Crèdit Andorrà Financial Group

Financial statements | 2018

PWM The Banker
GLOBAL PRIVATE BANKING AWARDS 2018
BEST PRIVATE BANK IN ANDORRA

PRESENTATION

The International Monetary Fund has announced global growth of 3.7% at the close of 2018. It was certainly another good year for the global economy, principally thanks to the strength of the US economy (2.9%) and the solidity of the two Asian giants, with growth of 6.8% in China and 7.2% in India.

The recovery has not been even, however. Whilst American indicators continued to hit new highs, figures for Europe lost momentum throughout the year to end with eurozone growth of 1.8% against the 2.2% forecast at the beginning of 2018. Japan's GDP recorded an increase of just 0.8%, after 1.9% in 2017. Brazil and Russia continued their gradual recovery from the contraction seen in 2015 and 2016 with growth of 1.1% and 2.3% respectively.

Even so, 2018 was notable for the trade war unleashed by the Trump administration with the introduction of tariffs on steel and aluminium imports. The subsequent escalation of trade barriers has been felt across the global economy starting in the second half of the year, judging by the deterioration in emerging market indicators and German industrial production. The American economy looked, however, to be immune to trade tensions and many macro indicators reached 20-year highs (such as the consumer confidence index and the ISM Manufacturing Index), while unemployment fell to its lowest level for 49 years (3.7%). In this context, the Federal Reserve decided to raise interest rates four times to guard against future inflationary pressure.

However, 2018 did not see the long-awaited rise in inflation, rather the opposite. All price measures –consumer prices, producer prices– and the main geographic regions showed clear signs of deflation, in part explained by falls in the prices of crude oil and other raw materials. Faced with this situation, the European Central Bank brought an end to its debt purchase programme after three years, while keeping its deposit rate at –0.4%. For its part, the Central Bank of Japan continued with debt purchase, but for shorter-term debt.

In the political sphere, Europe distinguished itself once again thanks to the intensification of political risk. The battle over the Italian budget deficit between the populist coalition government (Five Star Movement and the Northern League) and the European Commission led to a doubling of the risk premium on Italian debt to 250 basis points, with subsequent pressure on the banking sector. Meanwhile, the economy and European banks continued to be affected by the negotiations with the United Kingdom over Brexit and by diplomatic tensions between Turkey and the United States.

In summary, 2018 was a year in which the global economy sustained very robust growth and resisted inflationary pressures, whilst growing trade tensions presented an ever more severe test.

This favourable macroeconomic context has also been reflected in the economy of Andorra, where the main indicators have moved positively. The year 2018 closed with estimated GDP growth of 2.5%, in line with the pattern seen in its immediate neighbours (3.5% in Spain, 2.5% in France and 3.2% in the EU as a whole), continuing the upward trend which started in 2016.

In terms of domestic consumption, the CPI rose by 0.7%. Compared to 2017, the increases in the number of new vehicle registrations (1.2%), imports (4.7%) and visitor numbers (up 2.5% to exceed 8.3 million people), are particularly noteworthy. The labour market also moved positively, with increases of 2.4% in the number of people employed and 5.6% in total wages.

The Andorran economy's good performance was highlighted in July by rating agency Standard & Poor’s which confirmed its rating for the country at BBB/A-2 with a stable outlook. This view was subsequently confirmed in 2019 by Fitch Ratings, with a BBB+ rating. In both cases, the agencies highlighted the measures taken to reduce public sector debt and growth in tourism alongside the positive picture for the finance industry and recovery in construction. In addition, the agencies commented on the progress made by the country in terms of harmonisation with international financial regulation and fiscal transparency, culminating in the removal of Andorra from the EU's list of non-cooperative tax jurisdictions.

The adoption of IFRS 9 with effect from 1 January 2018 (just 12 months after the introduction of EU-IFRS in Andorra) and the implementation of the Law on solvency, liquidity and prudential supervision of banks and investment undertakings within the context of the Monetary Agreement with the EU (a law in force from January 2019 the purpose of which is to transpose into the law of Andorra the Basel III prudential requirements), made 2018 a year of consolidation in the financial marketplace in Andorra in terms of international regulation and supervision standards.

And in that context, the Crèdit Andorrà Group has continued on the path of adapting to the new banking framework arising from: (1) new legislative requirements due to legal harmonisation under the Monetary Agreement; (2) the introduction of more oversight measures for greater fiscal transparency; (3) new demands from the Andorran regulator in relation to corporate governance; and, (4) the challenge of digital transformation: to be present in a future that has already arrived.

We have started on the road to turning all these challenges into the best opportunity to strengthen and project our existing leadership position into the future.

This was acknowledged by rating agency Fitch when it kept Crèdit Andorrà's rating at BBB with a stable outlook. Fitch drew attention in its assessment to the consolidation of our business model and the capital adequacy and liquidity of the bank. On 31 December 2018, the Crèdit Andorrà Group had a solvency ratio of 15.11% (15.98% CRD IV Phase-In) and a liquidity ratio of 56.27%, both above the legal minimum (10% and 40% respectively).

Recognition also came from awards received in 2018. The first, from the financial journals The Banker and PWM of the Financial Times group, as Best Private Bank Andorra 2018, and from the Global Banking & Finance Review, as Best Private Bank Andorra 2018 and Best CSR Bank Andorra 2018.

These awards confirm our resolve to be a bank built on service, focused on our customers and committed to the future of people and the countries in which we operate. To be responsible and to act responsibly has been our intention from the very beginning, both in financial management and in ethical conduct and social engagement.

From a financial point of view, the consolidated balance sheet of the Crèdit Andorrà Group as at 31 December 2018 reflect prudent management, fruit of its work in anticipation of the new environment in which the industry is now operating – on a global scale and in Andorra in particular – with the aim of returning to optimal rates of growth.

Thus, business volume reached €15.442 billion, with loan investment above €2.502 billion and €12.940 billion in assets under management, of which €3.87 billion represents deposits.

Regarding the Group's results, total net operating profit/loss reached €172.6 million and profit and loss before tax from continuing activities was at €39.1 million. The Group closed the period with net profit of €36 million, 28.28% below 2017.

Several factors explain the reduction in profit for the period. Some are related to external events, such as adverse movements in financial markets, where volatility has dominated and there have been significant falls. That has affected the fees earned by the Group as a result of reduced customer operations and smaller volumes of fee-bearing transactions, as a consequence of what has been happening in the market for managed funds and assets held in custody, with a drop of €908 million. There are also, as we have noted, other structural factors that define a new reality for the finance industry in Andorra and that impact on the effectiveness of the firms working in it. Among these factors, we would single out measures aimed at greater fiscal transparency and the associated demand for technical and human resources in order, firstly, to adapt to new legislative requirements arising from the legislative harmonisation required by the Monetary Agreement and, secondly, to continue with our process of digital transformation.

Management

In relation to internal management, the Bank's efforts in the area of corporate governance, in line with transparency requirements on finance businesses worldwide, are particularly noteworthy. In this regard, the Crèdit Andorrà Group has started work to adopt international best governance practices and has provided the necessary tools to the Bank's decision-making bodies.

The restructuring of the Board of Directors approved by the 2018 General Shareholders' Meeting led to the appointment of new members of the Board of Directors (proprietaries and independents) and an Executive Director. Those appointments, as well as further empowering the Board of Directors as a decision-making body, allowed the Board's new Committees (Audit and Risks, and Appointments and Remuneration) to be led by independent Directors, as required by best corporate governance practice.

In addition to these changes to the Board of Directors, Crèdit Andorrà continued along the path taken at the General Shareholders' Meeting on 3 March 2017 at which, as a consequence of EU-IFRS, it was decided to convert a material proportion of E Shares (102,293) to A Shares and to write-off 93,399 E Shares. Consequently, at the Extraordinary Shareholders' Meeting held on 12 December 2018, as well as a number of updates to the constitutional documents of the Bank, the following changes were approved: (1) Conversion of 2,103 Class E Shares, still under the liquidity window syndication regime, to Class A Shares, and (2) reduction in capital of Crèdit Andorrà SA to the amount of €63,102,130 by writing off 5,142 Class E Shares repurchased from their holders.

As such, once these resolutions had been implemented, the capital of the Bank on the date of the General Shareholders' Meeting on 30 May 2019 was made up of 901,459 registered shares divided into 894,396 Class A Shares and 7,063 Class E Shares.

Another important development in terms of corporate governance was the step taken regarding communication with shareholders with the launch of the Shareholder Space portal. This microsite gathers together all the information and documentation relevant to shareholders and allows the sale and purchase of shares.

The reconfiguration of the Crèdit Andorrà Group's organisational structure has extended to management bodies, with the aim of increasing the effectiveness of decision-making and allowing the Group to operate more efficiently. Of particular note is the extended role of the Group's Internal Audit Department, which reports directly to the Audit and Risk Committee and has now consolidated the strategic function of oversight, and the grouping together of a number of departments in the Financial Planning, Operations and Resources Division.

With the aim of supporting our new strategic line of business, we have also restructured the Innovation and Strategic Projects and Corporate Communications, Marketing and Client Digital Transformation departments.

Indeed, innovation and digital transformation are two of the most significant challenges on the horizon for the new banking model. We have to include them in the business, to re-think and to re-define how we operate because the world is already doing it. And we cannot nor do we want to be left behind. It is in our very nature to be pioneers in providing new solutions to our customers.

Fintech, blockchain, robo-advisor, big data…, concepts that we are more exposed to but need to know more about and understand better to meet the needs of customers who demand more and better services from us, who want a bank that has adapted to the mobile technology they use in their everyday lives. We have done this with products such as Merkaat, a digital investment fund advisory; Crèdit Wallet, a mobile payment app; e-Crèdit, our online bank, using fingerprint and facial recognition login, and the introduction of biometric signatures for electronic signing of routine branch transactions.

We are taking advantage of new digital formats to strengthen links with the company through Supporting, an exclusive communication channel for sports sponsorships. And we have also been pioneers in terms of strengthening our community engagement, aligning our corporate social responsibility goals with the sustainable development goals of the United Nations.

Another challenge that we see as strategic is focusing the banking business on two principal operational themes: efficiency and focused growth. That has meant that we have concentrated our efforts on consolidating our process of international expansion from three pivotal locations: Spain, Luxembourg and Miami. The aim is clear: in a very demanding and ever more concentrated market, it is not enough just to grow, we have to grow and do so properly.

That is why we have focused the American business through Beta Capital Wealth Management, with its new self-clearing licence which allows us to boost our authentic differential value offering by being able hold assets in custody as well.

Banque de Patrimoines Privés has established itself as the European hub for our securities custody platform, and for the structuring and administration of investment vehicles for institutional clients. In Spain, Banco Alcalá continues along its path of improved efficiency and growth with a diversification strategy that includes bringing a wider range of clients into its management portfolio.

In terms of the Insurance Group, Crèdit Andorrà Group's ERM Holding and RSM reached an agreement to merge their brokerage and consulting businesses. The transaction lead to the formation of the new holding company, ERSM Insurance Brokers, the leader in the Spanish market in becoming the first private insurance broker in Spain, with brokered premiums of €169 million.

Finally, our last strategic objective relates to Andorra, where we want to and must maintain our leading position, both in terms of business and our commitment to the country and its people.

Our banking model is centred on service, which is proven throughout the country by our strong presence via our network of branches and ATMs, and through our sense of responsibility towards our customers (individuals, businesses, the self-employed and professionals), the country and society as a whole. We should not forget that more than 30 years ago the Bank decided to create the Fundació Crèdit Andorrà to contribute to the development of people in Andorra and that the Foundation is now one of the leading private foundations in the country both in terms of the number of programmes and the money devoted to those programmes. In parallel, we have been outstanding in corporate social responsibility, in which we invest more than €2 million each year. In 2018, the figure was €2.68 million, spent on initiatives to boost economic and social progress, the promotion of knowledge and defence of the environment, among others.

We obviously could not do any of that without our people. If we want to continue to be a leader, we must have the best professionals in each field. We must commit to talent and meritocracy, be a financially and professionally attractive employer and keep up with the times in terms of greater flexibility in allowing staff to achieve a better work-life balance.

The Crèdit Andorrà Group has the challenge of facing the world as a global bank, but also a friendly and approachable bank, with the capacity to serve and break new ground, with a strong commitment to the community in Andorra and its development. With our leadership and proactivity, we want to be a key player in the future with the active involvement of our shareholders, customers and staff.

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, 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group at December 31, 2018, 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.

PricewaterhouseCoopers Auditores, S.L., Avinguda Diagonal, 640, 08017 Barcelona, España
Tel.: +34 932 532 700 / +34 902 021 111, Fax: +34 934 059 032, www.pwc.es

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

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

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

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

The Audit and Risks Commission of 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 whether 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 circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by the parent Company's Directors.

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

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

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

We communicate with the Directors of 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

March 30, 2019

Financial statements 2018

Crèdit Andorrà Group

Crèdit Andorrà Financial Group

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Balance sheet - Assets

Crèdit Andorrà Group

In thousand euros	Note	31/12/2018	31/12/2017 (*)
Cash, cash balances in central banks and other deposits at sight	8	**343,553**	**251,265**
Held-for-trading financial assets	9.1	**12,560**	**8,409**
Derivatives		2,361	4,757
Equity instruments		3,688	3,434
Debt securities		6,511	218
Loans and advances		-	-
Financial assets not held for business required to be valued at fair value with changes through profit and loss	9.2	**185,903**	**215,970**
Equity instruments		179,753	209,820
Debt securities		-	-
Loans and advances		6,150	6,150
Financial assets at fair value with changes through profit and loss	10	**1,865**	**14,763**
Debt securities		1,360	5,684
Loans and advances		505	9,079
Other financial assets at fair value through another global profit and loss	11	**365,996**	**405,340**
Equity instruments		16,069	16,071
Debt securities		349,927	389,269
Loans and advances		-	-
Financial assets at amortized cost		**3,764,342**	**4,083,559**
Loans and advances	12	2,417,159	2,641,268
Lending institutions		55,517	144,825
Customers		2,361,642	2,496,443
Debt securities	13	1,347,183	1,442,291
Derivatives - hedge accounting	14	**-**	**-**
Changes in fair value of hedged items of a portfolio with hedged interest-rate risk	14	**21,711**	**25,611**
Investments in joint ventures and associates	3	**37,046**	**31,491**
Assets used for insurance and reinsurance contracts	20	**3,431**	**2,760**
Tangible assets	15	**122,832**	**127,155**
Tangible fixed assets		92,666	95,992
Real estate investments		30,166	31,163
Intangible assets	16	**129,837**	**112,717**
Goodwill		61,600	59,944
Other intangible assets		68,237	52,773
Tax assets	45	**28,219**	**25,694**
Current tax assets		1,755	230
Deferred tax assets		26,464	25,464
Other assets	17	**52,908**	**51,898**
Non-current assets and disposable groups of items classified as held for sale	18	**112,028**	**103,285**
Total assets		5,182,231	5,459,917

(*) Presented solely and exclusively for comparative purposes (see Note 1.3)
Notes 1 to 49 are an integral part of the financial statements at 31 December 2018.

Balance sheet - Liabilities
Crèdit Andorrà Group

In thousand euros	Note	31/12/2018	31/12/2017 (*)
Held-for-trading financial liabilities	9.3	**10,405**	**4,772**
Derivatives		10,405	4,772
Short positions		-	-
Deposits		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities at fair value through profit and loss	10	**71,411**	**123,374**
Deposits		-	-
Debt securities issued		71,411	123,374
Other financial liabilities		-	-
Financial liabilities at amortised cost	19	**4,282,232**	**4,493,974**
Deposits		4,195,315	4,398,574
Debt securities		-	-
Other financial liabilities		86,917	95,400
Derivatives - hedge accounting	14	**35,194**	**42,192**
Changes in fair value of hedged items of a portfolio with interest-rate risk hedging	14	**-**	**-**
Liabilities used for insurance and reinsurance contracts	20	**265,650**	**254,287**
Provisions	21	**31,299**	**62,305**
Pensions and other defined retirements benefits		12,096	44,390
Other long-term employee remunerations		6,882	6,020
Restructuring		-	-
Litigations and procedural issues for pending taxes		7,558	8,427
Commitments and guarantees granted		3,402	1,538
Other provisions		1,361	1,930
Tax liabilities	45	**3,085**	**2,169**
Current tax liabilities		60	360
Deferred tax liabilities		3,025	1,809
Share capital refundable at sight		-	-
Other liabilities	23	**57,587**	**55,746**
Liabilities included in disposable groups of elements classified as held for sale	18	**-**	**-**
Total liabilities		**4,756,863**	**5,038,819**

(*) Presented solely and exclusively for comparative purposes (see Note 1.3)
Notes 1 to 49 are an integral part of the financial statements at 31 December 2018.

Balance sheet – Net equity

Crèdit Andorrà Group

In thousand euros	Note	31/12/2018	31/12/2017 (*)
Capital	24	**63,462**	**63,462**
Paid-up capital		63,462	63,462
Required unpaid capital		-	-
Issue premium	24	-	-
Issued equity instruments other than capital		-	-
Components of net equity of compound financial instruments		-	-
Other issued equity instruments		-	-
Other net equity items		-	-
Other accumulated comprehensive profit and loss	26	**4,222**	**4,972**
Items that will not be reclassified to profit and loss		2,440	906
Tangible assets		-	-
Intangible assets		-	-
Actuarial gains and losses in defined benefit pension plans		625	906
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		-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive profit and loss		1,815	-
Ineffectiveness in fair value hedges of equity instruments valued at fair value with changes in other comprehensive profit and loss		-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive profit and loss (hedged item)		-	-
Changes in fair value of equity instruments valued at fair value through other comprehensive profit and loss (hedging instrument)		-	-
Changes accumulated in fair value of financial liabilities at fair value through changes in credit risk		-	-
Items that can be reclassified to profit and loss		1,782	4,066
Net investment hedging in foreign operations (effective portion)		-	-
Foreign currency conversion		-3	-
Hedging derivatives. Cash flow hedges (effective portion)		-	-
Changes in the fair value of financial assets measured at fair value with changes in other comprehensive profit and loss		1,785	4,066
Hedge instruments (portion not allocated)		-	-
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	**311,581**	**293,721**
Reserves or accumulated losses of investments in dependents, joint ventures and associates		62,201	53,505
Other		249,380	240,216
(-) Treasury shares	25	-	-
Profit and loss attributable to owners of the parent company	4	**36,001**	**50,194**
(-) Interim dividends	4	-	-
Minority interests (non-controlling interest)	27	**10,102**	**8,749**
Other accumulated comprehensive profit and loss		-	-
Other items		10,102	8,749
Total net equity		**425,368**	**421,098**
Total net equity and liabilities		**5,182,231**	**5,459,917**

(*) Presented solely and exclusively for comparative purposes (see Note 1.3)

Notes 1 to 49 are an integral part of the financial statements at 31 December 2018.

Income statements
Crèdit Andorrà Group

In thousand euros	Note	31/12/2018	31/12/2017 (*)
Interest income	34	**72,932**	**70,243**
Other financial assets at fair value through another global profit and loss		5,638	1,681
Financial assets at amortized cost		66,221	67,667
Other interest income		1,073	895
(Interest expenditure)	34	**-26,447**	**-31,532**
(Expenses for share capital refundable at sight)		**-**	**-**
Dividend income	35	**704**	**3,730**
Commission income	36	**124,376**	**158,678**
(Commission expenditure)	36	**-31,081**	**-33,135**
Profit or loss due to retirement of financial assets and liabilities not valued at fair value through profit and loss, net	37	**14,046**	**3,184**
Other financial assets at fair value through another global profit and loss		13,105	3,177
Financial assets at amortized cost		1,054	-
Financial liabilities at amortised cost		-	7
Other		-113	-
Profit or loss due to held-for-trading financial assets and liabilities, net	37	**6,203**	**3,768**
Reclassification of financial assets from fair value with changes in other comprehensive profit and loss		-	-
Reclassification of financial assets from amortized cost		-	-
Other profits and losses		6,203	3,768
Profit and loss from financial assets held for trading valued mandatorily at fair value with changes in results	37	**-12,462**	**-**
Reclassification of financial assets from fair value with changes in other comprehensive profit and loss		-	-
Reclassification of financial assets from amortized cost		-	-
Other profits and losses		-12,462	-
Profit or loss due to financial assets and liabilities at fair value through profit and loss, net	37	**11,092**	**-79**
Profit or loss resulting from hedge accounting, net	14	**-431**	**1,115**
Exchange rate differences (profit or loss), net	37	**3,016**	**9,029**
Profit or loss due to retirement of non-financial assets, net		**870**	**172**
Other operating income and expenditure	38	**6,027**	**6,224**
Other income and expenses of assets and liabilities covered by insurance or reinsurance	38	**3,706**	**4,192**
Total net operating profit/loss		**172,551**	**195,589**

Income statements (ongoing)

Crèdit Andorrà Group

In thousand euros	Note	31/12/2018	31/12/2017 (*)
Total net operating profit/loss		**172,551**	**195,589**
(Administration expenses)		**-123,583**	**-127,330**
(Personnel costs)	39	-69,351	-71,901
(Other administration expenses)	40	-54,232	-55,429
(Amortization)	41	**-15,323**	**-12,264**
(Fixed assets)	15	-4,977	-5,344
(Real estate investments)	15	-21	-132
(Other intangible assets)	16	-10,325	-6,788
(Provisions or reversal of provisions)	42	**-2,760**	**-2,092**
(Commitments and guarantees granted)		-685	-
(Other provisions)		-2,075	-2,092
(Impairment of the value or reversal of impairment of the value of financial assets not valued at fair value with changes to profit and loss or loss due to modification)	43	**1,724**	**-228**
(Financial assets at cost)		-	-
(Financial assets at fair value with changes in another overall result)		22	38
(Financial assets at amortized cost)		1,702	-266
(Impairment of the value or reversal of the value impairment of investments in joint ventures and associates)		**-**	**-231**
(Impairment of the value or reversal of the impairment of the value of non-financial assets)		**-161**	**-**
(Fixed assets)	15	-	-
(Real estate investments)	15	-24	-
(Goodwill)	16	-137	-
(Other intangible assets)	16	-	-
(Other)		-	-
Negative goodwill recognised in the profit and loss	3.6	**2,632**	**-**
Share in profit or loss of investments in subsidiaries, joint ventures and associates	44	**4,098**	**3,398**
Profit or loss from non-current assets and disposal groups of items held for sale in discontinued operations classified as inadmissible	18	**-126**	**-623**
Profit and loss before tax from continuing activities		**39,052**	**56,219**
(Income or expenditure for tax on profit from continued activities)	45	-2,698	-5,660
Profit or loss after tax from continuing activities		**36,354**	**50,559**
Profit or loss after tax from uninterrupted activities		**-**	**-**
Profit or loss before taxes from uninterrupted activities		-	-
(Income or expenditure for taxes related to uninterrupted activities)		-	-
Profit or loss for the year		**36,354**	**50,559**
Attributable to minority interests (non-controlling interest)		353	365
Attributable to owners of the parent company		36,001	50,194
Earnings per share (basic) - in euros	4	**40.35**	**59.72**
Earnings per share (diluted) - in euros	4	**40.35**	**59.72**

(*) Presented solely and exclusively for comparative purposes (see Note 1.3)

Notes 1 to 49 are an integral part of the financial statements at 31 December 2018.

Consolidated income statement
Crèdit Andorrà Group

In thousand euros	Note	31/12/2018	31/12/2017 (*)
Profit or loss for the year		**36,354**	**50,559**
Other comprehensive profit and loss		**-750**	**-3,347**
Items that will not be reclassified to profit or loss	**26**	**1,534**	**128**
Tangible assets		**-**	**-**
Intangible assets		**-**	**-**
Actuarial profits or losses in defined benefit pension plans		**-312**	**142**
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		**-**	**-**
Changes in fair value of equity instruments valued at fair value through other comprehensive profit and loss		**2,053**	**-**
Profit or loss resulting from the hedge accounting of equity instruments valued at fair value with changes in other overall net results		**-**	**-**
Changes in fair value of equity instruments valued at fair value with changes in another overall result (covered item)		-	-
Changes in fair value of equity instruments valued at fair value with changes in other comprehensive profit and loss (hedging instrument)		-	-
Changes in fair value of financial liabilities valued at fair value with changes in results attributed to changes in credit risk		**-**	**-**
Income tax related to items that will not be reclassified		**-207**	**-14**
Items that can be reclassified to profit and loss		**-2,284**	**-3,475**
Hedges of net investments in foreign business (effective portion)		**-**	**-**
Profit or loss posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Foreign currency conversion		**-3**	**-**
Profit or loss due to foreign exchange posted to net equity		-3	-
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		-	-
Hedging instruments (items not designated)		-	-
Profit or loss posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Debt instruments at fair value with changes in other comprehensive profit and loss		-2,607	-3,893
Profit or loss posted to net equity		10,498	-716
Transferred to profit and loss		-13,105	-3,177
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		**326**	**418**
Total comprehensive income for the year		**35,604**	**47,212**
Attributable to minority interests (non-controlling interest)		**353**	**365**
Attributable to owners of the parent company		**35,251**	**46,847**

(*) Presented solely and exclusively for comparative purposes (see Note 1.3)
Notes 1 to 49 are an integral part of the financial statements at 31 December 2018.

Statement of changes in net equity
Crèdit Andorrà Group

December 31, 2018

	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 31 December 2017	63,462	4,972	293,721	50,194	-	-	8,749	421,098
Effects of error correction	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (Note 1.3).	-	17,270	-26,320	-	-	-	-	-9,050
Adjusted balance at January 1, 2018	63,462	22,242	267,401	50,194	-	-	8,749	412,048
Reductions in capital	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to net equity	-	-	-	-	-	-	-	-
Transfers between net equity items	-	-	50,194	-50,194	-		-	-
Other increases or decreases in net equity (note 3)	-	-	-6,014	-	-	-	1,000	-5,014
Total comprehensive income for the year	-	-18,020	-	36,001	-	-	353	18,334
Balances at 31 December 2018	**63,462**	**4,222**	**311,581**	**36,001**	**-**	**-**	**10,102**	**425,368**

(*) Presented solely and exclusively for comparative purposes (see note 1.3.)

Notes 1 to 49 are an integral part of the financial statements at 31 December 2018.

Statements of changes in equity (ongoing)

Crèdit Andorrà Group

December 31, 2017 (*)

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
	Net equity attributable to parent entity (*)							
	Equity					Minority interest		
Balance at January 1, 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 January 1, 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	-	-	112,522	-	-	-	-	112,522
Transfers between net equity items	-	-	23,632	-31,532	7,900	-	-	-
Other increases or decreases in net equity	-	-	-	-	-	-	-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**

(*) Presented solely and exclusively for comparative purposes (see Note 1.3)
Notes 1 to 49 are an integral part of the financial statements at 31 December 2018.

Cash flow statements

Crèdit Andorrà Group

In thousand Euros	Note	31/12/2018	31/12/2017 (*)
Cash flow of operating activities		**106,851**	**-38,620**
Profit/loss for the year		**36,001**	**50,194**
Adjustments to obtain cash flow of operating activities		**-3,500**	**12,301**
Amortisation	41	15,323	12,264
Other adjustments		-18,823	37
Net increase/decrease of operating assets		**354,963**	**208,948**
Held-for-trading financial assets		-4,151	34,962
Profit and loss from financial assets not held for trading valued mandatorily at fair value with changes in profit and loss		17,605	-
Financial assets at fair value through profit and loss		23,990	33,510
Other financial assets at fair value through another global profit and loss		51,951	63,770
Financial assets at amortized cost		266,703	84,705
Other operating assets		-1,135	-7,999
Net increase/decrease of operating liabilities		**-280,613**	**-308,662**
Held-for-trading financial liabilities		5,633	-2,440
Financial liabilities at fair value through profit and loss		-51,963	280
Financial liabilities at amortised cost		-211,742	-246,831
Other operating liabilities		-22,541	-59,671
Settlements/payments for gains tax			**-1,401**
Cash flow of investment activities		**-10,697**	**-4,077**
Payments		**-29,456**	**-24,946**
Tangible assets	15	-3,820	-3,738
Intangible assets	16	-20,125	-17,229
Investments in joint ventures and associates		-1,610	-
Subsidiary entities and other business units		-3,901	-3,979
Non-current assets and liabilities classified as held for sale		-	-
Held-to-maturity investments		-	-
Other payments related to investment activity		-	-
Collections		**18,759**	**20,869**
Tangible assets		3,467	3,315
Intangible assets		-	-
Investments in joint ventures and associates		466	-
Subsidiary entities and other business units		-	-
Non-current assets and liabilities classified as held for sale		14,826	17,554
Held-to-maturity investments		-	-
Other collections related to investment activity		-	-
Cash flow of financing activities		**-4,899**	**-35,799**
Payments		**-4,899**	**-35,799**
Dividends paid out	4	-	-
Debt securities		-	-17,279
Amortisation of the entity's own equity instruments		-	-
Acquisition of the entity's own equity instruments		-4,899	-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		**1,033**	**4,540**
Net increase (decrease) of (A+B+C+D) cash and cash equivalents		**92,288**	**-73,956**
Cash and cash equivalents at the start of the period		**251,265**	**325,221**
Cash and cash equivalents at the end of the period		**343,553**	**251,265**

(*) Presented solely and exclusively for comparative purposes (see Note 1.3)

Notes 1 to 49 are an integral part of the financial statements at 31 December 2018.

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 April 11, 2011, the Andorran National Institute of Finance approved the application to widen the Bank's corporate object to include the investment and auxiliary services established in articles 5 and 6 of Law 13/2010, of May 13.

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. Basis of presentation

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

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

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

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

The financial statements of the Group, the Bank and almost all the entities forming part of the Group for the year ending at December 31, 2018 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 June 26, 2018, the Bank's General Shareholders' Meeting approved the consolidated and individual income statements of the Bank corresponding to the financial year of 2017.

The consolidated financial statements of the Crèdit Andorrà Group corresponding to the year 2018 that have been added have been prepared with the same principles, accounting policies and criteria as those applied in the consolidated financial statements for the year 2017, except for the regulatory changes that have entered into force on January 1, 2018 and are detailed in section 1.2.1. «Standards, amendments and interpretations that are mandatory for financial years starting from January 1, 2018.». Therefore, in its preparation, the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which in turn were fully adopted by Andorra (IFRS-Andorra) were taken into account by means of the Decree dated December 22, 2016 and the Decree dated December 12, 2018.

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

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

1.2.1. Standards, amendments and interpretations that are mandatory for financial years starting from 1 January 2018.

The following are the most significant norms and interpretations for the Group that have been published by the IASB and that have entered into force in the Principality of Andorra as of 1 January 2018.

- **IFRS 9 «Financial instruments» or IFRS 9** (in acronym in English): this rule establishes exhaustively the set of accounting requirements for the recording and valuation of financial assets and liabilities (excluding the part related to macrohedges). The first application date is January 1, 2018, when it replaced the International Accounting Standard (IAS) 39 «Financial instruments: recognition and valuation», which was applicable until December 31, 2017. There are significant differences with the current standard in relation to aspects such as the classification and valuation of financial assets and liabilities, impairment of financial assets and accounting hedges.

  The impact of the adoption of this standard is significant (see note 1.3. «Comparative information» and note 2 «Accounting principles and policy, and valuation methods applied»).

The following are the rest of the norms and interpretations that have been published by the IASB and that have entered into force in the Principality of Andorra as of January 1, 2018, although they have not had any significant impact on the financial statements for the year 2018.

- IFRS 15 «Income from contracts with customers»: this norm establishes a model for the recognition of ordinary income, other than from the financial instruments, based on the identification of the obligations of each contract, the determination of its price, the allocation From this to the identified obligations and, finally, the recognition of the deposit at the moment in which the control of the assets is transferred (in the broad sense, including the provision of services).

- Amendments to IFRS 4 Application of IFRS 9 «Financial instruments» with IFRS 4 «Insurance contracts», adopted by Regulation 2017/1988 of the European Commission.

- Amendments to IFRS 2 «Classification and measurement of transactions in payments based on shares», adopted by Regulation 2018/289 of the European Commission.

- Amendments to NIC 40 «Transfers of investment property», adopted by Regulation 2018/400 of the European Commission.

- IFRIC 22 «Transactions in foreign currencies and early payment», adopted by Regulation 2018/519 of the European Commission.

- Modification of IAS 1 Application of IFRS 9 «Financial instruments» with IAS 1 «Presentation of financial statements»

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

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

- Standards, modifications and interpretations that have not yet entered into application but which can be adopted in advance because they have been adopted by the EU (although not by the Principality of Andorra)::
    - IFRS 16 «Leases» (mandatory application as of January 1, 2019).
    - Amendment to IFRS 9 «Prepaid payment features with negative compensation» (mandatory application as of January 1, 2019).
    - IFRIC 23 «Uncertainty regarding tax treatment» (mandatory application as of January 1, 2019)
- Standards, modifications and interpretations to the existing regulations that can not be adopted in advance or that have not been adopted by the EU nor by the Principality of Andorra:
    - IFRS 17 «Insurance contracts» (mandatory application as of January 1, 2021)..
    - Amendments to IAS 28 «Long-term interests in associates and joint ventures» (mandatory application as of January 1, 2019)
    - Amendment to IAS 19 «Modification, reduction or liquidation of the Plan» (mandatory application as of January 1, 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.

IFRS 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 essence of the transactions that take 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 balance sheet 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 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*air 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.

IFRIC 23 «Uncertainty regarding tax treatment»

The interpretation deals with situations in which there may be a dispute with the tax authority or an open inspection on a specific tax treatment and these may affect the registration of the assets or liabilities of the entity, whether current or deferred.

In addition to the previous regulations, below are other norms and interpretations issued by the IASB that have not yet been endorsed at the European level and for the implementation of which the Group works.

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 issuing insurance contracts and investment contracts with discretionary participation components.

The standard applies to annual years beginning on January 1, 2021, and it allows early application if it also applies IFRS 15 «Ordinary income from client contracts»and IFRS 9 «Financial instruments».

Amendment to IAS 28 «Long-term interests in associates and joint ventures»

This modification of limited scope clarifies that long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or the joint venture, but which does not apply the method of The participation is accounted for according to the requirements of IFRS 9 «Financial instruments»

Amendment of IAS 19 «Amendment, reduction or liquidation of the plan»

This amendment clarifies how the cost of the asset ceiling is incorporated into the calculation of gain or loss. This amendment clarifies that the effect of the asset ceiling is dismissed when calculating the gain or loss in any liquidation of the plan and is distributed separately in other general income (ARG).

1.3. Comparing information

The figures corresponding to December 31, 2017 included in the accompanying consolidated financial statements are presented solely and exclusively for comparative purposes.

As indicated in note 1.2 «Basis of presentation», the Group has applied IFRS 9 as of January 1, 2018.. In Annex II, which is an integral part of this note, details are made of the changes in the classification and the valuation changes on certain items of the financial statement.

Given the impracticability of making the retroactive estimate of the impact of the change in accounting policy of IFRS 9, the Group has taken advantage of the provisions in IAS 8.40 to refrain from restating the statement of financial position of the opening January 1, 2017 and the statement of income for the year 2017. Likewise, in accordance with the possibility permitted under IFRS 9.7.2.15, the breakdowns at 31 December 2017 of certain items of the financial statement relating to financial instruments in these financial statements have not been restated , which is why it is not comparative with the information referred to at 31 December 2018.

1.4. 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 (notes 15 and 16).

- Recovery value of goodwill, the first consolidation differences and the remaining intangible assets (note 16).

- Losses due to the impairment of non-current assets and disposable groups of items that were classified as held for sale (note 18).

- The actuarial hypotheses used in the calculation of liabilities for insurance contracts (note 20) and also in the calculation of liabilities and post-employment commitments (note 22).

- Valuation of the provisions for 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 December 31, 2018 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 years to come. This modification would be carried out prospectively, recognizing the effects of the change in estimate in the corresponding consolidated income statements

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 2018, the following accounting principles and policies and valuation criteria were applied.

2.1. Financial instruments

2.1.1. Classification of financial assets

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

- Financial assets at amortized cost.
- Financial assets at fair value with changes in other comprehensive profit and loss.
- Financial assets obligatorily at fair value with changes in profit and loss.
  - Financial assets held for trading.
  - Financial assets not traded that are mandatorily valued at fair value with changes in profit and loss.
- Financial assets denominated at fair value with changes in profit and loss.
- Derivatives - hedge accounting.

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

- The **business model** business model of the Group for financial asset management.

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

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

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

  In this sense, the Group defines as:

  - Frequent or immaterial sales are those that do not represent more than 5% of the book value of the asset sold. In this regard, for practical purposes, it is considered that this definition is met when the sale of an asset in an exercise does not exceed 5% of its book value divided by the number of outstanding exercises until its expiration at the time of the year. Acquisition of financial assets.

  - Sales of assets close to maturity as those carried out within the last 6 months before the expiration of the title (usually with the aim of facilitating the reinvestment of the portfolio in the most beneficial way in terms of the market) and provided that the profit Obtained does not exceed 5% of the book value at the date of sale.

  - Sales motivated by a significant increase in credit risk such as those that occur after a *de-rating* of at least two steps has taken place since the moment of acquisition and (2) that this *de-rating* It may or may be expected to lead in the short term to a breach of the investment guidelines in force in the Group.

  - Sales motivated to manage the risk of concentration like those that are realized with the aim of correcting a breach of the prudential limits marked at each moment by the regulation of application or internally by the Group, as well as to avoid a foreseeable breach in the short term .

- Maintenance of assets to obtain a return through their sale (HTS, in the acronym in English for Held to Sell). Under this model the Group does not seek the investment in an asset to receive contractual flows, but the objective is to take advantage of fluctuations in the market value of the assets to carry them out in order to obtain capital gains .

- Combination of the two previous business models, that is maintenance of the assets to receive the contractual flows of the asset and to obtain a return through its sale (HTCS, in the acronym in English for Held to Collect and Sell). This business model involves the realization of assets more frequently and with superior value.

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

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

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

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

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

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

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

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

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

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

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

2.1.2. Classification of financial liabilities

The classification of financial liabilities under IFRS 9 does not present any relevant differences with the accounting policies established under IAS 39.

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

- Financial liabilities held for trading. This portfolio consists mainly of the financial liabilities acquired or issued with the intention of making them in the short term or that are part of a portfolio of financial instruments, identified and managed jointly, for which there is evidence of recent actions aimed at obtaining short-term profits. 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. Finally, they are considered as financial liabilities held to negotiate assets and liabilities that do not comply with the definition of a financial guarantee contract and have not been designated as hedging instruments.

- Financial liabilities denominated at fair value with changes in results. The financial liabilities designated by the Group in their initial recognition, such as hybrid financial liabilities that have to be fully valued at their fair value or with financial derivatives, are included, if applicable, to reduce exposure to variations in Fair value, or are managed jointly with financial and derivative liabilities in order to reduce the overall exposure to interest rate risk.

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

- Financial liabilities at amortized 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.

2.1.3. Valuation of financial instruments

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

Subsequently, on a determined date, the fair value of a financial instrument corresponds to the amount for which it could be realised, 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 income statement for the financial year in which the accrual occurred. Dividends received from other companies are recorded in the income statement 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 under section «Financial assets held for trading», «Financial assets not held for trading, valued mandatorily at fair value through profit or loss», «Financial assets denominated at fair value through profit or loss», «Financial liabilities held for trading » and «Financial liabilities designated at fair value with changes through profit and loss»; They are initially valued at their fair value and, subsequently, the variations that are produced are recorded through profit and loss account.

- For its part, the financial instruments included in «Financial assets at fair value with changes in comprehensive profit and loss» are initially measured at their fair value and subsequently, the variations produced therein, net of their fiscal impact, are recorded with a balancing entry in the section «other comprehensive profit and loss» of net equity

- The derivatives are recorded in the balance sheet 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 income statement for classified derivatives at levels 1 and 2 of the fair value hierarchy.

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

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

- The financial instruments included in the portfolio of«Financial assets at amortized cost» and «Financial liabilities at amortized cost» are valued at their amortized 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

Consistent with the provisions of point 6.1.3. IFRS 9, the Group, with regard to fair value hedges on interest rates of a portfolio of financial assets or liabilities, hedge accounting applies the requirements of IAS 39 rather than included in IFRS 9. Therefore, taking into account that the Group only uses fair value hedges on interest rates, the accounting does not present differences with the accounting policies established under IAS 39.

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 coverage is within the 80% -125% range.

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

$$80\% \geq \frac{(Variació\ PV + realitzats\ del\ mes)\ dels\ elements\ de\ cobertura}{(Variació\ PV + realitzats\ del\ mes) dels\ elements\ coberts} \leq 125\%$$

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.

As mentioned, the accounting hedging operations carried out by the Group are in fullfair value hedges, which cover the exposure to the change in the fair value of financial assets and liabilities or firm commitments not yet recognized , or an identified portion of said assets, liabilities or firm commitments, attributable to the interest rate risk and provided they affect the result.

Furthermore, the Group hedges interest rate risk of a determined amount of assets sensitive to interest rate, 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 income statement. 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 income statement 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 instruments

As established in IFRS 9, the assets will be reclassified if the objective of the business model for a group of financial assets undergoes significant changes, although the rule foresees that this circumstance occurs on several occasions. In this line, it is assumed that the business model for an asset or class of financial assets changes when the entity's strategy for this assets or asset class is modified. In this sense, it is assumed that, once a financial asset is reclassified because the business model for this asset has changed, the business model adopted by the entity for the asset will not change until after a period of at least 2 years.

At December 31, 2018 and 2017, with the exception of the effects of the first application of the International Financial Reporting Standards (see note 1.4 of the consolidated financial statements for the year 2017) and the effects of the first application of the IFRS 9 (see note 1.3.) there are no financial assets that have been reclassified between portfolios.

The rule does not allow the reclassification of financial liabilities.

2.4. Assets that guarantee financing operations (Asset Encumbrance)

See note 5.3.2.

2.5. Offset of financial assets and liabilities

The financial assets and liabilities will be compensated and as a result, presented in the balance sheet 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 December 31 2018 and 2017, 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 balance sheet, 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 securitization 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 balance sheet and any right or obligation retained or created as a result of the transfer is recognized simultaneously.

- When the risks and rewards inherent to ownership of the transferred financial asset are retained - as is the case with sales of financial assets with an agreement for repurchase at a fixed-price or for the sales price plus a lender's return, stock lending agreements where the borrower has an obligation to return them or similar assets and other similar cases -, the asset is not retired and continues to be valued with the same criteria used before the transfer, and it is recognized 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 balance sheet and any right or obligation retained or caused by the transfer is recognized.

    - If the transferring entity retains control of the transferred financial asset, it continues to recognise the asset in the balance sheet, 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 2018 and 2017, the Group has no live securitization of financial assets.

Likewise, the financial liabilities will be retired from the liabilities of the balance sheet 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 formalized, the transaction costs are recognized at fair value, understood as the premium received plus the current value of future cash flows, under the section of the asset «Financial assets at amortized cost - Loans and advances», with a balancing entry in section «Financial liabilities at amortized 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 balance sheet. The allocation and recoveries of provisions is recorded in the heading «Provisions or reversal of provisions» of the income statement..

Should it require the constitution of a specific provision for financial guarantee contracts, the corresponding commissions pending accrual are reclassified from the section «Financial liabilities at amortized cost - Other financial liabilities» in 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.

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

Generally speaking, the book value adjustment of financial instruments due to their impairment is carried out in heading «Impairment of the value or reversal of impairment of the value of financial assets not valued at fair value with changes to profit and loss or loss due to amendment» of the income statement in the period in which said impairment arose, and the recoveries of previously recorded impairment losses, in the case of them arising, are recognized in the same heading of the income statement for the financial period in which the impairment was removed or reduced.

2.8.1. Debt instruments valued at their amortised cost

2.8.1.1. Classification based on the risk of insolvency

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

- **Normal risk (Stage 1, according to terminology in English)**: covers all operations that do not meet the requirements to be classified in other categories.

- **Normal risk with a significant increase in risk (Stage 2, according to terminology in English):**: it includes all the operations that, without meeting the criteria for classifying them individually as a doubtful or bankrupt risk, present significant increases in the credit risk from their initial recognition.

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

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

- Adverse changes in the financial situation, such as a significant increase in debt levels, as well as significant increases in debt service ratios, understanding the relationship between debt and operating cash flows as such;
- Significant drops in business volume or, in general, recurring cash flows;
- Significant reduction in operating margins or recurring income available;
- slowdown of business or unfavorable tendencies to the owner's operations that could cause a significant change in the holder's ability to meet their debt obligations in a sustainable way;
- For operations with a real guarantee, a significant deterioration in the relationship between the amount and the value of the guarantee, due to the unfavorable evolution of the value of the guarantee, or to the maintenance or increase of the amount pending amortization due to the established payment conditions (such as long periods of non-payment of principal payments, increasing or flexible installments, or longer periods);
- significant increases in the credit risk of other operations of the same holder, or significant changes in the expected payment behavior of the holder;
- Significant increase in credit risk due to problems of the troubled groups to which the holder belongs or a significant unfavorable change to the behavior of the economic activity sector to which the holder belongs, as well as the increase of the economic group's difficulties of related credentials to which the holder belongs;
- Adverse changes in regulatory or technological environments in which the owner operates;
- litigation pending of the owner that could significantly affect its financial position;
- Holders declared bankruptcy (when their classification is not considered as a doubtful risk for reasons other than default).

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

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

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

- that it has been concluded, after a thorough review of the owner's financial and financial situation, that it is not expected that it may have financial difficulties and that, therefore, it is highly probable that it can fulfill its obligations with the entity in time and form;

- that a minimum period of 2 years has elapsed since the date of formalization of the restructuring or refinancing operation, or, if it were later, from the date of reclassification from the category of doubtful risk;

- that the owner has paid the principal and interest accrued fees from the date on which the restructuring or refinancing operation was formalized, or, if it were later, from the date of reclassification from the doubtful category. Additionally, it will be necessary:

    - that the owner has satisfied, by means of regular payments, an amount equivalent to all the amounts (principal and interest) that were expired at the date of the restructuring or refinancing operation, or which were terminated as a result of the restructuring or refinancing operation, this operation;

    - or, when it is more appropriate, based on the characteristics of the operations, that other objective criteria have been verified that demonstrate the holder's ability to pay. Therefore, the existence of contractual clauses that dilate the reimbursement, such as periods of absence for the principal, will imply that the operation remains identified as a normal risk with a significant increase in risk until the criteria described in this section are met;

- that the holder has no other operations with expired amounts more than 30 days at the end of the trial period.

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

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

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

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

  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.

  Also classified as a doubtful risk due to default, all operations of a holder or group of holders when the transactions with amounts expired with more than 90 days of seniority exceed 20% of the amounts pending collection of the totality of operations of a holder or group of holders. Only for the purposes of determining the percentage indicated, the gross book value of the doubtful operations due to default on amounts deducted and the denominator denominated in the numerator will be considered the gross book value of the entire instrument of debt granted to the holder.

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

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

For refinanced or restructured operations with the purpose of avoiding classification as a doubtful risk due to default or remaining in the category of doubtful risk, it will be considered as a date for calculating its age, at The effect of determining whether classification as a doubtful risk due to default, the date of the oldest expired amount that has been refinanced or restructured and remains pending payment, regardless of whether as a result of refinancing or of the restructuring refinanced operations have overdue amounts or not. For these purposes, amounts that were expired on the date of the refinancing are considered as expired amounts and the date on which they would have expired will be considered if the refinancing was not carried out.

Unless other reasons exist for categorizing them with doubtful risks, operations classified in this category are reclassified to normal with a significant increase in risk if, as a consequence of the collection of part of the expired amounts, the causes that led to the classification disappear as a doubtful risk according to the one indicated in the previous paragraphs and the holder does not have overdue amounts with more than 90 days of seniority in other operations to the date of reclassification to the category of normal risk. In this sense, the doubtful assets due to non-deducting reasons that cease to present unpaid balances with an anti-90-year period remain in the normal category with a significant increase in risk for a period of no less than 3 months.

For reasons other than delinquency of the client: it includes debt instruments, due or not, in which, without the circumstances in order to classify them in the categories of bankruptcies or doubtful due to the client's default, reasonable doubts arise about their total, principal and interest reimbursement, in terms contractually agreed upon, as well as off-balance sheet exposures that are not classified as doubtful due to bad debts of the owner whose default is probable and their doubtful recovery.

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

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

Thus, in general terms, the operations of the holders that, after an individualized review, are included in this category, are determined to be in situations that cause a deterioration in its solvency.

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

- operations with claimed balances or on which the Group has decided to claim the reimbursement, even though they are guaranteed, as well as the operations on which the debtor has raised litigation of the decision on which the payment depends;

- the operations in which the process of execution of the real guarantee has begun, including the financial leasing operations of which the entity has decided to terminate the contract to recover the possession of the asset;

- operations of the holders that are declared or evidence that they will be declared in the credit of the creditors without a request for liquidation;

- Guarantees granted to guarantees declared in the bankruptcy for which it is stated that the liquidation phase has been declared or declared, or suffer a marked and irrecoverable deterioration of solvency, even if the beneficiary of the guarantee does not 'Claimed the payment;

- Refinancing operations, which have been classified at a doubtful risk, and classified as a normal risk with a significant increase in risk during the trial period, are refinanced or restructured again or may have overdue amounts over an age of more than 30 days.

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

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

- They are based on an inadequate payment plan. Among other assumptions, it is considered that there is no adequate payment plan when it has been repeatedly breached, it has been modified to avoid breach or sustain expectations not confirmed by macroeconomic forecasts.

- They include contractual clauses that dilate the reimbursement of the operation through regular payments. Among others, the periods of absence superior to 2 years for the amortization of the principal will be considered clauses with these characteristics.

- present amounts deducted from the financial statement because they are considered unrecoverable to exceed the coverage that would result from applying the percentages established for the risk segment corresponding to alternative solutions for normal risk with a significant increase in risk.

The refinancing or restructuring of an operation that was previously classified as a doubtful risk: It will not cause its reclassification to the category of normal risk with a significant increase in risk or normal.

- In order to consider that the credit quality of the operation has improved, the owner must consistently demonstrate for a period of time his ability to meet payments with the new contractual conditions. it will require an analysis to determine whether the financial situation of the entire financial asset that exists, in accordance with the policies established for this purpose, can be downloaded from the financial situation.

- When the loss is due, the new recognized financial asset will be a financial asset acquired or originated with credit impairment; When the existing asset is not retired, the Group will continue to classify it as a doubtful risk by proceeding, if applicable, to a partial loss on which it has ceased to have rights or the amounts lost. When the loss is due, the new recognized financial asset will be a financial asset acquired or originated with credit impairment; When the existing asset is not retired, the Group will continue to classify it as a doubtful risk by proceeding, if applicable, to a partial loss on which it has ceased to have rights or the amounts lost.

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

- That it has been concluded, after an exhaustive review of the owner's financial and financial situation, that it is not expected that it may have financial difficulties.

- That a period of one year has elapsed since the date of refinancing or restructuring.

- That the owner has paid the principal and interest expiration fees, and that the principal renegotiated has been reduced, from the date on which the restructuring or refinancing operation was formalized or, if it were later, from the date of reclassification of the operation to the categories of doubtful. As a result, the transaction will not be able to present expired amounts. Additionally, it will be necessary:

    - that the owner has satisfied, by means of regular payments, an amount equivalent to all the amounts, principal and interests, which were expired at the date of the restructuring or refinancing operation, or which were terminated as a result of the restructuring;

    - Or, when it is more appropriate, depending on the characteristics of the operations, that other objective criteria have been verified that demonstrate the holder's ability to pay.

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

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

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

The risks of holders declared in the creditor's claim without a request for liquidation are reclassified to the category of normal risk with a significant increase in risk when the accredited has paid, at least, 25% of the credits of the entity affected by the competition - once Discontinued, if appropriate, the agreed absentee, or two years after the approval of the creditors 'agreement have passed, provided that this agreement is faithfully fulfilled and that the evolution of the assets and financial situation of the creditors' The company eliminates the doubts about the total reimbursement of the debts, all unless there are agreed to interests that are not inferior to those of the market

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

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

- **Bad risk:** in this category, debt instruments, whether or not overdue, are classified for which, after an individualized analysis, they are considered to have remote recovery possibilities and the assets are retired, notwithstanding of the actions that the Group can carry out in order to try to collect them until their rights have been definitively extinguished, whether by prescription, forgiveness or other causes.

2.8.1.2. Risk Coverage

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 coverage estimates debt instruments the risk amount is the gross book value 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 as individually significant (see the cases identified in the following paragraph), the specific coverage of the operations is estimated individually, and the rest are subject to collective treatment.

Based on the criteria of management and monitoring of credit risk, for the 2018 and 2017 financial years the Group considers as individually accredited as significant / relevant those that fulfill any of the following conditions:

- 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 thousand Euros.

Although IFRS 9 does not require it, it should be noted that Crèdit Andorrà also applies a quantitative threshold to operations without objective evidence of deterioration (not doubtful) in terms of being eligible for an analysis using individualized models experts. 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 Risk unit has the power to decide that an operation or group of operations are included in the population that is the object of individual analysis although *a priori* the guidelines established by the Group are met to be eligible for the calculation collective This fact is based on the fact that the Credit Risk Unit has the necessary information to determine whether a certified or an operation has specific characteristics that make its behavior, in terms of monitoring and recovery of credit risk, not be homogeneous to the rest of the members of the segment to which it belongs (internal *rating* or product).

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

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

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

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

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

When there is objective evidence of impairment, such as a 40% decrease in fair value or a continuing loss situation over a period of more than 18 months, latent losses are recognized following the criteria for recording losses for impairment applied to debt securities classified as financial assets at fair value with changes in another overall result, except because any recovery arising from the mentioned losses is recognized under «Other cumulative global result - Items that can not be reclassified to results - Changes in the fair value of equity instruments valued at fair value with changes in another overall result».

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«Other accumulated comprehensive profit and loss» due to cash flow hedges, that is determined according to the most recent approved balance sheet 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 euros 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.

	31/12/2018	31/12/2017
US dollar	1.1450	1.1993
Swiss franc	1.1269	1.1702
Pound sterling	0.8945	0.8872
Japanese yen	125.84	135.01
Canadian dollar	1.5605	1.5039

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 income statement in the heading«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 «Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss – Foreign currency conversion» of the income statement, until the moment they are realized, while exchange-rate differences in financial instruments classified at fair value through profit and loss are recorded in the income statement without distinguishing them from other variations in their fair value.

With the aim of integrating the individual income statements of subsidiaries abroad with a functional currency other than the euro into the Group's income statement, 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 «Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss – Foreign currency conversion» of the balance sheet, until retirement of the item to which it corresponds, at which time it will be reclassified in the income statement.

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 of financial assets and liabilities

Income and expenditure of financial instruments at amortized cost are recognized under the following criteria:

- The accrued interests are recorded in the statement of income, using the effective interest rate of the operation on the gross book value of the transaction (except in the case of doubtful assets, in which it is applied to the net book value).

- The remaining value changes will be recognized as income or expense when the financial instrument is derecognized, when reclassified, and, in the case of financial assets, when there are losses due to impairment of value or gains for its subsequent recovery.

Revenues and expenses of financial instruments at fair value with changes in results are recognized in accordance with the following criteria:

- Reasonable value changes are recorded directly in the statement of results. It is distinguished, for non-derivative instruments, between the part attributable to the accrued earnings of the instrument, which will be registered as interest or as dividends according to its nature, and the remainder, which will be recorded as income results, Financial operations in the corresponding item.

By way of exception, the Group recognizes the changes in value of a designated financial liabilities at fair value with changes in results, if applicable, in the following way:

- the amount of the change in the fair value of the financial liability attributable to changes in the credit risk inherent in this liability is recognized in another global result, which would be transferred directly to a reserve item if this was canceled financial liabilities, i

- The remaining amount of the change in the fair value of the liability is recognized in the profit for the year.

The income and expense of financial assets at fair value with changes in another global result are recognized in accordance with the following criteria:

- The accrued interests or, where applicable, the accrued dividends will be recognized in the statement of results. For interests, the assets at amortized cost are equally applicable.

- Exchange differences are recognized in the statement of income when dealing with monetary financial assets, and in another overall result, in the case of non-monetary financial assets.

- In the case of debt instruments, losses due to impairment of value or profits for subsequent recovery are recognized in the statement of results.

- The remaining value changes are recognized in another overall result.

In this way, when a debt instrument is valued at fair value with changes in another overall result, the amounts that will be recognized in the profit of the year will be the same that would be recognized if it were valued at amortized cost.

When a debt instrument at fair value with changes in another overall result is discharged from the financial statement, the loss or gain accumulated in equity is reclassified and passed to the result of the period. On the other hand, when an equity instrument at fair value with changes in another global result is derecognized, the amount of the loss or gain recorded in another cumulative overall result is not reclassified to the statement of results, but rather a reservation item.

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 income statement differs according to their nature.

- Financial commissions, such as loan and loan commissions, are part of the integral performance or effective cost of a financial transaction and are recognized in the same chapter as the financial products or costs, that is to say, «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 income statement.

- The non-financial commissions, derived from the provision of services, are recorded in the headings «Income from commissions» i «Commission expenditure», throughout the period of provision of the service, except those that respond to a singular act, which are worthy of at the moment they occur.

2.10.3. Non-financial income and expenditure

Recognised for accounting purposes with the criterion for accrual.

2.10.4. Deferred collections and payments

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

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

The investment funds and pension funds managed by the consolidated companies are not recorded in the Group's consolidated balance sheet, as their equity are the property of third parties. The commissions accrued during the financial year for this activity are recorded in the heading«Commission income» of the income statement.

The consolidated balance sheet 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 subsidized goods and services.

The cost of the provided services are recorded in section «Administration Expenditure – Personnel costs» of the income statement.

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 income statement.

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

2.12.2.2. Defined benefit schemes

It is registered under the section «Provisions - Pensions and other obligations of defined post-employment benefits» of the liabilities of the financial statement the current value of the definitive defined benefits post-employment commitments, net of the fair value of the assets of the plan (see notes 22 and 22.1).

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

- They are not owned by the Group but by a separate third party, legally and without being a linked party.

- They are only available to pay or finance post-employment benefits, and are not available for the Group's creditors, even in bankruptcy. They cannot be returned to the Group, except when the assets remaining in the plan are sufficient to meet all 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 consolidation process incorporates the assets and liabilities of Crèdit Assegurances SAU, which include the mathematical provisions of the policies contracted, which means that in the consolidation process the amount recorded in the heading «Other assets - Insurance contracts linked to pensions» and reduces heading «Liabilities covered by insurance and reinsurance contracts » for the same amount.

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 current period services, understood as the increase in the present value of the obligations arising as a result of the services provided during the year by employees, is recognized under section «Administration expenditure - personnel costs ».

  - The cost of past services, which is the result of modifications introduced in existing post-employment benefits or in the introduction of new benefits, as well as the cost of reductions, is recognized in the heading «Provisions or reversal of provisions».

  - Any gain or loss that arises from a settlement of the plan is recorded in the heading «Provisions or reversal of provisions».

- The net interest on the liabilities / (asset) net of defined benefit post-employment, understood as the change during the year in the liabilities/(active) net for defined benefits that arise over the course of time, is recognized in the heading «Interest expenditure» or in the heading «Interest income»,in case of income, the statement of income.

- The revaluation of the liabilities / (asset) net for defined benefit benefits post-employment is recognized in the heading «other accumulated comprehensive profit and loss» of net equity.

  - Actuarial profit and loss generated during the financial year, due to the difference between forecast actuarial hypotheses and reality, and 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 recognized in heading of the income statement.«Provisions or the reversal of provisions» of the income statement.

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 recognized 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 recognized. These amounts are recorded as a provision in section« Provisions - Other long-term employee remuneration» in liabilities of the balance sheet, 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.

ll tax assets are recorded in heading «Tax assets» in assets of the balance sheet and are displayed separated into current, by amounts to be recovered in the coming twelve 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 balance sheet and are also shown separated into current and deferred. Current records the amount to be paid for tax in the coming twelve months and deferred are those forecast to be settled in subsequent financial years.

Deferred tax assets are only recognised when it is deemed probable that they will 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 Act, which contains a general tax rate of 4.5% except for essential products and services, which are taxed at a super-reduced rate (0%) or a reduced rate (1%), and an incremental rate of 9.5%

applicable to banking and financial services, repeals, among others, the Act on indirect taxation on banking and financial services of May 14,2002.

On June 3, 2014, the General Council of the Principality of Andorra passed the law 10/2014, amending Law 11/2012 on general indirect taxation, in force until July 1, 2014. This law sets a limit for tax deductions, applicable only to the financial sector. In this manner, this special regime establishes a maximum annual tax deduction of 10% of the quotas accrued for any activity related tax limit, subject to but not considering operations carried out with fixed assets.

The Group accounts for the caption of the assets of the financial statement «Assets for taxes - Assets for current taxes», the transitional balances corresponding to the supported IGI, and in the caption of the liabilities of the state Financial situation «Tax liabilities - Current tax liabilities», the transitional balances corresponding to the IGI affected, until the final settlement with the corresponding body has taken place.

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..

The Group recorded under the heading of the assets of the financial asset statement «Assets for taxes - Assets for current taxes», the transitional balances corresponding to the collection of income tax of non-resident taxpayers while the final settlement has not taken place with the corresponding body.

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 act 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 neighboring 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%.

The Group accounts for the liability item in the statement of financial position in section «Financial Liabilities - Current Tax Liabilities», The transitional balances corresponding to the collection of personal income tax while the final settlement with the corresponding body has not taken place.

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 balance sheet 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» The assets that are to be leased out under an operating lease or to obtain a capital gain through 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 amortization charge for tangible assets is recognized in the heading «Amortization» of the income statement, and is basically equivalent to the following amortization 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

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

If it is determined that there are indications, an impairment test is performed to verify if it is necessary to recognize a deterioration loss. If it is the case, it is recorded under section «Net impairment of the value or reversal of the impairment of the value of non-financial assets» of the statement of income, and the book value of assets is reduced to the amount recoverable.

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 income statement of future financial years.

The maintenance and maintenance expenses are charged in the heading «Administration expenses - Other administrative expenses» of the income statements. Likewise, operating revenues from real estate investments are recorded under heading «Other operating income» in the statement of income, while the associated operating expenses are recorded under 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 and differences in first consolidation

Goodwill and differences arising from the first equity consolidation, represent the prepayment made by the acquiring entity for future financial profits from assets that could not be individually identified or separately recognised. Goodwill is only recorded when 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 section «Intangible assets – Goodwill» and under no circumstances is it amortized.

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 income statement. 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 amortization expenditure for these assets is recognized in the heading «Amortization» of the income statement, and is basically equivalent to the following amortization percentages calculated according to the estimated useful life in years of the different items.

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

With regard to the information broken down in the previous table, the general rule of the Group is to amortize the intangible assets of defined useful life in a maximum of 5 years, although there are certain assets that by their characteristics, specificities and relevance are amortized 10 years. These assets relate mainly to (1) the banking *core* (Avaloq), and (2) client portfolios acquired as part of business combinations for which, in the process of valuation of the acquired businesses, it was considered a life useful for 10 years or more.

Losses that occur in the registered value of these assets, whether they are of indefinite useful life as defined, are recognized with a balancing entry under section «Deterioration of the value or reversal of impairment of the value of non-financial assets - Other assets intangibles »of the income statement. 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

Internally developed IT programs are recognized as intangible assets when, among other requirements, they are satisfied that they have the ability to use or sell them and they are also identifiable and the ability to generate economic benefits can be demonstrated in the future.

Expenditure incurred during the research phase is directly recognised in the income statement 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 balance sheet 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 income statement.

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 balance sheet at 31 December 2018, 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 residualmethod**. 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).
- **Method ofcomparison**. 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. Subsequently, the characteristics and indicators of the quality of the properties are standardized and the price of the property is determined based on the comparable properties (consistent with the requirements of the ECO / 805/2003 order).
- **Cost method**. The net replacement cost is determined by calculating the amount that would be used to build a plot, the additional costs (without taking into account the benefits of the promotion) are added and depreciation (consisting of the requirements of order ECO / 805/2003).
- **Combined method**. This method is a combination of the cost method (consistent with the requirements of the ECO/805/2003 order) and the comparison method (consisting of the requirements of the ECO/805/2003 order):
    - 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 recognized in heading «Profit (loss) due to retirement of non-current assets for sale inadmissible as discontinued operations» of the income statement. 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 income statement, 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 balance sheet 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 balance sheet 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 the financial expenses when acting as a lessee are recorded as a result of the sections «Interest income» o «interest expenditure», respectively.

At 31 December 2018 and 2017, the Group does not have, as a lessor or lessee, rental agreements that meet the conditions to be considered as 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 the financial situation. Assets are amortized using the same criteria as those used for privately used tangible assets, and the revenue corresponding to these contracts is recognized in heading «Other operating income» of the income statement.

When the Group acts as lessee, the expenditure of these contracts are recorded in the section «Administrative expenditure - Other administrative expenditure» of the income statement.

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 income statement 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 thousand euros (after indirect taxes) and the Group made capital gains of 39.8 thousand euros, having discounted the expenses incurred and corresponding taxes. However, during the month of June 2016, for reasons other than those that motivated the initial sale, and without in any case this meant a reversal of the original operation, the Group proceeded to buy two of the properties that were originally Included in the transaction for the market value of the moment of purchase (21.6 thousand Euros).

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 recognized in the financial situation and in this way an income is not recorded that may never materialize.

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

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

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 balance sheet 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 balance sheet liabilities.

The provisions are recorded in heading «Provisions» in the liabilities balance sheet according 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 reinsurance contracts» includes the amounts that consolidated entities have the right to receive from the reinsurance contracts they hold with third parties and, more specifically, the reinsurance participation in the Technical provisions constituted by consolidated insurance entities.

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

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

The results of the insurance companies for their insurance activity are recorded according to their nature in the corresponding headings of the consolidated statement of 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 balance sheet 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 recognized in the consolidated balance sheet 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 favor 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.

- **Provisionfor benefits**. This contains the estimates made individually of the Group's responsibilities arising from claims pending settlement or payment at financial year close, as well as an estimate of the obligations that can be derived by the Group as a result of claims arising before this date and pending statement.

- **Mathema ticalprovision**. 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.

- **Provisionfor participationin profits and expenses**. This records the amount of profit accrued in favour of policy holders, insured parties or beneficiaries, based on the behaviour of the risk insured.

- **Technicalprovisionsforcededreinsurance**. Assets in the balance sheet display the technical provisions ceded to re-insurance, based on the same criteria used for direct insurance, according to re-insurance contracts.

- **Technicalprovisions related tolifeinsurance when the investmentrisk is assumed by the policyholder**. 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. Cash flow statement

The concepts used in this cash flow statement 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. Consolidated income statement

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 income statement, 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 recognized temporarily «Other comprehensive profit and loss» in the net equity.

- The net amount of income and expenditure recognized definitively «comprehensive 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 net equity

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

- Adjustment due to changes in accounting policies and error corrections include changes in the net equity that arise as a result of the retroactive re-expression of financial statement balances, differentiating between those arising from changes in accounting policies and those corresponding to error correction.

- The total comprehensive profit and loss for the financial year records, on an aggregate basis, the total aforementioned items recorded in the consolidated income statement.

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 interest» of the net equity, and part of the financial year's profit and loss attributable to this is presented in the heading «Financial year profit and loss - Attributable to minority interests» of the income statement.

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 balance sheet 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 securitization 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 2017 and 2018, 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 « goodwill recognized in the profit and loss» of the consolidated income statement.

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

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

The minority interests of the acquired entity are valued based on the proportional percentage of the identified net assets of the acquired entity. In the case of purchases and disposals of these minority interests, they are accounted for as capital transactions when they do not give rise to a change of control, no loss or gain in the consolidated profit is recognized and the goodwill is not revalued initially acknowledged. 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.

Below is a brief description of the corporate purpose and main characteristics of the main companies or subgroups that make up the consolidation scope at December 31, 2018 and 2017.

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

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

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

  The products offered by Credi-Invest SA are sold under the name of 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 December 31, 2018 and 2017, the investee portfolio of this subgroup was formed by SPA SA (25%) and CLIGE SA (25%).

- **Patrigest SA** is a property asset management company. At December 31 2018 and 2017, the investee portfolio of this subgroup was formed by 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 19.5.1).

- **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.

  In the 2018 fiscal year Valira Asset Management SL has been liquidated, and therefore no longer forms part of the consolidation scope at December 31, 2018 (yes on December 31, 2017).

- **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 companies mentioned above, as at 31 December 2018 and 2017, the Crèdit Andorrà Panamá subgroup that can be consolidated also included the following companies: Crèdit Andorrà Panamá Patrimonial SA (100%) and Crèdit Andorrà Panamá Call Center SA (100%).

- Informàtica Crèdit Andorrà SLU. Holding company whose only activity is to handle the Group's ownership and management of IT-related fixed assets (both tangible and intangible).

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

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

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

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

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

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

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

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

  In the course of the 2018 financial year, the Bank recognized a liability in the amount of 3,914 thousand euros in respect of the valuation of certain sale options over shares in its Spanish subsidiary owned by the minority shareholders of Banco Alcalá SA, as required by IFRS 10 "Consolidated Financial Statements". The balancing entry for that liability was made against reserves since the risks and benefits of ownership of the shares remain with the minority shareholders (and not the Bank) until the time of exercise of the options.

  In the course of the 2018 financial year Alcalá Pensiones EGFP SA was liquidated and so is no longer within the consolidation perimeter on 31 December 2018 (but it was on 31 December 2017).

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

As at 31 December 2018 and 2017, CA Holding Luxembourg SARL included the following companies within its consolidation perimeter:

- CA Holding España SAU (100%). Company whose only corporate purpose is that of performing the function inherent to a parent company. On 31 December 2017 and 2018 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.

- CA México Asesores Patrimoniales SA de CV (99.9%). Company whose corporate purpose is to provide advice on asset management in Mexico.

- Crèdit Andorrà Asset Management Luxembourg SA (100%). Capital management company operating under Luxembourg law set up during 2014 in order to provide management and consultancy services on the Group's collective investment vehicles and those of third parties.

- **Beta Capital Securities LLC**. At 30 September 2011, Crèdit Andorrà concluded the acquisition of 80% of the share capital of Beta Capital Management LP, a securities firm based in Miami (United States of America). Additionally, in the same operation, Crèdit Andorrà also acquired 80% of Beta Capital Management LLC (United States). Crèdit Andorrà US GP LLC was created as the holding company for the sub-group and owns 1% of the capital of Beta Capital Management LP (Crèdit Andorrà SA owns the remaining 79% of the capital) and 80% of the capital of Beta Capital Management LLC.

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

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

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

  On 14 and 28 November 2018, Crèdit Andorrà received the consent of the Financial Industry Regulatory Authority (FINRA) and the Andorran Financial Authority (AFA) to extend the business of Beta Capital Securities LLC to include self-clearing, which will allow the subsidiary to be active in the area of liquidation and custody of securities both in transactions involving Beta Capital Securities LLC and, in due course, third party transactions. This new license will enable the North American subsidiary to extend credit as part of the services that it provides to its customers.

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

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

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

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

  Enterprise Risk Management SA (ERM, SA), which is 90% owned by Crèdit Assegurances SAU and the holding company RSM agreed to combine their broking and consulting businesses. The transaction has given rise to a new sub-group which channels its investment through a holding company called Enterprise Risk Special Management, SL (ERSM). This new group in the insurance broking industry is at the forefront of the Spanish market in becoming the first private insurance broker in Spain.

  The merger of the businesses was carried out through (1) the purchase by ERM SA of 23.38% of RSM Correduria de Seguros SA and (2) the transfer by the two shareholders of their respective broking and consulting businesses. As such, the new holding company Enterprise Risk Special Management, SL is owned by ERM SA (51%) and RSM (49%) and directly holds 100% of RSM Correduría de Seguros SA, ERM Consultoría SA and ERM Correduría de Seguros y Reaseguros SL.

  The deed for the sale and purchase of shares in ERSM made in favor of ERM by RSM was completed on 23 July 2018, although in practice some of the things agreed by the shareholders were already being implemented and the Group has consolidated the profit and loss account of RSM from 1 January 2018.

  As a result of the transaction which has been mentioned, among other things, the consolidated financial statements of the Crèdit Andorrà Group as at 31 December 2018 include: 5,626 thousand euros of intangible assets in respect of customer base (seen Note 16.3), 1,406 thousand euros of liabilities for temporary differences, 2,424 thousand euros of minority interests (see Note 27) and 2,632 thousand euros of negative differences on first consolidation.

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

  In addition to the companies in the ERSM sub-group, as at 31 December 2018 and 2017 the Crèdit Assegurances sub-group includes the Andorran companies CA Vida Assegurances SAU (100%), Actiu Assegurances SA (45%), 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. On 29 April 2013, the Spanish Ministry of Finance and Competitiveness, at the proposal by the General Directorate of Insurance and Pension Funds, authorized commencement of trading by this company in the field 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 owns 50% of Neus de Valira SA (Nevasa), an Andorran company whose purpose is the commercial exploitation of Grandvalira.

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

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

- **Societat Pirenaica d'Aparcaments SA** (SPA SA). A company in which Crèdit Andorrà has a 25% holding through its subsidiary Crèdit Iniciatives SA, its corporate purpose and main business is the management, marketing and commercial exploitation of parking lots.

The change between 2018 and 2017 in "Investments in joint ventures and associates" in the Group's balance sheet, which mainly includes investments measured by the equity method, mainly reflect the integration of the change in net equity represented by the Bank's shareholding.

The main changes to the Group's consolidation perimeter during the 2018 and 2017 financial years, are described in the preceding paragraphs referring to the main investee companies within the consolidation perimeter.

4. Shareholder remuneration system

4.1. Profit distribution proposal

The distribution of profits in respect of each year proposed by the Board of Directors of Crèdit Andorrà SA to the General Shareholders' Meeting for the 2018 and 2017 financial years is as follows (in thousand euros):

In thousand euros	31/12/2018	31/12/2017
Profit for the year	**23,676**	**38,363**
Interim dividend	-	-
Supplementary dividend	-	-
Restricted reserve allocation Communicated 227/12	4,430	4,483
Restricted reserve allocation to guarantee deposits	-	2,577
Transfer to voluntary reserves	19,246	31,303
Profit awaiting application	**-**	**-**

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

As required by Law 1/2011 of 2 February for the creation of a deposit guarantee scheme for banking entities ("Law 1/2011"), the allocation of the reserve to cover the fund to guarantee deposits and investments which appears in the previous section as part of the distribution proposal for the profit for the 2017 financial year was estimated on the basis of the stipulations of the Managing Committee of the Deposit and Investment Guarantee Scheme for Banking Entities, which has required that the amount should be calculated as 0.06% of the last base amount of each member considered individually, with the funding model being reviewed every three years. However, in light of the imminent publication and coming into force of amendments to the Law on the Andorran deposit guarantee fund and the Andorran investment protection scheme (see Note 48.1.8), the Managing Committee decided not to carry out that review and therefore the statement of changes in net equity for the 2018 financial year which forms part of the consolidated financial statements does not show any change in this regard.

The proposal for distribution of the profit of the 2018 financial year does not include that item since on the coming into force of new Law 20/2018 of 13 September for the regulation of the Andorran deposit guarantee fund and the Andorran investment protection scheme (published in the Official Journal of the Principality of Andorra on 3 October 2018) (see Note 48.1.8), contributions to the Andorran deposit guarantee fund (Fagadi) are charged to the profit and loss account (see Note 40).

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 earnings per share for 2018 and 2017 is as follows.

	31/12/2018	31/12/2017
A. Profit attributed to the Parent Entity (in thousand euros)	36,001	50,194
B. Weighted average number of shares outstanding	892,293	840,446
Basic earnings per share (in euros) (A/B)	**40.35**	**59.72**

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).

As at 31 December 2018 and 2017 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 risk management in the Crèdit Andorrà Group aims to reach an effective level of control of all risks to which the Group has been or could be exposed, with the aim of maintaining a moderate/low risk profile and a conservative approach to pursuing business opportunities.

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

5.1.1. Standard application framework and maintained principals

In its session on 29 February 1996, the General Council of the Principality of Andorra passed the Law to regulate the solvency and liquidity requirements for financial entities (the "Law").

More recently, as a consequence of the Monetary Agreement, on 20 January 2019 Law 35/2018 of 20 December on the solvency, liquidity and prudential supervision of banking entities and investment businesses was approved (see Note 49.1).

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:

- first, by evaluating 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, the internal risk control framework and limits reflective of the Group's risk appetite are set out in policies approved by the Board of Directors.

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

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 defense are hierarchically separate and work with sufficient coordination and independence to achieve the objectives set out in the policies approved by the Board of Directors.

- The first line of defence is made up of the business units and support areas (including those specialising in risk) that manage risk in accordance with certain policies and limits established by the Board of Directors. Within this line there is also a first level of risk control that checks that the management and exposure to the type of risk in question is in line with that established by the Board of Directors.

- The second line of defence is 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 Head of the Risk and Regulatory Compliance Department has direct access to the Board of Directors through the CEO.

- Finally, the Internal Audit Department acts as a third line of defense. It regularly checks that the policies, methods and procedures in use are fit for purpose and effectively implemented. Group Internal Audit reports to the CEO and comes under the Audit and Risk Committee.

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

- The different risk management and monitoring departments within the corporate structure are responsible for establishing corporate principles which are set out in policies approved by the Board of Directors. They are also responsible for the supervision and monitoring of the risk profiles of all member companies in the Group and for overseeing compliance with corporate policies.

- Locally, each entity has a risk management unit, that in coordination with corporate areas, applies the corporate principles and adapts them to local operation according to its business model and current regulations.

Within this organizational structure with local and corporate risk management units specialized by type of risk, the Risk and Regulatory Compliance Department has a global scope of action in terms of types of risk and of geographic location. Its function is to have an overall view of the profile of the risk to which the Group is exposed and to make that view available to Senior Management, in particular the Audit and Risk Committee.

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

- The Assets, Liabilities and Risks Committee (COAPiR in Catalan) is the body that establishes the policies for investing the Bank's shareholders' equity and manages assets and liabilities in accordance with the guidelines issued by the Board of Directors and the Executive Committee. As well as specialised management of the structural risk of the balance sheet, the COAPiR, as a risks committee, also 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 Bank's representatives to Uifand are chosen from among its members.

5.1.3. Risk culture

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

- Involvement of the Board of Directors (which has two independent directors) through the approval of policies relating to risk management.

- Establishment of risk management and control frameworks for each type of risk with defined responsibilities and clearly established risk assumption limits.

- Creation of specialist departments in the management and control of each type of risk, to ensure suitable segregation of functions between business areas and risk control.

- Development of risk management training plans for all levels of the organisational structure, according to the needs of each level of responsibility, with the aim of making everyone aware of the inherent risk of their activity, as well as the existing internal limits, procedures and policies.

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

For the activity 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 geographic, industry or individual concentration risk.

- Operational risk. The risk of loss due to failure or shortfalls in internal systems, people or procedures or due to external events, including legal risk.

- Liquidity risk. The risk of loss due to insufficient liquid assets or cash to meet payment obligations on time and at a reasonable cost.

- Interest rate structural risk. This is the risk originating from possible variations in the interest rate with possible impact on profit or net value of assets. The interest rate risk of the trading portfolio is excluded from this definition.

- Exchange rate structural risk. The risk of loss arising from structural net currency positions, due to adverse fluctuations in foreign currency exchange rates with respect to the Group's 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.

- **Money-laundering risk**. The risk of money-laundering and financing of terrorism should be understood as the risk that the Group could be used to channel, hide or convert the proceeds of crime or for the provision or assembly of funds for terrorist purposes.

- Actuarial risk. Risk arising from insurance activity 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 strategic decisions and external changes, such as changes to the competitive or regulatory environment, that may affect the business model or hinder the achievement of objectives, and so affect financial outcomes and solvency.

- Reputational risk. The possible negative impact a determined event 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 balance sheet, 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 2018 and 2017 is shown below by chapter and section of the consolidated financial statements, without deduction of mortgages or credit enhancement obtained to ensure compliance with payment obligations, and is broken down by the nature of the financial instruments.

In thousands of euros	Note	31/12/2018	31/12/2017
Held-for-trading financial assets	9.1	**8,872**	**4,975**
Derivatives		2,361	4,757
Debt securities		6,511	218
Financial assets not held for trading required to be valued at fair value with changes through profit and loss	9.2	**6,150**	**6,150**
Debt securities		-	-
Loans and advances		6,150	6,150
Financial assets at fair value with changes through profit and loss	10	**1,865**	**14,763**
Debt securities		1,360	5,684
Loans and advances		505	9,079
Other financial assets at fair value through another global profit and loss	11	**349,927**	**389,269**
Debt securities		349,927	389,269
Financial assets at amortized cost		**3,764,342**	**4,083,559**
Loans and advances	12	2,417,159	2,641,268
Lending institutions		55,517	144,825
Customers		2,361,642	2,496,443
Debt securities	13	1,347,183	1,442,291
Derivatives - hedge accounting	14	**-**	**-**
Commitments and guarantees granted	29	**468,961**	**478,412**
Commitments for loans granted		357,263	355,861
Financial guarantees granted		111,162	122,476
Other commitments and guarantees granted		536	75
Maximum exposure to credit risk		**4,600,117**	**4,977,128**

Crèdit Andorrà Group's maximum exposure to credit risk as at 31 December 2018 and 2017 does not differ significantly from the accounting values shown in the preceding table.

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

The Credit Risk Department is responsible for management of credit risk with customers and follows these principles:

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

5.2.1.1. Credit risk management cycle

Admission and concession

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

1. **Purpose and viability of the customer and transaction**. The Group's policy is to base analysis and approval of transactions on the inherent repayment capacity of those transactions. 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 standardize the different considerations concerning the credit risk of the borrower and/or the transaction/product, and so streamline and standardize decision making (both during the application phase and in monitoring), the Group uses a credit risk evaluation system based on a combination of two factors: (1) internal ratings for customers and (2) the segmentation of the product in terms of risk (different than commercial segmentation).

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

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

   - The Branch Committee validates customer ratings for customers with transactions that require branch-level approval under the internal Standard on powers to enter into asset transactions.

   - The Committee of the Credit Risk Department validates the ratings of customers with transactions that require Risk Committee-level approval,under the internal Standard on powers to enter into asset transactions. In general terms, the Committee deals with the review, determination and monitoring of all transactions for which it has decision-making authority up to a maximum of 1 thousand euros.

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

   Both the Credit Committee and the Senior Credit Committee can request review of and/or change to a rating, and the Credit Monitoring Department conducts sampling of ratings to monitor their currency and quality of their determination.

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

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

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

The table below presents credit investment in detail, by internal rating and including the balance of commitments made and guarantees given to customers as at 31 December 2018 and 2017 (for further information on the changes to staging entailed by the adoption of IFRS 9, see the section headed “Monitoring” in this point).

31/12/2018	Loans and advances				Commitments and guarantees				Total			
In thousands of euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Rating 10 and 9	523,734	2,378	-	526,112	107,901	-	-	107,901	631,635	2,378	-	634,013
Rating 8 and 7	802,730	12,075	-	814,805	252,360	479	-	252,839	1,055,090	12,554	-	1,067,644
Rating 6	150,421	236,633	-	387,054	23,623	2,850	-	26,473	174,044	239,483	-	413,527
Rating 5 and 4	78,759	393,004	-	471,763	6,636	20,991	-	27,627	85,395	413,995	-	499,390
Rating 3, 2 and 1	-3,912	110,932	-	107,020	48,096	4,276	-	52,372	44,184	115,208	-	159,392
Default	-	-	192,742	192,742	-	-	1,377	1,377	-	-	194,119	194,119
No rating	-	2,681	-	2,681	-	372	-	372	-	3,053	-	3,053
Gross book value	**1,551,732**	**757,703**	**192,742**	**2,502,177**	**438,616**	**28,968**	**1,377**	**468,961**	**1,990,348**	**786,671**	**194,119**	**2,971,138**
Credit risk hedging	-6,472	-70,882	-57,031	-134,385	-970	-2,253	-179	-3,402	-7,442	-73,135	-57,210	-137,787
Net book value	**1,545,260**	**686,821**	**135,711**	**2,367,792**	**437,646**	**26,715**	**1,198**	**465,559**	**1,982,906**	**713,536**	**136,909**	**2,833,351**

31/12/17	Loans and advances				Commitments and guarantees				Total			
In thousand euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Rating 10 and 9	604,423	2,796	-	607,219	157,836	7	-	157,843	762,259	2,803	-	765,062
Rating 8 and 7	645,593	269,028	-	914,621	202,397	20,789	-	223,186	847,990	289,817	-	1,137,807
Rating 6	181,889	217,586	-	399,475	43,138	10,711	-	53,849	225,027	228,297	-	453,324
Rating 5 and 4	66,556	309,107	-	375,663	5,498	15,558	-	21,056	72,054	324,665	-	396,719
Rating 3, 2 and 1	5,171	166,915	-	172,086	16	17,088	-	17,104	5,187	184,003	-	189,190
Default	-	-	149,459	149,459	-	-	733	733	-	-	150,192	150,192
No rating	163	2,734	-	2,897	-	4,641	-	4,641	163	7,375	-	7,538
Gross book value	**1,503,795**	**968,166**	**149,459**	**2,621,420**	**408,885**	**68,794**	**733**	**478,412**	**1,912,680**	**1,036,960**	**150,192**	**3,099,832**
Credit risk hedging IAS 39	-3,805	-64,480	-50,542	-118,827	-501	-718	-319	-1,538	-4,306	-65,198	-50,861	-120,365
Net book value 31/12/2017	**1,499,990**	**903,686**	**98,917**	**2,502,593**	**408,384**	**68,076**	**414**	**476,874**	**1,908,374**	**971,762**	**99,331**	**2,979,467**
Hedging adjustment IFRS 9	-2,858	-31,643	2,402	-32,099	-399	-583	-184	-1,166	-3,257	-32,226	2,218	-33,265
Net book value 01/01/2018	**1,497,132**	**872,043**	**101,319**	**2,470,494**	**407,985**	**67,493**	**230**	**475,708**	**1,905,117**	**939,536**	**101,549**	**2,946,202**

The table below presents details of credit investment by product segmentation in terms of risk and including the balance of commitments made and guarantees given to customers as at 31 December 2018 and 2017.

31/12/2018	Loans and advances				Commitments and guarantees				Total			
In thousands of euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central Banks and National Governments	43,865	-	-	43,865	10,812	-	-	10,812	54,677	-	-	54,677
Other public bodies and semi-public bodies	87,685	-	-	87,685	23,169	-	-	23,169	110,854	-	-	110,854
Financial businesses	50,192	5,589	129	55,910	40,566	243	-	40,809	90,758	5,832	129	96,719
Other businesses	581,759	31,879	10,672	624,310	264,185	12,106	175	276,466	845,944	43,985	10,847	900,776
Exposures secured by mortgages on principal dwelling/business	542,656	392,612	150,167	1,085,435	43,554	3,829	9	47,392	586,210	396,441	150,176	1,132,827
Exposures secured by mortgages of land	92,183	320,175	31,177	443,535	12,092	12,092	1,114	25,298	104,275	332,267	32,291	468,833
Retail - SME	27,271	571	154	27,996	14,408	235	-	14,643	41,679	806	154	42,639
Retail leverage	28,272	929	85	29,286	10,642	37	-	10,679	38,914	966	85	39,965
Retail others	97,840	5,948	358	104,146	19,188	426	79	19,693	117,028	6,374	437	123,839
Financing of real estate speculation	-	-	-	-	-	-	-	-	-	-	-	-
Financing risk capital and alternatives	9	-	-	9	-	-	-	-	9	-	-	9
Gross book value	**1,551,732**	**757,703**	**192,742**	**2,502,177**	**438,616**	**28,968**	**1,377**	**468,961**	**1,990,348**	**786,671**	**194,119**	**2,971,138**
Credit risk hedging	-6,472	-70,882	-57,031	-134,385	-970	-2,253	-179	-3,402	-7,442	-73,135	-57,210	-137,787
Net book value	**1,545,260**	**686,821**	**135,711**	**2,367,792**	**437,646**	**26,715**	**1,198**	**465,559**	**1,982,906**	**713,536**	**136,909**	**2,833,351**

31/12/17	Loans and advances				Commitments and guarantees				Total			
In thousand euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central Banks and National Governments	53,928	-	-	53,928	12,347	-	-	12,347	66,275	-	-	66,275
Other public bodies and semi-public bodies	87,165	4,964	-	92,129	23,410	377	-	23,787	110,575	5,341	-	115,916
Financial businesses	34,407	7,051	1	41,459	20,865	8,497	-	29,362	55,272	15,548	1	70,821
Other businesses	594,191	98,915	2,301	695,407	227,004	21,285	521	248,810	821,195	120,200	2,822	944,217
Exposures secured by mortgages on principal dwelling/business	510,129	427,856	110,543	1,048,528	29,946	7,973	200	38,119	540,075	435,829	110,743	1,086,647
Exposures secured by mortgages of land	66,644	417,605	34,978	519,227	11,228	25,316	-	36,544	77,872	442,921	34,978	555,771
Retail - SME	60,976	3,905	680	65,561	28,401	4,061	6	32,468	89,377	7,966	686	98,029
Retail leverage	19,062	2,352	324	21,738	8,971	415	-	9,386	28,033	2,767	324	31,124
Retail others	76,603	5,518	632	82,753	46,109	870	6	46,985	122,712	6,388	638	129,738
Financing of real estate speculation	681	-	-	681	604	-	-	604	1,285	-	-	1,285
Financing risk capital and alternatives	9	-	-	9	-	-	-	-	9	-	-	9
Gross book value	**1,503,795**	**968,166**	**149,459**	**2,621,420**	**408,885**	**68,794**	**733**	**478,412**	**1,912,680**	**1,036,960**	**150,192**	**3,099,832**
Credit risk hedging IAS 39	-3,805	-64,480	-50,542	-118,827	-501	-718	-319	-1,538	-4,306	-65,198	-50,861	-120,365
Net book value 31/12/2017	**1,499,990**	**903,686**	**98,917**	**2,502,593**	**408,384**	**68,076**	**414**	**476,874**	**1,908,374**	**971,762**	**99,331**	**2,979,467**
Hedging adjustment IFRS 9	-2,858	-31,643	2,402	-32,099	-399	-583	-184	-1,166	-3,257	-32,226	2,218	-33,265
Net book value 01/01/2018	**1,497,132**	**872,043**	**101,319**	**2,470,494**	**407,985**	**67,493**	**230**	**475,708**	**1,905,117**	**939,536**	**101,549**	**2,946,202**

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

   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. Minimum coverage limits are also set according to the various purposes of transactions. Those limits may be breached only rarely and only with the approval of the Credit Committee and/or the Senior Credit Committee.

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

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

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

The table below shows details of loans to customers as at 31 December 2018 and 2017 by loan to value ratios (LTV) taking account of security.

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31/12/2018	Loans and advances				Securities and monetary guarantee				Mortgage guarantee			
In thousands of euros	Stage 1	Stage 2	Stage 3	Total 31/12/2018	Stage 1	Stage 2	Stage 3	Total 31/12/2018	Stage 1	Stage 2	Stage 3	Total 31/12/2018
LTV >= 100%	164,688	102,788	119,262	386,738	132,531	39	12	132,582	19,410	64,155	101,926	185,491
LTV >= 80%	181,140	77,234	16,256	274,630	99,652	32	622	100,306	103,409	81,872	17,501	202,782
LTV >= 50%	326,129	317,442	12,964	656,535	144,358	1,405	-	145,763	395,382	519,075	18,903	933,360
LTV >= 25%	336,751	192,859	28,785	558,395	451,449	1,654	-	453,103	514,309	451,153	76,403	1,041,865
LTV <= 25%	136,419	24,419	2,172	163,010	465,034	11,563	336	476,933	696,802	130,088	20,471	847,361
Personal guarantee	406,605	42,961	13,303	462,869	5,698	-	-	5,698	-	-	-	-
Gross value	**1,551,732**	**757,703**	**192,742**	**2,502,177**	**1,298,722**	**14,693**	**970**	**1,314,385**	**1,729,312**	**1,246,343**	**235,204**	**3,210,859**

31/12/17	Loans and advances				Securities and monetary guarantee				Mortgage guarantee			
In thousands of euros	Stage 1	Stage 2	Stage 3	Total 31/12/2017	Stage 1	Stage 2	Stage 3	Total 31/12/2017	Stage 1	Stage 2	Stage 3	Total 31/12/2017
LTV >= 100%	79,096	57,753	58,372	195,221	9,898	521	5	10,424	23,580	37,800	45,464	106,844
LTV >= 80%	278,100	178,255	45,457	501,812	188,435	1,092	292	189,819	103,549	198,178	51,691	353,418
LTV >= 50%	257,994	492,023	16,750	766,767	156,691	48,674	238	205,603	264,223	768,248	25,897	1,058,368
LTV >= 25%	338,574	151,699	24,288	514,561	415,326	10,736	1,099	427,161	534,088	336,718	54,191	924,997
LTV <= 25%	153,817	10,498	1,507	165,822	561,549	10,200	687	572,436	678,173	62,314	14,843	755,330
Personal guarantee	396,214	77,938	3,085	477,237	-	-	-	-	-	-	-	-
Gross value	**1,503,795**	**968,166**	**149,459**	**2,621,420**	**1,331,899**	**71,223**	**2,321**	**1,405,443**	**1,603,613**	**1,403,258**	**192,086**	**3,198,957**

The segment of transactions with personal guarantee includes exposure to public administrations and semi-public entities, that as at 31 December 2018 amounted to 131,550 thousand euros (146,057 thousand euros as at 31 December 2017).

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

    - Transactions involving lines of credit (to finance leveraged operations secured by negotiable instruments, operating capital needs of companies, temporary investment situations, etc.) have a maximum term of one year (12 months).

    - Operations for a repayment period exceeding 5 years (60 months) require real guarantees or sufficient sureties.

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

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

Monitoring

Suitable credit risk management makes continuous monitoring of 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 outcome of monitoring is (1) to reach a determination of the quality of the risk assumed with a borrower (internal rating update), and (2) based on that assessment of the level of risk, to estimate impairment of transactions involving the borrowers that are subject to monitoring.

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

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

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

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

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

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

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

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

   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 borrowers or groups with risk between 100,000 and 5 thousand euros, based on their ratings.

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

- Establish the real financial and economic situation of the 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.
- Set out as required the policy to be followed for each borrower in the Action Plan.
- Draw up a risk-returns analysis to establish suitable price policies.

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

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

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

The movement in loans and advances to customers by type during the 2018 financial year is set out below.

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

2. Impairment estimate for operations and accredited parties.

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

Independently of the method used to calculate accounting provisions, the calculation of regulatory risk capital requirements is carried out as required by the Law to regulate the solvency and liquidity requirements for financial entities of 29 February 1996 (see note 5.1.1.).

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

- Default. This is defined as the existence of objective evidence of impairment that ought to indicate that 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, a transaction or group of transactions can be classified as doubtful or defaulted due to delays in payment by the customer or for other reasons (see note 2.8).

- Exposure. Exposure at default (EAD) estimates the pending debt in the case of customer default. This scale is especially relevant for financial instruments with 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 based on the contractual balance according to the repayment schedule agreed with the customer and current exposure plus a conversion factor for contingent credit risk (disposable limit) in order to give an estimate of effective exposure at the point of default. This conversion factor is determined based on the requirements of the framework reference standard in these cases, for the calculation of the consumption of capital by credit risk (DRDIV/CRR).

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

  Crèdit Andorrà estimat es PD on the basis of its historic experience of payment delay and incorporates the measures required to adjust the outcome to the economic cycle, in order to drive out aggregate assessments which are relatively stable in the long term and which may be different from rates of default observed at any particular time (PD PiT for PD at a point in time).

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

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

  The Group estimates the following PDs:

  i. **Lifetime PD.** This is the probability that a borrower will not meet the totality of the debt over the whole expected life of the transaction. On account of the long time horizon, the Group estimates Lifetime PD on the basis of a number of possible scenarios (central scenario, optimistic scenario and conservative scenario) through the incorporation of forward-looking parameters which over time have shown strong correlation with levels of default (principally, GDP and inflation). Thus, Lifetime PD is the weighted average of the scenarios, with a 60% weighting for the central scenario (the most probable in the Bank’s view) and 20% for each of the other two scenarios.

  ii. **12-month PD.** This is the probability that a borrower will not meet the totality of the debt over the next 12 months. Given the short time horizon, to estimate the 12-month PD does not project possible scenarios using forward-looking parameters, since by definition the differences between the scenarios would be immaterial.

- **Severity.** Loss given default (LGD) corresponds 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 security, the estimate is made based on the type of security (financial security, security over shares, mortgages of land and mortgages of land and buildings) and in the case of recovery directly from the borrower based on the time that has passed from the point of default.

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

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

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

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

  - **Credit losses expected over the life of the transaction**: these are credit losses expected as a result of events of default (weighted average of different scenarios) during the expected life of the transaction (see definition of Lifetime PD).

  - **Credit losses expected over 12 months**: these are the part of the credit losses expected over the life of the transaction which are expected to result from events of default which arise in the 12 months following the reference date (see definition of 12-month PD).

Method for estimati ng expected credit losses

Coverage calculations can be carried out individually or collectively. The Group sets thresholds (see note 2.8) to determine the most suitable approach based on requirements of accounting standards (IFRS 9) and on the degree of standardization of transactions and optimization of the cost/risk relationship.

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

a. Calculation of the allowances for expected credit losses under the "alternative solutions developed by the AFA".

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

b. Reasonableness contrast with allowances calculated using the alternative solutions developed by the AFA against the internal models developed by the Group.

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

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

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

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

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

Definition of scenarios for macroeconomic indicators

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

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

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

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

  - the historic (2003-2016) series of inflation indexes for Andorra, Spain and Europe,
  - the level of imports into the Principality of Andorra (even though there are no projections of this variable by independent institutions, it has been thought appropriate to include it in the analysis on account of its relevance to an

understanding of the economic situation in the country, since historically it has behaved in a very similar way to Andorran GDP, and it allows use of a greater number of local macroeconomic variables);

- three-year projections for GDP and RPI by the Bank of Spain and the Central European Bank;
- a comparison of forecasts for growth in real GDP and average inflation measured by the IHPC (harmonized consumer prices index) for the Euro Zone,

- The time horizon for this analysis is three years.

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

The table below shows the projections made for GDP and RPI in Andorra:

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

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

Determination of retrospective tests

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

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

On 1 January 2018 and 31 December 2018, the allowances recognized according to the guidance published in its alternative solutions by the AFA were not materially different from the results derived from the internal models developed by the Group.

Individualized 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.

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

The Group has a handbook for the carrying out of individual analysis with is compliant with IFRS 9. The handbook distinguishes:

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

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

   - Focus on discounted cash flow to debt service. Used in cases where, although there is credible evidence of material increase in credit risk, it is considered that the borrower has the capacity to generate future free cash flows from the borrower's business which will enable the borrower to repay the debt. In that sense, it is worth noting that the projections in the optimistic and base scenarios there is a last residual flow of cash with the aim of incorporating terminal value as a consequence of applying the "business as a going concern" principle.

   - Focus on recovery of real estate security. This assesses recoverability in function of security over land buildings of the borrower, assuming eventual realization of security assets. This method applies to borrowers who do not have the capacity to generate free cash flows through their business, so that they will be obliged to liquidate assets to meet payment of the debt.

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

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

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

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

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

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

Customer loans and advances and allowances in function of degrees of default and of the method used to calculate allowances and, where applicable, of days of non-payment.

	Loans and advances to customers		Commitments and guarantees conceded to customers		Total customers	
In thousands of euros	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Not in *default* (Stages 1 and 2)						
Central Banks and National Governments	43,865	53,928	10,812	12,347	54,677	66,275
Other public bodies and semi-public bodies	87,685	92,129	23,169	23,787	110,854	115,916
Financial businesses	55,781	41,458	40,809	29,362	96,590	70,820
Other businesses	613,638	693,106	276,291	248,289	889,929	941,395
Exposures secured by mortgages on principal dwelling/business	935,268	937,985	47,383	37,919	982,651	975,904
Exposures secured by mortgages of land	412,358	484,249	24,184	36,544	436,542	520,793
Retail - SME	27,842	64,881	14,643	32,462	42,485	97,343
Retail leverage	29,201	21,414	10,679	9,386	39,880	30,800
Retail others	103,788	82,121	19,614	46,979	123,402	129,100
Financing of real estate speculation	-	681	-	604	-	1,285
Financing risk capital and alternatives	9	9	-	-	9	9
Gross value	2,309,435	2,471,961	467,584	477,679	2,777,019	2,949,640
Individually calculated allowances	-71,344	-66,258	-2,508	-329	-73,852	-66,587
Collectively calculated allowances	-6,010	-2,027	-715	-890	-6,725	-2,917
Net value	2,232,081	2,403,676	464,361	476,460	2,696,442	2,880,136
IFRS 9 adjustment individually calculated	N/A	-26,306	N/A	-684	N/A	-26,990
IFRS 9 adjustment collectively calculated	N/A	-8,195	N/A	-298	N/A	-8,493
Net Value 01.01.2018		2,369,175		475,478		2,844,653
In *default* (Stage 3)						
<= 30 days	83,062	7,448	1,377	533	84,439	7,981
<= 60 days	30,450	9,253	-	116	30,450	9,369
<= 90 days	929	150	-	-	929	150
<= 180 days	4,129	3,646	-	84	4,129	3,730
<= 365 days	2,683	31,212	-	-	2,683	31,212
> 365 days	71,489	97,750	-	-	71,489	97,750
Gross value	192,742	149,459	1,377	733	194,119	150,192
Individually calculated allowances	-50,866	-31,926	-7	-	-50,873	-31,926
Collectively calculated allowances	-6,165	-18,616	-172	-319	-6,337	-18,935
Net value	135,711	98,917	1,198	414	136,909	99,331
IFRS 9 adjustment individually calculated	N/A	90	N/A	166	N/A	256
IFRS 9 adjustment collectively calculated	N/A	2,312	N/A	-350	N/A	1,962
Net Value 01.01.2018		101,319		230		101,549
Total 31/12/2018	**2,367,792**	**2,502,593**	**465,559**	**476,874**	**2,833,351**	**2,979,467**
Total 01.01.2018	**N/A**	**2,470,494**	**N/A**	**475,708**	**N/A**	**2,946,202**
Accumulated write-offs	131,342	124,724	-	-	131,342	124,724
Total with write-offs 31/12/18	**2,499,134**	**2,627,317**	**465,559**	**476,874**	**2,964,693**	**3,104,191**
Total with write-offs 01.01.2018	**N/A**	**2,595,218**	**N/A**	**475,708**	**N/A**	**3,070,926**

Debt recovery and management

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

Debt management principles include:

- **Prevention.** Prevention is one of the most important principles in the early detection of non-payment risk, in order to manage it and normalize the situation even before non-payment happens.

- Customer focus. Recovery management is aimed at helping customers find solutions when facing irregular situations in their payments. This management is also a way of building customer loyalty.

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

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

At Crèdit Andorrà there are regular meetings between the heads of the Credit Risk unit and business units to ensure continuous monitoring of all transactions with a suspended rating, i.e. transactions in arrears or default, and transactions which are showing signs of increased risk , like transactions past maturity, etc. These meetings monitor the different established action plans and analyse the result of pre-debt or debt recovery processes (mainly operations with overdue balances).

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

Refinancing and restructuring of operations

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

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

The Group's exposure to transactions that have been refinanced and that as at 31 December 2018 and 2017 had not been *remedied* amounts to 593.66 thousand euros and 592.566 thousand euros respectively.

Assets acquired in debt payment

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

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

- **Sold** at auction as the end of a security enforcement procedure. The bidding prices at auction are set, within the limits of the law at any given time, according to updated valuations by independent experts (see note 2.16).

- By means of the process of **transfer in payment** by the borrowers with subsequent novation or cancellation of debt. In this case, the prices are determined in reference to the latest available appraisals. For reasons of practicality and diligence, the Group's policy is wherever possible logistically and financially to prioritize transfer in payment.

In either case, the Recovery Department will manage the entire process working with the Legal Department.

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 for impairment of financial assets granted to customers at 31 December 2018 and 2017 is as follows:

	Loans and advances				Commitments and guarantees			
In thousands of euros	Normal (IAS 39)/Stage 1 (IFRS 9)	N/A (IAS 39)/Stage 2 (IFRS 9)	Normal (IAS 39)/Stage 3 (IFRS 9)	Total	Normal (IAS 39)/Stage 1 (IFRS 9)	N/A (IAS 39)/Stage 2 (IFRS 9)	Normal (IAS 39)/Stage 3 (IFRS 9)	Total
Provision on 31/12/17 (IAS 39)	**-68,285**	**-**	**-50,542**	**-118,827**	**-1,219**	**-**	**-319**	**-1,538**
Separation Staging IFRS 9	64,480	-64,480	-	-	718	-718	-	-
Provision on 31/12/17 (IFRS 9)	**-3,805**	**-64,480**	**-50,542**	**-118,827**	**-501**	**-718**	**-319**	**-1,538**
Adjustment for impairment IFRS 9	-2,858	-31,643	2,402	-32,099	-399	-583	-184	-1,166
Provision on 01.01.18 (IFRS 9)	**-6,663**	**-96,123**	**-48,140**	**-150,926**	**-900**	**-1,301**	**-503**	**-2,704**
Movements affecting net allocations	**191**	**25,241**	**-28,941**	**-3,509**	**-70**	**-952**	**337**	**-685**
Changes to Staging								
Transfer from Stage 1 to 2	40	-483	-	-443	155	-1,112	-	-957
Transfer from Stage 2 to 3	-	24,725	-26,847	-2,122	-	67	-81	-14
Transfer from Stage 3 to 2	-	-733	1,319	586	-	-71	57	-14
Transfer from Stage 2 to 1	-560	3,400	-	2,840	-95	377	-	282
				-				-
Changes to models (alternative solutions, updates to assumptions, methods, etc.)	-	-	-	-	-	-	-	-
Net origination and changes to estimates	711	-1,668	-3,413	-4,370	-130	-213	361	18
Movements with impact on Financial Margin	**-**	**-**	**-1,456**	**-1,456**	**-**	**-**	**-**	**-**
Impact on recognition of interest Stage 3 (seen note 2.10.1.).	-	-	-1,456	-1,456	-	-	-	-
Movements with no change to profit and loss	**-**	**-**	**21,506**	**21,506**	**-**	**-**	**-13**	**-13**
Foreclosures and transfers in payment	-	-	7,216	7,216	-	-	-	-
Recognition of insolvency	-	-	14,513	14,513	-	-	-	-
Other movements	-	-	-223	-223	-	-	-13	-13
Allowance for credit risk 31/12/2018	**-6,472**	**-70,882**	**-57,031**	**-134,385**	**-970**	**-2,253**	**-179**	**-3,402**

5.2.1.3. Main figures

As at 31 December 2018 and 2017 the default rate was at 7.7% and 5.7%, respectively (6.5% and 5.1% including commitments and guarantees granted to customers). As at 31 December 2018 and 2017 the coverage ratio of provisions recorded for doubtful assets was 29.6% and 33.8%, respectively (29.6% and 33.9% including commitments and guarantee granted to customers).

5.2.1.4. Sector and geographic concentration

Crèdit Andorrà Group monitors credit risk concentration. The detail of credit investment by economic sector and geographic region as at 31 December 2018 and 2017 is shown below:

In thousands of euros	Loans and advances to customers 31/12/2018	Loans and advances to customers 31/12/2017	Of which in default 31/12/2018	Of which in default 31/12/2017	Credit risk hedging 31/12/2018	Credit risk hedging 31/12/2017	Credit risk hedging Adjustment IFRS 9	Credit risk hedging 01.01.18
Concentration by sector								
Public sector	**83,975**	**93,569**	**-**	**-**	**-**	**-126**	**-144**	**-270**
Financial companies	**8,370**	**29,190**	**-**	**1,660**	**-**	**-1,790**	**281**	**-1,509**
Non-financial companies	**1,236,991**	**1,084,774**	**116,290**	**75,509**	**-76,853**	**-67,706**	**-19,090**	**-86,796**
Agriculture, livestock and fisheries	1,259	564	-	-	-5	-3	-2	-5
Extractive industries	442	70	1	-	-3	-	-17	-17
Manufacturing industry	18,399	14,697	52	194	-203	-176	-218	-394
Construction	70,602	53,200	268	3,646	-738	-2,293	-543	-2,836
Wholesale and retail trade	130,763	100,613	9,889	1,307	-5,176	-2,626	-264	-2,890
Transport and storage	17,774	18,249	-	-	-126	-33	-129	-162
Catering	55,102	48,335	2,785	3,132	-1,664	-426	-480	-906
Information and communications	3,147	351	-	229	-28	-229	-1	-230
Real estate activities	305,460	263,420	28,207	45,687	-38,428	-32,166	-8,097	-40,263
Professional activities	4,527	303	1	-	-5	-	1	1
Public administration and social security	47,575	52,487	-	-	-202	-16	-417	-433
Education	2,646	1,480	3	-	-25	-4	-19	-23
Healthcare activities and social services	2,279	57,677	2	125	-20	-497	-673	-1,170
Artistic and recreational activities	60,999	21,595	-	11,283	-520	-2,493	-53	-2,546
Other services	516,017	451,733	75,082	9,906	-29,710	-26,744	-8,178	-34,922
Individuals	**1,172,841**	**1,413,887**	**76,452**	**72,290**	**-57,532**	**-49,205**	**-13,146**	**-62,351**
Total exposure by sector	**2,502,177**	**2,621,420**	**192,742**	**149,459**	**-134,385**	**-118,827**	**-32,099**	**-150,926**
Geographic concentration								
Andorra	2,122,212	2,084,926	191,227	136,232	-132,318	-114,500	-31,531	-146,031
Spain	173,791	129,681	1,067	12,977	-1,729	-4,145	-85	-4,230
France	4,999	1,049	1	8	-4	-4	1	-3
Other countries in the euro zone	30,852	40,736	156	50	-103	-42	-80	-122
Other European countries	14,899	9,098	1	35	-51	-28	-21	-49
Latin America and the Caribbean	84,249	277,125	98	14	-96	-81	-92	-173
Other	71,175	78,805	192	143	-84	-27	-291	-318
Total exposure by region	**2,502,177**	**2,621,420**	**192,742**	**149,459**	**-134,385**	**-118,827**	**-32,099**	**-150,926**

5.2.2. Interbank deposits and debt securities

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

As at 31 December 2018, the loan VaR for the securities portfolio and interbank deposits was 15.087 thousand euros (14.422 thousand euros at 31 December 2017) out of a total risk exposure of 1.372079 billion euros (1.513634 billion euros at 31 December 2017). This loan VaR is below the risk limit of 70 thousand euros determined by the COAPiR. This level of loan VaR equates to having a portfolio with an average rating of A+.

5.2.2.1. Balancing-entry and settlement risk

The table below shows the breakdown of the balance of loans and advances to lending institutions as at 31 December 2018 and 2017, by counter-party credit quality:

	At amortized cost	
In thousands of euros	31/12/2018	31/12/2017
Between AAA and AA-	-	5,000
Between A+ and BBB	55,304	139,475
BBB-	218	350
Between BB+ and B+	-	-
Between B and CCC	-	-
D	-	-
N/A	-	-
Gross book value	55,522	144,825
Credit risk hedging	-5	-
Net book value	**55,517**	**144,825**
Adjustment IFRS 9	N/A	-
Net book value 1/1/2018	**55,517**	**144,825**

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.

As at 31 December 2018 and 2017, the Group has no mature or unpaid positions with lending institutions.

As at 31 December 2018 and 2107 the Group recognizes the totality of its exposure to credit entities as being of normal risk (Stage 1).

The table below shows the breakdown of the balance of debt securities as at 31 December 2018 and 2017, by issuer credit quality and the valuation model under which they appear in the financial statements.

	At amortized cost		Fair value with changes to other profit/loss global		Fair value with changes to profit/loss		Total	
In thousands of euros	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Between AAA and AA-	907,358	955,734	275,577	331,279	6,488	3,556	1,189,423	1,290,569
Between A+ and BBB	428,328	483,594	73,573	57,233	1,383	1,670	503,284	542,497
BBB-	11,578	3,921	777	806	-	9	12,355	4,736
Between BB+ and B+	-	-	-	-	-	593	-	593
Between B and CCC	-	-	-	146	-	-	-	146
D	-	-	-	-	-	74	-	74
N/A	-	-	-	-	-	-	-	-
Gross book value	1,347,264	1,443,249	349,927	389,464	7,871	5,902	1,705,062	1,838,615
Credit risk hedging	-81	-958	-	-195	-	-	-81	-1,153
Net book value	**1,347,183**	**1,442,291**	**349,927**	**389,269**	**7,871**	**5,902**	**1,704,981**	**1,837,462**
Adjustment IFRS 9 for impairment	N/A	661	N/A	124	N/A	-	N/A	785
Valuation adjustments IFRS 9	N/A	-	N/A	22,437	N/A	-	N/A	22,437
Net book value 1/1/2018	**1,347,183**	**1,442,952**	**349,927**	**411,830**	**7,871**	**5,902**	**1,704,981**	**1,860,684**

Figures for the different portfolios by valuation model as at 31 December 2017 were affected by process of implementation of IFRS 9 (see note 1.3), as a result of which they are different from the figures in the consolidated report and accounts for the 2017 financial year.

As at 31 December 2018 and 2017, the debt securities portfolio does not include any mature or unpaid positions.

As at 31 December 2018 and 2107 the Group recognizes the totality of its debt securities portfolio as being of normal risk (Stage 1).

The balance of the debt securities portfolio as at 31 December 2018 and 2017 with a BBB+ rating includes the debt of the Government of Andorra in amounts of 101.706 thousand euros and 94.582 thousand euros respectively.

By means of an internal model to assign counterparty exposure, the aim of which is to establish internal, objective criteria to measure the credit quality of different interbank counterparties and financial institutions, 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 balance sheet. A financial counterparty ceiling has also been established by adding together the total consumption on and off the balance sheet.

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 counter-party risk and to diversification in terms of sector and geographical area. These risks are regularly monitored, always keeping within the limits established by the COAPiR.

Below is a breakdown of the exposure with lending institutions by geographical area as at 31 December 2018 and 2017.

	Loans and advances to lending institutions	
In thousand euros	31/12/2018	31/12/2017
Geographic concentration		
USA	-	-
France	-	36,085
Spain	54,982	50,035
Germany	-	15,809
United Kingdom	-	19,890
Other	535	23,006
Total	**55,517**	**144,825**

Below is a breakdown of the debt securities portfolios by economic sector and geographic region as at 31 December 2018 and 2017.

	Debt securities		Credit risk hedging			
In thousands of euros	31/12/2018	31/12/2017	31/12/2018	31/12/2017	Adjustment IFRS 9	01.01.18
Concentration by sector						
Public sector	1,603,781	1,716,979	-	-938	708	-230
Credit entities and other financial entities	71,556	79,604	-41	-130	84	-46
Non-financial companies	29,725	42,032	-40	-85	-7	-92
Total exposure by sector	**1,705,062**	**1,838,615**	**-81**	**-1,153**	**785**	**-368**
Geographic concentration						
USA	423,525	474,128	-6	-332	304	-28
France	385,225	400,058	-7	-117	107	-10
Spain	202,888	231,842	-48	-220	106	-114
Germany	191,626	202,179	-2	-29	29	-
United Kingdom	121,813	125,425	-8	-42	42	-
Andorra	101,887	100,121	-	-110	110	-
Other	278,098	304,862	-10	-303	87	-216
Total exposure by geographical area	**1,705,062**	**1,838,615**	**-81**	**-1,153**	**785**	**-368**

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. Crèdit Andorrà classifies its transactions with third parties in function of the economic development of each country, its political situation, regulatory and institutional framework and the rating given by credit rating agencies, and assigns to each group a percentage for insolvency provisions resulting from this analysis.

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

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

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

5.2.2.3. Movement of provisions due to impairment

The movement of provisions for impairment of loans and advances to lending institutions and debt securities during the financial years ended on 31 December 2018 and 2017 is shown below.

In thousands of euros	31/12/17	Allocation IFRS 9	01.01.18	Net allocations	Exchange rate differences and others	31/12/2018
Loans and advances to lending institutions	-	-	-	-5	-	-5
Debt securities	-1,153	785	-368	287	-	-81
Total hedges	**-1,153**	**785**	**-368**	**282**	**-**	**-86**

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**

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 with derivative transactions as at 31 December 2018 and 2017:

-

	Nominal amount		Gross amount		Net collateral (CSA)		Net exposure	
In thousands of euros	2018	2017	2018	2017	2018	2017	2018	2017
Held-for-trading assets	108,620	156,492	2,361	4,757				
Hedging assets	-	-	-	-				
Gross book value - Asset	**108,620**	**156,492**	**2,361**	**4,757**				
Held-for-trading liabilities	-261,672	-83,737	-10,405	-4,772				
Hedging liabilities	-271,271	-271,281	-35,194	-42,192				
Gross book value - Liability	**-532,943**	**-355,018**	**-45,599**	**-46,964**				
Total net exposure	**-424,323**	**-198,526**	**-43,238**	**-42,207**	**37,551**	**44,971**	**-5,687**	**2,764**

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

5.3. Managing liquidity risk

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

The Internal Monitoring Department is responsible for reporting to the COAPiR on the monitoring of liquidity risk and regulatory liquidity ratios and monitoring the development of liquidity risk and its 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 at all times to have the required tools and processes to ensure the Group can meet its payment obligations on time and is able to develop the 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

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

In thousands of euros	Book value	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2018						
Financial assets (incomings)						
Cash, cash balances in central banks and other deposits at sight	343,553	327,474	-	-	-	16,079
Loans and receivables	2,423,309	102,259	144,084	717,698	885,311	573,957
Lending institutions	55,517	55,299	-	-	218	-
Customers	2,367,792	46,960	144,084	717,698	885,093	573,957
Debt securities	1,704,981	7,422	61,801	597,871	354,099	683,788
Derivatives	2,361	501	741	638	150	331
Book value	**4,474,204**	**437,656**	**206,626**	**1,316,207**	**1,239,560**	**1,274,155**
Financial liabilities (outgoings)						
Central bank deposits	64,112	38,847	3,500	721	12,350	8,694
Deposits from lending institutions	262,039	262,039	-	-	-	-
Customer deposits	3,869,164	163,802	435,545	702,759	2,550,250	16,808
Financial liabilities at fair value	71,411	6,711	22,531	36,616	3,463	2,090
Other financial liabilities	86,917	-	-	-	-	86,917
Derivatives	45,599	1,011	712	770	15,233	27,873
Book value	**4,399,242**	**472,410**	**462,288**	**740,866**	**2,581,296**	**142,382**

In thousands of 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 advances	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	4,042,706	123,332	207,901	995,288	2,694,793	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**

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

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

5.3.2. Available liquidity

Crèdit Andorrà has good availability of liquid assets. These assets can be categorized at different levels based on their degree of liquidity, which will in turn determine the level of discount (haircut) which a counter-party would apply in normal market conditions. Liquidity levels are defined generically as follows.

- Level 1: sovereign debt securities and/or securities guaranteed by central governments or supranational agencies (average haircut of 0.5%-10%).
- Level 2: non-sovereign debt securities not discountable at the ECB (average haircut of 15%-30%).
- Level 3: debt securities which, due to their characteristics (currency, etc.), are not discountable at the ECB but are liquid (average haircut of 25%-45%).
- Level 4: Other (not considered as available liquidity).

The table below shows the volumes in market value of the assets classified at Levels 1 to 3 (see the definitions above) as at 31 December 2018 and 2017, distinguishing those available to generate additional liquidity now and those which are not.

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

In thousand euros	Discount (*encumbered*)	Not 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**

The average haircut is 3.95% as at 31 December 2018 and 5.16% as at 31 December 2017, showing the excellent quality of the Group's portfolio.

The available liquidity shown in the preceding 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 daily as required by the Law regulating the solvency and liquidity requirements for 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.

The table below shows individual and consolidated liquidity ratios as at 31 December 2018 and 2017.

	31/12/2018	31/12/2017
Individual	55.02%	60.04%
Consolidated	56.27%	61.02%

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 on 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 Methodology and Valuation Department in the Risk and Regulatory Compliance Division is responsible for monitoring and overseeing these limits and the risks assumed.

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

This table shows the exposures of assets and liabilities subject to market risk in the trading and non-trading portfolios as at 31 December 2018 and 2017.

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

In thousands of euros	Book value	Trading portfolio	Non-trading portfolio
31 December 2017			
Assets subject to market risk	**644,482**	**8,409**	**636,073**
Derivatives	4,757	4,757	-
Other	639,725	3,652	636,073
Liabilities subject to market risk	**170,338**	**4,772**	**165,566**
Derivatives	46,964	4,772	42,192
Other	123,374	-	123,374

5.4.2. Supervision of market risk

In relation to the measurement, monitoring and management of the various risks, Crèdit Andorrà tracks market risk using the VaR methodology.

The VaR method used by the Group is historic simulation, which calculates the impact on the value of the current portfolio of historic variations in risk factors, taking into account the variations from the last 250 days and time horizon of one day.

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

Although the VaR is an important tool for measuring market risk, the assumptions on which the model is based are the origin of certain limitations. Within these limitations, we can identify that this measure does not capture the liquidity risk of positions, a risk that can lead to an increase in the time over which an asset is held in the portfolio, by virtue of their not being sufficient liquidity in the market to be able to close the position, or an increase in the cost of liquidating the position for the least liquid assets, so increasing potential losses. In addition, a confidence level of 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. Another limitation of VaR is that it is calculated on the basis of positions closed on a day and as such does not reflect contributions from open positions.

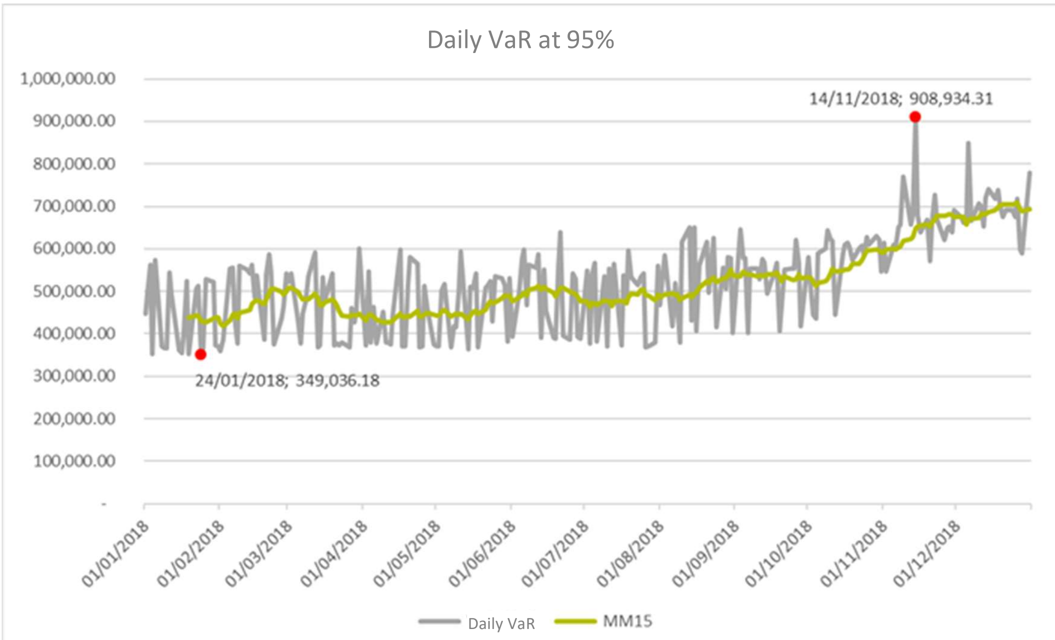
Another limitation of this method, is that the use of historic data for determining the possible range of future variations does not cover scenarios which have not occurred or those which are of an exceptional nature.

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

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

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.

The graph below shows a summary of the daily VaR for the trading portfolio during the 2018 financial year.



Below is a summary of the VaR of the trading portfolio as at 31 December 2018 and 2017.

	VaR		Average		Maximum		Minimum	
In thousands of euros	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Exchange rate risk	-	27	-	8	-	27	-	-
Interest rate risk	-	94	-	98	-	142	-	15
Credit risk	138	21	138	181	169	72	124	7
Variable income risk	642	1,541	383	33	781	3,123	202	-
Other	-	29	-	29	-	40	-	5
Total	**780**	**1,712**	**521**	**349**	**950**	**3,404**	**326**	**27**

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 balance sheet. 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. The Group has form a working group from asset and liability management(ALM), headed by the Internal Control Department which includes the Investment Department and the Financial Planning Department to carry out this task. 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 balance sheet.

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 the preparation of a number of assumptions as to the behavior of a number of balance sheet items so as to model behavior which is as close to possible to reality. Highlighting from among these assumptions those related to contracts with options and those contracts which have no contractual maturity date, such as the accounts at sight. In these cases, performance assumptions are considered on the basis of the historic data of these items.

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

5.5.1. 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 balance sheet 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 table below summarizes the interest rate repricing gap for all financial assets and liabilities, excluding the portfolios included in business activity.

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

In thousands of 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 with central banks and other sight deposits	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	4,042,706	541,138	425,524	831,492	2,220,721	19,000	4,831
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 from interest rate risk coverage	-	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**

5.5.2. Sensitivity analysis

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

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 balance sheet. This sensitivity is measured by comparing the calculated financial value of the Group and its financial value after variations in market interest rates, dividing the result by the Group's net assets

The economic value and financial margin sensitivities to changes in interest rates of 100 basis points as at 31 December 2018 and 2017 is as follows.

	Economic value sensitivity		Financial margin sensitivity	
In thousands of euros	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Increase by 100 b.p.s.	-4.6%	-3.9%	19.2%	18.7%
Decrease by 100 b.p.s.	22.6%	18.6%	-0.7%	-1.5%

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's balance sheet includes assets and liabilities in currencies other than euros from the consolidation of subsidiaries that operate in other currencies, from business activity carried out with customers who operate in other currencies and from the Group's investments in foreign assets and currencies.

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

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 in the main currencies in which the Group has open exposure (equivalent in euros), calculated for cash transactions and term transactions, at the close of 2018 and 2017.

Open position (in thousands of euros)	31/12/2018	31/12/2017
USD	-1,438	-3,444
GBP	-443	119
CAD	84	14
CHF	-84	136
RUB	72	41

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.

5.7.1. 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 Department, is responsible for developing the operational risk management framework of the Group as a whole. Within that responsibility its principal functions are as follows:

- Assisting the Board of Directors in its approval of an operational risk management policy which establishes a management framework that enables operational risks to be identified, assessed and managed.
- 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 monitoring, and is responsible for identifying, assessing, managing and reporting the operational risk events in the department.

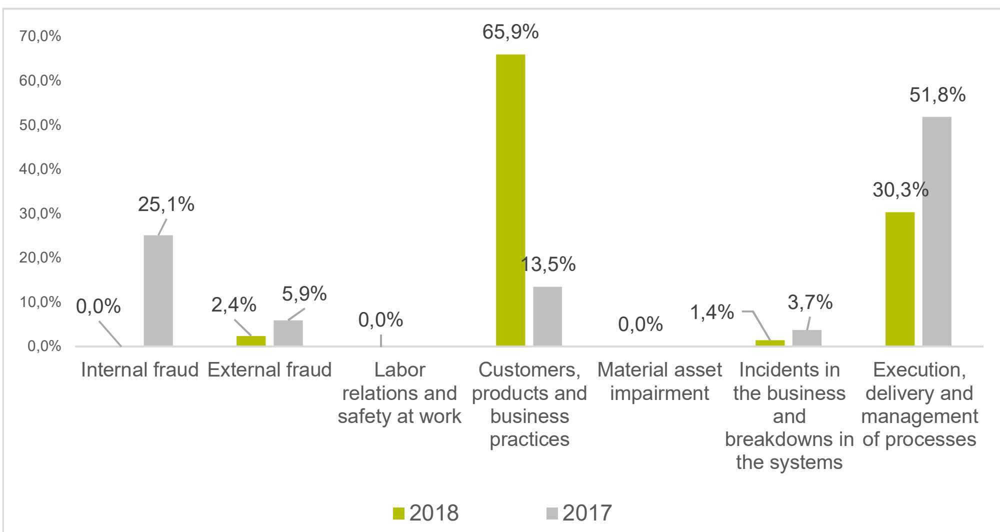
5.7.2. Tools and methodologies for managing operational risk

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

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

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

  During the 2018 and 2017 financial years, the percentage distribution of losses due to operational risk based on the types of operational risk under Basel was as follows:



- Self-assessment of operational risks and controls. Self-assessment is a qualitative methodology that complements the retrospective vision of the internal database by identifying the operational risks inherent to all processes of the different entities comprising the Group, the controls that exist for mitigating these risks, and an assessment 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.

- Regulatory capital calculation. Although the Andorran regulations on solvency in force during 2018 do not require the calculation of operational risk equity requirements, given the aim of achieving the best banking practices 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. COAPiR and senior management receive periodic upward reports including as to operational losses materialized and developments in self-assessment. Downward reporting to all departments within the Group is carried out to inform them of developments in their operational risk profile.

5.8. Compliance and conduct risk

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

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

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:

- Oversight of the management and control of compliance and conduct risk through a structure of committees established by Senior Management which deal with this risk (Ethics Committee, Committee for the Prevention of Money Laundering and Financing of Terrorism. Product Committee and COAPiR).

- Corporate policies applicable to all Group companies, drawn up based on best international practices and not only on Andorran legislation in this area. These policies are subject to centralised review and verification by the parent company.

- Strengthening the regulatory compliance Departments for the Prevention of Money Laundering which are responsible, among other functions, for safeguarding compliance with legal requirements, particularly in customer approval and business oversight; supervising compliance of the Group's code of conduct in the securities markets, for the prevention manuals and procedures to prevent money laundering, as well as for proposing improvements.

- Drawing up rules and procedural manuals that implement the content of the aforementioned policies and codes of the Group, and which are approved by the Bank's Board of Directors.

- The existence of a homogeneous system to record, control, manage and analyze the causes of the complaints according to their different categories, to be able to thereby identify the reasons for customer dissatisfaction, offer solutions that are suitable for each case and propose improvements, where necessary, to the processes causing such complaints.

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

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

The compliance function reports to the Audit and Risk Committee quarterly through the Head of Risk and Regulatory Compliance and through an annual report in writing prepared by Risk and Regulatory Compliance.

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

The department has established itself as a second-line of control that reports to senior management independently through the 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 other subjects. Finally, the Group has participated as a member of the Banking Association in a number of initiatives relating to regulatory compliance, among which the updating of Law 8/2013 of 9 May on organizational requirements and operating conditions of entities operating in the financial system, investor protection, market abuse and financial guarantee agreements, approved in late 2018 is particularly noteworthy.

5.9 Money laundering and terrorist financing risk

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

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

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

5.9.1. Department for the Prevention of Money Laundering

It is a strategic goal of the Group to have an effective, advanced system to prevent money laundering and the financing of terrorism (PBCFT) in which, the parent company coordinates the identification and management of PBCFT risk, including all the business lines and geographical locations. That is why the Group aims to ensure (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. The policy has three essential lines of action common to all Group companies (in which the Bank is the majority shareholder). These lines of action represent the minimum so that if local law is stricter than Andorran law, local law should be applied.

- 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.

- Existence of a range of committees (Prevention of Money Laundering and Terrorist Financing Committee, Customer Acceptance Committee, Management Committee and the Regulatory Compliance Department).

- Human resources with exclusive or shared functions, with a support structure in line with the risk and size of each company.

- Procedural manuals that implement the aforementioned policy and that are adapted, updated and perfected over time. These procedures are drawn up by the Regulatory Compliance units at each company and approved by their respective Boards of Directors or Management Committees depending on the type of document in question.

- A range of technological tools to control PBCFT, 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. The models must preclude arbitrage.

The Methodology and Valuation Department of the Investment Department is responsible for determining prices which cannot be found in the market.

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

- Level I: valuation based on the direct use of the actual pricing of the financial instrument in active markets which is observable and available from independent sources. 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

Book value as at 31 December 2018 and 2017 of the financial assets and liabilities of the Group and their corresponding fair value broken by method of valuation used to estimate their fair value is set out below.

31/12/2018 In thousands of euros	Note	Book value	Book value	Level 1	Level 2	Level 3
Held-for-trading financial assets	**9**	**12,560**	**12,560**	**10,176**	**2,384**	**-**
Derivatives		2,361	2,361	-	2,361	-
Equity instruments		3,688	3,688	3,688	-	-
Debt securities		6,511	6,511	6,488	23	-
Loans and advances		-	-	-	-	-
Financial assets not held for business required to be valued at fair value with changes through profit and loss		**185,903**	**185,903**	**167,223**	**-**	**18,680**
Equity instruments		179,753	179,753	167,223	-	12,530
Debt securities		-	-	-	-	-
Loans and advances		6,150	6,150	-	-	6,150
Financial assets at fair value through profit and loss	**10**	**1,865**	**1,865**	**1,865**	**-**	**-**
Debt securities		1,360	1,360	1,360	-	-
Other		505	505	505	-	-
Other financial assets at fair value through another global profit and loss	**11**	**365,996**	**365,996**	**349,672**	**255**	**16,069**
Equity instruments		16,069	16,069	-	-	16,069
Debt securities		349,927	349,927	349,672	255	-
Financial assets at amortized cost	**12**	**3,764,342**	**3,751,343**	**1,213,841**	**98,632**	**2,438,870**
Loans and advances		2,417,159	2,438,870	-	-	2,438,870
Lending institutions		55,517	55,517	-	-	55,517
Customers		2,361,642	2,383,353	-	-	2,383,353
Debt securities		1,347,183	1,312,473	1,213,841	98,632	-
Hedging derivatives	**14**	**-**	**-**	**-**	**-**	**-**
Total assets		**4,330,666**	**4,317,667**	**1,742,777**	**101,271**	**2,473,619**
Held-for-trading financial liabilities	**9**	**10,405**	**10,405**	**-**	**6,490**	**3,915**
Derivatives		10,405	10,405	-	6,490	3,915
Financial liabilities at fair value through profit and loss	**10**	**71,411**	**71,411**	**-**	**70,964**	**447**
Financial liabilities at amortised cost	**19**	**4,282,232**	**4,282,232**	**-**	**-**	**4,282,232**
Central bank deposits		64,112	64,112	-	-	64,112
Deposits from lending institutions		262,039	262,039	-	-	262,039
Customer deposits		3,869,164	3,869,164	-	-	3,869,164
Other financial liabilities		86,917	86,917	-	-	86,917
Hedging derivatives	**14**	**35,194**	**35,194**	**-**	**35,194**	**-**
Total liabilities		**4,399,242**	**4,399,242**	**-**	**112,648**	**4,286,594**

31/12/17 In thousands of euros	Note	Book value	Book value	Level 1	Level 2	Level 3
Held-for-trading financial assets	**9**	**8,409**	**8,409**	**3,434**	**4,975**	**-**
Derivatives		4,757	4,757	-	4,757	-
Equity instruments		3,434	3,434	3,434	-	
Debt securities		218	218	-	218	-
Loans and advances		-	-	-	-	-
Financial assets not held for business required to be valued at fair value with changes through profit and loss	**9.1**	**215,970**	**215,970**	**193,292**	**-**	**22,678**
Equity instruments		209,820	209,820	193,292	-	16,528
Debt securities		-	-	-	-	-
Loans and advances		6,150	6,150	-	-	6,150
Financial assets at fair value through profit and loss	**10**	**14,763**	**14,763**	**13,930**	**833**	**-**
Debt securities		5,684	5,684	4,851	833	-
Other		9,079	9,079	9,079	-	-
Other financial assets at fair value through another global profit and loss	**11**	**405,340**	**405,340**	**388,322**	**947**	**16,071**
Equity instruments		16,071	16,071	-	-	16,071
Debt securities		389,269	389,269	388,322	947	-
Financial assets at amortized cost	**12**	**4,083,559**	**4,082,971**	**1,323,672**	**97,387**	**2,661,912**
Loans and advances		2,641,268	2,661,912	-	-	2,661,912
Lending institutions		144,825	144,825	-	-	144,825
Customers		2,496,443	2,517,087	-	-	2,517,087
Debt securities	13	1,442,291	1,421,059	1,323,672	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		4,042,706	4,042,706	-	-	4,042,706
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**

6.3. Financial assets and liabilities recognized at Fair Value – Levels 2 and 3

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

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

Financial instruments	Fair value			
31/12/2018	Level 2	Level 3	Main valuation techniques	Main inputs used
Debt securities				
Held-for-trading financial assets	23	-	**Present value method** (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate - Levels of market benchmarks
Financial assets not held for business required to be valued at fair value with changes through profit and loss	-	-		
Financial assets at fair value through profit and loss	-	-		
Other financial assets at fair value through another global profit and loss	255	-		
Financial assets at amortized cost	98,632	-		
Financial liabilities at fair value through profit and loss	70,964	447		
Assets and liabilities at amortised cost				
Loans and receivables	-	2,438,870	**Present value method** (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate
Financial liabilities at amortised cost	-	4,282,232		
Equity instruments				
Held-for-trading financial assets	-	-	**Net equity** **Comparable prices** (prices of similar instruments)	- Liquidation value issued by directors of collective investment institutions - Prices of similar instruments or market benchmarks
Financial assets not held for business required to be valued at fair value with changes through profit and loss	-	12,530		
Other financial assets at fair value through another global profit and loss	-	16,069		
Loans and advances				
Financial assets not held for business required to be valued at fair value with changes through profit and loss	-	6,150	**Present value method** (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate
Derivatives				
Trading derivatives			- **Credit**: probability of default - **Exchange rate**: discounted flows, Black-Scholes - **Debt securities**: discounted flows - **Variable return**: Black-Scholes and discounted flows - **Rate of interest**: discounted flows - **Interest Rate Swaps, Call Money Swaps and FRA**: discounted flows - **Caps/Floors**: Libor Market Model - **Options over debt securities**: Black-Scholes	- Rate of exchange - Future prices quoted on markets or consensus services - Market interest rate - Prices of underlying assets: shares, funds, commodities - Volatility observed on the market or consensus services - Levels of spread for obligations of the issuer - Quoted dividends
Assets	2,361	-		
Liabilities	6,490	3,915		
Hedging derivatives				
Assets	-	-		
Liabilities	35,194	-		

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** (discounted 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**	**-**		
Financial assets not held for business required to be valued at fair value with changes through profit and loss	**-**	**-**		
Other financial assets at fair value through another global profit and loss	**947**	**-**		
Financial assets at amortized cost	**97,387**	**-**		
Financial liabilities at fair value through profit and loss	**121,749**	**1,625**		
Assets and liabilities at amortised cost				
Loans and receivables	**-**	**2,661,912**	**Present value method** (discounted 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)	- Liquidation value issued by directors of collective investment institutions - Prices of similar instruments or market benchmarks
Financial assets not held for business required to be valued at fair value with changes through profit and loss	**-**	**16,528**		
Other financial assets at fair value through another global profit and loss	**-**	**16,071**		
Loans and advances				
Financial assets not held for business required to be valued at fair value with changes through profit and loss	**-**	**6,150**	**Present value method** (discounted future cash flows)	- Prepayment rates - Credit risk of the issuer - Market interest rate
Derivatives				
Trading derivatives			- **Credit**: probability of default - Exchange rate: discounted flows, Black-Scholes - Debt securities: discounted flows - Variable return: Black-Scholes and discounted flows - **Rate of interest**: discounted flows - **Interest Rate Swaps, Call Money Swaps and FRA**: discounted flows - **Caps/Floors**: Libor Market Model - **Options over debt securities**: Black-Scholes	- Rate of exchange - Future prices quoted on markets or consensus services - Market interest rate - Prices of underlying assets: shares, funds, commodities - Volatility observed on the market or consensus services - Levels of spread for obligations of the issuer - Quoted dividends
Assets	**4,757**	**-**		
Liabilities	**2,275**	**1,897**		
Hedging derivatives				
Assets	**-**	**-**		
Liabilities	**42,192**	**-**		

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.

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

- Net present value (present value method). This model uses the future cash flows of each instrument, which are established in the different contracts, and discounts them to calculate the present value. The necessary inputs may be observable on the market or not. Some examples could be:

    - Interest rate curves. For valuing any financial instrument, one must first have the discount factors for each 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

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

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

The amounts corresponding to adjustments to the valuation of issuer credit risk as at 31 December 2018 and 2017 amounted to -4.99 thousand euros and -5.05 thousand euros respectively.

6.3.2. Sensitivity analysis

As at 31 December 2018 the effect on profit or loss of changing the principal assumptions used in the valuation of Level 3 asset financial instruments for other reasonably possible assumptions (taking as the favorable assumption a parallel displacement of the curve downwards by 100 basis points and as the unfavorable assumption the parallel displacement of the curve upwards by 100 basis points) would be -9.448 thousand euros and + 10.574 thousand euros respectively.

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

In 2018 and 2017, the following movements took place in assets and liabilities classified as level 3:

	2018		2017	
In thousand euros	Assets	Liabilities	Assets	Liabilities
Opening balance	**2,700,661**	**-4,497,496**	**2,791,376**	**-4,895,371**
Value adjustments registered in gains and losses	-3,899	-	-	-
Value adjustments not registered in gains and losses	-	-	-8,304	
Purchases, sales and settlements	-223,143	212,920	-82,411	397,875
Net level 3 incomings / (outgoings)	-	-2,018	-	-
Exchange rate differences and others	-	-	-	-
Closing balance	**2,473,619**	**-4,286,594**	**2,700,661**	**-4,497,496**

During 2018 and 2017, 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 inherent risks, particular features of management and the geographic scope. 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. Similarly, it also includes business banking, aimed at providing specialized services to domestic companies and businesses and to the Andorran public sector.

- **Insurance business.** This includes all of the Group's insurance-related business, focusing on life, health and accident products mainly within the Andorran and Spanish markets.

- **Investment 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

Information relating to the business volume of the Crèdit Andorrà Group for 2018 and 2017 by business segment is set out below.

In thousands of euros	Private Banking	Commercial banking	Insurance business	Investments, customer services*** and adjustments	Total 31/12/2018
Interest margin	13,463	30,323	22	2,677	46,485
Net operating profit or loss	85,566	44,350	14,940	27,695	172,551
Operating profit or loss (1)	61,840	38,436	8,397	-75,028	33,645
Profit for the year	**61,840**	**38,436**	**7,653**	**-71,575**	**36,354**
Assets	615,122	1,850,216	-	36,841	2,502,179
Liabilities	2,399,296	1,346,462	-	123,406	3,869,164
Off the balance sheet	8,302,815	406,250	-	361,385	9,070,450
Business volume	**11,317,233**	**3,602,928**	**-**	**521,632**	**15,441,793**

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

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 or loss	104,905	44,542	11,188	34,954	195,589
Operating profit or loss (1)	76,321	37,650	5,914	-63,890	55,995
Profit for the year	**76,321**	**37,650**	**4,994**	**-68,407**	**50,559**
Assets	721,733	1,866,464	-	19,610	2,607,807
Liabilities	2,587,134	1,350,338	-	175,324	4,112,796
Off the balance sheet	8,766,180	493,207	-	286,224	9,545,611
Business volume	**12,075,047**	**3,710,009**	**-**	**481,158**	**16,266,214**

(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 balance sheet item as at 31 December 2018 and 2017 is as follows:

In thousands of euros	31/12/2018	31/12/2017
Cash	49,330	39,969
Cash balances with central banks	55,486	10,131
Other deposits - sight	238,737	201,165
Total	**343,553**	**251,265**

9. Financial assets and liabilities held for sale and assets not held for sale required to be valued at fair value with changes to profit and loss

9.1. Held-for-trading financial assets

The breakdown of this balance sheet item as at 31 December 2018 and 2017 is as follows:

In thousands of euros	31/12/2018	31/12/2017
Non-derivative assets		
Equity instruments	**3,688**	**3,434**
Listed instruments	3,688	3,434
Unlisted instruments	-	-
Debt securities	**6,511**	**218**
Public debt and central banks	6,488	-
Lending institutions	2	94
Other financial companies	21	124
Other	-	-
Loans and advances	-	-
Total non-derivative assets	**10,199**	**3,652**
Derivative assets		
Interest rate	567	887
Currencies	1,794	3,870
Credit	-	-
Equity instruments	-	-
Other	-	-
Total derivative assets	**2,361**	**4,757**
Total	**12,560**	**8,409**

During the 2018 and 2017 financial years, except for the effects of the adoption of EU-IFRS (1 January 2017) in the Principality of Andorra and the first application of IFRS 9 (1 January 2018) there have been no reclassifications of financial assets between portfolios. Consequently, profit or loss and net equity for the 2018 and 2017 financial years have not been affected by reclassifications among portfolios of financial assets or liabilities.

9.2. Financial assets not held for business required to be valued at fair value with changes through profit and loss

The breakdown of this balance sheet item as at 31 December 2018 and 2017 is as follows:

In thousands of euros	31/12/2018	31/12/2017
Equity instruments	**179,753**	**209,820**
Listed instruments	167,223	193,292
Of which linked to Unit-Link	150,944	154,167
Unlisted instruments	12,530	16,528
Debt securities	**-**	**-**
Public debt and central banks	-	-
Lending institutions	-	-
Other financial companies	-	-
Other	-	-
Loans and advances	**6,150**	**6,150**
Total	**185,903**	**215,970**

Equity instruments whose pricing is Unit-Linked are investments linked to transactions in life assurance products when investment risk is assumed by the assured. This product is marketed through Crèdit Assegurances SAU.

Of the total balance under the “Quoted instruments” item as at 31 December 2018, 13.331 thousand euros represents the value of holdings in collective investment institutions, the risk of which is borne by customers of the Group through holdings of structured liabilities (33.438 thousand euros as at 31 December 2017) (see note 10.2).

9.3. Held-for-trading financial liabilities

The breakdown of this balance sheet item as at 31 December 2018 and 2017 is as follows:

In thousands of euros	31/12/2018	31/12/2017
Derivative liabilities		
Interest rate	4,208	137
Currencies	2,156	2,709
Credit	-	-
Equity instruments	126	29
Other	3,915	1,897
Total derivative liabilities	**10,405**	**4,772**
Total	**10,405**	**4,772**

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

The breakdown of this balance sheet item as at 31 December 2018 and 2017 is as follows:

In thousands of euros	31/12/2018	31/12/2017
Assets		
Debt securities	**1,360**	**5,684**
Of which linked to Unit-Link	1,360	1,308
Other financial assets	**505**	**9,079**
Of which linked to Unit-Link	505	9,079
Total assets	**1,865**	**14,763**
Liabilities		
Debt securities	**71,411**	**123,374**
Total liabilities	**71,411**	**123,374**

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

The value of "Debt securities linked to Unit-Links" represents investments in debt securities linked to transactions in life assurance products when the investment risk is assumed by the assured, so-called Unit-Link assurance. This product is marketed through Crèdit Assegurances SAU.

The amount of "Other financial assets linked to Unit-Links" represents other investments of this assurance product which do not represent equity instruments (see note 9.2) or debt securities (see note 10.1). By way of example, these assets include investments in certificates of deposit, currency accounts, etc.

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

This item includes structured liabilities, i.e. financial liabilities that contain an implicit derivative, by means of which customers assume an additional risk additional to the Crèdit Andorrà credit risk and interest rate risk. These liabilities are mainly linked to certain assets which the Group holds, the risks and rewards of which have been transferred to customers through these structured liabilities.

Consequently, as at 31 December 2018, of the total value of debt securities shown in the preceding table, 18,501 thousand euros represent structured liabilities the underlying items for which are interests in investment funds that the Group classifies as "Financial assets not held for sale required to be valued at fair value with changes to profit and loss" (72,575 thousand euros as at 31 December 2017) (see Note 9.2). It should also be borne in mind that the value of the structured liabilities referred to are not as a general rule 100% linked to the risks and rewards of the underlying items, on account of which the value of the underlying items may be different than the value of the structured liabilities.

11. Financial assets at fair value with changes through global profit and loss

The breakdown of this balance sheet item as at 31 December 2018 and 2017, by type of financial instrument, is as follows:

	31/12/2018			
In thousand euros	Cost/amortized cost	Unrealised gains	Unrealised losses	Fair value
Equity instruments	**14,254**	**1,815**	**-**	**16,069**
Gross amount	14,254	1,815	-	16,069
Listed instruments	166	-	-	166
Unlisted instruments	14,088	1,815	-	15,903
Accumulated impairment	-	-	-	-
Debt securities	**348,142**	**3,794**	**-2,009**	**349,927**
Gross amount	**348,142**	3,794	-2,009	349,927
Public debt and central banks	346,090	3,755	-2,009	347,836
Lending institutions	1,098	13	-	1,111
Other companies	954	26	-	980
Accumulated impairment	-	-	-	-
Total	**362,396**	**5,609**	**-2,009**	**365,996**

	31/12/17						01.01.18	
In thousands of euros	Cost/amortized cost	Unrealised gains	Unrealised losses	Fair value	Reclassification for presentation	Total	Valuation adjustment (*)	Fair value
Equity instruments	**14,118**	**1,953**	**-**	**16,071**	**-**	**16,071**	**-**	**16,071**
Gross amount	14,118	1,953	-	16,071	-	16,071	-	16,071
Listed instruments	166	-	-	166	-	166	-	166
Unlisted instruments	13,952	1,953	-	15,905	-	15,905	-	15,905
Accumulated impairment	-	-	-	-	-	-	-	-
Debt securities	**229,030**	**785**	**-1,658**	**228,157**	**161,112**	**389,269**	**22,561**	**411,830**
Gross amount	229,225	785	-1,658	228,352	161,112	389,464	22,437	411,901
Public debt and central banks	229,225	785	-1,658	228,352	119,159	347,511	11,064	358,575
Lending institutions					27,051	27,051	4,265	31,316
Other companies					14,902	14,902	7,108	22,010
Accumulated impairment	-195	-	-	-195	-	-195	124	-71
Total	**243,148**	**2,738**	**-1,658**	**244,228**	**161,112**	**405,340**	**22,561**	**427,901**

(*) See note 1.3.

In 2018, Crèdit Andorrà Group sold financial assets classified in this heading of the consolidated balance sheet in the market, realizing latent gains in a gross amount of 13.202 thousand euros (3.177 thousand euros in 2017), which are recorded in the chapter of the consolidated balance sheet headed "Net profit or loss from de-recognition of financial assets and liabilities not valued at fair value with change to profit and loss" (see note 37). Of the total latent gains realized during the 2018 financial year, 13.202 thousand euros relates to the process of De-Risking (see note 22.1.1.).

During the 2018 and 2017 financial years, except for the effects of the adoption of EU-IFRS (1 January 2017) in the Principality of Andorra and the first application of IFRS 9 (1 January 2018) there have been no reclassifications of financial assets between portfolios. Consequently, profit or loss and net equity for the 2018 and 2017 financial years have not been affected by reclassifications among portfolios of financial assets or liabilities.

12. Financial assets at amortized cost– Loans and advances

12.1. Loans and advances to lending institutions

The breakdown of this heading in the balance sheet, by type of financial instrument as at 31 December 2018 and 2017 is as follows:

In thousands of euros	31/12/2018	31/12/2017
Loans and advances to lending institutions	**55,530**	**144,829**
Term accounts	-	66,159
Other	55,530	78,670
Valuation adjustments	**-13**	**-4**
Interest and commissions accrued	-13	-4
Total	**55,517**	**144,825**

12.2. Customer loans and advances

The breakdown of this heading in the balance sheet, by type of financial instrument as at 31 December 2018 and 2017 is as follows:

In thousands of euros	31/12/2018	31/12/2017
Customer loans and advances	**2,496,027**	**2,615,270**
Debtors with monetary guarantees	260,939	294,474
Debtors with security guarantees	252,617	255,195
Mortgages for purchase of first home	223,938	230,330
Rest of mortgages	1,090,157	1,148,741
Debtors with personal guarantees	475,634	537,071
Credit cards	17,212	16,564
Commercial discount	20,282	12,784
Credit accounts	160,087	179,451
Overdrafts and overruns	3,694	2,885
Other consumer lending	274,359	325,387
Defaulted assets	192,742	149,459
Valuation adjustments	**-134,385**	**-118,827**
Impairment losses	-134,385	-118,827
Net book value	**2,361,642**	**2,496,443**

13. Financial assets at amortized cost - Debt securities

The breakdown of this heading in the balance sheet, by type of counter-party as at 31 December 2018 and 2017 is as follows:

In thousands of euros	31/12/2018	31/12/2017
Debt securities	**1,336,032**	**1,431,849**
Public debt and central banks	1,238,842	1,379,567
Credit entities and other financial entities	68,831	51,445
Other companies	28,359	837
Valuation adjustments	**11,151**	**10,442**
Impairment losses	-81	-958
Interest and commissions accrued	11,232	11,400
Total	**1,347,183**	**1,442,291**

14. Derivatives from hedge accounting and changes to the fair value of hedged items of a portfolio with interest rate risk hedging

The breakdown of the derivatives designated as hedge accounting derivatives and changes in fair value of hedged items of a portfolio with interest rate risk hedging as at 31 December 2018 and 2017 is as follows:

In thousands of euros	31/12/2018	31/12/2017
Assets	**21,711**	**25,611**
Hedge accounting derivatives	-	-
Changes in fair value of hedged items in interest rate risk hedging	21,711	25,611
Liabilities	**35,194**	**42,192**
Interest rate accounting hedge derivatives	35,194	42,192
Of which micro-hedging	21,356	27,278
Of which macro-hedging	13,838	14,914
Changes in fair value of hedged items in interest rate risk hedging	-	-

All of the hedge accounting included in the preceding table corresponds to interest rate risk hedges and are carried out using OTC derivative contracts.

14.1. Fair value hedge accounting

These hedges aim to mitigate the impact of the value fluctuations of the hedged items derived from the risks object of the hedging.

The Group carries out interest rate risk accounting micro-hedges for part of the portfolio of fixed rate loans. The hedged items are included under the entry in the Balance Sheet “Financial assets at amortized cost”.

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 hedged items are included under the entry in the Balance Sheet "Financial assets at amortized cost".

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

As at 31 December 2018 and 2017, the Group performed the corresponding matching tests in relation to the above hedges. Any hedging mismatches have been recorded in the profit and loss account, under "Profit or loss resulting from hedge accounting, net".

The table below summarizes the information used in matching tests for the 2018 financial year:

	Risk hedged	Hedging instrument	Value of hedging instrument as at 31/12/18 Assets	Liabilities	Change in reasonable value used to calculate the mismatch of the hedge	Mismatch recognized in profit and loss	Value of hedging instrument as at 31/12/17 Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	-	13,838	1,076	-320	-	14,914
Micro-hedges	Fixed-interest loans	Interest rate swaps	-	21,356	2,546	-111	-	27,278
		Total	-	35,194	3,622	-431	-	42,192

	Risk hedged	Hedging instrument	Value of hedged item on 31/12/18 Assets	Liabilities	Accumulated adjustment to reasonable value of hedged item	Change in reasonable value used to calculate the mismatch of the hedge	Value of instrument item on 31/12/17 Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	18,451	-	4,438	-1,243	22,070	-
Micro-hedges	Fixed-interest loans	Interest rate swaps	156,066	-	17,273	-2,657	239,441	-
		Total	174,517	-	21,711	-3,900	261,511	-

During the 2018 financial year, the Group has recognized a net profit/loss from hedge accounting of -431,000 euros (1.115 thousand eurosin the 2017 financial year).

During the 2018 financial year, the matching test for reasonable value micro-hedging covering fixed-rate mortgages was breached in an amount of 1.706 thousand euros. At the point of the breach of hedging, the hedging derivative is considered a derivative held for sale and an adjustment to the valuation of the hedged element as at the date of breach of the hedge is recognized linearly in the profit and loss account until the maturity date of the hedged element. In that regard, on 31 December 2018 there was an amount of 834,000 euros for which prospective recognition in the profit and loss account was pending. As at 31 December 2017 and 2018 all hedging was effective.

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 2018 and 2017 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 2018	**71,514**	**2,858**	**78,068**	**18,019**	**7,817**	**178,276**		**70,900**	**249,176**
Additions	-	2,630	234	79	11	2,954		866	3,820
Retirements	-	-	-	-60	-	-60		-	-60
Sales	-1,291	-3	-572	-	-	-1,866		-1,856	-3,722
Transfers	-	-2,539	2,539	-	-	-		1,696	1,696
Exchange rate differences and others	-	-	-	-	-	-		-	-
Balance at 31 December 2018	**70,223**	**2,946**	**80,269**	**18,038**	**7,828**	**179,304**		**71,606**	**250,910**
Accumulated amortization									
Balance at 1 January 2018	**-2,872**	**-**	**-64,970**	**-13,231**	**-347**	**-81,420**		**-32**	**-81,452**
Additions	-678	-	-2,659	-1,633	-7	-4,977	-	-21	-4,998
Retirements	-	-	-	34	-	34	-	-	34
Sales	6	-	316	-	-	322	-	42	364
Transfers	-	-	-	-	-	-	-	-	-
Exchange rate differences and others	-	-	-	-	-	-	-	-	-
Balance at 31 December 2018	**-3,544**	**-**	**-67,313**	**-14,830**	**-354**	**-86,041**		**-11**	**-86,052**
Impairment losses									
Balance at 1 January 2018	**-864**	**-**	**-**	**-**	**-**	**-864**		**-39,705**	**-40,569**
Additions	-	-	-	-	-	-		-24	-24
Retirements	-	-	-	-	-	-		-	-
Sales	267	-	-	-	-	267		470	737
Transfers	-	-	-	-	-	-		-2,170	-2,170
Exchange rate differences and others	-	-	-	-	-	-		-	-
Balance at 31 December 2018	**-597**	**-**	**-**	**-**	**-**	**-597**		**-41,429**	**-42,026**
Net book value at 1 January 2018	**67,778**	**2,858**	**13,098**	**4,788**	**7,470**	**95,992**		**31,163**	**127,155**
Net book value at 31 December 2018	**66,082**	**2,946**	**12,956**	**3,208**	**7,474**	**92,666**		**30,166**	**122,832**

The amount of impairment losses is recognized in the above table under “Transfers” of -2,170 thousand euros, including: (1) the reclassification of 869 thousand euros allocated for the impairment of land initially classified as non-current assets available-for-sale (see Note 18.2) and (2) the reallocation, based on the updated taxation bases, of 1,301 thousand euros as a provision for impairment losses that were initially allocated to non-current assets available-for-sale (see Note 18.2).

In thousand euros	Privately used tangible assets: 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 amortization								
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**
Impairment losses								
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**

15.1. Tangible fixed assets

This section of the balance sheet 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 2018 and 2017, there were no indications of impairment to the net value of assets associated with the different CGU.

At 31 December 2018 and 2017, all property was fully available.

The fully depreciated privately used fixed assets at 31 December 2018 and 2017 amounted to 64,558 thousand euros and 62,327 thousand euros, respectively.

At 31 December 2018 and 2017, there were no restrictions to the realization of tangible assets or the collection of income deriving from them.

At 31 December 2018 and 2017, the Group has no significant commitments for purchasing fixed assets.

15.2. Real estate investments

Real estate investments are subject to annual taxation. As a result of said taxation, at 31 December 2018 and 2017, the Group has recorded net provisions in the amount of 24 thousand euros and 0 thousand euros, respectively.

On the basis of the valuations available at 31 December 2018, the fair value of the real estate investment portfolio amounts to 30,166 thousand euros (31,163 thousand euros at 31 December 2017). The fair value of real estate assets classified as real estate investments is classified, based on the fair value hierarchy, as level 2.

The net fair value of the real estate investments that generate revenue at 31 December 2018 total 30,166 thousand euros (31,163 thousand euros at 31 December 2017).

The operating income accrued from real estate operating under a lease regime is recorded under the heading “Other operating income” in the income statement (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 2018 and 2017 are as follows:

In thousand euros	Goodwill	Differences of first-time consolidation	IT applications	Other	Total
Cost					
Balance at 1 January 2018	**26,169**	**42,648**	**79,382**	**2,020**	**150,219**
Additions	475	1,655	19,938	7,751	29,819
Retirements	-1,734	-	-1,788	-278	-3,800
Sales	-	-	-	-	-
Transfers	-	-	-67	67	-
Exchange rate differences and others	1,397	-	-	-	1,397
Balance at 31 December 2018	**26,307**	**44,303**	**97,465**	**9,560**	**177,635**
Accumulated amortization					
Balance at 1 January 2018	**-**	**-**	**-28,629**	**-**	**-28,629**
Additions	-	-	-9,526	-799	-10,325
Retirements	-	-	166	-	166
Sales	-	-	-	-	-
Transfers	-	-	49	-49	-
Exchange rate differences and others	-	-	-	-	-
Balance at 31 December 2018	**-**	**-**	**-37,940**	**-848**	**-38,788**
Impairment losses					
Balance at 1 January 2018	**-8,761**	**-112**	**-**	**-**	**-8,873**
Additions	-137	-	-	-	-137
Retirements	-	-	-	-	-
Sales	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange rate differences and others	-	-	-	-	-
Balance at 31 December 2018	**-8,898**	**-112**	**-**	**-**	**-9,010**
Net book value at 1 January 2018	**17,408**	**42,536**	**50,753**	**2,020**	**112,717**
Balance at 31 December 2018	**17,409**	**44,191**	**59,525**	**8,712**	**129,837**

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 amortization					
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**
Impairment losses					
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**

16.1. Goodwill and differences from initial consolidation.

This is the section of the balance sheet 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 first-time consolidation at 31 December 2018 and 2017.

	31/12/2018			31/12/2017		
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	14,324	-	14,324	13,848	-	13,848
Beta Capital Management LP	32,004	-	32,004	30,609	-	30,609
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	4,458	-	4,458	4,536	-	4,536
Total	**70,610**	**-9,010**	**61,600**	**68,817**	**-8,873**	**59,944**

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:

- The variation seen in the above table with regard to Banco Alcalà SA is related to the acquisition of shareholdings totaling 85% of the capital (see Note 3).

- The variation seen in the above table with regard to Beta Capital Management LP is related to the fluctuation of the euro/dollar exchange rate. In this sense it is important to taken into account that the Group manages the currency position of the balance sheet 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).

- The variation seen in the above table with regard to CLIGE SA is related to the impairment of 100% of the difference from first-time consolidation as a result of the impairment test carried out during 2018.

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 income statement.

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 2018 and 2017 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 2018 and 2017, there were no intangible assets whose ownership is restricted in any manner or which serve as debt securities.

In addition, at 31 December 2018 and 2017, the Group had no significant commitments for purchasing intangible assets.

At 31 December 2018 and 2017, Crèdit Andorrà Group has intangible assets for a gross amount of 20,195 and 16,361 thousand, respectively, which are fully amortized.

16.3. Other

Of all additions to this heading during 2018, 1,500 thousand euros correspond to the recognition of a non-competition agreement signed by the Group in 2018 with an independent third party, which is amortized over the term of its validity. Furthermore, 6,251 thousand euros correspond to the recognition of a portfolio of customers incurred in the business combination described in Note 3.6 in relation to the creation of the new holding company ERSM. Similarly, of all additions to accumulated amortization, -625 thousand euros correspond to the amortization of the aforementioned portfolio during its useful life.

17. Other assets

The breakdown of this heading of the balance sheet at 31 December 2018 and 2017, is as follows:

In thousand euros	31/12/2018	31/12/2017
Operations underway	19,821	20,577
Accruals	27,245	27,401
Expenses paid and not accrued	2,652	2,106
Rest of asset accruals	24,593	25,295
Stock	336	312
Other	5,506	3,608
Total	**52,908**	**51,898**

The heading “Other assets” includes, among others, non-financial services rendered pending collection not related to bank commissions. The increase in the aforesaid heading seen in the above table originates from the first-time consolidation of the new subgroup ERSM (see Note 3.6).

18. Non-current assets and disposable groups of items classified as held for sale

This heading of the balance sheet 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 balance sheet at 31 December 2018 and 2017, is as follows:

In thousand euros	31/12/2018	31/12/2017
Tangible fixed assets	100,588	103,285
From foreclosures	66,640	73,627
Other	33,948	29,658
Other assets	11,440	-
Total	**112,028**	**103,285**

The amount detailed in the above table under the heading "Other assets" corresponds to financial instruments (mostly shares in a non-financial company) that the Bank has registered as part of a donation in payment process for loans. The Group has classified these assets as "Non-current assets and disposable groups of items classified as held for sale", given that its intention is to sell them in the short- to medium term as part of the recovery process of the loans.

18.2. Movement

The breakdown of this heading of the balance sheet, including, where appropriate, the corresponding impairment funds, and the movements during 2018 and 2017, are as follows:

	Tangible fixed assets		Other assets	
In thousand euros	From foreclosures	Other	From foreclosures	Total
Cost				
Balance at 1 January 2018	**126,747**	**53,573**	**-**	**180,320**
Additions	11,730	1	11,440	23,171
Retirements	-27,521	-627	-	-28,148
Transfers	-1,696	-	-	-1,696
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2018	**109,260**	**52,947**	**11,440**	**173,647**
Impairment losses				
Balance at 1 January 2018	**-53,120**	**-23,915**	**-**	**-77,035**
Additions	-	-	-	-
Retirements	12,869	377	-	13,246
Transfers	-2,369	4,539	-	2,170
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2018	**-42,620**	**-18,999**	**-**	**-61,619**
Net book value at 1 January 2018	**73,627**	**29,658**	**-**	**103,285**
Net book value at 31 December 2018	**66,640**	**33,948**	**11,440**	**112,028**

In thousand euros	Tangible fixed assets From foreclosures	 Other	Other assets From foreclosures	 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**
Impairment losses				
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**

The retirements of held-for-sale non-current assets shown in the previous table accrued a loss for Crèdit Andorrà Group totaling -126 thousand euros during the financial year ended at 31 December 2018 (-582 thousand euros for the financial year ended on 31 December 2017).

For further information on the transfers detailed in the above table, see Note 15.

18.3. Information relating to repossessed assets

Below is a breakdown of the net values of assets originating from credit regularizations, by type of asset and age of the asset in the balance sheet at 31 December 2018 and 2017:

In thousand euros	31/12/2018	31/12/2017
Assets for residential use	2,402	9,428
Assets for industrial or commercial use	30,541	13,971
Building works underway	-	766
Land for development	44,889	44,704
Land not for development	248	245
Developed land	-	4,513
Total	**78,080**	**73,627**
Up to 1 year	21,494	4,451
From 1 to 2 years	1,902	11,653
From 2 to 3 years	6,035	4,784
More than 3 years	48,649	52,739
Total	**78,080**	**73,627**

The assets classified as "Other assets" (see Note 18.1) are shown in the above table as part of the category "Assets for industrial or commercial use".

19. Financial liabilities at amortised cost

19.1. Breakdown of balance

The breakdown of this heading of the balance sheet at 31 December 2018 and 2017, based on the nature of the financial instrument originating the liability, is as follows:

In thousand euros	Note	31/12/2018	31/12/2017
Deposits		**4,195,315**	**4,398,574**
Central bank deposits	19.2.	64,112	116,819
Deposits from lending institutions	19.3.	262,039	239,049
Customer deposits	19.4.	3,869,164	4,042,706
Other liabilities	**19.5.**	**86,917**	**95,400**
Total		**4,282,232**	**4,493,974**

19.2. Central bank deposits

The breakdown at 31 December 2018 and 2017 of this section of the balance sheet, based on the nature of the operations, is as follows:

In thousand euros	31/12/2018	31/12/2017
Central bank deposits	**64,074**	**116,740**
Sight	16,502	20,542
Term	47,572	96,198
Interest accrued	**38**	**79**
Total	**64,112**	**116,819**

19.3. Deposits from lending institutions

The breakdown at 31 December 2018 and 2017 of this section of the balance sheet, based on the nature of the operations, is as follows:

In thousand euros	31/12/2018	31/12/2017
Deposits from lending institutions	**262,207**	**238,974**
Sight	23,201	91,631
Term	-	-
Temporary pledged assets	239,006	147,343
Interest accrued	-168	75
Total	**262,039**	**239,049**

19.4. Customer deposits

The breakdown at 31 December 2018 and 2017 of this section of the balance sheet, based on the nature of the operations and the economic segment of the customer, is as follows:

In thousand euros	31/12/2018	31/12/2017
By nature	**3,869,164**	**4,042,706**
Current and other accounts at sight	2,678,384	2,642,392
Time deposits	1,190,780	1,400,314
By sectors	**3,869,164**	**4,042,706**
Public administrations	69,242	66,813
Private sector	3,799,922	3,975,893

19.5. Other liabilities

The breakdown at 31 December 2018 and 2017 of this section of the balance sheet, based on the nature of the financial instrument originating the liability, is as follows:

In thousand euros	31/12/2018	31/12/2017
Subordinated liabilities	79,415	79,118
Other liabilities	7,502	16,282
Total	**86,917**	**95,400**

19.5.1. 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 thousand 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 thousand 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 2018, the Group has 70,585 thousand euros in treasury stock (70,882 thousand euros at 31 December 2017), which is included in the balance sheet free from the liability issued.

19.5.2. 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.).

The decrease in the balance observed in the above table referring to this item is mostly due to (1) the adjustment to the reimbursable value of the E shares in circulation which at the date of the Bank's General Shareholders' Meeting of 26 April 2018 did not have a repurchase commitment price (3,750 thousand euros which have been recognized under "Profit or loss due to held-for-trading financial assets and liabilities, net" on the income statement) (see Note 37) and (2) the repurchase of E shares during 2018 (see Note 25) with no impact on the income statement due to having been acquired at the value for which they were recognized in liabilities.

20. Assets and liabilities covered by insurance and reinsurance contracts

The breakdown at 31 December 2018 and 2017 of these headings of the balance sheet, based on the nature of the provision originating the liability, is as follows:

	31/12/2018		
In thousand euros	Direct insurance and accepted reinsurance	Assigned reinsurance	Total (net)
Premiums not consumed and ongoing risks	3,891	-1,799	2,092
Mathematical provisions	107,104	-2	107,102
Provision for benefits	3,120	-1,304	1,816
Participation in profit and refunds	51	-	51
Provisions for life insurances when the investment risk is assumed by the customer	151,026	-	151,026
Other technical provisions	458	-326	132
Total	**265,650**	**-3,431**	**262,219**

	31/12/17		
In thousands of 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**

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 2018 and 2017 of this heading of the balance sheet, based on the nature of the risk originating the provision, is as follows:

In thousand euros	31/12/2018	31/12/2017
Pensions and other defined post-employment benefit obligations	12,096	44,390
Other long-term employee remunerations	6,882	6,020
Restructuring provisions	-	-
Provisions for legal and tax litigation	7,558	8,427
Commitments and guarantees granted	3,402	1,538
Rest of provisions	1,361	1,930
Total	**31,299**	**62,305**

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

The movement in provisions not related to post-employment remuneration and other employee commitments with employees during 2018 and 2017 is as follows:

In thousand euros	Restructuring provisions	Provisions for legal and tax litigation	Commitments and guarantees granted	Rest of provisions	Total
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**
Adjustments IFRA 9 (*)	**-**	**-**	**1,166**	**-**	**1,166**
Balance at 1 January 2018	**-**	**8,427**	**2,704**	**1,930**	**13,061**
Allocations	-	-	685	699	1,384
Charged to profit/loss	-		685	699	1,384
Charged to Other comprehensive profit and loss	-	-	-	-	-
Recoveries	-	-355		-960	-1,315
Charged to profit/loss	-	-355	-	-960	-1,315
Charged to Other comprehensive profit and loss	-	-	-	-	-
Applications / payments	-	-444	-	-	-444
Other movements	-	-70	13	-308	-365
Balance at 31 December 2018	**-**	**7,558**	**3,402**	**1,361**	**12,321**

(*) See Appendix II

The amounts detailed in the foregoing heading as “Other movements” are related mostly to reclassifications of certain amounts to other accounting items without this reclassification having an impact on the income statement.

21.1.1. Restructuring provisions

The retirements under this heading during 2017 correspond to the application during 2017 (or recovery of the part finally not used) of the provisions for restructuring of staff recognized by the Group during the month of December 2016.)

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 19.5) and not as a capital instrument (see Note 24).

The movement of the provision in 2017 includes 900 thousand euros corresponding 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 2018 and 2017 it reliably estimated the obligations associated to each procedure and recognized, 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 (see Note 49.4).

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 2018 and 2017 (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 2018 and 2017 of these sections of the balance sheet, based on the nature of the risk originating the provision, is as follows:

In thousand euros	31/12/2018	31/12/2017
Pensions and other defined post-employment benefit obligations	12,096	44,390
Other long-term employee remunerations	6,882	6,020
Total	**18,978**	**50,410**

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 benefit pensions defined at the close of 2018 amount to 12,096 thousand euros (44,390 thousand euros at the close of 2017). 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 balance sheet 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 2018 and 2017.

In thousand euros	Current value of obligations	Fair value of plan assets	Liabilities for net defined profit (assets)
Balance at 1 January 2017	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
Total impact on profit/loss	2,081	-	2,081
Current services costs	-		-
Past services costs	-		-
Net profit/loss for interest	2,081		2,081
Total impact on Other comprehensive profit and loss	312	-	312
Actuarial losses / (profit)	312		312
Other	-		-
Other impact	-34,687	-	-34,687
Benefits paid	-2,748		-2,748
Other movements	-		-
Capital settlements	-31,939		-31,939
Balance at 31 December 2018	**12,096**	**-**	**12,096**

The amount shown in the above heading referring to "Capital settlements" corresponds solely to the *De-risking* process carried out by Crèdit Assegurances SAU in 2018 within the scope of its own portfolio of life annuities and interest guarantees (which includes the obligations for defined benefit pensions that the Bank has outsourced to its insurance subsidiary). This *De-risking* forms part of the strategy designed by the Group to adapt to the new prudential supervision regulations of the insurance sector (Law 12/2017, of 22 June, on the regulation and supervision of insurances and reinsurances in the Principality of Andorra), which entered into force on 1 January 2018, however, pursuant to transitory provision two, entities may adapt to the requirements of the aforesaid law in a gradual and proportional manner over a period of five years (see Note 48.1.9).

This *De-risking* process consisted in offering the holders of these life annuities and/or interest guarantees the possibility to surrender them for a value equivalent to 90% of the amount of the mathematical provision that Crèdit Assegurances SAU had registered on its books (in other words, the holder of the annuity/interest guarantee would receive a guaranteed lump sum payment in cash in exchange for the expectations of an uncertain annuity). Therefore, the figure shown in the above-mentioned heading relating to "Capital Settlements" corresponds to the pensioners of the Bank who have accepted the above-mentioned offer, of which 30,320 thousand euros has been paid out to the pensioners in cash and the remainder have performed a net adjustment of the mathematical provisions against profit and loss (cancellation of the mathematical provisions falling under the *De-risking* process and updating of the valuation of the other provisions as a result of the readjustment of the hedges at the current market rates) (see Note 38.2).

Thus, in order to perform the aforesaid *De-risking* process, the Group must have realized on the market the portfolio of financial instruments that it used internally in order to hedge these flows (which subsequently with its business model formed part of the portfolio of financial assets at fair value through comprehensive profit and loss), with which it has obtained a gain of 13,202 thousand euros. Furthermore, the settlement of the hedging of the operation generated an additional gain of 995 thousand euros (See Note 11 and Note 37).

22.1.2. Actuarial methodology and hypotheses

The value of the defined post-employment benefit obligations has been determined by applying the following criteria:

- All of the retirement commitments are in payment phase; therefore, no new obligations are generated derived from the accrual of years of services rendered.

The actuarial hypotheses used in these calculations are:

		31/12/2018	31/12/2017
Mortality tables		PERM/F-2000 P	PERM/F-2000 P
Technical interest rate	Plan 1	3.72%	4.89%
	Plan 2	3.72%	4.65%
CPI		2.00%	3.00%

The projected amounts at 31 December 2018 have been determined on the basis of the real CPI for 2018 for the payments to be made in 2018 and for all other future years according to the forecast hypothesis.

22.1.3. Sensitivity analysis of the main hypotheses

The variations of the main hypotheses may affect the calculation of the commitments. Included below is the effect on the obligation resulting from increasing or reducing the hypotheses:

		31/12/2018		31/12/2017	
In thousand euros	Variation in basis points	Increase	Decrease	Increase	Decrease
Technical interest rate	100	-1,313	1,487	-4,338	5,253
CPI	100	1,225	-1,102	5,048	-4,225

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 2018 and 2017, see Note 39.

These contributions represent an expenditure in the financial year in which they are accrued, and entail an expense in the income statement of the corresponding year, and therefore do not entail recording liabilities for this concept in the liabilities of the Group's balance sheet.

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 2018 and 2017:

In thousand euros	Current value of obligations	Fair value of plan assets	Liabilities for net defined profit (assets)
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**
Total impact on profit/loss	**2,746**	**-**	**2,746**
Current services costs	-	-	-
Net interest cost	4	-	4
Past services costs	2,691	-	2,691
Actuarial gains/losses	51	-	51
Total impact on Other comprehensive profit and loss	**-**	**-**	**-**
Actuarial losses / (profit)	-	-	-
Other	-	-	-
Other impact	**-1,884**	**-**	**-1,884**
Benefits paid	-1,884		-1,884
Other movements			-
Balance at 31 December 2018	**6,882**	**-**	**6,882**

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:

	31/12/2018	31/12/2017
Mortality tables	PERM/F-2000 P	PERM/F-2000 P
Technical interest rate	0.43%	0.21%
CPI	0%	0%

The technical interest rate used for updating the flows has been determined on the basis of the Iboxx Corporate AA 3-5 years curve.

22.3.3. Sensitivity analysis of the main hypotheses

The variations of the main hypotheses may affect the calculation of the commitments. Included below is the effect on the obligation resulting from increasing or reducing the hypotheses.

In thousand euros	Variation in basis points	31/12/2018		31/12/2017	
		Increase	Decrease	Increase	Decrease
Technical interest rate	100	-171	180	-151	158

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 at 31 December 2018 and 2017, 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 2018 and 2017 of this heading of the balance sheet, based on the nature of the item originating the liability, is as follows:

In thousand euros	31/12/2018	31/12/2017
Operations underway	20,034	18,340
Accruals	28,772	29,099
Accrued unpaid expenses	13,389	14,961
Rest of liability accruals	15,383	14,138
Suppliers and other creditors	4,342	4,048
Other	4,439	4,259
Total	**57,587**	**55,746**

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 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*, characterized 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 IAS 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 the entry into force of the IFRS-EU, Class E shares, regardless of their syndication regimen, must be recorded as a financial liability (see Note 19.5).

In this sense, prior to the date of first application of the IFRS-EU, a claim was brought against the Bank by some former employees (covered by the original 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 thousand 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).

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

- Amortize 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 authorizations 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 holders 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 thousand euros and an increase in the Group's equity for the same amount.

- 93,399 Class E shares have been amortized, reducing the share capital by 6,537,930 euros.

Subsequently, at 31 December 2018 and 2017, the share capital of Crèdit Andorrà SA stood at 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 with a nominal value of 70 euros.

24.2. Issue premium and reserves

The breakdown of this section of the balance sheet at 31 December 2018 and 2017, is as follows:

In thousand euros	31/12/2018	31/12/2017
Restricted reserves	**100,766**	**94,253**
Legal	14,000	14,000
Deposit guarantee	-	55,643
Unavailable reserves 20/2018	37,557	-
Fagadi	17,464	-
SAGI	2,689	-
Treasury stock and shares	-	-
Memorandums 227/12 and 228/12	29,056	24,610
Fully available reserves	**210,815**	**199,468**
Reserves for investments in subsidiaries	62,201	53,505
Other	148,614	145,963
Total	**311,581**	**293,721**

24.2.1. Restricted reserves

24.2.1.1. Legal reserve

In compliance with the Law governing companies passed by the General Council on 18 October 2007, a legal reserve must be established of a minimum of 10% of the profit until 20% of the share capital has been reached. At 31 December 2018 and 2017, the Bank had fully established this reserve.

24.2.1.2. 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 totaling 55,643 thousand euros, hedged by an equivalent amount in eligible securities, according to article 7.3 of Law 1/2011 (see Note 48.1.6.).

As of 4 October 2018, (date of entry into force of Law 20/2018, of 13 September, on deposit guarantee funds in Andorra and the Andorran investment guarantee scheme), in compliance with the provisions set forth in Law 20/2018 (see Note 48.1.8.), Crèdit Andorrà has reallocated the guarantee reserve that had been provisioned up to date pursuant to Law 1/2011 in the following manner:

- The guarantee reserves resulting from Law 1/2011 and which were affected by investment hedges (2,689 thousand euros) have been maintained as guarantee reserves for investments hedged by SAGI together with the liquid assets allocated thereto in accordance with that set forth in transitory provision two of Law 20/2018.
- An amount equivalent to 1.6% of the guaranteed deposits (17,464 thousand euros) has been maintained as a guarantee reserve for deposits with the corresponding liquid assets allocated to said reserves, which cannot be the object of charges, encumbrances, seizure, embargo or writ of order and cannot be used for other obligations nor can they be applied to other purposes different to those provided for in Law 20/2018. As established by additional provision one of Law 20/2018, as the banking entities members of FAGADI perform the ordinary contributions as provided for in article 12 of Law 20/2018, these guarantee reserves for deposits can be reclassified simultaneously to unavailable reserves and can be used immediately and without restriction by banking entities to cover risks or losses as the case may be.
- Lastly, the guarantee reserves for deposits originating under Law 1/2011 not allocated under the two above points (37,557 thousand euros) have been reclassified to unavailable reserves, which can be used immediately and without restriction by banking entities to cover risks or losses as the case may be. These reserves must be maintained in this category until they are used to cover risks or losses, as the case may be, or until the AFA authorizes their reclassification to available reserves.

24.2.1.3. 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 established an unavailable reserve in relation to the financing of Class E shares, given that, as explained in section 24.1, since IFRS-EU Class E shares are considered to be a financial liability and not a capital instruments. Therefore, the full fair value of the Class E shares in circulation no longer form part of the Group's shareholder equity.

Likewise, with regard to Class A shares, regardless of the Group acting with prudence and performing over-collateralization 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.

24.2.1.4. 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 balance sheet, 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 2018, the restricted reserve totaled 29,056 thousand euros (24,610 thousand euros at 31 December 2017).

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.

24.2.2.1. Consolidation reserves

The consolidation reserves correspond to profits accrued in previous years by Group companies forming part of the consolidation scope from the date of their acquisition or constitution up to 31 December 2018 and 2017, that have not been distributed as dividends.

In thousand euros	31/12/2018	31/12/2017
Entities consolidated by global integration	**51,886**	**44,151**
Patrigest subgroup	2,966	2,047
Banque BPP subgroup	25,983	24,985
CA Panamá subgroup	4,160	929
Valira subgroup	-	-29
Banco Alcalá subgroup	1,244	1,988
Holding Luxembourg subgroup	-4,822	-4,320
Crèdit Iniciatives subgroup	1,097	902
Beta Capital subgroup	7,037	6,629
Crèdit Capital Immobiliari SAU	-11,735	-6,701
Credi-Invest SA	6,348	3,720
Crèdit Andorrà Preference LTD	1	1
Informàtica Crèdit Andorrà SLU	2,509	324
Insurance Group	17,098	13,677
	-	
Entities consolidated by the equity method	**11,783**	**10,858**
SERMIPA XXI	43	29
ENSISA	11,740	10,829
Consolidation reserves	63,669	55,009
Conversion reserves	-1,468	-1,504
Total investment reserves in Group companies	**62,201**	**53,505**

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, as at 31 December 2018 and 2017 Crèdit Andorrà holds a treasury stock of Class E shares for a total of 3,132 and 510 shares, respectively (see Note 19.5).

Likewise, since (1) while they are in circulation and the owners of these shares have the right to sell to the Bank, Class E shares are considered as a financial liability, and (2) the repurchase has been completed at the book value of the mentioned liability, said acquisition, as will occur in similar operations in future, has entailed that the treasury stock is valued at 0 euros (value of the capital component calculated as the difference between the amount paid out and the value of the liabilities cancelled) and, therefore, this has not entailed a reduction in the 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 balance sheet at 31 December 2018 and 2017, is as follows:

In thousand euros	31/12/2018	31/12/2017
Financial assets with changes in other comprehensive profit and loss	3,600	4,066
Cash flow hedges (effective portion)	-	-
Exchange rate differences	-3	-
Available-for-sale non-current assets	-	-
Rest of recognized income and expenditure	625	906
Total	**4,222**	**4,972**

The amounts included in the above table under the item "Rest of recognized 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 net equity includes the movements during the financial years ended on 31 December 2018 and 2017.

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 2018 and 2017, the breakdown of the section "Minority interests" of the balance sheet is as follows:

In thousand euros	31/12/2018	31/12/2017
Valira SL	-	384
Grupo Banco Alcalá	4,909	5,784
Grup Actiu Assegurances	2,170	1,982
Grup ERM	3,023	599
Total	**10,102**	**8,749**

The decreases in the balances of minority interests corresponding to Valira SL and Grupo Banco Alcalá that can be seen in the above table originate, respectively, from the dissolution of the company Valira SL and the increase in the shareholding that Crèdit Andorrà SA holds in the capital of Banco Alcalá SA, reaching 85%. Similarly, the increase in the minority interests balance corresponding to the ERM Group is due to the business combination that has culminated in the creation of the new holding company ERSM Insurance Brokers (for further details see Note 3.6).

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:

	31/12/2018	31/12/2017
Solvency ratio	15.11%	16.15%

The solvency ratio is calculated according to ANIF Memorandum 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 favor of any one beneficiary at 31 December 2018 totals 19.48% (19.18% at 31 December 2017), although in 2018 it reached a maximum of 19.77% (22.90% in 2017).

- Credits, discounts and other operations as a whole which generate individual credit risk in excess of 5% of the Group's equity at 31 December 2018 amount to 181.34% (165.95% at 31 December 2017), yet during 2018 this figure reached a maximum of 187.82% (196.16% in 2017).

- The computable risks held with members of the Board of Directors at 31 December 2018 amount to 12.11% of the computable equity (13.44% at 31 December 2017), yet during 2018 this figure reached a maximum of 14.57% of the computable equity (17.09% in 2017).

In this sense, it is considered important to highlight that the temporary exceedance of the legal limits in 2017 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.

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 (currently AFA) considered the aforementioned offenses 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 consolidated financial statements for 2017, the Board of Directors of Crèdit Andorrà has considered it appropriate to recognize at 31 December 2017 a provision for an amount equivalent to the maximum possible fine that may be applied to the Company as per article 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 of 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 thousand euros.

Lastly, in relation to the regulatory framework applicable in Andorra, it is of note that as a part of the agreements reached by the Principality of Andorra with the European Union within the framework of the Monetary Agreement, on 20 January 2019, Law 35/2018 of 20 December was passed concerning the solvency, liquidity and prudential supervision of banking entities and investment companies (see Note 49.1)

28.2. Capital management

Capital management within Crèdit Andorrà Group pursues a twofold aim. Firstly, it aims to preserve a level of capitalization in line with the established business objectives and secondly, it aims to maximize 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 placed 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 2018 and 2017:

In thousand euros	31/12/2018	31/12/2017
Commitments for loans granted	**357,263**	**355,861**
Public sector	26,012	24,912
Lending institutions	-	-
Other financial companies	8,025	3,624
Non-financial companies	196,791	149,922
Individuals	126,435	177,403
Financial guarantees granted	**111,162**	**122,476**
Public sector	2	-
Lending institutions	6,069	6,069
Other financial companies	-	6,343
Non-financial companies	89,895	75,649
Individuals	15,196	34,415
Other commitments and guarantees granted	**536**	**75**
Non-financial companies	536	75
Total	**468,961**	**478,412**

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 2018 and 2017, 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 2018 and 2017 which comprise the assets assigned to other own and third party obligations are as follows:

- At 31 December 2018, the Group had deposits with financial intermediaries as pledged assets as a guarantee for its own obligations totaling 37,551 thousand euros (44,971 thousand euros at 31 December 2017) (see Note 5.2.3).

- At 31 December 2018, the Group used a total of 59,625 thousand euros from the debt securities portfolio at amortized cost to cover the requirement of reserves arising as a result of the entry into force of Law 20/108 (see Note 24.2 and Note 48.1.8). At 31 December 2017, 59,605 thousand euros to cover the guarantee reserve for deposits required under Law 1/2011 (see Notes 24.2 and 48.1.6).

- At 31 December 2018, the Group was using a total of 52,920 thousand euros to guarantee the lines of credit with regulators (67,550 thousand euros at 31 December 2017).

31. Purchase and sale commitments

At 31 December 2018, the Group had temporary pledged asset contracts with independent third parties affecting 239,006 thousand euros of the debt securities portfolio at amortized cost (147,343 thousand euros at 31 December 2017) (see Note 19.3). These temporarily pledged assets earn an interest rate of between -0.62% and -0.47% (-0.58% and 1.35% at 31 December 2017).

At 31 December 2018, the Group had temporary purchase asset contracts for a market value of 54,836 thousand euros (none at 31 December 2017). These temporary purchase asset contracts earn an average interest rate of -0.52%.

32. Third-party operations

Below is a breakdown of the assets entrusted by third parties at 31 December 2018 and 2017:

In thousand euros	31/12/2018	31/12/2017
Financial instruments entrusted by third parties	**6,925,649**	**8,230,567**
Of which managed by the Group	1,566,664	1,902,110
Discretionary portfolios	570,825	666,919
Mutual funds	995,839	1,235,191
Other	5,358,985	6,328,457
Total	**6,925,649**	**8,230,567**

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 balance sheet 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 2018 and 2017:

In thousand euros	31/12/2018	31/12/2017
Loans and receivables from customers	**2,502,179**	**2,607,807**
Customer funds	**12,939,614**	**13,658,407**
Customer deposits	3,869,164	4,112,796
Financial instruments entrusted by third parties	5,708,036	6,788,635
Financial instruments not safeguarded by the Group	3,362,414	2,756,976
Total	**15,441,793**	**16,266,214**

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 income statements for the years ended on 31 December 2018 and 2017:

In thousand euros	2018	2017
Interest income		
Held-for-trading financial assets	291	440
Financial assets not held for trading required to be valued at fair value with changes through profit and loss	-	-
Financial assets at fair value through profit and loss	90	98
Other financial assets at fair value through another global profit and loss	5,638	1,681
Financial assets at amortized cost	66,221	67,667
Income correction for hedging operations	58	7
Other income	634	350
Total interest income	**72,932**	**70,243**
Interest expenditure		
Central bank deposits	-14	-16
Held-for-trading financial liabilities	-3,651	-8,644
Financial liabilities at fair value through profit and loss	-797	-1,790
Financial liabilities at amortised cost	-17,419	-18,762
Correction of expenditure for hedging operations	-4,354	-22
Other financial liabilities	-212	-2,298
Total interest expenditure	**-26,447**	**-31,532**
Net interest income	**46,485**	**38,711**

This chapter of the attached income statement 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 2018 and 2017, respectively, calculated on the basis of the average gross balances.

These rates arise from the interest accrued during the year and do not include corrections of products due to hedging operations or the performance of products accounted for at fair value through profit and loss:

	2018	2017
Income		
Financial assets at fair value with changes in other comprehensive profit and loss	2.26%	0.90%
Financial assets at amortized cost		
Loans and receivables		
Lending institutions	0.27%	0.02%
Customers	2.02%	1.96%
Debt instruments	1.10%	1.03%
Expenditure		
Deposits		
Central bank deposits	0.37%	0.02%
Deposits from lending institutions	0.03%	0.93%
Customer deposits	0.36%	0.24%
Debt securities	2.59%	1.49%
Subordinated liabilities	1.01%	1.01%

35. Dividend income

The balance of this heading of the income statement corresponding to the financial years ended on 31 December 2018 and 2017 is broken down as follows:

In thousand euros	2018	2017
From held-for-trading financial assets and financial assets at fair value through profit and loss	20	1,930
Other financial assets at fair value through another global profit and loss	297	1,742
Other	387	58
Total	**704**	**3,730**

36. Net commission income

The most significant income and expenditure recorded in concept of commissions in the attached income statements for 2018 and 2017 are broken down into the following table, based on the nature of the non-financial service producing them:

In thousand euros	2018	2017
Commission income		
Securities and foreign exchange transactions	32,466	51,640
Custody of securities	12,832	14,894
Asset management and consultancy	45,393	53,966
Account administration and maintenance	17,365	22,495
Credit operations	7,758	8,190
Other	8,562	7,493
Total commission income	**124,376**	**158,678**
Expenditure from commissions		
Brokerage	-381	-1,423
Transactions with financial intermediaries	-25,758	-27,037
Other	-4,942	-4,675
Total expenditure from commissions	**-31,081**	**-33,135**
Net commission income	**93,295**	**125,543**

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 income statements for 2018 and 2017:

In thousand euros	2018	2017
Profit or loss due to retirement of financial assets and liabilities not valued at fair value through profit and loss, net	**14,046**	**3,184**
Equity instruments	-	563
Debt securities	13,202	2,621
Other	844	-
Profit or loss due to held-for-trading financial assets and liabilities, net	**6,203**	**3,768**
Derivatives	741	1,403
Equity instruments	461	-
Debt securities	1,251	2,365
Other	3,750	-
Financial assets or liabilities not held for sale mandatorily measured at fair value with changes to profit and loss.	**-12,462**	-
Equity instruments	-12,462	-
Debt securities	-	-
Profit or loss due to financial assets and liabilities at fair value through profit and loss, net	**11,092**	**-79**
Equity instruments	29	-1,883
Debt securities	11,063	1,804
Exchange rate differences (profit or loss), net	**3,016**	**9,029**
Total net profit or loss	**21,895**	**15,902**

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", detailed in the above table in relation to 2018 includes 13,202 thousand euros resulting from the *De-Risking* process (see note 22.1). Furthermore, the settlement of the hedging product of the operation generated a gain of 995 thousand euros.

The heading "Profit and loss from financial assets not held for sale mandatorily measured at fair value with changes to profit and loss - Equity instruments" includes the result obtained from the variation in the price of shareholdings in collective investment schemes for which Crèdit Andorrà has transferred the associated risks and benefits to customers through the issue of structured liabilities (see Note 9.2). Similarly, the heading "Profit and loss from financial assets and liabilities at fair value through profit and loss, net - Debt securities" includes the changes in the market value of the aforesaid structured liabilities (see Note 10.2).

The heading "Profit and loss from financial assets not held for sale mandatorily measured at fair value with changes to profit and loss - Other" includes the result obtained from the valuation adjustment of the Class E shares (see Note 19.5).

The heading "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 income statements for 2018 and 2017 can be seen in the following tables:

In thousand euros	2018	2017
Other operating income	9,638	10,318
Other operating expenditure	-3,611	-4,094
Net profit/loss	**6,027**	**6,224**

In the sections "Other operating income" and "Other operating expenditure", the Group 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 operating 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 income statements for 2018 and 2017 can be seen in the following tables:

In thousand euros	2018	2017
Income from assets used for insurance and reinsurance contracts	**56,882**	**46,860**
Insurance and reinsurance premiums collected	56,882	46,017
Income from reinsurance	-	843
Expenditure for liabilities used for insurance and reinsurance contracts issued	**-53,176**	**-42,668**
Provisions paid, other related expenses and net allocations in liabilities for insurance contracts	-42,933	-32,655
Reinsurance premiums paid	-10,243	-10,013
Profit/loss from insurance activity	**3,706**	**4,192**

39. Personnel costs

The breakdown of this heading of the attached income statements for 2018 and 2017 can be seen in the following table:

In thousand euros	2018	2017
Wages and salaries	-53,741	-54,275
Social Security	-6,614	-8,425
Severance compensation	-2,527	-1,416
Allocations for defined post-employment contribution pensions (Note 22)	-3,396	-3,265
Allocations for defined post-employment benefit pensions	-	-
Training	-471	-566
Other personnel costs	-2,602	-3,954
Total personnel costs	**-69,351**	**-71,901**

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.

During 2018 and 2017, the breakdown of the Crèdit Andorrà Group workforce, in average terms, classified according to professional categories and gender, is as follows:

	31/12/2018			31/12/2017		
	Men	Women	Total	Men	Women	Total
Directors	11	2	13	14	3	17
Managers	155	79	234	170	80	250
Administration staff	268	373	641	221	303	524
Temporary staff	9	42	51	17	42	59
Total	**443**	**496**	**939**	**422**	**428**	**850**

The increase in the workforce shown in the above table is due to the integration of the workforce of TSM Group into the Crèdit Andorrà Group.

40. Other administrative expenditure

The breakdown of this heading of the attached income statements for 2018 and 2017 can be seen in the following table:

In thousand euros	31/12/2018	31/12/2017
Supplies	-924	-1,058
External services	-46,455	-49,246
Leases	-7,474	-8,003
Repair and maintenance of real estate	-6,579	-5,451
Services from independent professionals	-15,041	-16,100
Fund security and transport services	-1,189	-1,224
Insurance premiums	-704	-904
Advertising and public relations	-3,394	-3,668
Utilities	-6,558	-6,351
Other	-5,516	-7,545
Taxes	-4,478	-3,858
Other operating expenditure	-2,375	-1,267
Total	**-54,232**	**-55,429**

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.

The item “Other” includes 1,343 thousand euros as a provision for the contribution to FAGADI (see Note 48.1.8).

41. Amortization

The breakdown of this heading of the attached income statements for 2018 and 2017 can be seen in the following table:

In thousand euros	2018	2017
Tangible assets	**-4,998**	**-5,476**
Own use	-4,977	-5,344
Real estate investments	-21	-132
Intangible assets	**-10,325**	**-6,788**
Total	**-15,323**	**-12,264**

42. Provisions or reversal of provisions

The breakdown of this heading of the attached income statements for 2018 and 2017 can be seen in the following table:

In thousand euros	2018	2017
Court proceedings and litigation for taxes pending (Note 21)	355	-900
Commitments and guarantees granted (Note 21)	-685	-
Other provisions (Notes 21 and 22)	-2,430	-1,192
Total	**-2,760**	**-2,092**

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 income statements for 2018 and 2017 can be seen in the following table:

In thousand euros	2018	2017
From financial assets at fair value with changes in other comprehensive profit and loss	**22**	**38**
Debt securities	22	38
Capital instruments	-	-
		-
Financial assets at amortized cost	**1,702**	**-266**
Debt securities	265	611
Customer loans and advances	1,442	-877
Loans and advances to lending institutions	-5	-
Total	**1,724**	**-228**

The figure for "Impairment of financial assets – Assets at amortized cost – Customer loans and advances" shown in the above table, in addition to the net provision of 3,509 thousand euros which is detailed in Note 5.2.1.2, includes 4,951 thousand euros relating to Revenue from recoveries in cash of failed operations.

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

Below is a breakdown of the profit/loss obtained during 2018 and 2017 by the multi-group and associate companies (see Note 3) which have been consolidated by the equity method:

In thousand euros	2018	2017
Clíniques Geriàtriques SA	147	147
Societat Pirenaica d'Aparcaments SA	38	38
Financera d'Assegurances SA	438	526
Línia Asseguradora SL	7	11
AMK Ibérica&Principado Correduría de Seguros SL	-	84
ERSM	399	-
Esports de Neu Soldeu-Incles SA	3,165	2,578
Serveis i Mitjans de Pagament XXI SA	-96	14
Total	**4,098**	**3,398**

45. Expenditure or income from tax on profits from ongoing activities

In accordance with the tax law in force in Andorra, the special tax consolidation regimen for corporate tax includes Crèdit Andorrà SA as a parent company and those Andorran companies which meet the requirements established by the regulation, as 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.

This tax is applied as 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 income statements for 2018 and 2017 can be seen in the following table:

In thousand euros	2018	2017
Current tax profit/loss	**1,462**	**-2,801**
Current tax year	1,723	-2,217
Adjustments for previous years	-261	-584
Deferred tax profit/loss	**-4,160**	**-2,859**
Due to temporary differences	-4,047	-1,481
Due to variation of tax rate	-	-
Due to negative tax bases	-64	-1,377
Adjustments for previous years	-49	-1
Total	**-2,698**	**-5,660**

45.1.2. Amount recorded in other accumulated comprehensive profit and loss

The breakdown of the amount recorded in other accumulated profit and loss during the years ended on 31 December 2018 and 2017, based on the nature of the asset or transaction originating the amount, is as reflected in the following tables:

		31/12/2018	
In thousand euros	Before tax	Profits (Expenditure) of taxes	Net tax
Items that will not be reclassified in profit/loss	**1,741**	**-207**	**1,534**
Actuarial gains or losses in defined benefit pension plans	-312	31	-281
Changes in the fair value of equity instruments measured and fair value with changes in other comprehensive profit and loss	2,053	-238	1,815
Items that may be reclassified in profit/loss	**-2,610**	**326**	**-2,284**
Financial assets with changes in other comprehensive profit and loss	-2,607	326	-2,281
Cash flow hedges (effective portion)	-	-	-
Net investment hedges in businesses abroad (effective portion)	-	-	-
Exchange rate differences	-3	-	-3
Non-current assets for sale	-	-	-
Rest of recognized income and expenditure	-	-	-
Total	**-869**	**119**	**-750**

In thousand euros	Before tax	31/12/17 Profits (Expenditure) of taxes	Net tax
Items that will not be reclassified in profit/loss	**142**	**-14**	**128**
Actuarial gains or losses in defined benefit pension plans	142	-14	128
Changes in the fair value of equity instruments measured and fair value with changes in other comprehensive profit and loss	-	-	-
Items that may be reclassified in profit/loss	**-3,893**	**418**	**-3,475**
Financial assets with changes in other comprehensive profit and loss	-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 recognized income and expenditure	-	-	-
Total	**-3,751**	**404**	**-3,347**

Irrespective of the tax on profits charged to profit/loss, in 2018 and 2017 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 2018 and 2017.

	31/12/2018		31/12/2017	
In thousand euros	Effective tax	Amount	Effective tax	Amount
Pre-tax profit/loss		39,052		56,219
Corporation tax at local tax rate		-4,387		-5,625
Effect of foreign tax rates		-		-1,327
Non-deductible expenses		-221		-275
Non-taxable income		1,045		2,570
Rebates		1,338		2,523
Other effects (temporary effects, etc.)		3,947		-83
Total expenditure for taxes	**4%**	**1,723**	**-4%**	**-2,217**

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 corporate 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 2018, the subsidiary Banque de Patrimoines Privés SA had a negative tax base pending offset totaling 16,233 thousand euros (16,233 thousand euros at 31 December 2017), which already existed prior to its takeover by the Crèdit Andorrà Group.

At 31 December 2018, CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU and Crèdit Andorrà Holding España SA (Sociedad Unipersonal) had negative tax bases pending settlement totaling 1,297 thousand euros (1,374 thousand euros at 31 December 2017) generated during the 2013 to 2017 financial years.

At 31 December 2018, Crèdit Andorrà had a negative tax base pending offset totaling 5,639 thousand euros (4,329 thousand euros at 31 December 2017) according to the definitive Corporate Tax return filed in July 2018). These negative tax bases are the result of (1) the settling of the first application by Crèdit Andorrà effective as of 01/01/2016 due to the entry into force of the IFRS-EU in the Principality of Andorra (for more information, see the consolidated financial statements for 2017), and (2), the settling of the first application effective as of 01/01/2018 due to the entry into force of IFRS 9 (see Note 1.2).

The Bank's directors expect the negative tax bases detailed in this Note to be applied, if any, prior to the expiration date of the legal right to offset them.

45.4. Assets and liabilities from deferred taxes

45.4.1. Breakdown of assets and liabilities from deferred taxes

According to the current tax regulation, during 2018 and 2017 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 balance sheet at 31 December 2018 and 2017, is as follows:

	31/12/2018		31/12/2017	
In thousand euros	Assets	Liabilities	Assets	Liabilities
Tangible and intangible assets	420	2,318	327	864
Financial assets with changes in other comprehensive profit and loss	214	386	-	-141
Actuarial gain/loss from defined benefit plans	-	70	-	100
Fair value hedge	-	217	-	260
Insolvencies	10,938	-	1,818	-1
Tax losses to be offset in coming years	12,718	-	4,447	-
Other	2,174	34	1,388	-632
First application IFRS (01/01/17)	-	-	17,484	1,359
Net assets and liabilities	**26,464**	**3,025**	**25,464**	**1,809**

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 balance sheet at 31 December 2018 and 2017, is as follows:

In thousand euros	Balance at 31/12/17	Reclassification Adj. IAS 39 per item	Initial adjustments application of IFRS 9 Profit and loss	Initial adjustments application of IFRS 9 OCI	Balance at 1/1/2018	Other movements in the year recognized in Profit and loss	Other movements in the year recognized in OCI	Balance at 31/12/2018
Tangible and intangible assets	-537	6,396	-	-	5,859	-7,757	-	-1,898
Financial assets with changes in other comprehensive profit and loss	141	-610	-	-1,920	-2,389	100	2,117	-172
Actuarial gain/loss from defined benefit plans	-100	-	-	-	-100	30	-	-70
Fair value hedge	-260	512	-	-	252	-469	-	-217
Insolvencies	1,819	9,465	3,329	-	14,613	-3,675	-	10,938
Tax losses to be offset in coming years	4,447	-256		-	4,191	8,527	-	12,718
Other	2,020	618	-338	-78	2,222	-82	-	2,140
First application IFRS	16,125	-16,125	-	-	-	-	-	-
Total	**23,655**	**-**	**2,991**	**-1,998**	**24,648**	**-3,326**	**2,117**	**23,439**

The heading "Other movements in the year - Profit and loss" of the above table, includes the impact of the differences between the estimation of the settlement of the Corporate Tax of Crèdit Andorrà SA which was detailed in the financial statements of 31 December 2017 and that finally settled. The differences are mostly due to the treatment finally given to the adjustments of the first application of the IFRS. As a result of the final settlement, Crèdit Andorrà SA recognized negative tax bases that are not included in the initial estimation (see Note 45.3).

In thousand euros	Balance at at 1/1/2017	Movements recognised in Profit and loss	Movements recognised in other comprehensive profit and loss	Balance at 31/12/2017
Tangible and intangible assets	-607	70	-	-537
Financial assets with changes in other comprehensive profit and loss	-24	-56	221	141
Actuarial gain/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**

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.

In 2018 and 2017, there are certain headings originating from the initial 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 balance sheet mainly correspond to Crèdit Andorrà SA for corporate tax.

Current liabilities included in the liabilities of the balance sheet correspond to taxes 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 were paid during the first few days of 2018.

Crèdit Andorrà Group SA has the last few years not subject to the statute of limitations open to inspection by the tax authorities for the main taxes to which it is subject in the jurisdictions where it operates. The Bank's directors do not expect any additional liabilities of any significance to arise should the tax authorities carry out an inspection.

46. Related parties

46.1. Remuneration for Senior Management

Crèdit Andorrà defines the Group's Senior Management to be executive and non-executive personnel comprising (1) the Board of Directors, (2) General Management, (3) the Executive Committee and (4) the management of the Internal Audit Department.

The remuneration accrued during 2018 and 2017 by the members of Senior Management, due to their status as Senior Managers, totaled 6,053 thousand euros and 6,776 thousand euros, respectively.

Of the total remuneration perceived during 2018, 5,807 thousand euros correspond to short-term benefits and 246 thousand euros correspond to post-employment benefits (6,533 thousand euros and 243 thousand euros for 2017).

At 31 December 2018 and 2017, 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 2018 and 2017, is as follows:

	31/12/2018			31/12/2017		
In thousand euros	Senior Management	Investee companies	Other related parties	Senior Management	Investee companies	Other related parties
Assets	**45,810**	**22,308**	**229,300**	**60,460**	**8,105**	**259,554**
Loans, receivables and guarantees	55,468	22,310	268,747	65,203	8,109	287,892
Hedges	-9,658	-2	-39,447	-4,743	-4	-28,338
Financial liabilities at amortised cost	**4,229**	**5,502**	**4,584**	**4,739**	**2,850**	**5,534**
Financial liabilities at amortised cost	4,229	5,502	4,584	4,739	2,850	5,534
Off-balance-sheet records	**61,130**	**1,908**	**324,417**	**65,013**	**2,703**	**600,852**
Assets in custody	61,130	1,908	324,417	65,013	2,703	600,852
Amounts recognised in profit and loss	**1,925**	**437**	**3,847**	**777**	**276**	**3,091**
Interest income	1,447	353	3,763	889	167	3,174
Interest expenditure	-9	-1	-5	-193	-	-239
Commission income	487	85	89	81	109	156

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 2018 and 2017:

In thousand euros	31/12/2018	31/12/2017
Up to 1 year	6,429	6,481
Between 1 and 5 years	23,865	25,594
More than 5 years	52,467	65,467
Total	**82,761**	**97,542**

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 2018 which are included in the above table, 4,615 thousand euros, 18,460 thousand euros and 50,765 thousand euros correspond to lease commitments related to purchase/sale transactions and subsequent working leases (4,498 thousand euros, 17,992 thousand euros and 62,974 thousand euros, respectively, at 31 December 2017).

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 harmonizing 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 2018 and 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 year 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 “Financial assets at amortized cost - Debt securities” of the assets recorded in the attached consolidated balance sheet.

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 program classified as of national and social interest, aimed at the preferential funding of newly created firms and businesses, firms related to innovation, reconversion and enterprising projects, passed by the government of Andorra on 3 March 2010. The loans granted under this program amounted to 213 thousand euros at 31 December 2018 and are recorded under the section “Loans and advances – Customers” of the consolidated balance sheet (329 thousand euros at 31 December 2017). 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 program 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 program amounted to 1,011 thousand euros at 31 December 2018 (1,252 thousand euros at 31 December 2017), and are recorded under the section “Customer loans and advances” of the consolidated balance sheet. 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 (currently AFA). 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 2018 and 2017, the balance and return from these deposits with the ANIF (in thousand euros) were as follows:

2018 **Mandatory investments**	**Deposit**	**Interest rate**	**Period**
Credi-Invest SA	210	0.00%	31 December 2017 - 31 December 2018

2017 **Mandatory investments**	**Deposit**	**Interest rate**	**Period**
Credi-Invest SA	210	0.06%	31 December 2016 - 31 December 2017

Through repealing provision one of Law 35/2018 (see note 49.1), the Law of 11 May 1995 regulating the guarantee reserves for deposits and other operational duties to be maintained and deposited by entities operating in the financial system has been repealed.

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 and assigned an equivalent amount of eligible securities as guarantee, 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. 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.

On 3 October 2018 the Official Gazette of the Principality of Andorra published Law 20/2018 of 13 September, regulating the Andorran deposit guarantee fund and the Andorran investment guarantee scheme, which by way of its repealing provision repealed Law 1/2011 of 2 February on the creation of a deposit guarantee system for banks, to the exception of which it establishes transitory provision four "Treatment of deposits and investments held by Banca Privada d'Andorra, SAU"(see Note 48.1.8).

48.1.7. Law 8/2015 on urgent measures to implement mechanisms for the restructuring and dissolution of banks

On 2 April 2015, the General Council passed 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.

48.1.8. Law 20/2018, of 13 September, regulating the Andorran Deposit Guarantee Fund and the Andorra investment guarantee scheme.

This law permits the harmonization with the European Union regarding the protection of the holders of deposits in banking entities of the Principality of Andorra and investments in the banking entities and the financial investment entities of the Principality of Andorra.

48.1.8.1. Andorran Deposit Guarantee Fund

The Law regulates the Andorran Deposit Guarantee Fund (FAGADI) as a deposit guarantee scheme under the terms established in Directive 2014/49/EU and with an additional buffer of financial resources to enable the FAGADI to immediately have available more resources than those required by the same directive.

This law, in the same manner as the directive, establishes a transitory period during which the banking entities that are members of the FAGADI must make annual contributions as determined by the management commission, in order to be able to have available *ex-ante* financial resources equivalent to the amount of 0.8% of the guaranteed deposits with a date limit of 30 June 2024. In addition, this law establishes that the Andorran banking entities shall continue to make annual contributions to the FAGADI with a charge to their income statement for a period of 8 years as of 2024 for the purpose of having available an additional volume of *ex-ante* financial resources equivalent to the amount of 0.8% of the guaranteed deposits (therefore reaching a total of 1.6% of the guaranteed deposits).

During the period established to contribute the financial resources to the *ex-ante* Fund, a dual scheme will be in force to ensure the immediate availability of financial resources. Subsequently, the banking entities must maintain a portion of the guarantee reserves for deposits already constituted in accordance with Law 1/2011 and the assets allocated to said reserves may only be used immediately at the request of the FAGADI management committee. The remaining part of the guarantee reserves for deposits maintained by the Andorran banking entities by virtue of the application of Law 1/2011 at the date of entry into force of this law are reclassified to unavailable reserves which can be used to cover potential risks or losses; the AFA may authorize their reclassification as available reserves.

The FAGADI maintains the 100,000 euros cover scheme per depositor and entity, and includes additional cover for exceptional cases that it guarantees with a limit of 300,000 euros (deposits originating from transactions with property of a residential or private nature, payments received by the depositor on an occasional basis and related to marriage, divorce, retirement, severance compensation, disability or death, etc.).

48.1.8.2. Andorran Investment Guarantee Scheme

The Law considers the Andorran Investment Guarantee Scheme (SAGI) as an *ex-post* guarantee scheme which now includes, together with the banking entities that are already participants, the financial investment entities (financial investment companies, financial investment agencies and the asset management companies that provide discretionary and personalized management activities for portfolios through direct management) and the management companies of collective investment funds authorized to provide services for the management and custody of financial instruments on behalf of customers from the Principality of Andorra.

The main regulatory terms of the Investment Guarantee Scheme are as follows:

- The cover is maintained at 100,000 euros per holder, above the level of cover of 20,000 euros established by Directive 97/9/EC. The law also establishes a total limit of resources of the SAGI and increases the total maximum cover established by Law 1/2011.

- Losses deriving from fluctuations of the value of the investments are not covered. The guarantee covers situations where the recovery of the securities is impossible due to the insolvency of the entity providing the service for the management and custody of the securities.

- The SAGI's target resources are maintained at 1.5% of the sum of the investments regulated by Law 1/2011 with the date of 30 June 2020 being the deadline for compliance.

- The amount of the investment guarantee reserve that each member entity of the SAGI must maintain shall be calculated on an annual basis and must correspond to the proportion represented by the entity's guaranteed investments over the aggregated total of the investments guaranteed of all member entities of the SAGI. For the purposes of calculating the investment guarantee reserve, this is understood to be 5% of the market value of the investments held by the member entities of the SAGI.

- The investment guarantee reserves scheme continues to be dependent on the fulfillment of the guarantee by the banking entities.

48.1.9. Law 12/2017, of 22 June, on the regulation and supervision of insurances and reinsurances in the Principality of Andorra

This law, which entered into force on 1 January 2018 and is based on the scheme established by the EU known as Solvency II, seeks to establish the scheme for the regulation and supervision of insurances and reinsurances in the Principality of Andorra, with the aim of ensuring transparency, promoting the orderly development and instructing on the rights of the holders, insured and beneficiaries.

In particular, this law establishes the conditions for accessing and carrying out the activity, the scheme applicable with regard to supervision and solvency, and also regulates the restructuring and settlement of the insurance and reinsurance entities with registered address in the Principality of Andorra.

The supervision and control functions of the insurance and reinsurance market in the Principality of Andorra are carried out by the Insurance and Reinsurance Supervisory Authority.

As established by "Transitory disposition two. Scheme for insurance and reinsurance entities that have authorization to operate obtained prior to the entry into force of this Law":

The entities and agencies referred to in the preceding sections shall adapt to the law under the following terms:

- As of 1 January 2018, the law shall be fully applicable to the entities and agencies, without prejudice to that provided for below with respect to Title IV.

- The adaptation to Title IV "Scheme for carrying out the activity" of the law by the entities and the agencies referred to in the preceding sections shall be performed gradually and proportionally over a period of 5 years, beginning 1 January 2018. Title IV establishes the central core of the new supervisory scheme, which includes the basic requirements deriving from the three pillars of

Solvency II. Of particular note is the establishment of the mandatory solvency capital and mandatory minimum capital, or the regulations on market behavior or for certain company operations, among many other conditioning factors which the sector must adapt to as of this moment.

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 organization, 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 2018, 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 programs, particularly those aimed at the elderly and organizations 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. Law 35/2018, of 20 December, concerning the solvency, liquidity and prudential supervision of banking entities and investment companies

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

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

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

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

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

Crèdit Andorrà Group, irrespective of the fact that it is still in the process of adapting some of its internal processes (implementation of new reporting tools, adjustment of certain aspects of corporate governance, etc.), does not anticipate any significant details that would prevent it from complying with the aforementioned legislation in a timely and orderly manner.

49.2. IFRS 16

As mentioned in Note 1.2.2 of these consolidated financial statements, IFRS 16 "Leases" entered into force on 1 January 2019 in the European Union.

In anticipation of the publication of the decree approving the new international financial reporting standards adopted by the European Union (IFRS-EU) which entered into force on 1 January 2018, Crèdit Andorrà has already completed the adaptation process to said standards and does not expect any significant impacts arising from their implementation.

49.3. Extraordinary General Shareholders' Meeting

On 12 December 2018, the Extraordinary General Shareholders' Meeting of Crèdit Andorrà was held at its head offices at Avinguda Meritxell, 80, in Andorra la Vella. Extraordinary General Shareholders' Meeting approved, inter alia, the following:

- convert the remaining 2,103 class E shares into class A shares still subject to the syndication scheme of the liquidity window.
- reduce the share capital of Crèdit Andorrà, SA, to the amount of 63,102,130 euros through the amortization of 5,142 class E shares owned by Crèdit Andorrà.

also, and subsequent to the Extraordinary General Shareholders' Meeting, the necessary proceedings to be implemented to execute the agreements detailed in the above points, given that this complies with the requirements established by the second section ("The increase or decrease in share capital") of Law 20/2007 of 18 October, concerning public and private limited companies, on the date of preparation of these consolidated financial statements, have still not been able to execute the agreements detailed in the above points, or, the Entity plans to execute them in the days following their preparation.

49.4. Other

On 26 March 2019, the AFA issued the proposal to close the sanctioning proceedings opened on 15 November 2017 (see Note 28.1.1.2). Said proposal includes the quantification of the sanction of 400 thousand euros, a figure lower than the 900 thousand euros that the Entity had made a provision for considering the maximum amount of the possible applicable sanction as established in article 18 of the Amended text of the Law regulating the disciplinary regime of the financial system. In addition to the quantification of the proposed sanction, the proposed closing of the proceedings does not include other terms and/or aspects that affect the scope of action of the Entity and/or the Group, however, said proposed sanction would be reduced by 40% in the case of it being accepted within the legal time frame granted.

In addition to the events detailed in this Note as well as those that may be included in the rest of the Notes to the financial statements, there have been no other significant events after the reporting period between 31 December 2018 and the date of preparation of these consolidated financial statements.

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 2018 and 2017.

Appendix I.1 - Holdings in companies consolidated by global integration - 31 December 2018

Society	Domicile	Activity	% voting rights			In thousand euros				
			Direct	Indirect	Total	Net book value	Assets 31/12/2018	Liabilities 31/12/2018	Equity 31/12/2018	Profit/loss 31/12/2018
Credi-Invest SA	Andorra	Fund Manager	100.0%		100.0%	744	8,948	1,521	7,427	629
Crèdit Iniciatives SA	Andorra	Venture Capital	100.0%		100.0%	8,459	22,218	11,937	10,282	1,577
Patrigest SAU	Andorra	Property	100.0%		100.0%	7,362	22,218	11,937	10,282	1,577
PIM Private Investment Management SA	Switzerland	Investment consulting		100.0%	100.0%	1,162	2,473	1,378	1,094	26
Cassamanya Ltd.	Malta	Instrumental		100.0%	100.0%	3	0	47	-47	-12
Crèdit Capital Immobiliari SA	Andorra	Instrumental	100.0%		100.0%	127,553	124,730	2,061	122,669	1,782
Crèdit Andorrà Preference Ltd.	Cayman Islands	Financial	100.0%		100.0%	1	150,039	150,037	2	0
Crèdit Andorrà Panamá Holding SA	Panama	Holding	100.0%		100.0%	13,949	13,818	437	13,382	0
Banco Crèdit Andorrà (Panamá) SA	Panama	Banking		100.0%	100.0%	10,437	259,979	244,104	15,875	1,294
Crèdit Andorrà Panamá Patrimonial SA	Panama	Property		100.0%	100.0%	2,910	2,914	4	2,910	23
Crèdit Andorrà Panamá Call Center SA	Panama	Inactive		100.0%	100.0%	5	5	0	5	0
Crèdit Andorrà Uruguay SA	Panama	Investment consulting		100.0%	100.0%	417	62	85	-23	-85
Private Investment Management Advisors Panamá SA	Panama	Investment consulting		100.0%	100.0%	44	599	145	453	173
Informàtica Crèdit Andorrà SLU	Andorra	Instrumental	100.0%		100.0%	33,368	62,724	26,783	35,941	363
Banque de Patrimoines Privés SA	Luxembourg	Banking	100.0%		100.0%	37,618	538,821	485,280	53,541	31
Banque BPP Portugal SA	Portugal	Banking		100.0%	100.0%	0	0	0	0	0
Banco Alcalá SA	Spain	Banking	85.00%		85.0%	36,040	248,245	218,264	29,981	-1,009
Gesalcalá SA	Spain	Fund Manager		100.0%	100.0%	0	3,526	697	2,828	140
CA Holding Luxembourg SARL	Luxembourg	Holding	100.0%		100.0%	12,505	13,491	57	13,434	-327
Crèdit Andorrà Asset Management Luxembourg SA	Luxembourg	Fund Manager		100.0%	100.0%	400	3,616	2,541	1,076	71
Crèdit Andorrà Holding España SAU	Spain	Holding		100.0%	100.0%	10,638	10,010	56	9,954	-68
CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU	Spain	Insurance		100.0%	100.0%	9,015	24,312	15,205	9,107	94
CA Vincles Actuarial Chile SPA	Chile	Actuarial consultancy		100.0%	100.0%	85	104	26	78	5
CA Perú Sociedad Agente de Bolsa de Valores	Peru	Securities firm		100.0%	100.0%	0	718	40	677	-87
CA México Asesores Patrimoniales SA de CV	Mexico	Investment consulting		100.0%	100.0%	0	485	6,600	-6,114	-484
Beta Capital Securities LLC	United States	Securities firm	100.0%		100.0%	31,313	10,322	979	9,343	1,479
Crèdit Andorrà US GP LLC	United States	Holding	100.0%		100.0%	3,405	782	554	228	-706
Beta Capital Management LLC	United States	Investment consulting		100.0%	100.0%	0	1,409	306	1,103	1,091
Crèdit Assegurances SAU	Andorra	Insurance	100.0%		100.0%	9,000	285,147	258,802	26,345	7,477
Ca Vida Assegurances SAU	Andorra	Insurance		100.0%	100.0%	0	0	0	0	0
CA Vincles Actuarial SLU	Andorra	Actuarial consultancy		100.0%	100.0%	3	1,136	86	1,051	413
Actiu Assegurances SA	Andorra	Insurance		45.0%	45.0%	907	4,767	2,109	2,658	184
Consell Assegurador SA	Andorra	Insurance		36.0%	36.0%	464	89	5	84	12
Enterprise Risk Management SA	Spain	Insurance broker		90.0%	90.0%	3,067	22,941	14,703	8,238	2,234
Enterprise Risk Special Management, SL	Spain	Insurance broker		45.9%	45.9%	6,508	12,810	52	12,758	-1
Enterprise Risk Management Consultoría SA	Spain	Insurance broker		45.9%	45.9%	105	182	210	-28	18
ERM Risk Management Correduría de Seguros y Reaseguros SL	Spain	Insurance broker		45.9%	45.9%	4,539	7,380	6,540	840	161
RSM Correduría de Seguros, SA	Spain	Insurance broker		45.9%	45.9%	8,158	6,977	5,566	1,412	809

Appendix I.2 - 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 31/12/17	Liabilities 31/12/17	Equity 31/12/17	Profit/loss 31/12/17
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	Investment consulting		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	124,148	1,141	123,008	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	81.3%		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	Holding		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	Actuarial consultancy		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	Investment consulting		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	Holding	100.0%		100.0%	267	1,701	789	912	-19
Beta Capital Management LLC	United States	Investment consulting		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	Actuarial consultancy		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 broker		87.0%	87.0%	2,933	5,227	1,940	3,287	54
Enterprise Risk Management Consultoría SA	Spain	Insurance broker		90.0%	90.0%	15	159	205	-46	59
ERM Risk Management Correduría de Seguros y Reaseguros SL	Spain	Insurance broker		90.0%	90.0%	1,547	7,988	7,309	679	134

Appendix I.3 - Holdings in companies consolidated by equity method - 31 December 2018

			% 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 31/12/2018	Liabilities 31/12/2018	Equity 31/12/2018	Profit/loss 31/12/2018
Clíniques Geriàtriques SA	Andorra	Services for the elderly		25.0%	25.0%	1,893	1,893	7,574	0	7,574	587
Societat Pirenaica d'Aparcaments SA	Andorra	Car parking operation		25.0%	25.0%	142	142	719	153	566	152
Financera d'Assegurances SA	Andorra	Insurance		20.4%	20.4%	2,291	2,002	15,170	10,076	5,095	1,008
Línia Asseguradora Andorrana SL	Andorra	Insurance		10.4%	10.4%	39	39	98	21	77	14
AMK Ibérica&Principado Correduría de Seguros SL	Andorra	Insurance		11.5%	11.5%	1,969	9	1,049	718	331	173
Confortauto Segur Correduría de Seguros SL	Andorra	Insurance		23.0%	23.0%	0	4	120	30	89	38
Esports de Neu Soldeu-Incles SA	Andorra	Sporting facilities management company	49.6%		49.6%	30,753	15,848	62,053	9	62,044	6,385
Serveis i Mitjans de Pagament XXI SA	Andorra	TPV services	20.0%		20.0%	-41	12	629	834	-206	-480
						37,046.00	**19,949**				

Appendix I.4 - 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 31/12/17	Liabilities 31/12/17	Equity 31/12/17	Profit/loss 31/12/17
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
						31,491.00	**18,013**				

Appendix II

Appendix II, which is an integral part of Note 1.3, includes the reconciliation statements of the different chapters comprising the consolidated balance sheet (assets, liabilities and net equity) showing the result of all transitional adjustments and reclassifications performed as a result of the first implementation of IFRS 9.

To facilitate monitoring the process, these reconciliation statements (see appendices II.1 to II.5):

1. are based on the figures presented under IAS 39, which are subject to different reclassifications due to presentation (see appendix II.4) up until the consolidated financial statements on 31 December 2017, which are included for comparison purposes in the consolidated financial statements at 31 December 2018.

2. Different measurement and impairment adjustments are then included (see appendix II.5) until reaching the consolidated financial statements at 1 January 2018. In addition, in those notes to the consolidated financial statements that are seen to be affected by these measurement or impairment adjustments carried out on 1 January 2018 in order to facilitate the understanding and monitoring of the information.

Appendix II.1 First application reconciliation statements - Balance sheet at 01/01/2018 - Assets

In thousand euros	Measurement classification under IAS 39	Measurement classification under IFRS 9	31/12/2017	Reclassifications under IFRS 9 to: Fair value with changes to profit and loss	Reclassifications under IFRS 9 to: F. A. not held-for-trading mandatorily measured at F. V. with changes to profit and loss	Reclassifications under IFRS 9 to: Fair value with changes in other comprehensive profit and loss	Reclassifications under IFRS 9 to: Amortized cost	Book value after reclassifications at 31/12/2017	IFRS 9: Classifications and measurement	IRFS 9 impairment	1/1/2018
Cash, cash balances in central banks and other deposits at sight	Amortized cost	Amortized cost	251,265	-	-	-	-	251,265	-	-	251,265
Held-for-trading financial assets	Fair value with changes to profit and loss	Fair value with changes to profit and loss	5,547	2,862	-	-	-	8,409	-	-	8,409
Financial assets not held for trading required to be valued at fair value with changes through profit and loss	N/A	Fair value with changes to profit and loss	-	-	215,970	-	-	215,970	-	-	215,970
Financial assets at fair value with changes through profit and loss	Fair value with changes to profit and loss	Fair value with changes to profit and loss	201,545	-	-186,782	-	-	14,763	-	-	14,763
Available-for-sale financial assets	Fair value with changes in other comprehensive profit and loss	N/A	270,128	-2,862	-23,038	-244,228	-	-	-	-	-
Other financial assets at fair value through another global profit and loss	N/A	Fair value with changes in other comprehensive profit and loss	-	-	-	405,340	-	405,340	22,437	124	427,901
Loans and receivables	Amortized cost	N/A	2,647,418	-	-6,150	-	-2,641,268	-	-	-	-
Held-to-maturity investments	Amortized cost	N/A	1,603,403	-	-	-161,112	-1,442,291	-	-	-	-
Financial assets at amortized cost	N/A	Amortized cost	-	-	-	-	4,083,559	4,083,559	-	-31,438	4,052,121
Derivatives - hedge accounting	Fair value with changes to profit and loss	Fair value with changes to profit and loss	-	-	-			-	-	-	-
Changes in fair value of hedged items of a portfolio with hedged interest-rate risk	N/A	N/A	25,611	-	-	-	-	25,611	-	-	25,611
Investments in joint ventures and associates	N/A	N/A	31,491	-	-	-	-	31,491	-	-	31,491
Assets used for insurance and reinsurance contracts	N/A	N/A	2,760	-	-	-	-	2,760	-	-	2,760
Tangible assets	N/A	N/A	127,155	-	-	-	-	127,155	-	-	127,155
Intangible assets	N/A	N/A	112,717	-	-	-	-	112,717	-	-	112,717
Tax assets			25,694	-	-	-	-	25,694	-	3,316	29,010
Current tax assets	N/A	N/A	230	-	-	-	-	230	-	-	230
Deferred tax assets			25,464	-	-	-	-	25,464	-	3,316	28,780
Other assets	N/A	N/A	51,898	-	-	-	-	51,898	-	-	51,898
Non-current assets and disposable groups of items classified as held for sale	N/A	N/A	103,285	-	-	-	-	103,285	-	-	103,285
Total assets			5,459,917	-	-	-	-	5,459,917	22,437	-27,998	5,454,356

Note 1: For further details on reclassification and adjustments see Appendix II.4 and II.5

Note 2: For those headings that have not been affected by the first application of IFRS 9, see the additional breakdown in the interim abridged balance sheet – Assets.

Appendix II.2 First application reconciliation statements - Balance sheet at 01/01/2018 - Liabilities

In thousand euros	Measurement classification under IAS 39	Measurement classification under IFRS 9	31/12/2017	Reclassifications under IFRS 9 to: Fair value with changes to profit and loss	F. A. not held-for-trading mandatorily measured at F. V. with changes to profit and loss	Fair value with changes in other comprehensive profit and loss	Amortized cost	Book value after reclassifications at 31/12/2017	IFRS 9: Classifications and measurement	IRFS 9 impairment	1/1/2018
Held-for-trading financial liabilities	Fair value with changes to profit and loss	Fair value with changes to profit and loss	**4,772**	**-**	**-**	**-**	**-**	**4,772**	**-**	**-**	**4,772**
Financial liabilities at fair value through profit and loss	Fair value with changes to profit and loss	Fair value with changes to profit and loss	**123,374**	**-**	**-**	**-**	**-**	**123,374**	**-**	**-**	**123,374**
Financial liabilities at amortised cost			**4,493,974**	**-**	**-**	**-**	**-**	**4,493,974**	**-**	**-**	**4,493,974**
Deposits	Amortized cost	Amortized cost	4,304,715	-	-	-	93,859	4,398,574			4,398,574
Debt securities			93,859	-	-	-	-93,859	-			-
Other financial liabilities			95,400	-	-	-	-	95,400			95,400
Derivatives - hedge accounting	Fair value with changes to profit and loss	Fair value with changes to profit and loss	**42,192**	-	-	-	-	**42,192**			**42,192**
Changes in fair value of hedged items of a portfolio with interest-rate risk hedging	N/A	N/A	**-**	-	-	-	-	**-**			**-**
Liabilities used for insurance and reinsurance contracts	N/A	N/A	**254,287**	-	-	-	-	**254,287**			**254,287**
Provisions			**62,305**	**-**	**-**	**-**	**-**	**62,305**	**-**	**1,166**	**63,471**
Pensions and other defined retirements benefits			44,390	-	-	-	-	44,390			44,390
Other long-term employee remunerations	N/A	N/A	6,020	-	-	-	-	6,020			6,020
Restructuring			-	-	-	-	-	-			-
Litigations and procedural issues for pending taxes			8,427	-	-	-	-	8,427			8,427
Commitments and guarantees granted			1,538	-	-	-	-	1,538		1,166	2,704
Other provisions			1,930	-	-	-	-	1,930			1,930
Tax liabilities			**2,169**	**-**	**-**	**-**	**-**	**2,169**	**2,244**	**79**	**4,492**
Current tax liabilities	N/A	N/A	360	-	-	-	-	360			360
Deferred tax liabilities			1,809	-	-	-	-	1,809	2,244	79	4,132
Share capital refundable at sight			-	-	-	-	-	-			-
Other liabilities	N/A	N/A	**55,746**	-	-	-	-	**55,746**			**55,746**
Liabilities included in disposable groups of elements classified as held for sale	N/A	N/A	**-**	-	-	-	-	**-**			**-**
								-			-
Total liabilities			**5,038,819**	-	-	-	-	**5,038,819**	**2,244**	**1,245**	**5,042,308**

Note 1: For further details on reclassification and adjustments see Appendix II.4 and II.5

Note 2: For those headings that have not been affected by the first application of IFRS 9, where relevant, see the additional breakdown in the interim abridged balance sheet – Liabilities.

Appendix II.3 First application reconciliation statements - Net equity at 01/01/2018

In thousand euros	31/12/17	Reclassifications for presentation	Book value after reclassifications at 31/12/2017	IFRS 9: Classifications and measurement	IRFS 9 impairment	1/1/2018
Capital	**63,462**	**-**	**63,462**	**-**	**-**	**63,462**
Issue premium	**-**		**-**			**-**
Issued equity instruments other than capital	**-**	**-**	**-**	**-**	**-**	**-**
Other net equity items	**-**		**-**			**-**
Other accumulated comprehensive profit and loss	**4,972**	**-**	**4,972**	**17,270**	**-**	**22,242**
Items that will not be reclassified to profit and loss	906	-	906	1,973	-	2,879
Tangible assets	-		-			-
Intangible assets	-		-			-
Actuarial gains and losses in defined benefit pension plans	906		906			906
Non-current assets and disposable groups of items classified as held for sale	-		-			-
Holding in income and expenditure recognised in investments in subsidiaries, joint ventures and associates	-		-			-
Changes in fair value of equity instruments valued at fair value through other comprehensive profit and loss	-		-	1,973		1,973
Ineffectiveness of fair value hedges of equity instruments measured and fair value with changes in other comprehensive profit and loss	-	-	-	-	-	-
Accumulated changes in the fair value of financial liabilities at fair value due to changes in credit risk	-		-			-
Items that can be reclassified to profit and loss	4,066	-	4,066	15,297	-	19,363
Hedges of net investments in foreign business (effective portion)	-		-			-
Foreign currency conversion	-		-			-
Available-for-sale financial assets	4,066	-4,066	-			-
Hedging derivatives. Cash flow hedges (effective portion)	-		-			-
Changes in the fair value of financial assets measured at fair value with changes in other comprehensive profit and loss	-	4,066	4,066	15,297		19,363
Hedge instruments (portion not allocated)			-			-
Non-current assets and disposable groups of items classified as held for sale	-		-			-
Holding in income and expenditure recognised in investments in subsidiaries, joint ventures and associates	-		-			-
Retained earnings	**-**		**-**			**-**
Revaluation reserves	**-**		**-**			**-**
Other reserves	**293,721**	**-**	**293,721**	**2,923**	**-29,243**	**267,401**
(-) Treasury shares	**-**		**-**			**-**
Profit and loss attributable to owners of the parent company	**50,194**		**50,194**			**50,194**
(-) Interim dividends	**-**		**-**			**-**
Minority interests (non-controlling interest)	**8,749**	**-**	**8,749**	**-**	**-**	**8,749**
Total net equity	**421,098**	**-**	**421,098**	**20,193**	**-29,243**	**412,048**
Total net equity and liabilities	**5,459,917**		**5,459,917**	**22,437**	**-29,243**	**5,453,111**

Note 1: For further details on reclassification and adjustments see Appendix II.4 and II.5

Note 2: For those headings that have not been affected by the first application of IFRS 9, where relevant, see the additional breakdown in the interim abridged balance sheet – Net equity.

Appendix II.4 First application reconciliation statements - Reclassification of assets at 01/01/2018

In thousand euros	IAS 39 31/12/2017	See appendix.I.4.1	See appendix.I.4.2	See appendix.I.4.3	See appendix.I.4.4	IFRS 9 31/12/2017
Held-for-trading financial assets	**5,547**	**2,862**	**-**	**-**	**-**	**8,409**
Derivatives	4,757	-	-	-	-	4,757
Equity instruments	572	2,862	-	-	-	3,434
Debt securities	218	-	-	-	-	218
Loans and advances	-	-	-	-	-	-
Financial assets not held for business required to be valued at fair value with changes through profit and loss	**-**	**-**	**215,970**	**-**	**-**	**215,970**
Equity instruments	-	-	209,820	-	-	209,820
Debt securities	-	-	-	-	-	-
Loans and advances	-	-	6,150	-	-	6,150
Financial assets at fair value with changes through profit and loss	**201,545**	**-**	**-186,782**	**-**	**-**	**14,763**
Equity instruments	186,782	-	-186,782	-	-	-
Debt securities	5,684	-	-	-	-	5,684
Loans and advances	9,079	-	-	-	-	9,079
Available-for-sale financial assets	**270,128**	**-2,862**	**-23,038**	**-244,228**	**-**	**-**
Equity instruments	41,971	-2,862	-23,038	-16,071	-	-
Debt securities	228,157	-	-	-228,157	-	-
Loans and advances	-	-	-	-	-	-
Other financial assets at fair value through another global profit and loss	**-**	**-**	**-**	**405,340**	**-**	**405,340**
Equity instruments	-	-	-	16,071	-	16,071
Debt securities	-	-	-	389,269	-	389,269
Loans and advances	-	-	-	-	-	-
Loans and receivables	**2,647,418**	**-**	**-6,150**	**-**	**-2,641,268**	**-**
Debt securities	-	-	-	-	-	-
Loans and advances	2,647,418	-	-6,150	-	-2,641,268	-
Lending institutions	144,825	-	-	-	-144,825	-
Customers	2,502,593	-	-6,150	-	-2,496,443	-
Held-to-maturity investments	**1,603,403**	**-**	**-**	**-161,112**	**-1,442,291**	**-**
Debt securities	1,603,403	-	-	-161,112	-1,442,291	-
Loans and advances	-	-	-	-	-	-
Financial assets at amortized cost	**-**	**-**	**-**	**-**	**4,083,559**	**4,083,559**
Loans and advances	-	-	-	-	2,641,268	2,641,268
Lending institutions	-	-	-	-	144,825	144,825
Customers	-	-	-	-	2,496,443	2,496,443
Debt securities	-	-	-	-	1,442,291	1,442,291
Total	**4,728,041**	**-**	**-**	**-**	**-**	**4,728,041**

Appendix. II.4.1. Reclassifications to the financial instruments portfolio at fair value with changes to profit and loss

The reclassification included in this column of the table above corresponds to certain equity instruments that were originally (IAS 39) classified in the assets available for sale portfolio and because of which the Group had decided to define its business model under IFRS 9 as held-for-trading financial assets.

Appendix. II.4.2. Reclassification to the portfolio of financial assets not held-for-trading mandatorily measured at fair value with changes to profit and loss.

The reclassifications included in this column of the above table correspond to:

- a participating loan maturing in 2018 which was classified in the customer loans and advances portfolio under IAS 39, which the Group, due to the contractual conditions of the same loan giving rise to cash flows on specific dates that are not only payments of principal and interest on the amount of the outstanding loan, has had to reclassify to the portfolio of financial assets not held for trading mandatorily measured at fair value with changes to profit and loss.

- Equity instruments, which in spite of originally being in the available-for-sale financial assets portfolio under IAS 39, do not meet the conditions set by IFRS 9 to be classified as financial assets at fair value with changes in other comprehensive profit and loss. These instruments correspond mainly to shareholdings in collective investment funds.

- Reclassifications of assets which despite already being measured at fair value with changes to profit and loss due to their characteristics have had to be reclassified to the portfolio of financial assets not held for trading mandatorily measured at fair value with changes to profit and loss.

Appendix. II.4.3. Reclassifications to portfolio of financial instruments at fair value with changes to other comprehensive profit and loss

The reclassifications included in this column of the above table correspond to:

- The reclassification to the financial assets at fair value with changes in other comprehensive profit and loss portfolio of certain debt securities which in the individual books of the Bank were classified in the held-to-maturity investments portfolio (net book value upon reclassification 69,441 thousand euros) and which economically covered liabilities issued by the Bank and acquired by Crèdit Assegurances SAU, which, simultaneously, used these investments to cover mathematical provisions mostly linked to defined benefit annuities. This change in the business model has been motivated by the Group's willingness to adapt its business model to the nature of these types of liabilities (where it is not unusual for these to produce early cancellations which oblige the divestment of investments that the Group used internally for its own internal hedges).

- The reclassification of debt securities to the financial assets at fair value with changes in other comprehensive profit and loss which in the individual books of the Bank were classified in the held-to-maturity investments portfolio (net book value upon reclassification 91,671 thousand euros). The grounds for this reclassification is rooted in the decision made by COAPiR, framed within the definition of the business models for the debt securities portfolios, consistent with the willingness to further diversify the strategy of the portfolio with regard to duration and counterparty risk. Therefore, this reclassification seeks to enable the adjustment of the *mix* of the portfolios seeking to substitute public debt securities with durations exceeding 6 years at the date of the first application for other public debt instruments of a shorter duration but with a more elevated credit risk and complying with the directives of the investment framework.

- The reclassification of the assets that were in the available-for-sale financial assets portfolio which, due to nomenclature differences between IAS 39 and IFRS 9, have now become part of the financial assets at fair value with changes in other comprehensive profit and loss portfolio.

Appendix. II.4.4. Reclassifications to the financial instruments at amortized cost portfolio

- The reclassification of the assets that formed part of the “Loans and receivables” or “Held-to-maturity investments” portfolios which, due to nomenclature differences between IAS 39 and IFRS9, have now become part of the “Financial assets at amortized cost” portfolio.

Appendix. II.4.5. Reclassifications of financial liabilities

The reclassification included on Appendix I.2 corresponds mostly to the treasury stock which, despite the Group classifying them under IAS 39 as debt securities, due to their characteristics (which in practice do not differ significantly from deposits) the Group has decided to recognize them as deposits on a prospective basis.

Appendix. II.4.6. Reclassifications between net equity accounts

Due to nomenclature differences between IAS 39 and IFRS 9, it has been necessary to reclassify the balances of the valuation adjustments that were included under the heading "Other accumulated comprehensive profit and loss / Items that can be reclassified to profit and loss / Available-for-sale financial assets" to "Other accumulated comprehensive profit and loss / Items that can be reclassified to profit and loss / Changes in the fair value of financial assets measured at fair value with changes in other comprehensive profit and loss".

Appendix II.5 Valuation adjustments and impairment

Appendix. II.5.1. Classifications and valuation adjustments

All reclassifications have been detailed in Appendix II.4. "Reclassifications due to presentation" have resulted in valuation adjustments of certain financial assets:

- The reclassification to financial assets at fair value with changes in other comprehensive profit and loss of certain debt securities that the Group used to cover mathematical provisions mostly linked to defined benefit life annuities (see Appendix II.4.3) has resulted in the recognition of latent gains at 01/01/2018 in the amount of 20,709 thousand euros, which net of the tax effect represent an increase of the item "Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss" of 18,638 thousand euros.

- The reclassification to financial assets at fair value with changes in other comprehensive profit and loss of certain debt securities originating in the willingness to further diversify the strategy of the portfolio with regard to duration and counterparty risk (see Appendix II.4.3) has resulted in the recognition of latent gains at 01/01/2018 in the amount of 1,728 thousand euros, which net of the tax effect represent an increase of the item "Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss" of 1,555 thousand euros.

- The reclassification of equity instruments, which in spite of originally being in the available-for-sale financial assets portfolio under IAS 39, do not meet the conditions set by IFRS 9 to be classified as financial assets at fair value with changes in other comprehensive profit and loss, and therefore, have been reclassified to the financial assets not held for trading mandatorily measured at fair value with changes to profit and loss, has resulted in a reclassification of 2,923 thousand euros from the heading "Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss" to the heading "Other reserves".

- All those equity instruments that have been classified under IFRS 9 in the "Financial assets at fair value with changes in other comprehensive profit and loss" portfolio and which under IAS 39 are classified as "Available-for-sale financial assets" have resulted in the reclassification of 1,973 thousand euros from the heading "Other accumulated comprehensive profit and loss – Items that can be reclassified to profit and loss" to "Other accumulated comprehensive profit and loss – Items that cannot be reclassified to profit and loss". This reclassification is based on the fact that contrary to that established in IAS 39, when a net equity instrument measured at fair value with changes in comprehensive profit and loss is derecognized from the balance sheet, the gain or loss is recognized in other accumulated comprehensive profit and loss, it is not reclassified to the balance sheet, but to a reserves item (see note 2.1.3.).

Appendix. II.5.2. Impairment adjustments

The measurement of the credit risk impairment by focusing on the expected loss (IFRS 9) compared to focusing on the incurred loss (IAS 39) has resulted in the variation of the credit risk provisions in the amount of:

- Increase of 32,099 thousand euros to cover customer loans and advances.
- Increase of 1,166 thousand euros to cover commitments and guarantees granted.
- Decrease of 661 thousand euros to cover the debt securities portfolio.

For further information on the calculation of the cover due to credit risk impairment under IFRS 9 see Note 2.1 and Note 5.2.1.

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