694
Deposits from lending institutions	262,039	262,039	-	-	-	-
Customer deposits	3,869,164	163,802	435,545	702,759	2,550,250	16,808
Financial liabilities at fair value	71,411	6,711	22,531	36,616	3,463	2,090
Other financial liabilities	86,917	-	-	-	-	86,917
Derivatives	45,599	1,011	712	770	15,233	27,873
Book value	4,399,242	472,410	462,288	740,866	2,581,296	142,382

The maturity of certain items included in the preceding tables (mainly customer deposits without a contractual maturity date) has been estimated based on the historic experience of effective terms, and this information is consistent with the information used by the Group for liquidity management.

Likewise, the Group has commitments and securities granted (see Note 5.2.), although a significant part of these amounts will reach maturity without being used or without materialising any payment obligation for the Group, due to which the overall balance of these commitments cannot be considered as a certain future liquidity or financing need to be granted to third parties outside the Group.

5.3.2. Available liquidity

Crédit Andorrà has good availability of liquid assets. These assets can be categorised, according to internal criteria, at different levels based on their degree of liquidity, which will in turn determine the level of discount (haircut) which a counter-party would apply in normal market conditions. In general terms, the definitions of these levels are as follows:

- Level 1: sovereign debt securities and/or guaranteed by central governments or supranational agencies
- Level 2: non-sovereign debt securities non-discountable in the ECB
- Level 3: debt securities which, due to their characteristics (currency, etc.), are not discountable in the ECB but are liquid
- Level 4: Other (not considered as available liquidity)

Below is a table representing the volumes in market value of the assets classified in levels 1 to 3 (see the definition provided above) at 31 December 2019 and 2018, differentiating between those currently available for obtaining additional liquidity and those which are not available:

In thousand euros	Discount (encumbered)	Not discounted (unencumbered)	Total	Average Haircut	Available liquidity
31 December 2019					
Level 1	357,541	1,167,826	1,525,367	4.85%	1,111,206
Level 2	49,668	1,871	51,539	11.97%	1,647
Level 3	-	9,762	9,762	37.78%	6,074
Total assets	407,209	1,179,459	1,586,668	5.13%	1,118,927

In thousand euros	Discount (encumbered)	Not discounted (unencumbered)	Total	Average Haircut	Available liquidity
31 December 2018					
Level 1	375,760	1,103,659	1,479,419	2.71%	1,073,786
Level 2	1,075	71,975	73,050	16.89%	59,815
Level 3	1,076	27,965	29,041	19.73%	22,448
Total assets	377,911	1,203,599	1,581,510	3.95%	1,156,049

The liquid assets available and the average haircut is 5.13% at 31 December 2019 and 3.95% at 31 December 2018, showing the excellent quality of the Group's portfolio.

5.3.3 Key figures

Once Technical Communiqué no. 107 on liquidity ratios was repealed, as set out in AFA Communiqué no. 255/19 of 27 March 2019, the LCR liquidity ratio began to be reported according to European standards, as established in Article 81 of Act 35/2018 of 20 December on solvency, liquidity and prudential supervision of banks and investment companies.

The LCR liquidity ratio is now calculated and reported monthly, under the guidelines of Commission Implementing Regulation (EU) 2016/322 of 10 February 2016. This ratio compares the level of liquid assets with the net outflows of liquidity at 30 days, as established in the second transitional provision, of 31 December 2019, and must not be less than 60%.

The Crèdit Andorrà Group has maintained this ratio far above 60% and exceeds the future liability of 80% from 31 December 2019 and 100% from 31 December 2020, for both individual and consolidated ratios.

The table below shows individual and consolidated liquidity ratios at 31 December 2018 and 2019.

	31/12/2019	31.12.18
Individual	137.40%	133.50%
Consolidated	147.04%	131.64%

Additionally, the set of NSFR regulatory metrics is monitored and reported on a quarterly basis under criteria of Regulation (EU) 575/2013 of the European Parliament and of the Council, of 26 June 2013, ALMM under criteria of Regulation (EU) 2016/313 of 1 March 2016 and Asset Encumbrance.

5.4. Managing market risk

Market risk arises as a consequence of operations carried out in financial markets via financial instruments whose value can be affected by variations in market conditions, reflected in changes in the different assets and factors of financial risk. In all cases, market risk relates to a potential loss in the profitability or value of the portfolio resulting from unfavourable movements in market rates or prices.

In order to monitor and control the market risks assumed by the Group, the COAPiR approves an overall structure of limits implemented through the following:

- Limits on investment; limited by volume
- Limits on investment by issuer rating, maturity and portfolio or sub-portfolio
- Limits on investment by issuer concentration
- Limits via market risk; VaR per portfolio and overall VaR
- Limits via maximum cumulative loss per year, quarter and month

The Methodology and Valuation Department in the Risk and Regulatory Compliance Division monitors and oversees these limits and the risks assumed.

5.4.1. Exposure to market risk (assets recognised at market value)

This table shows the exposures of assets and liabilities subject to market risk in the trading and non-trading portfolios as at 31 December 2018 and 2019.

In thousand euros	Value in value	Trading portfolio	Non-trading portfolio
31 December 2019			
Assets subject to market risk	549,131	30,047	519,084
Derivatives	11,259	11,259	-
Other	537,872	18,788	519,084
Liabilities subject to market risk	102,628	16,107	86,521
Derivatives	53,297	16,107	37,190
Other	49,331	-	49,331

In thousand euros	Book value	Trading portfolio	Non-trading portfolio
31 December 2018			
Assets subject to market risk	566,324	12,560	553,764
Derivatives	2,361	2,361	-
Other	563,963	10,199	553,764
Liabilities subject to market risk	117,010	10,405	106,605
Derivatives	45,599	10,405	35,194
Other	71,411	-	71,411

5.4.2. Supervision of market risk

In relation to the measurement, monitoring and management of the various risks, the Group tracks market risk using the VaR method.

The VaR method used by the Group is historic simulation, which calculates the impact on the value of the current portfolio of historic variations in risk factors, taking into account the variations from the last 255 days and time horizon of one day.

A detailed report indicating the VaR, with various timescales and confidence intervals, is periodically sent to the members of the Executive Committee and the COAPiR. These VaR measurements, among others, allow integrity and consistency to be tested.

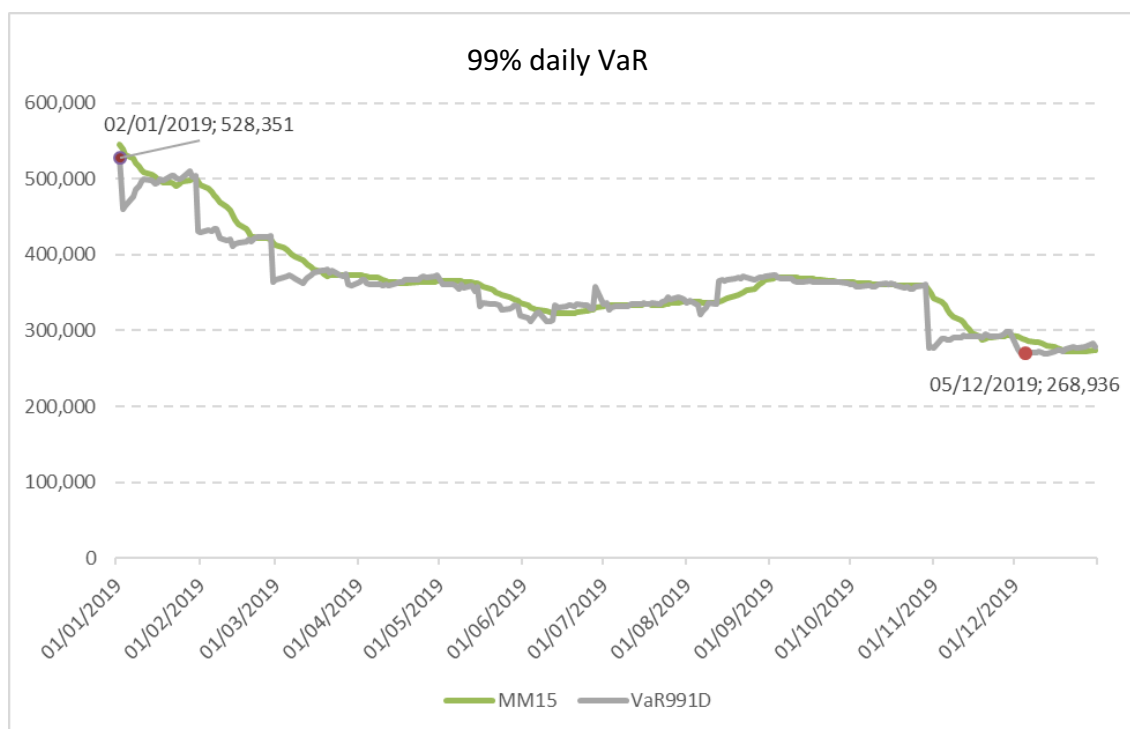
Although the VaR is an important tool for measuring market risk, the assumptions on which the model is based are the origin of certain limitations. Within these limitations, we can identify that this measure does not capture the liquidity risk of positions, a risk that can lead to an increase in the time over which an asset is held in the portfolio, by virtue of their not being sufficient liquidity in the market to be able to close the position, or an increase in the cost of liquidating the position for the least liquid assets, so increasing potential losses. In addition, a confidence level of 99% does not reflect the potential losses that may occur outside this range. In other words, within the model used there is a 1% probability of the losses exceeding the calculated VaR. In order to mitigate this limitation, the Expected Shortfall is calculated; this is a metric that gives the estimated value of losses if the VaR is exceeded. Another limitation of VaR is that it is calculated on the basis of positions closed on a day and as such does not reflect contributions from open positions.

Another limitation of this method, is that the use of historic data for determining the possible range of future variations does not cover scenarios which have not occurred or those which are of an exceptional nature.

The Group uses VaR limits for aggregate market risk which includes currency, interest rate, variable income, credit spreads and other price risks. The overall structure of the VaR limits is subject to review and approval by the COAPiR. VaR limits are assigned to all trading portfolios. VaR is measured at least daily for all portfolios and more frequently for the most active portfolios. Reports on the use of VaR limits are submitted to the COAPiR on a regular basis.

To supplement the limitations of the VaR method, the Group sets additional limits for positions, maximum accumulated losses limits (stop loss), monthly, quarterly and annual timescales, as well as concentration limits aimed at limiting potential effects on trading portfolios.

The graph below shows a summary of the daily VaR for the trading portfolio during the 2019 financial year.



Below is a summary of the VaR of the trading portfolio at 31 December 2019 and 2018.

	<u>VaR</u>		<u>Average</u>		<u>Maximum</u>		<u>Minimum</u>	
In thousand euros	31.12.19	31.12.18	2019	2018	2019	2018	2019	2018
Exchange rate risk	-	-	-	-	-	-	-	-
Interest rate risk	-	-	-	-	-	-	-	-
Credit risk	3	-	3	3	105	151	-	-
Variable income risk	266	462	294	265	468	762	208	73
Other	59	92	77	30	95	101	59	-
Diversification effect	-49	-24	-15	-15	N/A	N/A	N/A	N/A
Total	279	530	359	283	528	822	269	74

The annual highs and lows in the table above are individually expressed by risk factor and/or total VaR. That is why, in this case, the sum of the different factors is not equal to the total VaR and does not include a unique diversification effect.

5.5. Structural interest rate risk

The exposure to interest rate risk must be understood as the possible effect of the interest benchmark rate variables on items in the balance sheet. This effect may cause adverse variations in the Group's economic value and/or financial margin.

The COAPiR is responsible for defining the targets for managing interest rate risk, determining portfolio investment strategies, hedging strategies and for taking decisions concerning proposals to manage structural risk.

The Global Risk Department is responsible for measuring, analysing, controlling and reporting to COAPiR on the interest rate risk to which the Group is exposed. To properly carry out this task, the Group has an Asset and Liability Management (ALM) working group consisting of the Investment Area, Financial Planning, Operations and Means and the Global Risks Department. This group is responsible for analysing and validating, before presenting them to COAPiR, the structural risk monitoring reports and proposals for managing the assets listed on the statement of financial position.

The Balance and Structuring Management Department is responsible for operational implementation of the decisions taken by COAPiR with regard to structural interest rate risk management.

Control and monitoring of the structural interest rate risk is performed by means of a series of tools and modelling, the purpose of which is to reflect the risk profile, based on which a series of maximum exposure limits are established:

- Measurement of the sensitivity and analysis of scenarios expected to arise from interest rate movements and assessment of the impacts that may significantly affect the Group. The scenarios used forecast parallel movements of the interest rate curve, and slope and curvature changes
- The metrics analysed in the sensitivity scenarios are the financial margin and economic value. Financial margin sensitivity focuses on the short and medium term while economic value sensitivity focuses on the medium and long term. These measures complement each other and provide an overall view of the Group's structural risk
- Static maturity and repricing gaps, which permit analysis of the difference between the assets and liabilities sensitive to different terms and, on their basis, possible sensitivity to the rate variation
- Monte Carlo stochastic simulations for generating random movement scenarios of the interest rate curves and obtaining metrics such as the EaR (earnings at risk) with certain confidence levels and timescales

The models used also require the preparation of a number of assumptions as to the behaviour of a number of statements of financial position items so as to model behaviour which is as close to possible to reality. Highlighting from among these assumptions those related to contracts with options and those contracts which have no contractual maturity date, such as the accounts at sight. In these cases, performance assumptions are considered on the basis of the historic data of these items.

The structural interest rate risk management model is subject to periodic review by the Group's internal and external auditing areas.

5.5.1. Gap analysis

The static gap shows the distribution of maturities and interest rate reviews on a specific date. For the items of the statement of financial position without contractual maturity, their sensitivity to interest rate movements is analysed, along with their level of detail and stability, also considering the implicit option of early cancellation of certain products by the customer.

The following table summarises the interest rate repricing gap for all financial assets and liabilities, excluding portfolios containing trading activities:

In thousand euros	Book value	Less than to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Not sensitive
31 December 2019							
Cash, cash balances with central banks and other at sight deposits	303,009	218,890	-	-	-	-	84,119
Loans and receivables	2,379,670	1,189,014	362,455	523,079	143,997	81,636	79,489
Lending institutions	94,612	94,389	-	-	223	-	-
Customers	2,285,058	1,094,625	362,455	523,079	143,774	81,636	79,489
Debt securities	1,793,681	210,702	100,036	25,210	924,224	533,509	-
Other assets	45,628	-	-	-	-	-	45,628
Total assets	4,521,988	1,618,606	462,491	548,289	1,068,221	615,145	209,236
Financial liabilities at depreciated cost	4,307,293	549,933	330,127	251,438	3,048,266	56,926	70,603
Central bank deposits	59,429	59,388	-	-	-	-	41
Deposits from lending institutions	295,476	107,373	-	-	188,103	-	-
Customer deposits	3,830,248	383,172	330,127	251,438	2,860,163	5,348	-
Debt securities	51,578	-	-	-	-	51,578	-
Other financial liabilities	70,562	-	-	-	-	-	70,562
Financial liabilities at fair value	49,331	11,700	14,629	20,271	810	1,921	-
Other liabilities	89,714	-	-	-	-	-	89,714
Total liabilities	4,446,338	561,633	344,756	271,709	3,049,076	58,847	160,317
Effects from interest rate risk hedge	-	184,780	5,304	-113,624	-47,814	-28,646	-
Net Total	75,650	1,241,753	123,039	162,956	-2,028,669	527,652	48,919

In thousand euros	Book value	Less than to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Not sensitive
31 December 2018							
Cash, cash balances with central banks and other at sight deposits	343,553	154,494	-	135,227	-	-	53,832
Loans and receivables	2,423,309	1,373,683	283,442	404,595	264,100	89,446	8,043
Lending institutions	55,517	55,299	-	-	218	-	-
Customers	2,367,792	1,318,384	283,442	404,595	263,882	89,446	8,043
Debt securities	1,704,981	50,716	306,933	381,434	295,676	651,095	19,127
Other assets	52,908	-	-	-	-	-	52,908
Total assets	4,524,751	1,578,893	590,375	921,256	559,776	740,541	133,910
Financial liabilities at depreciated cost	4,282,232	841,452	385,078	730,554	2,292,122	9,902	23,124
Central bank deposits	64,112	46,850	-	8,569	-	-	8,693
Deposits from lending institutions	262,039	262,039	-	-	-	-	-
Customer deposits	3,869,164	532,563	385,078	642,592	2,292,122	9,902	6,907
Other financial liabilities	86,917	-	-	79,393	-	-	7,524
Financial liabilities at fair value	71,411	23,626	26,609	17,645	1,442	1,808	281
Other liabilities	57,587	-	-	-	-	-	57,587
Total liabilities	4,411,230	865,078	411,687	748,199	2,293,564	11,710	80,992
Effects from interest rate risk hedge	-	225,410	5,382	-9,892	-159,378	-61,522	-
Net Total	113,521	939,225	184,070	163,165	-1,893,166	667,309	52,918

5.5.2. Sensitivity analysis

The measurement of sensitivity over financial margin shows the possible impact on the repricing of transactions included in statement of financial position of changes in the interest rate curve. This sensitivity is obtained by comparing the simulation of the most probable financial margin with other forecast scenarios assuming a rise or fall in interest rates and changes in the slope of the curve.

The sensitivity analysis performed does not presuppose a minimum to zero for sections of the curve with negative interest rates. Specifically, the Group has implemented the assumptions derived from the Guidelines on the management of interest rate risk in activities other than trading (EBA/GL/2018/02) and the principles of Interest Rate Risk in the Banking Book (IRRBB) of the BIS, which take into account, in summary:

- The application of six scenarios: parallel shock up; parallel shock down; steepener shock (short-term interest rate decline and long-term interest rate hike); flattener shock (short-term rise in interest rates and lowering of long-term interest rates); short rates shock up and short rates shock down
- The establishment of one floor on the curve shifted to the -100 basis point (bp) rate drop scenario for immediate maturities; the floor increases by 5 bp per year to 0% for maturities of 20 years and older
- In each type scenario, the margin effects, on the one hand, and economic value, on the other, of each currency are added linearly; 50% of the effects of those currencies that increase the scenario are weighted
- Various shocks depending on the currency with the aim of capturing the heterogeneity of economic environments between jurisdictions
- Adjustment for the compensation of unstable sight balances considering behavioural assumptions in the various upward interest rate scenarios
- Economic value sensitivity to interest rates measures the impact of interest rate variations on the current value of statement of financial position items. This sensitivity is measured by comparing the calculated economic value of the Group and considering its financial value after variations in market interest rates, dividing the result by the Group's Tier 1 net assets

The economic value and financial margin sensitivities to changes in interest rates of 200 basis points at 31 December 2019 and 2018 is as follows.

In thousand euros	Economic value sensitivity		Financial margin sensitivity	
	31.12.19	31.12.18	31.12.19	31.12.18
Increase of 200 bp	-2.9%	-6.5%	21.7%	40.0%
Decrease of 200 bp	0.0%	27.4%	-5.5%	-1.1%

Based on the data in the previous table, it should be considered that the closing figures for 2019 represented incorporate the methodological modifications within the IRRBB European regulation framework expressed above. For the purpose of representing comparable magnitudes in the table, the 200 bp increment scenario has been assimilated into the new *parallel shock up* scenario; in the same way, the reduction scenario of 200 bp has been assimilated to the new *parallel shock down* scenario.

5.6. Structural exchange rate risk

This is the risk of losses originating from net structural positions in currencies due to the exchange rate variations of the currencies regarding the Group's benchmark currency, which the euro. The Group's statement of financial position includes assets and liabilities in currencies other than euros from the consolidation of subsidiaries that operate in other currencies, from business activity conducted with customers who operate in other currencies and from the Group's investments in foreign assets and currencies.

The COAPiR is responsible for defining and overseeing strategies for the management of this risk, so as to monitor the possible impact of exchange rate fluctuations on the Group's solvency and on the value expressed in euros of investments and gains or losses of subsidiaries in currencies other than the euro.

The Investments Department is responsible for daily control of the overall exposure in each currency, a position calculated in an aggregate manner for the cash and term positions. A maximum exposure limit is established on this net open position in foreign currency for the foreign currencies as a whole. In order to manage this exposure, the Investments Area may perform hedges with cash and term operation and using derivatives. This maximum limit of open position in foreign currency is 5,000 thousand euros.

Below is the open position in the main currencies in which the Group has open exposure (equivalent in euros), calculated for cash transactions and term transactions, at the close of 2019 and 2018.

Open position (in thousands of euros)	31.12.19	31.12.18
USD	70	-1,438
GBP	-9	-443
CHF	-9	-84

5.7. Operational risk

Crédit Andorrà Group, in application of the criterion established by the Basel Committee on Banking Supervision, defines operational risk as the risk of losses resulting from inappropriate or faulty processes, personnel and internal systems, or caused by external events. This broad definition includes several types of risks, such as fraud, commercial practices, behavioural risk, legal risk, technological risk, cyber security or human error, but expressly excludes risks such as strategic or business risks and reputational risk.

In light of the broad scope of operational risk, due to the different types of risk and to the fact that all processes, systems, persons and lines of business are exposed to said risks, the Group has decided to actively manage its operational risk by establishing the following objectives in its management:

- Identify the exposures to operational risk in all entities which are part of Crédit Andorrà Group and in all their processes
- Assess the level of exposure to operational risk and the effectiveness of the current control environment, with the aim of monitoring the Group's operational risk profile and prioritising risk management
- Manage operational risks by defining plans for improvement and mitigation
- Perform ongoing monitoring of operational risk, identifying new sources of operational risk or changes in the level of exposure to operational risk, always ensuring senior management is informed of the evolution of the Group's operational risk profile

5.7.1. Corporate governance model in the management of operational risk

General Management and the Board of Directors are directly involved in managing operational risk by approving the risk-management policy and periodically monitoring the evolution of the Group's risk profile.

The Internal Control Department, which is part of the Global Risks Department, is responsible for developing the operational risk-management framework of the Group as a whole. Within that responsibility its principal functions are as follows:

- Assisting the Board of Directors in its approval of an operational risk management policy which establishes a management framework that enables operational risks to be identified, assessed and managed
- Establishing methodologies for identifying, assessing and monitoring operational risk, as well as providing the Group with the necessary tools for implementing said methodologies
- Leading the self-assessment process regarding operational risk and gathering the losses due to operational risk which materialise in the different entities comprising the Group
- Promoting an operational risk culture by means of actions such as the definition of policies and procedures relating to operational risk, establishing the figure of the operational risk coordinator in each department, providing said coordinators with training or coordinating the operational risk self-assessment process of the entire Group with direct involvement of all subsidiaries, areas and departments
- Monitoring the Group's operational risk profile, while keeping senior management informed of its evolution

Each department has an operational risk coordinator, who, in addition to their functions within the department, is the contact person with the corporate function for operational risk monitoring, and is responsible for identifying, assessing, managing and reporting the operational risk events in the department.

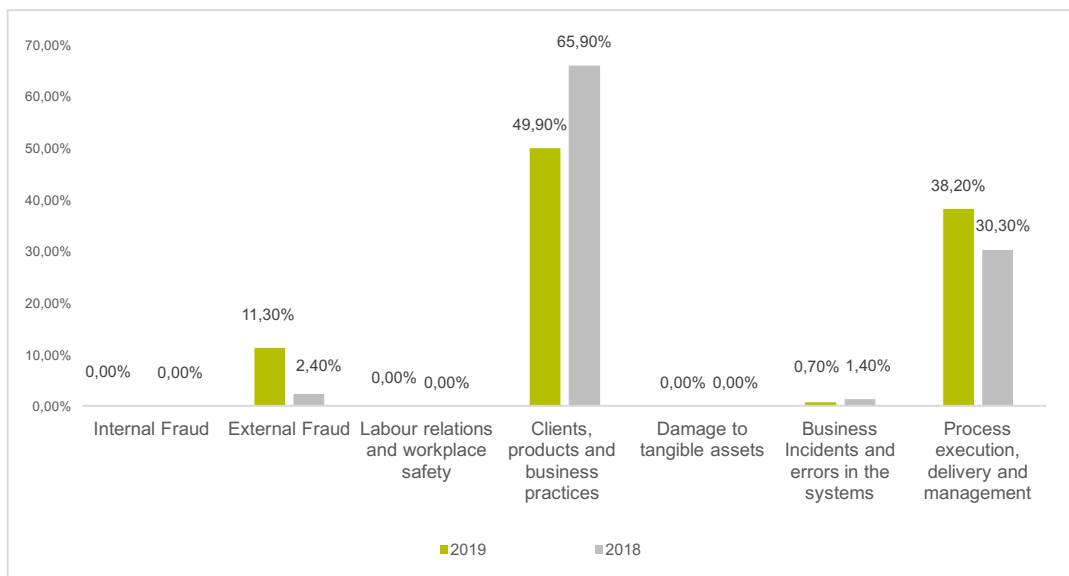
5.7.2. Tools and methodologies for managing operational risk

The operational risk management framework defined by Crèdit Andorrà Group foresees the integration of quantitative and qualitative methodologies that enable a retrospective vision of the losses materialised within the Group to be combined with a prospective vision of its exposure to future risk, providing self-assessment of the risks and controls and an analysis of the scenarios.

The pillars on which the operational risk management methodology is based are as follows:

- **CAM-ROP database of internal losses due to operational risk (control, analysis and mitigation of operational risk).** The Group has created an internal database which includes the events involving losses due to operational risk. This database is a quantitative tool that permits understanding and analysis of the operational risk profile based on calculated losses, which have been analysed and classified based on their risk profile, line of business and department affected, using the criteria set by the Basel Committee on Banking Supervision. The CAM-ROP database has been developed internally within the Bank and contains historic data on operational risk losses from 2013. Along with the database of losses caused by operational risk, the Group has approved several policies and procedures that enable the Internal Control department to receive information related to all operational losses that materialise in all entities which are part of Crèdit Andorrà Group

During the 2019 and 2018 financial years, the percentage distribution of losses due to operational risk based on the types of operational risk under Basel was as follows:



- Self-assessment of operational risks and controls.** Self-assessment is a qualitative methodology that complements the retrospective vision of the internal database by identifying the operational risks inherent to all processes of the different entities comprising the Group, the controls that exist for mitigating these risks, and an assessment conducted prospectively in relation to the probability and severity of the resulting residual risk, after taking into consideration the mitigation provided by the existing controls

The self-assessment methodology defined by the Group includes techniques such as the analysis of scenarios and losses due to external operational risks, which for certain operational risks can help perform a more accurate qualitative assessment of the level of risk exposure, when a sufficient database is not available

In order to support this self-assessment process, the Group has developed the ARC-ROP tool (self-assessment of risks and operational risk controls), which in addition to becoming the process, operational risks and controls repository of the entire Group, provides the necessary functions for conducting the self-assessment methodology defined and for generating the operational risk maps

- Regulatory capital calculation.** Act 35/2018 on solvency, liquidity and prudential supervision of banks and investment companies implies the adaptation to the Andorran legal framework of the directive of the European Union CRD IV and of the CRR regulation. The Act introduces the requirement for equity for operational risk, which allows entities to use the basic indicator method or the standard method, after fulfilling a series of requirements set out in the Act and after notifying the supervisor. The Group calculates its own capital requirements for operational risk in accordance with the methodology of the basic indicator. This calculation enables the equity requirements necessary for ensuring the Group's solvency if faced with unexpected losses due to operational risk to be obtained
- Monitoring and reporting.** The Internal Control Department conducts upward and downward reporting of the operational risk situation. The COAPiR and senior management receive periodic upward reports including on operational losses that may occur and developments in self-assessment. Downward reporting to all departments within the Group is performed to inform them of developments in their operational risk profile

5.8. Compliance and conduct risk

Compliance risk is the risk of sanctions, including financial ones, or of coming under another type of disciplinary measure imposed by supervisory bodies as a result of failing to comply with laws, regulations, rules, self-regulating standards of the organisation or codes of conduct applicable to the activity conducted. Conduct risk is the risk caused by inappropriate practices in the Bank's relations with its customers, the way they are treated and the products they are offered and their suitability for each specific customer.

Reputational risk is the risk of decrease in trust towards or worsening of the reputation of the organisation with stakeholders such as customers, potential customers, the general public or supervisory institutions and the legal system, due to events linked to bad practices or unethical behaviour.

The Group's aim in managing compliance and conduct risk is: (1) to minimise the likelihood of irregularities occurring; and (2) to ensure that any irregularities that do occur are identified, reported and promptly resolved.

The Group's strategy to minimise this risk is based on the following key aspects:

- Oversight of the management and control of compliance and conduct risk through a structure of committees established by Senior Management which deal with this risk (Ethics Committee, Committee for the Prevention of Money Laundering and Financing of Terrorism, the Product Committee and COAPiR)
- Corporate policies applicable to all Group companies, drawn up based on best international practices and not only on Andorran legislation in this area. These policies are subject to centralised review and verification by the parent company
- Strengthening the regulatory compliance Departments for the Prevention of Money Laundering which are responsible, among other functions, for safeguarding compliance with legal requirements, particularly in customer approval and business oversight; supervising compliance of the Group's Code of Conduct in the securities markets, for the prevention manuals and procedures to prevent money laundering, as well as for proposing improvements.
- Drawing up rules and procedural manuals that implement the content of the aforementioned policies and codes of the Group, and which are approved by the Bank's Board of Directors
- The existence of a homogeneous system to record, control, manage and analyse the causes of the complaints according to their different categories, to be able to thereby identify the reasons for customer dissatisfaction, offer solutions that are suitable for each case and propose improvements, where necessary, to the processes causing such complaints

Within the area of compliance and conduct risk, the Board of Directors of the Bank is responsible for approving the main policies to be applied throughout the Group. These are currently as follows:

- The Prevention of Money or Securities Laundering and Terrorist Financing Policy
- The Regulatory Compliance Policy
- The Code of Ethics and Conduct of the Group
- The Code of Conduct in the Securities Markets
- The Investor Protection Policy
- FATCA (Foreign Account Tax Compliance Act)/CRS (Common Reporting Standard) Policy

The compliance function is communicated to the Audit and Risk Committee on a quarterly basis, through the director of the Global Risks Department, as well as through the annual written report that performs the same function.

The organisational model is based on the Global Risks and the Legal counsel, Prevention of Money Laundering Regulatory Compliance Department which, in addition to the functions of the Internal Control Department, manages compliance and conduct risk throughout the Group. This Area comprises the Department for the Prevention of Money Laundering and Financing of Terrorism Department as well as the Regulatory Compliance Department. This structure is repeated in each of the subsidiaries where the Group operates, with the relevant reports from local units to the parent company.

5.8.1. Regulatory Compliance Department

The Regulatory Compliance Department is the internal, permanent body responsible for providing identification, assessment, monitoring and reporting of non-compliance risks within the Group, as well as advising the divisions affected on management of these risks. This reporting is effective, independent and continuous.

The main powers of the Regulatory Compliance Department are:

- Promoting and developing a culture of compliance by drafting policies applicable to the Group, as well as providing training and advice
- Identifying and assessing the risk of non-compliance in order to determine the main objectives of monitoring activities and advice to be conducted, which culminates in a review plan for the year
- Reporting the results of the non-compliance risk assessment regularly to the company's senior management, expressing the main aspects that may have occurred, indicating in particular whether appropriate action has been taken where shortcomings have been detected

The department's scope covers, among others, the following areas: a) investor protection in the provision of investment and ancillary services; b) Stock Exchange code of conduct; c) automatic exchange of information in tax matters; d) customer complaints, and e) protection of personal data.

The department has established itself as a second-line of control that reports to senior management independently through the Legal counsel, Prevention of Money Laundering and Regulatory Compliance Department. The department has promoted the adoption of the policy on personal data protection, as well as the automatic exchange of tax information standard to comply with requirements in the law on automatic exchange of tax information, which came into force on 1 January 2017.

Moreover, we have implemented a platform for disseminating educational and e-learning content in the field of compliance, which is managed entirely by this department. It has also promoted coordination with the Internal Control Department on incidents involving operational risks to identify sources of risk due to compliance and behaviour. There have also been several training sessions attended by much of the workforce, covering the code of ethics and conduct, automatic exchange of tax information, and other subjects. Finally, the Group has participated as a member of the Banking Association in a number of initiatives relating to regulatory compliance, including in particular the updating of Law 8/2013 of 9 May on organisational requirements and operating conditions of entities operating in the financial system, investor protection, market abuse and financial guarantee agreements, approved in late 2018.

5.9 Money laundering and terrorist financing risk

Money laundering and terrorist financing risk is the risk that the Group could be used to channel, hide or convert the proceeds of crime or for the provision or assembly of funds for terrorist purposes.

In order to guard against this risk, the Crèdit Andorrà Group takes appropriate measures to identify, assess and understand its money laundering and terrorist financing risk, considering all relevant risk factors before determining its global level of risk and the appropriate mitigation measures. Those risk factors include factors relating to customers, countries or regions, products, services, transactions and distribution channels.

The assessment is required to be approved by the Board of Directors and forms the basis for the development of policies and procedures to mitigate the risks of money laundering and terrorist financing, since the assessment reflects the risk profile and determines tolerance levels. The policies, procedures, measures and controls for the mitigation of the risks must be consistent with that self-assessment, with the aim of identifying those areas which are most vulnerable and in which, consequently, efforts and measures to reduce and mitigate the risk should be concentrated.

5.9.1. Department for the Prevention of Money Laundering

It is a strategic goal of the Group to have an effective, advanced system to prevent money laundering and the financing of terrorism (PBCFT) in which the parent company coordinates the identification and management of PBCFT risk, including all the business lines and geographical locations. That is why the Group aims to ensure (1) clear, simple policies regarding corporate functions and, (2) coordination and monitoring of the different regulatory compliance units of the Group.

The Group has a PBCFT policy approved by the Board of Directors. The policy has three essential lines of action common to all Group companies (in which the Bank is the majority shareholder). These lines of action represent the minimum so that if local law is stricter than Andorran law, local law should be applied.

- Conduct banking business in accordance with current legislation and use best banking practices in the area of PBCFT
- Prevent the use of any Group company or component to channel money or asset laundering operations or to finance terrorism, implementing the operational rules and control and communication systems required
- Guarantee specific training in PBCFT for all Group employees

In addition to the aforementioned policy, the Group also has the following tools to prevent Group companies from being used by potential customers associated with criminal practices:

- A risk-focused customer classification system in accordance with the best international standards, in which approval is required from different hierarchical and organisational levels
- Existence of a range of committees (Prevention of Money Laundering and Terrorist Financing Committee, Customer Acceptance Committee, Management Committee and the Regulatory Compliance Department)
- Human resources with exclusive or shared functions, with a support structure in line with the risk and size of each company
- Procedural manuals that implement the aforementioned policy and that are adapted, updated and perfected over time. These procedures are drawn up by the Regulatory Compliance units at each company and approved by their respective Boards of Directors or Management Committees depending on the type of document in question.

- A range of technological tools to control PBCFT, whether by identifying politically exposed people, automatically supervising operations, controlling transfers and customers, etc.
- Regular, independent supervision which, depending on the company in question, can be conducted by an external expert hired by the subsidiary itself, by the regulator or by the Group's Internal Audit Department, whose function is corporate. Regarding the previous point, the corporate function permanently monitors this remotely by requesting information and documentation to certify the degree of compliance of the measures to be adopted, as recommended by the corporate function and also by internal and external auditors
- During the period established by the corresponding authorities, counted from the cancellation of an account or the completion of the corresponding transaction or operation, the following documents are kept: (1) copy of the documents that may be requested when applying due diligence; and (2) original or official copy of the documents or records suitably certifying the operations, the people involved in these operations and business relations
- Specific training programmes complemented by training which is occasionally initiated at the Bank, the aim of which is to improve training in this field for Group employees

6. Fair value of financial instruments

6.1. Introduction and overview

The fair value of a financial instrument is the amount for which it could be realised, if it is an asset, or settled, if it is a liability, in a transaction carried out between knowledgeable, willing parties on an arm's-length basis. The most objective reference of the fair value of a financial instrument is the price that would be paid for it in an active, transparent and deep market, for which the listed price or market price are used.

When there is no market price, the price of recent transactions with similar instruments are resorted to in order to estimate the fair value, and if there are none, valuation models that are sufficiently tried and trusted by the international community are used, considering the specific characteristics of the instrument to be valued, and more importantly, the different types of risk with which it is associated. The models must preclude arbitrage.

The Internal Risk Control and Validation Department of the Global Risks Department is responsible for determining these prices which cannot be found on the market.

All financial instruments are classified into one of the following levels based on the methodology used for obtaining their fair value:

- Level I: valuation based on the direct use of the actual pricing of the financial instrument in active markets which is observable and available from independent sources i.e. prices listed on active markets
- Level II: valuation performed by means of applying techniques which use variables obtained from the market i.e. the considered hypotheses correspond to directly or indirectly observable market data, or prices listed on active markets for similar instruments
- Level III: valuation performed by means of applying techniques which due to any of the significant hypotheses use variables not obtained from observable market data

6.2. Fair value of financial assets and liabilities

Book value at 31 December 2019 and 2018 of the financial assets and liabilities of the Group and their corresponding fair value broken down by method of valuation used to estimate their fair value is set out below.

31.12.19						
In thousand euros	Note	Book value	Fair value	Level 1	Level 2	Level 3
Held-for-trading financial assets	9	30,047	30,047	5,247	22,300	2,500
Derivatives		11,259	11,259	-	8,759	2,500
Equity instruments		5,247	5,247	5,247	-	-
Debt securities		13,541	13,541	-	13,541	-
Loans and advances		-	-	-	-	-
Financial assets not held for trading required to be valued at fair value through changes in profit and loss		188,299	188,299	159,646	-	28,653
Equity instruments		175,949	175,949	159,646	-	16,303
Debt securities		-	-	-	-	-
Loans and advances		12,350	12,350	-	-	12,350
Financial assets at fair value through changes in profit and loss account	10	-	-	-	-	-
Debt securities		-	-	-	-	-
Other		-	-	-	-	-
Other financial assets at fair value through changes in other consolidated profit and loss	11	330,785	330,785	315,299	-	15,486
Equity instruments		15,606	15,606	120	-	15,486
Debt securities		315,179	315,179	315,179	-	-
Financial assets at depreciated cost	12	3,832,281	3,892,883	1,402,019	95,522	2,395,342
Loans and advances		2,367,320	2,395,342	-	-	2,395,342
Lending institutions		94,612	94,594	-	-	94,594
Customers		2,272,708	2,300,748	-	-	2,300,748
Debt securities		1,464,961	1,497,541	1,402,019	95,522	-
Hedging derivatives	14	-	-	-	-	-
Total assets		4,381,412	4,442,014	1,882,211	117,822	2,441,981
Held-for-trading financial liabilities	9	16,107	16,107	-	16,107	-
Derivatives		16,107	16,107	-	16,107	-
Financial liabilities at fair value through changes in profit and loss account	10	49,331	49,331	-	48,976	355
Financial liabilities at depreciated cost	19	4,307,293	4,307,293	-	-	4,307,293
Central bank deposits		59,429	59,429	-	-	59,429
Deposits from lending institutions		295,476	295,476	-	-	295,476
Customer deposits		3,830,248	3,830,248	-	-	3,830,248
Other financial liabilities		122,140	122,140	-	-	122,140
Hedging derivatives	14	37,190	37,190	-	37,113	77
Total liabilities		4,409,921	4,409,921	-	102,196	4,307,725

31.12.18						
In thousand euros	Note	Book value	Book value	Level 1	Level 2	Level 3
Held-for-trading financial assets	9	12,560	12,560	10,176	2,384	-
Derivatives		2,361	2,361	-	2,361	-
Equity instruments		3,688	3,688	3,688	-	-
Debt securities		6,511	6,511	6,488	23	-
Loans and advances		-	-	-	-	-
Financial assets not held for trading required to be valued at fair value through changes in profit and loss	9.1	185,903	185,903	167,223	-	18,680
Equity instruments		179,753	179,753	167,223	-	12,530
Debt securities		-	-	-	-	-
Loans and advances		6,150	6,150	-	-	6,150
Financial assets at fair value through changes in profit and loss account	10	1,865	1,865	1,865	-	-
Debt securities		1,360	1,360	1,360	-	-
Other		505	505	505	-	-
Other financial assets at fair value through changes in other consolidated profit and loss	11	365,996	365,996	349,672	255	16,069
Equity instruments		16,069	16,069	-	-	16,069
Debt securities		349,927	349,927	349,672	255	-
Financial assets at depreciated cost	12	3,764,342	3,751,343	1,213,841	98,632	2,438,870
Loans and advances		2,417,159	2,438,870	-	-	2,438,870
Lending institutions		55,517	55,517	-	-	55,517
Customers		2,361,642	2,383,353	-	-	2,383,353
Debt securities	13	1,347,183	1,312,473	1,213,841	98,632	-
Hedging derivatives	14	-	-	-	-	-
Total assets		4,330,666	4,317,667	1,742,777	101,271	2,473,619
Held-for-trading financial liabilities	9	10,405	10,405	-	6,490	3,915
Derivatives		10,405	10,405	-	6,490	3,915
Financial liabilities at fair value through changes in profit and loss account	10	71,411	71,411	-	70,964	447
Financial liabilities at depreciated cost	19	4,282,232	4,282,232	-	-	4,282,232
Central bank deposits		64,112	64,112	-	-	64,112
Deposits from lending institutions		262,039	262,039	-	-	262,039
Customer deposits		3,869,164	3,869,164	-	-	3,869,164
Other financial liabilities		86,917	86,917	-	-	86,917
Hedging derivatives	14	35,194	35,194	-	35,194	-
Total liabilities		4,399,242	4,399,242	-	112,648	4,286,594

6.3. Financial assets and liabilities recognised at fair value – Levels 2 and 3

6.3.1. Main valuation methods, hypotheses and ‘inputs’ used

The main valuation methods, hypotheses and inputs used to estimate the fair value of financial instruments classified in Levels 2 and 3, by type of financial instrument are set out below.

Financial instruments	Fair value			
31.12.19	Level 2	Level 3	Main valuation techniques	Main inputs used
Debt securities				
Held-for-trading financial assets	13,541	-	Present value method (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate - Levels of market benchmarks
Financial assets not held for trading required to be valued at fair value with changes through profit and loss	-	-		
Financial assets at fair value through changes in profit and loss account	-	-		
Other financial assets at fair value through changes in other consolidated profit and loss	-	-		
Financial assets at depreciated cost	95,522	-		
Financial liabilities at fair value through changes in profit and loss account	48,976	355		
Assets and liabilities at depreciated cost				
Loans and receivables	-	2,395,342	Present value method (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate
Financial liabilities at depreciated cost	-	4,307,293		
Equity instruments				
Held-for-trading financial assets	-	-	Net equity Comparable prices (prices of similar instruments)	- Liquidation value issued by directors of collective investment institutions - Prices of similar instruments or market benchmarks
Financial assets not held for trading required to be valued at fair value with changes through profit and loss	-	16,303		
Other financial assets at fair value through changes in other consolidated profit and loss	-	15,486		
Loans and advances				
Financial assets not held for trading required to be valued at fair value through changes in profit and loss	-	12,350	Present value method (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate
Derivatives				
Trading derivatives			- Credit: probability of default - Exchange rate: discounted flows, Black-Scholes - Debt securities: discounted flows - Variable return: Black-Scholes and discounted flows - Rate of interest: discounted flows - Interest Rate Swaps, Call Money Swaps and FRA: discounted flows - Caps/Floors: Libor Market Model - Options over debt securities: Black-Scholes	- Rate of exchange - Future prices quoted on markets or consensus services - Market interest rate - Prices of underlying assets: shares, funds, commodities - Volatility observed on the market or consensus services - Levels of spread for obligations of the issuer - Quoted dividends
Assets	8,759	2,500		
Liabilities	16,107	-		
Hedging derivatives				
Assets	-	-		
Liabilities	37,113	77		

Financial instruments	Fair value			
31.12.18	Level 2	Level 3	Main valuation techniques	Main inputs used
Debt securities				
Held-for-trading financial assets	23	-	Present value method (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate - Levels of market benchmarks
Financial assets not held for trading required to be valued at fair value with changes through profit and loss	-	-		
Financial assets at fair value through changes in profit and loss account	-	-		
Other financial assets at fair value through changes in other consolidated profit and loss	255	-		
Financial assets at depreciated cost	98,632	-		
Financial liabilities at fair value through changes in profit and loss account	70,964	447		
Assets and liabilities at depreciated cost				
Loans and receivables	-	2,438,870	Present value method (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate
Financial liabilities at depreciated cost	-	4,282,232		
Equity instruments				
Held-for-trading financial assets	-	-	Net equity Comparable prices (prices of similar instruments)	- Liquidation value issued by directors of collective investment institutions - Prices of similar instruments or market benchmarks
Financial assets not held for trading required to be valued at fair value with changes through profit and loss	-	12,530		
Other financial assets at fair value through changes in other consolidated profit and loss	-	16,069		
Loans and advances				
Financial assets not held for trading required to be valued at fair value through changes in profit and loss	-	6,150	Present value method (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate
Derivatives				
Trading derivatives			- Credit: probability of default - Exchange rate: discounted flows, Black-Scholes - Debt securities: discounted flows - Variable return: Black-Scholes and discounted flows - Rate of interest: discounted flows - Interest Rate Swaps, Call Money Swaps and FRA: discounted flows - Caps/Floors: Libor Market Model - Options over debt securities: Black-Scholes	- Rate of exchange - Future prices quoted on markets or consensus services - Market interest rate - Prices of underlying assets: shares, funds, commodities - Volatility observed on the market or consensus services - Levels of spread for obligations of the issuer - Quoted dividends
Assets	2,361	-		
Liabilities	6,490	3,915		
Hedging derivatives				
Assets	-	-		
Liabilities	35,194	-		

In the case of instruments recognised at depreciated cost, for which the interest rate is variable, or for those with fixed interest rate with maturity of less than one year (for which the interest risk is not considered material), the Group considers that the book value (including value adjustments due to credit risk hedging) does not differ significantly from fair value.

A more detailed description of the main techniques mentioned in the preceding tables is set out below.

- **Net present value (present value method).** This model uses the future cash flows of each instrument, which are established in the different contracts, and discounts them to calculate the present value. The necessary inputs may be observable on the market or not. Some examples could be:
 - Interest rate curves. For valuing any financial instrument, one must first have the discount factors for each piece of data affected by a flow. The process applied for calculating interest rate curves is known as bootstrapping and is based on calculating the discount factors at the different terms for the selected benchmarks based on the process explained below. The first step is to calculate the discount factors generated by the deposits and the futures of the deposits and, then, for swaps, each in their own currency
 - Credit spread. Credit spread represents the difference between the performance of an instrument and the benchmark rate, and reflects the additional performance which a participant in the market would demand for taking on the credit risk of said instrument. The credit spread of an instrument is therefore part of the discount rate which is used for calculating the present value of future cash flows. The process applied for calculating counterparty curves, or credit spread, quantifies the additional discount to be applied to an issuance for the risk effect of the issuer and is based on the listing of the issuer's credit default swaps (CDS). For issuers for which no CDS is available, the credit spread is calculated based on the issuer's listed debt securities
 - Recovery rate. This is defined as the percentage of the capital and interest which is expected to be recovered from a debt instrument which is unpaid
- **Comparable prices** (prices of similar instruments). Prices of comparable instruments, index or market benchmarks, are used to calculate the fair value of a financial instrument, performing subsequent adjustments in order to take into account differences which may exist between the valued instrument and that used as a benchmark. It is also possible to simply assume that the market price of an instrument is equivalent to the price of another instrument.
- **Net equity.** Represents the total value of all assets and liabilities of a company, fund, etc., and is published by the directors or investment fund management company.
- **Black-Scholes.** The Black-Scholes model has been the model used by the main organised markets and bilateral contracts (over the counter – OTC) for simple purchase/sale options. The Black-Scholes model is based on the following assumptions: (1) the prices of the underlying items constituting a geometric Brownian distribution; (2) it being possible to take on short positions in the underlying item; (3) there being no option for arbitration; (4) market trades being continuous; (5) there being no transaction costs; (6) all the underlying items being divisible; (7) cash being able to be borrowed and loaned at the risk-free interest rate, and (8) the share price fluctuating randomly, for which expected values and standard deviations are constant. As can be seen, the options provide a new financial variable that conditions the valuation: the volatility of the underlying asset.

Value adjustments due to default risk

This risk is incorporated in the process of determining the value of assets subject to issuer credit risk as a spread or additional risk premium over interest rate hedging used in the discounting of cash flows which determines the net present value of the assets.

This spread or issuer credit risk premium is obtained from prices observed in financial markets for credit default swaps for issues with different maturities, to produce a CDS credit hedge spread.

The amounts corresponding to the credit risk valuation issue adjustments of the positions at 31 December 2019 and 2018 amounted to -3.70 million euros and -4.99 million euros, respectively.

6.3.2. Sensitivity analysis

At 31 December 2019, the effect on the results of changing the main assumptions used in the valuation of Tier 3 financial asset instruments by other reasonably likely assumptions (taking as a favourable hypothesis the parallel displacement of the curve downwards by 100 basis points and as an unfavourable hypothesis the parallel displacement of the curve upwards by 100 basis points upwards) would be +9,721 thousand euros and -8,643 thousand euros, respectively (+9,448 thousand euros and -10,574 thousand euros, respectively, at 31 December 2018).

6.3.3. Movement in the year of assets and liabilities classified as level 3

In 2019 and 2018, the following movements took place in assets and liabilities classified as level 3:

In thousand euros	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Opening balance	2,473,619	-4,286,594	2,700,661	-4,497,496
Value adjustments record in gains and losses	2,556	-	-3,899	-
Value adjustments not recorded in gains and losses	-	-	-	-
Purchases, sales and settlements	-34,194	-21,039	-223,143	212,920
Net level 3 incomings/(outgoings)	-	-92	-	-2,018
Exchange rate differences and others	-	-	-	-
Closing balance	2,441,981	-4,307,725	2,473,619	-4,286,594

During 2019 and 2018, no significant transfers of financial instruments valued at fair price took place between the different levels of valuation.

7. Operating segments

7.1. Segmentation bases

The information by business segment aims to control, monitor and internally manage the activity and results of the Crèdit Andorrà Group, and is structured according to the different lines of business established based on the Group's structure and organisation. The Board of Directors is the highest body for making operational decisions for each business.

The definition of the business segments takes into account inherent risks, particular management features and geographic scope. Likewise, business segregation of the activity and result is based on the basic business units, onto which the accounting and management figures are added. Applying the same general principles as those used in the Group's management information, and the measurement and valuation criteria and accounting principles applied are basically the same as those used for preparing the financial statements, without the use of asymmetrical allocations.

The results and business volumes by segments are presented in four large business segments:

- **Private banking.** This is the Group's main activity and this line of business specialises in consultancy and comprehensive management of customers' capital and investments. It is organised into three geographical areas, which are Andorra for customers who reside in this region; Europe, which mainly encompasses the Spanish market and Luxembourg; America, which mainly includes the Latin American market, and New Geographies, an area aimed at providing services to customers in Eastern Europe, Africa and the Middle East
- **Commercial banking.** This segment includes retail customers in Andorra, who are offered products and services aimed mainly at financing and savings. Similarly, it also includes business banking, aimed at providing specialist services to companies and businesses and to the Andorran public sector

- **Insurance business.** This includes all of the Group's insurance-related business, focusing on life, health and accident products mainly within the Andorran and Spanish markets
- **Investment Department.** This segment corresponds to the Group Treasury and Capital Markets and Group Asset Management Departments, including the management and administration of investment vehicles

7.2. Information by operating segment

Information relating to the profit/loss and business volume of the Crèdit Andorrà Group for 2019 and 2018 by business segment is set out below.

In thousands of euros	Private Banking	Commercial banking	Insurance business	Investments, customer services and adjustments	Total 31.12.19
Interest margin	12,622	28,611	-	1,995	43,228
Net result from operations	76,688	43,456	40,774	40,041	200,959
Result from operations (1)	55,245	38,117	24,584	-64,150	53,796
Result for the year	54,475	38,117	22,829	-68,548	46,873
Assets	608,388	1,763,149	6,200	39,397	2,417,134
Liabilities	2,270,207	1,430,714	-	129,327	3,830,248
Off-balance-sheet	10,149,350	414,264	-	253,353	10,816,967
Business volume	13,027,945	3,608,127	6,200	422,077	17,064,349

(1) Net result from operations less administrative expenditure and depreciation

In thousand euros	Private Banking	Commercial banking	Insurance business	Investments, customer services and adjustments	Total 31.12.18
Interest margin	13,463	30,323	22	2,677	46,485
Net result from operations	85,566	44,350	20,952	27,695	178,563
Result from operations (1)	61,840	38,436	2,385	-69,016	33,645
Result for the year	61,840	38,436	7,653	-71,575	36,354
Assets	615,122	1,850,216	-	36,841	2,502,179
Liabilities	2,399,296	1,346,462	-	123,406	3,869,164
Off-balance-sheet	8,302,815	406,250	-	361,385	9,070,450
Business volume	11,317,233	3,602,928	-	521,632	15,441,793

(1) Net result from operations less administrative expenditure and depreciation

The definition of the different components comprising the business volume seen in the above tables is that marked internally by the Group and may therefore differ from the accounting items presented in other sections of the financial statement.

8. Cash, cash balances in central banks and other at sight deposits

The breakdown of this heading of the statement of financial position at 31 December 2019 and 2018, is as follows:

In thousand euros	31.12.19	31.12.18
Cash	40,968	49,330
Cash balances with central banks	15,717	55,486
other at sight deposits	246,324	238,737
Total	303,009	343,553

9. Financial assets and liabilities held for sale and assets not held for sale required to be valued at fair value through changes in profit and loss

9.1. Held-for-trading financial assets

The breakdown of this heading of the statement of financial position at 31 December 2019 and 2018, is as follows:

In thousand euros	31.12.19	31.12.18
Non-derivative assets		
Equity instruments	5,247	3,688
Listed instruments	5,247	3,688
Unlisted instruments	-	-
Debt securities	13,541	6,511
Public debt and central banks	35	6,488
Lending institutions	13,506	2
Other financial companies	-	21
Other	-	-
Loans and advances	-	-
Total non-derivative assets	18,788	10,199
Derivative assets		
Interest rate	686	567
Currencies	8,073	1,794
Credit	-	-
Equity instruments	2,500	-
Other	-	-
Total derivative assets	11,259	2,361
Total	30,047	12,560

During financial years 2019 and 2018, except for the effects of the first application of IFRS 9 (1 January 2018) there have been no reclassifications of financial assets between portfolios. Consequently, the result and net equity for the 2019 and 2018 financial years have not been affected by reclassifications among portfolios of financial assets or liabilities.

9.2. Financial assets not held for trading required to be valued at fair value through changes in profit and loss

The breakdown of this heading of the statement of financial position at 31 December 2019 and 2018, is as follows:

In thousand euros	31.12.19	31.12.18
Equity instruments	175,949	179,753
Listed instruments	159,646	167,223
Of which linked to Unit-Link	150,330	150,944
Unlisted instruments	16,303	12,530
Debt securities	-	-
Public debt and central banks	-	-
Lending institutions	-	-
Other financial companies	-	-
Other	-	-
Loans and advances	12,350	6,150
Total	188,299	185,903

Equity instruments whose pricing is Unit-Linked are investments linked to transactions in life insurance products when investment risk is assumed by the policyholder. This product is marketed through Crèdit Assegurances SAU.

Of the total balance presented in the item "Listed instruments" at 31 December 2019, 1,386 thousand euros correspond to the value of investments in collective investment entities, whose risk is borne by clients of the Group through the holding of structured liabilities (13,331 thousand euros at 31 December 2018) (see Note 10.2).

Of the total balance presented in the item "Loans and advances 6,200 thousand euros are recognised for the financial instrument arising from the sale of the insurance business (see Note 3.6).

9.3. Held-for-trading financial liabilities

The breakdown of this heading of the statement of financial position at 31 December 2019 and 2018, is as follows:

In thousand euros	31.12.19	31.12.18
Derivative liabilities		
Interest rate	2,288	4,208
Currencies	9,905	2,156
Credit	-	-
Equity instruments	3,914	126
Other	-	3,915
Total derivative liabilities	16,107	10,405
Total	16,107	10,405

10. Financial assets and liabilities at fair value through changes in profit and loss account

The breakdown of this statement of financial position item at 31 December 2019 and 2018 is as follows:

In thousand euros	31.12.19	31.12.18
Assets		
Debt securities	-	1,360
Of which linked to Unit-Link	-	1,360
Other financial assets	-	505
Of which linked to Unit-Link	-	505
Total assets	-	1,865
Liabilities		
Debt securities	49,331	71,411
Total liabilities	49,331	71,411

10.1. Other financial assets at fair value through changes in profit and loss account

At 31 December 2019 there are no amounts recorded in "Representative debt securities linked to Unit-Links" and "Other assets linked to Unit-Links", since they are invested in "Equity Instruments" (See Note 9.2.).

At 31 December 2018, the value of "Debt securities linked to Unit-Links" represented investments in debt securities linked to transactions in life assurance products when the investment risk was assumed by the assured, so-called Unit-Link assurance. This product is marketed through Crèdit Assegurances SAU.

At 31 December, 2018, the amount of "Other financial assets linked to Unit-Links" represented other investments of this assurance product which did not represent equity instruments (see Note 9.2) or debt securities (see Note 10.1). By way of example, these assets include investments in certificates of deposit, currency accounts, etc.

10.2. Other financial liabilities at fair value through changes in profit and loss account

This item includes structured liabilities, i.e. financial liabilities that contain an implicit derivative, by means of which customers assume a risk additional to the Crèdit Andorrà credit risk and interest rate risk. These liabilities are mainly linked to certain assets which the Group holds, the risks and profits of which have been transferred to customers through these structured liabilities.

Consequently, as at 31 December 2019, of the total value of debt securities shown in the preceding table, 2,100 thousand euros represent structured liabilities the underlying items for which are interests in investment funds that the Group classifies as "Financial assets not held for sale required to be valued at fair value through changes in profit and loss" (18,501 thousand euros as at 31 December 2018) (see Note 9.2). It should also be borne in mind that the value of the structured liabilities referred to are not as a general rule 100% linked to the risks and profits of the underlying items, on account of which the value of the underlying items may be different to the value of the structured liabilities.

11. Financial assets at fair value with changes through global profit and loss

The breakdown of this financial position item as at 31 December 2019 and 2018, by type of financial instrument, is as follows:

31.12.19				
In thousand euros	Cost/depreciated cost	Unrealised gains	Unrealised losses	Fair value
Equity instruments	13,771	1,835	-	15,606
Gross amount	13,771	1,835	-	15,606
Listed instruments	-	-	-	-
Unlisted instruments	13,771	1,835	-	15,606
Accumulated impairment	-	-	-	-
Debt securities	314,975	301	-97	315,179
Gross amount	314,975	301	-97	315,179
Public debt and central banks	314,975	301	-97	315,179
Lending institutions	-	-	-	-
Other companies	-	-	-	-
Accumulated impairment	-	-	-	-
Total	328,746	2,136	-97	330,785

31.12.18				
In thousand euros	Cost/depreciated cost	Unrealised gains	Unrealised losses	Fair value
Equity instruments	14,254	1,815	-	16,069
Gross amount	14,254	1,815	-	16,069
Listed instruments	166	-	-	166
Unlisted instruments	14,088	1,815	-	15,903
Accumulated impairment	-	-	-	-
Debt securities	348,142	3,794	-2,009	349,927
Gross amount	348,142	3,794	-2,009	349,927
Public debt and central banks	346,090	3,755	-2,009	347,836
Lending institutions	1,098	13	-	1,111
Other companies	954	26	-	980
Accumulated impairment	-	-	-	-
Total	362,396	5,609	-2,009	365,996

In 2019, Crèdit Andorrà Group sold on the market financial assets classified in this heading of the consolidated balance sheet, materialising latent gains for a gross amount of 4,509 thousand euros (13,202 thousand euros in 2018), which are registered in the heading of the consolidated balance sheet under the name “Profit or loss due to retirements of financial assets and liabilities not valued at fair value through profit and loss, net” (see Note 37). However, of the total of the latent capital gains made during 2018, 13,202 thousand euros, are related to the De-Risking process (see Note 22.1.1)

During financial years 2019 and 2018, except for the effects of the first application of IFRS 9 (1 January 2018) there have been no reclassifications of financial assets between portfolios. Consequently, the result and net equity for financial years 2019 and 2018 have not been affected by reclassifications among portfolios of financial assets or liabilities.

12. Financial assets at depreciated cost - Loans and advances

12.1. Loans and advances to lending institutions

The breakdown of this heading in the statement of financial position, by type of financial instrument as at 31 December 2019 and 2018 is as follows:

In thousand euros	31.12.19	31.12.18
Loans and advances to lending institutions	94,472	55,530
Long-term accounts	19	-
Other	94,453	55,530
Valuation adjustments	140	-13
Interest and fees accrued	140	-13
Total	94,612	55,517

12.2. Customer loans and advances

The breakdown of this heading in the statement of financial position, by type of financial instrument as at 31 December 2019 and 2018 is as follows:

In thousand euros	31.12.19	31.12.18
Customer loans and advances	2,404,784	2,496,027
Debtors with monetary guarantees	164,396	260,939
Debtors with security guarantees	337,681	252,617
Mortgages for purchase of first home	224,181	223,938
Other mortgages	1,108,793	1,090,157
Debtors with personal guarantees	389,598	475,634
Credit cards	18,251	17,212
Commercial discount	14,757	20,282
Credit accounts	126,374	160,087
Overdrafts and overruns	1,733	3,694
Other consumer lending	228,483	274,359
Defaulted assets	180,135	192,742
Valuation adjustments	-132,076	-134,385
Impairment losses	-132,076	-134,385
Net book value	2,272,708	2,361,642

13. Financial assets at depreciated cost - Debt securities

The breakdown of this heading in the statement of financial position, by type of counterparty as at 31 December 2019 and 2018 is as follows:

In thousand euros	31.12.19	31.12.18
Debt securities	1,450,926	1,336,032
Public debt and central banks	1,306,475	1,238,842
Lending institutions and other financial entities	119,306	68,831
Other companies	25,145	28,359
Valuation adjustments	14,035	11,151
Impairment losses	-563	-81
Interest and fees accrued	14,598	11,232
Total	1,464,961	1,347,183

In 2019, Crèdit Andorrà Group sold on the market financial assets classified in this heading of the consolidated balance sheet, obtaining latent gains for a gross amount of 6,408 thousand euros, which are registered in the consolidated profit/loss heading under the name “Profit or loss due to deregistrations of financial assets and liabilities not valued at fair value through profit and loss, net” (see Note 37). Taking into account the definitions of the Group's business models, established in the applicable regulations and the context in which the aforementioned sales have taken place, Crèdit Andorrà considers these sales to be compatible with the business model defined by the assets in question.

14. Derivatives from hedge accounting and changes to the fair value of hedged items of a portfolio with interest rate risk hedging

The breakdown of the derivatives designated as hedge accounting derivatives and changes in fair value of hedged items of a portfolio with interest rate risk hedging as at 31 December 2019 and 2018 is as follows:

In thousand euros	31.12.19	31.12.18
Assets	21,890	21,711
Hedge accounting derivatives	-	-
Changes in fair value of hedged items in interest rate risk hedging	21,890	21,711
Liabilities	37,190	35,194
Interest rate accounting hedge derivatives	37,190	35,194
Of which micro-hedging	24,199	21,356
Of which macro-hedging	12,991	13,838
Changes in fair value of hedged items in interest rate risk hedging	-	-

All of the hedge accounting included in the preceding table corresponds to interest rate risk hedges conducted using OTC derivative contracts.

14.1. Fair value hedge accounting

These hedges aim to mitigate the impact of the value fluctuations of the hedged items derived from the risks hedged.

The Group conducts interest **rate risk accounting micro-hedges** for part of the portfolio of fixed rate loans. The hedged items are included under the balance sheet entry “Financial assets at depreciated cost”.

The Group conducts interest **rate risk accounting macro-hedges** on certain portfolios of fixed rate loans and liabilities held with customers. The hedged items are included under the balance sheet entry “Financial assets at depreciated cost”.

The hedging instruments used are mainly OTC interest rate swaps which transform the fixed rate hedged item into a variable rate.

At 31 December 2019 and 2018, the Group performed the corresponding matching tests in relation to the above hedges. Any hedging mismatches have been recorded in the profit and loss account, under “Gains or losses resulting from hedge accounting, net”.

The table below summarises the information used in corresponding tests for the 2019 and 2018 financial years:

			Value of hedging instrument as at 31.12.19		Change in fair value used to calculate the mismatch of the hedge	Mismatch recognised in profit and loss account	Value of hedging instrument as at 31.12.18	
Risk hedged	Hedging instrument		Assets	Liabilities			Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	-	12,991	-847	-1,302	-	13,838
Micro-hedges	Fixed-interest loans	Interest rate swaps	-	24,199	2,842	-581	-	21,356
Total			-	37,190	1,995	-1,883	-	35,194
			Value of hedged item on 31.12.2019		Cumulative adjustment to fair value of hedged item	Change in fair value used to calculate the mismatch of the hedge	Value of instrument item on 31.12.18	
Risk hedged	Hedging instrument		Assets	Liabilities			Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	16,436	-	4,464	26	18,451	-
Micro-hedges	Fixed-interest loans	Interest rate swaps	132,930	-	17,426	153	156,066	-
Total			149,366	-	21,890	179	174,517	-
			Value of hedging instrument as at 31.12.18		Change in fair value used to calculate the mismatch of the hedge	Mismatch recognised in profit and loss account	Value of hedging instrument as at 31.12.17	
Risk hedged	Hedging instrument		Assets	Liabilities			Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	-	13,838	1,076	-320	-	14,914
Micro-hedges	Fixed-interest loans	Interest rate swaps	-	21,356	2,546	-111	-	27,278
Total			-	35,194	3,622	-431	-	42,192
			Value of hedged item on 31.12.18		Cumulative adjustment to fair value of hedged item	Change in fair value used to calculate the mismatch of the hedge	Value of instrument item on 31.12.17	
Risk hedged	Hedging instrument		Assets	Liabilities			Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	18,451	-	4,438	-1,243	22,070	-
Micro-hedges	Fixed-interest loans	Interest rate swaps	156,066	-	17,273	-2,657	239,441	-
Total			174,517	-	21,711	-3,900	261,511	-

During 2019, the Group has recognised a net result for hedge accounting of -1,883 thousand euros (-431 thousand euros in 2018).

During 2019, there was no breach of fair value micro-hedge effectiveness test that hedged fixed rate mortgages (1,706 thousand euros during 2018). At the point of the breach of hedging, the hedging derivative is considered a derivative held for sale and an adjustment to the valuation of the hedged item as at the date of breach of the hedge is recognised linearly in the profit and loss account until the maturity date of the hedged item. In this regard, at 31 December 2019, an amount of 477 thousand euros (834 thousand euros at 31 December 2018) had to be prospectively recognised in the profit and loss account. At 31 December 2019 and 2018 all hedging was effective.

14.2. Cash flow accounting hedges

The Group does not perform cash flow accounting hedges.

15. Tangible assets

The breakdown of the “Tangible assets” heading, their cumulative depreciation, the corresponding impairment fund, where appropriate, and the movements during 2019 and 2018 are as follows:

	Tangible assets for own use								
In thousand euros	Land and property	Building works underway	Furniture and facilities	Hardware	Other	Right of use	Total	Real estate investments	Total
Cost									
Balance at 31 December 2018	70,223	2,946	80,269	18,038	7,828	-	179,304	71,606	250,910
Application of IFRS 16						70,340	70,340		70,340
Balance at 1 January 2019	70,223	2,946	80,269	18,038	7,828	70,340	249,644	71,606	321,250
Additions	-	1,139	627	540	13	219	2,538	8	2,546
Retirements	-	-1	-924	-169	-	-	-1,094	-	-1,094
Sales	-	-	-	-	-20	-	-20	-	-20
Transfers	42	-2,988	1,284	1,789	-	-	127	-	127
Exchange rate differences and others	-	-	-	-	-	-	-	-	-
Balance at 31 December 2019	70,265	1,096	81,256	20,198	7,821	70,559	251,195	71,614	322,809
Cumulative depreciation									
Balance at 31 December 2018	-3,544	-	-67,313	-14,830	-354	-	-86,041	-11	-86,052
Additions	-682	-	-2,624	-1,423	-7	-5,593	-10,329	-17	-10,346
Retirements	-	-	90	85	-	-	175	-	175
Sales	-	-	-	-	20	-	20	-	20
Transfers	-	-	-	-	-	-	-	-	-
Exchange rate differences and others	-13	-	-90	-123	-3	-	-229	-	-229
Balance at 31 December 2019	-4,239	-	-69,937	-16,291	-344	-5,593	-96,404	-28	-96,432
Impairment losses									
Balance at 31 December 2018	-597	-	-	-	-	-	-597	-41,429	-42,026
Additions	-	-	-64	-	-	-	-64	-	-64
Retirements	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-601	-601
Exchange rate differences and others	-	-	-	-	-	-	-	-	-
Balance at 31 December 2019	-597	-	-64	-	-	-	-661	-42,030	-42,691
Net book value at 31 December 2018									
	66,082	2,946	12,956	3,208	7,474	-	92,666	30,166	122,832
Net book value at 31 December 2019									
	65,429	1,096	11,255	3,907	7,477	64,966	154,130	29,556	183,686

The entries contained in the "Assets by right of use" in the table above corresponds to the first application of IFRS16 (see Note 1.3). The right to use relates mainly to the lease of the central and local services buildings in the Group's branch network.

The losses for impairment contained in the above table in the "Transfer" item is due to the reallocation, based on the updated taxation bases, of 601 thousand euros as a provision for impairment losses that were initially allocated to non-current assets available-for-sale (see Note 18.2).

	Tangible assets for own use								
In thousand euros	Land and property	Building works underway	Furniture and facilities	Hardware	Other	Right of use	Total	Real estate investments	Total
Cost									
Balance at 31 December 2017	71,514	2,858	78,068	18,019	7,817	-	178,276	70,900	249,176
Additions	-	2,630	234	79	11	-	2,954	866	3,820
Retirements	-	-	-	-60	-	-	-60	-	-60
Sales	-1,291	-3	-572	-	-	-	-1,866	-1,856	-3,722
Transfers	-	-2,539	2,539	-	-	-	-	1,696	1,696
Exchange rate differences and others	-	-	-	-	-	-	-	-	-
Balance at 31 December 2018	70,223	2,946	80,269	18,038	7,828	-	179,304	71,606	250,910
Cumulative depreciation									
Balance at 31 December 2017	-2,872	-	-64,970	-13,231	-347	-	-81,420	-32	-81,452
Additions	-678	-	-2,659	-1,633	-7	-	-4,977	-21	-4,998
Retirements	-	-	-	34	-	-	34	-	34
Sales	6	-	316	-	-	-	322	42	364
Transfers	-	-	-	-	-	-	-	-	-
Exchange rate differences and others	-	-	-	-	-	-	-	-	-
Balance at 31 December 2018	-3,544	-	-67,313	-14,830	-354	-	-86,041	-11	-86,052
Impairment losses									
Balance at 31 December 2017	-864	-	-	-	-	-	-864	-39,705	-40,569
Additions	-	-	-	-	-	-	-	-24	-24
Retirements	-	-	-	-	-	-	-	-	-
Sales	267	-	-	-	-	-	267	470	737
Transfers	-	-	-	-	-	-	-	-2,170	-2,170
Exchange rate differences and others	-	-	-	-	-	-	-	-	-
Balance at 31 December 2018	-597	-	-	-	-	-	-597	-41,429	-42,026
Net book value at 31 December 2017									
	67,778	2,858	13,098	4,788	7,470	-	95,992	31,163	127,155
Net book value at 31 December 2018									
	66,082	2,946	12,956	3,208	7,474	-	92,666	30,166	122,832

The amount of impairment losses is recognised in the above table under "Transfers" of -2,170 thousand euros, including: (1) the reclassification of 869 thousand euros allocated for the impairment of land initially classified

as non-current assets available-for-sale (see Note 18.2) and (2) the reallocation, based on the updated taxation bases, of 1,301 thousand euros as a provision for impairment losses that were initially allocated to non-current assets available-for-sale (see Note 18.2).

15.1. Tangible fixed assets

This section of the statement of financial position comprises fixed assets for own use, which are assigned to cash-generating units (CGU) of the different businesses of the Group (see Note 7). At 31 December 2019 and 2018, there were no indications of impairment to the net value of assets associated with the CGUs.

At 31 December 2019 and 2018, all property was fully available.

The fully depreciated privately used fixed assets at 31 December 2019 and 2018 amounted to 69,250 thousand euros and 64,558 thousand euros, respectively.

At 31 December 2018 and 2018, there were no restrictions on realising tangible assets or collecting income deriving from them.

At 31 December 2019 and 2018, the Group had no significant commitments for purchasing fixed assets.

15.2. Real estate investments

Real estate investments are subject to annual taxation. As a result of said taxation, at 31 December 2019 and 2018, the Group has recorded net provisions in the amount of 0 thousand euros and 24 thousand euros, respectively.

On the basis of the valuations available at 31 December 2019, the fair value of the real estate investment portfolio amounted to 29,566 thousand euros (30,166 thousand euros at 31 December 2018). The fair value of real estate assets classified as real estate investments is classified, based on the fair value hierarchy, as level 2.

The net fair value of the real estate investments that generate revenue at 31 December 2019 total 29,566 thousand euros (30,166 thousand euros at 31 December 2018).

The operating income accrued from real estate operating under a lease regime is recorded under the heading "Other income from operations" in the profit and loss account (see Note 38).

16. Intangible assets

The breakdown of the “Intangible assets” heading, their cumulative depreciation, the corresponding impairment fund, where appropriate, and the movements in 2019 and 2018 are as follows:

In thousand euros	Goodwill	Differences of first-time consolidation	IT applications	Other	Total
Cost					
Balance at 31 December 2018	26,307	44,303	97,465	9,560	177,635
Additions	185	-	8,294	-	8,479
Retirements	-	-	-850	-1,682	-2,532
Sales	-	-	-	-	-
Transfers	-	-	-127	-	-127
Exchange rate differences and others	659	-	-	280	939
Balance at 31 December 2019	27,151	44,303	104,782	8,158	184,394
Cumulative depreciation					
Balance at 31 December 2018	-	-	-37,940	-848	-38,788
Additions	-	-	-10,927	-949	-11,876
Retirements	-	-	4	-	4
Sales	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange rate differences and others	-	-	-	-	-
Balance at 31 December 2019	-	-	-48,863	-1,797	-50,660
Impairment losses					
Balance at 31 December 2018	-8,898	-112	-	-	-9,010
Additions	-	-2,100	-	-	-2,100
Retirements	-	-	-	-	-
Sales	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange rate differences and others	-	-	-	-	-
Balance at 31 December 2019	-8,898	-2,212	-	-	-11,110
Net book value at 31 December 2018	17,409	44,191	59,525	8,712	129,837
Net book value at 31 December 2019	18,253	42,091	55,919	6,361	122,624

In thousand euros	Goodwill	Differences of first-time consolidation	IT applications	Other	Total
Cost					
Balance at 31 December 2017	26,169	42,648	79,382	2,020	150,219
Additions	475	1,655	19,938	7,751	29,819
Retirements	-1,734	-	-1,788	-278	-3,800
Sales	-	-	-	-	-
Transfers	-	-	-67	67	-
Exchange rate differences and others	1,397	-	-	-	1,397
Balance at 31 December 2018	26,307	44,303	97,465	9,560	177,635
Cumulative depreciation					
Balance at 31 December 2017	-	-	-28,629	-	-28,629
Additions	-	-	-9,526	-799	-10,325
Retirements	-	-	166	-	166
Sales	-	-	-	-	-
Transfers	-	-	49	-49	-
Exchange rate differences and others	-	-	-	-	-
Balance at 31 December 2018	-	-	-37,940	-848	-38,788
Impairment losses					
Balance at 31 December 2017	-8,761	-112	-	-	-8,873
Additions	-137	-	-	-	-137
Retirements	-	-	-	-	-
Sales	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange rate differences and others	-	-	-	-	-
Balance at 31 December 2018	-8,898	-112	-	-	-9,010
Net book value at 31 December 2017	17,408	42,536	50,753	2,020	112,717
Net book value at 31 December 2018	17,409	44,191	59,525	8,712	129,837

16.1. Goodwill and differences from first consolidation

This is the section of the statement of financial position in which the Group includes goodwill included in the individual accounts of the companies in the Group and the differences from first consolidation that arise during the consolidation process. Below is a breakdown by company of the goodwill and differences from first-time consolidation at 31 December 2019 and 2018.

In thousand euros	31/12/2019			31.12.18		
	Cost	Provision	Net book value	Cost	Provision	Net book value
Crédit Andorrà SA	-	-	-	-	-	-
Banque de Patrimoines Privés SA	10,091	-	10,091	10,091	-	10,091
Banco Alcalá SA	14,324	-2,100	12,224	14,324	-	14,324
Beta Capital Management LP	32,663	-	32,663	32,004	-	32,004
CA Perú Agente de Valores de Bolsa	112	-112	-	112	-112	-
SPA SA	723	-	723	723	-	723
CLIGE SA	137	-137	-	137	-137	-
CA México Asesores Patrimoniales SA	8,761	-8,761	-	8,761	-8,761	-
Crédit Assegurances SA	4,643	-	4,643	4,458	-	4,458
Total	71,454	-11,110	60,344	70,610	-9,010	61,600

The main variations seen in the goodwill and differences from first consolidation funds, which are ultimately reflected in the breakdown by company seen in the previous tables, are mainly explained by the facts described below:

- During 2019, the Group impaired the goodwill of Banco Alcalá SA for an amount of 2,100 thousand euros.
- The variation seen in the above table with regard to Beta Capital Management LP is related to the fluctuation of the euro/dollar exchange rate. It is important here to take into account that the Group manages the currency position of the statement of financial position in an aggregate manner, due to which only the open position in foreign currency has any impact on the result (see Note 5.6).
- The variation in the table above for Crédit Assegurances SA is related to the acquisition by Crédit Andorrà SA of a 10% stake in Enterprise Risk Management SA (ERM, SA) (see Note 3).

Goodwill funds are not depreciated, while impairment tests must be performed to check whether their real value is above or below the book value and, in the event of being below, the pertinent impairment must be directly recorded in the profit and loss account.

The Group performs the impairment test on its goodwill and differences from first consolidation every six months. The methodologies used to perform the aforementioned impairment tests for the years ended 31 December 2019 and 2018 were the discounting of free cash flows and, in some cases, the comparison based on quoted multiples and comparable transactions. As for the methodology of discounting free cash flows, the assumptions used during the year 2019 were as follows:

- Methodology: discounting free cash flows
- Timescale: 7 years and perpetual
- Expected growth: 2.03% corresponding to the inflation expected in the long term based on the historical figures for euro inflation for the past 20 years
- Discount rate used (WACC): 8.83% corresponding to the average risk premium for equity instruments (Equity Risk Premium) of the countries in which there is exposure through subsidiaries, obtained from external sources

16.2. IT applications

Additions under IT applications correspond both to the programming of several peripheral and management applications and also the development of the Group's core banking capabilities, to adapt them to regulatory and business requirements.

At 31 December 2019 and 2018, there were no intangible assets whose ownership is restricted in any manner or which serve as debt securities.

In addition, at 31 December 2019 and 2018, the Group had no significant commitments for purchasing intangible assets.

At 31 December 2019 and 2018, Crèdit Andorrà Group has intangible assets for a gross amount of 22,245 and 20,195 million, respectively, which are fully depreciated.

16.3. Other

During 2019, there have been no "Other - Intangible assets" recorded. The losses recorded during 2019 correspond to the exclusion of CA Vida Assegurances SAU and CA Life Insurance Experts Compañía de Seguros y Reaseguros SAU from the consolidation perimeter (see Note 3).

Of all additions to this heading during 2018, 1,500 thousand euros correspond to the recognition of a non-competition agreement signed by the Group in 2018 with an independent third party, which is depreciated over the term of its validity. Furthermore, 6,251 thousand euros correspond to the recognition of a portfolio of customers incurred in the business combination described in Note 3.6 in relation to the creation of the new holding company ERSM. Similarly, of all additions to cumulative depreciation, -625 thousand euros correspond to the depreciation of the aforementioned portfolio during its useful life.

17. Other assets

The breakdown of this heading of the statement of financial position at 31 December 2019 and 2018, is as follows:

In thousand euros	31.12.19	31.12.18
Operations underway	11,774	19,821
Accruals	28,659	27,245
Expenses paid and not accrued	5,167	2,652
Rest of asset accruals	23,492	24,593
Stock	224	336
Other	4,971	5,506
Total	45,628	52,908

The item "Ongoing operations" mainly contains ongoing transfers and customer transactions pending settlement. The balance of this item may vary significantly due to the operations performed by the clients.

The heading "Other assets" includes, among others, non-financial services rendered pending collection not related to bank fees.

18. Non-current assets and disposable groups of items classified as held for sale

This heading of the statement of financial position includes assets from acquisitions and foreclosures in the regularisation process of credit operations which are not considered assets for own use or real estate investments, and the assets initially classified as real estate investments, once the decision has been taken to sell them.

18.1. Breakdown of balance

The breakdown of this heading of the statement of financial position at 31 December 2019 and 2018, is as follows:

In thousand euros	31.12.19	31.12.18
Tangible fixed assets	94,711	100,588
From foreclosures	61,452	66,640
Other	33,259	33,948
Other assets	11,440	11,440
Total	106,151	112,028

The amount detailed in the above table under the heading “Other assets” corresponds to financial instruments (mostly shares in a non-financial company) that the Bank registered as part of a donation in payment process for loans. The Group has classified these assets as “Non-current assets and disposable groups of items classified as held for sale”, given that its intention is to sell them in the short- to medium term as part of the loan recovery process.

18.2. Movement

The breakdown of this heading of the statement of financial position, including, where appropriate, the corresponding impairment funds, and the movements during 2019 and 2018, are as follows:

	Tangible fixed assets		Other assets	
In thousand euros	From foreclosures	Other	From foreclosures	Total
Cost				
Balance at 31 December 2018	109,260	52,947	11,440	173,647
Additions	1,343	-	-	1,343
Retirements	-13,518	-1,221	-	-14,739
Transfers	-	-	-	-
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2019	97,085	51,726	11,440	160,251
Impairment losses				
Balance at 31 December 2018	-42,620	-18,999	-	-61,619
Additions	-	-	-	-
Retirements	6,386	532	-	6,918
Transfers	601	-	-	601
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2019	-35,633	-18,467	-	-54,100
Net book value at 31 December 2018	66,640	33,948	11,440	112,028
Net book value at 31 December 2019	61,452	33,259	11,440	106,151

For further information on the transfers detailed in the above table, see Note 15.

In thousand euros	Tangible fixed assets		Other assets	
	From foreclosures	Other	From foreclosures	Total
Cost				
Balance at 31 December 2017	126,747	53,573	-	180,320
Additions	11,730	1	11,440	23,171
Retirements	-27,521	-627	-	-28,148
Transfers	-1,696	-	-	-1,696
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2018	109,260	52,947	11,440	173,647
Impairment losses				
Balance at 31 December 2017	-53,120	-23,915	-	-77,035
Additions	-	-	-	-
Retirements	12,869	377	-	13,246
Transfers	-2,369	4,539	-	2,170
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2018	-42,620	-18,999	-	-61,619
Net book value at 31 December 2017	73,627	29,658	-	103,285
Net book value at 31 December 2018	66,640	33,948	11,440	112,028

The retirements of held-for-sale non-current assets shown in the previous table accrued a loss for Crèdit Andorrà Group totalling 655 thousand euros during the financial year ended at 31 December 2019 (-126 thousand euros for the financial year ended on 31 December 2018).

For further information on the transfers detailed in the above table, see Note 15.

18.3. Information relating to repossessed assets

Below is a breakdown of the net values of assets originating from credit regularisations, by type of asset and age of the asset in the balance sheet at 31 December 2019 and 2018:

In thousand euros	31.12.19	31.12.18
Assets for residential use	1,643	2,402
Assets for industrial or commercial use	26,318	30,541
Building works underway	-	-
Land for development	44,408	44,889
Land not for development	523	248
Developed land	-	-
Total	72,892	78,080
Up to 1 year	66	21,494
From 1 to 2 years	19,145	1,902
From 2 to 3 years	927	6,035
More than 3 years	52,754	48,649
Total	72,892	78,080

The assets classified as “Other assets” (see Note 18.1) are shown in the above table as part of the category “Assets for industrial or commercial use”.

19. Financial liabilities at depreciated cost

19.1. Breakdown of balance

The breakdown of this heading of the statement of financial position at 31 December 2019 and 2018, based on the nature of the financial instrument originating the liability, is as follows:

In thousand euros	Note	31.12.19	31.12.18
Deposits		4,185,153	4,195,315
Central bank deposits	19.2.	59,429	64,112
Deposits from lending institutions	19.3.	295,476	262,039
Customer deposits	19.4.	3,830,248	3,869,164
Debt securities	19.5.	51,578	-
Other liabilities	19.5.	70,562	86,917
Total		4,307,293	4,282,232

19.2. Central bank deposits

The breakdown at 31 December 2019 and 2018 of this section of the statement of financial position, based on the nature of the operations, is as follows:

In thousand euros	31.12.19	31.12.18
Central bank deposits	59,388	64,074
At sight	10,733	16,502
Long-term	48,655	47,572
Interest accrued	41	38
Total	59,429	64,112

19.3. Deposits from lending institutions

The breakdown at 31 December 2019 and 2018 of this section of the statement of financial position, based on the nature of the operations, is as follows:

In thousand euros	31.12.19	31.12.18
Deposits from lending institutions	295,604	262,207
At sight	37,978	23,201
Long-term	-	-
Temporary pledged assets	257,626	239,006
Interest accrued	-128	-168
Total	295,476	262,039

19.4. Customer deposits

The breakdown at 31 December 2019 and 2018 of this section of the statement of financial position, based on the nature of the operations and the economic segment of the customer, is as follows:

In thousand euros	31.12.19	31.12.18
By nature	3,830,248	3,869,164
Current and other accounts at sight	2,834,860	2,678,384
Long-term deposits	995,388	1,190,780
By sector	3,830,248	3,869,164
Public administrations	52,538	69,242
Private sector	3,777,710	3,799,922

19.5. Representative values of debt and other liabilities

The breakdown at 31 December 2019 and 2018 of this section of the statement of financial position, based on the nature of the financial instrument originating the liability, is as follows:

In thousand euros	31.12.19	31.12.18
Debt securities	51,578	-
Subordinated liabilities	-	79,415
Lease liabilities	66,080	-
Other liabilities	4,482	7,502
Total	122,140	86,917

19.5.1. Representative values of debt and subordinated liabilities

On 26 October 2005, the ANIF Board of Governors agreed to authorise the issue of preference shares by Crèdit Andorrà SA Preference Ltd., to be accounted for as Tier 1 type regulatory capital of the Crèdit Andorrà Group.

In accordance with this ANIF authorisation, on 22 December 2005 Crèdit Andorrà Preference Ltd. carried out an issue of 100 million euros in preference shares, without voting rights and with a specified annual dividend of 5% in the first three years following issue and then variable annually with reference to the CMS 10-year rate plus 30 basis points, with a maximum of 8%, adjusted for the number of days during the year when the CMS 10-year rate is equal to or higher than the CMS 2-year rate. On 25 January 2006, the ANIF Board of Governors agreed to authorise an increase in the preference share issued by Crèdit Andorrà Preference Ltd. amounting to an additional 50 million euros.

This perpetual issue was aimed entirely at third parties outside the Group and, once the regulator's authorisation had been obtained and since at least six years have elapsed since it was paid, the company took the decision to fully amortise it.

At 31 December 2018, the Group had 70,585 thousand euros of the aforementioned preference shares in treasury stock.

On 23 December 2019, once the relevant authorisations were obtained by the AFA, Crèdit Andorrà made use of its early repayment right of 100% of the preference shares, which were reimbursed to its holders for their nominal value.

This early repayment is part of the strategy designed by Crèdit Andorrà to adapt to the requirements of the new prudential regulations (Basel III) applicable to the Principality of Andorra from the year 2019 (see Note 28) . Specifically, this strategy had a twin purpose; on the one hand, it sought to replace the issue of preference shares that Crèdit Andorrà had in circulation with other subordinated instruments of equal or better consideration in terms of Basel III; on the other it sought to limit the trading of these new instruments subordinated to national and / or international institutional clients, thus guaranteeing the suitability of the final investors, while paving the way and the presence (not the dependence) of the Group on the international wholesale financing market.

Thus, before the early repayment of the preferred shares, in July 2019 Crèdit Andorrà SA issued a 50 million euros of fully computable instruments as Tier II in the terms of Act 35/2018 of 20 December on solvency, liquidity and prudential supervision of banking institutions and investment companies and the Regulations of 6 March 2019 that develops it (regulations that aim to transpose the CRD IV and CRR to the legal system of the Principality of Andorra) (see Note 28).

These instruments (Fixed Rate Resettable Callable Subordinated Securities) have a maturity of 10 years but may be redeemed in advance by the Bank five years after their issue provided a series of conditions are fulfilled, as set by the regulations and between which the regulator's authorisation must be obtained. However, these instruments pay their holders a fixed initial coupon of 7% per annum for the first 5 years of the issue, and then a fixed rate referenced to the Mid.Swap type with a 5-year spread of 724 basis points.

19.5.2. Lease liabilities

This heading includes the amount of lease liabilities arising from the application of IFRS 16 (see Note 1.3).

A detail of the maturities of these leasing liabilities is shown in Note 5.3.1.

During 2019, payments were made for leases amounting to 6,212 thousand euros.

The movement in lease liabilities during financial year 2019 is set out below.

In thousand euros	
Balance at 31 December 2018	-
Application of IFRS 16	70,620
Balance at 1 January 2019	70,620
Additions for contract modifications	221
Financial depreciation	-4,761
Balance at 31 December 2019	66,080

19.5.3. Other liabilities

This section mainly includes the amount equivalent to the refundable value of E shares which are in circulation and for which the Bank has a current or future repurchase obligation (see Note 24.1.).

The decrease in the balance observed in the above table referring to this item is mostly due to (1) the adjustment to the reimbursable value of the E shares in circulation (697 thousand euros at 31 December 2019 and 3,750 thousand euros at 31 December 2018 which have been recognized under “Profit or loss due to held-for-trading financial assets and liabilities, net” on the income statement) (see Note 37) and (2) the amortisation and conversion to A shares of E shares (see Note 24.1) with no impact on the income statement due to having been acquired at the value for which they were recognised in liabilities.

20. Assets and liabilities hedged by insurance and reinsurance contracts

The breakdown at 31 December 2019 and 2018 of these headings of the statement of financial position, based on the nature of the provision originating the liability, is as follows:

31.12.19			
In thousand euros	Direct insurance and accepted reinsurance	Assigned reinsurance	Total (net)
Premiums not consumed and ongoing risks	6	-1	5
Mathematical provisions	100,772	-	100,772
Provision for benefits	677	-	677
Participation in profit and refunds	49	-	49
Provisions for life insurances when the investment risk is assumed by the customer	150,305	-	150,305
Other technical provisions	6	-	6
Total	251,815	-1	251,814

31.12.18			
In thousand euros	Direct insurance and accepted reinsurance	Assigned reinsurance	Total (net)
Premiums not consumed and ongoing risks	3,891	-1,799	2,092
Mathematical provisions	107,104	-2	107,102
Provision for benefits	3,120	-1,304	1,816
Participation in profit and refunds	51	-	51
Provisions for life insurance when the investment risk is assumed by the customer	151,026	-	151,026
Other technical provisions	458	-326	132
Total	265,650	-3,431	262,219

The assets used for insurance and reinsurance contracts correspond to the part of the mathematical provisions assumed by first-rate international reinsurance companies which are independent from Crèdit Andorrà Group and by virtue of a reinsurance contract.

The decrease observed in 2019 in the amount of direct insurance, accepted reinsurance and the corresponding reinsurance transferred from certain products shown in the table above, is explained by the change in the consolidation method (from global integration to equivalence) motivated by the sale of 51% of CA Vida Assegurances SA, a company that channels the assets and liabilities linked to the life-risk business, including its reinsurance, from the Insurance Group (see Note 3.6).

21. Provisions

The breakdown at 31 December 2019 and 2018 of this heading of the balance sheet, based on the nature of the risk originating the provision, is as follows:

In thousand euros	31.12.19	31.12.18
Pensions and other defined post-employment benefit obligations	11,821	12,096
Other long-term employee remunerations	5,131	6,882
Provisions for legal and tax action	7,345	7,558
Commitments and guarantees granted	2,882	3,402
Other provisions	1,384	1,361
Total	28,563	31,299

21.1. Movement of provisions not related to post-employment remuneration and other commitments with employees

The movement in provisions not related to post-employment remuneration and other employee commitments with employees during 2019 and 2018 is as follows:

In thousand euros	Provisions for legal and tax action	Commitments and guarantees granted	Other provisions	Total
Balance at 31 December 2017	8,427	1,538	1,930	11,895
Adjustments IFRS 9 (*)	-	1,166	-	1,166
Balance at 1 January 2018	8,427	2,704	1,930	13,061
Allocations	-	685	699	1,384
Charged to profit and loss account	-	685	699	1,384
Charged to Other consolidated profit and loss	-	-	-	-
Recoveries	-355	-	-960	-1,315
Charged to profit and loss account	-355	-	-960	-1,315
Charged to Other consolidated profit and loss	-	-	-	-
Applications / payments	-444	-	-	-444
Other movements	-70	13	-308	-365
Balance at 31 December 2018	7,558	3,402	1,361	12,321
Allocations	425	73	1,521	2,019
Charged to profit and loss account	425	73	1,521	2,019
Charged to Other consolidated profit and loss	-	-	-	-
Recoveries	-900	-610	-939	-2,449
Charged to profit and loss account	-900	-610	-939	-2,449
Charged to Other consolidated profit and loss	-	-	-	-
Applications / payments	-	-	-150	-150
Transfers	262	17	-279	-
Other movements	-	-	-130	-130
Balance at 31 December 2019	7,345	2,882	1,384	11,611

The amounts detailed in the foregoing heading as “Other movements” are related mostly to reclassifications of certain amounts to other accounting items without this reclassification affecting the profit and loss account.

21.1.1. Provisions for legal and tax action

The balance of provisions for legal and tax actions primarily correspond to part of the potential impact which the Group has acknowledged, in compliance with the provisions of IAS 32, in relation to the recognition of E shares as a financial liability (see Note 19.5) and not as a capital instrument (see Note 24).

The change in the provision for the financial year 2019 includes the release of the provision of 900 thousand euros registered in the year 2017 to cover the maximum amount of the possible application penalty to the Institution as established in Article 18 of the Consolidated Text of the Law regulating the disciplinary system of the financial system, since finally the amount of the sanction reported by the AFA on 26 March 2019 was 240 thousand euros, which have been accounted for in the item "External Services - Others" of the statement of consolidated income (see note 40).

With the available information, the Group considers that at 31 December 2019 and 2018 it reliably estimated the obligations associated to each procedure and recognised, when so required, adequate provisions that reasonably hedge the liabilities which may derive, where appropriate, from these legal and tax situations. Likewise, it considers that the responsibilities which may derive from these procedures will not have, as a whole, a significant adverse effect on the business, the statement of financial position or the Group's results from operations.

21.1.2. Commitments and guarantees granted

This section records credit risk provisions of the contingent guarantees and commitments at the close of the years ended on 31 December 2019 and 2018 (see Note 5.2.1.).

21.1.3. Other provisions

This section records the provisions which, due to the nature of the risk or the type of contingency they hedge, cannot be classified in any of the other categories described in previous points.

22. Post-employment remuneration and other commitments with employees

The breakdown at 31 December 2019 and 2018 of these sections of the statement of financial position, based on the nature of the risk originating the provision, is as follows:

In thousand euros	31.12.19	31.12.18
Pensions and other defined post-employment benefit obligations	11,821	12,096
Other long-term employee remunerations	5,131	6,882
Total	16,952	18,978

On 30 January 2012, Crèdit Andorrà Group transformed the commitments linked to retirement (Mutual Funds for Benefit and Aid to Crèdit Andorrà Employees) into a defined contribution system for active workers and into a defined benefit system for former passive mutual fund members and for active employees close to retirement. In addition, as a result of the acquisition of CaixaBank, Crèdit Andorrà assumed the post-employment benefits with their passive employees. At present, Crèdit Andorrà Group has a defined contribution plan into which employees may also make contributions.

22.1. Obligations for defined post-employment benefit pensions

The obligations for benefit pensions defined at the close of 2019 amount to 11,821 thousand euros (12,096 thousand euros at the close of 2018). All of the commitments are insured through policies taken out with Crèdit Assegurances SAU, a company in the Group and, consequently, these insurance contracts do not comply with the conditions required for being assets included in the plan. The fair value of the insurance contracts is included in the assets of the individual statement of financial position of Credit Andorrà SA, under the heading “Other assets - Insurance contracts linked to pensions”.

22.1.1. Movement of the provisions for post-employment commitments

Below is the movement in the current value of the post-employment obligation for defined provision during the financial years ended on 31 December 2019 and 2018.

In thousand euros	Current value of obligations	Fair value of plan assets	Liabilities for net defined profit (assets)
Balance at 31 December 2017	44,390	-	44,390
Total impact on result	2,081	-	2,081
Current service costs	-	-	-
Past service costs	-	-	-
Net result for interest	2,081	-	2,081
Total impact on Other consolidated profit and loss	312	-	312
Actuarial losses/(gains)	312	-	312
Other	-	-	-
Other impact	-34,687	-	-34,687
Benefits paid	-2,748	-	-2,748
Other movements	-	-	-
Capital settlements	-31,939	-	-31,939
Balance at 31 December 2018	12,096	-	12,096
Total impact on result	439	-	439
Current service costs	-	-	-
Past service costs	-	-	-
Net result for interest	439	-	439
Total impact on Other consolidated profit and loss	-16	-	-16
Actuarial losses/(gains)	-16	-	-16
Other	-	-	-
Other impact	-698	-	-698
Benefits paid	-698	-	-698
Other movements	-	-	-
Capital settlements	-	-	-
Balance at 31 December 2019	11,821	-	11,821

The amount shown in the above heading referring to “Capital settlements” corresponds solely to the *De-risking* process carried out by Crèdit Assegurances SAU in fiscal year 2018 within the scope of its own portfolio of life annuities and interest guarantees (which includes the obligations for defined benefit pensions that the Bank has outsourced to its insurance subsidiary). This De-risking forms part of the strategy designed by the Group to adapt to the new prudential supervision regulations of the insurance sector (Act 12/2017, of 22 June, on the regulation and supervision of insurances and reinsurances in the Principality of Andorra), which entered into force on 1 January 2018, however, pursuant to transitory provision two, entities may adapt to the requirements of the aforesaid law in a gradual and proportional manner over a period of five years (see Note 48.1.9).

This De-risking process consisted in offering the holders of these life annuities and/or interest guarantees the possibility to surrender them for a value equivalent to 90% of the amount of the mathematical provision that Crèdit Assegurances SAU had registered on its books (in other words, the holder of the annuity/interest guarantee would receive a guaranteed lump sum payment in cash in exchange for the expectations of an uncertain

annuity). The figure shown for the 2018 tax year relating to “Capital settlements” corresponds to pensioners of the Bank who have accepted the above-mentioned offer, of which 30,320 thousand euros has been paid out to the pensioners in cash and the remainder have performed a net adjustment of the mathematical provisions against results (cancellation of the mathematical provisions falling under the de-risking process and updating of the valuation of the other provisions as a result of the readjustment of the hedges at the current market rates) (see Note 38.2).

Thus, in order to perform the aforesaid De-risking process, the Group had to realise on the market the portfolio of financial instruments that it used internally in order to hedge these flows (which subsequently with its business model formed part of the portfolio of financial assets at fair value through comprehensive income), with which it has obtained a gain of 13,202 thousand euros. Furthermore, the settlement of the hedging of the operation generated an additional gain of 995 thousand euros in the 2018 tax year (see Note 11 and Note 37).

22.1.2. Actuarial methodology and hypotheses

The value of the defined post-employment benefit obligations has been determined by applying the following criteria:

- All of the retirement commitments are in payment phase; therefore, no new obligations are generated derived from the accrual of years of services rendered
- The actuarial hypotheses used in these calculations are:

		31.12.19	31.12.18
Mortality tables		PERM/F-2000 P	PERM/F-2000 P
Technical interest rate	Plan 1	3.72%	3.72%
	Plan 2	3.72%	3.72%
RPI		2.00%	2.00%

The projected amounts at 31 December 2019 have been determined on the basis of the real CPI for 2019 for the payments to be made in 2019 and for all other future years according to the forecast hypothesis.

The projected amounts at 31 December 2018 have been determined on the basis of the real CPI for 2018 for the payments to be made in 2018 and for all other future years according to the forecast hypothesis.

22.1.3. Sensitivity analysis of the main hypotheses

The variations of the main hypotheses may affect the calculation of the commitments. Included below is the effect on the obligation resulting from increasing or reducing the hypotheses:

In thousand euros	Variation in basis points	31.12.19		31.12.18	
		Increase	Decrease	Increase	Decrease
Technical interest rate	100	-1,196	1,403	-1,313	1,487
RPI	100	1,286	-1,088	1,225	-1,102

The sensitivity analysis has been determined by replicating the calculation of the value of the obligations, changing the variable in question and keeping the other actuarial hypotheses constant.

22.2. Defined contribution schemes

For further information on the contributions to defined contribution schemes during 2018 and 2019, see Note 39.

These contributions represent expenditure in the financial year in which they are accrued and entail an expense in the profit and loss account of the corresponding year, and therefore do not entail recording liabilities for this item in the liabilities section of the Group's statement of financial position.

22.3. Obligations for other long-term commitments

Crédit Andorrà Group has commitments with its early-retired employees, by which Crédit Andorrà is committed to pay a long-term agreed remuneration for ending the employment relationship prior to their retirement.

A fund has been set up to hedge the commitments acquired in relation to the retirement of early retired staff, insofar as salary and their social security contributions are concerned, as of the time early retirement takes effect and until the date on which retirement is effective.

22.3.1. Movement of provisions for other employee long-term remunerations

Below is the current value of the commitments assumed by Crédit Andorrà Group in relation to long-term employee remunerations, at 31 December 2019 and 2018:

In thousand euros	Current value of obligations	Fair value of plan assets	Liabilities for net defined profit (assets)
Balance at 31 December 2017	6,020	-	6,020
Total impact on result	2,746	-	2,746
Current service costs	-	-	-
Net interest cost	4	-	4
Past service costs	2,691	-	2,691
Actuarial gains/losses	51	-	51
Total impact on Other consolidated profit and loss	-	-	-
Actuarial losses/(gains)	-	-	-
Other	-	-	-
Other impact	-1,884	-	-1,884
Benefits paid	-1,884	-	-1,884
Other movements	-	-	-
Balance at 31 December 2018	6,882	-	6,882
Total impact on result	82	-	82
Current service costs	-	-	-
Net interest cost	11	-	11
Past service costs	-	-	-
Actuarial gains/losses	71	-	71
Total impact on Other consolidated profit and loss	-	-	-
Actuarial losses/(gains)	-	-	-
Other	-	-	-
Other impact	-1,833	-	-1,833
Benefits paid	-1,833	-	-1,833
Other movements	-	-	-
Balance at 31 December 2019	5,131	-	5,131

22.3.2. Actuarial methodology and hypotheses

The value of the obligations for other long-term employee remunerations has been calculated by applying unbiased actuarial hypotheses which are mutually compatible. The main hypotheses used in the calculations are:

	31.12.19	31.12.18
Mortality tables	PERMF 2000P	PERM/F-2000 P
Technical interest rate	0.23%	0.43%
RPI	0%	0%

The technical interest rate used for updating the flows has been determined on the basis of the Iboxx Corporate AA 3-5 years curve.

22.3.3. Sensitivity analysis of the main hypotheses

The variations of the main hypotheses may affect the calculation of the commitments. Included below is the effect on the obligation resulting from increasing or reducing the hypotheses.

In thousand euros	Variation in basis points	31.12.19		31.12.18	
		Increase	Decrease	Increase	Decrease
Technical interest rate	100	-115	121	-171	180

The sensitivity analysis has been determined by replicating the calculation of the value of the obligations, changing the variable in question and keeping the other actuarial hypotheses constant.

22.4. Share-related payment obligations

Neither at 31 December 2019 and 2018, nor during the financial years ended on the aforementioned dates, did the Group have share-related payment obligations with its employees.

23. Other liabilities

The breakdown at 31 December 2019 and 2018 of this heading of the statement of financial position, based on the nature of the item originating the liability, is as follows:

In thousand euros	31.12.19	31.12.18
Operations underway	49,659	20,034
Accruals	27,839	28,772
Accrued unpaid expenses	13,363	13,389
Other liability accruals	14,476	15,383
Suppliers and other creditors	4,524	4,342
Other	7,692	4,439
Total	89,714	57,587

The item "Ongoing operations" mainly contains ongoing transfers and customer transactions pending settlement. The balance of this item may vary significantly due to the operations performed by the clients. The increase seen in the table above is mainly explained by the new self-clearing operation of Beta Capital.

The heading “Other assets” includes, among others, non-financial services received pending payment not related to bank fees.

24. Capital and reserves

24.1. Share capital

The share capital of Crèdit Andorrà SA is represented by two types of shares: Class A shares and Class E shares.

Both classes of shares have the same financial and political rights, although Class E shares are syndicated, with regard to transfer and policy-making rights.

Likewise, at 31 December 2016, Class E shares were distributed among the two following syndication regimes, as chosen by each shareholder respectively:

- Original share syndication regime, characterised by the fact their owners have the right to sell their shares to the Bank at a price fixed by the yearly Ordinary Shareholders’ Meeting if they so request and at least at the time of the employee's death
- Share syndication regime known as liquidity window, characterised by the fact their owners can sell and buy them (at the price set on the basis of offer and demand) through a mechanism of liquidity windows, to which only employees in the “E” group have access. However, where they have not previously sold shares in any of the liquidity windows, the holders have the right to sell their shares to the Bank at least 20 years after dismissal or death of the employee

In compliance with IAS 32, a share over which a mandatory refund commitment is acquired for a fixed or determinable amount, for which the issuer may pay dividends at discretion, is a compound instrument in which the liability component is equivalent to the current value of the refund price, assigning the residual amount of the issue price of the instrument to the net equity component in the future sequence of elective and non-cumulative dividends. This requirement is equally applicable when the price of the refund equals the fair value, on the refund date, of the underlying equity instrument (of Class E shares in this case). In this regard, the current value of the repurchase obligation of Class E shares which is assumed by the Bank coincides with their fair value on the date of analysis.

Since the entry into force of IFRS-EU, therefore, Class E shares, regardless of their syndication regime, must be recorded as a financial liability (see Note 19.5).

Prior to the date of first application of the IFRS-EU, a claim was brought against the Bank by some former employees (covered by the original regime), in which they claimed that the price at which their Class E Crèdit Andorrà SA shares should be bought back should not include the discount rate decided by the General Shareholders’ Meeting in the case of voluntary sales of shares. On 27 October 2016, the sentence was issued in the second instance by the Spanish High Court, which decided that the Bank was to buy back shares of the claimants without applying the previously agreed discount rate.

Taking into account the information facilitated in the foregoing paragraphs, on 1 January 2016, as part of the settling of the first application of IFRS-EU, Crèdit Andorrà recorded a financial liability for the expected refund amount associated to all of the 210,000 Class E shares in circulation (239.6 million euros).

Consequently, due to the relevance of the aforementioned impact, the Extraordinary General Shareholders’ Meeting of Crèdit Andorrà, on 3 March 2017, decided to:

- Purchase Class E shares that are in debt resulting from the acquisition of said shares, from holders wishing to sell them, for the price equal to their outstanding debt (76,014)

- Purchase 17,385 Class E shares subject to the original syndication regime where the holders have expressed their willingness to sell them at the price set by the Board for this purpose
- Depreciate 93,399 Class E shares acquired under the aforementioned operations
- Convert the 102,293 Class E shares into Class A shares, where the holders have expressly stated they wish to do so

So, after having obtained the pertinent authorisations from the AFA (previously ANIF), the decisions taken by the aforementioned Board were implemented, with the following end result:

- 76,014 Class E shares subject to the syndication regime of the liquidity window have been acquired from holders who expressed their desire to sell them for the outstanding debt deriving from the credits granted for acquiring said shares, which has led to the cancellation of financial liabilities to the amount of 83,615 thousand euros
- 17,385 Class E shares subject to the original syndication regime have been acquired, which has led to the cancellation of financial liabilities to the amount of 19,123 thousand euros
- 102,293 Class E shares have been converted into Class A shares, which has entailed a cancellation of financial liabilities to the amount of 112.5 million euros and an increase in the Group's equity for the same amount
- 93,399 Class E shares have been depreciated, reducing the share capital by 6,537,930 euros

The Extraordinary General Meeting of Crèdit Andorrà held on 12 December 2018 decided to:

- Reduce the share capital by 360 thousand euros by depreciating 5,142 class E shares
- Convert 2,103 Class E shares to Class A shares. These actions were pending conversion as they could not be converted for reasons of succession

Thus, in May 2019, after obtaining the relevant authorisations from the AFA, the aforementioned decisions made by the Board were executed. Subsequently, at 31 December 2019, the share capital of Crèdit Andorrà SA stood at the amount of 63,102,130 euros (63,462,070 euros at 31 December 2018), distributed into 906,601 shares (901,459 shares at 31 December 2018), specifically 894,396 Class A shares and 7,063 Class E shares (892,293 Class A shares and 14,308 Class E shares at 31 December 2018), each with a nominal value of 70 euros.

24.2. Issue premium and reserves

The breakdown of this section of the statement of financial position at 31 December 2019 and 2018, is as follows:

In thousand euros	31.12.19	31.12.18
Restricted reserves	105,196	100,766
Legal	14,000	14,000
Unavailable reserves Act 20/2018	38,062	37,557
Fagadi	17,464	17,464
SAGI	2,184	2,689
Treasury stock and shares	-	-
Memorandums 227/12 and 228/12	33,486	29,056
Fully available reserves	241,806	210,815
Reserves for investments in subsidiaries	78,682	62,201
Other	163,124	148,614
Total	347,002	311,581

24.2.1. Restricted reserves

24.2.1.1. Legal reserve

In compliance with the law governing companies passed by the General Council on 18 October 2007, a legal reserve must be established of a minimum of 10% of the profit until 20% of the share capital has been reached. At 31 December 2019 and 2018, the Bank had fully established this reserve.

24.2.1.2. Fagadi and SAGI

At 31 December 2017, in compliance with Act 1/2011 on the creation of a deposit guarantee system by banks, Crèdit Andorrà had a restricted guarantee reserve totalling 55,643 thousand euros, hedged by an equivalent amount in eligible securities, according to Article 7.3 of Act 1/2011 (see Note 48.1.6.).

At 4 October 2018, (date of entry into force of Act 20/2018, of 13 September, on deposit guarantee funds in Andorra and the Andorran investment guarantee scheme), in compliance with the provisions set forth in Act 20/2018 (see Note 48.1.8.), Crèdit Andorrà reallocated the guarantee reserve that had been provisioned till then pursuant to Act 1/2011 in the following manner:

- The guarantee reserves resulting from Act 1/2011 and which were affected by investment hedges (2,689 thousand euros) have been maintained as guarantee reserves for investments hedged by SAGI together with the liquid assets allocated thereto in accordance with that set forth in transitory provision two of Act 20/2018
- An amount equivalent to 1.6% of the guaranteed deposits (17,464 thousand euros) has been kept as a guarantee reserve for deposits with the corresponding liquid assets allocated to said reserves, which cannot be the object of charges, encumbrances, seizure, embargo or writ of order and cannot be used for other obligations nor can they be applied to other purposes different to those provided for in Act 20/2018. As established by additional provision 1 of Act 20/2018, as the banking entities members of FAGADI perform the ordinary contributions as set out in Article 12 of Act 20/2018, these guarantee reserves for deposits can be reclassified simultaneously to unavailable reserves and can be used immediately and without restriction by banking entities to hedge risks or losses as the case may be

- Lastly, the guarantee reserves for deposits originating under Act 1/2011 not allocated under the two above points (37,557 thousand euros) have been reclassified to unavailable reserves, which can be used immediately and without restriction by banking entities to hedge risks or losses as the case may be. These reserves must be kept in this category until used to hedge risks or losses, as the case may be, or until the AFA authorises their reclassification to available reserves

During the 2019 tax year, after receiving confirmation from the Management Committee of the Investment Guarantee System (SAGI) of the unavailable reserve to be kept on the basis of the definitive calculation of the reserve as calculated by the Management Committee of the Deposit Guarantee System of the Banking Entities (CGSGDEB), the reserve to be maintained by the SAGI against unavailable reserves has been adjusted, as stipulated by Act 20/2018. In this regard, at 31 December 2019 the registered SAGI reserve was 2,184 thousand euros and the unavailable reserve was 38,062 thousand euros.

24.2.1.3. Treasury stock and shares

Pursuant to Article 23 of Act 20/2007 of 18 October on public and private limited companies (“societats anònimes” and “de responsabilitat limitada” in Catalan), the Group is required to set up a restricted reserve for loans granted to shareholders for purchasing own shares.

Despite this, Crèdit Andorrà has not established an unavailable reserve in relation to the financing of Class E shares, given that, as explained in Section 24.1, since IFRS-EU Class E shares are considered a financial liability and not a capital instrument. The full fair value of the Class E shares in circulation therefore no longer forms part of the Group’s shareholder equity.

Likewise, with regard to Class A shares, regardless of the Group acting with prudence and performing over-collateralisation of operations with parent company shares (i.e. to complement the main guarantees based on which the original decision was taken to grant the operation and on which the recoverability analysis of such operations is based), the Group has not allocated a restricted reserve.

24.2.1.4. Reserves for differences from first consolidation and goodwill

In addition, based on that which is established in Memorandum 227/12 on Differences from first consolidation and Memorandum 228/12 on Goodwill, the Bank, through the appropriation of earnings, annually sets up a restricted reserve for at least 10% of the book value of the differences from first consolidation and goodwill reported, directly or indirectly, on its statement of financial position, up to 100% of their value. To avoid overlapping, this reserve is not set up for any goodwill or differences from first consolidation of subsidiaries for which local regulations require a reserve of a similar nature to that described above. At 31 December 2019, the restricted reserve was 33,486 thousand euros (29,056 thousand euros at 31 December 2018).

24.2.2. Voluntary reserves

These reserves correspond to profits from previous years that have not been distributed by the General Shareholders’ Meeting and have not been allocated to a restricted reserve.

24.2.2.1. Consolidation reserves

Consolidation reserves correspond to profits accrued in previous years by Group companies forming part of the consolidation scope from the date of their acquisition or constitution up to 31 December 2019 and 2018 that have not been distributed as dividends.

In thousand euros	31.12.19	31.12.18
Entities consolidated by global integration	65,486	51,886
Patrigest subgroup	3,128	2,966
Banque BPP subgroup	26,014	25,983
CA Panamá subgroup	6,949	4,160
Banco Alcalá subgroup	721	1,244
Holding Luxembourg subgroup	-5,470	-4,822
Crèdit Iniciatives subgroup	1,296	1,097
Beta Capital subgroup	8,901	7,037
Crèdit Capital Immobiliari SAU	-6,818	-11,735
Credi-Invest SA	6,287	6,348
Crèdit Andorrà Preference LTD	1	1
Informàtica Crèdit Andorrà SLU	2,573	2,509
Insurance Group	20,856	17,098
CA Vincles	1,048	-
Entities consolidated by the equity method	14,696	11,783
SERMIPA XXI	-53	43
ENSISA	14,749	11,740
Consolidation reserves	80,182	63,669
Conversion reserves	-1,500	-1,468
Total investment reserves in Group companies	78,682	62,201

25. Treasury stock

Crèdit Andorrà SA had a treasury stock of E shares for a total of 0 and 3,132 shares at 31 December 2019 and 2018, respectively (see Note 19.5).

Likewise, since (1) while they are in circulation and the owners of these shares have the right to sell to the Bank, Class E shares are considered as a financial liability, and (2) the repurchase has been completed at the book value of the mentioned liability, said acquisition, as will occur in similar operations in future, has entailed that the treasury stock is valued at 0 euros (value of the capital component calculated as the difference between the amount paid out and the value of the liabilities cancelled) and, therefore, this has not entailed a reduction in the Group's levels of equity and solvency in comparison to prior to the purchase.

26. Valuation adjustments

The breakdown of this heading of the statement of financial position at 31 December 2019 and 2018 is as follows:

In thousand euros	31.12.19	31.12.18
Financial assets through consolidated profit and loss	2,039	3,600
Cash flow hedges (effective portion)	-	-
Exchange rate differences	-	-3
Available-for-sale non-current assets	-	-
Other recognised income and expenditure	639	625
Total	2,678	4,222

The amounts included in the above table under the item “Other recognised income and expenditure” relate to the actuarial differences caused by defined pension benefit obligations (see Note 22.1.).

The balances recorded in these sections are net of their corresponding tax effect. The statement of changes in net equity includes the movements during the financial years ended on 31 December 2019 and 2018.

27. Minority interest

This section records the amount of net equity of the subsidiaries attributable to capital instruments which do not, directly or indirectly, belong to the parent company, including those corresponding to the result for the year.

At 31 December 2019 and 2018, the breakdown of the section “Minority interests” of the statement of financial position is as follows:

In thousand euros	31.12.19	31.12.18
Grupo Banco Alcalá	4,907	4,909
Grup Actiu Assegurances	2,783	2,170
Grup ERM	2,949	3,023
Total	10,639	10,102

The decrease in the minority interest balance corresponding to the ERM Group as shown in the table above is due to the increase in the Group's ownership interest to 100% (see Note 3.6) and at 31 December 2019 only minority interests from its ERSB subsidiary remain (see Note 3.6).

28. Equity and capital management

On 26 June 2013, the legal framework of Basel III was incorporated into the European system through Directive 2013/36 (CRD IV) and Regulation 575/2013 on the prudential requirements of lending institutions and investment firms (CRR).

As a result of the signing of the Monetary Agreement on 30 June 2011, CRD IV has been transposed into the legal system of the Principality of Andorra through Act 35/2018 of 20 December on solvency and liquidity and prudential supervision of banks and investment companies, and with the approval of the Development Regulation of Act 35/2018 on 6 March 2019, which completes the adaptation to the Andorran legal system.

The application of this regulation (CRR in Europe) was immediately applicable in 2019 and sets out a gradual implementation schedule that allows progressive adaptation to the new requirements.

Act 35/2018 on solvency, liquidity and prudential supervision, as well as the regulations for its development, additionally limit the concentration of risks in the same counterparty to 25% of the Group's calculated equity by non-financial counterparties and to 150,000 thousand euros for financial counterparties.

28.1. Capital base

The items that make up the capital base are known as total capital, which consists of the sum of ordinary level 1 capital (CET1), additional Tier 1 capital (AT1) and level 2 capital (Tier 2).

Tier 1 ordinary capital (CET1) comprises the elements of the highest quality equity (mainly accounting equity) after applying the prudential filters provided by the regulations and the progressive application of transitional provisions in accordance with national discretionary practices. These elements are reduced by the CET1 deductions, having applied the regulatory limits and taking into account the gradual implementation of the standard.

The figures for the current financial year are shown below and a comparison is made with the previous one. In this regard, it should be emphasised that the figures at the end of the 2018 financial year are for informational purposes only, at 31 December 2018, Act 35/2018 and the regulations that developed it were not yet applicable.

At 31 December 2019, the instruments countable as CET1 from a regulatory point of view amounted to 392,002 thousand euros (406,555 thousand euros at 31 December 2018), while the deductions applicable to the regulatory CET1 amounted to 85,607 thousand euros (20,737 thousand euros at 31 December 2018). The increase in deductions is justified by the following factors:

- The changes made by the Group in relation to its capital structure: issue of 50,000 thousand euros of subordinated debt (Tier 2) in October 2019 and subsequent cancellation of 100% of the issue of preference shares on December 2019, countable to date as AT1 for the application of the transitional provisions established in the regulations. Therefore, the deductions that were applied on AT1 in 2018, were applied directly on CET1 in 2019 (see Note 19)
- The sale of part of the insurance business has led to an increase in the deductions for significant investments in financial sector entities, by bringing to the market value the book value at the consolidated level, as established in IFRS 10 "Consolidated Financial Statements" for transactions in which control of the investee is transferred (see Note 3.6)

As set out in AFA communication "EB 03/2020 - Informative Note", the result at 31 December 2019 has been considered ordinary Tier 1 capital (CET 1). As a result, the regulatory CET1 ratio stands at 15.13%.

Additional Tier 1 capital (AT1) consists of the computable hybrid instrument issues net of AT1 deductions. In the absence of AT1, all deductions are credited to CET1, so Tier 1 capital is equal to CET1.

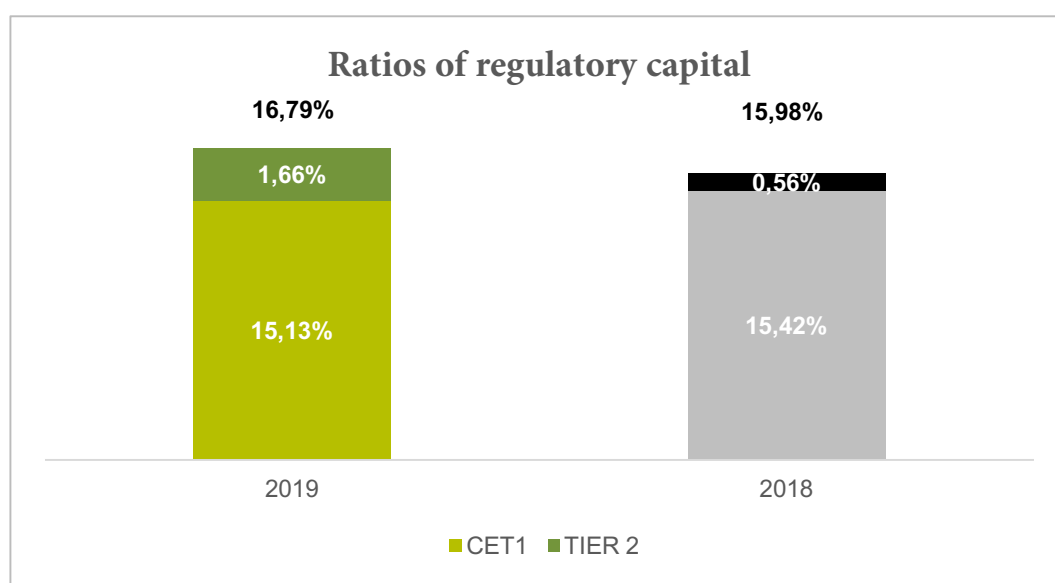
Second-tier equity components (Tier 2) includes subordinated financing of 50,000 thousand euros issued in October 2019. Tier 2 deductions associated with significant stakes in entities in the financial sector, in accordance with transitional provision 6 of the Regulation developed by Act 35/2018, amount to 7,096 thousand euros (0 thousand euros in the 2018 financial year). As a result, Tier 2 capital stands at 1.66% (0.56% in 2018).

The total capital amounts to 434,906 thousand euros (421,436 thousand euros in the 2018 financial year) and the ratio of total regulatory capital is 16.79%.

The capital base is distributed as follows:

	(Regulatory)	
In thousand euros	31.12.19	31.12.18
CET1	392,002	406,555
Tier 1 additional	-	-
Tier 1	392,002	406,555
Tier 2	42,904	14,881
Total capital	434,906	421,436
APRs	2,590,338	2,636,554

The following are the solvency ratios that are applicable to the entity in accordance with Act 35/2018 on solvency, liquidity and prudential supervision of banking institutions and investment companies:



Concerning the concentration, the Entity, in accordance with Act 35/2018, is obliged to report the concentration level of those counterparts whose original exposure, excluding the application of mitigation techniques of the risk or credit conversion factors, exceeds 10% of the capital base. In this regard:

- The maximum accountable concentration of risk assumed in favour of any one beneficiary at 31 December 2019 amounts to 20.63%, (21.93% on 31 December 2018). In both cases, the maximum concentration is below the 25% limit established by Act 35/2018

In 2017, as a result of an unforeseen situation caused by the impact on the Group's equity of entry into force in Andorra of the IFRSs approved by the European Union, the Group temporarily exceeded the concentration limits that were applicable at that time. Despite the described non-compliances having been resolved before 31 December 2017, however, given that due to the above-mentioned supervening situation these non-compliances

could not be redirected within a period of less than six months as of the effective application of the IFRS-EU, established by Article 14 of the amended text of the Act regulating the disciplinary regime of the financial system, the ANIF (currently AFA) considered the aforementioned offences very serious. This fact led to the opening of sanctioning proceedings on 15 November 2017.

Thus, although (1) the above-mentioned passive and supervening origin of the non-compliances; (2) the fact that the non-compliance had already been corrected prior to 31 December 2017, and (3) that the scope of action of the Company and of the Group has not been affected as a consequence of the non-compliances, due to the fact that the ANIF sanctioning proceedings have not yet been filed at the date of preparation of these consolidated financial statements for 2017, the Board of Directors of Crèdit Andorrà considered it appropriate to recognise at 31 December 2017 a provision for an amount equivalent to the maximum possible fine that the regulator could apply to the Company according to the regulations in force at the time of the non-compliance (900 thousand euros).

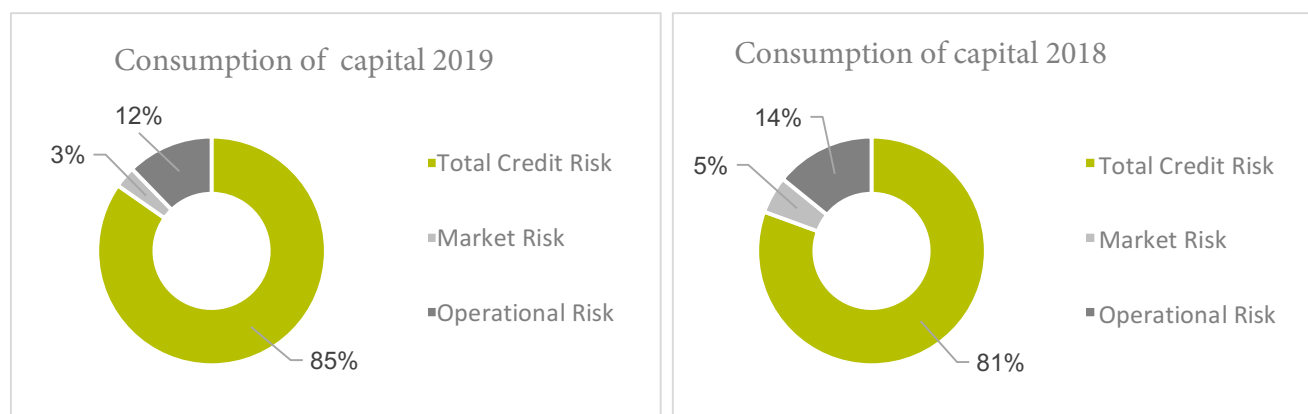
On 26 March 2019, the AFA issued the proposal to close the sanctioning proceedings opened on 15 November 2017. The aforementioned proposal quantified the sanction at 400 thousand euros, less than the 900 thousand euros that the Institution had provided for. In addition to the quantification of the proposed sanction, the proposed closing of the proceedings does not include other terms and/or aspects that might affect the scope of action of the Entity and/or the Group, however, said proposed sanction would be reduced by 40% in the case of it being accepted within the legal timescale granted.

In this regard, the Group accepted the proposed sanction within the legal period granted, with a reduction of 40%, and proceeded to pay a penalty of 240 thousand euros, an amount that has been recognised in the "External Services - Others" item of the consolidated profit and loss account for the year 2019 (see Note 40). Consequently, the Bank has released the provision recognised at 31 December 2018 (see Note 21).

28.2. Capital requirements

The total volume of APRs (risk-weighted assets) at 31 December 2019 was 2,590,338 thousand euros (2,636,554 thousand euros at 31 December 2018).

The distribution of the risks included in Pillar 1 is similar to last year:



28.3. Capital management

Capital management in the Crèdit Andorrà Group is carried out globally, in order to guarantee the Group's solvency, to comply with the regulatory requirements and to maximise its profitability. To this end, a series of guidelines have been defined that form the Group's approach to capital management:

- Establish proper capital planning to meet current needs and to provide the necessary capital to meet the needs of business plans, regulatory requirements and associated risks needs arising from the increased risks of deterioration of macroeconomic conditions
- Optimise the use of capital by means of an appropriate distribution between the businesses based on the relative return on the regulatory capital, taking into account the risk appetite, its growth and strategic objectives

29. Commitments and guarantees granted

Below is a breakdown of the contingent commitments and guarantees granted at 31 December 2019 and 2018:

In thousand euros	31.12.19	31.12.18
Commitments for loans granted	345,550	357,263
Public sector	16,942	26,012
Lending institutions	-	-
Other financial companies	66,843	8,025
Non-financial companies	181,208	196,791
Individuals	80,557	126,435
Financial guarantees granted	124,121	111,162
Public sector	3	2
Lending institutions	19,003	6,069
Other financial companies	-	-
Non-financial companies	91,569	89,895
Individuals	13,546	15,196
Other commitments and guarantees granted	139	536
Non-financial companies	139	536
Total	469,810	468,961

A significant part of these amounts will reach maturity without being used or without materialising any payment obligation for the Group, due to which the overall balance of these commitments cannot be considered a certain future liquidity or financing need to be granted to third parties outside the Group.

The provisions recorded for hedging these guarantees have been recorded in the section "Provisions - Commitments and guarantees granted" (see Note 21.1).

At 31 December 2019 and 2018, the Group had no contingent guarantees or commitments in addition to those described in the aforementioned note.

30. Assets assigned to other own and third-party obligations

The most significant accounts at 31 December 2019 and 2018 which comprise the assets assigned to other own and third-party obligations are as follows:

- At 31 December 2019, the Group had deposits with financial intermediaries as pledged assets as a guarantee for its own obligations of 44,320 thousand euros (37,551 thousand euros at 31 December 2018) (see Note 5.2.3)

- At 31 December 2019, the Group used a total of 60,686 thousand euros from the debt securities portfolio at depreciated cost to hedge the requirement of reserves arising as a result of the entry into force of Law 20/108 (59,625 thousand euros in December 2018) (see Note 24.2 and Note 48.1.8)
- At 31 December 2019, the Group was using a total of 52,574 thousand euros to guarantee the credit lines with regulators (59,920 thousand euros at 31 December 2018)

31. Purchase and sale commitments

At 31 December 2019, the Group had temporary pledged asset contracts with independent third parties affecting 257,626 thousand euros of the debt securities portfolio at depreciated cost (239,006 thousand euros at 31 December 2018) (see Note 19.3). These temporarily pledged assets earn an interest rate of between -0.46% and -0.33% (-0.62% and -0.47% at 31 December 2018).

At 31 December 2019, the Group had temporary purchase asset contracts for a market value of 90,002 thousand euros (54,836 thousand euros at 31 December 2018). These temporarily pledged assets earn an interest rate of between -0.70% and -0.55% (-0.52% at 31 December 2018).

32. Third-party operations

Below is a breakdown of the assets entrusted by third parties at 31 December 2019 and 2018:

In thousand euros	31.12.19	31.12.18
Financial instruments entrusted by third parties	7,325,258	6,925,649
Of which managed by the Group	1,783,397	1,566,664
Discretionary portfolios	728,431	570,825
Mutual funds	1,054,966	995,839
Other	5,541,861	5,358,985
Total	7,325,258	6,925,649

The amounts recorded in the above table correspond to financial assets which the customers keep in Group companies, without taking into consideration financial liabilities. These assets do not therefore form part of the Group's statement of financial position as the customer does not assume the credit risk of Crèdit Andorrà.

33. Business volume

Below is a breakdown of the business volume of the Group at 31 December 2019 and 2018:

In thousand euros	31.12.19	31.12.18
Loans and receivables from customers	2,417,134	2,502,179
Customer funds	14,647,215	12,939,614
Customer deposits	3,830,248	3,869,164
Financial instruments entrusted by third parties	5,989,910	5,708,036
Financial instruments not safekept by the Group	4,827,057	3,362,414
Total	17,064,349	15,441,793

The definition of the different components comprising the business volume seen in the above tables is that marked internally by the Group and may therefore differ from the accounting items presented in other sections of the financial statement.

For more information of the breakdown of the business volume by operating segments, see Note 7.

34. Interest income and expenditure

Below is a breakdown of the interest income and expenditure recorded in the attached profit and loss accounts for the years ended on 31 December 2019 and 2018:

In thousand euros	2019	2018
Interest income		
Held-for-trading financial assets	1,804	291
Financial assets not held for trading required to be valued at fair value through changes in profit and loss	-	-
Financial assets at fair value through changes in profit and loss	-	90
Other financial assets at fair value through changes in other consolidated profit and loss	2,126	5,638
Financial assets at depreciated cost	65,575	66,221
Income correction for hedging operations	181	58
Other income	396	634
Total interest income	70,082	72,932
Interest expenses		
Central bank deposits	-57	-14
Held-for-trading financial liabilities	-1,198	-3,651
Financial liabilities at fair value through profit and loss	-332	-797
Financial liabilities at depreciated cost	-18,736	-17,419
Correction of expenses for hedging operations	-6,245	-4,354
Other financial liabilities	-286	-212
Total interest expenses	-26,854	-26,447
Net interest income	43,228	46,485

(*) Includes 1,453 thousand euros as interest expense on lease liabilities (see Note 2.17)

This chapter of the attached profit and loss account includes the interest accrued during the year by financial assets/liabilities with implicit or explicit income, which is obtained from applying the effective interest rate method, as well as the correction of products due to accounting hedges.

34.1. Average effective interest rate

Below is the average effective interest rate of the different categories of financial assets and liabilities in 2019 and 2018, respectively, calculated on the basis of the average gross balances.

These rates arise from the interest accrued during the year and do not include corrections of products due to hedging operations or the performance of products accounted for at fair value through profit and loss:

	2019	2018
Income		
Other financial assets at fair value through changes in other consolidated profit and loss	0.80%	2.26%
Financial assets at depreciated cost		
Loans and receivables		
Lending institutions	0.08%	0.27%
Customers	2.14%	2.02%
Debt instruments	0.93%	1.10%
Expenditure		
Deposits		
Central bank deposits	0.07%	0.37%
Deposits from lending institutions	-0.12%	0.03%
Customer deposits	0.43%	0.36%
Debt securities		
At depreciated cost	7.00%	-
At fair value	0.65%	2.59%
Subordinated liabilities	1.18%	1.01%

35. Dividend income

The balance of this heading of the profit and loss account corresponding to the financial years ended on 31 December 2019 and 2018 is broken down as follows:

In thousand euros	2019	2018
From held-for-trading financial assets and financial assets at fair value through profit and loss account	36	20
Other financial assets at fair value through changes in other consolidated profit and loss	266	297
Other	-	387
Total	302	704

36. Net income from fees

The most significant income and expenditure recorded in concept of commissions in the attached income statements for 2019 and 2018 are broken down into the following table, based on the nature of the non-financial service producing them:

In thousand euros	2019	2018
Fee income		
Securities and foreign exchange transactions	32,682	32,466
Safekeeping of securities	12,912	12,832
Asset management and consultancy	39,292	45,393
Account administration and maintenance	13,082	17,365
Credit operations	7,621	7,758
Other	7,082	8,562
Total income from fees	112,671	124,376
Expenses from fees		
Brokerage	-446	-381
Transactions with financial intermediaries	-25,578	-25,758
Other	-6,825	-4,942
Total expenditure from fees	-32,849	-31,081
Net income from fees	79,822	93,295

37. Gains or losses from financial assets and liabilities and net exchange rate differences

Below is the breakdown of the balance of these headings in the attached profit and loss accounts for 2019 and 2018:

In thousand euros	2019	2018
Gains or losses due to retirement of financial assets and liabilities not valued at fair value through profit and loss account, net	11,040	14,046
Equity instruments	-	-
Debt securities	11,013	13,202
Other	27	844
Gains or losses due to held-for-trading financial assets and liabilities, net	7,928	6,203
Derivatives	598	741
Equity instruments	2,036	461
Debt securities	4,597	1,251
Other	697	3,750
Gains or losses due to financial assets not held for trading sale compulsorily measured at fair value through profit and loss account	11,177	-12,462
Equity instruments	4,977	-12,462
Debt securities	-	-
Other	6,200	-
Gains or losses due to financial assets and liabilities at fair value through profit and loss account, net	-1,356	11,092
Equity instruments	-20	29
Debt securities	-1,336	11,063
Exchange rate differences (gain or loss), net	1,582	3,016
Gains or losses due to retirement of non-financial assets, net	32,236	870
Total net result	62,607	22,765

The chapter "Gains or losses on derecognition of financial assets and financial liabilities not measured at fair value through profit and loss account, net - Debt securities", which is detailed in the above table in relation to the year 2019, includes 6,408 thousand euros from the sale of two financial assets classified as "Financial assets at depreciated cost - Debt securities" (see Note 13) and 4,509 thousand euros from the sale of financial assets classified as "Financial assets at fair value through consolidated profit and loss" (see Note 11).

The heading "Profit and loss due to retirement of financial assets and liabilities not valued at fair value through profit and loss account, net - debt securities", detailed in the above table in relation to 2018 included 13,202 thousand euros resulting from the de-risking process (see Note 22.1). Furthermore, the settlement of the hedging product of the operation generated a gain of 995 thousand euros.

The heading “Profit and loss from financial assets held for sale - Other” includes the result obtained from adjustment of the Class E shares (see Note 19.5).

The heading “Profit and loss from financial assets not held for sale compulsorily measured at fair value through profit and loss account - Equity instruments” includes the result obtained from the variation in the price of shareholdings in collective investment schemes for which Crèdit Andorrà has transferred the associated risks and benefits to customers through the issue of structured liabilities (see Note 9.2). Similarly, the heading “Profit and loss from financial assets and liabilities at fair value through profit and loss, net - Debt securities” includes the changes in the market value of the aforesaid structured liabilities (see Note 10.2). Also, chapter “Gains or losses on financial assets not held for trading compulsorily at fair value - Other gains or losses” includes the valuation of the contingent financial asset obtained as part of the consideration received for the sale of CA Vida Seguros (see Note 3.6).

The heading “Exchange rate differences (gain or loss), net” includes, in addition to the net result obtained from converting into euros other financial assets and liabilities denominated in foreign currency, the result prior to the transaction with foreign currency instruments (mainly derivatives) on both its own account and on behalf of customers.

The chapter “Gains or losses on derecognition of non-financial assets, net” mainly contains the remainder of the result of the partial sale of the life insurance business (see Note 3.6).

38. Other operating income and expenditure from assets and liabilities used for insurance and reinsurance contracts

38.1. Other income and expenditure from operations

The breakdown of the balance in these headings of the attached profit and loss accounts for 2019 and 2018 can be seen in the following tables:

In thousand euros	2019	2018
Other income from operations	15,622	15,650
Other expenditure from operations	-2,648	-3,611
Net result	12,974	12,039

In the sections “Other income from operations” and “Other expenditure from operations”, the Group records (1) all income and expenditure originating from the result of the Insurance Group but which are not part of the technical result of the insurance business (classified in the headings “Income from assets used for insurance and reinsurance contracts” and “Expenditure from liabilities used for insurance and reinsurance contracts”), neither do they correspond to administrative expenditure, and (2) other result from operations not related to the banking business, such as revenue from real estate leases, etc.

The heading “Other income from operations” at 31 December 2019 includes 258 thousand euros from income from subleases of property.

38.2. Other income and expenditure from assets and liabilities used for insurance and reinsurance contracts

The breakdown of the balance in these headings of the attached profit and loss accounts for 2019 and 2018 can be seen in the following tables:

In thousand euros	2019	2018
Income from assets used for insurance and reinsurance contracts	49,636	56,882
Insurance and reinsurance premiums collected	47,777	56,882
Income from reinsurance	1,859	-
Expenditure for liabilities used for insurance and reinsurance contracts issued	-45,727	-53,176
Provisions paid, other related expenditure and net allocations in liabilities for insurance contracts	-34,619	-42,933
Reinsurance premiums paid	-11,108	-10,243
Result from insurance activity	3,909	3,706

39. Personnel costs

The breakdown of this heading of the attached profit and loss accounts for 2019 and 2018 can be seen in the following table:

In thousand euros	2019	2018
Wages and salaries	-56,984	-57,809
Social Security	-6,022	-6,614
Severance compensation	-1,491	-2,527
Allocations for defined post-employment contribution pensions (Note 22)	-3,027	-3,396
Allocations for defined post-employment benefit pensions	-	-
Training	-393	-471
Other personnel costs	-3,035	-2,602
Total personnel costs	-70,952	-73,419

The expenditure recorded in “Allocations for defined post-employment contribution pensions” mainly includes the mandatory contributions established in the Internal Regulation of the Pension Plan for employees of Crèdit Andorrà. These contributions to the pension plan are made to hedge retirement, death and incapacity commitments, and for certain departures of active employees.

To hedge said commitments, Crèdit Andorrà makes a monthly contribution equivalent to a percentage of the pensionable salary items, which ranges from 0% to 12% depending on the contribution percentage chosen by the employee, which may be established between 0% and 5.5%. The employee has the option of changing the contribution percentage once a year, therefore providing flexibility to adjust, based on their liquidity requirements, the net monthly salary received, and the contributions made to the pension plan.

“Other personnel costs” includes, among others, the concepts of remuneration and gratuities for complementary medical and life insurances and debtor balances, and other short-term social benefits, as well as expenditure related to expatriated employees.

During 2019 and 2018, the breakdown of the Crèdit Andorrà Group workforce, in average terms, classified according to professional categories and gender, is as follows:

	31.12.19			31.12.18		
	Men	Women	Total	Men	Women	Total
Directors	10	3	13	11	2	13
Managers	158	87	245	155	79	234
Administration staff	255	339	594	268	373	641
Temporary staff	10	38	48	9	42	51
Total	433	467	900	443	496	939

40. Other administrative expenditure

The breakdown of this heading of the attached profit and loss accounts for 2019 and 2018 can be seen in the following table:

In thousand euros	31.12.19	31.12.18
Supplies	-716	-924
External services	-45,495	-48,399
Leases	-	-7,474
Repair and maintenance of real estate	-7,768	-6,579
Services from independent professionals	-16,888	-15,041
Fund security and transport services	-1,057	-1,189
Insurance premiums	-632	-704
Advertising and public relations	-3,718	-3,394
Utilities	-6,872	-6,558
Other	-8,560	-7,460
Taxes	-5,286	-4,478
Other expenditure from operations	-2,492	-2,375
Total	-53,989	-56,176

The variation in the heading "Leases" is caused by the entry into force of IFRS 16 (see Note 1.3).

The variation in heading "Independent professional services" is mainly due to the development of certain strategic projects during 2019, as well as other projects needed to comply with recurring regulatory changes.

The heading "External services - Others" mainly includes the expenditure for representation, travel and fees paid to bodies and associations such as the Andorran Banking Association. Also, at 31 December 2019, it includes the sanction of 240 thousand euros for temporarily exceeding the concentration limits for risk in 2017 (see Note 28).

41. Depreciation

The breakdown of this heading of the attached profit and loss accounts for 2019 and 2018 can be seen in the following table:

In thousand euros	2019	2018
Tangible assets	-10,346	-4,998
Own use	-4,736	-4,977
Real estate investments	-17	-21
Right of asset use	-5,593	-
Intangible assets	-11,876	-10,325
Total	-22,222	-15,323

The item “Right of asset use” includes the assets recorded by applying IFRS 16 (see Note 1.3). The right to use relates mainly to the lease of the central and local services buildings in the Group's branch network. (see Note 15).

42. Provisions or reversal of provisions

The breakdown of this heading of the attached profit and loss accounts for 2019 and 2018 can be seen in the following table:

In thousand euros	2019	2018
Court proceedings and action for taxes pending (Note 21)	475	355
Commitments and guarantees granted (Note 21)	537	-685
Other provisions (Notes 21 and 22)	-582	-2,430
Total	430	-2,760

The section of net provisions for commitments and guarantees granted includes the net allocation for hedging credit risk arising from guarantees granted by the Group.

43. Impairment or reversal of impairment of the value of financial assets not valued at fair value through profit and loss

The breakdown of this heading of the attached profit and loss accounts for 2019 and 2018 can be seen in the following table:

In thousand euros	2019	2018
From financial assets at fair value through other consolidated profit and loss	-	22
Debt securities	-	22
Capital instruments	-	-
Financial assets at depreciated cost	-1,082	1,702
Debt securities	-482	265
Customer loans and advances	-605	1,442
Loans and advances to lending institutions	5	-5
Total	-1,082	1,724

During 2019, the Group recognised income from recoveries of defaults of 3,672 thousand euros (4,951 thousand euros in 2018).

44. Share in gains or losses from investments in joint ventures and associates

Below is a breakdown of the results obtained during 2019 and 2018 by the multi-group and associate companies (see Note 3) which have been consolidated by the equity method:

In thousand euros	2019	2018
Clínicas Geriàtriques SA	104	147
Societat Pirenaica d'Aparcaments SA	37	38
Financera d'Assegurances SA	485	438
Línia Asseguradora SL	8	7
AMK Ibérica&Principado Correduría de Seguros SL	81	-
RSM Correduría	677	399
Esports de Neu Soldeu-Incles SA	920	3,165
Serveis i Mitjans de Pagament XXI SA	-15	-96
Total	2,297	4,098

45. Expenditure or income from tax on profits from ongoing activities

In accordance with the tax law in force in Andorra, the special tax consolidation regimen for corporate tax includes Crèdit Andorrà SA as a parent company and those Andorran companies which meet the requirements established by the regulation, as subsidiaries. The tax group has been in force since the effective date of the law, in 2012, with group number G-800529-D, and is made up by the companies listed below, of which more than 75% of the share capital is owned and all of which have the same financial year as the Bank:

- ∞ Credi-Invest SA
- ∞ Patrigest SA
- ∞ Crèdit Capital Immobiliari SA
- ∞ Informàtica Crèdit Andorrà SLU
- ∞ Crèdit Iniciatives SA
- ∞ Crèdit Assegurances SAU
- ∞ CA Vincles Actuarial SLU
- ∞ CA Preference Ltd

All other Group companies present their statements in accordance with the tax regulation applicable to the jurisdictions in which they are domiciled.

This year, the corporate tax settlements have been estimated, but until next July, when they will be formally presented to the public finances of the jurisdictions where the group is present, they cannot be considered definitive, which is why which data for the current year are forecasts.

The operation of this tax is explained in Note 2.13.1 “Tax on Profits”.

45.1. Expenditure on tax on profits

45.1.1. Amount recorded in profit and loss

The breakdown of this heading of the attached profit and loss accounts for 2019 and 2018 can be seen in the following table:

In thousand euros	2019	2018
Current tax result	-198	1,462
Current tax year	-886	1,723
Adjustments for previous years	688	-261
Deferred tax result	-6,648	-4,160
Due to temporary differences	-3,058	-4,047
Due to variation of tax rate	-	-
Due to negative tax bases	-3,622	-64
Adjustments for previous years	32	-49
Total	-6,846	-2,698

45.1.2. Amount recorded in other cumulative overall profit and loss

The breakdown of the amount recorded in other cumulative profit and loss during the years ended on 31 December 2019 and 2018, based on the nature of the asset or transaction originating the amount, is as reflected in the following tables:

In thousand euros	Before tax	<u>31.12.19</u> Profit (expenditure) of taxes	Net tax
Items that will not be reclassified to profit and loss	44	-10	34
Actuarial gains or losses in defined benefit pension plans	16	-2	14
Changes in fair value of equity instruments valued at fair value through other overall profit and loss	28	-8	20
Items that may be reclassified to profit and loss	-1,898	320	-1,578
Financial assets through consolidated profit and loss	-1,902	320	-1,582
Cash flow hedges (effective portion)	-	-	-
Net investment hedges in businesses abroad (effective portion)	-	-	-
Exchange rate differences	4	-	4
Non-current assets for sale	-	-	-
Other recognised income and expenditure	-	-	-
Total	-1,854	310	-1,544

In thousand euros	Before tax	<u>31.12.18</u> Profit (expenditure) of taxes	Net tax
Items that will not be reclassified to profit and loss	1,741	-207	1,534
Actuarial gains or losses in defined benefit pension plans	-312	31	-281
Changes in fair value of equity instruments valued at fair value through other overall profit and loss	2,053	-238	1,815
Items that may be reclassified to profit and loss	-2,610	326	-2,284
Financial assets through consolidated profit and loss	-2,607	326	-2,281
Cash flow hedges (effective portion)	-	-	-
Net investment hedges in businesses abroad (effective portion)	-	-	-
Exchange rate differences	-3	-	-3
Non-current assets for sale	-	-	-
Other recognised income and expenditure	-	-	-
Total	-869	119	-750

Irrespective of the tax on profits charged to profit and loss account, in 2019 and 2018 the Bank recorded in its net equity certain value adjustments for financial assets at fair value through changes in other consolidated profit and loss because of their amount net of tax, and additionally recorded this effect as a deferred liability and deferred asset, respectively.

45.2. Reconciliation effective rate tax

Below is a breakdown of the reconciliation between expenditure on tax on profits applying the tax rate applicable in Andorra (10%) and the expenditure recorded for said tax, as well as the effective tax rate for the financial years ended on 31 December 2019 and 2018.

In thousand euros	31/12/2019		31.12.18	
	Effective tax	Amount	Effective tax	Amount
Pre-tax result		53,932		39,052
Corporation tax at local tax rate		-4,599		-4,387
Effect of foreign tax rates		-1,924		-
Non-deductible expenses		-532		-221
Non-taxable income		2,898		1,045
Rebates		1,632		1,338
Other effects (temporary effects, etc.)		1,639		3,947
Total expenses for taxes	-2%	-886	4%	1,722

During the financial years analysed, the income and expenditure of the Andorran tax group are nearly all taxed at the local rate of 10%. There is, however, income recorded in the result that is exempt from taxes, such as the elimination of companies from the Group, which consolidate corporate tax, and dividends accrued from other investees via the exemption method as well as other quota reductions.

Despite the different tax rates originating from other jurisdictions in which subsidiaries operate increasing the effective tax, the application of negative tax bases and the rebates applied lead to a greater decrease in the effective tax rate.

45.3. Negative tax bases

At 31 December 2019, the subsidiary Banque de Patrimoines Privés SA had a negative tax base pending settlement totalling 17,268 thousand euros (21,949 thousand euros at 31 December 2018), which already existed prior to its takeover by the Crèdit Andorrà Group.

At 31 December 2019, Banco Alcalá SA had a negative tax base pending offset of 830 thousand euros (580 thousand euros at 31 December 2018) generated during 2018 and 2019.

At 31 December 2019, CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU and Crèdit Andorrà Holding España SA (Sociedad Unipersonal) had negative tax bases pending settlement of 478 thousand euros. 0 thousand euros (1,297 thousand euros at 31 December 2018) generated between financial years 2013 and 2017.

At 31 December 2019, the Crèdit Andorrà SA tax group had negative tax bases pending offset by an amount of 46,941 thousand euros activated by accounting for 3,671 thousand euros (46,941 thousand euros and activated accounting 4,694 thousand euros at 31 December 2018). These negative tax bases are the result of (1) the settling of the first application by Crèdit Andorrà effective as of 01/01/2016 due to the entry into force of the IFRS-EU in the Principality of Andorra (for more information, see the consolidated financial statements for 2017), and (2), the settling of the first application effective as of 01/01/2018 due to the entry into force of IFRS 9.

The Bank's directors expect the negative tax bases detailed in this Note to be applied, where appropriate, prior to the maturity date of the legal right to offset them.

45.4. Assets and liabilities from deferred taxes

45.4.1. Breakdown of assets and liabilities from deferred taxes

According to the current tax regulation, during 2019 and 2018 there were certain temporary differences to be taken into account when quantifying the pertinent expenses for tax on profits.

The source of the deferred tax assets and liabilities in the statement of financial position at 31 December 2019 and 2018, is as follows:

In thousand euros	31.12.19		31.12.18	
	Assets	Liabilities	Assets	Liabilities
Tangible and intangible assets	342	4,214	420	2,318
Financial assets through consolidated profit and loss	-	268	214	386
Actuarial gain/loss from defined benefit plans	-	71	-	70
Fair value hedge	-	-	-	217
Insolvencies	10,938	240	10,938	-
Tax losses to be offset in coming years	9,287	-	12,718	-
Other	1,718	232	2,174	34
Net assets and liabilities	22,245	5,025	26,464	3,025

The Group has no relevant deferred tax assets which have not been recognised.

45.4.2. Movement of assets and liabilities from deferred taxes

The movement of the deferred tax assets and liabilities in the statement of financial position at 31 December 2019 and 2018, is as follows:

In thousand euros	Balance at 31.12.2018	Other movements of the year recognised in		Balance at 31.12.2019
		Profit and loss	OCI	
Tangible and intangible assets	-1,898	-1,974	-	-3,872
Financial assets through consolidated profit and loss	-172	-190	94	-268
Actuarial gain/loss from defined benefit plans	-70	-	-1	-71
Fair value hedge	-217	-	217	-
Insolvencies	10,938	-280	-	10,658
Tax losses to be offset in coming years	12,718	-3,431	-	9,287
Other	2,140	-654	-	1,486
Total	23,439	-6,529	310	17,220

In thousand euros	Balance at 31.12.2017	Reclassification Adj. IAS 39 per heading	Adjustments for first application of IFRS 9		Balance at 01/01/2018	Other movements of the year recognised in		Balance at 31.12.2018
			Profit and loss	OCI		Profit and loss	OCI	
Tangible and intangible assets	-537	6,396	-	-	5,859	-7,757	-	-1,898
Financial assets through consolidated profit and loss	141	-610	-	-1,920	-2,389	100	2,117	-172
Actuarial gain/loss from defined benefit plans	-100	-	-	-	-100	30	-	-70
Fair value hedge	-260	512	-	-	252	-469	-	-217
Insolvencies	1,819	9,465	3,329	-	14,613	-3,675	-	10,938
Tax losses to be offset in coming years	4,447	-256	-	-	4,191	8,527	-	12,718
Other	2,020	618	-338	-78	2,222	-82	-	2,140
First application IFRS	16,125	-16,125	-	-	-	-	-	-
Total	23,655	-	2,991	-1,998	24,648	-3,326	2,117	23,439

According to the current tax regulation, there are certain temporary taxable and deductible differences to be taken into account when quantifying the pertinent corporation tax expenses. All these temporary differences have been recorded at the rate at which they will be reversed.

In 2018, there are certain headings originating from the initial application of the International Financial Reporting Standards which are shown based on their type in the column “Tax effect” included in Appendix II of the financial statement for 2018.

The Bank’s directors expect the deferred taxes detailed in this Note to be reversed within 5 years.

45.5 Other relevant tax information

Current assets included under assets in the statement of financial position mainly correspond to Crèdit Andorrà SA for corporation tax.

Current liabilities included under liabilities in the statement of financial position correspond to taxes pending payment for the different subsidiaries which are part of the Group but are not domiciled in Andorra, as well as the balances of the collection accounts of the rest of Andorran taxes (see Note 2.13) which were paid during the first few days of 2020.

Crèdit Andorrà Group SA has the last few years not subject to the statute of limitations open to inspection by the tax authorities for the main taxes to which it is subject in the jurisdictions where it operates. The Bank’s directors do not expect any additional liabilities of any significance to arise should the tax authorities carry out an inspection.

46. Related parties

46.1. Remuneration for Senior Management

Crèdit Andorrà defines the Group’s Senior Management to be executive and non-executive personnel comprising (1) the Board of Directors, (2) General Management, (3) the Executive Committee and (4) the management of the Internal Audit Department.

The remuneration accrued during 2019 and 2018 by the members of Senior Management, due to their status as Senior Managers, totalled 5,191 thousand euros and 6,053 thousand euros, respectively.

Of the total remuneration received during 2019, 4,960 thousand euros correspond to short-term benefits and 231 thousand euros correspond to post-employment benefits (5,807 thousand euros and 246 thousand euros for 2018).

At 31 December 2019 and 2018, there are no transactions with members of the Board of Directors and/or General Management (non-shareholders) which individually account for more than 10% of equity or 5% of the result for the year.

46.2. Transactions with related parties

A breakdown of the balances with related parties at 31 December 2019 and 2018, is as follows:

In thousand euros	31.12.19			31.12.18		
	Senior Management	Subsidiaries	Other related parties	Senior Management	Subsidiaries	Other related parties
Assets	17,736	28,878	243,045	45,810	22,308	229,300
Loans, receivables and guarantees	18,489	28,881	299,148	55,468	22,310	268,747
Hedges	-753	-3	-56,103	-9,658	-2	-39,447
Financial liabilities at depreciated cost	3,437	14,197	4,154	4,229	5,502	4,584
Financial liabilities at depreciated cost	3,437	14,197	4,154	4,229	5,502	4,584
Off-balance-sheet records	50,579	-	317,255	61,130	1,908	324,417
Assets in custody	50,579	-	317,255	61,130	1,908	324,417
Amounts recognised in profit and loss	679	466	3,881	1,925	437	3,847
Interest income	667	406	3,836	1,447	353	3,763
Interest expenses	-6	-21	-7	-9	-1	-5
Fee income	18	81	52	487	85	89

The "Subsidiaries" segment includes balances with companies which have not been consolidated using the full integration method.

"Other related parties" includes balances with economic groups which, without being part of Senior Management or subsidiaries, hold the status of related to the Group. In this regard, this last group includes shareholders with stakes in excess of 5% of the Bank's shares.

47. Lease commitments

Below is a breakdown of the lease commitments of the Bank with third parties outside the Group at 31 December 2019 and 2018:

In thousand euros	31.12.19	31.12.18
Up to 1 year	6,570	6,512
Between 1 and 5 years	24,971	23,715
More than 5 years	47,234	52,731
Total	78,775	82,958

On 31 December 2014, Crèdit Andorrà signed an agreement with a group of foreign investors resident in Andorra to sell and then lease for 20 years (with the option to extend for a further 10 years, to be decided by the Bank) certain of its working properties, including the Bank's head offices.

Of the total commitments for leases at 31 December 2019 which are included in the above table, 4,647 thousand euros, 18,590 thousand euros and 46,474 thousand euros correspond to lease commitments related to

purchase/sale transactions and subsequent working leases (4,615 thousand euros, 18,460 thousand euros and 50,765 thousand euros, respectively, at 31 December 2018).

The variation in the year 2019 is given by the modification of the maturities of certain leases.

48. Additional information

48.1. Compliance with regulations

48.1.1. Act 14/2017 of 22 June 2017 on the prevention and the fight against money and security laundering and the financing of terrorism

On 24 July 2001, the current Law on international cooperation on crime and the fight against money and security laundering arising from international crime came into force, replacing the previous law on international cooperation on crime and the fight against money and security laundering arising from international crime, of 1995.

At its session on 11 December 2008, the General Council of the Principality of Andorra passed the law amending the law on international cooperation on crime and the fight against money and security laundering arising from international crime and the financing of terrorism. The amended text, as well as its subsequent amendments passed on 25 May 2011, 10 October 2013 and 27 March 2014, 15 January 2015 and 16 July 2015, update the previous law, adapting it to international standards in this area and bringing it into line with the equivalent laws in Europe.

As a continuation of the legal application of this law, on 13 May 2009, the government passed the regulation of the law on international cooperation on crime and the fight against money and security laundering arising from international crime and the financing of terrorism. As in the case of the law, this regulation was also updated on 18 May 2011, and subsequently on 20 November 2013.

On 20 July 2017, Act 14/2017 on Prevention and Fight against Money Laundering or Securities and Financing of Terrorism came into force. This law implements Directive (EU) 2015/849, known as the fourth European directive on the prevention of the use of the financial system for money laundering or the financing of terrorism, as well as Regulation (EU) 2015/847 on the information that accompanies fund transfers.

As a continuation of the regulatory deployment of the Act, on 23 May 2018, the Government of Andorra approved the Regulation of the Act on the Application of Act 14/2017.

Act 14/2017 has been amended by Act 21/2019, of 28 November which entered into force on 16 January 2020. This amendment is intended to incorporate into the Andorran legal system the improvements recommended by the Committee of Experts for evaluating the measures on money or security laundering and against the financing of terrorism (Moneyval) and the Joint Committee composed of representatives of the Principality of Andorra and the European Union within the framework of the Monetary Agreement signed between the Principality and the European Union on 30 June 2011, as well as to reinforce interpretative aspects that had been observed during the course of the validity of the Act.

These two bodies had recently made observations to complement the implementation of the FATF Recommendations and the transposition of Directive (EU) 2015/849.

The Group has gradually adapted its internal procedures to the successive national and international legislative amendments, taking into account the recommendations of the Financial Action Task Force (FATF) and of the Basel Committee on Banking Supervision in order to ensure that financial services provided by any member of the Group cannot be used by any criminal organisation.

48.1.2. Law governing mandatory investment ratios

At its session on 30 June 1994, the General Council of the Principality of Andorra passed the Law governing mandatory investment ratios. This law obliges entities whose activities include receiving public deposits and which use these in granting loans and other investments to maintain an investment ratio in Andorran public funds.

On 9 December 2009, the Decree was passed that amends the decree regulating the law governing mandatory investment ratios of 22 August 1994, which obliges entities to maintain an investment ratio of 2% in public funds in their assets.

Government bonds

In compliance with the Act governing mandatory investment ratios, the Group had subscribed at 31 December 2019 and 2018, 94,874 thousand euros in government bonds of the Principality of Andorra, issued on 31 March 2017 at a variable increasing interest rate (0.25% the first two years, 0.5% the third year and 0.75% the last two years until reaching the maturity on 30 March 2022). The amount subscribed by the Group in this issue is included in the section “Financial assets at depreciated cost - Debt securities” of the assets recorded in the attached consolidated statement of financial position.

48.1.3. Programme aimed at the preferential funding of start-ups, firms related to innovation, reconversion and enterprising projects

Also included in calculations as public funds are loans granted as part of a programme classified as of national and social interest, aimed at the preferential funding of newly created firms and businesses, firms related to innovation, reconversion and enterprising projects, passed by the government of Andorra on 3 March 2010. The loans granted under this programme amounted to 97 thousand euros at 31 December 2019 and are recorded under the section “Loans and advances – Customers” of the consolidated statement of financial position (213 thousand euros at 31 December 2018). These loans accrue an annual interest equivalent to the one-year Euribor rate, with the government acting as guarantor.

48.1.4. Programme aimed at the preferential funding for the renovation of housing and residential buildings

Also included in calculations as public funds are loans granted as part of a programme classified as of national and social interest, aimed at the preferential funding for the renovation of housing and residential buildings, passed by the Government of Andorra on 23 March 2011. The loans granted under this programme amounted to 819 thousand euros at 31 December 2019 (1,011 thousand euros at 31 December 2018), and are recorded under the section “Customer loans and advances” of the consolidated statement of financial position. These loans accrue an annual interest equivalent to the one-year Euribor rate plus 0.5%.

48.1.5. Guarantee reserves

Until the new Act 1/2011 came into force, creating a system of deposit guarantees for banks, all institutions in the Andorran financial system were subject to the law governing the guarantee reserves for deposits and other operational duties to be maintained and deposited by entities operating in the financial system. This law stipulated that entities had to maintain, among their permanent resources, minimum equity reserves to guarantee their operational obligations of up to 4% of their total investments, after deducting investments made using shareholders' equity or funds from financial institutions.

In accordance with the aforementioned law, entities involved in the Andorran financial system must compulsorily set up and maintain guarantee reserves deposited with the ANIF (currently AFA). Since the new system applicable to banks came into force, the amount invested corresponds only to the guarantee reserves of the Group's Andorran legal management company.

By repealing provision one of Act 35/2018, the Act of 11 May 1995 regulating the guarantee reserves for deposits and other operational duties to be maintained and deposited by entities operating in the financial system was repealed.

For this reason, on 27 June 2019, the AFA was requested to return the deposit, which became effective on 12 August 2019.

At 31 December 2019 and 2018, the returns from these deposits with the AFA (in million euros) were as follows:

2019	Deposit	Interest	
Mandatory investments		rate	Period
-	-	-	-

2018	Deposit	Interest	
Mandatory investments		rate	Period
Credi-Invest SA	210	0.06%	31 December 2017 - 31 December 2018

48.1.6. Act 1/2011 on the creation of a deposit guarantee system for banks

On 2 February 2011, the General Council of the Principality of Andorra passed Act 1/2011 on the creation of a deposit guarantee scheme for banks in order to guarantee the return of funds in cash and securities deposited to the depositors. This law establishes that, in order for the guarantee scheme to comply with the obligations attributed by this law, all banks authorised to operate in Andorra must set up and maintain a restricted reserve to comply with the guarantees hedged and that an amount equivalent to this reserve must be held invested in secure, liquid assets that comply with a series of requirements established by the law for this purpose.

On 3 October 2018, the Official Gazette of the Principality of Andorra published Act 20/2018 of 13 September, regulating the Andorran deposit guarantee fund and the Andorran investment guarantee scheme, which by way of its repealing provision repealed Act 1/2011 of 2 February on the creation of a deposit guarantee system for banks, to the exception of which it establishes transitional provision four "Treatment of deposits and investments held by Banca Privada d'Andorra, SAU" (see Note 48.1.8).

48.1.7. Law 8/2015 on urgent measures to implement mechanisms for the restructuring and dissolution of banks

On 2 April 2015, the General Council passed Act 8/2015 on urgent measures to implement mechanisms for the restructuring and dissolution of banks.

The objective of this law is to guarantee the optimum use of public resources while preserving the stability and functioning of the banking system. Among the principles of this law, of particular note is that which refers to the fact that public resources must not be used to bear losses within a context of the restructuring or dissolution of a financial entity.

A large part of the administration of the system designed by the law is attributed to the Agency for the Dissolution of Banks (AREB) as the competent authority regarding cases of dissolution. Also, with the purpose of adequately financing the measures agreed in the application of this law, in accordance with Directive 2014/59/EU, the Andorran Fund for the Dissolution of Financial Entities (FAREB) was created, an entity with no legal personality, which will be managed by the AREB.

48.1.8. Act 20/2018 of 13 September regulating the Andorran Deposit Guarantee Fund and the Andorra investment guarantee scheme

This law allows harmonisation with the European Union regarding the protection of the holders of deposits in banking entities of the Principality of Andorra and investments in the banking entities and the financial investment entities of the Principality of Andorra.

48.1.8.1. Andorran Deposit Guarantee Fund

The law regulates the Andorran Deposit Guarantee Fund (FAGADI) as a deposit guarantee scheme under the terms established in Directive 2014/49/EU and with an additional buffer of financial resources to enable the FAGADI to immediately have available more resources than those required by the same directive.

This law, in the same manner as the directive, establishes a transition period during which banking entities that are members of the FAGADI must make annual contributions as determined by the management committee, in order to be able to have available ex-ante financial resources equivalent to the amount of 0.8% of the guaranteed deposits with a deadline of 30 June 2024. In addition, this law establishes that the Andorran banking entities shall continue to make annual contributions to the FAGADI with a charge to their profit and loss account for a period of 20 years as of 2024 for the purpose of having available an additional volume of ex-ante financial resources equivalent to the amount of 0.8% of the guaranteed deposits (therefore reaching a total of 1.6% of the guaranteed deposits).

During the period established to contribute the financial resources to the ex-ante fund, a dual scheme will be in force to ensure the immediate availability of financial resources. Subsequently, banking entities must maintain a portion of the guarantee reserves for deposits already constituted in accordance with Act 1/2011 and the assets allocated to said reserves may only be used immediately at the request of the FAGADI management committee. The remaining part of the guarantee reserves for deposits maintained by the Andorran banking entities by virtue of the application of Act 1/2011 at the date of entry into force of this law are reclassified to unavailable reserves, which can be used to hedge potential risks or losses; the AFA may authorise their reclassification as available reserves.

FAGADI maintains the 100,000 euros hedge scheme per depositor and entity, and includes additional hedging for exceptional cases, which it guarantees with a limit of 300,000 euros (deposits originating from transactions with property of a residential or private nature, payments received by the depositor on an occasional basis and related to marriage, divorce, retirement, severance compensation, disability or death, etc.).

48.1.8.2. Andorran Investment Guarantee Scheme

The law considers the Andorran Investment Guarantee Scheme (SAGI) as an ex-post guarantee scheme which now includes, together with the banking entities that are already participants, the financial investment entities (financial investment companies, financial investment agencies and asset management companies that provide discretionary and personalised management activities for portfolios through direct management) and the management companies of collective investment funds authorised to provide services for management and safekeeping of financial instruments on behalf of customers from the Principality of Andorra.

The main regulatory terms of the Investment Guarantee Scheme are as follows:

- The hedge is maintained at 100,000 euros per holder, above the level of hedge of 20,000 euros established by Directive 97/9/EC. The law also establishes a total limit of resources of the SAGI and increases the total maximum hedge established by Act 1/2011
- Losses deriving from fluctuations in the value of investments are not guaranteed. The guarantee covers situations where the recovery of the securities is impossible due to the insolvency of the entity providing the service for the management and custody of the securities
- The SAGI's target resources are maintained at 1.5% of the sum of the investments regulated by Act 1/2011 with 30 June 2020 being the deadline for compliance
- The amount of the investment guarantee reserve that each member entity of the SAGI must maintain will be calculated on an annual basis and must correspond to the proportion represented by the entity's guaranteed investments over the aggregated total of the investments guaranteed of all member entities of the SAGI. For the purposes of calculating the investment guarantee reserve, this is understood to be 5% of the market value of the investments held by the SAGI member entities

- The investment guarantee reserves scheme continues to be dependent on the fulfilment of the guarantee by the banking entities

48.1.9. Act 12/2017 of 22 June on the regulation and supervision of insurance and reinsurance in the Principality of Andorra

This law, which entered into force on 1 January 2018 and is based on the scheme established by the EU known as Solvency II, seeks to establish the scheme for regulating and supervising insurance and reinsurance in the Principality of Andorra, with the aim of ensuring transparency, promoting orderly development and instructing on the rights of the policyholders, insured parties and beneficiaries.

In particular, this law establishes the conditions for accessing and conducting business, the scheme applicable with regard to supervision and solvency, and also regulates the restructuring and settlement of insurance and reinsurance entities with registered address in the Principality of Andorra.

The supervision and control functions of the insurance and reinsurance market in the Principality of Andorra are performed by the Insurance and Reinsurance Supervisory Authority.

As established by “Transitional provision 2. Regime of insurance and reinsurance entities that are authorised to operate obtained before the entry into force of this Act”. The entities and delegations referred to in the preceding sections must adapt to the Act in the following terms:

- As of 1 January 2018, the law will be fully applicable to entities and agencies, without prejudice to that which is set out below with regard to Chapter IV
- The adaptation to Chapter IV “Scheme for conducting business” of the law by the entities and the agencies referred to in the preceding sections will be performed gradually and proportionally over a period of 5 years, beginning 1 January 2018. Chapter IV establishes the central core of the new supervisory scheme, which includes the basic requirements deriving from the three pillars of Solvency II. Of particular note is the establishment of mandatory solvency capital and mandatory minimum capital, or the regulations on market behaviour for certain company operations, among many other conditioning factors which the sector must adapt to as of now

48.2. Fundació Privada Crèdit Andorrà

Crèdit Andorrà SA established the Fundació Privada Crèdit Andorrà (hereinafter, the Foundation) by means of public deed dated 15 December 1987, for an indefinite period of time. The Foundation has its own legal identity, is of Andorran nationality and of a private nature. Pursuant to Act 11/2008 of 12 June, it has been entered into the Foundations Register under number 7/2010.

The Foundation, which is a non-profit organisation, aims to contribute to improving the quality of economic, cultural and social life in Andorra by taking on, programming, funding and achieving specific goals. Among these goals, of particular note is the granting of study scholarships to those who deserve them in order to help them get the best possible education in whatever area may impact the improvement of the economic, scientific, educational, cultural and services structure of the country.

In 2019, and always with the aim of adapting its work to the needs of the country, the activities performed by the Fundació Privada Crèdit Andorrà focused on three major areas: social programmes, particularly those aimed at elderly persons and organisations working with disabled persons; educational activities, particularly in the granting of scholarships, and also cultural activities, with a particular focus on teaching aspects and any areas directly related to the country, its history and its natural environment.

49. Subsequent events

SARS-Cov-2-19, a new coronavirus strain causing COVID-19, has spread to many countries, including Andorra. This event is having a significant impact on global economic activity and, consequently, the Group's operations and financial results. The extent to which the coronavirus epidemic will affect Group outcomes will depend on future events, which cannot be reliably predicted; these include actions to contain or treat the disease, and mitigate its effect on the economies of the affected countries, among others.

In addition to the events detailed in this note as well as those that may be included in the rest of the notes to these financial statements, there have been no other significant events after the reporting period between 31 December 2019 and the date of preparation of these consolidated financial statements.

Appendix I - Holdings in companies consolidated by global integration

Appendix I, which is an integral part of Note 3, contains the breakdown of the subsidiaries that are part of Crèdit Andorrà Group at 31 December 2019 and 2018, consolidated by both the global integration and by the equity method.

Appendix I.1 - Holdings in companies consolidated by global integration - 31 December 2019

Society	Domicile	Activity	% voting rights			In thousand euros				
			Direct	Indirect	Total	Net book value	Assets 31.12.19	Liabilities 31.12.19	Equity 31.12.19	Result 31.12.19
Credi-Invest SA	Andorra	Fund Manager	100.0%		100.0%	744	9,715	2,327	7,388	971
Crèdit Iniciatives SA	Andorra	Venture Capital	100.0%		100.0%	8,459	21,774	10,746	11,028	806
Patrigest SAU	Andorra	Property	100.0%		100.0%	7,362	21,774	10,746	11,028	806
PIM Private Investment Management SA	Switzerland	Investment consulting		100.0%	100.0%	1,162	1,903	984	919	-212
Cassamanya Ltd.	Malta	Instrumental		100.0%	100.0%	3	0	58	-58	-10
Crèdit Capital Immobiliari SA	Andorra	Instrumental	100.0%		100.0%	122,668	124,140	1,353	122,787	1,117
Crèdit Andorrà Preference Ltd.	Cayman Islands	Financial	100.0%		100.0%	1	2	0	2	0
Crèdit Andorrà Panamá Holding SA	Panama	Holding	100.0%		100.0%	14,218	13,677	445	13,232	-409
Banco Crèdit Andorrà (Panamá) SA	Panama	Banking		100.0%	100.0%	10,637	189,793	172,082	17,711	1,536
Crèdit Andorrà Panamá Patrimonial SA	Panama	Property		100.0%	100.0%	2,966	2,989	12	2,977	19
Crèdit Andorrà Panamá Call Center SA	Panama	Inactive		100.0%	100.0%	5	5	0	5	0
Private Investment Management Advisors Panamá SA	Panama	Investment consulting		100.0%	100.0%	45	627	199	429	-17
Informàtica Crèdit Andorrà SLU	Andorra	Instrumental	100.0%		100.0%	33,368	59,212	22,834	36,378	2,637
Banque de Patrimoines Privés SA	Luxembourg	Banking	100.0%		100.0%	37,618	602,568	546,379	56,189	2,648
Banco Alcalá SA	Spain	Banking	85.0%		85.0%	33,940	267,683	238,334	29,349	-347
Gesalcalá SA	Spain	Fund Manager		100.0%	100.0%	2,691	3,552	798	2,754	-81
CA Holding Luxembourg SARL	Luxembourg	Holding	100.0%		100.0%	12,505	12,853	-520	13,373	479
Crèdit Andorrà Asset Management Luxembourg SA	Luxembourg	Fund Manager		100.0%	100.0%	400	4,984	3,916	1,067	102
Crèdit Andorrà Holding España SAU	Spain	Holding		100.0%	100.0%	10,638	10,441	52	10,389	435
CA Vincles Actuarial Chile SPA	Chile	Actuarial consultancy		100.0%	100.0%	85	92	1	91	8
CA Perú Sociedad Agente de Bolsa de Valores	Peru	Securities firm		100.0%	100.0%	0	838	852	-14	-1,202
CA México Asesores Patrimoniales SA de CV	Mexico	Investment consulting		100.0%	100.0%	0	482	7,034	-6,552	-70
Beta Capital Securities LLC	United States	Securities firm	100.0%		100.0%	35,031	40,056	26,745	13,311	676
Crèdit Andorrà US GP LLC	United States	Holding	100.0%		100.0%	6,141	2,803	288	2,515	-389
Beta Capital Management LLC	United States	Investment consulting		100.0%	100.0%	-890	2,160	482	1,679	1,449
Crèdit Assegurances SAU	Andorra	Insurance	100.0%		100.0%	9,000	310,133	281,899	28,234	18,979
CA Vincles Actuarial SLU	Andorra	Actuarial consultancy	100.0%		100.0%	3	1,527	143	1,384	333
Actiu Assegurances SA	Andorra	Insurance		44.7%	44.7%	899	5,599	2,080	3,519	238
Consell Assegurador SA	Andorra	Insurance		35.7%	35.7%	464	99	6	93	8
Enterprise Risk Management SA	Spain	Insurance broker	10.0%	90.0%	100.0%	3,667	5,511	1,910	3,601	371
Enterprise Risk Special Management, SL	Spain	Insurance broker		45.9%	45.9%	3,471	13,152	182	12,969	966
Enterprise Risk Management Consultoria SA	Spain	Insurance broker		45.9%	45.9%	60	139	91	48	226
ERM Risk Management Correduria de Seguros y Reaseguros SL	Spain	Insurance broker		45.9%	45.9%	4,539	4,582	3,576	1,006	327
RSM Correduria de Seguros, SA	Spain	Insurance broker		45.9%	45.9%	8,203	8,754	6,492	2,262	775

Appendix I.2 - Holdings in companies consolidated by global integration - 31 December 2018

% voting rights

In thousand euros

Society	Domicile	Activity	Direct	Indirect	Total	Net book	Assets	Liabilities	Equity	Result
						value	31.12.18	31.12.18	31.12.18	31.12.18
Credi-Invest SA	Andorra	Fund Manager	100.0%		100.0%	744	8,948	1,521	7,427	629
Crèdit Initiatives SA	Andorra	Venture Capital	100.0%		100.0%	8,459	22,218	11,937	10,282	1,577
Patrigest SAU	Andorra	Property	100.0%		100.0%	7,362	22,218	11,937	10,282	1,577
PIM Private Investment Management SA	Switzerland	Investment consulting		100.0%	100.0%	1,162	2,473	1,378	1,094	26
Cassamanya Ltd.	Malta	Instrumental		100.0%	100.0%	3	0	47	-47	-12
Crèdit Capital Immobiliari SA	Andorra	Instrumental	100.0%		100.0%	127,553	124,730	2,061	122,669	1,782
Crèdit Andorrà Preference Ltd.	Cayman Islands	Financial	100.0%		100.0%	1	150,039	150,037	2	0
Crèdit Andorrà Panamá Holding SA	Panama	Holding	100.0%		100.0%	13,949	13,818	437	13,382	0
Banco Crèdit Andorrà (Panamá) SA	Panama	Banking		100.0%	100.0%	10,437	259,979	244,104	15,875	1,294
Crèdit Andorrà Panamá Patrimonial SA	Panama	Property		100.0%	100.0%	2,910	2,914	4	2,910	23
Crèdit Andorrà Panamá Call Center SA	Panama	Inactive		100.0%	100.0%	5	5	0	5	0
Crèdit Andorrà Uruguay SA	Panama	Investment consulting		100.0%	100.0%	417	62	85	-23	-85
Private Investment Management Advisors Panamá SA	Panama	Investment consulting		100.0%	100.0%	44	599	145	453	173
Informàtica Crèdit Andorrà SLU	Andorra	Instrumental	100.0%		100.0%	33,368	62,724	26,783	35,941	363
Banque de Patrimoines Privés SA	Luxembourg	Banking	100.0%		100.0%	37,618	538,821	485,280	53,541	31
Banque BPP Portugal SA	Portugal	Banking		100.0%	100.0%	0	0	0	0	0
Banco Alcalá SA	Spain	Banking	85.00%		85.0%	36,040	248,245	218,264	29,981	-1,009
Gesalcalá SA	Spain	Fund Manager		100.0%	100.0%	0	3,526	697	2,828	140
CA Holding Luxembourg SARL	Luxembourg	Holding	100.0%		100.0%	12,505	13,491	57	13,434	-327
Crèdit Andorrà Asset Management Luxembourg SA	Luxembourg	Fund Manager		100.0%	100.0%	400	3,616	2,541	1,076	71
Crèdit Andorrà Holding España SAU	Spain	Holding		100.0%	100.0%	10,638	10,010	56	9,954	-68
CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU	Spain	Insurance		100.0%	100.0%	9,015	24,312	15,205	9,107	94
CA Vincles Actuarial Chile SPA	Chile	Actuarial consultancy		100.0%	100.0%	85	104	26	78	5
CA Perú Sociedad Agente de Bolsa de Valores	Peru	Securities firm		100.0%	100.0%	0	718	40	677	-87
CA México Asesores Patrimoniales SA de CV	Mexico	Investment consulting		100.0%	100.0%	0	485	6,600	-6,114	-484
Beta Capital Securities LLC	United States	Securities firm	100.0%		100.0%	31,313	10,322	979	9,343	1,479
Crèdit Andorrà US GP LLC	United States	Holding	100.0%		100.0%	3,405	782	554	228	-706
Beta Capital Management LLC	United States	Investment consulting		100.0%	100.0%	0	1,409	306	1,103	1,091
Crèdit Assegurances SAU	Andorra	Insurance	100.0%		100.0%	9,000	285,147	258,721	26,427	7,477
Ca Vida Assegurances SAU	Andorra	Insurance		100.0%	100.0%	0	0	0	0	0
CA Vincles Actuarial SLU	Andorra	Actuarial consultancy		100.0%	100.0%	3	1,136	86	1,051	413
Actiu Assegurances SA	Andorra	Insurance		45.0%	45.0%	907	4,767	2,109	2,658	184
Consell Assegurador SA	Andorra	Insurance		36.0%	36.0%	464	89	5	84	12
Enterprise Risk Management SA	Spain	Insurance broker		90.0%	90.0%	3,067	22,941	14,703	8,238	2,234
Enterprise Risk Special Management, SL	Spain	Insurance broker		45.9%	45.9%	6,508	12,810	52	12,758	-1
Enterprise Risk Management Consultoria SA	Spain	Insurance broker		45.9%	45.9%	105	182	210	-28	18
ERM Risk Management Correduría de Seguros y Reaseguros SL	Spain	Insurance broker		45.9%	45.9%	4,539	7,380	6,540	840	161
RSM Correduría de Seguros, SA	Spain	Insurance broker		45.9%	45.9%	8,158	6,977	5,566	1,412	809

Appendix I.3 - Holdings in companies consolidated by equity method - 31 December 2019

Society	Domicile	Activity	% voting rights controlled by the bank			In thousand euros					
			Direct	Indirect	Total	Data on subsidiary					
						Value assigned in equivalence	Net book value	Assets 31.12.19	Liabilities 31.12.19	Equity 31.12.19	Result 31.12.19
Clínicas Geriátricas SA	Andorra	Services for the elderly		25.0%	25.0%	2,021	2,021	8,083	0	8,083	415
Societat Pirenaica d'Aparcaments SA	Andorra	Car parking operation		25.0%	25.0%	141	141	562	0	562	148
CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU	Spain	Insurance		46.0%	46.0%	4,314	4,314	27,130	17,854	9,276	113
Ca Vida Assegurances SAU	Spain	Insurance		49.0%	49.0%	21,478	21,478	11,740	5,873	5,866	1,206
Financera d'Assegurances SA	Andorra	Insurance		20.4%	20.4%	2,511	2,002	16,092	10,458	5,634	1,085
Línia Asseguradora Andorrana SL	Andorra	Insurance		10.3%	10.3%	40	40	89	11	79	16
AMK Ibérica&Principado Correduría de Seguros SL	Andorra	Insurance		11.5%	11.5%	160	160	981	643	337	162
Confortauto Segur Correduría de Seguros SL	Andorra	Insurance		23.0%	23.0%	0	0	133	42	91	71
RSM Correduria Group (Subsidiaries with Mèt. Part.)	Andorra	Insurance		<50%	<50%	2,510	2,510	8,754	6,492	2,262	775
		Sporting facilities management company	49.6%		49.6%	32,506	16,837	65,580	0	65,580	1,855
Serveis i Mitjans de Pagament XXI SA	Andorra	TPV services	20.0%		20.0%	24	92	120	0	120	-74
						65,703.00	49,595				

Appendix I.4 - Holdings in companies consolidated by equity method - 31 December 2018

Society	Domicile	Activity	% voting rights controlled by the bank			In thousand euros					
			Direct	Indirect	Total	Data on subsidiary					
						Value assigned in equivalence	Net book value	Assets 31.12.18	Liabilities 31.12.18	Equity 31.12.18	Result 31.12.18
Clínicas Geriátricas SA	Andorra	Services for the elderly		25.0%	25.0%	1,893	1,893	7,574	0	7,574	587
Societat Pirenaica d'Aparcaments SA	Andorra	Car parking operation		25.0%	25.0%	142	142	719	153	566	152
Financera d'Assegurances SA	Andorra	Insurance		20.4%	20.4%	2,291	2,002	15,170	10,076	5,095	1,008
Línia Asseguradora Andorrana SL	Andorra	Insurance		10.4%	10.4%	39	39	98	21	77	14
AMK Ibérica&Principado Correduría de Seguros SL	Andorra	Insurance		11.5%	11.5%	1,969	9	1,049	718	331	173
Confortauto Segur Correduría de Seguros SL	Andorra	Insurance		23.0%	23.0%	0	4	120	30	89	38
		Sporting facilities management company									
Esports de Neu Soldeu-Incles SA	Andorra	company	49.6%		49.6%	30,753	15,848	62,053	9	62,044	6,385
Serveis i Mitjans de Pagament XXI SA	Andorra	TPV services	20.0%		20.0%	-41	12	629	834	-206	-480
						37,046.00	19,949				

Appendix II

Appendix II, which is an integral part of Note 1.3, includes the reconciliation statements of the different chapters comprising the consolidated balance sheet (assets, liabilities and net equity) showing the result of all transitional adjustments and reclassifications performed as a result of the first implementation of IFRS 9.

To facilitate monitoring the process, these reconciliation statements (see Appendices II.1 to II.5):

1. Are based on the figures presented under IAS 39, which are subject to different reclassifications due to presentation (see appendix II.4) up until the consolidated financial statements on 31 December 2017, which were included for comparison purposes in the consolidated financial statements at 31 December 2018.
2. Different measurement and impairment adjustments are then included (see Appendix II.5) until reaching the consolidated financial statements at 1 January 2018

Appendix II.1 First application reconciliation statements - Statement of financial position at 01/01/2018 - Assets

In thousand euros	Measurement classification under IAS 39	Measurement classification under IFRS 9	31/12/2017	Reclassifications under IFRS 9 to:			Depreciated cost	Book value after reclassifications at 31/12/2017	IFRS 9: Classifications and measurement	IFRS 9 impairment	01/01/2018
				Fair value through changes in profit and loss	F. A. not held-for-trading compulsorily measured at F. V. through changes in profit and loss	Fair value through changes in other consolidated profit and loss					
Cash, cash balances in central banks and other at sight deposits	Depreciated cost	Depreciated cost	251,265	-	-	-	-	251,265	-	-	251,265
Held-for-trading financial assets	Fair value through changes in profit and loss	Fair value through changes in profit and loss	5,547	2,862	-	-	-	8,409	-	-	8,409
Financial assets not held for trading required to be valued at fair value through changes in profit and loss	N/A	Fair value through changes in profit and loss	-	-	215,970	-	-	215,970	-	-	215,970
Financial assets at fair value through changes in profit and loss	Fair value through changes in profit and loss	Fair value through changes in profit and loss	201,545	-	-186,782	-	-	14,763	-	-	14,763
Available-for-sale financial assets	Fair value through changes in other consolidated profit and loss	N/A	270,128	-2,862	-23,038	-244,228	-	-	-	-	-
Other financial assets at fair value through changes in other consolidated profit and loss	N/A	Fair value through changes in other consolidated profit and loss	-	-	-	405,340	-	405,340	22,437	124	427,901
Loans and receivables	Depreciated cost	N/A	2,647,418	-	-6,150	-	-2,641,268	-	-	-	-
Held-to-maturity investments	Depreciated cost	N/A	1,603,403	-	-	-161,112	-1,442,291	-	-	-	-
Financial assets at depreciated cost	N/A	Depreciated cost	-	-	-	-	4,083,559	4,083,559	-	-31,438	4,052,121
Derivatives - hedge accounting	Fair value through changes in profit and loss	Fair value through changes in profit and loss	-	-	-	-	-	-	-	-	-
Changes in fair value of hedged items of a portfolio with hedged interest-rate risk	N/A	N/A	25,611	-	-	-	-	25,611	-	-	25,611
Investments in joint ventures and associates	N/A	N/A	31,491	-	-	-	-	31,491	-	-	31,491
Assets used for insurance and reinsurance contracts	N/A	N/A	2,760	-	-	-	-	2,760	-	-	2,760
Tangible assets	N/A	N/A	127,155	-	-	-	-	127,155	-	-	127,155
Intangible assets	N/A	N/A	112,717	-	-	-	-	112,717	-	-	112,717
Tax assets			25,694	-	-	-	-	25,694	-	3,316	29,010
Current tax assets	N/A	N/A	230	-	-	-	-	230	-	-	230
Deferred tax assets			25,464	-	-	-	-	25,464	-	3,316	28,780
Other assets	N/A	N/A	51,898	-	-	-	-	51,898	-	-	51,898
Non-current assets and disposable groups of items classified as held for sale	N/A	N/A	103,285	-	-	-	-	103,285	-	-	103,285
Total assets			5,459,917	-	-	-	-	5,459,917	22,437	-27,998	5,454,356

Note 1: For further detail on reclassification and adjustments, see Appendices II.4 and II.5

Note 2: For those headings that have not been affected by the first application of IFRS 9, see the additional breakdown in the interim abridged statement of financial position – Assets.

Appendix II.2 First application reconciliation statements - Statement of financial position at 01/01/2018 - Liabilities

In thousand euros	Reclassifications under IFRS 9 to:										
	Measurement classification under IAS 39	Measurement classification under IFRS 9	31/12/2017	Fair value through changes in profit and loss	F. A. not held-for-trading compulsorily measured at F. V. through changes in profit and loss	Fair value through changes in other consolidated profit and loss	Depreciated cost	Book value after reclassifications at 31/12/2017	IFRS 9: Classifications and measurement	IFRS 9 impairment	01/01/2018
Held-for-trading financial liabilities	Fair value through changes in profit and loss	Fair value through changes in profit and loss	4,772	-	-	-	-	4,772	-	-	4,772
Financial liabilities at fair value through profit and loss	Fair value through changes in profit and loss	Fair value through changes in profit and loss	123,374	-	-	-	-	123,374	-	-	123,374
Financial liabilities at depreciated cost			4,493,974	-	-	-	-	4,493,974	-	-	4,493,974
Deposits	Depreciated cost	Depreciated cost	4,304,715	-	-	-	93,859	4,398,574			4,398,574
Debt securities			93,859	-	-	-	-93,859	-			-
Other financial liabilities			95,400	-	-	-	-	95,400			95,400
Derivatives - hedge accounting	Fair value through changes in profit and loss	Fair value through changes in profit and loss	42,192	-	-	-	-	42,192			42,192
Changes in fair value of hedged items of a portfolio with interest-rate risk hedging	N/A	N/A	-	-	-	-	-	-			-
Liabilities used for insurance and reinsurance contracts	N/A	N/A	254,287	-	-	-	-	254,287			254,287
Provisions			62,305	-	-	-	-	62,305	-	1,166	63,471
Pensions and other defined retirement benefits			44,390	-	-	-	-	44,390			44,390
Other long-term employee remunerations			6,020	-	-	-	-	6,020			6,020
Restructuring	N/A	N/A	-	-	-	-	-	-			-
Actions and procedural issues for pending taxes			8,427	-	-	-	-	8,427			8,427
Commitments and guarantees granted			1,538	-	-	-	-	1,538		1,166	2,704
Other provisions			1,930	-	-	-	-	1,930			1,930
Tax liabilities			2,169	-	-	-	-	2,169	2,244	79	4,492
Current tax liabilities	N/A	N/A	360	-	-	-	-	360			360
Deferred tax liabilities			1,809	-	-	-	-	1,809	2,244	79	4,132
Share capital refundable at sight			-	-	-	-	-	-			-
Other liabilities	N/A	N/A	55,746	-	-	-	-	55,746			55,746
Liabilities included in disposable groups of elements classified as held for sale	N/A	N/A	-	-	-	-	-	-			-
											-
Total liabilities			5,038,819	-	-	-	-	5,038,819	2,244	1,245	5,042,308
Note 1: For further detail on reclassification and adjustments, see Appendices II.4 and II.5											

Note 1: For further detail on reclassification and adjustments, see Appendices II.4 and II.5

Note 2: For those headings that have not been affected by the first application of IFRS 9, where relevant, see the additional breakdown in the interim abridged statement of financial position – Liabilities.

Appendix II.3 First application reconciliation statements - Net equity at 01/01/2018

In thousand euros	31/12/2017	Reclassifications for presentation	Book value after reclassifications at 31/12/2017	IFRS 9: Classifications and measurement	IFRS 9 impairment	01/01/2018
Capital	63,462	-	63,462	-	-	63,462
Issue premium	-	-	-	-	-	-
Issued equity instruments other than capital	-	-	-	-	-	-
Other net equity items	-	-	-	-	-	-
Other cumulative consolidated profit and loss	4,972	-	4,972	17,270	-	22,242
Items that will not be reclassified to profit and loss	906	-	906	1,973	-	2,879
Tangible assets	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Actuarial gains and losses in defined benefit pension plans	906	-	906	-	-	906
Non-current assets and disposable groups of items classified as held for sale	-	-	-	-	-	-
Holding in income and expenses recognised in investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-
Changes in fair value of equity instruments valued at fair value through other overall profit and loss	-	-	-	1,973	-	1,973
Ineffectiveness of fair value hedges of equity instruments measured and fair value through changes in other consolidated profit and loss	-	-	-	-	-	-
Accumulated changes in the fair value of financial liabilities at fair value due to changes in credit risk	-	-	-	-	-	-
Items that can be reclassified to profit and loss	4,066	-	4,066	15,297	-	19,363
Hedges of net investments in foreign business (effective portion)	-	-	-	-	-	-
Foreign currency conversion	-	-	-	-	-	-
Available-for-sale financial assets	4,066	-4,066	-	-	-	-
Hedging derivatives. Cash flow hedges (effective portion)	-	-	-	-	-	-
Changes in the fair value of financial assets measured at fair value through changes in other consolidated profit and loss	-	4,066	4,066	15,297	-	19,363
Hedge instruments (portion not allocated)	-	-	-	-	-	-
Non-current assets and disposable groups of items classified as held for sale	-	-	-	-	-	-
Holding in income and expenses recognised in investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-
Revaluation reserves	-	-	-	-	-	-
Other reserves	293,721	-	293,721	2,923	-29,243	267,401
(-) Treasury shares	-	-	-	-	-	-
Profit and loss attributable to owners of the parent company	50,194	-	50,194	-	-	50,194
(-) Interim dividends	-	-	-	-	-	-
Minority interests (non-controlling interest)	8,749	-	8,749	-	-	8,749
Total net equity	421,098	-	421,098	20,193	-29,243	412,048
Total net equity and liabilities	5,459,917	-	5,459,917	22,437	-29,243	5,453,111

Note 1: For further detail on reclassification and adjustments, see Appendices II.4 and II.5

Note 2: For those headings that have not been affected by the first application of IFRS 9, where relevant, see the additional breakdown in the interim abridged statement of financial position – Net equity.

Appendix II.4 First application reconciliation statements - Reclassification of assets at 01.01.2018

In thousand euros	IAS 39 31/12/2017	See Appendix.I.4.1	See Appendix.I.4.2	See Appendix.I.4.3	See Appendix.I.4.4	IFRS 9 31/12/2017
Held-for-trading financial assets	5,547	2,862	-	-	-	8,409
Derivatives	4,757	-	-	-	-	4,757
Equity instruments	572	2,862	-	-	-	3,434
Debt securities	218	-	-	-	-	218
Loans and advances	-	-	-	-	-	-
Financial assets not held for trading required to be valued at fair value through changes in profit and loss	-	-	215,970	-	-	215,970
Equity instruments	-	-	209,820	-	-	209,820
Debt securities	-	-	-	-	-	-
Loans and advances	-	-	6,150	-	-	6,150
Financial assets at fair value through changes in profit and loss	201,545	-	-186,782	-	-	14,763
Equity instruments	186,782	-	-186,782	-	-	-
Debt securities	5,684	-	-	-	-	5,684
Loans and advances	9,079	-	-	-	-	9,079
Available-for-sale financial assets	270,128	-2,862	-23,038	-244,228	-	-
Equity instruments	41,971	-2,862	-23,038	-16,071	-	-
Debt securities	228,157	-	-	-228,157	-	-
Loans and advances	-	-	-	-	-	-
Other financial assets at fair value through changes in other consolidated profit and loss	-	-	-	405,340	-	405,340
Equity instruments	-	-	-	16,071	-	16,071
Debt securities	-	-	-	389,269	-	389,269
Loans and advances	-	-	-	-	-	-
Loans and receivables	2,647,418	-	-6,150	-	-2,641,268	-
Debt securities	-	-	-	-	-	-
Loans and advances	2,647,418	-	-6,150	-	-2,641,268	-
Lending institutions	144,825	-	-	-	-144,825	-
Customers	2,502,593	-	-6,150	-	-2,496,443	-
Held-to-maturity investments	1,603,403	-	-	-161,112	-1,442,291	-
Debt securities	1,603,403	-	-	-161,112	-1,442,291	-
Loans and advances	-	-	-	-	-	-
Financial assets at depreciated cost	-	-	-	-	4,083,559	4,083,559
Loans and advances	-	-	-	-	2,641,268	2,641,268
Lending institutions	-	-	-	-	144,825	144,825
Customers	-	-	-	-	2,496,443	2,496,443
Debt securities	-	-	-	-	1,442,291	1,442,291
Total	4,728,041	-	-	-	-	4,728,041

Appendix II.4.1. Reclassifications to the financial instruments portfolio at fair value through changes in profit and loss

The reclassification included in this column of the table above corresponds to certain equity instruments that were originally (IAS 39) classified in the assets available for sale portfolio and because of which the Group had decided to define its business model under IFRS 9 as held-for-trading financial assets.

Appendix II.4.2. Reclassification to the portfolio of financial assets not held-for-trading compulsorily measured at fair value through changes in profit and loss

The reclassifications included in this column of the above table correspond to:

A participating loan maturing in 2018 which was classified in the customer loans and advances portfolio under IAS 39, which the Group, due to the contractual conditions of the same loan giving rise to cash flows on specific dates that are not only payments of principal and interest on the amount of the outstanding loan, has had to reclassify to the portfolio of financial assets not held for trading compulsorily measured at fair value through changes in profit and loss

Equity instruments, which in spite of originally being in the available-for-sale financial assets portfolio under IAS 39, do not meet the conditions set by IFRS 9 to be classified as financial assets at fair value through changes in other consolidated profit and loss. These instruments correspond mainly to shareholdings in collective investment funds

Reclassifications of assets which despite already being measured at fair value through changes in profit and loss, due to their characteristics have had to be reclassified to the portfolio of financial assets not held for trading compulsorily measured at fair value through changes in profit and loss

Appendix II.4.3. Reclassifications to portfolio of financial instruments at fair value through changes in other consolidated profit and loss

The reclassifications included in this column of the above table correspond to:

The reclassification to the financial assets portfolio at fair value through changes in other consolidated profit and loss of certain debt securities which in the individual books of the Bank were classified in the held-to-maturity investments portfolio (net book value upon reclassification 69,441 thousand euros) and which economically hedged liabilities issued by the Bank and acquired by Crèdit Assegurances SAU, which, simultaneously, used these investments to hedge mathematical provisions mostly linked to defined benefit annuities. This change in the business model has been motivated by the Group's willingness to adapt its business model to the nature of these types of liabilities (where it is not unusual for these to produce early cancellations which oblige the divestment of investments that the Group used internally for its own internal hedges)

The reclassification of debt securities to the financial assets at fair value through changes in other consolidated profit and loss which in the individual books of the Bank were classified in the held-to-maturity investments portfolio (net book value upon reclassification 91,671 thousand euros). The grounds for this reclassification is rooted in the decision made by the COAPiR, framed within the definition of the business models for the debt securities portfolios, consistent with the willingness to further diversify the strategy of the portfolio with regard to duration and counterparty risk. This reclassification therefore seeks to enable the adjustment of the portfolio mix seeking to replace public debt securities with durations exceeding 6 years at the date of the first application with other public debt instruments of a shorter duration but with a higher credit risk and complying with the directives of the investment framework

The reclassification of the assets that were in the available-for-sale financial assets portfolio which, due to nomenclature differences between IAS 39 and IFRS 9, have now become part of the financial assets portfolio at fair value through changes in other consolidated profit and loss

Appendix II.4.4. Reclassifications to the financial instruments portfolio at depreciated cost

The reclassification of the assets that formed part of the “Loans and receivables” or “Held-to-maturity investments” portfolios which, due to nomenclature differences between IAS 39 and IFRS9, have now become part of the “Financial assets at depreciated cost” portfolio.

Appendix II.4.5. Reclassifications of financial liabilities

The reclassification included on Appendix II.2 corresponds mostly to the treasury stock which, despite the Group classifying them under IAS 39 as debt securities, due to their characteristics (which in practice do not differ significantly from deposits) the Group has decided to recognise them as deposits on a prospective basis.

Appendix II.4.6. Reclassifications between net equity accounts

Due to nomenclature differences between IAS 39 and IFRS 9, it has been necessary to reclassify the balances of the valuation adjustments that were included under the heading “Other cumulative consolidated profit and loss / Items that can be reclassified to profit and loss / Available-for-sale financial assets” to “Other cumulative consolidated profit and loss / Items that can be reclassified to profit and loss / Changes in the fair value of financial assets measured at fair value through changes in other consolidated profit and loss”.

Appendix II.5 Valuation adjustments and impairment

Appendix II.5.1. Classifications and valuation adjustments

All reclassifications have been detailed in Appendix II.4. “Reclassifications due to presentation” have resulted in valuation adjustments of certain financial assets:

The reclassification to financial assets at fair value through changes in other consolidated profit and loss of certain debt securities that the Group used to hedge mathematical provisions mostly linked to defined benefit life annuities (see Appendix II.4.3) has resulted in the recognition of latent gains at 01/01/2018 in the amount of 20,709 thousand euros, which net of the tax effect represent an increase of the item “Other cumulative consolidated profit and loss – Items that can be reclassified to profit and loss” of 18,638 thousand euros

The reclassification to financial assets at fair value through changes in other consolidated profit and loss of certain debt securities originating in the willingness to further diversify the strategy of the portfolio with regard to duration and counterparty risk (see Appendix II.4.3) has resulted in the recognition of latent gains at 01/01/2018 in the amount of 1,728 thousand euros, which net of the tax effect represent an increase of the item “Other cumulative consolidated profit and loss – Items that can be reclassified to profit and loss” of 1,555 thousand euros

The reclassification of equity instruments, which in spite of originally being in the available-for-sale financial assets portfolio under IAS 39, do not meet the conditions set by IFRS 9 to be classified as financial assets at fair value through changes in other consolidated profit and loss, and therefore, have been reclassified to financial assets not held for trading compulsorily measured at fair value through changes in profit and loss, has resulted in a reclassification of 2,923 thousand euros from the heading “Other cumulative consolidated profit and loss – Items that can be reclassified to profit and loss” to the heading “Other reserves”

All those equity instruments that have been classified under IFRS 9 in the “Financial assets at fair value through changes in other consolidated profit and loss” portfolio and which under IAS 39 are classified as “Available-for-sale financial assets” have resulted in the reclassification of 1,973 thousand euros from the heading “Other cumulative consolidated profit and loss – Items that can be reclassified to profit and loss” to “Other cumulative consolidated profit and loss – Items that cannot be reclassified to profit and loss”. This reclassification is based on the fact that contrary to that which is established in IAS 39, when a net equity instrument measured at fair value with changes in consolidated profit and loss is derecognised from the statement of financial position, the gain or loss is recognised in other cumulative consolidated profit and loss, it is not reclassified to the statement of financial position, but to a reserves item (see Note 2.1.3.)

Appendix II.5.2. Impairment adjustments

The measurement of the credit risk impairment by focusing on the expected loss (IFRS 9) compared to focusing on the incurred loss (IAS 39) has resulted in the variation of the credit risk provisions in the amount of:

- Increase of 32,099 thousand euros to hedge customer loans and advances
- Increase of 1,166 thousand euros to hedge commitments and guarantees granted
- Decrease of 661 thousand euros to hedge the debt securities portfolio

For further information on calculating the hedge due to credit risk impairment under IFRS 9, see Note 2.1 and Note 5.2.1.

Financial statements of Crèdit Andorrà Group

Mr Antoni Pintat Mas
Chairman

Mr Xavier Cornella Castell
Executive Director and
General Manager

Andorra la Vella, 31 March 2020

DUE DILIGENCE

The secretary (non-director) of the Board of Directors of CRÉDIT ANDORRÀ, SA declares that:

- The consolidated financial statements of the CREDIT ANDORRÀ GROUP for the year 2019, after verification by the auditors and subsequent approval by the General Meeting of Shareholders, have been duly formulated by means of an agreement adopted in the meeting of the Board of Directors of CRÉDIT ANDORRÀ, SA held by videoconference (in accordance with article 22 of the Articles of Association) on 31 March 2020, and at this meeting of the Board of Directors, all Directors voted in favour of formulating the consolidated financial statements of CREDIT ANDORRÀ GROUP for the financial year 2019; and that,
- Given the current exceptional circumstances, the consolidated financial statements of the CRÉDIT ANDORRÀ GROUP for the year 2019 have been signed only by the Chairman of the Board of Directors of CRÉDIT ANDORRÀ, SA, Mr Antoni PINTAT MAS, and by the Executive Director and Managing Director Mr Francesc Xavier CORNELLA CASTEL, in representation of the acceptance and compliance of the other Directors with respect to the aforementioned consolidated financial statements, who have also consented to the aforementioned signing procedure.

Andorra la Vella, 31 March 2020

Mr Àngel CADENA FALIP

Secretary (non-director) of the Board of Directors
CRÈDIT ANDORRÀ, SA

