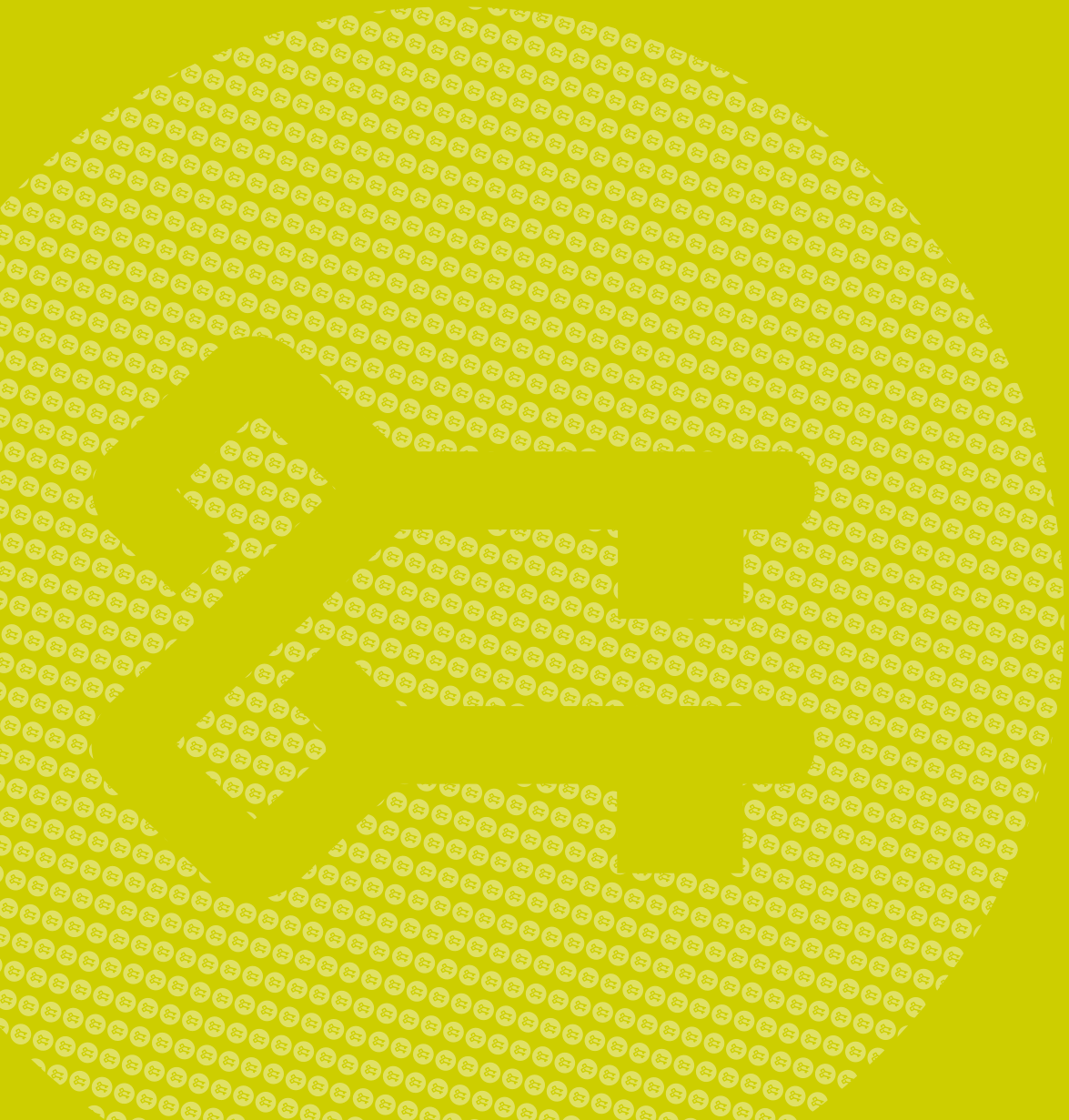
Crèdit Andorrà Financial Group

Financial statements | 2017



Introduction

After 2016, when world growth was at its lowest since the international financial crisis, 2017 saw steady, solid growth and a stronger, more synchronised recovery among the economies of different regions, which the IMF situated at 3.6% worldwide, thus reaffirming the global recovery.

In general terms, the world economy was characterised by a variety of factors. Firstly, in the United States, Donald Trump's victory in the American elections at the start of the year was particularly striking. After months of initially erratic behaviour in the US economy, 2.3% growth is now forecast, thanks to business investment and increased exports. Despite this, forecasts still show uncertainty due to the US government's economic policy.

With regard to emerging economies, there was revitalised growth in Brazil and Russia, which are no longer obstacles to global development, due largely to the stabilisation of raw material prices. For its part, China, thanks to price stability and job creation, now has positive prospects for growth of around 6.7% and remains the main driving force for the world economy.

With regard to the Eurozone, the victories of Emmanuel Macron and Angela Merkel guaranteed continuity in the development of the European Union and reshaped the uncertainty caused by brexit. A relaunch will focus on defence, migration and consolidation of the euro around the two European leaders: Germany and France.

Improvements in the labour markets and financial conditions, together with solid internal demand, internal consumption and investment, were the major levers for growth in the Eurozone.

In conclusion, the global financial outlook is good and it is hoped that confidence levels continue to be a stabilising factor in maintaining demand and investment.

In this context, Andorra's economy progressed favourably. The GDP for 2016 increased by 1.2%, with a general rise in almost all areas of business. For 2017, growth is estimated at around 2%, which represents a significant improvement in the Andorran economic situation. Furthermore, of particular note in the annual Fitch Ratings report is the positive view of Andorra's economic development.

The assessment was published in the first quarter of 2018. Fitch Ratings kept the country's rating at BBB with a stable outlook. A point worth stressing in this sixth rating is the reduction in public debt and an improvement in the diversification of tax financing and the country's growth dynamics.

For a further year, 2017 saw Andorra adapting to European and international regulations. In particular, this meant adjusting to the calendar established for implementing the Monetary Agreement, signed in 2010, which started the road to standardisation. Thus, with the resulting restructuring of the banking business model, a tax framework comparable with other OECD and EU countries has been consolidated. The European directive on automatic exchange of tax information with EU countries and a number of precepts, such as tax offences, were implemented that, despite the complexity of their implementation and application, ensured we obtained a good rating from Moneyval and prevented the EU from including Andorra on the blacklist of non-cooperating countries.

The impact of applying IFRS-EU, the written studies on solvency laws, the financial banking code, the SEPA and the deposit guarantee scheme have introduced European regulations for finance.

In short, a whole series of policies have been implemented to comply with the commitments made by Andorra over recent years, and which will result in a major transformation of the economy. The road towards transparency and standardisation is a political will and the route map has now been established. However, the phases and maintenance of the competitiveness of the financial sector as a tool for energising and supporting the Andorran economy need to be ensured.

Decisively opening up the country's economy in almost all sectors is one of the major challenges on which future institutional strategies are to be based. It is the epicentre of a transformation whose goal is an association agreement with Europe, with the incorporation of the four freedoms of circulation: goods, free provision of services, free circulation of people and free circulation of capital.

In this context of change and restructuring of the international financial system, Crèdit Andorrà, as the country's leading bank, continues to work hard in order to maintain the trust and reputation of the Group. The central pillars of our business are good governance and accountability, with a management style focused on the continuous improvement of the quality of our services and contributing through our work to promoting the Andorran economy.

We have won numerous international awards and qualifications, such as the awards from the Financial Times magazine *The Banker* for 'Bank of the Year Andorra 2017' and 'Best Private Bank Andorra 2017'; the 'Best Private Bank Andorra 2017' and 'Best CSR Bank Andorra 2017 awards from *Global Banking & Finance Review* and finally the 'Award for Innovation' for the launch of Merkaat, the first digital advisor in Andorra.

We were rated BBB, with a stable outlook, and a short-term rating F3 from the international agency Fitch Ratings. These rating reflects the bank's excellent capacity for consistently generating profits, despite the complexity of the environment and the impact of the new regulations, as well as its appropiate capitalisation. In terms of financial strength, we were also the only Andorran bank ranked in the Financial Times Top 100.

All these acknowledgements demonstrate the good work, progress and results obtained in a particularly relevant year for finance, as well as the consolidation of our national and international business and our work in social responsibility. All this encourages us to maintain our strong ties with the country, heading up initiatives that add value for our whole community.

The consolidated balance sheet of Crèdit Andorrà Group at 31 December 2017 show an increase in volumes over the previous financial year. Business volume reached 16.266 billion euros, assets under management were around 13.658 billion euros, while loan investment totalled 2.608 billion euros.

As for customers deposits reached 4.113 billion euros. The volume of securities deposits was 9.546 billion euros, 11% up on the previous year, a figure that proves our good market performance, excellent management and steady development in the expansion process to offset the reduction in the Andorran market.

With regard to the Group's results, operating income(1) was 198.9 million euros and the financial margin(2) was 59.3 million euros.

The Group had a solvency ratio of 16.15% and a liquidity ratio of 61.02%, both above the legally required minimums of 10% and 40%, respectively; the efficiency ratio, one of the first lines of defence in the results, reached 64.0%.

Finally, after taking into account all these effects, the Group's consolidated net profit stood at 50.1 million euros, 22.91% down on the previous year.

In conclusion, we have been able to maintain good results and consolidate our positions in a particularly complex year, in which financially we prepared ourselves for the final phase in the transformation of the business required by the new international context and the capitalisation requirements established by Basel.

(1) Total net operating profit/loss + share in profit or loss of investments in subsidiaries, joint ventures and associates.

(2) Total net operating profit/loss + share in profit or loss of investments in subsidiaries, joint ventures and associates, less Administration expenses - depreciation.

In this context, it is worth noting the effect on equity of the implementation in Andorra of the International Financial Reporting Standards (IFRS), approved by the EU on 1 January 2017. First of all, class E shares are now considered a financial liability, not a capital instrument. The Extraordinary General Shareholders' Meeting of Crèdit Andorrà on 3 March 2017 decided to acquire the class E shares in debt due to the purchase of the aforementioned shares at the price equivalent to their outstanding debt and turn the rest of the class E shares into class A shares if the holders so wanted.

Also of note was the impact on equity of value adjustments to certain financial, non-current and intangible assets. All of this means that equity stood at 421 million euros.

In corporate operations, mention should be made of our strengthened presence in Europe with the expansion of financial hub services we set up in Luxembourg with Banque Patrimoines Privés and Crèdit Andorrà Asset Management Luxembourg. This is a clear investment in boosting the role of the bank in this financial centre as a banking services platform aimed at institutional customers and in creating and managing investment vehicles. We also expanded the Banco Alcalá firm by opening an office in Valencia. In the Americas, we obtained authorisation from the Securities Markets Supervisor in Panama to operate as investment advisers through Private Investment Management Advisors Panamá, SA.

The current context of the international financial sector is determined by three global factors that will substantially change banks and they way they relate to customers. We refer here to: adaptation to increasingly demanding European regulations; the appearance of new players in the market, such as *fintech*; and the digital transformation involving the use of state-of-the-art technologies in a hyperconnected world. Faced with this new paradigm, Crèdit Andorrà Financial Grup aims to become a financial partner for our customers. Innovation must play a key role in the business of the future. It should serve to design new models that adapt to reality, which must meet regulatory requirements and provide efficient solutions for all customers, both traditional and new.

This reconsideration is transforming culture from the inside out. Two examples of how this has been achieved are the launch of Merkaat, the first digital advisor, and the implementation of the new CRM platform, Salesforce.

Investment in new technological platforms in recent years and the inclusion of more pioneering programming models has enabled the Bank to position itself as a leader in the offer of digital services for our customers. Technological platforms such as Salesforce, HTML5 Responsive, Apirest, Nuage, Visual Analytics and Pure Application, among others, have given the Bank the agility required to maintain its position as a benchmark for technology and security in the sector.

Our work in sustainability has also led to a highlevel commitment with the United Nations. As you know, we were the first Andorran bank to sign up to the Global Compact and commit to the United Nations Agenda 2030 to help achieve the Sustainable Development Goals (SMG).

As well as its global commitment to a better world and better future for everyone, in Andorra efforts are focussed on social issues. Overall this year we invested 2.8 million euros, through the Fundació Crèdit Andorrà and the bank itself, in initiatives focussing on society, promoting economic and social progress, knowledge, well-being, culture and the environment in our country.

In conclusion, Crèdit Andorrà continues to work on all fronts, business, internationalisation, sustainability, digitalisaiton and innovation, to offer the best possible service at all times and to continue being the bank we are, the bank of Andorra and the Andorran bank in the world.

The Board of Directors

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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:

Report on the audit of the consolidated financial statements

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, 2017, 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 31 December 2017, 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.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Emphasis of Matter

We draw attention to Note 1 to the consolidated financial statements which indicates that the accompanying consolidated financial statements for 2017 correspond to the first consolidated financial statements prepared by the Parent company´s directors in accordance with International Financial Reporting Standards adopted by the European Union that have been also adopted by Andorra (IFRS-Andorra), which generally require that the annual accounts include comparative information, that has been obtained by applying IFRS - EU effective at December 31, 2017. Up to now, the Group had prepared the consolidated financial statements in accordance with generally accepted accounting principles in Andorra. Therefore, the figures for the previous year differ from those contained in the consolidated financial statements for 2016. The differences resulting from the application of IFRS-EU to consolidated equity at January 1 and December 31, 2016 and to the consolidated financial performance for 2016 of the Group are set out in Note 1 to the accompanying consolidated financial statements. This matter does not modify our opinion.

Responsibility of the Directors and the Executive Commission of the Board of Directors 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 Executive Commission of the Board of Directors of Crèdit 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 wether consolidated financial statements of Crèdit Andorrà SA and the other companies which make up the Crèdit 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 circunstances, 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.

- 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, wether 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 Crèdit 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 Crèdit 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

29 March 2018

Financial statements 2017

Crèdit Andorrà Group

Crèdit Andorrà Financial Group

Consolidated financial statements 2017

Statement of financial position - Assets

Crèdit Andorrà Group

In thousand euros	Note	31/12/2017	31/12/2016 (*)	01/01/2016 (*)
Cash, cash balances in central banks and other deposits at sight	8	**251,265**	**325,221**	**562,271**
Held-for-trading financial assets	9	**5,547**	**40,509**	**41,898**
Derivatives		4,757	6,967	6,667
Equity instruments		572	-	-
Debt securities		218	33,542	35,231
Loans and advances		-	-	-
Financial assets at fair value through profit and loss	10	**201,545**	**235,134**	**477,803**
Equity instruments		186,782	205,227	477,803
Debt securities		5,684	4,516	-
Loans and advances		9,079	25,391	-
Available-for-sale financial assets	11	**270,128**	**333,822**	**1,410,457**
Equity instruments		41,971	35,284	22,775
Debt securities		228,157	298,538	1,387,682
Loans and advances		-	-	-
Loans and receivables	12	**2,647,418**	**2,733,717**	**2,843,834**
Debt securities		-	-	-
Loans and advances		2,647,418	2,733,717	2,843,834
Lending institutions		144,825	53,876	56,368
Customers		2,502,593	2,679,841	2,787,466
Held-to-maturity investments	13	**1,603,403**	**1,579,095**	**565,787**
Debt securities		1,603,403	1,579,095	565,787
Loans and advances		-	-	-
Derivatives - hedge accounting	14	-	-	-
Changes in fair value of hedged items of a portfolio with hedged interest-rate risk	14	**25,611**	**34,359**	**29,451**
Investments in joint ventures and associates	3	**31,491**	**26,696**	**35,167**
Assets used for insurance and reinsurance contracts	20	**2,760**	**2,706**	**1,875**
Tangible assets	15	**127,155**	**139,053**	**131,586**
Fixed assets		95,992	102,531	83,532
Real estate investments		31,163	36,522	48,054
Intangible assets	16	**112,717**	**106,953**	**103,558**
Goodwill		59,944	64,484	71,661
Other intangible assets		52,773	42,469	31,897
Tax assets	45	**25,694**	**31,613**	**25,312**
Current tax assets		230	2,365	2,496
Deferred tax assets		25,464	29,248	22,816
Other assets	17	**51,898**	**62,046**	**88,059**
Non-current assets and disposable groups of items classified as held for sale	18	**103,285**	**111,188**	**139,886**
Total assets		**5,459,917**	**5,762,112**	**6,456,944**

(*) Shown solely for purposes of comparison.

Entries 1 to 49 form an integral part of the statement of financial position at 31 December 2017.

Statement of financial position - Liabilities

Crèdit Andorrà Group

In thousand euros	Note	31/12/2017	31/12/2016 (*)	01/01/2016 (*)
Held-for-trading financial liabilities	9	**4,772**	**7,212**	**10,078**
Derivatives		4,772	7,212	10,078
Short positions		-	-	-
Deposits		-	-	-
Debt securities issued		-	-	-
Other financial liabilities		-	-	-
Financial liabilities at fair value through profit and loss	10	**123,374**	**123,094**	**45,377**
Deposits		-	-	-
Debt securities issued		123,374	123,094	45,377
Other financial liabilities		-	-	-
Financial liabilities at amortised cost	19	**4,493,974**	**4,889,126**	**5,482,995**
Deposits		4,304,715	4,503,848	5,048,033
Debt securities		93,859	56,286	73,893
Other financial liabilities		95,400	328,992	361,069
Derivatives - hedge accounting	14	**42,192**	**48,661**	**47,890**
Changes in fair value of hedged items of a portfolio with hedged interest-rate risk	14	-	-	-
Liabilities used for insurance and reinsurance contracts	20	**254,287**	**294,370**	**516,808**
Provisions	21	**62,305**	**64,228**	**55,173**
Pensions and other defined retirements benefits		44,390	45,112	46,490
Other long-term employee remunerations		6,020	7,595	-
Restructuring		-	1,709	-
Litigations and procedural issues for pending taxes		8,427	7,527	7,527
Commitments and guarantees granted		1,538	1,538	1,541
Other provisions		1,930	747	-385
Tax liabilities	45	**2,169**	**8,721**	**10,249**
Current tax liabilities		360	5,581	7,888
Deferred tax liabilities		1,809	3,140	2,361
Share capital refundable at sight		-	-	-
Other liabilities	23	**55,746**	**64,597**	**55,605**
Liabilities included in disposable groups of items classified as held for sale	18	-	-	-
Total liabilities		**5,038,819**	**5,500,009**	**6,224,175**

(*) Shown solely for purposes of comparison.

Entries 1 to 49 form an integral part of the statement of financial position at 31 December 2017.

Statement of financial position – Equity

Crèdit Andorrà Group

In thousand euros	Note	31/12/2017	31/12/2016 (*)	01/01/2016 (*)
Capital	24	**63,462**	**70,000**	**70,000**
Paid-up capital		63,462	70,000	70,000
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 accumulated comprehensive profit and loss	26	**4,972**	**8,319**	-
Items that will not be reclassified to profit and loss		906	778	-
Tangible assets		-	-	-
Intangible assets		-	-	-
Actuarial gains and losses in defined benefit pension plans		906	778	-
Non-current assets and disposable groups of items classified as held for sale		-	-	-
Holding in income and expenditure recognised in investments in subsidiaries, joint ventures and associates		-	-	-
Items that can be reclassified to profit and loss		4,066	7,541	-
Hedges of net investments in foreign business (effective portion)		-	-	-
Foreign currency conversion		-	-	-
Hedging derivatives. Cash flow hedges (effective portion)		-	-	-
Available-for-sale financial assets		4,066	7,541	-
Non-current assets and disposable groups of items classified as held for sale		-	-	-
Holding in income and expenditure recognised in investments in subsidiaries, joint ventures and associates		-	-	-
Retained earnings		-	-	-
Revaluation reserves		-	-	-
Other reserves	24	**293,721**	**151,029**	**99,024**
Accumulated reserves or losses in investments in subsidiaries, joint ventures and associates		53,505	43,039	31,098
Other		240,216	107,990	67,926
(-) Treasury shares		-	-	-
Profit and loss attributable to owners of the parent company	4	**50,194**	**31,532**	**72,005**
(-) Interim dividends		-	**-7,900**	**-20,000**
Minority interests (non-controlling interest)	27	**8,749**	**9,123**	**11,740**
Other accumulated comprehensive profit and loss		-	-	-
Other items		8,749	9,123	11,740
Total net equity		**421,098**	**262,103**	**232,769**
Total net equity and liabilities		**5,459,917**	**5,762,112**	**6,456,944**

(*) Shown solely for purposes of comparison.

Entries 1 to 49 form an integral part of the statement of financial position at 31 December 2017.

Statements of profit and loss

Crèdit Andorrà Group

In thousand euros	Note	2017	2016 (*)
Interest income	34	**70,243**	**83,643**
(Interest expenditure)	34	**-31,532**	**-37,992**
(Expenses for share capital refundable at sight)		-	-
Dividend income	35	**3,730**	**1,665**
Commission income	36	**158,678**	**161,762**
(Commission expenditure)	36	**-33,135**	**-31,426**
Profit or loss due to retirement of financial assets and liabilities not valued at fair value through profit and loss, net	37	**3,184**	**42,607**
Available-for-sale financial assets		3,177	42,607
Loans and accounts receivable		-	-
Held-to-maturity investments		-	-
Financial liabilities at amortised cost		7	-
Other		-	-
Profit or loss due to held-for-trading financial assets and liabilities, net	37	**3,768**	**8,068**
Profit or loss due to financial assets and liabilities at fair value through profit and loss, net	37	**-79**	**647**
Profit or loss resulting from hedge accounting, net	14	**1,115**	**134**
Exchange rate differences (profit or loss), net	37	**9,029**	**9,789**
Profit or loss due to retirement of non-financial assets, net		**172**	**-**
Other operating income and expenditure	38	**6,224**	**5,252**
Other income and expenditure from assets and liabilities used for insurance and reinsurance contracts	38	**4,192**	**-2,267**
Total net operating profit/loss		**195,589**	**241,882**

Statement of profit and loss (continued)

Crèdit Andorrà Group

In thousand euros	Note	2017	2016 (*)
Total net operating profit/loss		**195,589**	**241,882**
(Administrative expenditure)		**-127,330**	**-124,950**
(Personnel costs)	39	-71,901	-71,404
(Other administrative expenses)	40	-55,429	-53,546
(Amortisation)	41	**-12,264**	**-14,033**
(Fixed assets)		-5,344	-6,073
(Real estate investments)		-132	-650
(Other intangible assets)		-6,788	-7,310
(Provisions or reversal of provisions)	42	**-2,092**	**-8,058**
(Commitments and guarantees granted)		-	3
(Other provisions)		-2,092	-8,061
(Impairment or reversal of impairment of the value of financial assets not valued at fair value through profit and loss)	43	**-228**	**-18,902**
(Financial assets at cost)		-	-
(Available-for-sale financial assets)		38	-238
(Loans and accounts receivable)		-877	-18,722
(Held-to-maturity investments)		611	58
(Impairment or reversal of impairment of the value of investments in joint venture or associate businesses)		**-231**	**-424**
(Impairment or reversal of impairment of the value of non-financial assets)		**-**	**-17,983**
(Real estate investments)	15	-	-9,110
(Goodwill)	16	-	-8,873
(Other intangible assets)	16	-	-
(Other)		-	-
Negative goodwill recognised in the profit and loss		**-**	**-**
Share in profit or loss of investments in subsidiaries, joint ventures and associates	44	**3,398**	**3,323**
Profit or loss from non-current assets and disposable groups of items classified as held for sale inadmissible as discontinued operations	18	**-623**	**-31,934**
Pre-tax profit and loss from ongoing activities		**56,219**	**28,921**
(Income or expenditure for tax on profit from continued activities)	45	-5,660	2,971
Profit or loss after tax from ongoing activities		**50,559**	**31,892**
Profit or loss after taxes from uninterrupted activities		**-**	**-**
Profit or loss before taxes from uninterrupted activities		-	-
(Income or expenditure for taxes related to uninterrupted activities)		-	-
Profit/loss for the year		**50,559**	**31,892**
Attributable to minority interests (non-controlling interest)		365	360
Attributable to owners of the parent company		50,194	31,532
Earnings per share (basic) - in euros	4	**59.72**	**39.91**
Earnings per share (diluted) - in euros	4	**59.72**	**39.91**

(*) Shown solely for purposes of comparison.

Entries 1 to 49 form an integral part of the statement of profit and loss at 31 December 2017.

Statement of comprehensive income

Crèdit Andorrà Group

In thousand euros	Note	2017	2016 (*)
Profit/loss for the year		**50,559**	**31,892**
Other comprehensive profit and loss		**-3,347**	**8,319**
Items that will not be reclassified to profit or loss	26	128	778
Tangible assets		-	-
Intangible assets		-	-
Actuarial profits or losses in defined benefit pension plans		**142**	**864**
Non-current assets and disposable groups of items classified as held for sale		-	-
Holding in income and expenditure recognised in investments in subsidiaries, joint ventures and associates		-	-
Tax on earnings related to elements that will not be reclassified		**-14**	**-86**
Items that can be reclassified to profit and loss	26	-3,475	7,541
Hedges of net investments in foreign business (effective portion)		**-3,893**	**8,621**
Profit or loss posted to net equity		-716	51,228
Transferred to profit and loss		-3,177	-42,607
Other reclassifications		-	-
Foreign currency conversion		-	-
Profit or loss due to foreign exchange posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Hedging derivatives. Cash flow hedges (effective portion)		-	-
Profit or loss posted to net equity		-	-
Transferred to profit and loss		-	-
Transferred to initial book value of hedged items		-	-
Other reclassifications		-	-
Available-for-sale financial assets		-	-
Profit or loss posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Non-current assets and disposable groups of items classified as held for sale		-	-
Profit or loss posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Holding in income and expenditure recognised in investments in subsidiaries, joint ventures and associates		-	-
Tax on profit related to items that can be reclassified to profit or loss		**418**	**-1,080**
Total comprehensive income for the year		**47,212**	**40,211**
Attributable to minority interests (non-controlling interest)		**365**	**360**
Attributable to owners of the parent company		**46,847**	**39,851**

(*) Shown solely for purposes of comparison. Unaudited information

Entries 1 to 49 form an integral part of the statement of comprehensive income at 31 December 2017.

Statement of changes in equity

Crèdit Andorrà Group

31 December 2017

	Net equity attributable to parent entity							
	Equity					Minority interest		
In thousand euros	Capital (note 24.1)	Other accumulated comprehensive 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 accumulated comprehensive profit and loss (note 26)	Other items	Total equity amount
Balances at 1 January 2017	70,000	8,319	151,029	31,532	-7,900	-	9,123	262,103
Effects of error correction	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-
Adjusted balance at 1 January 2017	70,000	8,319	151,029	31,532	-7,900	-	9,123	262,103
Reductions in capital	-6,538	-	6,538	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to net equity (note 24.1.)	-	-	112,522	-	-	-	-	112,522
Transfers between net equity items	-	-	23,632	-31,532	7,900	-	-	-
Other increases or decreases in net equity (note 3)	-	-	-	-	-	-	-739	-739
Total comprehensive income for the year	-	-3,347	-	50,194	-	-	365	47,212
Balances at 31 December 2017	**63,462**	**4,972**	**293,721**	**50,194**	-	-	**8,749**	**421,098**

Statement of changes in equity (Continues)

Crèdit Andorrà Group

31 December 2016

	Net equity attributable to parent entity (*)							
	Equity					Minority interest		
In thousand euros	Capital (note 24.1)	Other accumulated comprehensive 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 accumulated comprehensive profit and loss (note 26)	Other items	Total equity amount
Balances at 1 January 2016	70,000	-	99,024	72,005	-20,000	-	11,740	232,769
Effects of error correction	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-
Adjusted balance at 1 January 2016	70,000		99,024	72,005	-20,000	-	11,740	232,769
Reductions in capital	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-7,900	-	-	-7,900
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to net equity	-	-	-	-	-	-	-	-
Transfers between net equity items	-	-	52,005	-72,005	20,000	-	-	-
Other increases or decreases in net equity (note 3)	-	-	-	-	-	-	-2,977	-2,977
Total comprehensive income for the year	-	8,319	-	31,532	-	-	360	40,211
Balances at 31 December 2016	**70,000**	**8,319**	**151,029**	**31,532**	**-7,900**	-	**9,123**	**262,103**

(*) Shown solely for purposes of comparison. Unaudited information

Entries 1 to 49 form an integral part of the statement of change in net equity for the financial year ending at 31 December 2017.

Statements of cash flow

Crèdit Andorrà Group

In thousand euros	Note	2017	2016 (*)
Cash flow of operating activities		**-38,620**	**-182,115**
Profit/loss for the year		**50,194**	**31,532**
Adjustments to obtain cash flow of operating activities		**12,301**	**24,017**
Amortisation		12,264	14,033
Other adjustments		37	9,984
Net increase/decrease of operating assets		**208,948**	**445,646**
Held-for-trading financial assets		34,962	1,389
Financial assets at fair value through profit and loss		33,510	242,669
Available-for-sale financial assets		63,770	84,432
Loans and accounts receivable		84,705	117,156
Other operating assets		-7,999	-
Net increase/decrease of operating liabilities		**-308,662**	**-682,074**
Held-for-trading financial liabilities		-2,440	-2,866
Financial liabilities at fair value through profit and loss		280	89,683
Financial liabilities at amortised cost		-246,831	-561,761
Other operating liabilities		-59,671	-207,130
Settlements/payments for gains tax		**-1,401**	**-1,236**
Cash flow of investment activities		**-4,077**	**-404**
Payments		**-24,946**	**-28,068**
Tangible assets	15	-3,738	-6,038
Intangible assets	16	-17,229	-20,245
Investments in joint ventures and associates		-	-
Subsidiary entities and other business units		-3,979	-
Non-current assets and liabilities classified as held for sale		-	-1,785
Held-to-maturity investments		-	-
Other payments related to investment activity		-	-
Collections		**20,869**	**27,664**
Tangible assets		3,315	79
Intangible assets		-	-
Investments in joint ventures and associates		-	-
Subsidiary entities and other business units		-	-
Non-current assets and liabilities classified as held for sale		17,554	27,585
Held-to-maturity investments		-	-
Other collections related to investment activity		-	-
Cash flow of financing activities		**-35,799**	**-54,074**
Payments		**-35,799**	**-54,074**
Dividends paid out	4	-	-10,000
Debt securities		-17,279	-44,074
Amortisation of the entity's own equity instruments		-	-
Acquisition of the entity's own equity instruments		-18,520	-
Other payments related to financing activity		-	-
Collections		**-**	**-**
Debt securities		-	-
Issue of the entity's own equity instruments		-	-
Disposal of the entity's own equity instruments		-	-
Other collections related to financing activity		-	-
Effects of the variations in exchange rate		**4,540**	**-457**
Net increase (decrease) of (A+B+C+D) cash and cash equivalents		**-73,956**	**-237,050**
Cash and cash equivalents at the start of the period		**325,221**	**562,271**
Cash and cash equivalents at the end of the period		**251,265**	**325,221**

(*) Shown solely for purposes of comparison. Unaudited information

Entries 1 to 49 form an integral part of the statement of cash flows of the financial year ending at 31 December 2017.

Notes to the financial statements

1. Introduction, presentation bases and other information

1.1. Introduction

Crèdit Andorrà SA (hereinafter, the Bank, Entity or Parent Entity), 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. However, at 11 April 2011, the Andorran National Institute of Finance (hereinafter, ANIF) 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 entity of the subsidiaries, set out in Note 3, which together with the Bank comprise the Crèdit Andorrà Group (hereinafter, the Group).

1.2. First-time application of the IFRS

The consolidated financial statements of the Group corresponding to the year ending at 31 December 2017, were the first prepared according to International Financial Reporting Standards adopted by the European Union (IFRS - EU), which were also adopted by Andorra (IFRS - Andorra) at the same time. With regards to the standards used in the preparation of the group's consolidated financial statements for the financial year of 2016 (prepared in compliance with the provisions of the Accounting Plan of the Andorran Financial System approved by the Government of Andorra at 19 January 2000), these standards involved significant changes in the subject of accounting criteria, and the valuation and presentation information forming part of the consolidated financial statements.

For further information on the impact of the first application of the IFRS-EU, please see note 1.4.

1.3. Basis of presentation

The Group's consolidated financial statements have been drawn up by the Bank's Board of Directors according to a regulatory framework for financial information applicable to the Group, established in Decree of 28 December, 2016, approving the accounting framework applicable to institutions operating within the Andorran financial system and firms of collective investment schemes subject to Andorran law, in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which have in turn been adopted by Andorra itself (IFRS-Andorra).

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 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 at 31 December 2017 are pending approval by their respective general shareholders' meetings. Nevertheless, the Bank's Board of Directors believes they will be approved without any changes.

At 23 June 2017, the Bank's General Shareholders' Meeting approved the consolidated and statements of profit and loss of the Bank corresponding to the financial year of 2016.

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.

1.3.1. Standards, amendments and interpretations that are mandatory for financial years starting from 1 January 2017.

The following are the most significant standards and interpretations for the Group, that were published by the IASB and came into effect from 1 January 2017: IFRS

- **IAS7 (amendment) "Disclosure initiative". An entity is obliged to reveal information that enables users to understand changes in the liabilities that arise during financial activity. This includes changes that arise from:**
    - Cash flows, such as provisions and reimbursement of financing.
    - Non-monetary changes such as acquisitions, sales and foreign exchange rate differences carried out.
- **IAS 12 (amendment): "Recognition of deferred tax assets for unrealised losses"**. Amendments to the IAS 12 clarify the requirements for recognition of deferred tax assets for unrealised losses. The amendments clarify the accounting treatment of the deferred tax when an asset is valued at fair value and this fair value is under the asset's tax base.It also clarifies other accounting aspects of deferred tax assets.

1.3.2. 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 are not yet in force; because their effective date is after the date of the consolidated financial statements, or they have not yet been adopted by the EU and/or the Principality of Andorra:

- Standards, amendments and interpretations that have not yet entered into application but that can be adopted in advance as they have been adopted by the EU (although not by the Principality of Andorra; see note 48.1):
    - Amendment to IFRS 4 "Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"" (mandatory application from 1 January 2018).

- IFRS 9 "Financial instruments" (mandatory application from 1 January 2018).
- IFRS 15 "Revenue from contracts with customers" (mandatory application from 1 January 2018).
- Amendment to IFRS 15 "Clarifications of IFRS 15 "Revenue from contracts with customers".
- IFRS 16 "Leases" (mandatory application from 1 January 2019).

- Standards, amendments and interpretations of existing standards that cannot be adopted in advance or have not been adopted by the EU:
  - Amendment to IFRS 10 and IAS 28 "Sale or contribution of assets between and investor and its associate or joint venture".
  - Amendment to IFRS 2 "Classification and measurement of share-based payments" (mandatory application from 1 January 2018).
  - Amendment to IAS 40 "Investment Property" (mandatory application from 1 January 2018).
  - Interpretation IFRIC 22 "Foreign currency transactions and advance consideration" (mandatory application from 1 January 2018).
  - IFRS 17 "Insurance Contracts" (mandatory application from 1 January 2021).
  - Interpretation IFRIC 23 "Uncertainty over income tax treatments" (mandatory application from 1 January 2019).
  - Amendment to IAS 9 "Investment Property" (mandatory application from 1 January 2019).
  - Amendment to IAS 28 "Investment Property" (mandatory application from 1 January 2019).

The group has decided not to exercise the option of advance application in cases where possible.

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

Amendment to IFRS 4 "Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts""

In September 2016 the IASB issued this amendment in response to queries arising from the different effective dates of IFRS 9 and the standard itself on insurance contracts, and added:

- focus on the optional overlapping that enables entities that issue contracts under the scope of IFRS 4 to reclassify, between the result for the period and other income and expenditure recognised for the period, an amount equal to the difference between the amount presented in the result of the period for financial assets designated applying IFRS 9, and the amount that would have been presented in the result of the period for these assets if the insurer had applied IAS 39;
- an optional temporary exemption of IFRS 9 for entity activities that are predominantly connected with insurance.

IFRS 9 "Financial instruments: classification and valuation"

Covers the classification, valuation and recognition of financial assets and liabilities The full version of IFRS 9 was published in July 2014 and replaces the guideline of IFRS 39 for the reclassification and valuation of financial assets.

IFRS 9 maintains but simplifies the mixed valuation model, and establishes three main valuation categories for financial assets: amortised cost, fair value through profit and loss, and fair value through other consolidated profit and loss. The classification base depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in net equity instruments are required to be valued at fair value through profit and loss, with the irrevocable option at the start to present the changes in fair value in another non-recyclable comprehensive profit and loss, provided that the instrument is not held for trading. If the equity instrument is held for trading, the changes in fair value are presented through profit and loss.

IFRS 9 defines a new model for losses due to value impairment by credit risk (the expected losses model), that replaces the uncorrected losses model of IAS 39 and will imply the recognition of impairment losses before it is already carried out with IAS 39.

IFRS 9 relaxes the requirements for the effectiveness of accounting hedges. Under IAS 39 hedging must be highly effective, both prospectively and retrospectively. IFRS 9 replaces this line and demands a financial relationship between the hedged item and the hedging instrument, and that the hedged ratio is the same as that really used by the entity for risk management. The documentation continues to be necessary although it is different to that drawn up under IAS 39.

Regarding financial liabilities, the classification categories proposed by IFRS 9 are similar to those already established in IAS 39, so there should be no significant differences, except for the requirement to register variation in the fair value related to the credit risk itself as an equity item, in the case of financial liabilities of the fair value option.

IFRS 15 "Revenue from contracts with customers"

This standard replaces the current IAS 11 "Construction Contracts" and IAS 18 "Revenue", as well as current interpretations on income (IFRIC 13 "Customer loyalty programmes", IFRIC 15 "Agreements for the construction of real estate", IFRIC 18 "Transfer of assets from customers" and SIC "Revenue – Barter transactions involving advertising services").

Under this standard the income is recognised when a customer obtains control of the sold service or asset, i.e. when it is capable of directing its use as well as obtaining profits from the assets or services. This IFRS includes a new guideline to determine whether or not the income must be recognised during a period of time or at a determined time. IFRS 15 requires comprehensive information both about the recognised income, as well as income expected to be recognised in the future in relation to existing contracts. Likewise, it requests qualitative and quantitative information on the meaningful judgment carried out by management in determining the recognised income, as well as changes in judgments.

Amendment to IFRS 15 "Clarifications of IFRS 15 "Revenue from contracts with customers".

The IASB has amended IFRS 15 with the aim of:

- Clarifying the guidelines for the identification of performance obligations, the accounting of intellectual property licenses and principal *versus* agent evaluation (presentation of net *vs* gross ordinary income).

- Including new illustrated examples and amendments for each of these areas of the guide.
- Providing additional practical resources related to the transition to the new standard.

These amendments do not change the fundamental principles of IFRS 15, although they do clarify some of the more complex aspects of the standard.

IRFS 16 "Leases"

This standard replaces the current standard IAS 17 "Leases", as well as the current interpretations of leases (IFRIC 4 "Determining whether an agreement contains a lease", SIC 15 "Operational leases — Incentives" and SIC 27 "Evaluation of the substance of transactions in the legal form of a lease").

IFRS 16 establishes the principles for the recognition, measurement, presentation and breakdown of leases. The objective of this standard is to ensure that lessees and lessors provide relevant information, in such a manner that it provides a true and fair image of these transactions. For the lessee, IFRS 16 proposes a unique model in which all leases are registered in the statement of financial position with a similar impact on current financial leases (amortisation of right to use and financial expenditure due to the amortised cost of the liability). However, for the lessor the proposal is to continue with the dual model, similar to the current IAS 17.

Amendment to IFRS 10 and IAS 28 "Sale or contributions 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 profit or loss when the non-monetary assets constitute a "business". If the assets do not comply with the definition of a business, the investor recognises the profit or loss in the same manner as other types of investments. The amendment will only apply when an investor sells or contributes to an associate or joint venture.

Amendment to IFRS 2 "Classification and measurement of share-based payments"

There are situations in which a share-based payment settled in cash is modified, and is cancelled and replaced by a new share-based payment settled in equity instruments, and the replacement date and fair value of the incentives for the replacement are different to the value recognised for the original incentives. Before issuing the amendment, there was diversity in the way in which entities posted these amendments to accounting.

By means of these amendments the IASB requires that a transaction with share-based payments settled with equity instruments is recognised in equity, to the extent to which the goods or services have been received on the date of the modification. This measurement will be taken by referring to the fair value on the modification date of the equity instruments granted.

The liability for the share-based payment settled originally in cash, is retired on the modification date, provided that it is considered settled when the entity grants the share-based payment that will be settled with equity instruments replacing the cash. This is so, because on the modification date the entity is no longer obliged to transfer cash (or other assets) to the counterpart. Any difference between the book value of the retired liability and the value of the equity recognised on the modification date will be immediately recognised in the profit and loss for the period.

Amendment to IAS 40 "Investment property"

This amendment, that is applied prospectively, clarifies the principles why transfers to or from the investment property are made, when and only when there is a change in use and this change involves the analysis of whether or not the property meets the definition for an investment property. This change in use must be demonstrated.

Interpretation IFRIC 22 "Foreign currency transactions and advance consideration"

This interpretation provides a clear guide on the exchange rate that must be used in transactions that involve advance consideration (paid or received) in a foreign currency, and the responsibility for information and estimates made.

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", that currently enables a wide variety of accounting practices. IFRS 17 will fundamentally change the accounting of all entities that issue insurance contracts and investment contracts with portions of discretionary participation.

The standard applies to annual financial periods starting 1 January 2021, and allows early application if IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments" are also applied. IFRS 17 is pending approval by the European Union.

IFRS IC 23 **"Uncertainty over income tax treatments"**

The interpretation provides requirements that add to those of IAS 12 "Income taxes" and specifies how to reflect uncertainty in income tax accounting. This interpretation clarifies how requirements are applied and the valuation of IAS 12 when there is uncertainty in its accounting treatment.

Amendment to IFRS 9 "Prepayment features with negative compensation"

The terms for instruments with prepayment features with negative compensation, where the creditor could be obliged to accept a prepayment amount that is substantially lower than the unpaid amounts of the principal and interests, were incompatible with the concept of *fair additional compensation* for the early termination of a contract according to IFRS 9. As a result, these instruments did not have contractual cash flows that were only payment of capital and interest, which meant they were accounted for at fair value through profit and loss. The amendment to IFRS 9 clarifies that a party can pay or receive fair compensation when terminating a contract early, which could allow these instruments to be valued at amortised cost or fair value through profit and loss.

Amendment **to IAS 28 "Sales or contributions of assets between an investor and its associate or joint venture".**

This modification with limited scope clarifies 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".

1.4. Comparing information

As indicated in note 1.2. the consolidated financial statements for the financial year of 2017 are the first formulated by the Group while applying the International Financial Reporting Standards adopted by the European Union (IFRS-EU), and that at 31 December 2017, coincide with the IFRS-Andorra, that require in general that the consolidated financial statements present comparative information. In this regard, along with

each heading and section of the statement of financial position, the statement of profit and loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows (consolidated and from the report), as well as data from the financial year of 2017, those corresponding to the previous year that have been restated through the application of the IFRS applicable at 31 December 2016, will also be presented for comparative purposes. In this regard, the statement of financial position corresponding to 1 January 2016 has also been restated for comparative purposes, as this is necessary in order to restate the statement of profit and loss of the financial year of 2016, and hence, the adjustments for first-time application of IFRS 1 have been posted to accounting while charged to reserves at 1 January 2016.

Consequently, the data corresponding to the financial year of 2016 presented in the consolidated financial statements of 2017 differs in the contents of the financial statement of the cited financial year that was drawn up according to the accounting standards and principals established in the Accounting Plan of the Andorran Financial System passed by the Andorran Government at 19 January 2000 and were approved by the General Shareholders' Meeting held at 23 June 2017.

In compliance with the requirements of IFRS 1, information considered relevant is included in Annexe II (an integral part of this note), with the aim of facilitating the comparison of the information presented in these consolidated financial statements, drawn up under IFRS-EU, and the financial statements for the financial year of 2016 that were formulated under the principles and standards established in the Accounting Plan of the Andorran Financial System.

This information includes:

- the conciliation of the statement of financial position (at start and close) and the statement of profit and loss of the previous year under the applicable principles and standards;
- the description of the options chosen by Crèdit Andorrà Group in the context of IFRS 1 "First-time adoption of International Financial Reporting Standards"; and
- the conceptual description of the main adjustments and reclassifications represented by the implementation of the IFRS-EU.

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

The preparation of the consolidated financial statements requires the use of relevant accounting estimates, the application of opinions and processes of estimation and hypothesis. In this respect, 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 (note 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 covering occupation, legal and fiscal contingencies (note 21).
- Estimates to calculate corporation tax and deferred fiscal assets and liabilities (note 45).

Although the estimates made by the Bank's directors at 31 December 2017 have been carried out according to the best available information to date, events that may take place in the future may require these to be modified in the next few years. This modification would be carried out prospectively, recognising the effects of the change in estimate in the corresponding statements of comprehensive income.

2. Accounting principles and policies, and valuation methods applied

In the creation of Crèdit Andorrà Group's consolidated financial statements corresponding to the financial year of 2017, the following accounting principles and policies and valuation criteria were applied.

2.1. Financial instruments

2.1.1. Classification of financial assets and liabilities

The financial assets are presented in the assets of the statement of financial position, and in the different categories into which they are classified for their management and valuation: "Held-for-trading financial assets", "Financial assets at fair value through profit and loss", "Available-for-sale financial assets", "Loans and receivables" and "Held-to-maturity investments", unless they must be presented as "Non-current assets and disposable groups of items classified as held for sale" or correspond to "Cash, cash balances in central banks and other deposits at sight ", "Changes in fair value of hedged items of a portfolio with interest-rate risk hedging" or "Derivatives - Hedge accounting", that are presented independently.

Meanwhile, financial liabilities are classified in the following categories: "Held-for-trading financial liabilities", "Financial liabilities at fair value through profit and loss", "Financial liabilities at amortised cost", unless they must be presented as "Liabilities included in disposable groups of items classified as held for sale" or correspond with "Cash, cash balances in central banks and other deposits at sight", "Changes in fair value of hedged items of a portfolio with interest-rate risk hedging" or "Derivatives - Hedge accounting", that are presented independently.

Held-for-trading financial assets and liabilities

This portfolio is mainly made up of financial assets and liabilities acquired or issued with the intention of selling them in the short term, or that form part of a financial instrument portfolio that are identified and managed together, for which there is evidence of recent actions aimed at obtaining short-term gains. Also held-for-trading financial liabilities are considered the short positions, as a result of asset sales temporarily acquired with non-optional purchase agreements or borrowed securities. Lastly, derivatives to assets and liabilities that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments, are considered as held-for-trading financial assets or liabilities.

Financial assets and liabilities at fair value through profit and loss

Financial instruments designated by the Group in its initial recognition will be included, where applicable, such as for example hybrid financial assets or liabilities that must be entirely valued by their fair value or with financial derivatives to reduce exposure to variations in fair value, or managed along with financial liabilities and derivatives with the aim of reducing exposure to interest rate risk.

In general, this category includes all financial assets and liabilities whose classification significantly reduces or eliminates incoherences in their recognition or valuation (accounting asymmetries). The financial instruments of this category should be permanently subject to an integrated and consistent risk and results measurement, management and control system that enables checking that the risk is effectively reduced. The financial assets and liabilities can only be included in this portfolio on the acquisition date or when they originate.

Available-for-sale financial assets

These consist of representative values of debt and equity instruments that have not been classified into other categories.

Loans and receivables

This includes the financing granted to third parties originating in typical credit and loan activities carried out by the Group, debt incurred with the Group by asset purchasers and users of the services it provides, and debt securities that do not have a quoted price in an active market.

Held-to-maturity financial assets

This records the representative values of debt negotiated in an active market, or those for which a fair value can be estimated reliably above all without being quoted on an active market, with fixed maturity and determined or determinable cash flow amounts, with demonstrated capacity and intention to be held in portfolio until they reach maturity.

Financial liabilities at amortised 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 credit institutions, regardless of the type of implementation or maturity dates.

2.1.2. 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, 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.

Except in trading derivatives, all variations in the value of financial instruments due to accrual of interests and similar items are recorded in the statement of profit and loss for the financial year in which the accrual occurred. Dividends received from other companies are recorded in the statement of profit and loss for the financial year when 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 in "Held-for-trading financial liabilities", "Financial assets at fair value through profit or loss", "Held-for-trading financial liabilities" and "Financial liabilities at fair value through profit or loss" are initially valued by their fair value, and subsequently any arising variations are recorded with a balancing entry in the profit and loss.

- For their part, financial instruments included in "Available-for-sale financial assets" are initially valued by their fair value and subsequently any arising variations, net of the related tax effect, are recorded with a balancing entry in section "Other accumulated comprehensive profit and loss" of the net equity.

- The derivatives are recorded in the statement of financial position at their fair value. At the time of its contract 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 statement of profit and loss for derivatives, classified in levels 1 and 2 of the fair value hierarchy.

  Subsequent changes to the fair value of derivatives are recorded in the statement of profit and loss, except in the case of cash flow hedge accounting derivatives, which are recorded in section "Other accumulated comprehensive profit or loss" of net equity.

  Derivatives embedded in other financial instruments or other host contracts are recorded separately as derivatives when their risk and characteristics are not closely related to those of the instrument or main contract, and provided that the embedded derivative can be provided with a reliable fair value independently.

  Financial instruments included in the portfolio of "Loans and receivables" and "Financial liabilities at amortised cost" are valued at their amortised cost. The amortised 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 maturity amount. Furthermore, the amortised cost is reduced by the corrected value amount motivated by the impairment experienced by the assets.

  The effective interest rate is the discount rate that exactly matches the net book value of a financial instrument to 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 following review of the referenced interest rate.

2.2. Accounting hedges

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

When the Group designates an operation such as account hedging, it does so from moment the operation or instrument is included in the said hedging, and the operation is documented according to current standards. The documentation for hedging operations clearly identifies the hedged instrument(s) and the hedging instrument(s), as well as the type of risk they intend to hedge, 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 results of the hedged item.

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

- The effectiveness of hedging is found within 80-125%.

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

$$80\% \geq \frac{(Variation\ PV + monthly\ reconciliations)\ of\ hedged\ items}{(Variation\ PV + monthly\ reconciliations)\ of\ hedged\ items} \leq 125\%$$

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

  Reconciliations: operation flows already settled.

- The evaluation is carried out at least each time the entity prepares its annual financial statements.

Hedge accounting operations carried out by the group are entirely fair value hedges, that hedge exposure to the variation in fair value of financial assets and liabilities or firm commitments not yet recognised, or an identified portion of said assets, liabilities or firm commitments attributable to interest rate risk and always those affecting the financial result.

Furthermore, the Group hedges interest rate risk of a determined amount of assets sensitive to interest rate, that form part of the set of instruments of 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 statement of profit and loss. 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 in headings "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 adjustment previously recorded to the hedged item are entered into the statement of profit and loss using the effective interest method, resulting in the date of discontinuation of hedge accounting.

In an individualised manner, the Group hedges the market risk associated with derivatives 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 assets

At 31 December 2017 and 2016, except for the purpose of the first-time application of International Financial Reporting Standards (see note 1.4) there are no financial assets that have been reclassified between portfolios.

2.4. Assets that guarantee financing operations (Asset Encumbrance)

See note 5.3.2.

2.5. Offset of financial assets and liabilities

The financial assets and liabilities will be compensated 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 carried out in one single settlement process.

At 31 December 2017 and 2016, the Group does not report any operation presented for its 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 debt or grant any credit enhancement to the new holders, among others - this 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, stocklending 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, that is subsequently measured at amortised 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, to the amount equal to its exposure to any value changes it could experience, and recognises a liability associated with the transferred financial asset. The net amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the asset is measured by amortised cost, or fair value of the retained rights and obligations, if the transferred asset is measured by its fair value.

At 31 December 2017 and 2016, 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 securities 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 the 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 guarantee 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, they are recognised by their fair value plus transaction costs, understood as the premium received plus the current value of future cash flows, in the assets section "Loans and receivables" with an offset entry in section "Financial liabilities at amortised cost - Other financial liabilities". The fair value changes of contracts are posted as financial income in the profit and loss.

The portfolios of financial guarantees and guarantee contracts, regardless of the owner, instrumentation or other circumstances, are analysed periodically to determined 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 amortised cost are used, as mentioned in note 5.2.1.1.

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

In the event of it being necessary to constitute a specific provision for financial guarantee contracts, the corresponding commissions pending accrual are reclassified from section "Financial liabilities at amortised cost - Other financial liabilities" to section "Provisions – Commitments and guarantees granted".

2.7.2 Financial securities 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 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.

Generally speaking, the book value adjustment of financial instruments due to their impairment is carried out in heading "Impairment or reversal of impairment of the value of financial assets not valued at fair value through profit and loss" of the statement of profit and loss 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 statement of profit and loss for the financial period in which the impairment was removed or reduced.

2.8.1. Debt instruments valued at their amortised cost

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

- **Normal risk**: covers all operations that do not meet the requirements to be classified in other categories.

- **Normal risk with special supervision**: includes all operations that, without meeting the criteria to be classified individually as doubtful or failed risk, present current weaknesses (or foreseeable in the future) that could involve the Group assuming losses that are greater than those of other similar operations classified as normal. These operations are once again classified as normal risk, when the identified signs and/or weaknesses that warranted their classification as special supervision disappear. Otherwise, if these signs and/or weaknesses are confirmed, the operations become classified as doubtful risk.

- **Doubtful risk**

  Due to customer arrears: consists of the total amount of debt instruments, regardless of who the holder is or the guarantee, that have amounts due on principal, interest or any other cost agreed by contract, with seasoning of over 90 days, unless they involve write-offs. This category also includes the guarantees granted in which the debtor has defaulted.

  Default in operations in which all holders are carrying personal risk criteria will also be classified as doubtful risk. That carried by personal risk is applied to a borrower when operations with amounts that are 90 days overdue are greater than 20% of the amounts receivable.

  Operations for which the causes that motivated their classification as doubtful risk according to the provisions of the previous paragraphs disappear as a result of collecting part of the overdue amounts and for which the holder has no amounts more than 90 days overdue on other operations on the date of reclassification to the normal risk category are reclassified as normal.

  For reasons other than customer default: consists of debt instruments, overdue or otherwise, that without meeting the criteria for classification in the failed or doubtful categories due to customer default, present reasonable doubts regarding their full repayment of principal and interest, according to the terms agreed in the contract, as well as the off-balance sheet exposures that are not classified as doubtful as the arrearage of the default holder is probable and recovery doubtful.

  Among others, this category includes operations of holders who, after individual review, are considered to be in situations of solvency impairment.

  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 for which the Group has decided to legally claim their recovery, even though they are guaranteed, as well as operations for which the debtor has raised a dispute and collection depends on the resolution of said dispute.

- Operations whose holders have declared or are to declare bankruptcy without a winding up petition.
- Guarantees granted to those who have declared bankruptcy due to which they have started or have to start winding up proceedings, or suffer noticeable and irrecoverable impairment to their solvency, although the guarantees' beneficiaries have not claimed payment.
- Refinancing or restructuring operations to which the classification of doubtful risk corresponds (see note 5.2.1.1), including those that after a doubtful state for the trial period are refinanced or restructured or have amounts overdue by more than 30 days.

- **Failed risk:** this category classifies the debt instruments (mature or otherwise), that after individualised analysis are considered to have remote possibilities of recovery and are retired from assets, notwithstanding the actions that the Group may carry out while trying the achieve their collection until its rights have definitively expired, be it by limitation, write-off or other causes.

The Group calculates the amount necessary to cover the risk attributable to the holder provided that this risk has not been transferred to failure. The calculated coverage 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, for debt instruments the risk amount is the gross book value, and for off-balance sheet exposures it is the estimate of the 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 the calling of these guarantees, minus the acquisition and sales cost of the guarantee, regardless of whether or not the calling of these guarantees is probable.

According to applicable standards, the hedge calculation method is determined according to whether the credited party is individually significant, along with its accounting classification. For creditors considered individually significant (see the causes identified in the following paragraph), the specific hedge of operations is estimated on an individual basis, and the rest are subject to group treatment.

Based on credit risk management and monitoring criteria for the financial year of 2017, the group considers those who meet the following conditions as individually relevant/significant credited parties:

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

Although not required by IAS 39, it should be noted that Crèdit Andorrà also applies a numeric threshold to operations without objective evidence of impairment (doubtful), with regards to being eligible for analysis using group 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 therefore they do not comply with the condition of consistency which is the basis for carrying out the group analysis of a segment.

Additionally, it should be noted that the Credit Department has the power to decide whether an operation or group of operations is included in the population subject to individual analysis, even if a priori it meets the

guidelines set out by the Group to be eligible for the group-based calculation. This relies on the fact that the Credit Department holds the information needed to determine whether a credited party or operation has specific characteristics, to make its behaviour (in terms of credit risk recovery and monitoring) inconsistent with the others making up the segment to which it belongs (product or internal rating).

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

2.8.2. Debt securities classified as available for sale

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 originates from their impairment, they are no longer presented in the net equity section "Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss – Available-for-sale financial assets" and the amount considered as the accumulated impairment to-date is recorded in the statement of profit and loss. In the event of subsequent recovery of all or part of the impairment losses, this amount is recognised in the statement of profit and loss for the period in which the recovery arose.

2.8.3. Equity instruments classified as available for sale

When there is objective evidence of impairment, such as a 40% decrease in fair value or a situation of continuous loss for a period exceeding 18 months, the unrealised gains are recognised following the recording criteria for impairment applied to debt securities classified as available for sale, except for the fact that any recovery of said losses is recognised in the net equity section "Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss – Available-for-sale financial assets".

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 holder individually in its quotation, to determine if it is a percentage that is recoverable by sale in the market. These considerations can lead to the existence of different thresholds for different holders 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 for "Other accumulated comprehensive profit and loss" due to cash flow hedges, that 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 profit and loss of the period in which they occur, and directly reduce the instrument's cost.

2.9. Operations in foreign currency

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, while applying the spot exchange rate between the functional and the foreign currencies.

Monetary items in foreign currency, including unmatured foreign exchange purchase and sale transactions considered as hedges, are converted to euro using the exchange rate of the day on which they occur, or in its absence using the average exchange rate for the period. The non-monetary items valued at historic cost are converted into euros, by applying the exchange rate of the acquisition date, and non-monetary items valued at fair value are converted using the exchange rate of the date on which the fair value was determined.

Unmatured, on time foreign exchange purchase and sale transactions not considered as hedges are valued at the year-end exchange rate on the forward currency market.

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

	2017	2016
US dollar	1.1993	1.0541
Swiss franc	1.1702	1.0739
Pound sterling	0.8872	0.8562
Japanese yen	135.01	123.4
Canadian dollar	1.5039	1.4188

The exchange-rate differences arising when converting balances from foreign currency to the Group's functional currency are registered, as a general rule, in the statement of profit and loss in chapter "Exchange differences (profit or loss), net". However, the exchange-rate differences arising in variation in value of non-monetary items are recorded in the net equity section "Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss – Foreign currency conversion" of the statement of profit and loss, until the moment they are realised, while exchange-rate differences in financial instruments classified at fair value through profit and loss are recorded in the statement of profit and loss without distinguishing them from other variations in their fair value.

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

- The subsidiaries' financial statements are converted into the Group's presentation currency. The conversion is carried out by applying the exchange rate used to convert balances into foreign currency, except for income and expenditure, which is converted using the average exchange rate of the period.

- The resulting exchange-rate difference is recorded in the net equity section "Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss – 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 statement of profit and loss.

2.10. Recognition of income and expenditure

The most significant criteria employed by the Group when recognising its income and expenditure are summarised as follows.

2.10.1. Income and expenditure for interest, dividends and similar items

The income and expenditure for interest and similar items are recognised for accounting purposes according to their accrual period, by applying the effective interest rate method, irrespective of the monetary or financial flow from which they are derived. Interest accrued by debtors classified as doubtful is credited to profit and loss at the moment of collection, which is an exception to the general criteria.

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

2.10.2. Commissions

Recording income and expenditure under the concept of commissions in the statement of profit and loss differs according to their nature.

- Financial commissions, for example the commissions for opening loans and credit, form part of the overall performance or effective cost of a financial operation and are recognised in the same heading as financial costs or products, i.e. "Interest income" and "Interest expenditure". Commissions collected in advance are entered into profit and loss during the operation's life, except when they are offset directly related costs.

- For financial instruments valued at fair value through profit and loss, the commission amount is recorded immediately in the statement of profit and loss.

- Non-financial commissions derived from the provision of services are recorded in chapters "Commission income" and "Commission expenditure", throughout the period of provision of services, except for those corresponding to a singular event that is accrued the moment it arises.

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

The 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 commissions accrued during the financial year for this activity are recorded in chapter "Commission income" of the financial statement.

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 commission is received for management/advice.

2.12. Employee benefits

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

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

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 provided services are recorded in section "Administrative expenditure – Personnel costs" of the statement of profit and loss.

2.12.2. Post-employment benefits

All benefits assumed by the Group with its employees that will be settled after ending the employee's working relationship with the group. They 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

The 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 could not make the remunerations to employees related to the services provided in the current financial year and previous years. The contributions made under this concept in each financial year are recorded in section "Administrative expenditure – Personnel costs" of the statement of profit and loss.

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

2.12.2.2. Defined benefit schemes

The current value of the defined post-employment benefit obligations, net of the fair value of the plan assets (see notes 21 and 22) are recorded in section "Provisions - Pensions and other defined post-employment benefits" in the liabilities of the statement of financial position.

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 obligations of the plan or the Group,

related to the post-employment benefits, or serve to return the 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 assets and liabilities of Crèdit Assegurances SAU are incorporated into the consolidation process, which includes the mathematical provisions of the contracted policies, by which the amount recorded in chapter "Other assets - Insurance contracts linked to pensions" is deleted in the consolidation process, and the same amount is subtracted from the heading "Liabilities covered by insurance or reinsurance contracts".

The post-employment benefits are recognised as follows:

- The cost of the services is recognised in the profit and loss, and includes the following items:
  - The cost of the services of the current period, understood as the increase in current value of the obligations that originate from services provided to employees during the financial year, are recognised in section "Administrative expenditure - Personnel costs".
  - The cost of past services, originating in modifications made to already existing post-employment benefits or the introduction of new benefits, as well as the cost of reductions, is recognised in chapter "Provisions or reversal of provisions".
  - Any profit or loss arising from the settlement of the plan is recorded in the heading "Provisions or reversal of provisions".
- The net interest on the net liability/(asset) of defined provision post-employment benefits, understood as the change during the financial year in the net liability/(asset) for defined benefits that arise over time, is recognised in headings "Interest expenditure", or "Interest income" in the case of an income, of the statement of profit and loss.
- The revaluation of the net liability/(asset) of defined provision post-employment benefits is recognised in the heading "Other accumulated comprehensive profit and loss" of the net equity.
  - Actuarial profit and loss generated during the financial year, due to the difference between forecast actuarial hypotheses and reality, and in the changes in the actuarial hypotheses used.
  - The performance of plan assets, excluding the amounts included in the net interest on liability/(asset) for defined provision post-employment benefits.
  - Any change in the effects of the asset limit, excluding the amounts included in the net interest on liability/(asset) for defined provision 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 provision post-employment plans, with the exception by which actuarial profit and loss are recognised in chapter "Provisions or the reversal of provisions" of the statement of profit and loss.

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 expenditure 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 payment of the severance pay is recognised. These amounts are recorded as a provision in section " Provisions - Other long-term employee remunerations" in liabilities 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 December 29 on Corporate Tax (published in the Official Gazette of the Principality of Andorra, BOPA, number 80 at 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 BOPA and is applicable to taxation periods starting on 1 January 2012.

The expenditure for tax on profits is considered an expenditure for the financial year and recognised in profit and loss, 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 expenditure 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 in heading "Tax assets" in assets of the statement of financial position and are displayed separated into current, by amounts to be recovered in the coming 12 months, and deferred, by amounts to be recovered in subsequent financial years.

In the same manner, the tax liabilities are recorded in heading "Tax liabilities" in liabilities 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 12 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 reverse 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 remain valid, and if necessary is adjusted according to the estimates made.

2.13.2. General indirect tax

On 21 June 2012, Law 11/2012 was published on general indirect taxation, entering into force at 1 January 2013. In its repealing provision, this law, 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 Law 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 Law 10/2014, amending Law 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. This special regime establishes a maximum annual tax deduction of 10% of the quotas accrued for any activity-related tax limit, subject to but not considering operations carried out with fixed assets.

For accounting purposes, the Group records temporary amounts corresponding to the indirect general tax payable in assets 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 "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, Law 94/2010 was passed on the taxation of income of non-residents for fiscal purposes, levied on income from economic activities carried out 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 fiscal purposes until effectively settled with the corresponding body in the "Tax assets - Current tax assets" section of the assets of the statement of financial position.

2.13.4. Law 5/2014, 24 April on Personal Income Tax

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

This law is a cornerstone of the process of financially opening the Principality of Andorra, insofar as it involves the creation of a personal income tax comparable to that existing in other neighbouring countries, the European Union and 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 liabilities section of the statement of financial position under "Tax liabilities - Current tax liabilities".

2.14. Tangible assets

This includes the amount of properties, 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: "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 section "Real estate investments" records assets maintained to be leased out under an operating lease or to make a capital gain via their sale.

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

The amortisation 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 amortised as it is estimated to have an indefinite life span.

The amortisation charge for tangible assets is recognised in the heading "Amortisation" of the statement of profit and loss, and is basically equivalent to the following amortisation 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

At the close of each financial year, the Group analyses if there are any indications that the net value of items in its tangible assets exceed their corresponding recoverable amount, understood as the greatest amount between the necessary fair value minus the cost of sale and its value in use.

If it is determined that there are such indications, an impairment test is carried out to verify whether an impairment loss needs to be recognised, in which case it is recognised with a charge to section "Net impairment or reversal of impairment of the value of financial assets" of the statement of profit and loss, and the book value of the assets is reduced to its recoverable amount.

After the impairment loss is recognised, future charges under the concept of amortisation 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 amortisation. Under no circumstances may the reversal of an asset impairment loss not 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 when indications make it advisable, the estimated useful life of fixed asset items are reviewed and, if necessary, the allocations are adjusted under the concept of amortisation in the statement of profit and loss of future financial years.

The expenditure for preservation and maintenance is charged to the heading "Administrative expenditure - Other administrative expenditure" of the statement of profit and loss. Likewise, the operating expenses of real estate investments are recorded in the heading "Other operating income" of the statement of profit and loss, whereas the associated operating expenditure is recorded in the heading "Other operating expenditure".

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

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 the 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 the prior investments in the equity of the acquired business and the amount of the external partners.
- The net fair value of the acquired identified assets minus the assumed liabilities.

Goodwill is recorded in the section "Intangible assets - Goodwill" and under no circumstances is it amortised.

At the close of each financial year, or in the event of indications of impairment, an estimate is carried out 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 the section "Impairment or reversal of impairment of the value of non-financial assets - Goodwill" of the statement of profit and loss. 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 programmes, among other items.

They have an indefinite useful life when, based on the analysis carried out 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 amortised. However, at the close of each financial year, 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 amortised based on this basis, applying criteria similar to those used for the amortisation of tangible assets.

The amortisation expenditure for these assets is recognised in the heading "Amortisation" of the statement of profit and loss, and is basically equivalent to the following amortisation 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 years

Losses arising in the value recorded for these assets, either for indefinite or definite useful lives, are recorded for accounting purposes with an offsetting entry in section "Impairment or reversal of impairment of the value of non-financial assets - Other intangible assets" of the statement of profit and loss. 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 programmes developed by the same entity

IT programmes developed internally are recognised as intangible assets when, among other requirements, the Group has the capacity to use or sell them, and furthermore, their capacity to generate future financial profit is identifiable.

Expenditure incurred during the research phase is directly recognised in the statement of profit and loss 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 it intends to sell (discontinued operations), whose sale 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, by 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 sales experience 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 reference value of the market value awarded in appraisals carried out by independent experts at the time of the allocation or reception. 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 statement of profit and loss.

To do so, the Group updates the reference valuation that serves 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 carried out by independent experts with a maximum antiquity of 2 years. With regard to assets appearing in the statement of financial position at 31 December 2017, 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 carried out by professionals that are independent of the Group and with sufficient staff and technical means to carry out the valuations.

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

In this regard, the valuation methods are considered suitable for the purpose of this valuation. To be precise, the main valuation methods used by the independent experts with which the Group works would be:

- **Static residual approach**. To determine the appraisal value, the value of exhausting the development potential of the land/plot is valued while adding, where applicable, the amount expected to be obtained from any alternative use of the land/plot that is planned for development, considering its associated cost and a correcting factor (if necessary), as well as the commissions of the promoting company (consistent with the requirement of Order ECO/805/2003).

- **Comparison method**. The qualities and characteristics of the property susceptible to determination in the valuation are established. Based on this, a comparable market study is carried out to establish the market price. Then 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 it would cost to develop the land/plot, after which additional costs are added (without considering promotional profits) and the depreciation is subtracted (consistent with the requirement of Order ECO/805/2003).

- **Combined method**. This method is a combination of the cost method (consistent with the requirement of Order ECO/805/2003) and the comparison method (consistent with the requirement of Order ECO/805/2003):

  - A qualitative analysis of the property is carried out, 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 property and the cost to rehabilitate 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 amortised while they remain in this category.

The impairment losses of an asset, or disposal group, are recognised in heading "Profit (loss) due to retirement of non-current assets for sale inadmissible as discontinued operations" of the statement of profit and loss. 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 statement of profit and loss, until an amount equal to the previously recognised impairment loss is reached.

2.17. Leases

2.17.1. 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 where the Group intervenes as the lessor for the property, it is recorded as granted financing in the heading "Loans and receivables" in the statement of financial position assets, to 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.

When the Group acts as a lessee, the cost of the leased assets are recorded in the section corresponding to the asset in the statement of financial position depending on the nature of the property, and simultaneously, a liability for the same amount or the sum of the current values of the amounts due as payment to the lessor plus, if necessary, the price of exercising the purchase option, is recorded.

These assets are amortised using the same criteria as those used for the remaining privately used tangible assets.

Both the financial income when acting as a lessor and financial expenditure when acting as a lessee are recorded in the statement of profit and loss in the sections "Interest income" or "Interest expenditure", respectively.

At 31 December 2016 and 2017 the Group had no lease contracts, as lessor or lessee, that meet the conditions to be considered financial leases.

2.17.2. 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.

In operations where the Group acts as a lessor, the acquisition cost of leased property are recorded in the section "Tangible assets" of the statement of financial position. Assets are amortised using the same criteria as those used for privately used tangible assets, and the revenue corresponding to these contracts is recognised in "Other operating income" of the statement of profit and loss.

When the Group acts as lessee, the expenditure of these contracts are recorded in the section "Administrative expenditure - Other administrative expenditure" of the statement of profit and loss.

2.17.3. Sales transactions with subsequent leasing

In asset sales at fair value with subsequent leasing under an operating lease, the financial results generated from the operation are immediately recognised in profit and loss. In the event of the sale being made at a price below the fair value, the results will also be immediately recognised in profit and loss, except if the loss is cleared by future lease payments below market price; in this case it will be differed and entered in proportion to the instalments paid during the period in which the asset is expected to be used. Otherwise, if the sale price is greater than the fair value, the excess is deferred and entered in the statement of profit and loss during the period in which the asset is expected to be used.

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. The sale price was set at 85.8 million euros (after indirect taxes) and the Group made capital gains of 39.8 million euros, having discounted the expenses incurred and corresponding taxes. However, during June 2016, for reasons unrelated to the initial sale, which have in no way reversed the original operation, the Group proceeded to buy two of the properties that were originally included in the operation at market value at the time of purchase, which explains the 21.6 million euros total of registered working fixed assets shown in the movement of note 15.

Classification as a sale and subsequent lease under an operating lease of the operation described in the previous paragraph was carried out on the basis of a thorough and full analysis of the conditions surrounding the operation and applicable standards, regarding which a short description has been included in this section. Some of the relevant operating characteristics for this analysis are as follows: (1) the transfer of ownership was carried out effectively; (2) the Group did not retain the risk or benefits inherent to the ownership of the properties (neither directly or indirectly through financing); (3) the Group did not maintain any type of control or involvement in the properties beyond its rights and obligations as a lessee; (4) there is no repurchase obligation or expectation on the part of the Group; (5) the lease period is clearly shorter than the financial life of the property; (6) at the start of the contract the current value of lease payments, without considering contingents, was not equivalent to the fair value of the leased properties, and (7) the leased asset has no specific nature, among others.

2.18. Contingent assets

Contingent assets arise from unexpected or unplanned events that give rise to the possibility of an inflowing financial profit. Contingent assets are not subject to recognition in the statement of financial position and in this manner an income that may never come about is not recorded.

Contingent assets are subject to continued evaluation with the aim of ensuring that their development is suitably reflected in the financial statements. When the inflow 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 inflow of financial profit becomes probable, this is added to the notes on the corresponding contingent asset.

2.19. Contingent liabilities and provisions

Provisions cover obligations present at the date these financial statements are drawn up, arising from past events from which equity damage may have been derived and its occurrence considered probable; they are specific in nature but uncertain regarding the amount and/or moment of cancellation.

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 statement of financial position liabilities according to hedged obligations, including pension funds and similar obligations, provisions for taxes, and commitments and guarantees granted.

The provisions, quantified considering the best information available on the consequences of the event causing to 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 carried out, fully or partially, when the obligations no longer exist or decrease.

When there is a present obligation but it is unlikely that there is an outflow of resources embodying economic benefits, it is recorded in contingent liabilities. Contingent liabilities can develop in an initially unexpected way, so they are 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 occurs, the corresponding provision is recognised in the statement of financial position liabilities.

The provisions are recorded in heading "Provisions" in the statement of financial position liabilitiesaccording to the hedged obligations. The contingent liabilities are recognised in off-balance sheet positions.

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 statement derived from insurance contracts, according to the definition provided in this standard.

The group carries out 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 re-insurance contracts" records the amounts that the consolidated entities have the right to receive due to the re-insurance contracts entered into by them with third parties, and more specifically, the share of the re-insurer in the technical provisions recorded by the consolidated insurance entities.

At least once a year, these assets are analysed to assess if they are impaired (if there is objective evidence, resulting from an event occurring after the initial recognition of the asset in question, that the Group cannot receive the contractually established amounts, and the amount that will not be received can be reliably quantified), in which case the corresponding loss will be recorded in the consolidated profit and loss and said assets will be retired.

The heading "Liabilities covered by insurance and reinsurance contracts" records the technical provisions registered by consolidated entities to cover claims resulting from insurance contracts still in effect at the financial year close.

The profit and loss of insurance companies for their insurance activity is recorded according to its nature in the corresponding heading of the statement of comprehensive income.

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

At each financial year close, valuations of liabilities for insurance or re-insurance contracts recognised in the consolidated statement of financial position are checked for their suitability, while 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 of the 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 expenditure or related intangible asset, such as the amount paid for the acquisition (in the purchase assumption by the entity) of the financial rights derived from a set of policies from its portfolio in favour of an intermediate.

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

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 claims**. 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 statement.
- **Mathematical provision**. It is calculated as the difference between the current actuarial value of the Group's future obligations and those of the policy holder or insured party. It is determined on a policy by policy basis, based on the technical characteristics of each modality.
- **Provision for bonuses and rebates**. This records the amount of profit accrued in favour of policy holders, insured parties or beneficiaries, based on the behaviour of the risk insured.
- **Technical provisions for ceded re-insurance**. Assets in the statement of financial position display the technical provisions ceded to re-insurance, based on the same criteria used for direct insurance, according to re-insurance contracts.
- **Technical provisions related to life insurance when the investment risk is assumed by the policy holder**. These provisions reflect the value of specifically assigned assets or the results of using the indices or assets fixed as a reference 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 policy holder.

2.21. Statement of cash flows

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

- **Cash flow**: inflow and outflow of cash and cash equivalents; that is, short-term investments with high liquidity and low risk of alterations in value.

- **Operating activities**: the indirect method is used to present cash flows of operating activities, to reflect the flow from typical activities of the 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 the net equity and liabilities that do not form part of operating activities, such as subordinated financial liabilities.

2.22. Statement of comprehensive income

This statement 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 statement of profit and loss, 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 comprehensive profit and loss" in the net equity.

- The net amount of income and expenditure recognised definitively as "Other profit and loss" in the net equity.

- The tax on profits applied based on the previous items.

- The total comprehensive profit and loss for the financial year calculated as the sum of the previous items.

2.23. Statement of changes in 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 comprehensive profit and loss for the financial year records, on an aggregate basis, the total of the aforementioned items recorded in the statement of comprehensive income.

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 Entity, the consolidated financial statements include the information corresponding to subsidiaries, joint ventures, associates and if applicable, consolidated structures. The integration procedure for equity items of these companies is carried out 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 carried out by taking only into consideration the results for the period between the date of acquisition and the date of the financial year close. Likewise, the consolidation of results generated by companies disposed of in the financial year, is carried out 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 applied consolidation method.

Annexe II (an integral part of this note) facilitates 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 coming from their involvement in the participated entity, and has the capacity to influence these returns through its power over said entity.

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

- Power. An investor has power over a participated entity when it has rights in force that provide it with the ability to manage relevant activities, i.e. those that significantly effect the returns of the participated entity.

- Returns. An investor is exposed to, or has the right to, variable returns for its involvement in the participated entity when the results it obtains from said involvement can vary depending on the financial development of the participated entity. The investor returns can be positive, negative or both positive and negative at once.

- Relationship between power and returns. An investor controls a participated entity if the investor not only has control over it and is exposed, or has the right to variable returns for its involvement in the

same, but also if it has the ability to use its power to influence the returns obtained by its involvement in the participated entity.

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

The financial statement of the subsidiaries are consolidated with those of the Parent Entity using the full integration model, that consists of the integration of 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 section "Minority interests" of the net equity, and part of the financial year's profit and loss attributable to this is presented in chapter "Financial year profit and loss - Attributable to minority interests" of the statement of profit and loss.

When control of a subsidiary is lost, the assets, liabilities, minority interests and other items that can be recognised in adjustments by valuation, must be retired 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 profit and loss.

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 participation 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. The associates are valued in the consolidated financial statement using the participation method.

Annexes I.3 and I.4 include details of the companies in the Group's consolidation perimeter for the participation 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 customer's access to given investments, it is determined (as per the standards 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 standard framework for consideration as structured entities.

In this regard, during financial years 2016 and 2017, 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 acquirement 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 acquirement 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 in section "Negative goodwill recognised in the profit and loss" of the statement of comprehensive income.

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, when they do not give rise to a control change they are recorded for accounting purposes as capital transactions. No profit or loss is recognised in the consolidated profit or loss, and the initially recognised goodwill is not re-valued. 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 the consolidation.

The following is a brief description of the business goal and main characteristics of the main companies and subgroups making up the Group's consolidation.

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

  Crèdit Andorrà SA is the depository for the Andorran investment funds and Banque de Patrimoines Privés, SA, for Luxembourg investment funds.

  This company, and the various investment bodies it manages, comes under the supervision and control of the ANIF.

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

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

- **Crèdit Iniciatives SA** is a venture capital company. At 31 December 2017 and 2016, this subgroup's portfolio of investee companies comprised SPA SA (25%) and CLIGE SA (25%).

- **Patrigest SA** is a property asset management company. At 31 December 2017 and 2016, this subgroup's portfolio of investee companies comprised Cassamanya Ltd. (99.97% held directly by Crèdit Andorrà SA and 0.03% by Patrigest SA), Credi-Invest SA (20%) and Private Investment Management SA (Switzerland) (100%).

- **Crèdit Capital Immobiliari SA** is a property company whose only activity is holding and managing the Group's property.

- **Crèdit Andorrà Preference Ltd.** is a 100% owned subsidiary of Crèdit Andorrà SA, established in December 2005 for the issue of preferred shares (see note 19.6.1).

- **Valira Asset Management SL,** established in January 2007 with its head offices in Madrid (Spain), is a company with a complete structure for investment management and advisory services in the area of *hedge funds*.

  On 28 September 2015, Valira Asset Management sold its shareholding to Valira Capital Asset Management SGIIC SAU.

  Since selling its only investee, Valira Asset Management SL is no longer the parent company of a subgroup and does not carry out any commercial activity.

- **Crèdit Andorrà Panamá Holding SA** is a 100% owned subsidiary of Crèdit Andorrà SA whose sole corporate purpose is to carry out the functions of a parent company for the subgroup Crèdit Andorrà Panamá, the vehicle used by the Bank to channel the expansion of its Latin American business.

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

  In 2009, the Crèdit Andorrà Group was granted a licence by the National Securities Commission of the Republic of Panama to operate through the securities firm Crèdit Andorrà Panamá Securities SA. This subsidiary, fully-owned by Crèdit 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 above-mentioned companies, at 31 December 2017, the subgroup Crèdit Andorrà Panamá also comprises the following companies: Crèdit Andorrà Panamá Patrimonial SA (100%) and Crèdit Andorrà Panamá Call Center SA (100%). At 31 December 2016: Crèdit Andorrà Panamá Patrimonial SA (100%), Crèdit Andorrà Panamá Call Center SA (100%) and the representative office Crèdit Andorrà Uruguay SA (100%), that closed during the 2017 financial year.

- **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.** At 20 April 2011, Crèdit Andorrà concluded the process to acquire 100% of the capital of the Luxembourg bank, Banque de Patrimoines Privés SA.

  The acquisition of Banque de Patrimoines Privés SA was a strategic move whose aim was to reinforce the Group's presence in the European market and particularly in international private banking.

  At 31 December 2016 Banque de Patrimonies Privés SA had a branch in Portugal, that was 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).

  At 4 February 2013, once approval had been obtained from the various regulators (ANIF, Bank of Spain and the Spanish Securities and Investments Board or CNMV), Banco Alcalá SA increased its capital by 15%, entirely subscribed by two new local strategic partners, which diluted Crèdit Andorrà's holding from 85% to 72.25%

  At 7 January 2016, the Bank acquired a 9.0301% stake in Banco Alcalá, SA, which until then had been controlled by minority shareholders, bringing Bank's share at 31 December 2016, to 81.2801%.

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

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

  At 31 December 2017 and 2016 CA Holding Luxembourg SARL incorporated the following companies as part of its consolidation:

  - CA Holding España SAU (100%). Company whose only corporate purpose is that of performing the function inherent to a parent company. In this sense, at 31 December 2017 and 2016 the company had the following shareholdings: 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 (see note 6.1).

  - 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 set up to be the subgroup's holding company, owning 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.

  At 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, the corporate name of Beta Capital Management LP was changed to Beta Capital Securities LLC.

- **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 original purpose of the company was to provide financial services related to Peru's stock market, although its corporate purpose has been modified to include the provision of stockbroking services. It was registered with the Peruvian Securities and Exchange Commission (Superintendencia del Mercado de Valores or SMV) and its name was changed to the current one.

  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 to the shareholding of Crèdit Andorrà SA to reach 100% as it was not subscribed by minority shareholders.

- The corporate purpose of **Crèdit Assegurances SAU**, parent company of the subgroup Crèdit Assegurances, is to carry out insurance actions and cover risks based on contracts of private law, including the life assurance branch in any of its types. It comes under the legal provisions established in the Act governing the actions of insurance companies of the Principality of Andorra, dated 11 May 1989. Its sole shareholder is Crèdit Andorrà SA.

  At 31 December 2017 and 2016, the subgroup Crèdit Assegurances included the following Spanish companies: ERM SA (79%), ERM Consultoría SA (79%), ERM Correduría de Seguros y Reaseguros SL (79%) and AMK Ibérica & Principado Correduría de Seguros SL (19.75%), Confortauto Segur Correduría de Seguros, SL (39.50%). And the Andorran companies: CA Vida Assegurances SAU (100%), Actiu Assegurances SA (55%), Financera d'Assegurances SA (24.9%), Línia Asseguradora Andorrana SL (12.75%), Consell Assegurador SL (20%) and CA Vincles Actuarial SLU (100%).

- **CA Holding España SAU**. Holding company which, at present, mostly has subsidiaries related to the insurance business:

  - **CA Life Insurance Experts Compañía de Seguros y Reaseguros SAU**. At April 29, 2013, the Spanish Ministry of Finance and Competitiveness, on the proposal by the General Directorate of Insurance and Pension Funds, authorised the start of operations by this company in the area of life assurance in Spain. The creation of this insurance company forms part of the international expansion plan for the Crèdit Andorrà Group's insurance business.

- **Esports de Neu Soldeu-Incles SA** (ENSISA) manages the ski resort Soldeu-el Tarter at Canillo (Andorra), and also owns 50% of Neus de Valira SA (Nevasa), an Andorran company whose purpose is the commercialisation of Grandvalira.

- **Serveis de Mitjans de Pagaments XXI SA** (SERMIPA XXI), whose corporate purpose and main business is the provision of services related to the use of credit and debit cards and other payment measures.

- **Clíniques Geriàtriques SA** (CLIGE SA), in which Crèdit Andorrà has a 25% holding through its subsidiary Credit Initiatives SA, is a company whose corporate purpose and main business is running geriatric care centres.

- **Societat Pirenaica d'Aparcaments SA** in which Crèdit Andorrà has a 25% holding through its subsidiary Crèdit Iniciatives SA, is a company whose corporate purpose and main business is the management, promotion and commercial use of car parks.

The variation between 2017 and 2016 in chapter "Investments in joint ventures and associates" of the Group's statement of financial position, which mainly includes investments measured by the equity method, mainly corresponding to the integration of the net equity variation represented by the Bank's shareholding.

Furthermore, regarding the main changes in the Group's consolidation during the financial years of 2017 and 2016, the description is included in previous paragraphs referring to the main shareholdings making up the consolidation.

4. Shareholder remuneration system

4.1. Profit distribution proposal

The individual distribution of profits proposed by Consell d'Administració de Crèdit Andorrà SA to the General Shareholders' Meeting for the financial years of 2017 and 2016 are as follows (in thousand euros):

In thousand euros	2017	2016
Profit/loss for the year	**38,363**	**45,229**
Interim dividend	-	10,000
Supplementary dividend	-	-
Restricted reserve allocation Communicated 227/12	4,483	4,483
Restricted reserve allocation to guarantee deposits	2,577	2,577
Transfer to voluntary reserves	31,303	28,169
Profits awaiting application	-	-

The profit corresponding to the financial year of 2016 shown in the previous table, corresponds to the result effectively present in Crèdit Andorrà SA's individual financial statements, which were drawn up by the Bank Administration according to the accounting standards established by the Accounting Plan of the Andorran Financial System approved by the Government of Andorra on 19 January 2000. These amounts have not been restated to consider the amount of the profit shown for comparative purposes in the individual financial statement for the 2017 financial year, formulated under (IFRS-EU), as it would not show a true and fair view of the distribution proposal made by the Board of Directors and subsequently accepted by the General Shareholders' Meeting.

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

The amount allocated to the reserve to hedge the deposit and investment guarantee fund has been estimated based on the provisions of the Banking Entity Investment and Deposit Guarantee Scheme Management Committee (hereinafter the "Management Committee"), which stipulates that the contribution must be calculated as 0.06% of the last calculation base of each member, taken individually, with this model of allocation being recalibrated regularly every three years. However, despite the fact that during the financial year of 2017, it

was planned to calibrate the fund contributions in respect to the imminent publication and entry into force of the amendment to the Law on deposit guarantee funds in Andorra and the Andorra investment guarantee scheme, the Management committee decided to adjourn this recalculation and hence the statement of changes in equity forming part of the consolidated financial statement does not show any adjustments in this regard.

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 Entity 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 profit 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 the earning per share corresponding to 2017 and 2016 is as follows.

	2017	2016
A. Profit attributed to the Parent Entity (in thousand euros)	50,194	31,532
B. Weighted average number of shares outstanding	840,446	790,000
Basic earnings per share (in euros) (A/B)	**59.72**	**39.91**

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).

The profit corresponding to the financial year of 2016 shown in the previous table, corresponds with the result attributed to the Parent Entity represented in these consolidated financial statements drawn up under IFRS-EU.

At 31 December 2017 and 2016 there are no potentially dilutive shares. For this reason the basic earning per share and the diluted earning per share coincide.

5. Risk management

5.1 Introduction and general overview

The goal of risk management at Crèdit Andorrà Group is to reach an efficient 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 conservative criteria in the development of 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 carried out control.

5.1.1. Standard application framework and maintained principals

At its session held on 29 February 1996, the General Council of the Principality of Andorra passed the Law regulating the solvency and liquidity criteria of financial entities (hereinafter "the Law").

In accordance with this Law, the Group must maintain an ordered financial structure to ensure its capacity to meet its obligations. This capacity is basically observed from two perspectives:

- firstly, by quantification of the sufficiency of equity (see note 28), and
- secondly, by the implementation of a suitable time relationship between the expiry of maturities and the availability of investments (see note 5.3).

This Law makes it obligatory to maintain a solvency ratio, made up according to the recommendations of the Basel Committee on Banking Supervision and Supervisory Practices, of a minimum of 10% of the weighted risk of assets. It also obliges financial entities to maintain a minimum liquidity ratio of at least 40%.

5.1.2. Governance and organisation

Crèdit Andorrà Group's Board of Directors is the highest ranking body in the establishment, approval and supervision of strategic guidelines on the subject of risk. These strategic guidelines, as well as the internal risk control framework and the establishment of limits that reflect the Group's risk appetite, are defined in the policies approved by the Board of Directors.

The Board of Directors, via its Delegate Committee (made up of the chairman, vice-chairman and CEO), pays particular attention to those aspects related to the supervision and control of the risks faced or that could be faced by the Group, and supports and advises the Board of Directors on this subject.

Crèdit Andorrà Group's corporate governance system is structured by a framework that defines the responsibilities of risk management following the three lines of defence model recommended by the Basel Committee on Banking Supervision and Supervisory Practices in its *Corporate governance principles for banks*. These lines of defence are divided by hierarchy and work in coordination while being sufficiently independent of each other, in order to reach the objectives set out in the policies approved by the Board.

- 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 made up of the division of Risk and Regulatory Compliance which, through the Departments of Internal Control, Regulatory Compliance and Prevention of Money Laundering, ensures that risks are effectively monitored and managed with the level of appetite for risk defined by the Board of Directors. The area manager of the Risk and Regulatory Compliance Division has direct access to the Board of Directors via the CEO.

- Finally, the Internal Audit Department acts as a third line of defence, regularly verifying that the policies, methods and procedures employed are suitable and checking their effective implementation. The Group's Internal Audit functionally depends on the CEO and hierarchically on the Board's Delegate Committee.

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

- The different risk management and control areas within the corporate scope are in charge of establishing the corporate principles recorded in the policies approved by the Board of Directors. They are also responsible for the supervision and control of risk profiles of all of the Group's entities, and ensuring 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 local operation according to its business model and current regulations.

Within this organisational structure with both corporate and local risk management units specialised by type of risk, the Risk and Regulatory Compliance Division has the role of making a comprehensive view of the risk profiles to which the Group is exposed available to senior management, especially the Board's Delegate Committee, with a global scope of action, both regarding risk type and geographical location.

Above this organisational model for the risk management and control functions, senior management has established diverse committees for making decisions regarding 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 statement of financial position, the COAPiR, as a risks committee, also carries out 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 o 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 entity's representatives to Uifand are chosen from among its members.

5.1.3. Risk culture

The Group believes that in order to maintain investment activity with a conservative and low/moderate level risk profile, it is essential to have a risk culture throughout the organisation, based on the following foundations:

- Involvement of the Board of Directors by means of the approval of policies on the subject of 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 carried out 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 geographical, sector 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 reference 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 provided by the regulations applicable to any of the Group's entities. This category includes the risk of money laundering and financing terrorism.
- **Actuarial risk**. Risk arising from insurance activity carried out 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 decisions in the strategic area, or changes to external factors, such as the competitions or regulatory environment, that may effect the business model or hinder the achievement of objectives, and in this manner affect financial results and solvency.

- **Reputational risk**. The possible negative impact a determined event can have on the Group's image, the quality of its services or the transparency of its management. This impact can 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 of 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 2017 and 2016 is shown below by chapter and section of the consolidated financial statements, without deducting the security interests or the credit enhancement obtained to ensure compliance with payment obligations, and is broken down by the nature of the financial instruments.

In thousand euros	Note	31/12/2017	31/12/2016
Held-for-trading financial assets	9	**4,975**	**40,509**
Derivatives		4,757	6,967
Debt securities		218	33,542
Financial assets at fair value through profit and loss	10	**5,684**	**4,516**
Debt securities		5,684	4,516
Available-for-sale financial assets	11	**228,157**	**298,538**
Debt securities		228,157	298,538
Loans and receivables	12	**2,647,418**	**2,733,717**
Debt securities		-	-
Loans and advances		2,647,418	2,733,717
Lending institutions		144,825	53,876
Customers		2,502,593	2,679,841
Held-to-maturity investments	13	**1,603,403**	**1,579,095**
Debt securities		1,603,403	1,579,095
Derivatives - hedge accounting	14	-	-
Commitments and guarantees granted	29	**478,412**	**481,580**
Commitments for loans granted		355,861	347,487
Financial guarantees granted		122,476	133,906
Other commitments and guarantees granted		75	187
Maximum exposure to credit risk		**4,968,049**	**5,137,955**

Crèdit Andorrà Group's maximum exposure to credit risk at 31 December 2017 and 2016 does not differ significantly from the accounting values shown in the previous table.

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

The Credit Area is responsible for credit risk management with customers, which is governed by the following 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 Concessions Department is responsible for studying the viability of operations through careful analysis of qualitative and quantitative factors by which they are surrounded. In this regard, some of the main principles analysed and considered in the concession process are described below.

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

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

   To standardise the different factors surrounding the credit risk of the accredited party and/or the operation, and in order to facilitate and in this manner standardise decision making (both during the concession phase and monitoring), the Group uses a credit risk evaluation system based on internal ratings. In this regards, the internal rating is defined as system that evaluates credit risk in order to grant a debtor (or potential debtor) a credit rating that uses a rating scale to express the probability of breaching the obligations contracted and/or requesting contract (hereinafter *probability of default* or PD).

   According to the Group's policy, the rating is established at the start of the credit relationship with the customer and is reviewed periodically on a mandatory basis. The rating is valid for a maximum of 12 months and therefore needs to be renewed at least once a year, or a shorter timescale in the event of any significant alert in the operation and/or variation in any factors that may affect its situation. In this regard:

   - The Branch Committee validates customer ratings for customers with branch-level approval, according to the standard provided for granting asset operations.
   - The Credit Committee validates customer ratings for customers with Credit Committee-level approval, according to the standard provided for granting asset operations. In general, the Credit Committee handles the study, resolution and control of all operations for which the Committee has the decision-making authority up to a maximum of 1,000 thousand euros.
   - The Senior Credit Committee validates the ratings of customers with Senior Credit Committee-level approval, according to the standard provided for granting asset operations. The Senior Credit Committee is the highest level decision-making body in the concession of operations, and handles the study and approval of operations that exceed the powers of approval of the Credit Committee. Likewise, it is under the continuous supervision of the Bank's Board of Directors, which supervises all operations exceeding 10,000 thousand euros through the CEO figure.

Both the Credit Committee and the Senior Credit Committee can request the review and/or modification of a rating, and the Credit Monitoring Area carries out rating samples to monitor the update and quality of their formulation.

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

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

Likewise, all accredited parties that have defaulted on payment (due to objective or subjective reasons), are no longer held in terms of internal ratings and from that moment become classified as default.

Lastly, the Group considers the rating as part of the risk concession process, as the standard on granting power for asset operations (1) limits the maximum risk amount that each committee can grant, and (2) establishes a minimum applicable credit *spread* limit for credit investment operations.

A table including the details of loans to customers can be seen below, including the balance for guarantees and commitments granted to customers at 31 December 2017 and 2016 per internal rating.

	Loans and advances		Commitments and guarantees		Total customers	
In thousand euros	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Rating 10 and 9	607,219	775,115	157,843	179,595	765,062	954,710
Rating 8 and 7	914,621	727,717	223,186	195,041	1,137,807	922,758
Rating 6	399,475	419,826	53,849	45,023	453,324	464,849
Rating 5 and 4	375,663	563,454	21,056	31,221	396,719	594,675
Rating 3, 2 and 1	172,086	192,440	17,104	26,126	189,190	218,566
Default	149,459	169,322	733	873	150,192	170,195
No rating	2,897	4,996	4,641	3,701	7,538	8,697
Gross book value	**2,621,420**	**2,852,870**	**478,412**	**481,580**	**3,099,832**	**3,334,450**
Credit risk hedging	-118,827	-173,029	-1,538	-1,538	-120,365	-174,567
Net book value	**2,502,593**	**2,679,841**	**476,874**	**480,042**	**2,979,467**	**3,159,883**

2. **Operation guarantee level**. While meeting the basic criteria that the repayment capacity of the operation must be guaranteed by the viability of the financed operation itself and the accredited parties by carrying it out, obtaining additional guarantees should also be considered, especially in long-term operations.

   In this event, the set of assets and/or solvencies affected are considered as a guarantee to ensure compliance with an obligation. According to the analysis carried out, each credit operation has a percentage of the guarantee coverage over the financed amount (*value-to-loan*) or (*loan-to-value*) in terms of financing on the

guarantee amount. According to the different aims of credit operations minimum coverage limits are also established, that only occur on rare occasions and under no circumstances without the validation 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. As in the case of operations with mortgage guarantees for second-time buyers, where it is the Group's policy to increase the operation risk premium by 50 basic points on what would be applied to a financing operation for a first-time buyer.

Regarding leverage operations related to private banking, often as an exception to the rule the amount, quality and levels of liquidity of the financial collateral by which they are guaranteed, are the main factors analysed during the concession process, and limits are established for the lending value based on 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 accredited party 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 insufficient guarantees are not provided within 7 days and/or 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), the full or partial sale of the assets is instructed until the credit obligation is suitably guaranteed.

The table below includes the details of loans to customers at 31 December 2017 and 2016 by guarantee level (LTV) considering the guarantees.

	Loans and advances		Securities and monetary guarantee		Mortgage guarantee	
In thousand euros	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
LTV >= 100%	195,221	257,891	10,425	40,881	106,844	132,274
LTV >= 80%	501,812	561,536	189,819	274,461	353,418	308,922
LTV >= 50%	766,767	761,841	205,603	186,843	1,058,368	1,005,605
LTV >= 25%	514,561	570,610	427,161	376,893	924,997	1,088,562
LTV <= 25%	165,822	177,962	572,436	473,107	755,331	895,047
Personal guarantee	477,237	523,030	-	-	-	-
Gross book value	**2,621,420**	**2,852,870**	**1,405,444**	**1,352,185**	**3,198,958**	**3,430,410**

The segment of operations with personal guarantee includes exposure with public administrations and semi-public entities, that at 31 December 2017 amounts to 146,056 thousand euros (186,439 thousand euros at 31 December 2016).

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:

    - Credit policy operations (intended to finance leverage operations, circulating capital needs of companies, temporary investment situations, etc.) are carried out for 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 operations forming part of the customer loans and advances 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. However, the Group works continuously on its internal credit risk models (based on internal ratings and external factor analysis) with the aim of continuously improving the measurement and valuation (and consequently, the assignment of prices) of credit risk (see the *Monitoring* section).

Monitoring

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

The result of monitoring is (1) to establish a conclusion that determines the risk quality assumed with an accredited party (internal rating update), and (2) based on the risk level ratings resulting from the previous point, to estimate the impairment of the accredited party's operations that are subjected 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 the optimisation of the cost/risk relationship.

1. **Determination of risk quality** assumed with an accredited party (internal rating) after the moment the concession is granted.

   As mentioned in the *Concessions* section, establishing or reviewing the ratings is mandatory for all customers with current credit investment operations. The rating is valid for a maximum of 12 months, for which reason it must be renewed annually regardless of whether a new asset operation is involved.

   The account manager or, in their absence, the customer's branch manager and/or director is in charge of starting the monitoring process that results in a rating update on a regular basis. As mentioned in the *Concessions* section, the ratings are given final validation by the Branch Committee, the Credit Committee or the Senior Credit Committee depending on the power standard applicable at all times.

   The responsibility for monitoring is distributed as follows:

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

   However, this regular monitoring process is carried out, documented and supervised more thoroughly depending on the risk levels (with regard to both nominal exposure and the identified risk level).

Individual and expert monitoring of accredited parties or financial groups with significant or large risk levels.

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

- All total risk holders or groups exceeding 5,000 thousand euros.
- A sample of holders or groups with risk between 100 thousand and 5,000 thousand euros, according to their rating.

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

- Establish the real financial and economic situation of the accredited party.
- Review the valuation of guarantees that finance each risk.
- Value the capacity to generate future funds based on the analysis of the market position and perspectives of the sector.
- If necessary, set out the action policy for each accredited party via the Action Plan.
- Draw up a risk-returns analysis to establish suitable price policies.

Lastly, the report resulting from the monitoring process must include the reasoning behind the customer's rating and propose a new one 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.

2. **Impairment estimate** for operations and accredited parties.

The mission of Risk Management, who reports to Corporate Management, is to build, maintain and monitor credit risk measurement systems. This Corporate Management is independent of the business areas, to ensure that valuation criteria are not affected by commercial considerations.

Coverage calculations can be carried out individually or collectively. In this regard, the Group establishes thresholds (see note 2.8) to determine the suitable approach based on accounting standard requirements (IAS 39), regarding standardisation levels of operations and optimisation of the cost/risk relationship.

Individual analysis. Specific coverage 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.

Collective analysis. Coverage estimated collectively is based on internal models, based on the Group's historical experience and considering the updated and adjusted value of guarantees considered effective.

Internal models with the aim of estimating incurred losses are used to calculate accounting coverage, although regulatory capital requirements are calculated according to the provisions of the Law regulating the solvency and liquidity criteria of financial entities of 29 February 1996 (see note 5.1.1.)

Risk measurement, and therefore its coverage, revolves around the basic concepts described below.

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

  Crèdit 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.

  Therefore, an operation or group of operations can be classified as doubtful or defaulted due to arrearage of the customer or 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 an amortisation 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 obtained from the contractual balance according to the amortisation table agreed with the customer and with the current exposure plus a conversion factor for contingent credit risk (disposable limit) with the aim of estimating the effective exposure at the time of *default*. This conversion factor is determined based on the requirements of the framework reference standard in these cases, for the calculation of the consumption of capital by credit risk (DRDIV/CRR).

- **Probability of default** PD estimates the probability that the accredited party meets all of its credit exposure.

  Crèdit Andorrà estimates the PD according to its historical experience of debt and incorporates the necessary measures to adjust the results to the financial cycle, with the aim of offering relatively stable long-term measures, that may differ from the default rates observed at any point in time (PD PiT).

  This measurement is implemented as part of banking business management, as it is calculated from the main dimensions on which the Group's credit risk management is based: the internal rating of the accredited party and the product type.

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

- **Severity**. Loss given default (LGD) corresponds with the percentage debt that cannot be recovered in the event of customer default.

  Crèdit Andorrà carries out 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 accredited 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 depending on the type of guarantee (monetary guarantee, value guarantee, land mortgage

guarantee and property mortgage guarantee) and in the case of recovery, directly based on the accredited item according to the time elapsed from the moment of non-payment or *default*.

- **Incurred or observed loss**: Incurred loss, i.e. the need for provision for exceptions under IAS 39, is estimated as the difference between the current risk amount and estimated future cash flows.

  To be precise, incurred loss is obtained as the product of EAD*PD*LGD defined in terms of the previous points.

  In the case of operations classified as normal, incurred but not reported (IBNR) losses are estimated, taking as a reference losses associated with doubtful entries with a 12 month time scale.

The final coverage applied to an operation will be highest value out of the coverage of the credit risk attributable to the holder and country risk. The latter is not significant for the Group.

In order to ensure the liability and coherence of coverage estimates, the Group has designed backtesting, which is used to compare the estimates made with effectively observed real losses, and reference and comparison tests (benchmarking), by means of which estimates are compared with expected loss estimated for the purpose of solvency and any other reference considered relevant.

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

In thousand euros	Loans and advances to customers 31/12/2017	Loans and advances to customers 31/12/2016	Commitments and guarantees conceded to customers 31/12/2017	Commitments and guarantees conceded to customers 31/12/2016	Total customers 31/12/2017	Total customers 31/12/2016
Not in *default*						
Rating 10 and 9	607,219	775,115	157,843	179,595	765,062	954,710
Rating 8 and 7	914,621	727,717	223,186	195,041	1,137,807	922,758
Rating 6	399,475	419,826	53,849	45,023	453,324	464,849
Rating 5 and 4	375,663	563,454	21,056	31,221	396,719	594,675
Rating 3, 2 and 1	172,086	192,440	17,104	26,126	189,190	218,566
No rating	2,897	4,996	4,641	3,701	7,538	8,697
Gross value	2,471,961	2,683,548	477,679	480,707	2,949,640	3,164,255
Individually calculated IBNR	-66,258	-88,031	-329	-329	-66,587	-88,360
Collectively calculated IBNR	-2,027	-4,593	-890	-890	-2,917	-5,483
Net value	2,403,676	2,590,924	476,460	479,488	2,880,136	3,070,412
In *default*						
<= 30 days	7,448	45,568	533	458	7,981	46,026
<= 60 days	9,253	226	116	-	9,369	226
<= 90 days	150	2,499	-	-	150	2,499
<= 180 days	3,646	5,174	84	41	3,730	5,215
<= 365 days	31,212	8,331	-	81	31,212	8,412
> 365 days	97,750	107,524	-	293	97,750	107,817
Gross value	149,459	169,322	733	873	150,192	170,195
Individually calculated provision for impairment	-31,926	-48,397	-	-	-31,926	-48,397
Collectively calculated provision for impairment	-18,616	-32,008	-319	-319	-18,935	-32,327
Net value	98,917	88,917	414	554	99,331	89,471
Total	**2,502,593**	**2,679,841**	**476,874**	**480,042**	**2,979,467**	**3,159,883**
Accumulated write-offs	124,724	87,526	-	-	124,724	87,526
Total with write-offs	**2,627,317**	**2,767,367**	**476,874**	**480,042**	**3,104,191**	**3,247,409**

Debt recovery and management

Recovery activity is designed as a comprehensive management circuit starting even before default or the enforceability of the obligation. The business area's primary responsibility is the process of debt management.

Debt management principles include:

- **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 especially before it arises.

- **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.

Crèdit Andorrà holds regular meetings between credit area managers and business units with the aim of continuous monitoring of all operations with a suspended rating, i.e. in a situation of arrears or *default*, as well as those showing signs of risk increase, such as mature operations, 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 modified, cancelled or formalised.

As a general rule, refinanced or restructured operations and new operations carried out for their refinancing are classified in the special surveillance normal risk category. Furthermore, considering its specific characteristics, operations are classified as doubtful risks when they meet the general criteria defined to classify them as such.

Refinanced or restructured operations and new operations carried out for their refinancing, are identified as special surveillance during a trial period until all of the following requirements are met:

- After a review of the holder's financial and equity situation, it is concluded that financial difficulties are not foreseeable for the holder and therefore it is highly probable that obligations with the entity will be met within the established terms and in an appropriate manner.

- That a minimum period of two years has passed since the formalisation date of the restructuring or refinancing operation.

- That the holder has paid fees accrued for the principal and interest from the formalisation date of the restructuring or refinancing operation, or if later, from the date of reclassification in the doubtful category.

When all of the aforementioned requirements are met, the operations are no longer identified in the financial statements as refinancing, refinanced or restructured operations.

The Group's exposure to operations that have been refinanced and at 31 December 2017 and 2016 have not been *remedied* amount to 383,002 thousand euros and 319,436 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:

- **Bought** at auction as the conclusion to a mortgage execution procedure. The bidding prices at auction are fixed, with limits determined by the current legislation, according to updated appraisals carried out by independent experts (see note 2.16).
- By means of the process of **Datio in solutum** , or donation in payment, by the accredited parties with subsequent subrogation or cancellation of debts. In this case, the prices are determined in reference to the latest available appraisals. For the purposes of practicality and diligence, the Group's policy is to prioritise the life of the donation in payment, provided that it is both logistically and financially possible.

In either of the two cases, the Recovery Department will manage the entire process in conjunction with the legal area.

For further information on the volume of assets from debt payments (via award or donation 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 in Catalonia), that are remunerated with a sales commission for each unit sold.

5.2.1.2. Movement of provisions due to impairment

The movement of provisions due to the impairment of financial assets granted to customers at 31 December 2017 and 2016 is shown as follows:

In thousand euros	31/12/2016	Net allocations	Write-off applications and/or retirement	Transfers to write-offs	Exchange rate differences and others	31/12/2017
Customer loans and advances	173,029	877	-16,549	-37,198	-1,332	118,827
Write-off assets - customers	87,526	-	-	37,198	-	124,724
Total hedges	**260,555**	**877**	**-16,549**	**-**	**-1,332**	**243,551**

In thousand euros	31/12/2015	Net allocations	Write-off applications and/or retirement	Transfers to write-offs	Exchange rate differences and others	31/12/2016
Customer loans and advances	188,280	18,722	-	-32,710	-1,263	173,029
Write-off assets - customers	62,532	-	-7,716	32,710	-	87,526
Total hedges	**250,812**	**18,722**	**-7,716**	**-**	**-1,263**	**260,555**

The figures shown in the previous tables referring to write-off applications and/or retirements mainly correspond to (1) application of non-write-off loan provisions to customers when they are retired as part of an award or donation in payment, and (2) retirement of write-off assets (that are provisioned at 100% and retired as assets) as a result of a recovery process of these assets in exchange for an award or donation in payment. The latter case could also include the balance the Group wrote off (and renouncing any legal right it has to claim additional amounts to those recovered) for the accredited party as part of the recovery negotiation process. Neither case concerns a release and/or reversal, and therefore this movement has no balancing entry in the statement of profit and loss.

5.2.1.3. Main figures

At 31 December 2017 and 2016 the debt rate was at 5.7% and 5.9%, respectively (5.1% and 5.4% also considering the commitments and guarantees granted to customers). Furthermore, at 31 December 2017 and 2016 the coverage rate of provisions recorded for doubtful assets was 33.8% and 47.5%, respectively (33.9% and 47.4% also considering the commitments and guarantee granted to customers).

5.2.1.4. Sector and geographic concentration

Crèdit Andorrà Group monitors credit risk concentration. The details of the loans to customers by geographical region and economic sector at 31 December 2017 and 2016 is as follows.

	Loans and advances to customers		Of which in default		Credit risk hedging	
In thousand euros	2017	2016	2017	2016	2017	2016
Concentration per sector						
Public sector	**93,569**	**128,353**	**-**	**-**	**-126**	**-43**
Financial companies	**29,190**	**32,079**	**1,660**	**187**	**-1,790**	**-945**
Non-financial companies	**1,084,774**	**1,301,535**	**75,509**	**87,916**	**-67,706**	**-101,177**
Agriculture, livestock and fisheries	564	749	-	1	-3	-2
Extractive industries	70	62	-	-	-	-
Manufacturing industry	14,697	14,763	194	1,095	-176	-727
Construction	53,200	54,809	3,646	7,620	-2,293	-6,181
Wholesale and retail trade	100,613	101,356	1,307	751	-2,626	-3,466
Transport and storage	18,249	9,672	-	17	-33	-105
Catering	48,335	58,667	3,132	3,214	-426	-6,021
Information and communications	351	116	229	-	-229	-1
Real estate activities	263,420	256,667	45,687	22,049	-32,166	-33,920
Professional activities	303	265	-	-	-	-1
Public administration and social security	52,487	58,086	-	-	-16	-214
Education	1,480	1,234	-	-	-4	-4
Healthcare activities and social services	57,677	59,109	125	11	-497	-448
Artistic and recreational activities	21,595	28,682	11,283	10,961	-2,493	-2,520
Other services	451,733	657,298	9,906	42,197	-26,744	-47,567
Individuals	**1,413,887**	**1,390,903**	**72,290**	**81,219**	**-49,205**	**-70,864**
Total exposure by sector	**2,621,420**	**2,852,870**	**149,459**	**169,322**	**-118,827**	**-173,029**
Geographical concentration						
Andorra	2,084,926	2,363,589	136,232	155,963	-114,500	-168,349
Spain	129,681	92,117	12,977	12,649	-4,145	-4,301
France	1,049	3,510	8	322	-4	-115
Other countries in the euro zone	40,736	58,471	50	79	-42	-50
Other European countries	9,098	7,701	35	184	-28	-67
Latin America and the Caribbean	277,125	269,119	14	-	-81	-28
Other	78,805	58,363	143	125	-27	-119
Total exposure by region	**2,621,420**	**2,852,870**	**149,459**	**169,322**	**-118,827**	**-173,029**

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 using "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 2017, the loan VaR for the securities portfolio and interbank deposits was 14,422 thousand euros (16,430 thousand euros at 31 December 2016) out of a total risk exposure of 1,513,634 thousand euros (1,461,493 thousand euros at 31 December 2016). This loan VaR is below the risk limit of 70,000 thousand euros set by the COAPiR. Furthermore, this loan VaR level would be equivalent to having a portfolio with an average rating of A+.

5.2.2.1. Balancing-entry and settlement risk

Below is a table listing the breakdown of the balance of the heading loans and advances to lending institutions at 31 December 2017 and 2016, according to the credit quality of the counterparty:

	At amortised cost	
In thousand euros	**2017**	**2016**
Between AAA and AA-	5,000	7,753
Between A+ and BBB	139,475	46,123
BBB-	350	-
Between BB+ and B+	-	-
Between B and CCC	-	-
D	-	-
N/A	-	-
Gross book value	144,825	53,876
Credit risk hedging	-	-
Net book value	**144,825**	**53,876**

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 2017 and 2016, the Group has no due or unpaid positions with lending institutions.

Likewise, below is a table listing the breakdown of the balance of debt securities at 31 December 2017 and 2016, according to the credit quality of the issuer and the valuation model under which they appear in the statement of financial position:

In thousand euros	At amortised cost		Fair value with changes to net equity		Fair value with changes to profit/loss		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Between AAA and AA-	1,075,518	1,097,026	211,495	280,850	3,556	25,148	1,290,569	1,403,024
Between A+ and BBB	524,922	313,874	15,905	17,926	1,670	7,127	542,497	338,927
BBB-	3,921	169,955	806	-	9	-	4,736	169,955
Between BB+ and B+	-	-	-	-	593	1,433	593	1,433
Between B and CCC	-	-	146	-	-	-	146	-
D	-	-	-	-	74	-	74	-
N/A	-	-	-	-	-	4,350	-	4,350
Gross book value	1,604,361	1,580,855	228,352	298,776	5,902	38,058	1,838,615	1,917,689
Credit risk hedging	-958	-1,760	-195	-238	-	-	-1,153	-1,998
Net book value	**1,603,403**	**1,579,095**	**228,157**	**298,538**	**5,902**	**38,058**	**1,837,462**	**1,915,691**

At 31 December 2017 and 2016, the debt securities portfolio includes no due or unpaid positions.

The balance of the debt securities portfolio at 31 December 2016 with BBB- rating relates mainly to the debt of the Government of Andorra, which has increased its rating to BBB in 2017.

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, Crèdit Andorrà 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 carried out 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 statement of financial position. A financial counterparty ceiling has also been established by adding together the total consumption on and off the statement of financial position.

The Control, Methodology and Assessment of Financial 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 balancing-entry 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 at 31 December 2017 and 2016:

In thousand euros	Loans and advances to lending institutions 2017	2016
Geographic concentration		
USA	-	6,843
France	36,085	21,194
Spain	50,035	15,970
Germany	15,809	-
United Kingdom	19,890	8,230
Other	23,006	1,639
Total	**144,825**	**53,876**

Below is a breakdown of the debt securities portfolios by economic sector and geographic region at 31 December 2017 and 2016.

	Debt securities		Credit risk hedging	
In thousand euros	2017	2016	2017	2016
Concentration per sector				
Public sector	1,716,979	1,828,462	-938	-1,889
Lending institutions	79,604	50,616	-130	-80
Non-financial companies	42,032	38,611	-85	-29
Total exposure by sector	**1,838,615**	**1,917,689**	**-1,153**	**-1,998**
Geographic concentration				
USA	474,128	577,152	-332	-665
France	400,058	408,868	-117	-267
Spain	231,842	213,750	-220	-542
Germany	202,179	147,409	-29	-49
United Kingdom	125,425	132,523	-42	-73
Andorra	100,121	120,788	-110	-45
Other	304,862	317,199	-303	-357
Total exposure by geographical area	**1,838,615**	**1,917,689**	**-1,153**	**-1,998**

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. According to the economic development of countries, their political situation, regulatory and institutional framework and the rating given by credit rating agencies for each country, Crèdit Andorrà classifies its operations carried out with third parties and assigns to each group the percentage of provisions for insolvency 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

Next is the movement of provisions due to impairment of loans and advances to lending institutions and debt securities portfolio during the financial years ended on 31 December 2017 and 2016:

In thousand euros	31/12/2016	Net allocations	Transfers to write-offs	Exchange rate differences and others	31/12/2017
Loans and advances to lending institutions	-	-	-	-	-
Debt securities	-1,998	649	-	196	-1,153
Total hedges	**-1,998**	**649**	**-**	**196**	**-1,153**

In thousand euros	31/12/2015	Net allocations	Transfers to write-offs	Exchange rate differences and others	31/12/2016
Loans and advances to lending institutions	-	-	-	-	-
Debt securities	-1,818	-180	-	-	-1,998
Total hedges	**-1,818**	**-180**	**-**	**-**	**-1,998**

5.2.3. Derivatives

With the aim of mitigating exposure to balancing-entry risk, Crèdit Andorrà holds a solid base of guarantee contracts. Almost all the risks assumed by operations with derivative instruments are covered 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 covered by these contracts.

In addition, Crèdit Andorrà has signed collateral contracts (CSA) with interbank counterparties, which guarantee the market value of the operations involving derivatives.

Crèdit Andorrà collateralises all derivatives transactions with financial institutions, and the same occurs with operations involving repurchase commitments, covered by Global Master Repurchase Agreement (GMRA) contracts or similar.

Below is a breakdown of the net exposure to credit risk associated to derivative operations at 31 December 2017 and 2016:

	Nominal amount		Gross amount		Net collateral (CSA)		Net exposure	
In thousand euros	2017	2016	2017	2016	2017	2016	2017	2016
Held-for-trading assets	156,492	258,735	4,757	6,967				
Hedging assets	-	-	-	-				
Gross book value - Asset	**156,492**	**258,735**	**4,757**	**6,967**				
Held-for-trading liabilities	-83,737	-149,643	-4,772	-7,212				
Hedging liabilities	-271,281	-287,958	-42,192	-48,661				
Gross book value - Liability	**-355,018**	**-437,601**	**-46,964**	**-55,873**				
Total net exposure	**-198,526**	**-178,866**	**-42,207**	**-48,906**	**44,971**	**54,541**	**2,764**	**5,635**

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 the risk of not having enough liquidity to be able to fulfil, on the date due, payment obligations to third parties or having to do so at a higher cost.

The Internal Control Department is responsible for reporting to the COAPiR regarding the monitoring of liquidity risk and the regulatory liquidity ratio, as well as monitoring trends and providing forecasts.

The COAPiR is responsible for defining liquidity management targets, determining investment strategies for portfolios and taking decisions on proposals to manage liquidity risk.

The fundamental goal of liquidity risk management is to have the necessary instruments and processes, at all times, to ensure the Group can meet its payment obligations on time, as well as carry out its business to achieve the strategic goals of the Group.

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 drawn up a Liquidity Risk Contingency Plan that establishes an action plan for different crisis scenarios (systemic and specific), detailing measures at a commercial and institutional level to tackle this kind of situation.

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

Next is a breakdown of the balances by contractual maturity dates, without taking into account, where applicable, the valuation or impairment adjustments:

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 2017						
Financial assets (incomings)						
Cash, cash balances in central banks and other deposits at sight	251,265	-	-	-	251,265	-
Loans and receivables	2,647,418	201,765	125,593	624,328	786,344	909,388
Lending institutions	144,825	-	-	-	144,825	-
Customers	2,502,593	201,765	125,593	624,328	641,519	909,388
Debt securities	1,837,462	833	125,718	114,834	886,436	709,641
Derivatives	4,757	1,257	2,335	214	281	670
Book value	**4,740,902**	**203,855**	**253,646**	**739,376**	**1,924,326**	**1,619,699**
Financial liabilities (outgoings)						
Central bank deposits	116,819	32,542	24,000	47,927	12,350	-
Deposits from lending institutions	239,049	112,278	-	1,106	125,666	-
Customer deposits	3,948,847	122,332	204,445	929,820	2,692,250	-
Debt securities	93,859	1,000	3,456	65,468	2,543	21,392
Financial liabilities at fair value	123,374	5,401	15,090	32,792	70,091	-
Other financial liabilities	95,400	-	-	-	-	95,400
Derivatives	46,964	169	2,326	2,046	9,865	32,558
Book value	**4,664,312**	**273,722**	**249,317**	**1,079,159**	**2,912,765**	**149,350**

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 2016						
Financial assets (incomings)						
Cash, cash balances in central banks and other deposits at sight	325,221	-	-	-	325,221	-
Loans and advances	2,733,717	124,693	137,528	625,321	684,871	1,161,304
Lending institutions	53,876	-	-	-	53,876	-
Customers	2,679,841	124,693	137,528	625,321	630,995	1,161,304
Debt securities	1,915,691	543	36,133	237,025	1,027,375	614,615
Derivatives	6,967	763	4,281	155	840	928
Book value	**4,981,596**	**125,999**	**177,942**	**862,501**	**2,038,307**	**1,776,847**
Financial liabilities (outgoings)						
Central bank deposits	96,870	-	-	-	96,870	-
Deposits from lending institutions	73,106	-	-	-	73,106	-
Customer deposits	4,333,872	219,830	185,137	1,027,159	2,901,746	-
Debt securities	56,286	-	25,104	1,909	8,961	20,312
Financial liabilities at fair value	123,094	12,996	15,350	49,298	45,450	-
Other financial liabilities	328,992	-	-	-	-	328,992
Derivatives	55,873	318	4,252	2,411	7,434	41,458
Book value	**5,068,093**	**233,144**	**229,843**	**1,080,777**	**3,133,567**	**390,762**

The maturity of certain items included in the foregoing tables (mainly customer deposits) has been estimated based on the historic experience of effective durations, and this information is in line with that used by the Group in its 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

Crèdit Andorrà has widespread availability of liquid assets. These assets may be classified into different levels based on their degree of liquidity, which will in turn be what determines the discount level (*haircut*) which a counterparty would apply under 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 (average *haircut* of between 0.5% and 10%).
- Level 2: non-sovereign debt securities non-discountable in the ECB (average *haircut* of between 15% and 30%).
- Level 3: debt securities which, due to their characteristics (currency, etc.), are not discountable in the ECB but are liquid (average *haircut* of between 25% and 45%).
- 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 2017 and 2016, differentiating between those currently available for obtaining additional liquidity and those which are not available:

In thousand euros	Discounted (*encumbered*)	Non-discounted (*unencumbered*)	Total	Average *Haircut*	Available liquidity
31 December 2017					
Level 1	368,557	1,220,670	1,589,227	2.86%	1,185,792
Level 2	-	90,620	90,620	23.59%	69,244
Level 3	827	34,978	35,805	37.60%	21,827
Total assets	**369,384**	**1,346,268**	**1,715,652**	**5.16%**	**1,276,863**

In thousand euros	Discounted (*encumbered*)	Non-discounted (*unencumbered*)	Total	Average *Haircut*	Available liquidity
31 December 2016					
Level 1	307,932	1,343,250	1,651,182	2.69%	1,307,152
Level 2	412	51,899	52,311	18.46%	42,320
Level 3	3,379	33,106	36,485	35.17%	21,461
Total assets	**311,723**	**1,428,255**	**1,739,978**	**4.01%**	**1,370,933**

The average *haircut* is 5.16% at 31 December 2017 and 4.01% at 31 December 2016, evidencing the excellent quality of the Group's portfolio.

The available liquidity seen in the foregoing tables is calculated as the ratio between the average *haircut* and the market value of non-discounted assets (*unencumbered*).

5.3.3 Key figures

The liquidity ratio is calculated on a daily basis, as set forth in the Law regulating the solvency and liquidity criteria of financial entities, of 29 February 1996. This ratio compares the liquid assets and liabilities due in less than one month, and requires the ratio to not be below 40%. Crèdit Andorrà has kept this ratio comfortably above 40% at both individual and consolidated levels.

Below is a table listing the individual and consolidated liquidity ratios at 31 December 2017 and 2016:

	31/12/2017	31/12/2016
Individual	60.04%	58.26%
Consolidated	61.02%	59.03%

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 to investment; limited by volume.
- Limits to investment by issuer rating, maturity and portfolio or sub-portfolio.
- Limits to 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 department for the Control, Methodology and Assessment of Financial Risk Department is responsible for monitoring and controlling these limits and the risks assumed.

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

The following table shows the exposures of the assets and liabilities subject to market risk in the trading and non-trading portfolios:

In thousand euros	Book value	Trading portfolio	Non-trading portfolio
31 December 2017			
Assets subject to market risk	**477,220**	**5,547**	**471,673**
Derivatives	4,757	4,757	-
Other	472,463	790	471,673
Liabilities subject to market risk	**170,338**	**4,772**	**165,566**
Derivatives	46,964	4,772	42,192
Other	123,374	-	123,374

In thousand euros	Book value	Trading portfolio	Non-trading portfolio
31 December 2016			
Assets subject to market risk	**609,465**	**40,509**	**568,956**
Derivatives	6,967	6,967	-
Other	602,498	33,542	568,956
Liabilities subject to market risk	**178,967**	**7,212**	**171,755**
Derivatives	55,873	7,212	48,661
Other	123,094	-	123,094

5.4.2. Supervision of market risk

Regarding the measurement, control and management of the different risks, Crèdit Andorrà tracks market risk using the VaR methodology, this being the market's basic and standard variable.

The historic VaR is used to obtain these measurements, which calculates the impact on the current portfolio value of historic variations in risk factors, taking into account the variations from the last 250 days and with a confidence level of 95%.

The market VaR is calculated daily for a timescale of one day and with a confidence level of 95% for portfolios of the Group as a whole.

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, along with others, allow integrity and consistency to be tested.

- **Trading portfolios**

The main tool used for measuring and controlling exposure to market risk within the Group's trading portfolios is the VaR. The VaR of the trading portfolio is the estimate loss which would be noted in the portfolio over a period of time (the holding period) for an adverse market movement and for a certain confidence level. The VaR model used by the Group is based on a confidence level of 95% and assumed a holding period of 10 days. The VaR model used is based on historic simulation. Taking into account the market figures for the past two years, and the relations between different markets and prices, the model generates a wide range of possible future scenarios for the market price variations.

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. Among these limitations it is possible to identify that a 10-day holding period implies assuming the possibility of hedging or disposing of these positions within the specified period. This may not be the case if the assets are illiquid or if the market shows a situation of severe illiquidity. Furthermore, a confidence level of 95% does not reflect the potential losses that may occur outside this range. In other words, within the model used there is a 5% probability of the losses exceeding the calculated VaR. The VaR is calculated based on the day's closing, and therefore does not reflect the contributions of the *trading* positions of that day.

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 VaR measurement depends on the Group's positions and on the volatility of the market prices. So, the VaR of a position which does not change reduces if market volatility drops and vice-versa.

The Group uses VaR limits for the entire 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. The VaR is measured daily at least for all portfolios and even more frequently for the most active portfolios. Reports on the use of VaR limits are submitted to the COAPiR on a regular basis.

In order to complement the limitations of the VaR methodology, additional limits are established for the positions, as well as concentration limits aimed at limiting the potential effects on the *trading* portfolios. The Group also uses a wide range of *stress* scenarios for modelling the financial impact of a variety of exceptional scenarios on the *trading* portfolios and on the Group's overall position.

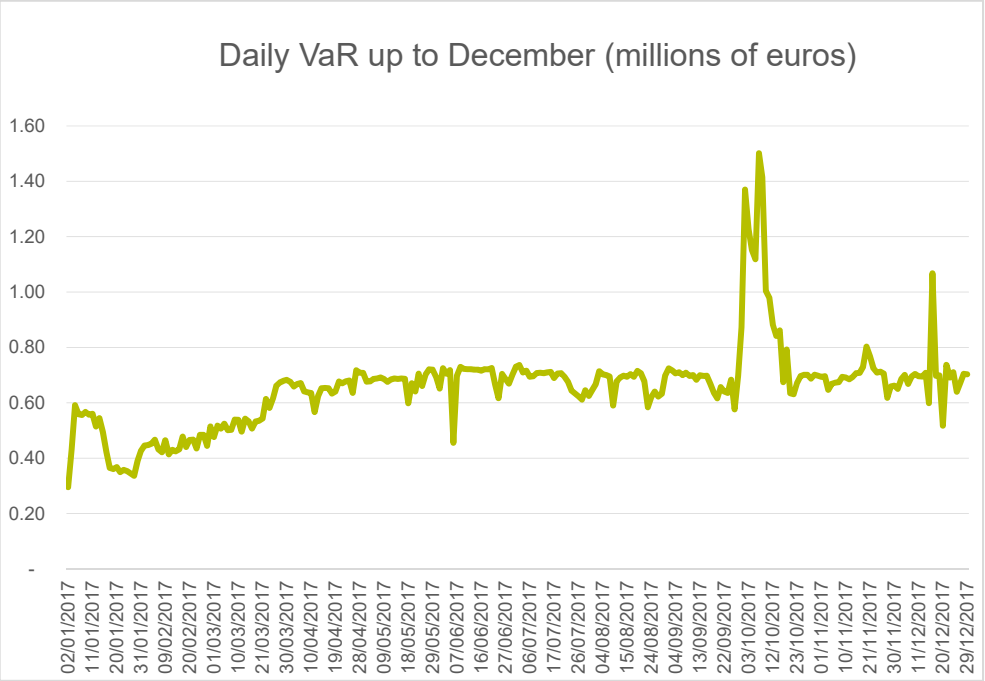
The Group determines these scenarios in the following manner:

- Scenarios of sensitivity that take into account the individual impact of any risk factor or of a series of factors that is unlikely to be duly reflected in the VaR models.
- Technical scenarios that take into account the most extreme variation in the risk factors without taking into consideration the market correlations.
- Hypothetical scenarios that take into account the potential effects of macroeconomic events, such as natural disasters, epidemics, prolonged illiquidity or reduced currency convertibility, etc.

The analyses of scenarios and the *stress* tests are reviewed by the COAPiR.

The Group's VaR models are subject to regular validation which ensures their expected operations and that the assumptions used in developing the model are still appropriate. As part of the validation process, the weaknesses of the model are analysed using statistical techniques such as *backtesting*.

Below is a graph which represents the summary of the daily VaR of the trading portfolio during the 2017 financial year.



Below is a summary of the VaR of the trading portfolio at 31 December 2017.

In thousand euros	31/12/2017	Average	Maximum	Minimum
Exchange rate risk	27	8	27	-
Interest rate risk	94	98	142	15
Credit risk	21	181	72	7
Variable income risk	1,541	33	3,123	-
Other	29	29	40	5
Total	**1,712**	**349**	**3,404**	**27**

- **Non-trading portfolios**

The main risk to which non-trading portfolios are exposed is the risk derived from losses due to fluctuations in future *cash flows* or the variations in the fair value of financial instruments due to the evolution of the financial markets.

One of the main risks is the interest rate risk, which is primarily managed by monitoring the interest rate gaps and the limits approved by the repricing bands. The COAPiR remains responsible for monitoring and tracking these limits and is assisted by the Group's Treasury for monitoring daily activities (see Note 5.5.).

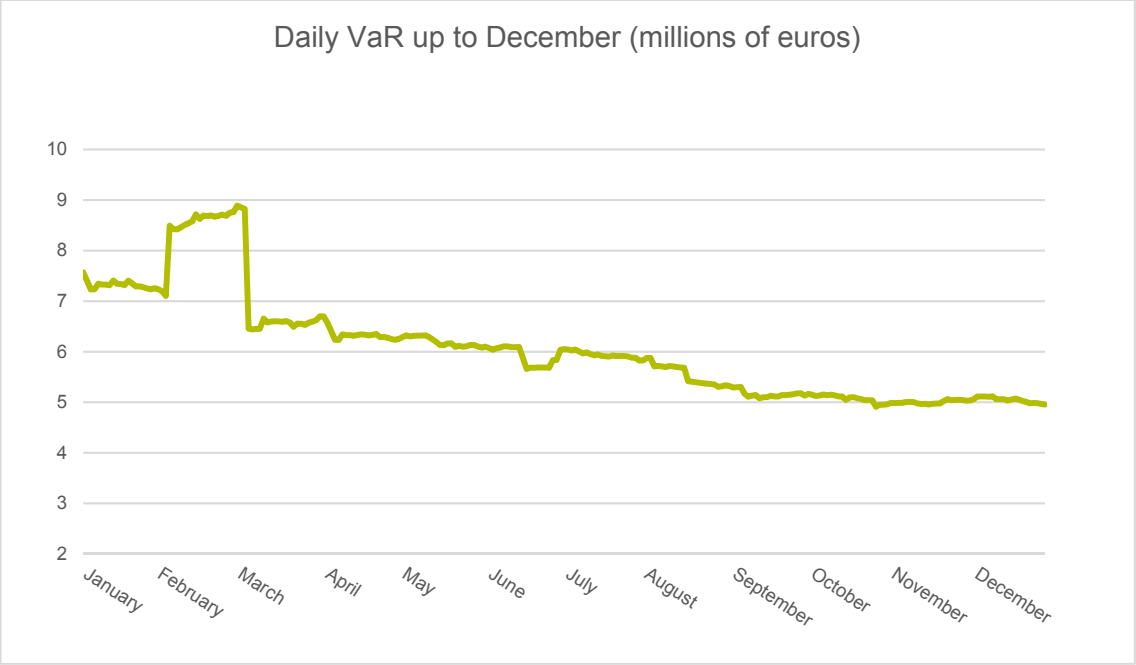
The risk arising from variable income is monitored regularly by the market risk group, although the current exposure is not relevant in relation to the Group's results and its overall position.

With regard to structural currency exposure, aside from monitoring the VaR with regards to foreign currencies, the Group also monitors any risk concentration related to any currency with regard to the movement of transactions in foreign currency, monetary assets and liabilities in the functional currency of the Group entities (see Note 5.6.).

For the investment portfolios as a whole, the average daily VaR, calculated at a 95% level of confidence, was 6,077 thousand euros, with a maximum and minimum of 8,889 thousand euros and 4,912 thousand euros respectively, compared with the authorised risk limit of 17 million euros.

An analysis of this report is supported by *backtesting*. In 2017, *backtesting* showed that gains and losses performed in accordance with what would be statistically expected. For investment portfolios as a whole, the daily VaR, with a 95% confidence level, was exceeded in 4.33% of cases throughout the year compared with the expected figure of 5%.

Below is a graph which represents the summary of the daily VaR of the investment portfolios as a whole:



5.5. Structural interest rate risk

The exposure to interest rate risk must be understood as the possible impact of the interest rate variables on items in the statement of financial position. This impact may cause adverse variations in the economic value and/or results of the Group.

The Assets, Liabilities and the Risks Committee (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 Internal Control Department in the Risks and Regulatory Compliance Area is responsible for measuring, analysing, controlling and reporting to the COAPiR the interest rate risks to which the Group is exposed. To perform this task appropriately, the Group has constituted a working group related to the management of assets and liabilities (ALM), headed by the Internal Control Department and made up by the Investments Area and the Financial Planning Division. This group is responsible for analysing and validating, prior presentation to the COAPiR, of the structural risk monitoring reports and the proposals for managing the assets listed within the statement of financial position.

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

The 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 effect the Group. The used scenarios 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 levels of confidence and temporary horizons.

The models used also require a series of assumptions in the performance of certain items of the statement of financial position to be prepared in order to model a performance which comes 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. Analysis of the 'gaps'

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 the 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 2017							
Cash, cash balances in central banks and other deposits at sight	251,265	32,712	-	166,572	-	-	51,981
Loans and receivables	2,647,418	1,433,482	449,964	386,931	212,322	97,263	67,456
Lending institutions	144,825	144,480	-	-	-	-	345
Customers	2,502,593	1,289,002	449,964	386,931	212,322	97,263	67,111
Debt securities	1,837,462	130,983	54,113	404,288	611,601	616,233	20,244
Other assets	51,898	-	-	-	-	-	51,898
Total assets	4,788,043	1,597,177	504,077	957,791	823,923	713,496	191,579
Financial liabilities at amortised cost	4,493,974	739,066	430,826	1,063,119	2,220,721	19,000	21,242
Central bank deposits	116,819	67,550	5,302	43,887	-	-	80
Deposits from lending institutions	239,049	130,378	-	108,596	-	-	75
Customer deposits	3,948,847	532,885	403,459	792,070	2,217,265	-	3,168
Debt securities	93,859	8,253	22,065	39,422	3,456	19,000	1,663
Other financial liabilities	95,400	-	-	79,144	-	-	16,256
Financial liabilities at fair value	123,374	21,227	10,102	79,076	5,900	6,370	699
Other liabilities	55,746	-	-	-	-	-	55,746
Total liabilities	4,673,094	760,293	440,928	1,142,195	2,226,621	25,370	77,687
Effects derived from interest rate risk hedging	-	228,930	28,371	-5,554	-134,141	-117,606	-
Net Total	**114,949**	**1,065,814**	**91,520**	**-189,958**	**-1,536,839**	**570,520**	**113,892**

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 2016							
Cash, cash balances in central banks and other deposits at sight	325,221	43,817	-	216,834	-	-	64,570
Loans and receivables	2,733,717	1,977,238	291,044	378,114	74,726	-	12,595
Lending institutions	53,876	-	-	53,876	-	-	-
Customers	2,679,841	1,977,238	291,044	324,238	74,726	-	12,595
Debt securities	1,915,691	39,431	121,592	115,766	1,028,699	611,449	-1,246
Other assets	62,046	-	-	-	-	-	62,046
Total assets	5,036,675	2,060,486	412,636	710,714	1,103,425	611,449	137,965
Financial liabilities at amortised cost	4,889,126	327,914	245,267	835,733	3,213,229	20,032	246,951
Central bank deposits	96,870	69,440	-	-	27,430	-	-
Deposits from lending institutions	73,106	51,336	-	-	21,770	-	-
Customer deposits	4,333,872	182,195	243,367	738,975	3,156,194	-	13,141
Debt securities	56,286	24,943	1,900	280	7,835	20,032	1,296
Other financial liabilities	328,992	-	-	96,478	-	-	232,514
Financial liabilities at fair value	123,094	26,217	24,237	61,697	6,596	-	4,347
Other liabilities	64,597	-	-	-	-	-	64,597
Total liabilities	5,076,817	354,131	269,504	897,430	3,219,825	20,032	315,895
Effects derived from interest rate risk hedging	-	209,965	54,389	68,139	-95,088	-237,405	-
Net Total	**-40,142**	**1,916,320**	**197,521**	**-118,577**	**-2,211,488**	**354,012**	**-177,930**

5.5.2. Sensitivity analysis

The measurement of sensitivity over the financial margin shows the possible impact on the repricing of the operations included in statement of financial position caused by 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. At year-end, financial margin sensitivity at one year of the sensitive the items of the statement of financial position, assuming a rising interest rate scenario and another falling interest rate scenario of 100 basis points each, was +18.7% and -1.5%, respectively.

In light of the current temporary interest rate structure, a fall of 100 basis points could lead to negative interest rates. The sensitivity analysis performed does not assume a minimum of zero for the tranches of the curve with negative interest rates. The zero minimum would only be applied to the tranches of the curve for which the initial interest rate scenario is positive.

Economic value sensitivity to interest rates measures the impact of interest rate variations on the current value of items of the statement of financial position. This sensitivity is measured by comparing the calculated economic value of the Group and the economic value taking into account variations in the market interest rate, dividing the result by the Group's shareholders' equity. At year-end, economic value sensitivity (in relation to equity), assuming a rising interest rate scenario and another falling interest rate scenario of 100 basis points each, was -3.8% and +18.5%, respectively.

The economic value and financial margin sensitivities to variations of interest rates of 100 basis points at 31 December 2017 and 2016 is as follows:

	Economic value sensitivity		Financial margin sensitivity	
In thousand euros	2017	2016	2017	2016
Increase by 100 b.p.s.	-3.9%	-5.0%	18.7%	13.7%
Decrease by 100 b.p.s.	18.6%	7.8%	-1.5%	1.2%

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 reference currency, which the euro. The Group has in its statement of financial position assets and liabilities in currencies other than euros for the consolidation of subsidiaries that operate in other currencies, for commercial activities carried out with customers who operate in other currencies and for the Group's investment activities in foreign assets and currencies.

The COAPiR is responsible for defining and supervising the management strategies of this type of risk, aiming to control the impact exchange rate fluctuations may have on the Group's solvency and on the equivalent in euros of the investments and profit/loss of the subsidiaries operating in currencies other than euros.

The Investments Area 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 of 5,000 thousand euros.

Below is the open position of the main currencies in which the Group has open exposure (equivalent in euros), calculated for cash operations and term operations, at the close of 2017 and 2016 financial years:

Open position (in thousand euros)	31/12/2017	31/12/2016
USD	-3,444	-1,423
PLN	136	808
GBP	119	163
DKK	92	55
CHF	-83	24

5.7. Operational risk

Crèdit 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 practises, 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 due to the fact that any process, system, person and line 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 Crèdit 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.

Corporate governance model in the management of operational risk

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

The Internal Control Department, which is part of the Risks and Regulatory Compliance Area, is responsible for developing the operational risk management framework of the Group as a whole, exercising in the area the following main functions:

- 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.
- Establish 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.
- Monitor 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 control, identifying, assessing, managing and informing of the operational risk events that take place within their department.

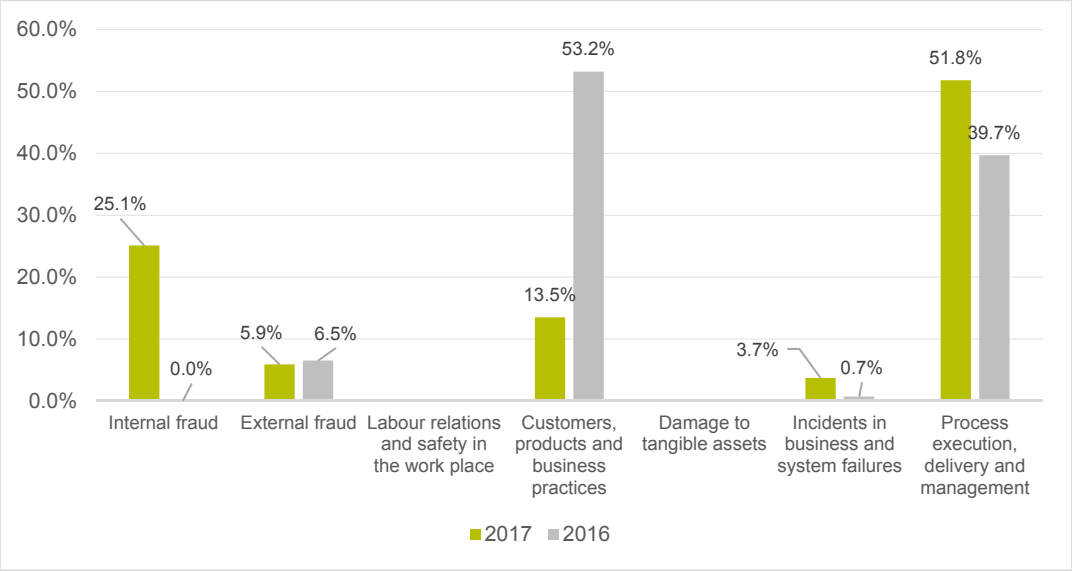
Tools and methodologies for managing operational risk

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 typology, line of business and affected department, following the criteria established 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 dating back to 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 2016 and 2017 financial years, the percentage distribution of losses due to operational risk based on the types of operational risk established by Basel was as follows:



- **Self-assessment of operational risks and controls**. During the latter year, the Group continued working on creating the first self-assessment process for 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 carried out prospectively in

relation to the probability and severity of the residual risk resulting, 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 carrying out the self-assessment methodology defined and for generating the operational risk maps.

During 2017, the self-assessment process for risks and controls shows the following figures:

- Identification and documentation of more than 5,000 processes and subprocesses within the entire Group.
- Identification of 1,100 operational risks and 2,000 mitigating controls.
- Qualitative assessment of 600 of these risks and 850 controls.
- Creation of departmental risk maps for 40 departments and the overall operational risk map of Banco Alcalá.

- **Regulatory capital calculation**. Although the Andorran regulations on solvency in force during 2017 do not require the calculation of operational risk equity requirements, given the aim of achieving the best banking practises in relation to risk management and on the basis of the upcoming transposition in Andorra of a solvency regulation equivalent to European Union directive CRD IV and the CRR regulation, the Group has performed this calculation on a recurrent basis, using both the basic indicator method and the standard method. This calculation enables to obtain the equity requirements necessary for ensuring the Group's solvency if faced with unexpected losses due to operational risk.

- **Monitoring and reporting**. The Internal Control Department carries out upward and downward reporting of the operational risk situation. The upward reporting is carried out periodically to the COAPiR and senior management including the operational losses materialised, as well as the evolution of the self-assessment. The downward reporting is carried out towards all departments within the Group, informing them of the evolution of 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 carried out. Conduct risk is the risk caused by inappropriate practices in the Bank's relations with its customers, how they are treated and the products they are offered and their suitability for each specific customer.

Reputational risk is the risk of decline in the trust and reputation values of the organisation with stakeholders such as the customers themselves, possible customers, the general population or supervisory institutions and the legal system, due to events linked to bad practice or unethical behaviour.

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

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

- Supervision of the management and control of the compliance and conduct risk and via a structure of committees designed by senior management which deal with this risk (Ethics Committee, Committee for the Prevention of Money Laundering and Financing of Terrorism (PBCFT in Catalan) and the 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 Policy to Prevent the Laundering of Money or Assets and the Financing of Terrorism.

- 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 Director of the Corporate Services division reports on compliance every quarter to the Board's Delegate Committee, as well as producing an annual report in writing.

The organisational model is based around the Risks and Regulatory Compliance division which, in addition to the functions of the Internal Control Department, is responsible for managing compliance and conduct risk throughout the Group. This division is made up of 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 carried out, which culminates in a review plan for the year.
- To report the results of the non-compliance risk assessment regularly to senior management of the company, expressing the most important aspects that may have occurred, indicating in particular whether appropriate action has been taken in the event shortcomings have been detected.

The scope of the department includes the following subjects, among others: a) protection of investors in the provision of investment and ancillary services; b) code of conduct in the securities markets; c) automatic exchange of information in tax matters; d) complaints service, 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 Risk and Compliance Division Head. 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 more. Finally, as a member of the banking association, we have worked on various compliance initiatives, notably the Code of Ethics of the Association, approved in early 2017.

5.8.2. 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 (i) clear, simple policies regarding corporate functions and, (ii) coordination and monitoring of the different regulatory compliance units of the Group.

The Group has a PBCFT policy approved by the Board of Directors. This policy has three essential lines of action shared by all Group companies (in which the Bank is a major shareholder). These lines of action are minimal in nature so that, if local legislation is stricter than Andorran legislation, the former is the one to be applied:

- Carry out 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, by 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 companies of the Group from being used by potential customers associated with criminal practices, such as:

- A risk-focused customer classification system in accordance with the best international standards, in which approval is required from different hierarchical and organisational levels.

- A range of committees (PBCFT Committee, Customer Approval Committee, Management Committee and the Regulatory Compliance Unit).

- 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, either 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 carried out by an external expert hired by the subsidiary itself, by the regulator or by the Group's Internal Audit Department, whose function is corporate. With regard to the foregoing, 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 as from the cancellation of an account or the completion of the corresponding transaction or operation, the following documents are kept: (i) copy of the documents that may be requested when applying due diligence; and (ii) 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, whose aim is to improve the training in this field of the Group's 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. Likewise, the models must impose the impossibility of arbitration.

The Methodology and Valuation Department of the Investments Area is responsible for determining these prices which are not 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 quotation of the financial instrument related to active markets, observable and seizable from independent sources. That is, prices listed on active markets.

- Level II: valuation performed by means of applying techniques which use variables obtained from the market. That is, 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

Below is the book value at 31 December 2017 and 2016 of the financial assets and liabilities of the Group and their corresponding fair value broken down based on the valuation methodology used for estimating their fair value:

31/12/2017 In thousand euros	Note	Book value	Book value	Level 1	Level 2	Level 3
Held-for-trading financial assets	**9**	**5,547**	**5,547**	**572**	**4,975**	**-**
Derivatives		4,757	4,757	-	4,757	-
Equity instruments		572	572	572	-	-
Debt securities		218	218	-	218	-
Financial assets at fair value through profit and loss	**10**	**201,545**	**201,545**	**199,022**	**833**	**1,690**
Equity instruments		186,782	186,782	185,092	-	1,690
Debt securities		5,684	5,684	4,851	833	-
Other		9,079	9,079	9,079		-
Available-for-sale financial assets	**11**	**270,128**	**270,128**	**238,272**	**947**	**30,909**
Equity instruments		41,971	41,971	11,062	-	30,909
Debt securities		228,157	228,157	227,210	947	-
Loans and receivables	**12**	**2,647,418**	**2,668,062**	**-**	**-**	**2,668,062**
Loans and advances		2,647,418	2,668,062	-	-	2,668,062
Lending institutions		144,825	144,825	-	-	144,825
Customers		2,502,593	2,523,237	-	-	2,523,237
Held-to-maturity financial assets	**13**	**1,603,403**	**1,582,171**	**1,484,784**	**97,387**	**-**
Debt securities		1,603,403	1,582,171	1,484,784	97,387	-
Hedging derivatives	**14**	**-**	**-**	**-**	**-**	**-**
Total assets		**4,728,041**	**4,727,453**	**1,922,650**	**104,142**	**2,700,661**
Held-for-trading financial liabilities	**9**	**4,772**	**4,772**	**600**	**2,275**	**1,897**
Derivatives		4,772	4,772	600	2,275	1,897
Financial liabilities at fair value through profit and loss	**10**	**123,374**	**123,374**	**-**	**121,749**	**1,625**
Financial liabilities at amortised cost	**19**	**4,493,974**	**4,493,974**	**-**	**-**	**4,493,974**
Central bank deposits		116,819	116,819	-	-	116,819
Deposits from lending institutions		239,049	239,049	-	-	239,049
Customer deposits		3,948,847	3,948,847	-	-	3,948,847
Debt securities		93,859	93,859	-	-	93,859
Other financial liabilities		95,400	95,400	-	-	95,400
Hedging derivatives	**14**	**42,192**	**42,192**	**-**	**42,192**	**-**
Total liabilities		**4,664,312**	**4,664,312**	**600**	**166,216**	**4,497,496**

31/12/2016 In thousand euros	Note	Book value	Book value	Level 1	Level 2	Level 3
Held-for-trading financial assets	**9**	**40,509**	**40,509**	**33,542**	**6,967**	**-**
Derivatives		6,967	6,967	-	6,967	-
Equity instruments		-	-	-	-	-
Debt securities		33,542	33,542	33,542	-	-
Financial assets at fair value through profit and loss	**10**	**235,134**	**235,134**	**230,786**	**-**	**4,348**
Equity instruments		205,227	205,227	200,879	-	4,348
Debt securities		4,516	4,516	4,516	-	-
Other		25,391	25,391	25,391	-	-
Available-for-sale financial assets	**11**	**333,822**	**333,822**	**309,302**	**157**	**24,363**
Equity instruments		35,284	35,284	10,764	157	24,363
Debt securities		298,538	298,538	298,538	-	-
Loans and receivables	**12**	**2,733,717**	**2,762,665**	**-**	**-**	**2,762,665**
Loans and advances		2,733,717	2,762,665	-	-	2,762,665
Lending institutions		53,876	53,876	-	-	53,876
Customers		2,679,841	2,708,789	-	-	2,708,789
Held-to-maturity financial assets	**13**	**1,579,095**	**1,558,218**	**1,558,218**	**-**	**-**
Debt securities		1,579,095	1,558,218	1,558,218	-	-
Hedging derivatives	**14**	**-**	**-**	**-**	**-**	**-**
Total assets		**4,922,277**	**4,930,348**	**2,131,848**	**7,124**	**2,791,376**
Held-for-trading financial liabilities	**9**	**7,212**	**7,212**	**-**	**5,315**	**1,897**
Derivatives		7,212	7,212	-	5,315	1,897
Financial liabilities at fair value through profit and loss	**10**	**123,094**	**123,094**	**-**	**118,746**	**4,348**
Financial liabilities at amortised cost	**19**	**4,889,126**	**4,889,126**	**-**	**-**	**4,889,126**
Central bank deposits		96,870	96,870	-	-	96,870
Deposits from lending institutions		73,106	73,106	-	-	73,106
Customer deposits		4,333,872	4,333,872	-	-	4,333,872
Debt securities		56,286	56,286	-	-	56,286
Other financial liabilities		328,992	328,992	-	-	328,992
Hedging derivatives	**14**	**48,661**	**48,661**	**-**	**48,661**	**-**
Total liabilities		**5,068,093**	**5,068,093**	**-**	**172,722**	**4,895,371**

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

6.3.1. Main valuation methods, hypotheses and 'inputs' used

Below are the main valuation methods, hypotheses and *inputs* used for estimating the fair value of the financial instruments classified in Levels 2 and 3, based on the type of financial instrument.

Financial instruments	Fair value			
31/12/2017	Level 2	Level 3	Main valuation techniques	Main inputs used
Debt securities				
Held-for-trading financial assets	**218**	-	**Present value method** (discounting future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate - Levels of market benchmarks
Financial assets at fair value through profit and loss	**833**	-		
Available-for-sale financial assets	**947**	-		
Held-to-maturity financial assets	**97,387**	-		
Financial liabilities at fair value through profit and loss	**121,749**	**1,625**		
Assets and liabilities at amortised cost				
Loans and receivables	-	**2,668,062**	**Present value method** (discounting future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate
Financial liabilities at amortised cost	-	**4,493,974**		
Equity instruments				
Held-for-trading financial assets	-	-	**Net equity** **Comparable prices** (prices of similar instruments)	- Net asset value issued by the directors of the collective investment organisations - Prices of similar instruments or market benchmarks
Financial assets at fair value through profit and loss	-	**1,690**		
Available-for-sale financial assets	-	**30,909**		
Derivatives				
Trading derivatives			- Credit: **Black-Scholes and probability of *default*** - Exchange rate: **discounting flows, Black-Scholes** - Debt securities: **Discounting flows** - Variable income: **Black-Scholes and discounting flows** - Exchange rate: **discounting flows** - Interest Rate Swaps, Call Money Swaps and FRA: **discounting flows** - Caps/Floors: **Black-Scholes and Hull-White** - Options on debt securities: **Black-Scholes** - Swaptions: **Black-Scholes, Hull-White**	- Exchange rate - Future prices listed on markets or consensus services - Market exchange rate - Prices of underlying assets: shares, funds, *commodities* - Volatilities observed on the market or in consensus services. - Levels of credit *spread* of the issuers - Listed or consensual dividends
Assets	**4,757**	-		
Liabilities	**2,275**	**1,897**		
Hedging derivatives				
Assets	-	-		
Liabilities	**42,192**	-		

Financial instruments	Fair value			
31/12/2016	Level 2	Level 3	Main valuation techniques	Main inputs used
Debt securities:				
Held-for-trading financial assets	-	-	**Present value method** (discounting future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate - Levels of market benchmarks
Financial assets at fair value through profit and loss	-	-		
Available-for-sale financial assets	-	-		
Held-to-maturity financial assets	-	-		
Financial liabilities at fair value through profit and loss	**118,746**	**4,348**		
Assets and liabilities at amortised cost				
Loans and receivables	-	**2,762,665**	**Present value method** (discounting future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate
Financial liabilities at amortised cost	-	**4,889,126**		
Equity instruments				
Held-for-trading financial assets	-	-	**Net equity** **Comparable prices** (prices of similar instruments)	- Net asset value issued by the directors of the collective investment organisations - Prices of similar instruments or market benchmarks.
Financial assets at fair value through profit and loss	-	**4,348**		
Available-for-sale financial assets	**157**	**24,363**		
Derivatives				
Trading derivatives			- Credit: **Black-Scholes and probability of *default*** - Exchange rate: **discounting flows, Black-Scholes** - Debt securities: **Discounting flows** - Variable income: **Black-Scholes and discounting flows** - Exchange rate: **discounting flows** - Interest Rate Swaps, Call Money Swaps and FRA: **discounting flows** - Caps/Floors: **Black-Scholes and Hull-White** - Options on debt securities: **Black-Scholes** - Swaptions: **Black-Scholes, Hull-White**	- Exchange rate - Future prices listed on markets or consensus services - Market exchange rate - Prices of underlying assets: shares, funds, *commodities* - Volatilities observed on the market or in consensus services - Levels of credit spread of the issuers. - Listed or consensual dividends
Assets	**6,967**	-		
Liabilities	**5,315**	**1,897**		
Hedging derivatives				
Assets	-	-		
Liabilities	**48,661**	-		

In the case of instruments recognised at amortised 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 as material), the Group considers that their book value (including value adjustments due to credit risk hedging) does not differ significantly from their fair value.

Below is a more detailed description of the main techniques mentioned in the previous tables:

- **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 of the data which is affect by a flow. The process applied for calculating yield curves is known as *bootstrapping* and is based on calculating the discount factors at the different terms for the selected references based on the process explained: the first step is to calculate the discount factors generated by the deposits and the futures of the deposits and, then, for the swaps, each in their own currency.

  - Credit spread The credit spread represents the difference between the performance of an instrument and the reference rate, and reflects the additional performance which a participant in the market would demand for taking on the credit risk of said instrument. Therefore, the credit spread of an instrument is part of the discount rate which is used for calculating the present value of the 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 *credit default swaps* (CDS) of the issuer. For issuers for which no CDS is available, the credit spread is calculated based on the listed debt securities of the issuer.

    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, reference index or market benchmarkare used for calculating 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 reference. 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 the 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 distributions; (2) it is possible to take on short positions in the underlying item; (3) there is no option for arbitration; (4) the market tradings are continuous; (5) there are no transaction costs; (6) all the underlying items are dividable; (7) cash may be borrowed and loaned at the risk-free interest rate, and (8) the share price fluctuates randomly, for which mathematical hope 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

The *credit valuation adjustment* (CVA) is an adjustment to the valuation of OTC (*over the counter*) derivatives, resulting from the risk associated with the credit exposure assumed with each counterparty.

The CVA is calculated taking into account the expected exposure with each counterparty in each future term. The CVA for a certain counterparty equals the sum of the CVA for all the terms.

The necessary adjustments are calculated based on the expected exposure, the probability of default and the loss given default for all derivatives on any underlying item, within the scope of legal entity (all counterparties under the same ISDA/CMOF) with which the Group has exposure.

As a general rule, the CVA calculation is the product of the positive expected exposure and the probability of default, multiplying the result by the loss given default, that is, by the expected loss in the event of default by the counterparty. As mentioned previously, the calculations are carried out for the entire potential exposure period.

The amounts corresponding to the credit risk valuation adjustments of the derivatives at 31 December 2017 and 2016 amounted to -5.05 million euros and -5.24 million euros, respectively, per *credit valuation adjustment*" (CVA).

6.3.2. Sensitivity analysis

At 31 December 2017, the effect on the profit/loss and net equity resulting from changing the main hypotheses used in the valuation of level 3 financial instruments for other reasonably possible hypotheses, taking the highest value (most favourable hypothesis) or the lowest (least favourable hypothesis) Of the range estimated to be probable, would be:

- Impact on the profit/loss of +1,859 thousand euros (scenario under the most favourable hypotheses) and +1,521 thousand euros (scenario under the least favourable hypotheses) caused by the fluctuation in the market value of level 3 assets, and an impact of -1,788 thousand euros and -1,463 thousand euros, respectively, due to fluctuations in the market value of level 3 liabilities.

- An impact on other accumulated reserves of +34,000 thousand euros and of +27,818 thousand euros (scenario under the least favourable hypotheses) caused by the fluctuation in the market value of the assets classified as level 3.

6.3.3. Movement in the year of assets and liabilities classified as level 3

In 2017 and 2016, the following movements took place in assets and liabilities classified as level 3:

	2017		2016	
In thousand euros	Assets	Liabilities	Assets	Liabilities
Opening balance	**2,791,376**	**-4,895,371**	**2,867,044**	**-5,254,559**
Value adjustments registered in gains and losses	-	-	2,163	-2,163
Value adjustments not registered in gains and losses	-8,304		28,948	-
Purchases, sales and settlements	-82,411	397,875	-106,779	361,351
Net level 3 incomings / (outgoings)	-	-	-	-
Exchange rate differences and others	-	-	-	-
Closing balance	**2,700,661**	**-4,497,496**	**2,791,376**	**-4,895,371**

During 2017 and 2016, 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 profit/loss of Crèdit Andorrà Group, and is built 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 the inherent risks, the management particularities and the geographical location of each. Likewise, business segregation of the activity and profit/loss 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 profit/loss 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. Likewise, it also includes business banking, aimed at providing specialised services to national companies and businesses, as well as 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 Division**. 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

Below is the information related to the profit/loss and business volume of Crèdit Andorrà Group for 2017 and 2016 by business segment.

In thousand euros	Private Banking	Commercial banking	Insurance business	Investments, customer services*** and adjustments	Total 31/12/2017
Interest margin	10,899	28,539	-	-727	38,711
Net operating profit/loss	104,905	44,542	11,188	34,954	195,589
Operating profit/loss (1)	76,321	37,650	5,914	-63,891	55,995
Profit/loss for the year	**76,321**	**37,650**	**4,994**	**-68,407**	**50,559**
Assets	721,733	1,866,464	-	19,610	2,607,806
Liabilities	2,587,134	1,350,338	-	175,324	4,112,796
Off the statement of financial position	8,766,180	493,207	-	286,224	9,545,611
Business volume	**12,075,046**	**3,710,010**	-	**481,157**	**16,266,213**

(1) Net operating profit/loss less administration expenses and depreciation

In thousand euros	Private Banking	Commercial Banking	Insurance Business	Investments, customer services*** and adjustments	Total 31/12/2016
Interest margin	8,598	31,636	-	5,418	45,651
Net operating profit/loss	105,341	46,450	10,587	79,504	241,882
Operating profit/loss (1)	74,101	38,685	5,527	-15,415	102,899
Profit/loss for the year	**74,101**	**38,685**	**4,757**	**-85,652**	**31,892**
Assets	700,745	1,996,997	-	35,975	2,733,717
Liabilities	3,000,637	1,224,624	-	108,611	4,333,872
Off the statement of financial position	7,850,203	477,349	-	489,479	8,817,031
Business volume	**11,551,585**	**3,698,970**	-	**634,065**	**15,884,620**

(1) Net operating profit/loss less administration expenses 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, therefore, may differ from the accounting items presented in other sections of the financial statement.

8. Cash, cash balances in central banks and other deposits at sight

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

In thousand euros	31/12/2017	31/12/2016
Cash	39,969	64,567
Cash balances in central banks	10,131	3,905
Other deposits - sight	201,165	256,749
Total	**251,265**	**325,221**

9. Held-for-trading financial assets and liabilities

9.1. Held-for-trading financial assets

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

In thousand euros	31/12/2017	31/12/2016
Non-derivative assets		
Equity instruments	**572**	-
Listed instruments	572	-
Unlisted instruments	-	-
Debt securities	**218**	**33,542**
Public debt and central banks	-	24,584
Lending institutions	94	5,267
Other financial companies	124	-
Other	-	3,691
Total non-derivative assets	**790**	**33,542**
Derivative assets		
Interest rates	887	893
Currencies	3,870	5,500
Credit	-	574
Equity instruments	-	-
Other	-	-
Total derivative assets	**4,757**	**6,967**
Total	**5,547**	**40,509**

During 2017, and therefore also previously, given that as mentioned in Note 1.4. "Information comparison", the consolidated financial statements for 2017 are the first which the Group has formulated applying the International Financial Reporting Standards adopted by the European Union (IFRS-EU) - there has been no reclassification of financial assets among portfolios. Consequently, the profit/loss and levels of equity of the 2017 and 2016 financial years have not been affected by reclassifications among portfolios of financial assets and liabilities.

9.2. Held-for-trading financial liabilities

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

In thousand euros	31/12/2017	31/12/2016
Derivative liabilities		
Interest rates	137	296
Currencies	2,709	5,019
Credit	-	-
Equity instruments	29	1,897
Other	1,897	-
Total derivative liabilities	**4,772**	**7,212**
Total	**4,772**	**7,212**

10. Financial assets and liabilities at fair value through profit and loss

The breakdown of the balance in these headings of the statement of financial position at 31 December 2017 and 2016, is as follows:

In thousand euros	31/12/2017	31/12/2016
Assets		
Equity instruments	**186,782**	**205,227**
Of which linked to Unit-Link	154,167	184,752
Debt securities	**5,684**	**4,516**
Of which linked to Unit-Link	1,308	4,516
Other financial assets	**9,079**	**25,391**
Of which linked to Unit-Link	9,079	25,391
Total assets	**201,545**	**235,134**
Liabilities		
Debt securities	**123,374**	**123,094**
Total liabilities	**123,374**	**123,094**

10.1. Other financial assets at fair value through profit and loss

This item includes investments linked to operations with life insurance products when the investment risk is assumed by the customer, those known as *Unit-Link insurances*. This product is marketed through Crèdit Assegurances SAU.

The amount of Other financial assets linked to Unit-Links corresponds to other investments of this insurance product which do not correspond to equity instruments or debt securities. By way of example, these assets include investments in certificates of deposit, currency accounts, etc.

10.2. Other financial liabilities at fair value through profit and loss

This section includes structured liabilities, i.e. financial liabilities that contain an implicit derivative, by means of which the customers assume an additional risk aside from the credit risk of Crèdit Andorrà and the interest rate risk. The liabilities are mainly linked to certain assets which the Group has in its assets, the risks and profits from which have been transferred to their customers through these structured liabilities.

11. Available-for-sale financial assets

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

	31/12/2017			
In thousand euros	Cost/amortised cost	Unrealised gains	Unrealised losses	Fair value
Equity instruments	**36,658**	**5,509**	**-196**	**41,971**
Gross amount	36,658	5,509	-196	41,971
Listed instruments	794	2,303	-196	2,901
Unlisted instruments	35,864	3,206	-	39,070
Accumulated impairment	-	-	-	-
Debt securities	**229,030**	**785**	**-1,658**	**228,157**
Gross amount	229,225	785	-1,658	228,352
Public debt and central banks	229,225	785	-1,658	228,352
Accumulated impairment	-195	-	-	-195
Total	**265,688**	**6,294**	**-1,854**	**270,128**

	31/12/2016			
In thousand euros	Cost/amortised cost	Unrealised gains	Unrealised losses	Fair value
Equity instruments	**30,574**	**5,401**	**-691**	**35,284**
Gross amount	30,574	5,401	-691	35,284
Listed instruments	-	-	-	-
Unlisted instruments	30,574	5,401	-691	35,284
Accumulated impairment	-	-	-	-
Debt securities	**294,987**	**3,551**	**-**	**298,538**
Gross amount	295,225	3,551	-	298,776
Public debt and central banks	295,225	3,551	-	298,776
Accumulated impairment	-238	-	-	-238
Total	**325,561**	**8,952**	**-691**	**333,822**

In 2017, Crèdit Andorrà Group sold on the market financial assets classified in this heading of the consolidated statement of financial position, materialising latent gains for a gross amount of 3,177 thousand euros (42,607 thousand euros in 2016), which are registered in the heading of the consolidated statement of financial position 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).

During 2017, and therefore also previously, given that as mentioned in Note 1.4. "Information comparison", the consolidated financial statements for 2017 are the first which the Group has formulated applying the International Financial Reporting Standards adopted by the European Union (IFRS-EU) - there has been no reclassification of financial assets among portfolios. Consequently, the profit/loss and levels of equity of the 2017 and 2016 financial years have not been affected by reclassifications among portfolios of financial assets and liabilities.

12. Loans and receivables

12.1. Loans and advances to lending institutions

The breakdown of this section of the statement of financial position, by type of financial instrument, at 31 December 2017 and 2016, is as follows:

In thousand euros	31/12/2017	31/12/2016
Loans and advances to lending institutions	**144,829**	**53,877**
Term accounts	66,159	-
Other	78,670	53,877
Valuation adjustments	**-4**	**-1**
Interest and commissions accrued	-4	-1
Total	**144,825**	**53,876**

12.2. Customer loans and advances

The breakdown of this section of the statement of financial position, by type of financial instrument, at 31 December 2017 and 2016, is as follows:

In thousand euros	31/12/2017	31/12/2016
Customer loans and advances	**2,612,254**	**2,842,679**
Debtors with monetary guarantees	292,818	314,526
Debtors with security guarantees	254,438	212,552
Mortgages for purchase of first home	231,011	214,619
Rest of mortgages	1,136,867	1,240,107
Debtors with personal guarantees	547,661	691,553
Credit cards	16,564	16,069
Commercial discount	12,784	13,966
Credit accounts	178,647	209,401
Overdrafts and overruns	2,809	3,940
Other consumer lending	336,857	448,177
Defaulted assets	149,459	169,322
Valuation adjustments	**-109,661**	**-162,838**
Losses due to impairment	-118,827	-173,029
Interest and commissions accrued	9,166	10,191
Net book value	**2,502,593**	**2,679,841**

13. Held-to-maturity investments

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

In thousand euros	31/12/2017	31/12/2016
Debt securities	**1,591,696**	**1,565,180**
Public debt and central banks	1,498,250	1,492,904
Lending institutions	77,901	43,031
Other companies	15,545	29,245
Valuation adjustments	**11,707**	**13,915**
Losses due to impairment	-958	-1,760
Interest and commissions accrued	12,665	15,675
Total	**1,603,403**	**1,579,095**

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 derivatives from hedge accounting as well as the changes in fair value of hedged items of a portfolio with interest rate risk hedging at 31 December 2017 and 2016 is as follows:

In thousand euros	31/12/2017	31/12/2016
Assets	**25,611**	**34,359**
Hedge accounting derivatives	-	-
Changes in fair value of hedged items in interest rate risk hedging	25,611	34,359
Liabilities	**42,192**	**48,661**
Interest rate hedge accounting derivatives	42,192	48,661
Of which micro-hedging	27,278	30,647
Of which macro-hedging	14,914	18,014
Changes in fair value of hedged items in interest rate risk hedging	-	-

All of the hedge accounting included in the previous table corresponds to interest rate risk hedges and are carried out through 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 object of the hedging.

The Group carries out interest rate risk **accounting micro-hedges** for part of the portfolio of fixed rate loans.

The Group carries out **accounting macro-hedges** for hedging the interest rate risk of certain portfolios of fixed rate loans and liabilities held with customers.

The hedging instruments used are mainly OTC interest rate swaps which transform the fixed rate hedged element into a variable rate.

During 2017, the Group has recognised a net profit/loss for hedge accounting of 1,115 thousand euros (134 thousand euros in 2016).

The values of the hedging instruments included in the assets and liabilities of the statement of financial position at 31 December 2017 and 2016, as well as the adjustments of hedged items, can be seen in the previous table.

At 31 December 2017, the Group performed the corresponding effectiveness tests in relation to the above hedges. Any eventual inefficiencies of the hedges have been recorded in profit/loss, under the section “Profit or losses resulting from hedge accounting, net”.

14.2. Cash flow accounting hedges

The Group does not perform sash flow accounting hedges.

15. Tangible assets

The breakdown of the tangible assets heading, their accumulated depreciation, the corresponding impairment fund, where appropriate, and the movements during 2017 and 2016 are as follows:

	Privately used tangible assets							
In thousand euros	Land and property	Building works underway	Furniture and facilities	Hardware	Other	Total	Real estate investments	Total
Cost								
Balance at 1 January 2017	**73,809**	**3,883**	**78,878**	**15,715**	**7,735**	**180,020**	**81,869**	**261,889**
Additions	-	1,811	317	1,332	95	3,555	183	3,738
Retirements	-	-	-	-122	-	-122	-	-122
Sales	-3,531	-54	-2,420	-	-	-6,005	-9,987	-15,992
Transfers	1,236	-2,782	1,293	1,094	-13	828	-1,165	-337
Exchange rate differences and others	-	-	-	-	-	-	-	-
Balance at 31 December 2017	**71,514**	**2,858**	**78,068**	**18,019**	**7,817**	**178,276**	**70,900**	**249,176**
Accumulated amortisation								
Balance at 1 January 2017	**-1,309**	**-**	**-62,368**	**-12,857**	**-358**	**-76,892**	**-660**	**-77,552**
Additions	-1,479	-	-2,297	-1,550	-18	-5,344	-132	-5,476
Retirements	-	-	-	38	11	49	-	49
Sales	367	-	677	-	-	1,044	483	1,527
Transfers	-451	-	-982	1,138	18	-277	277	-
Exchange rate differences and others	-	-	-	-	-	-	-	-
Balance at 31 December 2017	**-2,872**	**-**	**-64,970**	**-13,231**	**-347**	**-81,420**	**-32**	**-81,452**
Losses due to impairment								
Balance at 1 January 2017	**-597**	**-**	**-**	**-**	**-**	**-597**	**-44,687**	**-45,284**
Additions	-	-	-	-	-	-	-	-
Retirements	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	4,715	4,715
Transfers	-267	-	-	-	-	-267	267	-
Exchange rate differences and others	-	-	-	-	-	-	-	-
Balance at 31 December 2017	**-864**	**-**	**-**	**-**	**-**	**-864**	**-39,705**	**-40,569**
Net book value at 1 January 2017	**71,903**	**3,883**	**16,510**	**2,858**	**7,377**	**102,531**	**36,522**	**139,053**
Net book value at 31 December 2017	**67,778**	**2,858**	**13,098**	**4,788**	**7,470**	**95,992**	**31,163**	**127,155**

In thousand euros	Privately used tangible assets						Real estate investments	Total
	Land and property	Building works underway	Furniture and facilities	Hardware	Other	Total		
Cost								
Balance at 1 January 2016	**55,333**	**2,052**	**75,439**	**14,944**	**7,718**	**155,486**	**84,566**	**240,052**
Additions	20,225	3,087	1,727	403	45	25,487	4,671	30,158
Retirements	-	-	-	-	-28	-28	-	-28
Sales	-529	-	-72	-	-	-601	-6,803	-7,404
Transfers	-1,220	-1,256	1,784	368	-	-324	-565	-889
Exchange rate differences and others	-	-	-	-	-	-	-	-
Balance at 31 December 2016	**73,809**	**3,883**	**78,878**	**15,715**	**7,735**	**180,020**	**81,869**	**261,889**
Accumulated amortisation								
Balance at 1 January 2016	**-1,527**	**-**	**-58,402**	**-11,086**	**-342**	**-71,357**	**-935**	**-72,292**
Additions	-1,179	-	-3,109	-1,767	-18	-6,073	-650	-6,723
Retirements	-	-	-	-	-	-	-	-
Sales	99	-	26	-	-	125	449	574
Transfers	1,298	-	-883	-4	2	413	476	889
Exchange rate differences and others	-	-	-	-	-	-	-	-
Balance at 31 December 2016	**-1,309**	**-**	**-62,368**	**-12,857**	**-358**	**-76,892**	**-660**	**-77,552**
Losses due to impairment								
Balance at 1 January 2016	**-597**	**-**	**-**	**-**	**-**	**-597**	**-35,577**	**-36,174**
Additions	-	-	-	-	-	-	-9,110	-9,110
Retirements	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Exchange rate differences and others	-	-	-	-	-	-	-	-
Balance at 31 December 2016	**-597**	**-**	**-**	**-**	**-**	**-597**	**-44,687**	**-45,284**
Net book value at 1 January 2016	**53,209**	**2,052**	**17,037**	**3,858**	**7,376**	**83,532**	**48,054**	**131,586**
Net book value at 31 December 2016	**71,903**	**3,883**	**16,510**	**2,858**	**7,377**	**102,531**	**36,522**	**139,053**

15.1. Fixed assets

This section of the statement of financial position comprises privately used fixed assets, which are assigned to cash-generating units (CGU) of the different businesses of the Group (see Note 7). At 31 December 2017 and 2016, there was no indications of impairment to the net value of assets associated with the different CGU.

At 31 December 2017 and 2016, all property was fully available.

The fully depreciated privately used fixed assetsat 31 December 2017 and 2016 amounted to 70,004 thousand euros and 54,655 thousand euros, respectively.

At 31 December 2017 and 2016, there were no restrictions to the realisation of tangible assets or the collection of income deriving from them.

At 31 December 2017 and 2016, the Group has no significant commitments for purchasing fixed assets.

For further information relating to the additions during 2016 seen in the previous table of the land and property section, see Note 2.17.3.

15.2. Real estate investments

Real estate investments are subject to annual taxation. As a result of said taxation, at 31 December 2017 and 2016, the Group has recorded net provisions in the amount of 0 thousand euros and 9,110 thousand euros, respectively.

On the basis of the valuations available at 31 December 2017, the fair value of the real estate investment portfolio amounts to 31,163 thousand euros. 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 book value of the real estate investments which generated income in 2017 amounts to 31,163 thousand euros.

The operating income accrued from real estate working under a lease regime is recorded under the heading "Other working income" in the statement of profit and loss (see Note 38).

16. Intangible assets

The breakdown of the Intangible assets heading, their accumulated depreciation, the corresponding impairment fund, where appropriate, and the movements in 2017 and 2016 are as follows:

In thousand euros	Goodwill	Differences of first-time consolidation	IT applications	Other	Total
Cost					
Balance at 1 January 2017	**26,493**	**46,864**	**63,976**	**822**	**138,155**
Additions	45	-	17,229	-	17,274
Retirements	-369	-	-324	-157	-850
Sales	-	-	-	-	-
Transfers	-	-	-1,018	1,355	337
Exchange rate differences and others	-	-4,216	-481	-	-4,697
Balance at 31 December 2017	**26,169**	**42,648**	**79,382**	**2,020**	**150,219**
Accumulated amortisation					
Balance at 1 January 2017	-	-	**-22,329**	-	**-22,329**
Additions	-	-	-6,788	-	-6,788
Retirements	-	-	7	-	7
Sales	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange rate differences and others	-	-	481	-	481
Balance at 31 December 2017	-	-	**-28,629**	-	**-28,629**
Losses due to impairment					
Balance at 1 January 2017	**-8,761**	**-112**	-	-	**-8,873**
Additions	-	-	-	-	-
Retirements	-	-	-	-	-
Sales	-	-	-	-	-
Transfers	-	-	-		-
Exchange rate differences and others	-	-	-	-	-
Balance at 31 December 2017	**-8,761**	**-112**	-	-	**-8,873**
Net book value at 1 January 2017	**17,732**	**46,752**	**41,647**	**822**	**106,953**
Net book value at 31 December 2017	**17,408**	**42,536**	**50,753**	**2,020**	**112,717**

In thousand euros	Goodwill	Differences of first-time consolidation	IT applications	Other	Total
Cost					
Balance at 1 January 2016	**26,493**	**45,168**	**46,026**	**901**	**118,588**
Additions	-	1,235	17,961	-	19,196
Retirements	-	-	-11	-79	-90
Sales	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange rate differences and others	-	461		-	461
Balance at 31 December 2016	**26,493**	**46,864**	**63,976**	**822**	**138,155**
Accumulated amortisation					
Balance at 1 January 2016	-	-	**-15,030**	-	**-15,030**
Additions	-	-	-7,310	-	-7,310
Retirements	-	-	11	-	11
Sales	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange rate differences and others	-		-	-	-
Balance at 31 December 2016	-	-	**-22,329**	-	**-22,329**
Losses due to impairment					
Balance at 1 January 2016	-	-	-	-	-
		-			
Additions	-8,761	-112	-	-	-8,873
Retirements	-		-	-	-
Sales	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange rate differences and others	-	-	-	-	-
Balance at 31 December 2016	**-8,761**	**-112**	-	-	**-8,873**
Net book value at 1 January 2016	**26,493**	**45,168**	**30,996**	**901**	**103,558**
Net book value at 31 December 2016	**17,732**	**46,752**	**41,647**	**822**	**106,953**

16.1. Goodwill

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 initial consolidation that arise during the consolidation process. Below is a breakdown by company of the goodwill and differences from initial consolidation at 31 December 2017 and 2016.

	31/12/2017			31/12/2016		
In thousand euros	Cost	Provision	Net book value	Cost	Provision	Net book value
Banque de Patrimoines Privés SA	10,091	-	10,091	10,091	-	10,091
Banco Alcalá SA	13,848	-	13,848	13,848	-	13,848
Beta Capital Management LP	30,609	-	30,609	34,825	-	34,825
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	-
Crèdit Assegurances SA	4,536	-	4,536	4,860	-	4,860
Total	**68,817**	**-8,873**	**59,944**	**73,357**	**-8,873**	**64,484**

The main variations seen in the goodwill and differences from initial consolidation funds, which are ultimately reflected in the breakdown by company seen in the previous tables, are mainly explained by the facts described below:

- On 7 January 2016, the Bank acquired a 9.0301% stake in Banco Alcalá, SA, which until then had been controlled by minority shareholders, for a total of 4,462 thousand euros.

- During 2016, the Bank proceeded to impair by 8,761 thousand euros the goodwill related to the Mexican domestic business operated through the subsidiary CA México Asesores Patrimoniales SA, and by 112 thousand euros the differences from initial consolidation of CA Perú SAP, SAC.

- The variation seen in the goodwill of Beta Capital Management LP is related to the fluctuation of the euro/dollar exchange rate. In this sense it is important to taken 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 profit/loss (see Note 5.6).

Goodwill funds are not amortised, 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 statement of profit and loss.

The Group performs the impairment test on its goodwill and differences from initial consolidation every six months. The methodology and hypotheses used for performing the aforementioned impairment tests for the financial years ended on 31 December 2017 and 2016 was as follows:

- Methodology: discounting free cash flows.
- Timescale: 7 years and perpetual.
- Expected growth: 2.37% 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, for adapting them to regulatory and business requirements.

At 31 December 2017 and 2016, there were no intangible assets whose ownership is restricted in any manner or which serve as debt securities.

In addition, at 31 December 2017 and 2016, the Group had no significant commitments for purchasing intangible assets.

At 31 December 2017 and 2016, Crèdit Andorrà Group has intangible assets for a gross amount of 16,361 and 11,813 millions, respectively, which are fully amortised.

17. Other assets

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

In thousand euros	31/12/2017	31/12/2016
Operations underway	20,577	28,433
Accruals	27,401	29,026
Expenses paid and not accrued	2,106	2,702
Rest of asset accruals	25,295	26,324
Stock	312	402
Other	3,608	4,185
Total	**51,898**	**62,046**

The heading "Other assets" includes, among others, non-financial services rendered pending collection not related to bank commissions.

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 privately used assets 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 2017 and 2016, is as follows:

In thousand euros	31/12/2017	31/12/2016
Fixed assets	103,285	111,188
From foreclosures	73,627	81,984
Other	29,658	29,204
Total	**103,285**	**111,188**

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 2017 and 2016, are as follows:

	Fixed assets		
In thousand euros	From foreclosures	Other	Total
Cost			
Balance at 1 January 2017	**145,553**	**53,573**	**199,126**
Additions	10,274	-	10,274
Retirements	-29,080	-	-29,080
Transfers	-	-	-
Exchange rate differences and others	-	-	-
Balance at 31 December 2017	**126,747**	**53,573**	**180,320**
Losses due to impairment			
Balance at 1 January 2017	**-63,569**	**-24,369**	**-87,938**
Additions	-41	-	-41
Retirements	10,490	454	10,944
Transfers	-	-	-
Exchange rate differences and others	-	-	-
Balance at 31 December 2017	**-53,120**	**-23,915**	**-77,035**
Net book value at 1 January 2017	**81,984**	**29,204**	**111,188**
Net book value at 31 December 2017	**73,627**	**29,658**	**103,285**

In thousand euros	Fixed assets		
	From foreclosures	Other	Total
Cost			
Balance at 1 January 2016	**150,204**	**63,386**	**213,590**
Additions	23,270	-	23,270
Retirements	-27,921	-9,813	-37,734
Transfers	-	-	-
Exchange rate differences and others			-
Balance at 31 December 2016	**145,553**	**53,573**	**199,126**
Losses due to impairment			
Balance at 1 January 2016	**-52,406**	**-21,298**	**-73,704**
Additions	-15,004	-3,071	-18,075
Retirements	3,841	-	3,841
Transfers	-	-	-
Exchange rate differences and others	-	-	-
Balance at 31 December 2016	**-63,569**	**-24,369**	**-87,938**
Net book value at 1 January 2016	**97,798**	**42,088**	**139,886**
Net book value at 31 December 2016	**81,984**	**29,204**	**111,188**

The retirements of held-for-sale non-current assets shown in the previous table accrued losses for Crèdit Andorrà Group totalling 582 thousand euros during the financial year ended at 31 December 2017 (13,859 thousand euros for the financial year ended on 31 December 2016).

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 antiquity of the asset in the statement of financial position at 31 December 2017 and 2016:

In thousand euros	31/12/2017	31/12/2016
Assets for residential use	9,428	11,624
Assets for industrial or commercial use	13,971	18,939
Building works underway	766	1,531
Land for development	44,704	44,527
Land not for development	245	243
Built lands	4,513	5,120
Total	**73,627**	**81,984**
Up to 1 year	4,451	17,641
From 1 to 2 years	11,653	8,394
From 2 to 3 years	4,784	5,130
More than 3 years	52,739	50,819
Total	**73,627**	**81,984**

19. Financial liabilities at amortised cost

19.1. Breakdown of balance

The breakdown of this heading of the statement of financial position at 31 December 2017 and 2016, based on the nature of the financial instrument originating the liability, is as follows:

In thousand euros	Note	31/12/2017	31/12/2016
Deposits		**4,304,715**	**4,503,848**
Central bank deposits	19.2.	116,819	96,870
Deposits from lending institutions	19.3.	239,049	73,106
Customer deposits	19.4.	3,948,847	4,333,872
Debt securities	**19.5.**	**93,859**	**56,286**
Other liabilities	**19.6.**	**95,400**	**328,992**
Total		**4,493,974**	**4,889,126**

19.2. Central bank deposits

The breakdown at 31 December 2017 and 2016 of this section of the statement of financial position, based on the nature of the operations, is as follows:

In thousand euros	31/12/2017	31/12/2016
Central bank deposits	**116,740**	**96,865**
At sight	20,542	32,719
On time	96,198	64,146
Interest accrued	**79**	**5**
Total	**116,819**	**96,870**

19.3. Deposits from lending institutions

The breakdown at 31 December 2017 and 2016 of this section of the statement of financial position, based on the nature of the operations, is as follows:

In thousand euros	31/12/2017	31/12/2016
Deposits from lending institutions	**238,974**	**73,015**
At sight	91,631	13,145
On time	-	4
Temporary assignment of assets	147,343	59,866
Interest accrued	75	91
Total	**239,049**	**73,106**

19.4. Customer deposits

The breakdown at 31 December 2017 and 2016 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	31/12/2017	31/12/2016
By nature	**3,948,847**	**4,333,872**
Current and other accounts at sight	2,642,392	2,888,778
Time deposits	1,306,455	1,445,094
By sectors	**3,948,847**	**4,333,872**
Public administrations	66,813	83,000
Private sector	3,882,034	4,250,872

19.5. Debt securities

The breakdown at 31 December 2017 and 2016 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	31/12/2017	31/12/2016
Treasury stock	92,197	54,990
Interest accrued	1,662	1,296
Total	**93,859**	**56,286**

All of the treasury stocks included in the above table have been acquired by Group customers (not corresponding to wholesale financing) and their characteristics and risks are those typically seen in saving products (the customer only assumes the interest rate risk and credit risk of the issuer).

19.6. Other liabilities

The breakdown at 31 December 2017 and 2016 of this heading of the statement of financial position, based on the nature of the financial instrument originating the liability, is as follows:

In thousand euros	31/12/2017	31/12/2016
Subordinated liabilities	79,118	96,478
Other liabilities	16,282	232,514
Total	**95,400**	**328,992**

19.6.1. 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.

Crèdit Andorrà Preference Ltd. is a wholly owned subsidiary of Crèdit Andorrà and the issue mentioned has the joint and several and irrevocable guarantee of Crèdit Andorrà, as indicated in the corresponding information folder for the issue. Likewise, the risk assumed by the preference shareholders is that of Crèdit Andorrà SA.

This perpetual issue was fully taken up by third parties outside the Group and may be fully written off should the issuing company so decide, and with authorisation from the ANIF, after a period of six years following it being paid up.

At 31 December 2017, the Group has 70,882 thousand euros in treasury stock (53,522 thousand euros at 31 December 2016), which is included in the statement of financial position free from the liability issued.

19.6.2. Other liabilities

This section mainly includes the amount equivalent to the reimbursable value of E shares which are in circulation and for which the Bank has a current or future repurchase obligation (see Note 24.1.).

20. Assets and liabilities covered by insurance and reinsurance contracts

The breakdown at 31 December 2017 and 2016 of these headings of the statement of financial position, based on the nature of the provision originating the liability, is as follows:

	31/12/2017		
In thousand euros	Direct insurance and accepted reinsurance	Assigned reinsurance	Total (net)
Premiums not consumed and ongoing risks	3,465	-1,614	1,851
Mathematical provisions	82,839	-	82,839
Provision for benefits	3,112	-1,133	1,979
Participation in profit and refunds	51	-	51
Provisions for life insurances when the investment risk is assumed by the customer	164,765	-	164,765
Other technical provisions	55	-13	42
Total	**254,287**	**-2,760**	**251,527**

In thousand euros	31/12/2016 Direct insurance and accepted reinsurance	Assigned reinsurance	Total (net)
Premiums not consumed and ongoing risks	3,038	-1,276	1,762
Mathematical provisions	72,563	-	72,563
Provision for benefits	4,460	-1,421	3,039
Participation in profit and refunds	50	-	50
Provisions for life insurances when the investment risk is assumed by the customer	214,179	-	214,179
Other technical provisions	80	-9	71
Total	**294,370**	**-2,706**	**291,664**

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.

21. Provisions

The breakdown at 31 December 2017 and 2016 of this heading of the statement of financial position, based on the nature of the risk originating the provision, is as follows:

In thousand euros	31/12/2017	31/12/2016
Pensions and other defined post-employment benefit obligations	44,390	45,112
Other long-term employee remunerations	6,020	7,595
Restructuring provisions	-	1,709
Provisions for legal and tax litigation	8,427	7,527
Commitments and guarantees granted	1,538	1,538
Rest of provisions	1,930	747
Total	**62,305**	**64,228**

21.1. Movement of provisions not related to post-employment remuneration and other commitments with employees

The movement of the provisions not related to post-employment remuneration and other commitments with employees during 2017 and 2016 is as follows:

In thousand euros	Restructuring provisions	Provisions for legal and tax litigation	Commitments and guarantees granted	Rest of provisions	Total
Balance at 1 January 2016	-	7,527	1,541	479	9,547
Allocations	1,709	-	29	268	2,006
Charged to profit/loss	1,709	-	29	268	2,006
Charged to Other comprehensive profit and loss	-	-	-		-
Recoveries	-	-	-32	-	-32
Charged to profit/loss	-	-	-32	-	-32
Charged to Other comprehensive profit and loss	-	-	-	-	-
Applications / payments	-	-	-	-	-
Other movements	-		-	-	-
Balance at 31 December 2016	1,709	7,527	1,538	747	11,521
Allocations	-	900	-	1,183	2,083
Charged to profit/loss	-	900	-	1,183	2,083
Charged to Other comprehensive profit and loss	-	-	-	-	-
Recoveries	-405	-	-	-	-405
Charged to profit/loss	-405	-	-	-	-405
Charged to Other comprehensive profit and loss	-	-	-	-	-
Applications / payments	-1,304	-	-	-	-1,304
Other movements	-	-	-		-
Balance at 31 December 2017	-	8,427	1,538	1,930	11,895

21.1.1. Restructuring provisions

All additions to this section during 2016, 1,709 thousand euros, correspond to provisions made for staff restructuring recognised by the Group in December 2016, which due to their nature have been allocated under the heading staff costs in the statement of profit and loss.

21.1.2. Provisions for legal and tax litigation

The balance of provisions for legal and tax litigations primarily correspond to part of the potential impact which the Group has acknowledged, in compliance with the provisions of International Accounting Standard no. 32, in relation to the recognition of E shares as a financial liability (see Note 19.6) and not as a capital instrument (see Note 24).

The movement of the provision in 2017 corresponds to the provision recorded for covering the maximum amount of the possible sanction applicable to the Company as set forth in article 18 of the Amended text of the Law regulating the disciplinary regime of the financial system which is described in Note 28.1.

With the available information, the Group considers that at 31 December 2017 and 2016 it reliably estimated the obligations associated to each procedure and recognised, when so required, adequate provisions that reasonably cover 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 shall not have, as a whole, a significant adverse effect on the business, the financial situation or on the profit/loss of the Group's operations.

21.1.3. 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 2017 and 2016 (see Note 5.2.1.).

21.1.4. Rest of provisions

This section records the provisions which, due to the nature of the risk or the type of contingency they cover, 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 2017 and 2016 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	31/12/2017	31/12/2016
Pensions and other defined post-employment benefit obligations	44,390	45,112
Other long-term employee remunerations	6,020	7,595
Total	**50,410**	**52,707**

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, fruit 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 defined benefit pensions defined at the close of 2017 financial year amount to 44,390 thousand euros. 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 2017 and 2016.

In thousand euros	Current value of obligations	Fair value of plan assets	Liabilities for net defined profit (assets)
Balance at 1 January 2016	46,490	-	46,490
Total impact on profit/loss	2,183	-	2,183
Current services costs	-	-	-
Past services costs	-	-	-
Net profit/loss for interest	2,183	-	2,183
Total impact on Other comprehensive profit and loss	-864	-	-864
Actuarial losses / (profit)	-864	-	-864
Other			-
Other impact	-2,697	-	-2,697
Benefits paid	-2,697		-2,697
Other movements	-	-	-
Balance at 31 December 2016	45,112	-	45,112
Total impact on profit/loss	2,118	-	2,118
Current services costs	-		-
Past services costs	-		-
Net profit/loss for interest	2,118		2,118
Total impact on Other comprehensive profit and loss	-142	-	-142
Actuarial losses / (profit)	-142		-142
Other	-		-
Other impact	-2,698	-	-2,698
Benefits paid	-2,698		-2,698
Other movements	-		-
Balance at 31 December 2017	**44,390**	-	**44,390**

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:

		31/12/2017	31/12/2016
Mortality tables		PERM/F-2000 P	PERM/F-2000 P
Technical interest rate	Plan 1	4.89%	4.89%
	Plan 2	4.65%	4.65%
CPI		3.00%	3.00%

The projected amounts at 31 December 2017 have been determined on the basis of the real CPI for 2017 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:

		31/12/2017		31/12/2016	
In thousand euros	Variation in basis points	Increase	Decrease	Increase	Decrease
Technical interest rate	100	-4,338	5,253	-4,533	5,436
CPI	100	5,048	-4,225	5,215	-4,429

The sensitivity analysis has been determined by replicating the calculation of the value of the obligations modifying the variable in question and maintaining the other actuarial hypotheses constant.

22.2. Defined contribution schemes

For further information on the contributions to defined contribution schemes during 2017 and 2016, see Note 39.

These contributions represent an expenditure in the financial year in which they are accrued, and entail an expense in the statement of profit and loss of the corresponding year, and therefore do not entail recording liabilities for this concept in the liabilities of the Group statement of financial position.

22.3. Obligations for other long-term commitments

Crèdit Andorrà Group has commitments with its early retired employees, by which Crèdit Andorrà is committed to pay a long-term agreed remuneration for ending the employment relationship prior to their retirement.

A fund is constituted to cover the commitments acquired in relation to the retirement of its early retired staff, in so far as salary and their social security contributions, as of the moment their early retirement takes effect and until the date on which their 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 Crèdit Andorrà Group in relation to long-term employee remunerations, at 31 December 2017 and 2016.

In thousand euros	Current value of obligations	Fair value of plan assets	Liabilities for net defined profit (assets)
Balance at 1 January 2016	-	-	-
Total impact on profit/loss	7,793	-	**7,793**
Current services costs	-	-	-
Past services costs	7,793	-	7,793
Net profit/loss for interest	-	-	-
Total impact on Other comprehensive profit and loss	-	-	-
Actuarial losses / (profit)	-	-	-
Other	-	-	-
Other impact	-198	-	**-198**
Benefits paid		-	-
Other movements	-198	-	-198
Balance at 31 December 2016	**7,595**	-	**7,595**
Total impact on profit/loss	**50**	-	**50**
Current services costs	-	-	-
Past services costs	9	-	9
Net profit/loss for interest	41	-	41
Total impact on Other comprehensive profit and loss	-	-	-
Actuarial losses / (profit)	-	-	-
Other	-	-	-
Other impact	**-1,625**	-	**-1,625**
Benefits paid	-1,625	-	-1,625
Other movements	-	-	-
Balance at 31 December 2017	**6,020**	-	**6,020**

22.3.2. Actuarial methodology and hypotheses

The value of the obligations for other long-term employee remunerations has been calculated applying unbiased actuarial hypotheses which are mutually compatible. The main hypotheses used in the calculations are:

	31/12/2017	31/12/2016
Mortality tables	PERM/F-2000 P	PERM/F-2000 P
Technical interest rate	0.21%	0.13%
CPI	0%	0%

The technical interest rate used for updating the flows has been determined on the basis of the Iboxx Corporate AA 10+ curve and on the basis of the Iboxx 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	2017		2016	
		Increase	Decrease	Increase	Decrease
Technical interest rate	100	-151	158	-217	228

The sensitivity analysis has been determined by replicating the calculation of the value of the obligations modifying the variable in question and maintaining the other actuarial hypotheses constant.

22.4. Share-related payment obligations

Neither ended at 31 December 2017 and 2016, 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 2017 and 2016 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	31/12/2017	31/12/2016
Operations underway	18,340	27,692
Accruals	29,099	28,615
Accrued unpaid expenses	14,961	14,949
Rest of liability accruals	14,138	13,666
Suppliers and other creditors	4,048	4,145
Other	4,259	4,145
Total	**55,746**	**64,597**

The heading "Other assets" includes, among others, non-financial services received pending payment not related to bank commissions.

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 2015 and 2016, Class E shares were distributed among the two following syndication regimens, as chosen by each shareholder respectively:

- **Original share syndication regimen**, 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 death of the employee.

- **Share syndication regimen** 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 owners have the right to sell their shares to the Bank at least 20 years after dismissal or death of the employee.

In compliance with International Accounting Standard no. 32, a share over which a mandatory reimbursement 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 reimbursement price, assigning the residual amount of the issue price of the instrument to the net equity component in concept of the future sequence of elective and non-cumulative dividends. This requirement is equally applicable when the price of the reimbursement equals the fair value, on the date of reimbursement, of the underlying equity instrument (of Class E shares in this case). In this sense, 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.

Therefore, since entry into force of the IFRS-EU, Class E shares, regardless of their syndication regimen, must be recorded as a financial liability (see Note 19.6).

In this sense, prior to the date of first application of the IFRS-EU, the claim was brought against the Bank by some former employees (covered by the original regimen), 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 the IFRS-EU, Crèdit Andorrà recorded a financial liability for the expected reimbursement 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 shares).

- Acquire 17,385 Class E shares subject to the original syndication regimen that have expressed their will to sell them at the price set by the Board for this purpose.

- Amortise 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 ANIF, the decisions taken by the aforementioned Board were implemented, with the following end result:

- 76,014 Class E shares subject to the syndication regimen of the *liquidity window* have been acquired from owners who expressed their will 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 regimen 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 amortised, which has reduced the share capital by 6,537,930 euros. The remaining share capital of Crèdit Andorrà SA to the amount of 63,462,070 euros, distributed into 906,601 shares, specifically 892,293 Class A shares and 14,308 Class E shares, each of which 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 2017 and 2016, is as follows:

In thousand euros	31/12/2017	31/12/2016
Restricted reserves	**94,253**	**87,553**
Legal	14,000	14,000
Deposit guarantee	55,643	53,426
Treasury stock and shares	-	-
Memorandums 227/12 and 228/12	24,610	20,127
Fully available reserves	**199,468**	**63,476**
Reserves for investments in subsidiaries	53,505	43,039
Other	145,963	20,437
Total	**293,721**	**151,029**

24.2.1. Restricted reserves

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 2017 and 2016, the Bank had this reserve fully set up.

Guarantee reserve

At 31 December 2017, in compliance with Law 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 Law 1/2011 (53,426 thousand euros at 31 December 2016). (See Note 48.1.6.)

Treasury stock and shares

Pursuant to article 23 of Law 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 set up a restricted reserve in relation to the financing of Class E shares given that, as seen in point 24.1. above, under the IFRS-EU Class E shares are considered to be financial liabilities and not capital instruments and, therefore, the entire fair value of Class E shares in circulation is no longer part of the Group's equity.

Likewise, with regard to Class A shares, regardless of the Group acting with prudence and performing over-collateralisation of operations with shares of the parent company (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 the same operations is based), the Group has not allocated a restricted reserve.

Reserves for differences from initial consolidation and goodwill

In addition, based on that established in Memorandum 227/12 on Differences from initial consolidation and Memorandum 228/12 on Goodwill, the Bank, via the appropriation of earnings, annually sets up a restricted reserve for at least 10% of the book value of the differences from initial 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 initial consolidation of subsidiaries for which local regulations require a reserve of a similar nature to that described above. At 31 December 2017, the restricted reserve totalled 24,610 thousand euros (20,127 thousand euros at 31 December 2016).

24.2.2. Voluntary reserve

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.

Consolidation reserves

The consolidation reserves correspond to profits accrued in previous years by Group companies forming part of the consolidation from the date of their acquisition or constitution up to 31 December 2017 and 2016 that have not been distributed as dividends.

In thousand euros	31/12/2017	31/12/2016
Entities consolidated by global integration	**44,151**	**32,547**
Patrigest subgroup	2,047	2,201
Banque BPP subgroup	24,985	18,262
CA Panamá subgroup	929	616
Valira subgroup	-29	-29
Banco Alcalá subgroup	1,988	1,598
Holding Luxembourg subgroup	-4,320	-2,797
Crèdit Iniciatives subgroup	902	856
Crèdit Capital Immobiliari SAU	-6,701	4,833
Beta Capital	6,629	1,441
Credi-Invest SA	3,720	-2,380
Crèdit Andorrà Preference LTD	1	1
Informàtica Crèdit Andorrà SLU	324	-1,306
Insurance Group	13,677	9,253
Entities consolidated by the equity method	**10,858**	**8,595**
SERMIPA XXI	29	15
ENSISA	10,829	8,581
Consolidation reserves	55,009	41,143
Conversion reserves	-1,504	1,896
Total investment reserves in Group companies	**53,505**	**43,039**

25. Treasury shares

In addition to the transactions with Class E shares described in Note 24.1 related to the execution of the agreements reached by the Extraordinary General Shareholders' Meeting of Crèdit Andorrà, in compliance with its contractual obligations assumed with the holders of Class E shares subject to the original syndication regimen which remain in circulation, Crèdit Andorrà SA has acquired 510 shares for 561 thousand euros, which were not amortised at 31 December 2017.

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 levels of equity and solvency of the Group in comparison to these prior to the purchase.

26. Valuation adjustments

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

In thousand euros	31/12/2017	31/12/2016
Available-for-sale financial assets	4,066	7,541
Cash flow hedges (effective portion)	-	
Exchange rate differences	-	-
Available-for-sale non-current assets	-	-
Rest of recognised income and expenditure	906	778
Total	**4,972**	**8,319**

The amounts included in the above table under the concept "Rest of recognised income and expenditure" are related to the actuarial differences caused by the obligations for defined benefit pensions (see Note 22.1.).

The balances recorded in these sections are net from their corresponding tax effect. The statement of changes in equity includes the movements during the financial years ended on 31 December 2017 and 2016.

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 the corresponds part of the profit/loss for the year.

At 31 December 2017 and 2016, the breakdown of the section "Minority interest" of the statement of financial position is as follows:

In thousand euros	31/12/2017	31/12/2016
Valira SL	384	384
Grupo Banco Alcalá	5,784	5,740
Grup Actiu Assegurances	1,982	2,136
Grup ERM	599	863
Total	8,749	9,123

28. Equity and capital management

28.1. Equity and capital requirements

The requirements regarding minimum equity are calculated according to the Group's exposure to credit risk (depending on the assets, commitments and other off-balance-sheet positions with this risk, in terms of their amounts, characteristics, counterparties, guarantees, etc.), to counterparty risk and the position and settlement of the trading portfolio, to exchange risk and the position in gold (according to the overall net position in currency and net position in gold) and to commodity risk.

Below are details of the consolidated solvency ratios in comparison with the aforementioned legal requirements:

	31/12/2017	31/12/2016
Solvency ratio	16.15%	14.33%

The solvency ratio is calculated according to ANIF Memorandum no. 159/04 on Equity Requirements. This memorandum, which is technically binding, complements the Law governing the solvency and liquidity criteria of financial entities of 29 February 1996 and is designed to foster greater security and stability in the Andorran financial system by incorporating the hedging of market risks.

The Law governing the solvency and liquidity criteria of financial entities, of 29 February 1996, additionally limits the concentration of risks in favour of any one beneficiary to 20% of the Bank's equity. It also establishes that the concentration of risks that individually exceed 5% of the equity cannot go beyond the limit of 400% of this equity. Similarly, any balances or transactions maintained with members of the Board of Directors cannot be greater than 15% of the equity.

In this sense:

- The maximum computable concentration of risk assumed in favour of any one beneficiary at 31 December 2017 amounts to 19.18%, although in 2017 it reached a maximum of 22.90%.
- Credits, discounts and other operations as a whole which generate individual credit risk in excess of 5% of the Group's equity amount at 31 December 2017 to 165.95%, yet during 2017 this figure reached a maximum of 196.16%.
- The computable risks held with members of the Board of Directors at 31 December 2017 amount to 13.44% of the computable equity, yet during 2017 this figure reached a maximum of 17.09% of the computable equity.

In this sense, it is considered important to highlight that the temporary exceedance of the legal limits seen in the previous points is not fruit of having granted new credit facilities, but of a supervening situation mainly caused by the impact on the Group's equity of the entry into force in Andorra on 1 January 2017 (1 January 2016 for comparison purposes) of the IFRS approved by the European Union (see Notes 1.2 and 1.4).

Likewise, despite the described non-compliances having been resolved prior to 31 December 2017, 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, on the basis of article 14 of the amended text of the Law regulating the disciplinary regime of the financial system, the ANIF has considered the aforementioned offences as very serious. This fact led to the opening of sanctioning proceedings on 15 November 2017.

In this sense, 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 consolidation financial statements, the Board of Directors of Crèdit Andorrà has considered the need for recording at 31 December 2017 a provision for an amount equivalent to the maximum possible fine that may be applied to the Company as per articles 18 of the Amended text of the Law regulating the disciplinary regime of the financial system. This provision, to the amount of 900 thousand euros (see Note 21.1.), equals 3% of the minimum capital demanded from the Company, which, according to article 12 of Law 14/2010, of 13 May, of the legal regime of banking institutions and the basic administrative regime of companies operating in the financial system, amounts to 30 million euros.

The Board of Directors of Crèdit Andorrà considers that, in addition to the amount of the possible fine (which, as mentioned in the preceding paragraph, has already been duly allocated in consideration of the maximum amount established by law), there are no other potential grievances or negative implications for the Company or the Group which should be taken into account when preparing these consolidated financial statements.

Lastly, in relation to the regulatory framework applicable in Andorra, it is worth noting that as part of the agreements reached by the Principality of Andorra with the European Union within the scope of the Monetary Agreement, it is expected that on 1 January 2019 a regulatory framework will enter into force in the Principality of Andorra, equivalent to the European regulation on capital requirements - Directive 2013/36/EUR (CRD IV) and Regulation 575/2013 (CRR)–. In this sense, the Group is working on the implementation of the processes and requirements that will arise from the aforementioned regulation.

28.2. Capital management

Capital management within Crèdit Andorrà Group pursues a twofold aim. Firstly, it aims to preserve a level of capitalisation in line with the established business objectives secondly, it aims to maximise the return of its shareholders' resources through efficient allocation of capital to the different business units, good asset and liability management, and the use, in appropriate proportions, of the different items comprising the Group's equity.

This twofold objective, as to be expected, must be achieved in accordance with the criteria established by the regulation applicable at each time and place in terms of prudential requirements and minimum required capital.

29. Commitments and guarantees granted

Below is a breakdown of the contingent commitments and guarantees granted at 31 December 2017 and 2016:

In thousand euros	31/12/2017	31/12/2016
Commitments for loans granted	**355,861**	**347,487**
Public sector	24,912	22,530
Lending institutions	-	-
Other financial companies	3,624	18,923
Non-financial companies	149,922	154,281
Individuals	177,403	151,753
Financial guarantees granted	**122,476**	**133,906**
Lending institutions	6,069	6,074
Other financial companies	6,343	12,636
Non-financial companies	75,649	76,504
Individuals	34,415	38,692
Other commitments and guarantees granted	**75**	**187**
Non-financial companies	75	187
Total	**478,412**	**481,580**

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.

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 2017 and 2016, 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 2017 and 2016 which comprise the assets assigned to other own and third party obligations are as follows:

- At 31 December 2017, the Group had deposits with financial intermediaries as pledged assets as a guarantee for its own obligations totalling 44,971 thousand euros (54,541 thousand euros at 31 December 2016) (see Note 5.2.3).

- At 31 December 2017, the Group was using a total of 59,605 thousand euros from the held-to-maturity portfolio as a hedge for the deposit guarantee fund (55,848 thousand euros at 31 December 2016) (see note 48.1.6), and 67,550 thousand euros to guarantee a line of credit with regulators (63,430 thousand euros at 31 December 2016).

31. Purchase and sale commitments

At 31 December 2017, the Group had temporary pledged asset contracts with independent third parties affecting 147,343 thousand euros of the held-to-maturity portfolio (59,866 thousand euros at 31 December 2016) (see Note 19.3). These temporarily pledged assets earn an interest rate of between -0.58% and 1.35% (0.25% and 1.35% at 31 December 2016).

32. Third-party operations

Below is a breakdown of the assets entrusted by third parties at 31 December 2017 and 2016:

In thousand euros	31/12/2017	31/12/2016
Financial instruments entrusted by third parties	**8,230,567**	**8,018,763**
Of which managed by the Group	1,902,110	2,062,481
Discretionary portfolios	666,919	797,300
Mutual funds	1,235,191	1,265,181
Other	6,328,457	5,956,282
Total	**8,230,567**	**8,018,763**

The amounts recorded in the above table correspond to financial assets which the customers keep in Group companies, without taking into consideration financial liabilities. Therefore, these assets are not 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 2017 and 2016:

In thousand euros	31/12/2017	31/12/2016
Loans and receivables from customers	**2,607,806**	**2,733,717**
Customer funds	**13,658,407**	**13,150,903**
Customer deposits	4,112,796	4,333,872
Financial instruments entrusted by third parties	6,788,635	6,482,750
Financial instruments not safeguarded by the Group	2,756,976	2,334,281
Total	**16,266,213**	**15,884,620**

The definition of the different components comprising the business volume seen in the above tables is that marked internally by the Group and, therefore, may 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 statements of profit and loss for the years ended on 31 December 2017 and 2016:

In thousand euros	2017	2016
Interest income		
Held-for-trading financial assets	440	1,404
Financial assets at fair value through profit and loss	98	-
Available-for-sale financial assets	1,681	12,519
Loans and receivables	50,663	55,023
Held-to-maturity investments	17,004	14,426
Income correction for hedging operations	7	-
Other income	350	271
Total interest income	**70,243**	**83,643**
Interest expenditure		
Central bank deposits	-16	-21
Held-for-trading financial liabilities	-8,644	-8,731
Financial liabilities at fair value through profit and loss	-1,790	-3,406
Financial liabilities at amortised cost	-18,762	-23,148
Correction of expenditure for hedging operations	-22	-
Other financial liabilities	-2,298	-2,686
Total interest expenditure	**-31,532**	**-37,992**
Net interest income	**38,711**	**45,651**

This chapter of the attached statement of profit and loss includes the interest accrued during the year by financial assets/liabilities with implicit or explicit performance, 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 2017 and 2016, 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 for hedging operations or the performance of products accounted for at fair value through profit and loss:

	2017	2016
Income		
Available-for-sale financial assets	0.90%	1.48%
Loans and receivables		
Lending institutions	0.02%	0.11%
Customers	1.96%	2.02%
Held-to-maturity investments	1.03%	0.90%
Expenditure		
Deposits		
Central bank deposits	0.02%	0.04%
Deposits from lending institutions	0.93%	1.06%
Customer deposits	0.24%	0.34%
Debt securities	1.49%	1.12%
Subordinated liabilities	1.01%	1.21%

35. Dividend income

The balance of this heading of the statement of profit and loss corresponding to the financial years ended on 31 December 2017 and 2016 is broken down as follows:

In thousand euros	2017	2016
From held-for-trading financial assets and financial assets at fair value through profit and loss	1,930	565
From available-for-sale assets	1,742	1,100
Other	58	-
Total	**3,730**	**1,665**

36. Net commission income

The most significant income and expenditure recorded in concept of commissions in the attached statements of profit and loss for 2017 and 2016 are broken down into the following table, based on the nature of the non-financial service producing them:

In thousand euros	2017	2016
Commission income		
Securities and foreign exchange transactions	102,943	117,090
Custody of securities	14,894	15,846
Asset management and consultancy	2,663	377
Account administration and maintenance	22,495	8,222
Credit operations	8,190	7,413
Other	7,493	12,814
Total commission income	**158,678**	**161,762**
Expenditure from commissions		
Brokerage	-1,423	-308
Transactions with financial intermediaries	-27,037	-26,922
Other	-4,675	-4,196
Total expenditure from commissions	**-33,135**	**-31,426**
Net commission income	**125,543**	**130,336**

37. Profit or loss from financial assets and liabilities and net exchange rate differences

Below is the breakdown of the balance of these headings in the attached statements of profit and loss for 2017 and 2016:

In thousand euros	2017	2016
Profit or loss due to retirement of financial assets and liabilities not valued at fair value through profit and loss, net	**3,184**	**42,607**
Equity instruments	563	-
Debt securities	2,621	42,607
Profit or loss due to held-for-trading financial assets and liabilities, net	**3,768**	**8,068**
Derivatives	1,403	327
Equity instruments	-	-284
Debt securities	2,365	8,025
Profit or loss due to financial assets and liabilities at fair value through profit and loss, net	**-79**	**647**
Equity instruments	-1,883	2,175
Debt securities	1,804	-1,528
Exchange rate differences (profit or loss), net	**9,029**	**9,789**
Total net profit or loss	**15,902**	**61,111**

The heading "Profit and loss due to retirement of financial assets and liabilities not valued at fair value through profit and loss, net - debt securities", which is broken down in the previous table in relation to 2016, includes 28,825 thousand euros originating from the Bank's own portfolio restructuring process in order to adapt it to the new investment guidelines established by the Group on the basis of the new type of portfolios available with the entry into force of the IFRS-EU.

The chapter "Exchange rate differences (profit or loss), net" includes, in addition to the net profit/loss obtained from converting into euros other financial assets and liabilities denominated in foreign currency, the profit/loss prior to the transaction with foreign currency instruments (mainly derivatives) on both its own account and on behalf of customers.

38. Other operating income and expenditure, and income and expenditure from assets and liabilities used for insurance and reinsurance contracts

38.1. Other operating income and expenditure

The breakdown of the balance in these headings of the attached statement of profit and loss for 2017 and 2016 can be seen in the following tables:

In thousand euros	2017	2016
Other operating income	10,318	10,246
Other working expenditure	-4,094	-4,994
Net profit/loss	**6,224**	**5,252**

In the sections "Other operating income" and "Other operating expenditure", the Groups records (1) all income and expenditure originating from the profit/loss of the Insurance Group but which are not part of the technical profit/loss 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 administration expenses, and (2) other working profit/loss not related to the banking business, such as revenue from real estate leases, etc.

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 statements of profit and loss for 2017 and 2016 can be seen in the following tables:

In thousand euros	2017	2016
income from assets used for insurance and reinsurance contracts	**46,860**	**91,979**
Insurance and reinsurance premiums collected	46,017	90,272
Income from reinsurance	843	1,707
Expenditure for liabilities used for insurance and reinsurance contracts issued	**-42,668**	**-94,246**
Provisions paid, other related expenses and net allocations in liabilities for insurance contracts	-32,655	-84,996
Reinsurance premiums paid	-10,013	-9,250
Profit/loss from insurance activity	**4,192**	**-2,267**

39. Personnel costs

The breakdown of this heading of the attached statements of profit and loss for 2017 and 2016 can be seen in the following table:

In thousand euros	2017	2016
Wages and salaries	-54,275	-52,759
Social Security	-8,425	-6,528
Severance compensation	-1,416	-2,171
Allocations for defined post-employment contribution pensions (Note 22)	-3,265	-2,185
Allocations for defined post-employment benefit pensions	-	-
Training	-566	-648
Other personnel costs	-3,954	-7,113
Total personnel costs	**-71,901**	**-71,404**

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 cover the retirement, death and incapacity commitments, and for certain departures of active employees.

To cover said commitments, Crèdit Andorrà makes a monthly contribution equivalent to a percentage of the pensionable salary concepts, 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 expenses related to expatriated employees. The variation experienced between 2017 and 2016 is mainly due to the expense containment policy.

During 2017 and 2016, the breakdown of the Crèdit Andorrà Group workforce, in average terms, classified according to professional categories and gender, is as follows:

	2017			2016		
	Men	Women	Total	Men	Women	Total
Directors	31	6	37	31	6	37
Managers	153	77	230	168	74	242
Administration staff	221	303	524	248	302	550
Temporary staff	17	42	59	13	41	54
Total	**422**	**428**	**850**	**460**	**423**	**883**

40. Other administrative expenditure

The breakdown of this heading of the attached statements of profit and loss for 2017 and 2016 can be seen in the following table:

In thousand euros	2017	2016
Supplies	-1,058	-1,092
External services	-49,246	-46,550
Leases	-8,003	-7,311
Repair and maintenance of real estate	-5,451	-5,597
Services from independent professionals	-16,100	-13,447
Fund security and transport services	-1,224	-1,406
Insurance premiums	-904	-1,076
Advertising and public relations	-3,668	-3,277
Utilities	-6,351	-6,292
Other	-7,545	-8,144
Taxes	-3,858	-4,473
Other working expenditure	-1,267	-1,431
Total	**-55,429**	**-53,546**

The heading "External services - Other" mainly includes the expenditure in concept of representation, travel and fees paid to bodies and associations such as the Andorran Banking Association.

41. Amortisation

The breakdown of this heading of the attached statements of profit and loss for 2017 and 2016 can be seen in the following table:

In thousand euros	2017	2016
Tangible assets	**-5,476**	**-6,723**
Own use	-5,344	-6,073
Real estate investments	-132	-650
Intangible assets	**-6,788**	**-7,310**
Total	**-12,264**	**-14,033**

42. Provisions or reversal of provisions

The breakdown of this heading of the attached statements of profit and loss for 2017 and 2016 can be seen in the following table:

In thousand euros	2017	2016
Court proceedings and litigation for taxes pending (Note 21)	900	-
Commitments and guarantees granted (Note 21)	-	-3
Other provisions (Notes 21 and 22)	1,192	8,061
Total	**2,092**	**8,058**

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 to profit/loss

The breakdown of this heading of the attached statements of profit and loss for 2017 and 2016 can be seen in the following table:

In thousand euros	2017	2016
Available-for-sale financial assets	**38**	**-238**
Debt securities	38	-238
Capital instruments	-	-
Loans and receivables	-877	-18,722
Held-to-maturity financial assets	611	58
Total	**-228**	**-18,902**

44. Share in profit or loss of investments in joint ventures and associates

Below is a breakdown of the profit/loss obtained during 2017 and 2016 by the multi-group and associate companies (see Note 3) which have been consolidated by the equity method:

In thousand euros	2017	2016
Clíniques Geriàtriques SA	147	36
Societat Pirenaica d'Aparcaments SA	38	9
Financera d'Assegurances SA	526	936
Línia Asseguradora, SL	11	2
AMK Ibérica&Principado Correduría de Seguros SL	84	77
Esports de Neu Soldeu-Incles SA	2,578	2,249
Serveis i Mitjans de Pagament XXI SA	14	14
Total	**3,398**	**3,323**

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 corporation tax includes Crèdit Andorrà SA as a parent company and, for those Andorran companies which meet the requirements established by the regulation, as investee companies. 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 Vida Assegurances SAU
- CA Vincles Actuarial SLU

All other Group companies submit their statements in accordance with the tax regulation applicable to the jurisdictions where they are domiciled.

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/loss

The breakdown of this heading of the attached statements of profit and loss for 2017 and 2016 can be seen in the following table:

In thousand euros	2017	2016
Current tax profit/loss	**-2,801**	**-3,843**
Current tax year	-2,217	-3,787
Adjustments for previous years	-584	-56
Deferred tax profit/loss	**-2,859**	**6,814**
Due to temporary differences	-1,481	952
Due to variation of tax rate	-	-13
Due to negative tax bases	-1,377	5,882
Adjustments for previous years	-1	-7
Total	**-5,660**	**2,971**

45.1.2. Amount recorded in other accumulated overall profit/loss

The breakdown of the Amount recorded in other accumulated profit/loss during the years ended on 31 December 2017 and 2016, based on the nature of the asset or transaction originating the amount, is as reflected in the following tables:

	2017		
In thousand euros	Before tax	Profits (Expenditure) of taxes	Net tax
Items that will not be reclassified in profit/loss	**142**	**-14**	**128**
Items that may be reclassified in profit/loss	**-3,893**	**418**	**-3,475**
Available-for-sale financial assets	-3,893	418	-3,475
Cash flow hedges (effective portion)	-	-	-
Net investment hedges in businesses abroad (effective portion)	-	-	-
Exchange rate differences	-	-	-
Non-current assets for sale	-	-	-
Rest of recognised income and expenditure	-	-	-
Total	**-3,751**	**404**	**-3,347**

In thousand euros	Before tax	2016 Profits (Expenditure) of taxes	Net tax
Items that will not be reclassified in profit/loss	**864**	**-86**	**778**
	-		
Items that may be reclassified in profit/loss	**8,621**	**-1,080**	**7,541**
Available-for-sale financial assets	8,621	-1,080	7,541
Cash flow hedges (effective portion)	-		-
Net investment hedges in businesses abroad (effective portion)	-		-
Exchange rate differences	-		-
Non-current assets for sale	-		-
Rest of recognised income and expenditure	-		-
Total	**9,485**	**-1,166**	**8,319**

Regardless of the tax on profits charged to profit/loss, in 2017 and 2016 the Bank recorded in its net equity certain value adjustments for available-for-sale financial assets at their amount net of tax effect, 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 2017 and 2016:

In thousand euros	2017 Effective tax	2017 Amount	2016 Effective tax	2016 Amount
Pre-tax profit/loss		56,219		28,921
Corporation tax at local tax rate		-5,625		-3,798
Effect of foreign tax rates		-1,327		13
Non-deductible expenses		-275		19
Non-taxable income		2,570		1,576
Rebates		2,523		2,215
Other effects		-83		-3,812
Total expenditure for taxes	**-4%**	**-2,217**	**-13%**	**-3,787**

During the financial years analysed, the income and expenditure of the Andorran tax group are nearly all taxed at the local rate of 10%. However, there is income recorded in profit/loss that is exempt from taxes, such as the elimination of companies from the Group, which consolidate corporation tax, and dividends accrued from other investees via the exemption method.

Despite the different tax rates originating for other jurisdictions where 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 2017, the subsidiary Banque de Patrimoines Privés SA had a negative tax base pending settlement totalling 16,233 thousand euros (26,926 thousand euros at 31 December 2016), which already existed prior to its takeover by the Crèdit Andorrà Group.

At 31 December 2017, CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU and Crèdit Andorrà Holding España SA (Sociedad Unipersonal) had negative tax bases pending settlement totalling 1,374 thousand euros (1,442 thousand euros at 31 December 2016) generated during the 2013 to 2017 financial years.

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 2017 and 2016 there were certain temporary differences to be taken into account when quantifying the pertinent expenditure for tax on profits.

The source of the deferred tax assets and liabilities in the statement of financial position at 31 December 2017 and 2016, is as follows:

	31/12/2017		31/12/2016	
In thousand euros	Assets	Liabilities	Assets	Liabilities
Tangible and intangible assets	327	864	295	902
Available-for-sale financial assets	-	-141	-	24
Actuarial profit/loss from defined benefit plans	-	100	-	86
Fair value hedge	-	260	-	362
Insolvencies	1,818	-1	1,818	-
Tax losses to be offset in coming years	4,447	-	5,882	-
Other	1,388	-632	1,565	501
First application IFRS	17,484	1,359	19,688	1,265
Net assets and liabilities	**25,464**	**1,809**	**29,248**	**3,140**

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 2017 and 2016, is as follows:

In thousand euros	Balance at 01/01/2017	Movements recognised in profit/loss	Movements recognised in other overall profit/loss	Balance at 31/12/2017
Tangible and intangible assets	-607	70	-	-537
Available-for-sale financial assets	-24	-56	221	141
Actuarial profit/loss from defined benefit plans	-86	-	-14	-100
Fair value hedge	-362	-	102	-260
Insolvencies	1,818	1	-	1,819
Tax losses to be offset in coming years	5,882	-1,433	-2	4,447
Other	1,064	1,003	-47	2,020
First application IFRS	18,423	-2,442	144	16,125
Total	**26,108**	**-2,857**	**404**	**23,655**

In thousand euros	Opening 01/01/2016	Movements recognised in profit/loss	Movements recognised in other overall profit/loss	Balance at 31/12/2016
Tangible and intangible assets	-444	-163	-	-607
Available-for-sale financial assets	-25	1	-	-24
Actuarial profit/loss from defined benefit plans	-	-	-86	-86
Fair value hedge	-	-	-362	-362
Insolvencies	1,367	451	-	1,818
Tax losses to be offset in coming years	58	5,825	-1	5,882
Other	2,131	-1,067	-	1,064
First application IFRS	17,368	1,772	-717	18,423
Total	**20,455**	**6,819**	**-1,166**	**26,108**

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 expenditure. All **these temporary differences have been recorded at the rate at which they will be reversed.**

For 2017 and 2016, there are certain headings originating from the first application of the International Financial Reporting Standards which are reflected based on their type in the column "Tax effect" included in Appendix II.

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 in the assets of the statement of financial position mainly correspond to Crèdit Andorrà SA for corporation tax.

Current liabilities included in the liabilities of the statement of financial position correspond to taxed pending payment for the different investee companies 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 have been paid during the first few days of 2018.

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 2017 and 2016 by the members of Senior Management, due to their status of Senior Managers, totalled 6,776 thousand euros and 9,101 thousand euros, respectively.

Of the total remuneration perceived during 2017, 6,533 thousand euros correspond to short-term benefits and 243 thousand euros correspond to post-employment benefits.

Of the total remuneration perceived during 2016, 8,844 thousand euros correspond to short-term benefits and 257 thousand euros correspond to post-employment benefits.

At 31 December 2017 and 2016, 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 in the profit and loss account.

46.2. Transactions with related parties

A breakdown of the balances with related parties at 31 December 2017 and 2016, is as follows:

	2017			2016		
In thousand euros	Senior Management	Investee companies	Other related parties	Senior Management	Investee companies	Other related parties
Assets	**60,460**	**8,105**	**259,554**	**86,875**	**15,686**	**286,025**
Loans, receivables and guarantees	65,203	8,109	287,892	92,624	15,696	316,259
Hedges	-4,743	-4	-28,338	-5,749	-10	-30,234
Financial liabilities at amortised cost	**4,739**	**2,850**	**5,534**	**6,557**	**3,209**	**7,555**
Financial liabilities at amortised cost	4,739	2,850	5,534	6,557	3,209	7,555
Off-balance-sheet positions	**65,013**	**2,703**	**600,852**	**77,961**	**3,181**	**628,904**
Assets in custody	65,013	2,703	600,852	77,961	3,181	628,904
Amounts recognised in profit and loss	**777**	**276**	**3,091**	**1,323**	**364**	**3,970**
Interest income	889	167	3,174	1,509	248	3,922
Interest expenditure	-193	-	-239	-243	-	-89
Commission income	81	109	156	57	116	137

The segment "Investee companies" 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 investee companies, hold the status of related to the Group. In this sense, 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 at 31 December 2017 and 2016:

In thousand euros	2017	2016
Up to 1 year	6,481	6,466
Between 1 and 5 years	25,594	23,971
More than 5 years	65,467	70,252
Total	**97,542**	**100,688**

As mentioned in Note 15, 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 2017 which are included in the above table, 4,498 thousand euros, 17,992 thousand euros and 62,974 thousand euros correspond to lease commitments related to purchase/sale transactions and subsequent working leases (4,480 thousand euros, 17,921 thousand euros and 67,203 thousand euros, respectively, at 31 December 2016).

48. Additional information

48.1. Compliance with regulations

48.1.1. Law on international cooperation on crime and combating the laundering of money resulting from international crime and the financing of terrorism.

On 24 July 2001, the current Law on international cooperation on crime and combating the laundering of money and assets resulting 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 combating the laundering of money and assets resulting 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 harmonising it 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 combating the laundering of money and assets resulting

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.

The Group has gradually adapted its internal procedures to the successive national and international legislative modifications, taking into account the recommendations of the Financial Action Task Force (FATF) and of the Basel Committee on Banking Supervision and Supervisory Practices 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 Law governing mandatory investment ratios, the Group had subscribed at 31 December 2017, 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 years and 0.75% the last two years until reaching the maturity set at 30 March 2022). The amount subscribed by the Group in this issue is included in the section "Investments held-to-maturity - Debt securities" of the assets recorded in the attached consolidated statement of financial position. At 31 December 2016, the Group had subscribed 115,941 thousand euros to government bonds of the Principality of Andorra, issued on 31 December 2013 at the official one-year Euribor interest rate of the European Central Bank, established on the first working day of each calendar year.

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 start-ups, 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 329 thousand euros at 31 December 2017 and are recorded under the section "Loans and accounts receivable from customers" of the consolidated statement of financial position (741 thousand euros at 31 December 2016). 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 rehabilitation 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 rehabilitation of housing and residential buildings, passed by the government of Andorra on 23 March 2011. The loans granted under this programme amounted to 1,252 thousand euros at 31 December 2017 (1,957 thousand euros at 31 December 2016), and are recorded under the section "Loans and receivables from customers" 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 Law 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 mandatorily set up and maintain guarantee reserves deposited with the ANIF. Since the new system came into force, applicable to banks, the amount invested corresponds only to the guarantee reserves of the Group's Andorran legal management company.

At 31 December 2017 and 2016, the balance and return from these deposits with the ANIF (in million euros) were as follows:

2017 Mandatory investments	Deposit	Interest rate	Period
Credi-Invest SA	210	0.00%	31 December 2016 - 31 December 2017

2016 Mandatory investments	Deposit	Interest rate	Period
Credi-Invest SA	210	0.06%	31 December 2015 - 31 December 2016

48.1.6. Law 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 Law 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 in order to comply with the guarantees covered 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.

In this respect, at 31 December 2017, Crèdit Andorrà, in compliance with the provisions of article 7 "Calculating the mandatory reserve and investment of the amount" of the aforementioned Law, held a restricted guarantee reserve of 55,643 thousand euros (53,426 thousand euros at 31 December 2016) and assigned an equivalent amount of eligible securities, as per article 7.3 of Law 1/2011 (see Note 24.2).

As detailed in Note 4.1, the distribution of the Bank's profits proposed by the Board of Directors includes the allocation of 2,577 thousand euros from the profit for 2017 to a restricted reserve to guarantee deposits (2,577 thousand euros in 2016). Any differences between the initially estimated allocations and those finally set by the Deposit Guarantee Scheme Management Committee are charged against reserves for the year in which they are definitively determined.

48.1.7. Law implementing the Agreement between the Principality of Andorra and the European Union regarding the taxation of savings income in the form of interest payments

At its meeting held on 21 February 2005, the General Council of the Principality of Andorra approved the Agreement between the Principality of Andorra and the European Union regarding the establishment of measures equivalent to those contained in Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments. At its meeting held on 13 June 2005, it also approved the Law implementing this Agreement.

In the current year, Crèdit Andorrà, as a payment agent, complied with the obligations contained in the Agreement and its implementing law and paid withholding tax in accordance with that provided for in the aforementioned legislation.

48.1.8. Law 8/2015 on urgent measures to implement mechanisms for the restructuring and dissolution of banks

On 2 April 2015, the General Council passed Law 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 Resolution of Financial Entities (FAREB) was created, an entity with no legal personality, which will be managed by the AREB.

As a result of the intervention of Banca Privada d'Andorra during 2015, and taking into consideration the need to safeguard the general interests of financial stability and the proper functioning of the Andorran economy in order to preserve the general welfare, the law, in its additional disposition one, provides for an initial and extraordinary provision from FAREB of 30 million euros which will be made by the Andorran financial entities.

In this sense, Crèdit Andorrà contributed a total of 13,251 thousand euros, of which it paid out 1,325 thousand euros during 2015 and 11,926 thousand euros during 2016.

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 Law 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 carrying out 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 that may have an influence on the bettering of the economic, scientific, educational, cultural and services structure of the country.

In 2017, and always with the aim of adapting its work to the needs of the country, the activities carried out by the Fundació Privada Crèdit Andorrà focused on three major areas: social programmes, particularly those aimed at the elderly and organisations working with the disabled; educational activities, particularly in the granting of scholarships, and also cultural activities, with a particular focus on pedagogical aspects and any areas directly related to the country, its history and its natural environment.

49. Subsequent events

49.1. International Financial Reporting Standards adopted by the European Union

On 28 December 2016, the Decree was published in the Official Gazette of the Principality of Andorra approving the accounting framework applicable tor entities operating within the Andorran financial system and firms of collective investment schemes subject to Andorran law in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which have in turn been adopted by Andorra (IFRS-Andorra) (hereinafter, the Decree).

According to article 4 of the Decree approving the creation of a technical committee as the advisory body of the Government of Andorra regarding the accounting framework of entities operating within the Andorran financial system and firms of collective investment schemes subject to Andorran law. Likewise, article 4 establishes that the technical committee is competent for issuing an opinion addressed to the Government of Andorra assessing the convenience and need:

- for adopting the International Financial Reporting Standards and their related interpretations which have previously been adopted by the European Union, for them to be applied by companies operating within the Andorran financial system and firms of collective investment schemes subject to Andorran law, and

- modifying the IFRS-EU previously incorporated into the accounting framework applicable to companies operating within the Andorran financial system and firms of collective investment schemes subject to Andorran law.

In this sense, as described in Note 1.3.1., on 1 January 2018, the IFRS 9 "Financial instruments" and IFRS 15 "Revenue from customer contracts" have entered into force and are of mandatory compliance. Crèdit Andorrà, after receiving the pertinent authorisation, has adopted the above-mentioned IFRS with effect 1 January 2018.

The Group is working towards adapting to the new regulation, which involves analysing the new accounting criteria and adapting the information systems that support them.

49.2. Other

There are no other relevant events other than those included in the notes to the report, which have taken place between 31 December 2017 and the date on which these consolidated financial statements have been prepared.

Note **English translation**

These consolidated financial statements are a free translation of the consolidated financial statements originally issued in Catalan. In the event of a discrepancy, the Catalan language version prevails. These consolidated financial statements are prepared according to International Financial Reporting Standards adopted by the European Union (IFRS - EU), which were also adopted by Andorra (IFRS - Andorra) at the same time.

Appendix I - Holdings in companies consolidated by global integration

Appendix I, which is an integral part of Note 3, includes the breakdown of the investee companies, both consolidated by global integration and by the equity method, which form part of Crèdit Andorrà Group at 31 December 2017 and 2016.

Appendix I.1 - Holdings in companies consolidated by global integration - 31 December 2017

Society	Domicile	Activity	% voting rights			In thousand euros				
			Direct	Indirect	Total	Net book value	Assets 31/12/2017	Liabilities 31/12/2017	Equity 31/12/2017	Profit/loss 31/12/2017
Credi-Invest SA	Andorra	Fund Manager	100.0%		100.0%	744	11,782	4,384	7,398	2,748
Crèdit Iniciatives SA	Andorra	Venture Capital	100.0%		100.0%	8,459	22,494	12,209	10,284	1,152
Patrigest SAU	Andorra	Property	100.0%		100.0%	7,362	22,494	12,209	10,284	1,152
PIM Private Investment Management SA	Switzerland	Property		100.0%	100.0%	1,162	2,718	1,686	1,032	88
Cassamanya Ltd.	Malta	Instrumental		100.0%	100.0%	3	0	35	-35	-6
Crèdit Capital Immobiliari SA	Andorra	Instrumental	100.0%		100.0%	127,553	83,646	1,141	82,506	701
Crèdit Andorrà Preference Ltd.	Cayman Islands	Financial	100.0%		100.0%	1	150,036	150,034	2	0
Valira Asset Management SL	Spain	Investment consulting	60.0%		60.0%	605	981	22	959	0
Crèdit Andorrà Panamá Holding SA	Panama	Holding	100.0%		100.0%	13,318	13,193	417	12,776	0
Banco Crèdit Andorrà (Panamá) SA	Panama	Banking		100.0%	100.0%	9,964	360,445	346,448	13,998	2,759
Crèdit Andorrà Panamá Patrimonial SA	Panama	Property		100.0%	100.0%	2,778	2,779	23	2,756	88
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%	398	152	90	62	-368
Crèdit Andorrà Uruguay Asesores de Inversión SA	Panama	Investment consulting		100.0%	100.0%	0	0	0	0	-2
Private Investment Management Advisors Panamá SA	Panama	Investment consulting		100.0%	100.0%	42	447	184	263	233
Informàtica Crèdit Andorrà SLU	Andorra	Instrumental	100.0%		100.0%	33,368	54,164	18,287	35,877	2,185
Banque de Patrimoines Privés SA	Luxembourg	Banking	100.0%		100.0%	37,618	418,135	361,858	56,276	2,498
Banque BPP Portugal SA	Portugal	Banking		100.0%	100.0%	0	127	2,842	-2,714	-1,621
Banco Alcalá SA	Spain	Banking	81.28%		81.3%	34,430	261,062	230,123	30,939	134
Gesalcalá SA	Spain	Fund Manager		100.0%	100.0%	0	3,423	730	2,693	-39
Alcalá de Pensiones SA	Spain	Pension fund manager		100.0%	100.0%	0	803	1	801	-28
CA Holding Luxembourg SARL	Luxembourg	Holding	100.0%		100.0%	12,505	13,861	19	13,842	-40
Crèdit Andorrà Asset Management Luxembourg SA	Luxembourg	Fund Manager		100.0%	100.0%	400	4,814	3,810	1,005	542
Crèdit Andorrà Holding España SAU	Spain	Insurance		100.0%	100.0%	10,638	10,050	28	10,022	-86
CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU	Spain	Insurance		100.0%	100.0%	9,015	24,358	15,218	9,140	65
CA Vincles Actuarial Chile SPA	Chile	Insurance		100.0%	100.0%	85	101	57	44	47
CA Perú Sociedad Agente de Bolsa de Valores	Peru	Securities firm		100.0%	100.0%	0	731	47	683	75
CA México Asesores Patrimoniales SA de CV	Mexico	Property		100.0%	100.0%	0	391	5,739	-5,348	-1,106
Beta Capital Securities LLC	United States	Securities firm	100.0%		100.0%	32,704	8,692	1,226	7,466	2,436
Crèdit Andorrà US GP LLC	United States	Securities firm	100.0%		100.0%	267	1,701	789	912	-19
Beta Capital Management LLC	United States	Securities firm		100.0%	100.0%	176	1,132	1,152	-20	491
Crèdit Assegurances SAU	Andorra	Insurance	100.0%		100.0%	9,000	314,955	292,101	22,854	5,571
Ca Vida Assegurances SAU	Andorra	Insurance		100.0%	100.0%	847	1,056	0	1,056	0
CA Vincles Actuarial SLU	Andorra	Insurance		100.0%	100.0%	3	909	112	797	161
Actiu Assegurances SA	Andorra	Insurance		45.0%	45.0%	907	2,480	6	2,474	225
Consell Assegurador SA	Andorra	Insurance		36.0%	36.0%	464	119	5	114	11
Enterprise Risk Management SA	Spain	Insurance		87.0%	87.0%	2,933	5,227	1,940	3,287	54
Enterprise Risk Management Consultoría SA	Spain	Insurance		87.0%	87.0%	15	159	205	-46	59
ERM Risk Management Correduría de Seguros y Reaseguros SL	Spain	Insurance		87.0%	87.0%	1,547	7,988	7,309	679	134

Appendix I.2 - Holdings in companies consolidated by global integration - 31 December 2016

			% voting rights			In thousand euros				
Society	Domicile	Activity	Direct	Indirect	Total	Net book value	Assets 31/12/2016	Liabilities 31/12/2016	Equity 31/12/2016	Profit/loss 31/12/2016
Credi-Invest SA	Andorra	Fund Manager	100.0%		100.0%	744	16,453	9,604	6,850	8,300
Crèdit Iniciatives SA	Andorra	Venture Capital	100.0%		100.0%	8,459	23,409	13,317	10,092	1,836
Patrigest SAU	Andorra	Property	100.0%		100.0%	7,362	23,409	13,317	10,092	1,836
PIM Private Investment Management SA	Switzerland	Property		100.0%	100.0%	1,162	2,521	1,496	1,025	30
Cassamanya Ltd.	Malta	Instrumental		100.0%	100.0%	3	0	29	-29	-6
Crèdit Capital Immobiliari SA	Andorra	Instrumental	100.0%		100.0%	127,553	85,762	6	85,756	-4,026
Crèdit Andorrà Preference Ltd.	Cayman Islands	Financial	100.0%		100.0%	1	150,036	150,034	2	0
Valira Asset Management SL	Spain	Investment consulting	60.0%		60.0%	605	981	22	959	0
Crèdit Andorrà Panamá Holding SA	Panama	Holding	100.0%		100.0%	13,080	15,027	474	14,553	0
Banco Crèdit Andorrà (Panamá) SA	Panama	Banking		100.0%	100.0%	11,337	463,768	451,251	12,517	1,254
Crèdit Andorrà Panamá Patrimonial SA	Panama	Property		100.0%	100.0%	3,161	3,206	165	3,040	72
Crèdit Andorrà Panamá Call Center SA	Panama	Inactive		100.0%	100.0%	6	6	0	6	0
Crèdit Andorrà Uruguay SA	Panama	Investment consulting		100.0%	100.0%	452	570	103	467	-27
Crèdit Andorrà Uruguay Asesores de Inversión SA	Panama	Investment consulting		100.0%	100.0%	22	12	5	7	6
Private Investment Management Advisors Panamá SA	Panama	Investment consulting		100.0%	100.0%	47	47	0	47	0
Informàtica Crèdit Andorrà SLU	Andorra	Instrumental	100.0%		100.0%	33,368	43,731	9,139	34,592	2,531
Banque de Patrimoines Privés SA	Luxembourg	Banking	100.0%		100.0%	37,618	477,621	424,042	53,579	7,448
Banque BPP Portugal SA	Portugal	Banking		100.0%	100.0%	0	3,015	4,109	-1,093	-1,093
Banco Alcalá SA	Spain	Banking	81.28%		81.3%	34,430	264,612	233,963	30,650	5
Gesalcalá SA	Spain	Fund Manager		100.0%	100.0%	0	4,071	1,275	2,796	27
Alcalá de Pensiones SA	Spain	Pension fund manager		100.0%	100.0%	0	833	4	829	-10
CA Holding Luxembourg SARL	Luxembourg	Holding	100.0%		100.0%	16,923	13,916	566	13,349	-3,116
Crèdit Andorrà Asset Management Luxembourg SA	Luxembourg	Fund Manager		100.0%	100.0%	400	8,608	8,134	474	-266
Crèdit Andorrà Holding España SAU	Spain	Insurance		100.0%	100.0%	10,638	10,131	24	10,108	-67
CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU	Spain	Insurance		100.0%	100.0%	9,015	26,076	16,694	9,382	51
CA Vincles Actuarial Chile SPA	Chile	Insurance		100.0%	100.0%	85	45	49	-4	-34
CA Perú Sociedad Agente de Bolsa de Valores	Peru	Securities firm		100.0%	100.0%	1,737	605	-25	631	37
CA México Asesores Patrimoniales SA de CV	Mexico	Property		100.0%	100.0%	4,418	470	2,507	-2,037	-1,065
Beta Capital Securities LLC	United States	Securities firm	100.0%		100.0%	29,794	7,081	1,204	5,877	3,302
Crèdit Andorrà US GP LLC	United States	Securities firm	100.0%		100.0%	228	1,951	892	1,059	-23
Beta Capital Management LLC	United States	Securities firm		100.0%	100.0%	200	555	1,107	-552	-588
Crèdit Assegurances SAU	Andorra	Insurance	100.0%		100.0%	9,000	352,761	331,678	21,083	4,211
Ca Vida Assegurances SAU	Andorra	Insurance		100.0%	100.0%	847	1,056	0	1,056	0
CA Vincles Actuarial SLU	Andorra	Insurance		100.0%	100.0%	3	1,406	160	1,246	119
Actiu Assegurances SA	Andorra	Insurance		55.0%	55.0%	1,222	3,519	6	3,514	213
Consell Assegurador SA	Andorra	Insurance		44.0%	44.0%	464	114	11	104	9
Enterprise Risk Management SA	Spain	Insurance		79.0%	79.0%	2,623	3,646	413	3,233	-51
Enterprise Risk Management Consultoría SA	Spain	Insurance		79.0%	79.0%	15	99	204	-105	25
ERM Risk Management Correduría de Seguros y Reaseguros SL	Spain	Insurance		79.0%	79.0%	1,547	7,804	7,224	580	123

Appendix I.3 - Holdings in companies consolidated by equity method - 31 December 2017

			% voting rights controlled by the bank			In thousand euros					
								Data on investee company			
Society	Domicile	Activity	Direct	Indirect	Total	Value assigned in equivalence	Net book value	Assets 31/12/2017	Liabilities 31/12/2017	Equity 31/12/2017	Profit/loss 31/12/2017
Clíniques Geriàtriques SA	Andorra	Services for the elderly		25.0%	25.0%	1,850	1,850	7,402	0	7,402	587
Societat Pirenaica d'Aparcaments SA	Andorra	Car parking operation		25.0%	25.0%	129	129	670	153	517	152
Financera d'Assegurances SA	Andorra	Insurance		20.4%	20.4%	2,128	2,002	14,639	9,923	4,716	1,162
Línia Asseguradora Andorrana SL	Andorra	Insurance		10.4%	10.4%	43	43	105	21	85	22
AMK Ibérica&Principado Correduría de Seguros SL	Andorra	Insurance		21.8%	21.8%	145	9	1,060	752	308	167
Confortauto Segur Correduría de Seguros SL	Andorra	Insurance		43.5%	43.5%	0	4	74	23	51	33
Esports de Neu Soldeu-Incles SA	Andorra	Sporting facilities management company	49.6%		49.6%	27,141	13,964	55,229	9	55,220	5,201
Serveis i Mitjans de Pagament XXI SA	Andorra	TPV services	20.0%		20.0%	55	12	1,109	834	275	71
						31,491	**18,013**				

Appendix I.4 - Holdings in companies consolidated by equity method - 31 December 2016

			% voting rights controlled by the bank			In thousand euros					
								Data on investee company			
Society	Domicile	Activity	Direct	Indirect	Total	Value assigned in equivalence	Net book value	Assets 31/12/2016	Liabilities 31/12/2016	Equity 31/12/2016	Profit/loss 31/12/2016
Clíniques Geriàtriques SA	Andorra	Services for the elderly		25.0%	25.0%	1,850	1,850	7,402	0	7,402	146
Societat Pirenaica d'Aparcaments SA	Andorra	Car parking operation		25.0%	25.0%	129	129	670	153	517	35
Financera d'Assegurances SA	Andorra	Insurance		25.0%	25.0%	1,875	2,002	14,680	10,526	4,154	1,105
Línia Asseguradora Andorrana SL	Andorra	Insurance		12.7%	12.7%	32	32	97	34	63	4
AMK Ibérica&Principado Correduría de Seguros SL	Andorra	Insurance		19.8%	19.8%	109	9	1,033	753	280	154
Confortauto Segur Correduría de Seguros SL	Andorra	Insurance		39.5%	39.5%	0	4	33	16	17	16
Esports de Neu Soldeu-Incles SA	Andorra	Sporting facilities management company	49.6%		49.6%	22,660	11,892	45,848	9	45,838	4,535
Serveis i Mitjans de Pagament XXI SA	Andorra	TPV services	20.0%		20.0%	41	12	1,038	834	204	71
						26,696	**15,930**				

Appendix II

Appendix II, which is an integral part of Note 1.4, includes the reconciliation statements of the different chapters comprising the consolidated statement of financial position (assets, liabilities and net equity) and the statement of comprehensive income, showing the result of all transitional adjustments and reclassifications performed.

To facilitate monitoring the process, these reconciliation statements (see Appendices II.1 to II.6) are based on the figures recorded in the financial statements prepared according to the Accounting Plan of the Andorran Financial System approved by the Government of Andorra on 19 January 2000 (hereinafter, PCSFA), which are added to the different adjustments (see Appendix II.8) and reclassifications (see Appendix II.9) until reaching the financial statement restated according to IFRS-EU, which are included for comparison purposes in the financial statements for 2017.

Appendix II.1 First application reconciliation statements - Statement of financial position at 01/01/2016 - Assets

In thousand euros	IFRS EU 01/01/2016		Adjustments	Reclassifications	Total PCSFA with companies by global	Global integration Insurance Group	PCSFA 01/01/2016
Cash, cash balances in central banks and other deposits at sight	**562,271**	-	**436**	**561,835**	-	-	-
Cash and deposits with OECD central banks	-	-	-	-63,693	63,693	971	62,722
Andorran National Institute of Finance (ANIF)	-	-	-	-2,235	2,235	-	2,235
Held-for-trading financial assets	**41,898**	-	**2,594**	**39,304**	-	-	-
Financial assets at fair value through profit and loss	**477,803**	-	**5,698**	**472,105**	-	-	-
Available-for-sale financial assets	**1,410,457**	-	**-3,666**	**1,414,123**	-	-	-
Loans and advances	**2,843,834**	-	**-81,756**	**2,925,590**	-	-	-
Held-to-maturity investments	**565,787**	-	**1,119**	**564,668**	-	-	-
Derivatives - hedge accounting	-	-	-	-	-	-	-
Changes in fair value of hedged items in interest rate risk hedging portfolio	**29,451**	-	**29,451**	-	-	-	-
Financial intermediaries	-	-	-	-495,877	495,877	-22,825	518,702
Loan investments	-	-	-	-2,908,200	2,908,200	-472	2,908,672
Securities portfolio	-	-	-	-2,526,139	2,526,139	490,150	2,035,989
Positive consolidation differences	-	-	-	-46,273	46,273	-	46,273
Intangible assets and expenses to be written off	-	-	-	-67,892	67,892	5,354	62,538
Fixed assets	-	-	-	-327,495	327,495	536	326,959
Investments in joint ventures and associates	**35,167**	-	-	**35,167**	-	-	-
Assets used for insurance and reinsurance contracts	**1,875**	-	-	**1,875**	-	-	-
Tangible assets	**131,586**	-	**-17,065**	**148,651**	-	-	-
Intangible assets	**103,558**	-	**-18,517**	**122,075**	-	-	-
Tax assets	**25,312**	-	**19,788**	**5,524**	-	-	-
Accrual accounts	-	-	-	-57,667	57,667	-	57,667
Other assets	-	-	-	-85,668	85,668	805	84,863
Other assets	**88,059**	-	**-1,873**	**89,932**	-	-	-
Non-current assets and disposable groups of items classified as held for sale	**139,886**	-	**-38,958**	**178,844**	-	-	-
Total assets	**6,456,944**	-	**-102,749**	**-21,446**	**6,581,139**	**474,519**	**6,106,620**

Appendix II.2 First application reconciliation statements - Statement of financial position at 31/12/2016 - Assets

In thousand euros	IFRS EU 31/12/2016	Adjustments	Reclassifications	Total PCSFA with companies by global	Global integration Insurance Group	PCSFA 31/12/2016
Cash, cash balances in central banks and other deposits at sight	**325,221**	**299**	**324,922**	-	-	-
Cash and deposits with OECD central banks	-	-	-68,472	68,472	3,905	64,567
Andorran National Institute of Finance (ANIF)	-	-	-210	210	-	210
Held-for-trading financial assets	**40,509**	**2,585**	**37,924**	-	-	-
Financial assets at fair value through profit and loss	**235,134**	**2,163**	**232,971**	-	-	-
Available-for-sale financial assets	**333,822**	**6,905**	**326,917**	-	-	-
Loans and advances	**2,733,717**	**-100,477**	**2,834,194**	-	-	-
Held-to-maturity investments	**1,579,095**	**-53,705**	**1,632,800**	-	-	-
Derivatives - hedge accounting	-	-	-	-	-	-
Changes in fair value of hedged items in interest rate risk hedging portfolio	**34,359**	**34,359**	-	-	-	-
Financial intermediaries	-	-	-310,115	310,115	-	310,115
Loan investments	-	-	-2,768,771	2,768,771	-	2,768,771
Securities portfolio	-	-	-2,284,063	2,284,063	243,414	2,040,649
Positive consolidation differences	-	-	-47,400	47,400	-	47,400
Intangible assets and expenses to be written off	-	-	-68,539	68,539	7,154	61,385
Fixed assets	-	-	-311,415	311,415	847	310,568
Investments in joint ventures and associates	**26,696**	-	**26,696**	-	-	-
Assets used for insurance and reinsurance contracts	**2,706**	-	**2,706**	-	-	-
Tangible assets	**139,053**	**-17,741**	**156,794**	-	-	-
Intangible assets	**106,953**	**-18,617**	**125,570**	-	-	-
Tax assets	**31,613**	**27,821**	**3,792**	-	-	-
Accrual accounts	-	-	-60,175	60,175	-	60,175
Other assets	-	-	-61,698	61,698	3,766	57,932
Other assets	**62,046**	**-1,623**	**63,669**	-	-	-
Non-current assets and disposable groups of items classified as held for sale	**111,188**	**-43,432**	**154,620**	-	-	-
Total assets	**5,762,112**	**-161,463**	**-57,283**	**5,980,858**	**259,086**	**5,721,772**

Appendix II.3 First application reconciliation statements - Statement of financial position at 01/01/2016 - Liabilities

In thousand euros	IFRS EU 01/01/2016	Adjustments	Reclassifications	Total PCSFA with companies by global	Global integration Insurance Group	PCSFA 01/01/2016
Andorran National Institute of Finance (ANIF)	-	-	-20,310	20,310	-	20,310
Creditors	-	-	-5,015,033	5,015,033	-78,000	5,093,033
Bonds issued	-	-	-113,855	113,855	-24,833	138,688
Held-for-trading financial liabilities	**10,078**	**5,162**	**4,916**	**-**	**-**	**-**
Financial liabilities at fair value through profit and loss	**45,377**	**3,005**	**42,372**	**-**	**-**	**-**
Subordinated liabilities	-	-	-150,000	150,000	-	150,000
Financial liabilities at amortised cost	**5,482,995**	**232,517**	**5,250,478**	**-**	**-**	**-**
Derivatives - hedge accounting	**47,890**	**47,890**	**-**	**-**	**-**	**-**
Changes in fair value of hedged items in interest rate risk hedging portfolio	**-**	**-**	**-**	**-**	**-**	**-**
Liabilities used for insurance and reinsurance contracts	**516,808**	**-**	**516,808**	**-**	**-**	**-**
Provisions	**55,173**	**2,985**	**52,188**	**-**	**-**	**-**
Provision for risks and contingencies	-	-	-563,569	563,569	562,434	1,135
Provision for general banking risks	-	-	-5,427	5,427	-	5,427
Tax liabilities	**10,249**	**676**	**9,573**	**-**	**-**	**-**
Share capital refundable at sight	**-**	**-**	**-**	**-**	**-**	**-**
Accrual accounts	-	-	-44,250	44,250	12,640	31,610
Other liabilities	-	-	-32,570	32,570	-1,897	34,467
Other liabilities	**55,605**	**8,372**	**47,233**	**-**	**-**	**-**
Liabilities included in disposable groups of elements classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**6,224,175**	**300,607**	**-21,446**	**5,945,014**	**470,344**	**5,474,670**

Appendix II.4 First application reconciliation statements - Statement of financial position at 31/12/2016 - Liabilities

In thousand euros	IFRS EU 31/12/2016	Adjustments	Reclassifications	Total PCSFA with companies by global	Global integration Insurance Group	PCSFA 31/12/2016
Andorran National Institute of Finance (ANIF)	-	-	-32,178	32,178	-	32,178
Creditors	-	-	-4,516,936	4,516,936	-91,096	4,608,032
Bonds issued	-	-	-120,136	120,136	-6,586	126,722
Held-for-trading financial liabilities	**7,212**	**2,193**	**5,019**	**-**	**-**	**-**
Financial liabilities at fair value through profit and loss	**123,094**	**2,215**	**120,879**	**-**	**-**	**-**
Subordinated liabilities	-	-	-150,000	150,000	-	150,000
Financial liabilities at amortised cost	**4,889,126**	**232,025**	**4,657,101**	**-**	**-**	**-**
Derivatives - hedge accounting	**48,661**	**38,848**	**9,813**	**-**	**-**	**-**
Changes in fair value of hedged items in interest rate risk hedging portfolio	**-**	**-**	**-**	**-**	**-**	**-**
Liabilities used for insurance and reinsurance contracts	**294,370**	**-**	**294,370**	**-**	**-**	**-**
Provisions	**64,228**	**8,534**	**55,694**	**-**	**-**	**-**
Provision for risks and contingencies	-	-	-350,063	350,063	339,570	10,493
Provision for general banking risks	-	-	-	-	-	-
Tax liabilities	**8,721**	**1,265**	**7,456**	**-**	**-**	**-**
Share capital refundable at sight	**-**	**-**	**-**	**-**	**-**	**-**
Accrual accounts	-	-	-45,999	45,999	13,698	32,301
Other liabilities	-	-	-102,148	102,148	474	101,674
Other liabilities	**64,597**	**-45,248**	**109,845**	**-**	**-**	**-**
Liabilities included in disposable groups of elements classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**5,500,009**	**239,832**	**-57,283**	**5,317,460**	**256,060**	**5,061,400**

Appendix II.5 First application reconciliation statements - Net equity at 01/01/2016 and at 31/12/2016

In thousand euros	31/12/2016	01/01/2016
Share capital	**70,000**	**70,000**
Reserves	**529,214**	**500,858**
Profit for the year	**65,044**	**72,005**
Dividends paid out in advance	**-10,000**	**-20,000**
PCSFA Equity	**654,258**	**622,863**
Minority interest	**6,114**	**9,087**
Total PCFSA	**660,372**	**631,950**
Global integration Insurance Group	**3,026**	**4,175**
Total net equity	**663,398**	**636,125**
Losses observed	-100,508	-80,101
Effective interest rate	-821	-1,022
Available-for-sale non-current assets and real estate investments	-61,174	-56,023
Intangible assets	-15,842	-17,413
Provision for general banking risks	-	5,427
Financial instruments	3,708	-17,708
Class E shares	-239,618	-239,618
FAREB contribution	-	-11,926
Other	-5,463	-2,340
Tax impact of previous adjustments	18,423	17,368
Total net impact of adjustments to net equity	**-401,295**	**-403,356**
Net equity according to IFRS	**262,103**	**232,769**

Appendix II.6 First application reconciliation statements - Statement of profit and loss 2016

	IFRS-EU 2016	Adjustments	Reclassifications	Total PCSFA with companies by global	Global integration Insurance Group	PCSFA 2016
Interest income	**83,643**	**-288**	**83,931**	-	-	-
Interest and income - assimilated	-	-	-83,460	83,460	-	83,460
(Interest expenditure)	**-37,992**	**-1,612**	**-36,380**	-	-	-
(Interest and related expenses)	-	-	33,708	-33,708	-	-33,708
Income from equity securities	-	-	-1,665	1,665	-	1,665
Dividend income	**1,665**	-	**1,665**	-	-	-
Net service commissions	-	-	-130,336	130,336	-	130,336
Commission income	**161,762**	-	**161,762**	-	-	-
(Commission expenditure)	**-31,426**	-	**-31,426**	-	-	-
Results of financial transactions	-	-	-53,078	53,078	-4,173	57,251
Other ordinary profit	-	-	-10,826	10,826	10,498	328
Profit or loss due to retirement of financial assets and liabilities not valued at fair value through profit and loss, net	**42,607**	**3,540**	**39,067**	-	-	-
Profit or loss due to held-for-trading financial assets and liabilities, net	**8,068**	**-975**	**9,043**	-	-	-
Profit or loss due to financial assets and liabilities at fair value through profit and loss, net	**647**	**647**	-	-	-	-
Profit or loss resulting from hedge accounting, net	**134**	**9,946**	**-9,812**	-	-	-
Exchange rate differences (profit or loss), net	**9,789**	**-1,668**	**11,457**	-	-	-
Profit or loss due to retirement of non-financial asset accounts, net	**-**	-	-	-	-	-
Other operating income and expenditure	**5,252**	**-7,672**	**12,924**	-	-	-
Other income and expenditure from assets and liabilities used for insurance and reinsurance contracts	**-2,267**	-	**-2,267**	-	-	-
Total net operating profit/loss	**241,882**	**1,918**	**-5,693**	**245,657**	**6,325**	**239,332**

	IFRS-EU 2016	Adjustments	Reclassifications	Total PCSFA with companies by global	Global integration Insurance Group	PCSFA 2016
Total net operating profit/loss	**241,882**	**1,918**	**-5,693**	**245,657**	**6,325**	**239,332**
(Personnel costs)	-	-	79,369	-79,369	-3,465	-75,904
(General expenses)	-	-	53,546	-53,546	-2,710	-50,836
(Depreciation of assets net of recoveries)	-	-	23,426	-23,426	-	-23,426
(Administrative expenditure)	**-124,950**	**-**	**-124,950**	**-**	**-**	**-**
(Amortisation)	**-14,033**	**4,677**	**-18,710**	**-**	**-**	**-**
(Provisions or reversal of provisions)	-	-	11,068	-11,068	-	-11,068
(Losses due to asset impairment)	-	-	9,297	-9,297	-	-9,297
(Losses due to insolvencies net of recoveries)	-	-	-1,539	1,539	-	1,539
(Provisions for risks and contingencies net of recoveries)	-	-	125	-125	-	-125
(Allocations to provision for general banking risks)	-	-	-	-	-	-
Extraordinary profit	-	-	6,716	-6,716	621	-7,337
(Provisions or reversal of provisions)	**-8,058**	**-5,394**	**-2,664**	**-**	**-**	**-**
(Impairment or reversal of impairment of the value of financial assets not valued at fair value through profit and loss)	**-18,902**	**-20,441**	**1,539**	**-**	**-**	**-**
(Impairment or reversal of impairment of the value of investments in subsidiaries, joint ventures and associates)	**-424**	**-**	**-424**	**-**	**-**	**-**
(Impairment or reversal of impairment of the value of non-financial assets)	**-36,058**	**-16,116**	**-19,942**	**-**	**-**	**-**
Negative goodwill recognised in the profit and loss	**-**	**-**	**-**	**-**	**-**	**-**
Share in profit or loss of investments in subsidiaries, joint ventures and associates	**3,323**	**-**	**3,323**	**-**	**-**	**-**
Profit or loss from non-current assets and disposable groups of items classified as held for sale not admitted as discontinued activities	**-13,859**	**628**	**-14,487**	**-**	**-**	**-**
Pre-tax profit and loss from ongoing activities	**28,921**	**-34,728**	**-**	**63,649**	**771**	**62,878**
Expenditure or income for tax on profits from ongoing activities	**2,971**	**1,309**	**-**	**1,662**	**-508**	**2,170**
Profit or loss after tax from ongoing activities	**31,892**	**-33,419**	**-**	**65,311**	**263**	**65,048**
Profit/loss for the year	**31,892**	**-33,419**	**-**	**65,311**	**263**	**65,048**
Attributable to owners of the parent company	**31,532**	**-33,419**	**-93**	**65,044**	**-**	**65,044**
Attributable to minority interests (non-controlling interest)	**360**	**-**	**93**	**267**	**263**	**4**

Appendix II.7 Options selected by the Group in the Context of IFRS 1 "First-time adoption of the International Financial Reporting Standards"

Exemption in relation to business combination

According to section C1 of IFRS 1, a first-time adopter may decide to not apply IFRS 3 "Business combinations" with a retroactive nature to combinations carried out in the past (i.e. business combinations prior to the transition date of the IFRS). However, if the adopter restates any business combination to comply with IFRS 3, the same must restate all business combinations that have taken place subsequent to the same IFRS 3.

In this sense, the Group has decided to benefit from this option and, therefore, not restate the accounting of transactions included under IFRS 3 "Business combinations".

Fair value and attributed cost

According to section D5 of IFRS 1, at the transition date of the IFRS the first-time adopter may decide to measure an item of tangible fixed assets (property, plant and equipment) at its fair value, and use this fair value as the attributed cost at said date.

Thus, section D6 sets forth that the first-time adopter may use the amount of tangible fixed assets revalued according to the previous general accounting principles, either on the date of transition or previously, as attributed cost on the revaluation date, provided that when performing this, the item is comparable in a broad sense:

- at fair value or;
- at cost or amortised cost according to the IFRS, adjusted to reflect, for example, changes in a general or specific price index.

Lastly, section D7 specifies that the options detailed in points D5 and D6 may also be applicable to:

- real estate investments, if the first-time adopter chooses to use the cost model in International Accounting Standard 40; and
- intangible assets that meet:
  - the recognition criteria of IAS 38 "Intangible assets" (including a reliable assessment of the original cost), and
  - the criteria established by IAS 38 for performing reassessments (including the existence of an active market).

In this sense, the Group has decided to benefit from this option for assets revalued prior to the date of first application (1 January 2016) and, therefore, considering their revaluation value (fair value) on the revaluation date as the attributed cost of said assets. Thus, as a consequence of this choice, on the date of first application the Group has reclassified all revaluation reserves in the section "Other reserves".

Investments in subsidiaries, joint ventures and associates

According to section D14 of IFRS 1, when a first-time adopter prepares separate financial statements, IAS 27 requires that the adopter books investments in subsidiaries, jointly controlled and associate businesses in any of the following manners:

- at cost; or
- according to IFRS 9.

Likewise, according to section D15, if a first-time adopter measures investments at cost according to IAS 27, the latter will measure this investments in the opening statement of financial position according to the IFRS by using one of the following amounts:

- at their cost calculated according to IAS 27; or
- at their attributed cost. The attributed cost of the investment will be:
  - Its fair value on the date of transition of the IFRS.
  - Its book value on this date according to the previous general accounting principles.

  A first-time adopter may choose between the foregoing sections to value its investments in each subsidiary, joint venture or associate which has decided to measure using the attributed cost method.

In this sense, with regard to investments in subsidiaries, joint ventures and associates, the Group has decided to benefit from this attributed cost option represented by its book value on the date of transition according to the Accounting Plan of the Andorran Financial System (PCSFA) approved by the Government of Andorra on 19 January 2000.

Designation of previously recognised financial instruments

IAS 39 "Financial instruments" allows for a financial asset to be designated, at the time of its initial recognition, as available-for-sale or for a financial instrument (providing it meets certain criteria) to be designated as a financial asset or liability at fair value with changes to the profit/loss account. However, the following exceptions must be taken into account:

- Companies are allowed to designate as available-for-sale on the date of transition of the IFRS.
- A company submitting the first financial statements according to the IFRS for a financial year beginning at 1 September 2006, may, on the date of transition of the IFRS, designate any financial asset or liability at fair value through profit and loss, provided said asset or liability meets, on said date of transition, the criteria established by IAS 39 in paragraphs 9(b)(i), 9(b)(ii) and 11A.

In this sense, and on the basis of the new portfolios available for the IFRS, the Group has decided to adjust the guidelines of the investment framework with the aim of optimising the management of its own portfolio.

Appendix II.8 Main differences between the accounting policies of the IFRS-EU and of the Accounting Plan of the Andorran Financial System (PCSFA) which have led to the adjustments which are included in the reconciliation statements included in Appendix II.5.

Observed loss (OL)

The adjustments related to the observed loss included in the reconciliation statements presented in Appendix II.5 are due to the difference between the calculation of provisions of the Accounting Plan of the Andorran Financial System and the result of the calculation of provisions as established in IAS 39 (see Note 5.2.1.1).

Valuation of the amortised cost on the basis of the effective interest rate (EIR)

The adjustments related to the EIR which are included in the reconciliation statements presented in Appendix II.5 are due to the difference between the calculation of the amortised cost calculated according to the Accounting Plan of the Andorran Financial System and the calculation of the amortised cost according to the IAS.

In practical terms:

- The difference seen in the credit investment mainly arises due to considering the original commissions for constitution of the loans as part of the EIR and not as income at the initial time.
- The difference seen in the portfolio due to the financial and not straight-line accrual of asset purchases below or above par.

Available-for-sale non-current assets and real estate investments

The adjustments related to the foreclosures included in the reconciliation statements included in Appendix II.5 are due to the adjustment of the fair value of assets not for own use:

- the deduction of the recovery value of the estimated sale costs (the Accounting Plan of the Andorran Financial System did not take into account the sale costs when estimating the recovery value of the asset);
- taxation updates; and
- *haircuts* on the updated taxation bases, which have been carried out following expert criteria with the aim of including the value adjustments of unique assets and/or the losses observed in the recovery process of lending transactions.

Intangible assets.

The adjustments related to intangible assets which are included in the reconciliation statements presented in Appendix II.5 are due to the cancellation of the amortisable expenses activated on the basis of the Accounting Plan of the Andorran Financial System and which are not according to the IFRS-EU.

Provision for general banking risks (PGR)

The adjustments related to PGR which are included in the reconciliation statements presented in Appendix II.5 are due to the cancellation of the provision for general risks recognised on the basis of the Accounting Plan of the Andorran Financial System and which are not according to the IFRS-EU.

Financial instruments

The adjustments related to financial instruments included in the reconciliation statements included in Appendix II.5 are due to:

- Value adjustments for securities classified into the available-for-sale and available-for-trading portfolios which were previously included in the held-to-maturity portfolio. The initial reclassifications mainly correspond to the decision to benefit from the option included in IFRS 1 and to the non-eligibility of certain financial assets for the held-to-maturity and available-for-sale portfolios.
- The value adjustments related to the application of hedge accounting at fair value (mainly interest rate).
- The allocation of certain financial instruments into the category of financial assets and liabilities at fair value through profit and loss with the aim of eliminating accounting mismatches.

Class E shares

The adjustments related to Class E shares which are included in the reconciliation statements included in Appendix II.5 are due to the consideration by IAS 32 of this class of shares as being financial liabilities and not as capital instruments, as was the case of the Accounting Plan of the Andorran Financial System (for further information see Note 24.1).

Extraordinary contribution to the FAREB

The adjustments related to the extraordinary contribution to the FAREB which are included in the reconciliation statements included in Appendix II.5 are due to the consideration as a financial liability of the Bank's obligation to carry out an extraordinary contribution to the FAREB in accordance with additional provision one of Law 8/2015 on urgent measures to implement mechanisms for the restructuring and dissolution of banks. This classification as a financial liability is applicable independently of the law authorising its accounting with charge to reserves and that it was partially disbursed after the date of first application of the IFRS-EU (1 January 2016 for comparative purposes).

Other

The adjustments included in the heading "Other" which are included in the reconciliation statements included in Appendix II.5 correspond to the rest of adjustments which have been recognised as part of the first application, such as the recognition of goodwill at market exchange rate, etc.

Appendix II.9 Main reclassifications that are due to differences between the accounting policies of the IFRS-EU and of the Accounting Plan of the Andorran Financial System (PCSFA).

The main reclassifications which can be noted in the reconciliation statements included in the previous appendices are related to:

- Reclassifications of financial assets.
  - Reclassifications of financial instruments into the available-for-sale and available-for-trading portfolios which were previously included in the held-to-maturity portfolio. These reclassifications aim to adapt the breakdown and distribution of the Group's own portfolio to the new portfolios available under the IFRS-EU.
  - Reclassifications of financial instruments to the portfolio of financial instruments at fair value through profit and loss due to the non-eligibility of certain financial assets for the held-to-maturity and available-for-sale portfolios.
  - Reclassifications of financial instruments to the portfolio of financial instruments at fair value through profit and loss with the aim of eliminating certain accounting mismatches arising from the application of the IFRS-EU.
- The classification of certain fixed assets into the chapter "Non-current assets and groups classified as available-for-sale" in the amount of 178,844 thousand euros.
- The reclassification of the revaluation reserves in the section "Other reserves" in the amount of 54,885 thousand euros.
- The reclassification of certain debt securities issued by Crèdit Andorrà from the section "Financial liabilities at amortised cost" into the section "Financial liabilities at fair value through profit and loss" in the amount of 42,372 thousand euros, and
- The change of consolidation method of Crèdit Assegurances SAU, from the equity method to global integration, which has generated a contribution of assets and liabilities to the consolidated opening statement of financial position of 474,519 thousand euros.