Crèdit Andorrà Financial Group

Financial statements | 2021

Crèdit Andorrà, SA
and Subsidiaries

Independent Auditor's Report
and Consolidated Financial Statements
at December 31, 2021

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

Auditor's report issued by an independent auditor

To the shareholders of Crèdit Andorrà, SA:

Opinion

We have audited the consolidated financial statements of Crèdit Andorrà, SA (the parent Company) and other companies which make up the Crèdit Andorrà Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, 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, 2021, 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.

Other information: Consolidated annual report

The Parent company´s Directors are responsible for the other information. The other information comprises the consolidated annual report for year 2021.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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
Raúl Luño Biarge

March 31, 2022

Financial statements 2021

Crèdit Andorrà Group

Crèdit Andorrà Financial Group

Consolidated financial statements 2021

Statement of financial position – Assets

Crèdit Andorrà Group

In thousands of euros	Note	31.12.2021	31.12.2020 (*)
Cash, cash balances at central banks and other demand deposits	8	**587,245**	**399,792**
Financial assets held for trading	9.1	**23,224**	**27,699**
Derivatives		19,335	22,323
Equity instruments		2,953	2,923
Debt securities		936	2,453
Loans and advances		-	-
Non-trading financial assets mandatorily at fair value through profit or loss	9.2	**179,872**	**178,167**
Equity instruments		173,672	171,967
Debt securities		-	-
Loans and advances		6,200	6,200
Financial assets designated at fair value through profit or loss	10	**77,541**	**17,644**
Debt securities		77,541	17,644
Loans and advances		-	-
Financial assets at fair value through other comprehensive income	11	**250,248**	**89,635**
Equity instruments		13,513	14,275
Debt securities		236,735	75,360
Loans and advances		-	-
Financial assets at amortised cost		**3,667,083**	**3,791,512**
Loans and advances	12	2,851,450	3,007,539
Credit institutions		466,751	703,391
Customers		2,384,699	2,304,148
Debt securities	13	815,633	783,973
Derivatives - hedge accounting	14	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	14	**13,239**	**18,910**
Investments in joint ventures and associates	3	**78,953**	**74,350**
Assets under insurance and reinsurance contracts	20	-	-
Tangible assets	15	**163,926**	**172,619**
Property, plant and equipment		135,988	143,829
Investment property		27,938	28,790
Intangible assets	16	**101,981**	**113,594**
Goodwill		57,080	57,201
Other intangible assets		44,901	56,393
Tax assets	45	**16,300**	**18,395**
Current tax assets		496	833
Deferred tax assets		15,804	17,562
Other assets	17	**42,546**	**44,145**
Non-current assets and disposal groups classified as held for sale	18	**97,563**	**98,896**
Total assets		5,299,721	5,045,358

(*) Shown solely for purposes of comparison
Notes 1 to 49 are an integral part of the financial statement at 31 December 2021.

Statement of financial position – Liabilities

Crèdit Andorrà Group

In thousands of euros	Note	31.12.2021	31.12.2020 (*)
Financial liabilities held for trading	9.3	**20,944**	**25,107**
Derivatives		20,944	25,107
Short positions		-	-
Deposits		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss	10	**125,910**	**78,338**
Deposits		-	-
Debt securities issued		125,910	78,338
Other financial liabilities		-	-
Financial liabilities at amortised cost	19	**4,270,307**	**4,073,151**
Deposits		4,155,822	3,955,076
Debt securities		51,582	51,582
Other financial liabilities		62,903	66,493
Derivatives - hedge accounting	14	**13,087**	**18,318**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	14	-	-
Liabilities under insurance and reinsurance contracts	20	**258,768**	**258,122**
Provisions	21	**19,508**	**19,694**
Pensions and other defined post-employment benefit obligations		11,308	11,445
Other long-term employee benefits		3,008	3,659
Restructuring		-	-
Provisions for taxes and other legal contingencies		451	1,708
Commitments and guarantees given		3,640	2,687
Other provisions		1,101	195
Tax liabilities	45	**2,892**	**5,467**
Current tax liabilities		41	690
Deferred tax liabilities		2,851	4,777
Share capital repayable on demand		-	-
Other liabilities	23	**65,253**	**63,267**
Liabilities included in disposal groups classified as held for sale	18	-	-
Total liabilities		**4,776,669**	**4,541,464**

(*) Shown solely for purposes of comparison
Notes 1 to 49 are an integral part of the financial statement at 31 December 2021.

Statement of financial position – Net equity

Crèdit Andorrà Group

In thousands of euros	Note	31.12.2021	31.12.2020 (*)
Capital	24	**63,102**	**63,102**
Paid-up capital		63,102	63,102
Unpaid called-up capital		-	-
Share premium	24	-	-
Issued equity instruments other than capital		-	-
Equity component of compound financial instruments		-	-
Other issued equity instruments		-	-
Other equity		-	-
Accumulated other comprehensive income	26	**-173**	**2,721**
Items that will not be reclassified to profit or loss		2,566	2,618
Tangible assets		-	-
Intangible assets		-	-
Actuarial gains and losses on defined benefit pension plans		603	733
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expenses of investments in subsidiaries, joint ventures and associates		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		1,963	1,885
Ineffectiveness in fair value hedges of equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)		-	-
Accumulated fair value changes of financial liabilities at fair value through changes in credit risk		-	-
Items subject to reclassification to profit or loss		-2,739	103
Hedge of net investments in foreign operations (effective portion)		-	-
Foreign currency translation		-	-
Hedging derivatives. Cash flow hedges (effective portion)		-	-
Fair value changes of debt securities measured at fair value through other comprehensive income		-2,739	103
Hedging instruments (non-designated items)		-	-
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expenses of investments in subsidiaries, joint ventures and associates		-	-
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves	24	**419,967**	**393,960**
Reserves or accumulated losses of investments in subsidiaries, joint ventures and associates		119,533	105,939
Other		300,434	288,021
(-) Treasury shares	25	-	-
Profit or loss attributable to owners of the parent	4	**32,978**	**30,040**
(-) Interim dividends	4	-	-
Minority interests (non-controlling interest)	27	**7,178**	**14,071**
Accumulated other comprehensive income		-	-
Other items		7,178	14,071
Total net equity		**523,052**	**503,894**
Total net equity and liabilities		**5,299,721**	**5,045,358**

(*) Shown solely for purposes of comparison
Notes 1 to 49 are an integral part of the financial statement at 31 December 2021.

Profit and loss account

Crèdit Andorrà Group

In thousands of euros	Note	2021	2020 (*)
Interest income	34	**48,243**	**53,611**
Financial assets at fair value through other comprehensive income		914	910
Financial assets at amortised cost		44,769	51,070
Other interest income		2,560	1,631
(Interest expenses)	34	**-15,768**	**-20,620**
(Expenses for share capital repayable on demand)		-	-
Dividend income	35	**287**	**157**
Fee and commission income	36	**105,002**	**111,905**
(Fee and commission expense)	36	**-22,745**	**-28,378**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	37	**13,165**	**38,764**
Financial assets at fair value through other comprehensive income		2,936	3,208
Financial assets at amortised cost		10,229	35,996
Financial liabilities at amortised cost		-	-440
Other		-	-
Gains or losses on financial assets and liabilities held for trading, net	37	**4,524**	**5,146**
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or losses		4,524	5,146
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	37	**6,929**	**-2,461**
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or losses		6,929	-2,461
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	37	**-52**	**1,165**
Gains or losses resulting from hedge accounting, net	14	**-210**	**-955**
Exchange rate differences (gain or loss), net	37	**2,737**	**4,785**
Gains or losses on derecognition of non-financial assets, net	37	**23,166**	**-88**
Other operating income and expenses	38	**8,522**	**11,202**
Other income and expenses of assets and liabilities under insurance or reinsurance contracts	38	**982**	**899**
Total operating income, net		**174,782**	**175,132**

Profit and loss account (continued)

Crèdit Andorrà Group

In thousands of euros	Note	2021	2020 (*)
Total operating income, net		**174,782**	**175,132**
(Administrative expenses)		**-120,866**	**-115,714**
(Staff expenses)	39	-73,896	-71,008
(Other administrative expenses)	40	-46,970	-44,706
(Depreciation and amortisation)	41	**-22,574**	**-22,369**
(Property, plant and equipment)	15	-9,591	-9,860
(Investment property)	15	-	-10
(Other intangible assets)	16	-12,983	-12,499
(Provisions or reversal of provisions)	42	**-2,451**	**6,170**
(Commitments and guarantees given)		-950	188
(Other provisions)		-1,501	5,982
(Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses)	43	**1,323**	**-7,350**
(Financial assets at cost)		-	-
(Financial assets at fair value through other comprehensive income)		-21	-23
(Financial assets at amortised cost)		1,344	-7,327
(Impairment or reversal of impairment of investments in joint ventures and associates)		**-**	**-**
(Impairment or reversal of the impairment on non-financial assets)		**308**	**88**
(Property, plant and equipment)	15	-	-
(Investment property)	15	-	88
(Goodwill)	16	-	-
(Other intangible assets)	16	-	-
(Other)		308	-
Negative goodwill recognised in profit or loss	3.6	**-**	**-**
Share of profit or loss of investments in subsidiaries, joint ventures and associates	44	**3,754**	**2,814**
Profit or loss from non-current assets and disposal groups held for sale not qualifying as discontinued operations	18	**-345**	**661**
Profit or loss before tax from continuing operations		**33,931**	**39,432**
(Tax expense or income related to profit or loss from continuing operations)	45	-1,090	-6,834
Profit or loss after tax from continuing operations		**32,841**	**32,598**
Profit or loss after tax from discontinued operations		**143**	**-735**
Profit or loss before taxes from discontinued activities (see Note 3.6)		150	-754
(Tax expense or income related to profit or loss from discontinued operations)		-7	19
Profit or loss for the year		**32,984**	**31,863**
Attributable to minority interests (non-controlling interest)		6	1,823
Attributable to owners of the parent company		32,978	30,040
Earnings per share (basic) - in euros	4	**36.87**	**33.59**
Earnings per share (diluted) - in euros	4	**36.87**	**33.59**

(*) Shown solely for purposes of comparison

Notes 1 to 49 are an integral part of the financial statement at 31 December 2021.

Statement of comprehensive income

Crèdit Andorrà Group

In thousands of euros	Note	2021	2020 (*)
Profit or loss for the year		**32,984**	**31,863**
Other comprehensive income		**-2,894**	**43**
Items that will not be reclassified to profit or loss	**26**	**-52**	**144**
Tangible assets		-	-
Intangible assets		-	-
Actuarial gains or losses on defined benefit pension plans		**-144**	**105**
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expenses of investments in subsidiaries, joint ventures and associates		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		**87**	**49**
Gains or losses resulting from the hedge accounting of equity instruments measured at fair value through other comprehensive income, net		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in credit risk		-	-
Income tax related to items that will not be reclassified		**5**	**-10**
Items subject to reclassification to profit or loss		**-2,842**	**-101**
Hedges of net investments in foreign operations (effective portion)		-	-
Gains or losses posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Foreign currency translation		-	-
Gains or losses due to foreign exchange posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Hedging derivatives. Cash flow hedges (effective portion)		-	-
Gains or losses posted to net equity		-	-
Transferred to profit and loss		-	-
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Hedging instruments (non-designated items)		-	-
Gains or losses posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Debt instruments at fair value through other comprehensive income		**-3,652**	**-78**
Gains or losses posted to net equity		-716	3,130
Transferred to profit and loss		-2,936	-3,208
Other reclassifications		-	-
Non-current assets and disposal groups classified as held for sale		-	-
Gains or losses posted to net equity		-	-
Transferred to profit and loss		-	-
Other reclassifications		-	-
Share of other recognised income and expenses of investments in subsidiaries, joint ventures and associates		-	-
Income tax related to items subject to reclassification to profit or loss		**810**	**-23**
Total comprehensive income for the year		**30,090**	**31,906**
Attributable to minority interests (non-controlling interest)		**6**	**1,823**
Attributable to owners of the parent company		**30,084**	**30,083**

(*) Shown solely for purposes of comparison
Notes 1 to 49 are an integral part of the financial statement at 31 December 2021.

Statement of changes in equity

Crèdit Andorrà Group

31 December 2021

	Net equity attributable to parent company							
	Shareholders' equity					Minority interests		
In thousands of euros	Capital (Note 24.1)	Accumulated other comprehensive income (Note 26)	Other reserves (Note 24.2)	Profit or loss attributable to owners of the parent	(-) Interim dividends (Note 4)	Accumulated other comprehensive income (Note 27)	Other items	Total equity net
Balances at 31 December 2020	63,102	2,721	393,960	30,040	-	-	14,071	503,894
Effects of error correction	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-
Adjusted balance at 1 January 2021	63,102	2,721	393,960	30,040	-	-	14,071	503,894
Capital decrease	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-5,000	-	-	-	-5,000
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to net equity	-	-	-	-	-	-	-	-
Transfers among equity components	-	-	25,040	-25,040	-	-	-	-
Other increases or decreases in net equity (see Note 3.6 and 27)	-	-	967	-	-	-	-6,899	-5,932
Total comprehensive income for the year	-	-2,894	-	32,978	-	-	6	30,090
Balances at 31 December 2021	**63,102**	**-173**	**419,967**	**32,978**	**-**	**-**	**7,178**	**523,052**

Notes 1 to 49 are an integral part of the financial statement at 31 December 2021.

Statement of changes in equity (continued)

Crèdit Andorrà Group

31 December 2020 (*)

	Net equity attributable to parent company (*)							
	Shareholders' equity					Minority interests		
In thousands of euros	Capital (Note 24.1)	Accumulated other comprehensive income (Note 26)	Other reserves (Note 24.2)	Profit or loss attributable to owners of the parent	(-) Interim dividends (Note 4)	Accumulated other comprehensive income (Note 26)	Other items	Total equity net
Balances at 31 December 2019	63,102	2,678	347,002	46,244	-	-	10,639	469,665
Effects of error correction	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-
Adjusted balance at 1 January 2020	63,102	2,678	347,002	46,244	-	-	10,639	469,665
								-
Capital decrease	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares (see Note 24.1)	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to net equity	-	-	-	-	-	-	-	-
Transfers among equity components	-	-	46,244	-46,244	-	-	-	-
Other increases or decreases in net equity (see Note 3.6 and 27)	-	-	714	-	-	-	1,609	2,323
Total comprehensive income for the year	-	43	-	30,040	-	-	1,823	31,906
Balances at 31 December 2020	**63,102**	**2,721**	**393,960**	**30,040**	**-**	**-**	**14,071**	**503,894**

(*) Shown solely for purposes of comparison
Notes 1 to 49 are an integral part of the financial statement at 31 December 2020.

Cash flow statements

Crèdit Andorrà Group

In thousands of euros	Note	2021	2020 (*)
Cash flow of operating activities		197,364	98,412
Profit or loss for the year		**32,978**	**30,040**
Adjustments to obtain cash flow from operating activities		**-28,109**	**-14,007**
Depreciation and amortisation	41	22,574	22,369
Other adjustments		-50,683	-36,376
Net increase/decrease of operating assets		**-51,846**	**314,140**
Financial assets held for trading		8,999	2,348
Non-trading financial assets mandatorily at fair value through profit or loss		5,224	7,671
Financial assets designated at fair value through profit or loss		-59,949	-16,479
Financial assets at fair value through other comprehensive income		-160,462	244,284
Financial assets at amortised cost		136,002	65,318
Other operating assets		18,340	10,998
Net increase/decrease of operating liabilities		**242,935**	**-231,761**
Financial liabilities held for trading		-4,163	9,000
Financial liabilities designated at fair value through profit or loss		47,572	29,007
Financial liabilities at amortised cost		200,546	-230,513
Other operating liabilities		-1,020	-39,255
Income tax collections or payments		**1,406**	**-**
Cash flow of investment activities		-4,911	-1,629
Payments		**-13,863**	**-17,361**
Tangible assets	15	-1,512	-1,687
Intangible assets	16	-5,776	-6,509
Investments in joint ventures and associates		-	-2,751
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		-55	-
Held-to-maturity investments		-	-
Other payments related to investment activity		-6,520	-6,414
Collections		**8,952**	**15,732**
Tangible assets		2,700	5,092
Intangible assets		-	-
Investments in joint ventures and associates		4,823	-
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		1,429	10,640
Held-to-maturity investments		-	-
Other collections related to investment activity		-	-
Cash flow of financing activities		-5,000	-
Payments		**-5,000**	**-**
Dividends	4	-5,000	-
Debt securities		-	-
Treasury stock amortisation		-	-
Treasury stock acquisition		-	-
Other payments related to financing activity		-	-
Collections		**-**	**-**
Debt securities		-	-
Treasury stock issue		-	-
Treasury stock disposal		-	-
Other collections related to financing activity		-	-
Effects of changes in exchange rate		-	-
Net increase (decrease) of cash and cash equivalents (A+B+C+D)		-187,453	96,783
Cash and cash equivalents at the start of the period		399,792	303,009
Cash and cash equivalents at the end of the period		587,245	399,792

(*) Shown solely for purposes of comparison

Notes 1 to 49 are an integral part of the financial statement at 31 December 2020.

Notes to the financial statements

1. Introduction, basis of presentation and other information

1.1. Introduction

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

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

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

Crèdit Andorrà SA is the parent company of the subsidiaries indicated 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 drawn up by the Board of Directors of the Bank in accordance with the regulatory framework for financial reporting applicable to the Group, which is established in (1) the Decree of 22 December 2016, approving the accounting framework applicable to the entities operating in the Andorran financial system and to the collective investment institutions under Andorran law in accordance with the International Financial Reporting Standards adopted in the European Union (EU-IFRS) that have, in turn, been adopted by Andorra (Andorra-IFRS), and subsequent amendments (Decree of 12 December 2018, Decree of 27 March 2019, Decree of 29 July 2020, Decree of 24 February 2021 and Decree of 15 December 2021).

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 reporting, so that they show a true and fair view of the Group's equity, financial position, profit and loss and cash flow during the corresponding financial year.

Unless expressly indicated otherwise, the figures are presented in thousands of euros, rounded up or down to the nearest thousand, as the euro is the Group's functional and presentation currency.

The Andorran Financial Authority (AFA), formerly the Andorran National Institute of Finance (INAF) is the body responsible for 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 reporting 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 ended 31 December 2021 are pending approval by their respective general shareholders' meetings. Nevertheless, the Bank's Board of Directors believes they will be approved without any changes.

On 29 April 2021 the Bank's General Shareholders' Meeting approved the individual and consolidated financial statements corresponding to the 2020 financial year.

The consolidated financial statements of the Crèdit Andorrà Group for 2021 attached have been prepared with the same principles, accounting policies and criteria as those applied in the consolidated financial statements for the year 2020, except for the regulatory changes that entered into force on 1 January 2021, detailed in Section

1.2.1. “Mandatory standards, amendments and interpretations for financial years starting on or after 1 January 2021”. Therefore, their preparation was based on the International Financial Reporting Standards adopted by the European Union (EU-IFRS), which, in turn, were fully adopted by Andorra (Andorra-IFRS) through the Decree dated 22 December 2016, the Decree dated 12 December 2018, the Decree dated 27 March 2019, the Decree dated 29 July 2020, the Decree dated 24 February 2021 and the Decree dated 15 December 2021.

On 21 December 2018, the AFA published the *Supervisory guide on applying IFRS 9: Credit risk management* (hereinafter, the Guide), updated on 3 November 2020. As detailed in the "Introduction" section, the Guide covers supervisory expectations and good practices in the implementation of IFRS 9 by Andorran banking institutions 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 with a material effect on these consolidated financial statements has been excluded.

1.2.1. Mandatory standards, amendments and interpretations for financial years starting on or after 1 January 2021

The following are the most significant standards and interpretations for the Group that have been published by the IASB and that have entered into force in the Principality of Andorra as of 1 January 2021:

- IFRS 9 (amendment), IAS 39 (amendment), IFRS 7 (amendment), IFRS 4 (amendment) and IFRS 16 (amendment) “Interest Rate Benchmark Reform — Phase II”: the IASB has initiated a two-stage project to consider which reliefs, if any, to provide for the effects of the interest rate benchmark reform (“IBOR”). The phase-one amendments, issued in September 2019, provided temporary reliefs from the application of specific hedge accounting requirements to the relationships affected by the uncertainties that arise as result of the IBOR reform (“phase-one reliefs”). The phase-two amendments address issues arising from the implementation of reforms, including the replacement of one benchmark rate with another.

  The amendments will apply to accounting periods starting on or after 1 January 2021 and early application is permitted.

  During the 2021 financial year, pursuant to this amendment, the Group changed the benchmark of the lending transactions indexed to IBORS (Eonia index or LIBOR) to new risk-free interest rates. Lending transactions on stock indexed to CHF LIBOR and EUR LIBOR are restated on the basis of the SARON and EURIBOR indices, respectively. Lending transactions on stock indexed to LIBOR in other currencies will be changed during the 2022 financial year as the synthetic index for these transactions continues to recover or because the most common maturities are still published. Furthermore, all new lending transactions are indexed to the corresponding RFR indices (SOFR for transactions in USD, SONIA for transactions in GBP, TONAR for transactions in JPY, SHARON for transactions in CHF and EURIBOR for transactions in EUR).

  The application of this amendment has not resulted in material effects in the Group’s consolidated financial statements.

- IFRS 4 (amendment) “Extension of the Temporary Exemption from Applying IFRS 9”: in accordance with the deferral of the effective date of IFRS 17 “Insurance Contracts”, the amendment changes the expiry date for the temporary exemption in IFRS 4 “Insurance Contracts” regarding the application of IFRS 9 “Financial Instruments”, requiring that institutions apply IFRS 9 for annual periods beginning on or after 1 January 2023 rather than on or after 1 January 2021.

- IFRS 16 (amendment) “COVID-19-Related Rent Concessions beyond 30 June 2021”: the IASB extended the period of application of the practical expedient in IFRS 16 “Leases” by one year to assist lessees in accounting for COVID-19-related rent concessions.

Consequently, this practical expedient applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- There is no substantive change to other terms and conditions of the lease.

For the purposes of the EU-IFRS, the amendments shall be applied as of 1 April 2021 for the financial years beginning on or after 1 January 2021.

The standards and interpretations that have been published by the IASB and that have entered into force in the Principality of Andorra on or after 1 January 2021 have not had a significant impact on the Group's 2021 financial statements.

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

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

- Standards, amendments and interpretations that have not yet entered into application but which can be adopted early because they have been adopted by the EU (and by the Principality of Andorra).

Amendment to IFRS 3 "Reference to the Conceptual Framework".

IFRS 3 has been updated to refer to the 2018 conceptual framework with a view to determining what constitutes an asset or a liability in a business combination (it previously referred to the 2001 CF). Furthermore, a new exception has been added to IFRS 3 for liabilities and contingent liabilities. The effective date of these amendments is 1 January 2022.

Amendment to IAS 1 "Disclosure of Accounting Policies".

This amendment is intended to help improve accounting policy disclosures so they provide more useful information to investors and other primary users of financial statements. The effective date of this amendment is 1 January 2023. The amendment is pending approval by the European Union. IFRS 17 (amendment), "Amendments to IFRS 17".

Amendment to IFRS 8 "Definition of accounting estimates".

This amendment is intended to help entities distinguish between changes in accounting estimates and accounting policies. The effective date of this amendment is 1 January 2023. The amendment is pending approval by the European Union.

Amendment to IAS 16 "Property, Plant and Equipment — Proceeds before Intended Use".

An entity is prohibited from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Proceeds from the sale of these items, and the cost of producing them, is recognised in profit or loss. The amendment also clarifies that an entity is testing whether the asset is functioning properly when assessing the asset's technical and physical performance. The financial performance of the asset is not relevant for this assessment. Therefore, the asset may be capable of operating as intended by the management and be subject to amortisation before it has reached the level of operating performance expected by management. The effective date of these amendments is 1 January 2022.

IFRS 17 "Insurance Contracts".

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

The IASB issued IFRS 17 effective from 1 January 2021. However, in June 2020, in response to some of the concerns and challenges posed with regard to the application of IFRS 17, the IASB developed specific amendments and clarifications intended to facilitate the implementation of the new standard, although the amendments did not alter the fundamental principles. In addition, the mandatory effective date for IFRS 17 was deferred to annual periods beginning on or after 1 January 2023, and early application of IFRS 9 “Financial Instruments” was permitted.

Amendment to IAS 37 “Onerous Contracts — Cost of Fulfilling a Contract”.

The amendment explains that the cost of fulfilling a contract comprises incremental costs for fulfilling these contracts and an allocation of other costs that relate directly to fulfilling contracts. It also clarifies that, before a separate provision for an onerous contract is established, an entity shall recognise any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. The effective date of these amendments is 1 January 2022.

Annual improvements to IFRS. 2018 – 2020 cycle.

The amendments affect IFRS 1, IFRS 9, IFRS 16 and IAS 41, and they apply to financial years beginning on or after 1 January 2022. The principal amendments concern:

- IFRS 1 “First-time Adoption of International Financial Reporting Standards”. IFRS 1 allows for an exemption if a subsidiary adopts the IFRS after its parent company. The amendment allows entities that have taken this exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRSs.

- IFRS 9 “Financial Instruments”. The amendment addresses which fees should be included in the 10% test for derecognition of financial liabilities. The costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

- IAS 41 “Agriculture”. This amendment removes the requirement for entities to exclude tax cash flows when measuring fair value under IAS 41.

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

The standards, amendments and interpretations published by the IASB but that have not yet entered into application on or after 1 January 2021 are not expected to have a significant impact on the Bank’s financial statements after 2021.

- Standards, amendments and interpretations to the existing regulations that cannot be adopted early or that have not been adopted by the EU or the Principality of Andorra:

Amendment to IAS 1 “Classification of Liabilities as Current or Non-current”.

These amendments clarify that assets are classified as current or non-current depending on the rights that exist at the end of the reporting period. The classification is unaffected by expectations of the entity or events after reporting date (for example, receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means by the “settlement” of a liability. The effective date of these amendments is 1 January 2022.

However, in July 2020, an amendment was made to change the effective date of the amendment to 1 January 2023. These amendments are pending approval by the European Union.

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

These amendments clarify the accounting processes applied to asset contributions and sales between an investor and its associates and joint ventures, which will depend on whether the non-monetary assets contributed or sold to an associate or joint venture constitute a “business”. The investor will recognise the full gains or losses when the non-monetary assets constitute a “business”. If the assets do not meet the definition of a business, the investor recognises the gains or losses to the extent of unrelated investors’ interests. The amendments will only apply when an investor sells or contributes to its associate or joint venture.

Originally, these amendments were prospective and effective for financial years beginning on or after 1 January 2016. However, in late 2015, the IASB made the decision to defer the effect date (indefinitely), as it is planning a broader review that may result in the simplification of the accounting processes for these operations and other accounting matters related to associates and joint ventures.

Amendment to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”.

In certain situations under IAS 12, companies are exempt from accounting for deferred tax when recognising assets or liabilities for the first time (“initial recognition exemption”). Previously, there was some uncertainty as to whether the exemption applied to transactions such as leases and decommissioning obligations, operations for which both assets and liabilities are recognised upon initial recognition. The amendment clarifies that the exemption does not apply and, therefore, deferred tax must be accounted for on these transactions.

The amendment enters into force for financial years beginning on or after 1 January 2023. The amendment is pending approval by the European Union.

Amendment to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 — Comparative Information”.

The IASB published an update to IFRS 17 introducing limited amendments to the transition requirements of IFRS 17 “Insurance Contracts”, and not affecting any other requirement in IFRS 17. IFRS 17 and IFRS 9 “Financial Instruments” have different transition requirements. For some insurers, these differences may cause occasional accounting mismatch between financial assets and liabilities for insurance contracts in the comparative information presented in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to prevent these mismatches and, therefore, improve the usefulness of the comparative information for investors.

The amendment enters into force for financial years beginning on or after 1 January 2023. The amendment is pending approval by the European Union.

The standards and interpretations of the existing standards published by the IASB that cannot be adopted early or that have not been adopted by the EU or the Principality of Andorra, but that have not yet entered into force on or after 1 January 2021, are not expected to have a significant impact on the Group's financial statements after 2021.

1.3. Comparing information

The figures corresponding to 31 December 2020 included in the accompanying consolidated financial statements are presented solely and exclusively for comparative purposes.

The balances presented in these financial statements for financial years 2021 and 2020 are comparable.

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, estimations and assumptions. Below is a summary providing details of those aspects that have involved a higher degree of opinion and complexity or for which the assumptions 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 disposal groups that were classified as held for sale (Note 18).
- The actuarial assumptions used in the calculation of liabilities for insurance contracts (Note 20) and also in the calculation of liabilities and post-employment commitments (Note 22).
- Valuation of the provisions for hedging labour, legal and tax contingencies (Note 21).
- Estimates to calculate corporation tax and deferred tax assets and liabilities (Note 45).

Although the estimates made by the Bank's directors at 31 December 2021 were performed according to the best available information to date, considering the uncertainty in the economic environment caused by the COVID-19 crisis, it is possible that events in the future may require these to be amended in the years to come. This amendment would be made prospectively, recognising the effects of the change in estimate in the corresponding consolidated profit and loss account.

1.5. Relevant information regarding COVID-19

The 2020 and 2021 financial years were marked by the COVID-19 crisis and the significant economic consequences experienced by individual customers and companies due to the measures adopted in many countries around the world and in Andorra. As a result, the Group adopted a number of measures, as described below:

- In order to mitigate the economic impact, the Group adopted certain measures chiefly in relation to moratoria and/or extensions on loans and credits, both public and private, and to Government-backed financing, as provided for in the regulations referred to in Note 48.2.

- With regard to valuation, estimating uncertainty and relevant decisions made when applying accounting policies, in terms of both credit risk and the impairment of other assets, the recommendation of the Andorran Finance Authority (AFA) was adopted, which, on the basis of article 39 of Law 05/2020, adopts as its own the guidelines or recommendations published by the EBA, the IASB and the ECB, in turn publishing "Recommendation EB 01/2020: Supervisory guide on legislative or non-legislative moratoria or extensions on loans or credits applied in the light of COVID-19". At the accounting level, this guide features, among other aspects, the clarification published by the IASB on 27 March 2020, clarifying aspects related to the SICR and the expected loss calculation. It also addresses the importance of taking into account the macroeconomic effects of COVID-19 and the measures adopted by governments in internal models, or failing this expert adjustments to internal models on the basis of the information available or in relation to the application of the alternative solution established in "Recommendation EB 01/2018 – Supervisory guide on the application of IFRS 9 - Credit risk management" issued by the AFA on 21 December 2018 and updated on 3 November 2020 to adapt the guidance to the *Supervisory guide on legislative or non-legislative moratoria or extensions on loans or credits applied in the light of COVID-19* issued on 10 June 2020 and amended on 28 July 2020 and 19 January 2021.

2. Accounting principles and policies, and valuation methods applied

In the preparation of the Crèdit Andorrà Group's consolidated financial statements corresponding to the 2021 financial year, the following accounting principles and policies and valuation criteria were applied.

2.1. Financial instruments

2.1.1. Classification of financial assets

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

- Financial assets at amortised cost.
- Financial assets at fair value through other comprehensive income.
- Financial assets mandatorily at fair value through profit or loss.
- Financial assets held for trading.
- Non-trading financial assets mandatorily at fair value through profit or loss.
- Financial assets designated at fair value through profit or loss.
- Derivatives - hedge accounting.

However, classification in the above categories is carried out on the following two elements:

- The Group's **business model** for financial asset management.

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

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

- Holding assets to receive contractual cash flows ("HTC" — Held to Collect). Under this model, assets are managed in order to collect their contractual cash flows and not to obtain a return through their holding or sale. However, assets can be disposed of prior to maturity in certain circumstances, such as (1) sales considered as infrequent or insignificant; (2) sales of assets close to maturity; or (3) sales triggered by a significant increase in credit risk and those carried out to manage the concentration risk.

  Within the HTC portfolio, the Crèdit Andorrà Group distinguishes two clearly distinct and independent business models:

  - Holding assets to receive contractual cash flows in the long term ("HTC-LT" — Held to Collect – Long Term). With the instruments classified under this business model, the Group manages its liquidity needs generated by long-term debt and its own funds. The instruments comprising this portfolio include fixed income securities — both public and private, domestic and foreign — approved by the ALCO at any given time in a manner consistent with this objective. As mentioned in Note 37, this model was discontinued in 2020 as a result of a portfolio sale in line with the Group's strategy for the following years to strengthen lending and the migration of customer positions to off-balance-sheet positions.
  - Holding assets to receive contractual cash flows in the short term ("HTC-ST" — Held to Collect – Short Term). With the instruments classified under this business model, the Group manages its liquidity needs generated by the liabilities not included in the HTC-LT portfolio. The instruments comprising this portfolio include fixed income securities — both public and private, domestic and foreign — approved by the ALCO at any given time in a manner consistent with this objective.

  In the case of selling securities in the HTC portfolio (either HTC-LT or HTC-ST) as a consequence of the effects of COVID-19, this is not considered to be a change in the business model nor an accounting reclassification. This is because at the time the business model was assessed for the securities held in this portfolio, they were correctly classified and the impact of the crisis caused by COVID-19 was not taken into account within the business model. Such a scenario was not deemed possible at that time. In the event that sales associated with the COVID-19 crisis are considered to be significant in value or frequency, these would also be consistent with the business model considered under the HTC portfolio, as the reasons for these sales will be entirely extraordinary and transitory. In this regard, in early 2021, the Bank carried out a sale of financial instruments comprising the HTC-ST portfolio to mitigate the impacts of COVID-19, and this sale did not entail a change in the business model (see Note 37).

  According to the latest update to the business models, the following definitions apply:

  - Infrequent or immaterial sales are those that do not represent more than 10% of the carrying amount of the securities portfolio during the average life of the portfolio.
  - Sales of assets close to maturity such as those carried out within the last 6 months before the maturity of the security (usually with the aim of facilitating the reinvestment of the portfolio in the most beneficial way in terms of the market) or a period less than 10% of the remaining life of the security at the date of purchase.
  - Sales triggered by a significant increase in credit risk such as those that occur (1) after a de-rating of at least two steps has taken place since the acquisition date and (2) where this

de-rating leads or may be expected to lead in the short term to a breach of the investment guidelines in force within the Group.

- Sales triggered by managing the concentration risk, such as those made with the aim of correcting a breach of the prudential limits defined at any given time by the applicable regulations or internally by the Group, as well as to avoid a foreseeable breach in the short term.

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

- Combination of the two business models above, i.e., holding assets to receive the contractual cash flows of the asset and to obtain a return through its sale ("HTCS" — Held to Collect and Sell). This business model involves the realisation of assets more frequently and with greater value.

  The objective of this business model is, in addition to managing and ensuring optimal liquidity to meet structural and recurring payment commitments, the generation of capital gains through sales to complement the profit and loss account of the Group, not only in terms of the financial margin, but also the result of financial operations.

In this regard, it is important to note that the Group's principal model for holding and managing financial assets is HTC (held to collect), followed by HTCS (held to collect and sell) and, finally, HTS (held to sell, or trading).

- **Characteristics of contractual cash flows** from financial assets.

  A financial asset should be classified upon initial recognition into one of the following categories:

  - Those with contractual terms giving rise on specified dates to cash flows that are solely of payments of principal and interest on the principal amount outstanding.
  - Other financial assets.

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

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

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

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 liquidation of the issuer) do not prevent their classification in the portfolios at amortised cost or fair value through other comprehensive income.

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

- In the portfolio of financial assets at amortised cost, when the following two conditions are met:
    - it is managed with a business model that aims to hold financial assets to receive contractual cash flows (HTC); and
    - the contractual conditions give rise to cash flows on specified dates, which are solely payments of principal and interest on the principal amount outstanding.
- In the portfolio of financial assets at fair value through other comprehensive income, when the following two conditions are met:
    - it is managed using a business model whose purpose combines the collection of contractual cash flows from financial assets and sales (HTCS); and
    - the contractual conditions give rise to cash flows on specified dates, which are solely payments of principal and interest on the principal amount outstanding.
- In the portfolio of financial assets at fair value through profit or loss: as long as the Group's business model for its management or the characteristics of its contractual cash flows do not qualify it for classification in one of the above portfolios.
- The portfolio of financial assets mandatorily at fair value through profit or loss includes all those instruments that meet any of the following characteristics:
    - they are acquired or incurred principally for the purpose of selling them in the short term;
    - they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
    - they are derivatives that do not meet the definition of a financial guarantee contract or a designated and effective hedging instrument.

An exception to the general valuation criteria described above are investments in equity instruments. In general, except for investments in collective investment institutions, the Group exercises the option, at initial recognition and irrevocably, to include in the portfolio of financial assets at fair value through other comprehensive income investments in equity instruments that are not classified as held for trading and which, if the option is not exercised, would be classified as financial assets mandatorily at fair value through profit or loss.

2.1.2. Classification of financial liabilities

For valuation purposes, the Group classifies financial liabilities as follows:

- Financial liabilities held for trading. This portfolio consists mainly of the financial liabilities acquired or issued with the intention of repurchasing them in the near term or that are part of a portfolio of financial instruments, identified and managed together, for which there is evidence of a recent pattern of short-term profit-taking. Held for trading financial assets also include short positions arising from the sale of assets acquired through non-optional resale agreements or borrowed securities. Finally, derivative instruments that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments are considered as financial liabilities held for trading.

- Financial liabilities designated at fair value through profit or loss. This includes, where applicable, financial liabilities designated by the Group on initial recognition, such as hybrid financial liabilities that are either measured entirely at fair value or with financial derivatives to reduce the exposure to changes in fair value, or are managed jointly with financial liabilities and derivatives to reduce the overall exposure to interest rate risk.

  In general, this category includes all those financial liabilities which, when classified, eliminate or significantly reduce recognition or measurement inconsistencies (accounting mismatch). Financial liabilities in this category must be subject, on an ongoing basis, to an integrated and consistent risk and performance measurement, management and control system to ensure that risk is effectively mitigated. Financial liabilities can only be included in this portfolio at the date of issue or origination.

- Financial liabilities at amortised cost. Financial liabilities that are not classified as held for trading or as other financial liabilities at fair value through profit or loss are recognised. The balances recognised in this category, irrespective of the form of instrumentation and maturity, arise from the ordinary borrowing activities of credit institutions.

2.1.3. Measurement of financial instruments

All financial instruments are initially recognised at their fair value, which, in the absence of evidence to the contrary, is the transaction cost.

Subsequently, at a specified date, the fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in a transaction between knowledgeable, willing parties in an arm's length transaction. The most objective reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market. As such, the listed or market price is used.

If there is no market price, fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, in particular, the various types of risk associated with it.

Any changes in fair value of financial instruments, except for trading derivatives, due to the accrual of interest and similar items, are recognised in the profit and loss account of the year of the accrual. Dividends received from other companies are recognised in the profit and loss account of the year in which the right to receive the dividend is established.

Changes in fair value after initial recognition for reasons other than those indicated in the preceding paragraph are treated as described below based on the category of financial asset or financial liability:

- The financial instruments classified as "Financial assets held for trading", "Non-trading financial assets mandatorily at fair value through profit or loss", "Financial assets designated at fair value through profit or loss", "Financial liabilities held for trading" and "Financial liabilities designated at fair value through profit or loss" are initially measured at their fair value and, subsequently, any changes are recognised with a balancing entry in the profit and loss account.

- The financial instruments included in "Financial assets at fair value through other comprehensive income" are initially measured at their fair value and, subsequently, any changes, net of their tax impact, are recognised with a balancing entry under "Accumulated other comprehensive income" in equity.

- Derivatives are recognised in the statement of financial position at their fair value. When derivatives are entered into, in the absence of evidence to the contrary, fair value is the transaction price. The derivative is recognised as an asset if the fair value is positive and a liability if it is negative. For derivatives classified in Levels 1 and 2 of the fair value hierarchy, if the price differs from the fair value when the derivative is entered into, the difference is recognised immediately in the profit and loss account.

Subsequent changes in fair value of derivatives are recognised in the profit and loss account, except for cash flow hedges, in which case they are recognised under "Accumulated other comprehensive income" in equity.

Derivatives embedded in financial liabilities may be accounted for separately as derivatives when their risks and characteristics are not closely related to those to those of the host instrument or contract, and provided a reliable fair value can be attributed to the embedded derivative taken separately. Derivatives embedded in financial assets cannot be recognised separately as derivatives and, therefore, the entire hybrid financial instrument must be measured at fair value in the profit and loss account.

- Financial instruments classified as "Financial assets at amortised cost" and "Financial liabilities at amortised cost" are measured at amortised cost. Amortised cost is the acquisition cost plus or minus, as appropriate, the principal repayments and the part recognised in profit or loss, using the effective interest rate method, of the difference between the initial value and the maturity value. Furthermore, the amortised cost is reduced by any corrections for impairment experienced by the assets.

  The effective interest rate is the discount rate that exactly matches the initial value of a financial instrument with all its estimated cash flows of all kinds until maturity or cancellation. For fixed-rate financial instruments, the effective interest rate coincides with the contractual interest rate plus any commissions or transaction costs that form part of the financial return. To calculate the effective interest rate of floating rate financial instruments, the floating interest rate is used as a fixed rate until the next review of the benchmark interest rate.

2.2. Hedge accounting

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

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

When the Group designates an operation as a hedge, it does so from the moment the operation or instrument is included in that hedge, and the operation is documented according to current regulations. The hedge accounting documentation clearly identifies the hedged instrument or instruments or hedging instrument or instruments, as well as the nature of the risk to be hedged and the criteria and methods the Group follows to assesses the effectiveness of the hedge for its entire duration.

The Group considers hedge accounting operations to be those that are highly effective. 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 almost entirely offset by the variations in the fair value or cash flows, as the case may be, of the hedging instrument(s).

To measure the effectiveness of hedge accounting operations, it is analysed whether, from inception to the end of the defined hedge term, changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk can be expected prospectively to be almost entirely offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument or instruments, and that, retrospectively, the results of the hedge have fallen within a range of 80% to 125% of the hedged item's outcome.

The valuation methods used for estimating the fair value of hedged and hedging instruments are in line with best market practice and both retrospective and prospective measures of effectiveness comply with the regulatory framework:

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

  The formula used for the retrospective measurement of the hedge is as follows:

$$80\% \geq \frac{(PV\ variation + realised\ in\ the\ month)\ of\ hedging\ elements}{(PV\ variation + realised\ in\ the\ month)\ of\ hedged\ elements} \leq 125\%$$

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

  Reconciliation: operation cash flows already settled.

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

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

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

In fair value hedges, differences in the value of both the hedging items and the hedged items, in respect of the portion corresponding to the type of risk hedged, are recognised in the profit and loss account. In fair value macro-hedging, the valuation differences of hedged items, attributable to interest rate risk, are directly recognised in profit or loss, but their balancing entry, instead of being recognised under hedged items, is recognised under "Asset – Fair value changes of the hedged items in portfolio hedge of interest rate risk" or "Liability – Fair value changes of the hedged items in portfolio hedge of interest rate risk", depending on the nature of the hedged item.

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

The Group individually hedges the market risk associated with derivatives arranged with customers by arranging symmetrical derivatives on the market, recognising both in the trading book. In this way, the market risk arising from these operations is not significant.

2.3. Reclassification of financial instruments

As required by IFRS 9, assets shall be reclassified if the business model objective for a group of financial assets changes significantly, although the standard establishes that this should rarely take place. It is assumed that the business model for an asset or class of financial assets changes when the entity's strategy for this assets or asset class changes. In this regard, it is assumed that, once a financial asset is reclassified because the business model for this asset has changed, the business model adopted by the entity for the asset will not change again until after a period of at least 18 months.

At 31 December 2021 and 2020 there are no financial assets that have been reclassified between portfolios.

The standard does not allow for the reclassification of financial liabilities.

2.4. Asset Encumbrance

See Note 5.3.2.

2.5. Offsetting financial assets and liabilities

Financial assets and liabilities will be offset and, as a result, presented in the statement of financial position with their net value only if there is the legally enforceable right to offset the amounts of these instruments, 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 be contingent on a future event and must be legally enforceable under all circumstances, including cases of default or insolvency of any of the parties.

- Settlements that meet the following conditions will be considered equivalent to "net settlements": all or practically all of the credit and liquidity risk is eliminated, and the settlement of the asset and liability is performed in a single settlement process.

At 31 December 2021 and 2020, the Group does not report any transactions presented for the net amount.

2.6. Derecognition of financial instruments

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

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

Therefore:

- If the risks and rewards inherent to the ownership of the financial asset are substantially transferred to third parties (such as in the case of unconditional sales, sales with a repurchase agreement at fair value on the repurchase date, the sale of financial assets with a put or call option that is deep out of the money, or asset securitisation where the transferring party does not retain a subordinated debt or grant any credit enhancement to the new holders, among others), the asset is derecognised in the statement of financial position, and any rights or obligations retained or created in the transfer are simultaneously recognised.

- If the risks and rewards of ownership of the transferred financial asset are substantially retained (such as in the case of sale of financial assets with a repurchase agreement at a fixed price or at the sale price plus the lender's normal return, securities lending agreement under which the borrower undertakes to return the same or similar assets, and other similar cases), the asset is not derecognised and continues to be measured by the same criteria used prior to the transfer. The following are also recognised:

  - An associated financial liability for an amount equal to the consideration received, which is subsequently measured at amortised cost, unless it meets the requirements for classification under other liabilities at fair value through profit or loss.

  - The income generated on the financial asset transferred but no derecognised and the expenses of the new financial liability, without offsetting.

- If the risks and rewards of ownership of the transferred financial asset are neither substantially transferred nor retained (such as in the case of sale of a financial asset with a put or call option that is neither deep in the money nor deep out of the money, asset securitisations in which the transferor assumes a subordinated debt or other type of credit enhancement for portion of the transferred asset, and other similar cases), the following distinction is made:

- If the transferor does not retain control over the financial asset transferred, it is derecognised and any rights or obligations retained or created in the transfer are recognised.
- If the transferor retains control over the financial asset transferred, it continues to recognise the asset for an amount equal to its exposure to changes in value, recognising a liability associated with the financial asset transferred. 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 at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

At 31 December 2021 and 2020, the Group has no securitisations of financial assets outstanding.

Furthermore, financial liabilities shall be derecognised when the obligations under the contract have been paid or cancelled, or when they expire.

2.7. Financial guarantees

2.7.1 Financial guarantees given

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

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

When financial guarantees and guarantee contracts are formalised, they are recognised at fair value plus the transaction costs, understood as the premium received plus the present value of the future cash flows, under assets in "Financial assets at amortised cost – Loans and advances", with the balancing entry under "Financial liabilities at amortised cost – Other financial liabilities". The fair value changes of contracts are recorded as financial income in profit or loss.

The portfolios of financial guarantees and guarantee contracts, regardless of the holder, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, estimate any provision required. In this process, similar criteria to those established to quantify the impairment losses on debt securities measured at amortised cost are applied, as mentioned in Note 5.2.1.1.

The provisions constituted for these arrangements are recognised under "Provisions – Commitments and guarantees given" in liabilities in the statement of financial position. Allowances and reversals of provisions are recognised in "Provisions or reversal of provisions" in the profit and loss account.

Should it become necessary to establish a specific provision for financial guarantee contracts, any fees that may accrue will be reclassified from "Financial liabilities at amortised cost – Other financial liabilities" to "Provisions – Commitments and guarantees given".

2.7.2 Financial guarantees received

The Group has not received significant guarantees that it is authorised to sell or pledge without default by the holder of the guarantee.

2.8. Financial asset impairment

A financial asset is impaired when there is objective evidence of a negative impact on the future cash flows that were estimated at the time the transaction was formalised, because the borrower is or will be unable to meet its contractual commitments in time and form or when the carrying amount may not be recovered in full. A decrease in fair value below the acquisition cost does not in itself constitute evidence of impairment.

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

In general, the correction of the carrying amount of financial instruments due to their impairment is charged to "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses" in the profit and loss account for the period in which the impairment becomes evident. The recoveries, if any, of previously recognised impairment losses are recognised under the same item in the profit and loss account for the period in which the impairment is eliminated or reduced.

2.8.1. Debt instruments measured at amortised cost

2.8.1.1. Classification based on insolvency risk

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

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

- **Normal risk with a significant increase in credit risk (Stage 2)**: includes all operations that, while not qualifying for individual classification as non-performing or write-off, show significant increase in credit risk from the initial recognition.

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

  In order to determine the significant increase in credit risk of the operations since their initial recognition, the Group has defined a threshold based on the negative variation in the borrower's internal rating equivalent to a decrease of two rating levels since the initial recognition of the operation, provided that this decrease has led the borrower to a rating level equal to or lower than 6 (as this would show that the conditions originally agreed are significantly different if the operation were to be initiated or issued again at the reference date). In this regard, the following are the main factors (watchlist factors) that are considered when assessing the rating and that, therefore, are taken into account when classifying an operation as normal risk with a significant increase in credit risk:

  - adverse changes in the financial position, such as a significant increase in debt levels, as well as significant increases in debt service ratios, defined as the ratio of debt to operating cash flows;

  - significant declines in business volume or, in general, recurring cash flows;

  - significant reduction in operating margins or recurring income available;

  - slowdown of business or unfavourable trends in the holder's operations that could cause a significant change in the holder's ability to meet their debt obligations sustainably;

  - for operations with collateral, a significant deterioration in the ratio of the amount to the value of the guarantee, due to the unfavourable evolution of the value of the guarantee, or to the maintenance or increase of the amount pending depreciation due to the fixed payment terms (such as extended moratoria on principal payments, increasing or flexible instalments, or longer terms);

- significant increases in the credit risk of the holder's other operations or significant changes in the holder's expected payment behaviour;
- significant increase in credit risk due to problems in troubled groups to which the holder belongs or a significant adverse change in the performance of the sector of economic activity to which the holder belongs, as well as an increase in difficulty for the economic group of related borrowers to which the holder belongs;
- adverse changes in the regulatory or technological environments in which the holder operates;
- pending litigation of the holder that could materially affect its financial position;
- holders declared insolvent (when classification as non-performing for reasons other than arrears is not appropriate).

In the absence of evidence to the contrary, the following are classified as normal risk with a significant increase in credit risk:

- operations with amounts more than 30 days past due;
- operations with amounts more than 30 days past due on three occasions in the same financial year (the classification will be maintained for no less than 3 months from the day on which the third non-payment of over 30 days occurred);
- operations with contractual payment flows with a frequency greater than the monthly payment when there are amounts more than 10 days past due (the classification will be maintained at least until the unpaid and subsequent instalments are collected);
- non-performing assets due to arrears that no longer have amounts past due for a period of more than 90 days (the classification as normal risk with significant increase in credit risk will be maintained for no less than 3 months, and provided that there is no objective evidence of impairment).

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

- after a thorough review of the holder's asset and financial position, it has been concluded that they are unlikely to have financial difficulties and, therefore, it is highly probable that they will meet their obligations vis-a-vis the entity in both time and form;
- a minimum period of 2 years has elapsed since the date of formalisation of the restructuring or refinancing operation or since the date of reclassification from the category of non-performing, whichever is later;
- the holder has paid the principal and interest fees accrued from the date on which the restructuring or refinancing operation was formalised or from the date of reclassification from the category of non-performing, whichever is later. The following will also be required:
    - the holder has satisfied, by means of regular payments, an amount equivalent to the whole amount (principal and interest) falling due at the date of the restructuring or refinancing operation, or which was derecognised as a result of this operation;
    - or, when deemed more appropriate given the characteristics of the operations, other objective criteria have been verified demonstrating the holder’s payment capacity. If there are contractual clauses that delay repayment, such as moratoria on the principal,

the operation will remain classified as normal risk with a significant increase in credit risk until the criteria described in this section are met;

- the owner has no other operations with amounts more than 30 days past due at the end of the trial period.

During the 2-year period, further refinancing or restructuring of the refinancing, refinanced or restructured operations, or the existence of amounts that are more than 30 days past due in these operations, will mean that the operations are reclassified as non-performing for reasons other than arrears, provided that they were classified as non-performing before the start of the trial period.

In general terms, without prejudice to the criteria identified above, Stage 2 operations are reclassified as normal risk as soon as the indications and/or weaknesses identified that warranted the special watchlist classification disappear. Conversely, if these indications and/or weaknesses are confirmed, the operations become classified as non-performing.

The impact of the COVID-19 pandemic on the credit quality of the portfolio has not entailed any additional criteria for significant increase in credit risk besides the considerations explained in Note 5.2.1.5.

- **Non-performing (Stage 3)**: includes debt instruments, whether or not past due, which, without meeting the circumstances for classification as write-off, present reasonable doubts regarding their full repayment (principal and interest) by the holder in accordance with the contractual terms agreed, as well as off-balance sheet exposures for which payment is doubtful.

  The classification of operations as non-performing 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 as non-performing is carried out without considering the guarantees associated with these operations.

  Due to customer arrears: includes the total amount of debt instruments, regardless of the holder or the guarantee, that have amounts due on principal, interest or any other cost contractually agreed upon, more than 90 days past due, unless they are classified as write-offs. This category also includes guarantees given where the guarantee holder has defaulted.

  All operations of a holder or group of holders are also classified as non-performing due to arrears when operations with amounts more than 90 days past due account for more than 20% of the outstanding amounts of all operations of a holder or group of holders. For the sole purpose of determining the aforementioned percentage, the numerator shall be the gross carrying amount of non-performing operations due to arrears with past-due amounts and the denominator shall be the gross carrying amount of all debt instruments granted to the holder.

  For overdrafts and other demand debit balances with no agreed maturity, the period for calculating the time for which the amounts are past due shall be counted from the starting date of the debit balance.

  For transactions with periodic repayment instalments, the date of first maturity for the purposes of classifying transactions in this category shall be the date of the earliest instalment for which any amount of principal, interest or contractually agreed charges remains overdue.

  For operations refinanced or restructured in order to avoid classification as non-performing due to arrears or to remain in the non-performing category, the date of the earliest past due amount that has been refinanced or restructured and remains outstanding, whether or not the refinanced or restructured operations have past due amounts, shall be considered as the date for the calculation of their time past-due, for the purpose of determining whether classification as non-performing is appropriate. For these purposes, overdue amounts are considered to be those amounts that were past due at the date of refinancing and the due date is considered to be the date on which they would have been due had refinancing not taken place.

Unless other reasons for classification as non-performing persist, operations classified in this category are reclassified as normal with a significant increase in credit risk if, as a result of the collection of part of the overdue amounts, the reasons for the classification as non-performing as indicated in the previous paragraphs disappear and the holder has no amounts more than 90 days past due in other operations at the date of reclassification to the normal risk category. In this regard, non-performing assets due to arrears that are no longer 90 days past due are kept in the category of normal with a significant increase in risk for a period of no less than 3 months.

For reasons other than customer arrears: includes debt instruments, whether or not overdue, which, without the circumstances for classification as write-offs or non-performing due to customer arrears, present reasonable doubts as to their full repayment (principal and interest) within the contractually agreed terms, as well as off-balance-sheet exposures not classified as non-performing due to holder arrears, for which default is likely and the recovery doubtful.

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

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

Thus, in general terms, this category includes the operations of holders that, following an individualised review, are found to be in situations that entail an impairment of their solvency.

In addition to the operations classified in this category following an individualised review, operations that meet any of the following criteria shall be classified as non-performing for reasons other than arrears:

- operations with legally claimed balances or in respect of which the Group has decided to pursue legal claims for repayment, even if they are secured, as well as operations in respect of which the debtor is involved in litigation, the collection of which depends on the resolution of said litigation;
- operations in which the collateral execution process has been initiated, including financial leasing operations in which the entity has decided to terminate the contract to recover possession of the asset;
- operations of holders that are or will be declared bankrupt without an application for liquidation;
- guarantees granted to parties declared bankrupt for which it is known that the liquidation phase has been or is to be declared, or that are suffering a manifest and irrecoverable deterioration in solvency, even if the beneficiary of the guarantee has not claimed payment;

- refinancing operations which, having been classified as non-performing and being classified as normal with a significant increase in credit risk during the trial period, are refinanced or restructured again or become past due by more than 30 days.

Operations that have moratoria on principal and interest are classified as non-performing, unless the total recovery of contractual cash flows can be justified, in which case the Group classifies them as normal with a significant increase in credit risk or normal, depending on the characteristics of the operation.

The impact of the COVID-19 pandemic on the credit quality of the portfolio has not entailed any additional criteria for classification as non-performing besides the considerations explained in Note 5.2.1.5.

In the absence of evidence to the contrary, refinancing, refinanced or restructured operations that comply with any of the following criteria are reclassified to the non-performing category:

- they are based on an inadequate payment plan. Among other assumptions, an adequate payment plan is considered not to exist when it has been repeatedly defaulted on, has been modified to avoid defaults or is based on expectations that are not confirmed by macroeconomic forecasts;
- they include contractual clauses that delay the repayment of the operation through regular payments. Among others, moratoria of more than 2 years for amortisation of the principal will be considered as such clauses;
- they present amounts derecognised from the statement of financial position as unrecoverable that exceed the hedges that would result from applying the percentages established for the risk segment corresponding to alternative solutions for normal risk with a significant increase in credit risk.

The refinancing or restructuring of an operation that was previously classified as non-performing:

- will not result in reclassification to the category of normal risk with a significant increase in credit risk or normal. In order to consider that the credit quality of the operation has improved, the holder must consistently demonstrate for a period of time its capacity to meet payments under the new contractual conditions;
- it will require an analysis to determine if the whole financial asset will need to be derecognised from the statement of financial position in line with the policies established to that effect. When derecognition occurs, the new recognised financial asset will be a financial asset acquired or originated with credit impairment; when the existing asset is not derecognised, the Group will continue to classify it as non-performing, proceeding, if appropriate, to partially derecognise the asset for which it no longer has rights or the written-off amounts.

In order to reclassify a refinanced or restructured operation as normal with a significant increase in credit risk, it will be necessary to verify all the criteria that generally determine the classification of operations in this category and the specific criteria set out below:

- it has been concluded, following an exhaustive review of the holder's assets and financial situation, that the holder is not likely to get into financial difficulties;
- a period of one year has elapsed since the date of refinancing or restructuring;
- the holder has paid the overdue instalments of principal and interest, and the renegotiated principal has been reduced, from the date on which the restructuring or refinancing operation was formalised or, if later, from the date on which the operation was reclassified as non-performing. Consequently, the operation may not have overdue amounts. The following will also be required:

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

Therefore, if there are contractual clauses that delay repayment, such as moratoria on the principal, the operation will remain classified as non-performing until the criteria described in this point are met.

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

When the holder exercises the use of implicit restructuring or refinancing clauses, the entity will have to analyse the reasons for which the holder has exercised these clauses and determine whether the operation should be classified as non-performing.

The risks of holders declared bankrupt without an application for liquidation are reclassified to the category of normal risk with a significant increase in credit risk when the borrower has paid at least 25% of the entity's claims affected by the bankruptcy (after deducting, where applicable, the agreed write-off), or two years have elapsed since the approval of the creditors' agreement, provided that this agreement is being faithfully complied with and that the evolution of the company's assets and financial position eliminates any doubt as to the full repayment of the debts, unless interest rates notably below market rates have been agreed.

The risks that may arise following approval of the creditors' agreement will not need to be classified as non-performing provided that the agreement is complied with and there are no reasonable doubts as to collection.

Unless there are other reasons to classify them as non-performing, operations classified in this category may be reclassified as performing if the reasonable doubts as to their full repayment within the contractually agreed terms disappear and if the holder has no more amounts over 90 days past due in other operations at the date of reclassification to the category of normal risk.

- **Write-off risk:** this category includes debt instruments, whether or not overdue, which, after being individually analysed, are considered to have remote recovery possibilities and the assets are derecognised, notwithstanding the actions that the Group may undertake in order to try to collect them until their rights have been definitively extinguished, expiry of the statute-of-limitations period, forgiveness or any other cause.

2.8.1.2. Risk hedging

The Group calculates the amount necessary to hedge the risk attributable to the holder provided that this risk has not been transferred to write-off. The calculated hedge or provision is defined as the difference between the operation’s gross carrying amount and the present value of the estimated cash flow expected to be collected, discounted at the effective interest rate of the operation. In this regard,

- for the purpose of hedge estimation, the amount of risk is the gross carrying amount for debt instruments, and the estimate of the amounts expected to be paid out for off-balance-sheet exposures;

- the calculation of the present value of the estimated future cash flows of a financial asset with effective guarantees shall reflect the cash flows that could result from the realisation of those guarantees, less the costs of obtaining and selling the guarantee, whether realisation of the guarantee is probable or not.

In line with applicable regulations, the coverage calculation method is set according to whether the borrower is individually significant (single name) and its accounting classification. For single name borrowers (see the cases identified in the following paragraph), the specific hedge of operations is estimated on an individual basis, and the rest are treated collectively.

Based on the credit risk management and monitoring criteria, for the financial year 2021 and 2020, the Group considers individually significant / relevant (single name) borrowers to be those that meet any of the following conditions:

- Borrowers in situations other than non-performing and a total exposure exceeding 5% of the Group's own funds.

- Borrowers in non-performing situations with a total exposure exceeding EUR 3 million.

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 impairment (not non-performing) with regard to being eligible for analysis using individualised expert models. This decision is based on the fact that, due to their size, it would be difficult for these operations to be considered consistent with the others and they therefore do not meet the condition of homogeneity that is the basis for conducting collective 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 should be included in the pool for individual analysis, even if *a priori* the guidelines set by the Group are met in order to be eligible for the collective calculation. This is due to the fact that the Credit Risk Unit has the necessary information to determine whether a borrower or an operation has specific characteristics that make its behaviour, in terms of credit risk monitoring and recovery, not consistent with the other members of the segment to which it belongs (internal rating or product).

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

2.8.2. Debt securities classified as financial assets at fair value through other comprehensive income

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

When there is objective evidence that the negative differences arising in the measurement of these assets are due to impairment, they are no longer presented in equity under "Other comprehensive income – Items subject to reclassification to profit or loss – Fair value changes of financial assets measured at fair value through other comprehensive income", and the amount considered as accumulated impairment up to that point is recognised in the profit and loss account. In the event of subsequent recovery of all or part of the impairment losses, this amount is recognised in the profit and loss account for the period in which the recovery arose.

2.8.3. Equity instruments classified as financial assets at fair value through other comprehensive income

When there is objective evidence of impairment, such as a 40% decrease in fair value or continued losses over a period of more than 18 months, unrealised losses are recognised following the criteria for recording impairment losses applied to debt securities classified as financial assets at fair value through other comprehensive income, with the exception that any recoveries arising from said losses are recognised under net equity in "Accumulated other comprehensive income – Items not subject to reclassification to profit or loss – Fair value changes of equity instruments measured at fair value through other comprehensive income".

In determining whether impairment exists, the Group takes into account whether there are factors in the technological, market, legal or other context in which the entity operates that may indicate that the cost of the investment may not be recoverable. In addition, the volatility shown by each individual security in its price is also taken into account to determine whether it is a percentage recoverable through sale on the market. These considerations may lead to the existence of different thresholds for certain securities or sectors from those mentioned in the previous paragraph.

2.8.4. Equity instruments measured at acquisition cost

Impairment losses of equity instruments measured at acquisition cost are equivalent to the positive difference between their carrying amount and the present value of the expected future cash flows, discounted at the market rate of return for similar securities. In estimating the impairment of this class of assets, the equity of the subsidiary is taken into consideration, except for "Accumulated other comprehensive income" due to cash flow hedges, determined on the basis of the latest approved statement of financial position, adjusted for unrealised gains existing at the measurement date.

Impairment losses are recognised in the profit and loss account for the period in which they occur, and directly reduce the cost of the instrument.

2.9. Foreign currency transactions

The Group's functional and presentation currency is the euro. Consequently, all non-euro balances and transactions are foreign currency balances and transactions.

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

All foreign currency transactions are recorded, on initial recognition, by applying the spot exchange rate between the functional currency and the foreign currency.

Foreign currency monetary items, including unmatured foreign exchange purchase and sale transactions considered as hedges, are translated to euros using the exchange rate on the date they occurred or, otherwise, by using the average exchange rate for the period. Non-monetary items measured at historical cost are translated to euros using the exchange rate on the date of acquisition, and non-monetary items measured at fair value are translated at the exchange rate on the date fair value was determined.

Unmatured forward foreign exchange transactions not considered hedges are measured at the year-end exchange rates on the forward currency market.

Below are the year-end exchange rates.

	31.12.21	31.12.20
US dollar	1.1326	1.2271
Swiss franc	1.0331	1.0802
Pound sterling	0.8403	0.8990
Japanese yen	130.38	126.49
Canadian dollar	1.4393	1.5633

The exchange rate differences arising when translating balances from foreign currency to the Group's functional currency are recorded, as a general rule, in the profit and loss account under "Exchange rate differences (gain or loss), net". The exchange rate differences arising from changes in the value of non-monetary items are recorded in equity under "Accumulated other comprehensive income – Items subject to reclassification to profit or loss – Foreign currency translation" in the statement of financial position until they are realised, while exchange rate differences in financial instruments classified at fair value through profit or loss are recorded in the profit and loss account, without distinguishing them from other changes in their fair value.

The following criteria are applied for the integration of the individual financial statements of foreign subsidiaries with a functional currency other than the euro into the Group's financial statements:

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

- The resulting exchange rate difference is recorded in equity under "Accumulated other comprehensive income – Items subject to reclassification to profit or loss – Foreign currency translation" in the statement of financial position, until derecognition of the item to which it corresponds, at which time it will be reclassified in the profit and loss account.

2.10. Recognition of income and expenses

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

2.10.1. Income and expenses from financial assets and liabilities

Income and expenses from financial instruments at amortised cost are recognised under the following criteria:

- Accrued interest is recorded in the profit and loss account using the effective interest rate of the operation on the gross carrying amount of the operation (except in the case of non-performing assets, in which case it is applied to the net book value).

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

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

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

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

- the amount of the change in the fair value of the financial liability attributable to changes in the credit risk inherent in this liability is recognised in other comprehensive income, which would be transferred directly to a reserve item if this financial liability was derecognised; and

- the remaining amount of the change in fair value of the liability is recognised in profit or loss for the year.

The income and expenses of financial assets at fair value through other comprehensive income are recognised in accordance with the following criteria:

- The accrued interest or, where applicable, the accrued dividends will be recognised in the profit and loss account. Interest is treated in the same way as assets at amortised cost.

- Exchange rate differences are recognised in the profit and loss account when it concerns monetary financial assets, and in other comprehensive income in the case of non-monetary financial assets.

- In the case of debt instruments, impairment losses or gains due to subsequent recovery are recognised in the profit and loss account.

- The remaining value changes are recognised in other comprehensive income.

Therefore, when a debt instrument is measured at fair value through other comprehensive income, the amounts that will be recognised in profit or loss for the year will be the same as those that would be recognised if it were measured at amortised cost.

When a debt instrument at fair value through other comprehensive income is derecognised from the statement of financial position, the accumulated loss or gain in net equity is reclassified and passed to the result for the period.

On the other hand, when an equity instrument at fair value through other comprehensive income is derecognised from the statement of financial position, the amount of the loss or gain recorded in accumulated other comprehensive income is not reclassified to the profit and loss account, but rather to a reserve item.

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

2.10.2. Fees and commissions

The recording of fee and commission income and expenses in the profit and loss account differs according to their nature.

- Financial fees, such as loan and credit origination fees, are part of the comprehensive income or effective cost of a financial transaction and are recognised under the same item as financial outputs or costs, i.e., "Interest income" and "Interest expenses". Commissions collected in advance are recorded during the life of the operation, unless the related direct costs are offset.

- For financial instruments measured at fair value through profit or loss, the commission amount is recorded immediately in the profit and loss account.

- Non-financial fees and commissions derived from the provision of services are recorded under "Fee and commission income" and "Fee and commission expense" throughout the service provision period, except for those relating to a single act, which are accrued when they occur.

2.10.3. Non-financial income and expense

Recognised for accounting purposes with the criterion for accrual.

2.10.4. Deferred collections and payments

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

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

Investment funds and pension funds managed by the consolidated companies are not recorded in the Group's consolidated statement of financial position as their assets are owned by third parties. The fees and commissions accrued during the financial year for this activity are recorded under "Fee and commission income" in the profit and loss account.

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

2.12. Employee benefits

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

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

2.12.1. Short-term employee benefits

These are employee benefits (other than severance payments) which fall due wholly within twelve months after the end of the reporting period arising from services rendered by employees in this period. It includes wages, salaries and social security contributions; paid annual leave and paid sick leave; profit-sharing and bonuses; and non-monetary benefits payable to employees such as medical care and free or subsidised goods or services.

The cost of services rendered is recognised under "Administrative expenses – Staff expenses" in the profit and loss account.

2.12.2. Post-employment benefits

Post-employment benefits are all benefits which the Group has assumed with its employees and which will be settled before the end of their employment with the Group. These include retirement benefits, such as pensions and lump payments on retirement, and other post-employment benefits, such as post-employment life insurance and post-employment medical care.

2.12.2.1. Defined contribution plans

The Group's post-employment obligations to its employees are considered defined contribution obligations when fixed contributions are paid into a separate entity, with no legal or constructive obligation to pay further contributions if the separate entity is unable to pay employee benefits related to services rendered in the current and prior periods. The contributions made under this item in each financial year are recorded under "Administrative expenses – Staff expenses" in the profit and loss account.

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

2.12.2.2. Defined benefit plans

The present value of the defined post-employment benefits is recorded under liabilities in "Provisions – Pensions and other defined post-employment benefit obligations" of the statement of financial position, net of the fair value of plan assets (see Notes 22 and 22.1).

Plan assets are considered to be those assets out of which the plan's obligations are to be settled directly and which meet the following conditions:

- They are not owned by the Group but by a legally separate and unrelated third party.

- They are only available to pay or fund 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 fund are sufficient to meet all the related employee benefit obligations of the plan or of the Group or serve to reimburse post-employment benefit that the Group has already paid to employees.

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

The consolidation process incorporates the assets and liabilities of Crèdit Assegurances SAU, which include the mathematical provisions of the policies entered into, which means that in the consolidation process the amount recorded under “Other assets – Insurance contracts linked to pensions” is removed and the item “Liabilities under insurance and reinsurance contracts” is reduced by the same amount.

Post-employment benefits are recognised as follows:

- The cost of the services is recognised in the profit and loss account and includes the following items:
    - The cost of the services in the current period, understood as the increase in the present value of the obligations resulting from employee service in the current period, is recognised under “Administrative expenses – Staff expenses”.
    - The cost of past services, resulting from changes introduced in existing post-employment benefits or the introduction of new benefits, as well as the cost of reductions, is recognised under “Provisions or reversal of provisions”.
    - Any gain or loss on settlement of the plan is recorded under “Provisions or reversal of provisions”.
- The net interest on the liability/(asset) net of defined post-employment benefits, understood as the change during the period in the net liability/(asset) for defined benefits that arise over time, is recognised under “Interest expenses”, or “Interest income” in the case of income, in the profit and loss account.
- The revaluation of the net liability/(asset) for defined post-employment benefits is recognised under “Accumulated other comprehensive income” in net equity.
    - Actuarial gains and losses generated during the period due to the difference between previous actuarial assumptions and reality, and changes in the actuarial assumptions used.
    - The return on plan assets, excluding the amounts included in the net interest on the liability/(asset) for defined post-employment benefits.
    - Any change in the effect of the asset ceiling, excluding the amounts included in the net interest on the liability/(asset) for defined post-employment benefits.

However, different Group companies have other retirement remuneration plans, 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 employee benefits, understood as obligations with pre-retired employees (those who have ceased rendering services but who, without being legally retired, continue to enjoy economic rights until they acquire the status of legally retired), are treated for accounting purposes as per the previously established defined post-employment benefit plans, with the exception that actuarial losses and gains are recognised in the profit and loss account under “Provisions or reversal of provisions”.

2.12.4. Termination benefits

This obligation may result from the termination of the employment relationship between the Group and the employee following the Group’s decision to terminate it, the creation of a valid expectation in the employee or the decision by an employee to accept benefits by means of an irrevocable offer from the Group in exchange for terminating the employment contract.

A liability and an expense are recognised when the Group can no longer withdraw the offer of those benefits made to employees or when the costs for a restructuring that involves the payment of termination benefits is recognised. These amounts are recorded as a provision under “Provisions – Other long-term employee benefits” in liabilities of the statement of financial position, until they are settled.

2.13. Taxes

2.13.1. Income tax

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

The income tax expense is considered an expense for the financial year and is recognised in the profit and loss account, unless it is the consequence of a transaction recognised directly in net equity. In this case, its corresponding tax effect is recorded in net equity.

The income tax expense is calculated as the sum of the current tax 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 allowable tax deductions.

Temporary differences, tax loss carryforwards pending offset and unused tax credits are recognised as deferred tax assets and/or deferred tax liabilities. These amounts are recognised at the rate at which they are expected to be recovered or settled.

All tax assets are recorded under "Tax assets" on the asset side of the statement of financial position and are segregated by current tax assets, for amounts to be recovered in the next twelve months, and deferred tax assets, for amounts to be recovered in subsequent financial years.

Similarly, tax liabilities are recognised under “Tax liabilities” in the statement of financial position, and they are also segregated by current and deferred. Current tax liabilities include the amount to be paid for tax in next twelve months and deferred tax liabilities include the amount expected to be settled in subsequent financial years.

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

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

2.13.2. General indirect tax (IGI)

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

On 3 June 2014, the General Council of the Principality of Andorra passed Law 10/2014, amending Law 11/2012 on general indirect tax, which entered into force on 1 July 2014. This Law limits the deduction of input tax only applicable to the financial sector. This special regime sets a maximum annual deduction amount equivalent to 10% of the output tax up to the limit of the input tax incurred in taxable activity but without taking into account transactions involving real estate.

The Group recognises, under “Tax assets – Current tax assets” on the asset side of the statement of financial position, the transitory balances corresponding to input IGI and, under «Tax liabilities – Current tax liabilities» on the liabilities side of the statement of financial position, the transitory balances corresponding to output IGI until the final settlement with the corresponding body has taken place.

The Group recognises non-deductible input tax as an expense.

2.13.3. Income tax for non-tax residents

On 29 December 2010, Law 94/2010 on income tax for non-residents was passed, which taxes income from economic activities conducted in Andorra by individuals or entities that are not tax residents and income from employment received by individuals who are not tax residents.

The tax rate for taxpayers of this tax is 1.5% for reinsurance operations, 5% for fees and 10% in general.

The Group recognises, under “Tax assets – Current tax assets” on the asset side of the statement of financial position, the transitory balances corresponding to the collection of income tax of non-tax residents until the final settlement with the corresponding body has taken place.

2.13.4. Law 5/2014 of 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, which came into force on 1 January 2015.

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

This tax is levied on the savings of individual taxpayers, among other things. Specifically, interest and other financial income (income from movable capital), as well as capital gains or losses, at a tax rate of 10%.

The Group recognises, under “Tax liabilities – Current tax liabilities” on the liabilities side of the statement of financial position, the transitory balances corresponding to the collection of personal income tax until the final settlement with the corresponding body has taken place.

2.14. Tangible assets

This includes the amount of property, land, furniture, vehicles, computer equipment and other facilities acquired through ownership or under a lease. “Tangible assets” on the asset side of the statement of financial position are broken down into two items: “Property, plant and equipment” and “Investment property”.

The first records the tangible assets for own use and assets leased out under an operating lease. Property, plant and equipment for own use are assets held by the Group for current or future administrative purposes or for the production or supply of goods or services expected to be used during more than one period.

“Investment property” includes the assets that are held to be leased or to obtain capital gains via their sale.

Tangible assets are generally stated at acquisition cost, less accumulated depreciation and value correction resulting from comparing the net value of each item with the corresponding recoverable amount.

Depreciation is calculated by applying the straight-line method to the acquisition cost of the assets less their residual value. Land is not depreciated as it is considered to have an indefinite life.

The depreciation charge of tangible assets is recognised with a balancing entry under “Depreciation and amortisation” in the profit and loss account and is calculated basically using the depreciation rates set out in the table below, which are based on the years of estimated useful life of the various assets.

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

Depreciation of right-of-use assets is recognised in the profit and loss account under "Depreciation and amortisation" on the basis of the shorter of the useful life of the underlying asset and the term of the lease to which they relate. The lease terms are between 1 year and 20 years.

At the close of each reporting period, the Group analyses whether there is evidence that the net carrying amount of its tangible assets exceeds their recoverable amount, understood as the higher of the fair value less costs to sell and value in use.

If evidence is found, an impairment test is carried out to verify if it is necessary to recognise an impairment loss. If this is the case, it is recorded under “Net impairment or reversal of impairment on non-financial assets” in the profit and loss account, and the book value of assets is reduced to the recoverable amount.

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

Similarly, when there is evidence of a recovery in the value of the assets, a reversal in the impairment loss recognised in prior periods is recorded and the future depreciation charges are adjusted. Under no circumstances may the reversal of an impairment loss of an asset represent an increase in its carrying amount greater than it would have been if no impairment loss had been recognised in prior years.

Likewise, the estimated useful life of tangible assets is reviewed each year or whenever indications are observed that make it advisable to do so, and, where appropriate, the depreciation charges are adjusted in the profit and loss account for future periods.

Upkeep and maintenance expenses are recognised under “Administrative expenses – Other administrative expenses” in the profit and loss account. Similarly, operating income from investment properties is recognised under “Other operating income” in the profit and loss account, while the associated operating expenses are recorded under “Other operating expenses”.

2.15. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, arising due to acquisition from third parties or developed internally.

2.15.1. Goodwill and differences from first consolidation

Goodwill and the difference arising from the first consolidation represent the advance payment made by the acquirer for future economic benefits from assets that could not be individually identified and separately recognised. Goodwill is only recognised when it has been acquired by valuable consideration.

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

- The consideration transferred plus, as appropriate, the fair value of any previously-held equity interest in the acquiree and the amount of minority interests.

- The net fair value of the identifiable assets acquired less the liabilities assumed.

Goodwill is recognised under “Intangible assets – Goodwill” and it is not amortised.

At the close of each reporting period, or in the event of indications of impairment, an estimate is made of any impairment that reduces the recoverable amount below the recorded net cost, and if impairment is found, the goodwill is remedied with a corresponding balancing entry under “Impairment or reversal of impairment on non-financial assets – Goodwill” in the profit and loss account. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.15.2. Other intangible assets

This item includes the amount of identifiable intangible assets – intangible assets from business combinations and computer software, among other items.

They have an indefinite useful life when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the Group, and a finite useful life in all other cases.

Intangible assets with an indefinite useful life are not amortised. However, at the close of each reporting period, or whenever there is an indication of impairment, the remaining useful lives are reviewed in order to determine whether they continue to be indefinite and, if this is not the case, in order for the appropriate steps to be taken.

Intangible assets with finite useful lives are amortised over those useful lives using criteria similar to those adopted for the amortisation of tangible assets.

The depreciation expense for these assets is recognised under “Depreciation and amortisation” in the profit and loss account and is calculated basically using the depreciation rates set out in the table below, which are based on the years of estimated useful life of the various assets.

Useful life of intangible assets	
Computer software	5 to 10 years
Other	5 to 10 years

With regard to the information in the above table, the general rule of the Group is to amortise the intangible assets with a finite useful life over a maximum of 5 years, although there are certain assets which, due to their characteristics, specificities and relevance, are amortised over 10 years. These assets relate mainly to (1) the banking core (Avaloq), and (2) customer portfolios acquired as part of business combinations for which, in the valuation process of the acquired businesses, a useful life of 10 years or more was considered.

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

2.15.2.1. Internally developed computer software

Internally developed computer software is recognised as an intangible asset if, among other requisites, there is the possibility to use or sell it, it can be identified and the possibility of it generating future economic benefits can be demonstrated.

Expenses incurred during the research phase are recognised directly in profit or loss in the period in which they are incurred and may not subsequently be included in the carrying amount of the intangible asset.

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

Assets recorded under these items in the statement of financial position record the carrying amount of individual items, or items that are part of a disposal group or forming part of a business unit to be disposed of (discontinued operations), the sale of which is highly likely to be completed in the assets' present condition within one year from the reporting date. In addition, it is possible to classify as held-for-sale assets those that are expected to be disposed of within one year but with a delay caused by events and circumstances beyond the Group's control and for which there is sufficient evidence that the Group remains committed to its plan to sell. The recovery of the carrying amount of these items is expected to take place through the price obtained on disposal.

Specifically, real estate or other non-current assets received in full or in part settlement of debtors' payment obligations under credit operations are classified as "Non-current assets and disposal groups classified as held for sale" unless it has been decided to make continuous use of these assets.

Non-current assets held for sale are generally initially measured at the lower of the carrying amount of the financial assets applied and the fair value less costs to sell of the asset to be foreclosed:

- For the estimation of the hedges of the financial assets applied, the recoverable guarantee amount is taken as the fair value less the estimated sales costs of the asset foreclosed when the Group's sale experience confirms its ability to realise this asset at its fair value. This recalculated carrying amount is compared with the previous carrying amount, and the difference is recognised as an increase or a release of provisions, as appropriate.

- To determine the fair value less costs to sell of the asset to be foreclosed, the Group uses as a benchmark the market value given in appraisals carried out by independent experts at the time of the foreclosure or receipt of the asset. An adjustment for sales costs is applied to this market value.

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

To do so, the Group updates the benchmark valuation serving as an estimate of the fair value no more frequently than every 1 to 2 years. This fair value is determined on the basis of appraisals or valuations carried out by independent experts that are not older than 2 years. With regard to assets appearing in the statement of financial position at 31 December 2021, the Group has obtained up-to-date appraisals of 100% of non-current assets classified as held for sale.

Regarding appraisals used by the Group, they are all conducted by professionals that are independent of the Group and that have the adequate human and technical resources to carry out the valuations.

Although there are no reference regulations for appraisals, in the Principality of Andorra the Decree approving the amendment of the town planning regulations is in force.

In this respect, the valuation methods are considered appropriate to the purpose of the appraisal. Specifically, the main valuation methods used by the Group's independent experts are as follows:

- **Static residual method**. In order to determine the appraised value, the value of exhausting the buildable area of the land/plot is estimated by adding, if applicable, the amount expected to be obtained from any alternative use of the part of the land/plot that is not planned to be built on, taking into account its associated cost and a correction factor (if applicable), as well as the developer's fees (consistent with the requirements of Order ECO/805/2003).

- **Comparison method**. The qualities and characteristics of the property to be determined in the valuation are established. On this basis, a comparable market survey is carried out to establish its market price. Subsequently, the quality indicators and characteristics of the properties are standardised and the property price is determined on the basis of comparables (in line with the requirements of Order ECO/805/2003).

- **Cost method**. The net replacement cost is determined by calculating the amount it would cost to build on a piece of land/plot, adding the additional costs (without taking into account the profits of the development) and subtracting the depreciation (in line with the requirements of Order ECO/805/2003).

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

    - A qualitative analysis of the property and a market study are carried out to determine the value of the land and subsequently calculate the replacement cost.

    - An estimate is made of the market coefficient determined by the ratio between the market value of the property and the cost of renovating or building it, excluding the developer's profits (previously obtained using the cost method).

    - The market value is the product of the replacement value and the market coefficient.

Non-current assets held for sale are not amortised while they are in this category.

The impairment losses of an asset, or disposal group, are recognised under "Profit (loss) on derecognition of non-current assets held for sale not classified as discontinued operations" of the profit and loss account. The gains from a held-for-sale non-current asset due to subsequent increases in fair value (less the sales cost) increase the carrying amount and are recognised in the same item in the profit and loss account, up to an amount equal to the previously recognised impairment loss.

2.17. Leases

2.17.1. Entry into force of IFRS 16

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

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

In the 2020 financial year, the International Accounting Standards Board (IASB) published an amendment to IFRS 16 ("COVID-19-Related Rent Concessions"), which provides an optional practical solution for lessees when assessing if the COVID-19-related rent concession is a lease modification. If lessees should opt for this practical solution, they will account for these rent concessions as if they were not lease modifications. This amendment to IFRS 16 does not imply changes for lessors who must apply the current requirements of the standard and consider whether or not there has been a modification in the corresponding lease. This amendment applies from 1 June 2020.

In the 2021 financial year, Crèdit Andorrà has not had relevant modifications to the leases in which the Group acts as the lessee. Therefore, the amendment to IFRS 16 has not had a material effect on the Group's financial statements for 2021.

2.17.2. Lease accounting when the Group is the lessee

The lessee, at the outset, must evaluate whether the contract constitutes or contains a lease. That is, whether the contract constitutes or contains the right to control the use of a particular asset for a certain period of time in exchange for a consideration. The Group, in accordance with IFRS 16, did not reassess its contracts to determine whether they qualify as leases at the time of entry into force of the standard, but considered as leases all contracts that qualify as leases under IAS 17.

A lease liability for the underlying asset is recognised at inception at the present value of the outstanding lease payments, discounted using the interest rate implicit in the lease, if this is readily determinable. Otherwise, the incremental interest rate of the indebtedness of the Group company that holds the lease contract is used.

Lease liabilities are recognised under "Financial liabilities at amortised cost – Other financial liabilities" of the consolidated statement of financial position (see Note 19). Financial expense is recorded under "Interest expenses – Financial liabilities at amortised cost" of the consolidated profit and loss account (see Note 34).

A right-of-use asset is initially recognised at the value of the lease liability adjusted for any payments made before or at the contract inception date for direct costs and/or estimated future costs to decommission, dispose of or return the underlying asset in the condition required by the contract.

This asset is recognised under "Tangible assets – Property, plant and equipment" of the consolidated statement of financial position (see Note 15).

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

The Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect lease payments made.

The right-of-use asset is measured at cost less accumulated depreciation, which is recognised under "Depreciation and amortisation – Tangible assets" of the consolidated profit and loss account (see Note 41), less accumulated impairment losses, if any, and reflecting any remeasurement of the lease liability.

The standard requires, after the initial application, the assessment of the value of the lease liability to reflect changes in payments caused by changes in the term, changes in the options inherent in the contract or changes in the discount rate of payments, among others.

2.17.3. Lease accounting when the Group is the lessor

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

2.17.3.1 Financial leases

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

Operations in which the Group acts as the lessor of the asset are recorded as financing provided under "Loans and receivables" in the assets section of the statement of financial position, in the amount resulting from the sum of the present values of cash flows receivable from the lessee. These flows incorporate the strike price of the call option in favour of the lessee at the expiry of the contract, where this strike price is sufficiently lower than the fair value of the asset at the expiry date of the option such that it is reasonably probable that it will be exercised.

Financial income is recognised under “Interest income” in the profit and loss account.

At 31 December 2021 and 2020 the Group, in cases where it acts as lessor, does not have any lease contracts that qualify as financial leases.

2.17.3.2 Operating leases

Operating leases are operations in which all the risks and rewards associated with the leased asset and ownership remain substantially with the lessor.

The acquisition cost of leased assets is recognised under “Tangible assets” of the statement of financial position. The assets are amortised using the same criteria as for other tangible assets for own use, and the income from these contracts is recognised under “Other operating income” in the profit and loss account.

2.17.4. Sale and leaseback transactions

In transactions where an asset owned by the Group is sold to a third party and, subsequent to the sale of the asset, the Group leases the asset sold, an analysis is carried out to determine whether the terms of the contract meet the requirements for the sale to be considered as the effective sale of the underlying asset, i.e., there is a transfer of control of the asset to the buyer, as set out in IFRS 15 “Revenue from contracts with customers”.

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

- Derecognises the transferred asset.
- Recognises the sale at fair value.
- Recognises a right-of-use asset for an amount equal to the previous carrying amount of the asset associated with the right of use retained by the Group.
- Recognises a lease liability.
- Recognises only the gain or loss related to the rights transferred to the "lessor-buyer".

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

At 31 December 2021 and 2020, the Group recorded a sale and leaseback transaction relating to the parent company's headquarters. This transaction, which originated in 2014, was recognised as an operating lease. Following the entry into force of IFRS 16, this transaction was recognised in the consolidated statement of financial position in accordance with the new criteria established by this standard.

2.18. Contingent assets

Contingent assets arise from unexpected or unplanned events that give rise to the possibility of an inflow of economic benefit. Contingent assets are not recognised in the statement of financial position and thus income that may never materialise is not recorded.

Contingent assets are assessed on an ongoing basis with the objective of ensuring that their evolution is adequately reflected in the financial statements. When the inflow of economic benefits becomes virtually certain, the income and the asset are recognised in the financial statements of the period in which the change occurs. If the inflow of economic benefits becomes probable, a corresponding contingent asset is disclosed in the notes.

2.19. Contingent liabilities and provisions

Provisions cover obligations present at the date of preparing the financial statements that arise as a result of past events which could result in losses and the occurrence of which is considered probable. They are specific as to their nature, but indeterminate as to their amount and/or timing.

The Group's financial statements include all material provisions for which it is considered more likely than not that the obligation will have to be settled. Provisions are recognised on the liabilities side of the statement of financial position in accordance with the obligations covered, which include provisions for pensions and similar obligations, provisions for taxes and provisions for commitments and guarantees given.

Provisions, which are quantified based on the best information available on the consequences of the event giving rise to them and are re-estimated at the end of each reporting period, are used for the specific obligations for which they were originally recognised. The reversal is carried out, fully or partially, when the obligations no longer exist or are reduced.

When there is a present obligation but an outflow of resources incorporating economic benefits is unlikely, it is recorded in contingent liabilities. Contingent liabilities may develop differently than initially expected, so they are reviewed on an ongoing basis to determine whether this outflow of resources has become probable. If it is confirmed that the outflow of resources is more likely to occur than not, the corresponding provision is recognised on the liabilities side of the statement of financial position.

Provisions are recorded under “Provisions” on the liabilities side of the statement of financial position according the obligations covered. Contingent liabilities are recognised in off-balance-sheet accounts.

2.20. Insurance operations

The Group applies the requirements established in IFRS 4 “Insurance Contracts” to all the assets and liabilities in its consolidated financial statements arising from insurance contracts, according to the definition provided in this standard.

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

Insurance contracts involve the transfer of a specific and quantifiable risk in exchange for a periodic or one-off premium. The effects on the Group’s cash flows will arise from a deviation in expected payments, a shortfall in the established premium, or both.

“Assets under insurance and reinsurance contracts” includes the amounts that consolidated entities are entitled to receive from the reinsurance contracts they hold with third parties and, more specifically, the reinsurance share in the technical provisions constituted by consolidated insurance entities.

At least once a year, these assets are tested for impairment (if there is objective evidence—as a result of an event occurring after the initial recognition of the asset in question—that the Group may not receive the contractually agreed amounts, and the amount that will not be received can be reliably quantified). In this case, the corresponding loss is recorded in the consolidated profit and loss account and the respective assets are derecognised.

“Liabilities under insurance and reinsurance contracts” includes the technical provisions recorded by consolidated entities to cover claims arising from insurance contracts in force at year-end.

The profit and loss of insurance companies arising from their insurance operations are recognised according to their nature under the corresponding items in the consolidated profit and loss account.

In accordance with generalised accounting practice in the insurance sector, consolidated insurers credit to income the amounts for premiums they issue and charge to income the cost of claims incurred when the claims are finally settled. These accounting practices require insurers to accrue at the end of each reporting period both the amounts paid and not accrued at that date and the costs incurred but not expensed.

At the end of each reporting period, the suitability of the measurement of insurance or reinsurance liabilities recognised in the consolidated statement of financial position is tested by calculating the difference between the following amounts:

- the current estimates of future cash flows arising from the insurance contracts of consolidated entities. These estimates will include all cash flows, as well as the costs of processing claims; and
- the value recognised in the consolidated statement of financial position of its insurance contract liabilities, net of any related deferred acquisition costs or intangible assets, such as the amount paid to acquire, on the assumption of purchase by the entity, the economic rights arising from a set of policies in its portfolio from an intermediary.

If a positive amount is obtained from this calculation, this shortfall is charged to profit or 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 accrued in the financial year that must be attributed to the period between 31 December and the end of the policy period. They are determined on a policy-by-policy basis, based on the tariff premiums accrued during the year, according to the days remaining from the end of the current year until the expiry of the contract to which the premium relates.
- **Provision for claims**. These are individual estimates of the Group's liabilities arising from claims pending settlement or payment at year-end, as well as an estimate of the obligations that may arise for the Group as a result of claims incurred prior to that date and pending reporting.
- **Mathematical provision**. This is calculated as the difference between the actuarial present value of the Group's future obligations and those of the policyholder or insured party. They are determined on a policy-by-policy basis according to the technical characteristics of each modality.
- **Provision for bonuses and rebates**. This includes the amount of bonuses accrued in favour of policyholders, insured persons or beneficiaries, based on the behaviour of the insured risk.
- **Technical provisions for reinsurance ceded**. The asset side of the statement of financial position shows the technical provisions ceded to reinsurance, which are determined on the basis of the same criteria used for direct insurance, in accordance with the reinsurance contracts.
- **Technical provisions related to life insurance when the investment risk is borne by the policyholder**. These provisions reflect the value of assets specifically earmarked or those resulting from using set indices or assets as a benchmark to determine the economic value of policyholders' claims. The corresponding provisions are recorded when the risks are not entirely borne by the policyholder.

2.21. Cash flow statement

The concepts used in the presentation of the cash flow statements are as follows:

- **Cash flow:** inflows and outflows of cash and cash equivalents, i.e., short-term investments with high liquidity and low risk of changes in value.

- **Operating activities:** the indirect method is used for the presentation of cash flows from operating activities, which reflects the cash flows from the ordinary activities of credit institutions as well as from other activities that cannot be classified as investment or financing activities.

- **Investment activities:** the acquisition, sale or disposal by other means of long-term assets, such as investees and strategic investments and other investments not included in cash and cash equivalents.

- **Financing activities:** activities that cause changes in the composition of net assets and liabilities other than operating activities, such as subordinated financial liabilities.

2.22. Statement of comprehensive income

This statement presents the income and expenses recognised as a result of the Group's activity during the year, distinguishing between those recorded as profit or loss in the profit and loss account and other income and expenses recognised directly in 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 expenses recognised temporarily as "Other comprehensive income" in equity.

- The net amount of income and expenses recognised definitively as "Other comprehensive income" in equity.

- Income tax accrued on the above items.

- The total comprehensive income for the financial year calculated as the sum of the above items.

2.23. Statement of changes in equity

This statement shows all changes in the Group's equity, including those arising from changes in accounting policies and error corrections. The statement presents a reconciliation of the carrying amount at the beginning and end of the year for all items comprising equity.

- Adjustments for changes in accounting policies and error corrections include changes in equity arising from the retrospective restatement of financial statement balances, and a distinction is made between those arising from changes in accounting policies and those arising from corrections of errors.

- The total comprehensive income for the year includes, on an aggregate basis, the total of the items recognised in the statement of comprehensive income indicated above.

However, other changes in equity are presented, such as capital increases or decreases, distribution of dividends, treasury share transactions, payments with equity instruments, transfers between equity items and any other increase or decrease in equity.

3. Significant accounting policies and scope of consolidation

In addition to the data corresponding to the parent company, the consolidated financial statements include information corresponding to subsidiaries, joint ventures, associates and, if applicable, consolidated structures. The procedure for integrating the assets and liabilities of these companies is based on the type of control or influence exercised.

The consolidation of the profit and loss generated by the companies forming the Group in a financial year is carried out by taking into account only those results relating to the period between the acquisition date and the end of the financial year. In addition, the profit and loss generated by the companies disposed of in the financial year are consolidated by taking into account only those results relating to the period between the start of the year and the date of disposal.

In the consolidation process, all material balances and transactions between Group companies have been eliminated in proportion to the consolidation method applied.

Appendix I (which forms an integral part of this Note) provides significant information on the companies comprising the Group.

3.1. Subsidiaries

Subsidiaries are entities over which the Group has control, a situation that arises when the Group is exposed or has rights to variable returns from its involvement in the investee, and has the capacity to influence these returns through its influence over that entity.

In order to consider that control exists, the following circumstances must be deemed to exist:

- Power. An investor has power over an investee when the investor has existing rights that give it the ability to direct the relevant activities, i.e., the activities that significantly affect the investee’s returns.

- Returns. An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor’s returns from its involvement have the potential to vary as a result of the investee’s performance. The investor’s returns can be only positive, only negative or both positive and negative.

- Link between power and returns. An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor’s returns from its involvement with the investee.

When taking control of a subsidiary, without exception due to its activity, the Group applies the acquisition method provided for in the regulatory framework (see Note 3.5), unless it is the acquisition of an asset or group of assets.

The financial statements of subsidiaries are consolidated with those of the parent company using the full consolidation method, which consists of the aggregation of the assets, liabilities and equity, income and expenses of a similar nature shown in their individual financial statements.

The carrying amount of direct and indirect equity interests in subsidiaries is eliminated by the proportion of the subsidiaries' equity that they represent. The remaining balances and transactions between consolidated companies are eliminated in the consolidation process.

The share of third parties in the Group's consolidated equity is presented under “Minority interests” in equity, and the portion of the profit and loss for the year attributable to them is presented under “Profit for the year – Attributable to minority interests” in the profit and loss account.

When control of a subsidiary is lost, the assets, liabilities, minority interests and other items that may be recognised in valuation adjustments are derecognised in the consolidated statement of financial position and the fair value of the consideration received, as well as any other remaining investment, are recognised. The difference between these two values is recognised in consolidated profit or loss.

3.2. Joint ventures

These are entities over which there are contractual arrangements for joint control, whereby decisions on relevant activities are taken unanimously by the other entities with which it shares control.

Investments in joint ventures are accounted for by applying the equity method, i.e., at the proportion of equity represented by each entity's interest in the joint venture after taking into account dividends received and other equity eliminations.

3.3. Associates

Associates are entities over which the Group exercises significant influence, which is generally, but not exclusively, evidenced by a direct or indirect holding of 20% or more of the voting rights of the investee. Associates are accounted for in the consolidated financial statement using the equity method.

Appendices I.3 and I.4 include a list of the companies in the Group's consolidation scope using the equity method, showing both the value at which the aforementioned holdings appear in the individual books (net book value) and the value at which they appear in the consolidated books (equity-method value).

3.4. Structured entities

A structured entity is an entity that has been designed so that the voting rights or similar rights are not the dominant factor in deciding who controls the entity.

In cases where the Group holds interests in entities, or incorporates them, for the transmission of risks or other purposes, or to enable its customers to access certain investments, the Group determines, using the regulatory framework, whether control (as defined above) exists and, therefore, whether these entities should be consolidated. Specifically, the following factors are taken into account 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 fund manager and analysis of the remuneration regime.
- Existence of exclusion rights (possibility of removing managers).
- The Group's significant exposure to variable returns from the entity's assets.

These entities include so-called "asset securitisation funds", which are consolidated in cases where, based on the above analysis, it is determined that the Group has retained control.

In the case of the investment and pension funds and companies managed by the Group (in most cases unincorporated retail funds in which investors acquire fractional units that give them ownership of the assets under management), it is considered that they do not meet the requirements of the regulatory framework to be considered as structured entities.

In this regard, during 2021 and 2020 the Group did not hold any investments in structured entities, and therefore the scope of consolidation does not contain any structured entities.

3.5. Business combinations

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

In accordance with this method, the acquirer must recognise the acquired assets and assumed liabilities in its financial statement, while also considering the contingent liabilities at fair value, including those not recognised by the acquiree. This method also requires an estimate of the cost of the business combination, which is normally the consideration transferred, defined as the fair value—on the acquisition date—of the assets obtained, the liabilities incurred with respect to the former owners of the acquiree and the equity issued, if any, by the acquirer.

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

- the sum of the consideration transferred plus the amount for all minority interests and the fair value of previous investments in the acquiree; and

- the fair value of recognised assets and liabilities.

If the difference is negative, it is recorded under "Negative goodwill recognised in profit or loss" of the consolidated profit and loss account.

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

If the cost of the business combination or the fair value assigned to assets, liabilities or contingent liabilities of the acquiree cannot be definitively determined, the initial accounting of the business combination will be considered provisional. In any case, the process must be completed no later than one year from the date of acquisition and with effect from this date.

The minority interests of the acquiree are measured based on the proportional percentage of the identified net assets of the acquiree. In the case of purchases and disposals of these minority interests, they are accounted for as equity transactions when they do not result in a change of control, no loss or gain in the consolidated profit or loss is recognised and the goodwill initially recognised is not remeasured. Any difference between the consideration transferred or received and the decrease or increase in minority interests, respectively, is recognised in reserves.

3.6. Main subsidiaries included in the Group's scope of consolidation and changes in the scope of consolidation

The following is a brief description of the corporate purpose and main characteristics of the main companies or subgroups included in the scope of consolidation at 31 December 2021 and 2020.

- **Credi-Invest SA** is a management company for investment vehicles.

  Crèdit Andorrà SA is the depositary company for Andorran investment undertakings and Banque de Patrimoines Privés SA for Luxembourg investment undertakings.

  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 marketed under the name of Crèdit Andorrà Asset Management.

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

- **Crèdit Iniciatives SA** is a venture capital company. At 31 December 2021 and 2020, the investee portfolio of this subgroup consisted of SPA SA (25%) and CLIGE SA (25%).

- **Patrigest SAU** is a holding and asset management company. At 31 December 2021, the investee portfolio of this subgroup consisted of Cassamanya Ltd. (99.97% directly owned by Crèdit Andorrà SA and 0.03% by Patrigest SAU) and Credi-Invest SA (20%). At 31 December 2020, in addition to the companies mentioned above, this subgroup also included a 100% interest in Private Investment Management SA (Switzerland).

  The Board of Directors of Crèdit Andorrà, SA, meeting on 29 October 2019, agreed to the voluntary liquidation of Private Investment Management SA (Switzerland) due to the change in the strategic model established by the Group, in which it is committed to concentrating its efforts on those markets that offer greater expectations for growth and sustainable and sustained profitability. Therefore, at 31 December 2020, this company was shown as discontinued under "Gains or losses after taxes from discontinued operations" in the Group's profit and loss account under the name Private Investment Management SA *in liquidation*. The company was liquidated on 31 December 2021.

- **Crèdit Capital Immobiliari SA** is a holding company whose sole activity is the holding and management of the Group's properties.

- **Crèdit Andorrà Preference Ltd**. This is a subsidiary company created in December 2005 to issue preference shares which was wholly owned by Crèdit Andorrà. Once the preference shares had been fully redeemed, the necessary steps were taken to liquidate the company, which was renamed Crèdit Andorrà Preference Ltd (*in voluntary liquidation*) on 31 December 2020. As at 31 December 2021, the company is liquidated.

- **Crèdit Andorrà Panamá Holding SA** is a wholly-owned subsidiary of Crèdit Andorrà SA whose sole corporate purpose is to act as the parent company of the Crèdit Andorrà Panamá subgroup, the vehicle used by the Bank to channel the expansion of its business in Latin America.

  In September 2008, the Superintendency of Banks of Panama (the supervising authority in Panama) authorised an international banking licence for Crèdit Andorrà. Subsequently, on 17 November 2008, Banco Crèdit Andorrà (Panama) SA, a company wholly owned by Crèdit Andorrà Panamá Holding SA, began operations with the main purpose of carrying out wealth management and providing customers with a wide range 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, wholly owned by Crèdit Andorrà Panamá Holding SA, focuses its services on brokerage and financial advisory.

  In order to maximise the efficiency and synergies of the subgroup, once the relevant authorisations had been obtained, on 30 June 2012 Banco Crèdit Andorrà (Panama) SA and Crèdit Andorrà Panamá Securities SA were merged by absorption, leaving the former as the only resulting company, with an international banking and securities firm licence.

  In addition to the aforementioned companies, on 31 December 2021 and 2020 the Crèdit Andorrà Panamá consolidated subgroup also comprises the following companies: Crèdit Andorrà Panamá Patrimonial SA (100%), Crèdit Andorrà Panamá Call Center SA (100%) and Private Investment Management Advisors Panamá SA (100%).

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

At 31 December 2021 and 31 December 2020, the activity relating to the banking licence is not shown as discontinued in the Group's consolidated financial statements as, due to the difficulties caused by COVID-19, at the date of preparation of these consolidated financial statements, the necessary steps to that effect had not yet been completed with the Superintendency of Banks of Panama, including the submission and approval of the liquidation plan.

- **Informàtica Crèdit Andorrà SLU**. Holding company whose sole activity is the holding and management of the Group's IT 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 the 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 presence in the European market and particularly in international private banking.

- **Banco Alcalá SA.** On 11 October 2011, Crèdit Andorrà concluded the acquisition of 85% of the share 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 (INAF, Bank of Spain and the Spanish National Securities Market Commission, CNMV), Banco Alcalá SA increased its capital by 15%, which was fully subscribed by the two new local strategic partners, diluting Crèdit Andorrà's stake from 85% to 72.25%.

  On 7 January 2016, the Bank acquired 9.0301% of the shares of Banco Alcalá, SA held by minority shareholders, bringing the Bank's share at 31 December 2016 to 81.3%.

  On 23 May 2018, the Bank acquired 3.7% of the shares of Banco Alcalá SA held by minority shareholders, bringing the Bank's share at 31 December 2018 to 85.0%.

  In 2020, Crèdit Andorrà SA acquired 5.00% of the shares of Banco Alcalá SA held by one of the minority shareholders, bringing the Bank's shareholding to 89.9%. The amount paid exceeded the amount of the liability recognised on the date by EUR 465 thousand, in compliance with IFRS 10. The Bank, as permitted by applicable accounting regulations, chose to recognise this difference against reserves.

  Additionally, during the month of November 2020, Banco Alcalá SA incorporated a new minority shareholder, with a stake of 9.0% of the share capital, leaving the Bank's shareholding at 81.9%. The entry of this new shareholder is part of the business growth strategy and the development of strategic alliances.

  The combined action of the two operations described in the previous paragraph is the main cause of the increase in reserved detailed in the statement of changes in equity for the year 2020 shown for comparative purposes, under "Other increase or decrease in equity".

  At 31 December 2021, the Group, in compliance with IFRS 10 "Consolidated Financial Statements", has recognised a liability of EUR 2,348 thousand in respect of the valuation of certain put options on the shares of the Spanish subsidiary held by the minority shareholders of Banco Alcalá SA (EUR 2,061 thousand at 31 December 2020). As the risks and rewards of ownership of the shares remain with the minority shareholders (and not with the Bank) until such time as the options are exercised, both the initial recognition and any subsequent adjustments are made against reserves.

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

- **CA Holding Luxembourg SARL**. A Luxembourg-based holding company established on 29 September 2011 as part of the corporate structure designed by the Group to maximise the efficiency of the new business in the euro zone.

  At 31 December 2021 and 2020, CA Holding Luxembourg SARL incorporates the following companies within its consolidation scope:

  - CA Holding España SAU (100%). Company whose sole object is to perform the functions of a parent company. At 31 December 2020, the company held 44% of CA Life Insurance Experts Compañía de Seguros y Reaseguros SAU and 100% of CA Vincles Actuarial Chile SPA. In September 2021, CA Holding España SAU sold its holding in CA Life Insurance Experts Compañía de Seguros y Reaseguros SAU to Crèdit Andorrà SA.

  - CA México Asesores Patrimoniales SA de CV (99.9%). Company whose corporate purpose is to provide wealth advisory services in Mexico.

  - Crèdit Andorrà Asset Management Luxembourg SA (100%). Management company operating under Luxembourg law established in 2014 in order to provide management and advisory services on the Group's collective investment vehicles and those of third parties. As part of the strategy of optimisation and efficiency of the Group's corporate structure, Crèdit Andorrà decided in 2020 to discontinue the activity of Crèdit Andorrà Asset Management Luxembourg SA and to continue carrying out the management/advisory activity through Credi-Invest SA with the temporary support of a management company under Luxembourg law independent of the Group. At 31 December 2020 and 31 December 2021, although the application process for authorisations has not yet been completed, this company is shown as discontinued under "Gains or loss after tax from discontinued activities" in the Group's profit and loss account. The company was liquidated on 4 march 2022.

- **Beta Capital Securities LLC**. On 30 September 2011, Crèdit Andorrà completed the process of acquiring 80% of the share capital of Beta Capital Management L.P., a securities company 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 subgroup and owns 1% of the share capital of Beta Capital Management LP (Crèdit Andorrà SA owns the remaining 79%) and 80% of the share capital of Beta Capital Management LLC.

  On 12 June 2014, Crèdit Andorrà SA acquired the holding held by minority shareholders in Beta Capital Management LP and Beta Capital Management LLC for a total of USD 6,953 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, in order to improve the management of the subgroup and enhance the capacity to reinvest the results obtained by the companies that comprise it, the Group reorganised the ownership of the holdings of the companies that make up the Beta subgroup. Crèdit Andorrà US GP LLC became the sole shareholder of Beta Capital Securities LLC and Beta Capital Management LLC, while Crèdit Andorrà SA remained the sole shareholder of the American holding company. Ultimate ownership of the different companies was not changed since they were already 100% subsidiaries (directly or indirectly) of Crèdit Andorrà SA.

On 16 and 28 November 2018, Crèdit Andorrà received the corresponding authorisations from the Financial Industry Regulatory Authority (FINRA) and the Andorran Financial Authority (AFA) to increase the activities of Beta Capital Securities LLC with self-clearing operations, allowing the subsidiary to operate in the area of securities settlement and custody, both in transactions brokered from Beta Capital Securities LLC and possibly by third parties. This new license has allowed the American subsidiary to extend credit as part of the services that it provides to its clients.

Once approved by the Financial Industry Regulatory Authority (FINRA), self-clearing operations were launched on 16 October 2019.

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

  On 2 October 2013, the General Shareholders' Meeting of this company agreed to reduce its share capital to zero and also agreed a subsequent simultaneous increase by capitalising the financing, which meant that Crèdit Andorrà SA's share became 100% as it was not subscribed by the minority shareholders.

  On 30 December 2018, CA Perú Sociedad Agente de Valores de Bolsa ceased its stock exchange operations as a securities brokerage firm and, as required by local regulations, began the process of transferring clients to a local third-party brokerage firm.

  At 31 December 2020, all clients were transferred and the company was in liquidation, so its name was changed to CA Perú SAC *in liquidation* and it was shown as discontinued under "Gains or losses after tax from discontinued operations" in the profit and loss account of the Group's consolidated financial statements of 31 December 2020. In the consolidated financial statements of 31 December 2021, the company is still shown as discontinued as it has not yet been definitively liquidated.

- **Crèdit Assegurances SAU**. Parent company of the Crèdit Assegurances subgroup, its corporate purpose is the practice of insurance operations and the coverage of risks on the basis of private law contracts, including the life insurance branch in any of its modalities. It is subject to the provisions of Law 12/2017 of 22 June on the regulation and supervision of insurance and re-insurance in the Principality of Andorra (see Note 48.1.9). Its sole shareholder is Crèdit Andorrà SA.

  During 2018, Enterprise Risk Management SA (ERM, SA), a company 90% owned by Crèdit Assegurances (and 10% by Crèdit Andorrà SA since July 2019) and the holding company RSM, reached an agreement to combine their brokerage and advisory businesses. The transaction gave rise to a new subgroup, which channels its investment through a holding company called Enterprise Risk Special Management, SL (ERSM). Enterprise Risk Special Management, SL is owned by ERM SA (51%) and RSM (49%) and directly holds 100% of RSM Correduría de Seguros SA, ERM Consultoría SA and ERM Correduría de Seguros y Reaseguros SL.

  However, in 2021, Enterprise Risk Special Management SA sold its entire shareholding in the holding company Enterprise Risk Special Management SL (ERSM), which led to capital gains of EUR 5,134 thousand (see Note 37).

  During 2019, Crèdit Andorrà and Caser Seguros reached an agreement whereby the Spanish company became part of the Group's life risk insurance business in Andorra. As a result of this agreement, Caser Seguros became the owner of 51% of CA Vida Assegurances (a new company set up for the sole purpose of segregating the life risk business of Crèdit Assegurances and thus allowing the transaction with Caser Seguros), and the remaining 49% was owned by Crèdit Assegurances. This insurance banking transaction, which was formally executed and made public before 31 December 2019, once all the relevant regulatory approvals were obtained, was the first of its kind signed in the Principality of Andorra. This operation also involved the signing of an exclusive marketing contract for life-risk products through Crèdit Andorrà's branch network in the Principality, as well as the signing of various service contracts between the parties. As part of the sale price, Crèdit Assegurances, SAU (the seller) recognised a financial asset towards Caser Seguros (the purchaser) for an amount of EUR 6,200 thousand, the collection of which is conditional upon compliance with the business plan agreed between both parties for the following 5 years, in which a maximum of EUR 6,200 may be collected (0 thousand euros in the worst case). On both 31 December 2020 and 31 December 2021, in view of the compliance with the business plan agreed, the Group shows this financial asset in its consolidated financial statements for the value of EUR 6,200 thousand (see Note 9.2). Since, as a result of the operation described above, the value of the interest recorded is higher than the company's own funds, the Entity has included the interest of CA Vida Assegurances in the impairment tests described in Note 16.1, without the need to make any adjustment to its carrying amount.

Crèdit Andorrà Group entered into the business of Grup Assegur in 2020. On the one hand, Actiu Assegurances, an entity owned by Crèdit Assegurances, acquired 50% of Assegur Diversos, a business specialising in non-life products; on the other hand, the Bank became a shareholder of Assegur Vida with the purchase of 50% of the shares. The operation was part of the Group's strategy to seek alliances that guarantee future recurrent growth, increase the capacity for development of the insurance business and contribute added value for customers of both companies. At 31 December 2020, the Bank and Actiu Assegurances had joint control of Grup Assegur, meaning it was consolidated under the equity method.

However, in line with the agreement reached with Case Seguros described above, in 2021 Crèdit Assegurances SAU sold 19.6506% of its shareholding in Actiu Assegurances to the Case Seguros Group, which led to capital gains of EUR 2,403 thousand (see Note 37).

As a result, at 31 December 2021 and 2020 respectively, the Crèdit Assegurances subgroup included the Andorran companies Actiu Assegurances SA (24.9994% and 45%), Financera d'Assegurances SA (12.79% and 20.2%), Línia Asseguradora Andorrana SL (12.79% and 10.35%), Consell Assegurador SA (10.23% and 16.23%) and CA Vida Assegurances SAU (49% and 49%), as well as the Spanish company Enterprise Risk Management SA (90% and 90%).

- **CA Holding España SAU**. Holding company which currently mainly performs the functions of the parent company of the Spanish insurance subgroup. In this regard, the Spanish holding company's main interest is CA Life Insurance Experts Compañía de Seguros y Reaseguros SAU (hereinafter CA Life), a company that has been operating in the life insurance business in Spain since 2013.

  In 2019, Crèdit Andorrà, Mútua General de Catalunya and the Portuguese insurance company Caravela reached an agreement whereby the latter two companies became part of the Group's life insurance business in Spain. As a result of this agreement, Mútua General de Catalunya and Caravela now own 51% and 5%, respectively, of CA Life, while the remaining 44% is owned by CA Holding Espanya SAU. The agreement, which was formally executed and made public before 31 December 2019, once all the relevant regulatory approvals had been obtained, is part of the parties' commitment to seek strategic alliances that allow them to be more competitive in the Spanish life insurance market, while boosting future growth.

  In September 2021, in line with the Group's objective of streamlining its corporate structure in the short-medium term, CA Holding España SAU sold 44% of its interest in CA Life Insurance Experts Compañía de Seguros y Reaseguros SAU to Crèdit Andorrà SA, without this operation generating any profit for the Group.

- **SETAP 365, SA.** Company incorporated in December 2021 through the contribution of the shares that Crèdit Andorrà SA and the Comú de Canillo held in the company Esports de Neu Soldeu-Incles SA (ENSISA) and almost all the shares that the Comú de la Massana held in the company Estacions de Muntanya Arinsal/Pal, SAU. As a result of the valuations of the assets contributed by each of these shareholders, the shareholding of SETAP 365, SA is made up of the Comú de Canillo (40.24%), Crèdit Andorrà SA (39.80%) and the Comú de la Massana (19.96%).

ENSISA, of which SETAP 365 SA holds 99.68% of the shares, manages the Soldeu-El Tarter ski resort in Canillo (Andorra) and owns 50% of Neus de Valira SA (Nevasa), an Andorran company whose purpose is the commercial operation of Grandvalira. EMAP, in which SETAP 365 SA holds 99.99% of the shares, manages the Pal-Arinsal ski area.

The new company SETAP 365, SA was born out of the shareholders' desire to unify the snow business, allowing them to improve efficiency in management and competitiveness on international markets.

This transaction involved a commercial exchange of two assets (ENSISA shares delivered in exchange for SETAP 365 SA shares), which have a completely different configuration (in terms of risk, business scope, etc.), meaning that the cash flows from the new business have been significantly changed in relation to those of the original business, with a subsequent effect on the fair value.

The nature and scope of the agreements reached between the different shareholders in relation to the governance of SETAP 365 have resulted in the existence of joint control of the new company (unlike in the case of ENSISA where only Crèdit Andorrà had a significant influence). Therefore, the Crèdit Andorrà Group has gone from consolidating ENSISA by the equity method due to its significant influence (see Note 3.3) to consolidating SETAP 365 by the equity method, but in this case as a company under joint control (see Note 3.2).

Consequently, Crèdit Andorrà has recorded the shares of SETAP 365 SA at their market value at the time of the transaction and derecognised the shares of ENSISA at their book value, resulting in capital gains of EUR 14,973 thousand in the consolidated financial statements of the Crèdit Andorrà Group (see Note 37). The market value of SETAP 365 SA was determined by an internationally renowned independent expert by applying the discounted cash flow method based on the company's financial projections, among other things, during the remaining period of concessions (including the synergies expected from the combination of the contributed businesses) and using the Weighted Average Cost of Capital (WACC) with a core scenario of around 7.2%.

- **Serveis de Mitjans de Pagaments XXI SA (SERMIPA XXI).** The corporate purpose and main business of this company is to provide services related to the use of credit and debit cards and other payment methods.

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

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

- **CA Vincles Actuarial SLU**. In 2019, Crèdit Andorrà SA acquired this company from Crèdit Assegurances SAU.

The change in 2021 and 2020 in "Investments in joint ventures and associates" in the Group's statement of financial position, which includes investments accounted for using the equity method, relates mainly to the integration of the change in equity represented by the Bank's interest in the various investees and the corporate transactions relating to SETAP 365 SA and the insurance business described above.

The main changes to the Group's consolidation scope during 2021 and 2020 are described in the preceding paragraphs referring to the main subsidiaries within the consolidation scope.

4. Shareholder remuneration scheme

4.1. Proposed Distribution of Profits

The proposed distribution of individual profits that the Board of Directors of Crèdit Andorrà SA has put to the General Shareholders' Meeting for the financial years 2021 and 2020 is as follows (in thousands of euros):

In thousands of euros	31.12.2021	31.12.2020
Profit for the year	**32,984**	**19,956**
Interim dividend	-	-
Supplementary dividend	-	5,000
Restricted reserve allocation Notice 227/12	5,079	4,750
Restricted reserve allocation to guarantee deposits	-	-
Transfer to voluntary reserves	27,905	10,206
Profit pending application	-	-

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

Through Recommendation EB 01/2021, "Restrictions on capital distributions in the context of COVID-19", the AFA recommended that, up to 30 September 2021, banking institutions should be extremely prudent when deciding to remunerate their shareholders and continue to implement conservative variable remuneration policies. The AFA considered, in line with the EBC recommendation, that it would not be prudent for institutions to make dividend distributions and share buybacks in excess of the lower of: (i) 15% of the accumulated profit in the 2019 and 2020 financial years; (ii) 20 basis points of the Common Equity Tier 1 ratio.

In this regard, and in line with the proposed distribution of profits detailed in the above table, the Board of Directors of Crèdit Andorrà, in its session of 28 January 2021, agreed to request approval from the AFA for the distribution of a dividend of EUR 5 million for the year 2020. This proposal, among others, is based on the following aspects:

- The analysis carried out by the Board of Directors in the course of its duties concluded that said distribution would not exceed 15% of the consolidated accumulated profit expected from the 2019 and 2020 financial years, nor 20 basis points of the Common Equity Tier 1 ratio at year-end 2020.

- The immateriality in absolute and relative terms that the proposed dividend represented in the overall profits generated by the Crèdit Andorrà Group in recent years, as a dividend of EUR 5 million would represent a distribution of 3.15% of the accumulated consolidated profit for the years 2017 to 2020, a period during which Crèdit Andorrà did not distribute any dividends in application of the criterion of prudence referred to by the AFA in its recommendation EB 01/2021.

In this regard, on 29 March 2021, the AFA approved the proposed distribution of profits of EUR 5 million, which was included as part of the proposed distribution of individual profits of 31 December 2020.

4.2. Earnings per share

Basic earnings per share is determined as the ratio between the consolidated net profit attributable to the parent company in the reporting period and the weighted average number of shares outstanding in this period, excluding the average number of treasury shares held during this period.

To calculate diluted earnings per share, both the amount of profit attributable to ordinary shareholders and the weighted average number of shares outstanding, net of treasury shares, are adjusted for all the dilutive effects inherent to potential ordinary shares.

The calculation for earnings per share for 2020 and 2021 is as follows:

	31.12.2021	31.12.2020
A. Profit attributable to the parent company (in thousand euros)	32,978	30,040
B. Weighted average number of shares outstanding	894,396	894,396
Basic earnings per share (in euros) (A/B)	**36.87**	**33.59**

The weighted average number of shares outstanding is calculated by taking into account outstanding A shares and E shares, considering the period they have been outstanding without the holder having the obligation or the right to resell them to the Bank (see Note 24).

At 31 December 2021 and 2020 there are no potentially dilutive securities. For this reason, the basic earnings per share and the diluted earnings per share are the same.

5. Risk management

5.1. Introduction and general overview

Risk management in the Crèdit Andorrà Group aims to achieve an efficient level of control of all the risks to which the Group is or may be exposed, in order to guarantee the maintenance of a moderate/low risk profile and a conservative approach to the development of business opportunities.

The following sections provide detailed information about: (1) The 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; and (3) a detailed description of the exposure to each type of risk and the policies and procedures implemented to control them.

5.1.1. Applicable regulatory framework and principal figures

On 23 January 2019, Law 35/2018 of 20 December on the solvency, liquidity and prudential supervision of banking institutions and investment firms (hereinafter Law 35/2018) was published in the Official Gazette of the Principality of Andorra.

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

On 13 March 2019, the Decree approving the Regulation implementing Law 35/2018 of 20 December on the solvency, liquidity and prudential supervision of banking institutions and investment firms was published in the Official Gazette of the Principality of Andorra.

At 31 December 2021, Law 35/2018 requires a liquidity coverage ratio (LCR) of at least 100%. In terms of solvency, the application of the transitional provisions established in the Law, alongside the additional requirement made by the AFA in its supervisory review and evaluation process, establish common equity (CET1) requirements of 7.94%. Furthermore, the Crèdit Andorrà Group must maintain a minimum of Tier 1 capital ratio of 9.44% and a minimum total ratio of 11.44%.

The aforementioned regulation aims to transpose in Andorra a regulatory framework equivalent to that of the European Union's prudential regulations, the Capital Requirements Directive 2013/36/UE (CRD IV) and the Capital Requirements Regulation 575/2013 (CRR), as well as the technical implementing regulations.

In relation to the calculation of the expected accounting loss, the Andorran Financial Authority developed and published in December 2018 the *Supervisory Guide on applying IFRS 9: Credit risk management*, which is the reference document in this area, and which was updated on 3 November 2020 in order to adapt it to the *Supervisory Guide on legislative or non-legislative moratoria or extensions on loans or credits applied in the light of COVID-19* issued on 10 June 2020 (see Note 48).

In addition, the Credit Andorrà Group, in its risk control, management and governance activities, takes into account the main European standards and consultative documents, including the following:

- *Corporate governance principles for banks*, by the Bank for International Settlements.

- *Guidelines on common procedures and methodologies for the Supervisory Review and Evaluation Process*, by the European Banking Authority.

- *Guidelines on internal governance*, by the European Banking Authority.

- *Guidelines on Credit Institutions, credit risk management practices and accounting for expected credit losses*, by the European Banking Authority.

5.1.2. Governance and organisation

The Crèdit Andorrà Group's Board of Directors is responsible for establishing, approving and supervising the strategic risk guidelines. These strategic guidelines, as well as the internal risk control framework and the setting of limits reflecting the Group's risk appetite, are defined in the policies, which are approved by the Board of Directors.

The Risk and Audit Committee, chaired by an independent director, is responsible for establishing and supervising Crèdit Andorrà's internal control framework to ensure it is adequate and effective, including the establishment of competent, robust and independent risk, compliance and internal audit functions, and to ensure a suitable environment for the preparation of accounting and financial information. The Committee also assumes, by delegation, the key function of setting and overseeing the general risk strategy and risk policy of the Bank and the Group that it heads. This includes the risk tolerance and appetite, the risk management framework, as well as the quantities, types and distribution of both capital and own funds required to cover the risks of the Bank and the Group.

The Crèdit Andorrà Group's corporate governance system is structured by a framework that defines the risk management responsibilities following the three lines of defence model recommended by the Basel Committee on Banking Supervision in *Corporate governance principles for banks*. These lines of defence are hierarchically separate and work in a sufficiently coordinated and independent manner 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 according to risk type is in line with that established by the Board of Directors.

- The second line of defence is provided by the Global Risk Division and the Legal Advisory, Compliance and Anti-Money Laundering Division, which oversee the effective control of risks and ensure they are managed in line with the risk appetite defined by the Board of Directors. The Head of the Global Risk Division and the Head of the Legal Advisory, Anti-Money Laundering and Compliance Division have direct access to the Board of Directors through the Audit and Risk Committee.

Finally, the Internal Audit Department acts as a third line of defence. It regularly assesses the adequacy of the policies, methods and procedures and verifies their effective implementation. The Group's Internal Audit Department reports functionally to the CEO and hierarchically to the Audit and Risk Committee.

This three lines of defence model is complemented by a matrix approach in coordinating risk management in the different international companies forming the Group.

- The different risk control and management areas at the corporate level are responsible for establishing the corporate principles, which are set out in the policies approved by the Board of Directors. They are also responsible for the oversight and monitoring of the risk profiles of all Group companies, ensuring compliance with the corporate policies.

- Locally, each entity has risk management units which, in coordination with the corporate areas, apply the corporate principles and adapt them to their local reality according to their business model and the regulations in force.

Within this organisational structure with local and corporate risk management units specialised by type of risk, the Global Risk Division and the Legal Advisory, Compliance and Anti-Money Laundering Division are responsible for providing senior management and, in particular, the Audit and Risk Committee with a comprehensive view of the risk profile to which the Group is exposed, with a global scope of action in terms of both the type of risks and geography.

Over and above this organisational model of risk management and control functions, senior management has established several committees for risk management decision-making.

- The Assets, Liabilities and Risks Committee (ALCO) is the body that establishes the strategies for the investment of equity and the management of assets and liabilities in accordance with the guidelines issued by the Board of Directors and the Management Committee. As well as specialised management of the structural balance sheet risks, the ALCO, as the risk committee, also monitors the risks to which the Group is exposed in a comprehensive manner. The ALCO meets at least once a month and, additionally, whenever circumstances so dictate.

- The Senior Credit Committee (SCC), is the high-level independent body that approves customer credit operations above certain thresholds and provided that these operations meet certain characteristics that prevent them from being approved by lower levels (Credit Area Committee and Branch Committee, which also have certain delegated approval powers). The SCC meets at least once a month and, additionally, whenever circumstances so dictate.

- The Committee on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) is the internal control and communication body established under the Prevention of Money Laundering Act. Its responsibilities include the organisation and monitoring of compliance with standards for combating money laundering and terrorist financing. The representatives of the entity before UIFAND are appointed from among its members.

5.1.3. Risk culture

The Group considers that in order to maintain an investment activity with a low/moderate and conservative risk profile, it is essential to have a risk culture throughout the entire organisation that is based on the following levers, among others:

- 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 an adequate segregation of functions between business areas and risk control areas.

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

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

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

- **Credit risk, including concentration risk**. The risk of loss arising from the inability of the Group's customers, issuers or counterparties to meet their financial obligations to Group entities. Credit risk includes counterparty risk arising from certain financial market transactions. Credit risk may be heightened due to individual, sectoral or geographic concentration risk.

- **Operational risk**. The risk of loss due to the failure or inadequacy of internal procedures, people and systems or due to external events, including legal risk.

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

- **Structural interest rate risk**. The risk arising from possible variations in the interest rate with a possible impact on the profit or net value of assets. The interest rate risk in the trading book is excluded from this definition.

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

- **Market risk**. The risk of loss incurred in the trading book, both on- and off-balance sheet positions, due to adverse movements in market parameters, their volatility or the correlation between these parameters.

- **Compliance risk**. The risk of loss due to administrative sanctions for non-compliance with legal obligations arising from regulations applicable to any Group entity.

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

- **Actuarial risk**. The risk arising from the insurance activity conducted by the Group. This risk arises as a result of commitments acquired in the underwriting of life and non-life policies of customers, generating exposure to specific insurance business risk, such as premium price risk, mortality risk or the risk of an increase in the claims rate.

- **Strategic risk**. The risk inherent to strategic decisions or external changes, such as changes to the competition or regulatory environment, that may affect the business model or hinder the achievement of objectives, thereby affecting profits and solvency.

- **Reputational risk**. The possible negative impact that a given event may have on the image of the Group, the quality of its services or the transparency of its management. This impact may be on customers and employees, financial markets, shareholders, counterparties, public administrations or supervisory bodies.

5.2. Credit risk management

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

The breakdown—by items and headings in the consolidated financial statements—of the Group's maximum exposure to credit risk at 31 December 2021 and 2020 is shown below, without deducting collateral and credit enhancements obtained to ensure compliance with payment obligations according to the nature of the financial instruments.

In thousands of euros	Note	31.12.2021	31.12.2020
Financial assets held for trading	9.1	**20,271**	**24,776**
Derivatives		19,335	22,323
Debt securities		936	2,453
Non-trading financial assets mandatorily at fair value through profit or loss	9.2	**6,200**	**6,200**
Debt securities		-	-
Loans and advances		6,200	6,200
Financial assets designated at fair value through profit or loss	10	**77,541**	**17,644**
Debt securities		77,541	17,644
Loans and advances		-	-
Financial assets at fair value through other comprehensive income	11	**236,735**	**75,360**
Debt securities		236,735	75,360
Financial assets at amortised cost		**3,667,083**	**3,791,512**
Loans and advances	12	2,851,450	3,007,539
Credit institutions		466,751	703,391
Customers		2,384,699	2,304,148
Debt securities	13	815,633	783,973
Derivatives - hedge accounting	14	-	-
Commitments and guarantees given	29	**651,954**	**626,615**
Loan commitments given		502,473	496,055
Financial guarantees given		149,442	130,497
Other commitments and guarantees given		39	63
Maximum exposure to credit risk		**4,659,784**	**4,542,107**

The Crèdit Andorrà Group's maximum credit risk exposure at 31 December 2021 and 2020 does not differ significantly from the carrying amounts shown in the table above.

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

The Credit Operations and Foreclosed Asset Department is responsible for managing credit risk with customers and is governed by the following principles:

- Criterion 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

Approval and granting

The Lending Unit is responsible for assessing the viability of operations and their return according to contractual terms by careful analysis of the quantitative and qualitative factors surrounding them. Some of the main principles analysed and considered in the granting process are described below.

1. **Purpose and viability of the transactions and the customer**. It is the Group's policy to base the analysis and approval of transactions on the intrinsic repayment capacity of such transactions. In-depth analysis of the purpose of any transaction and the ability to generate cash flows, over and above the associated collateral, determine the repayment capacity and, consequently, the credit risk.

   Crèdit Andorrà's relationship with its customers is future-oriented and pursues long-term approaches. In this sense, when an applicant is part of a certain economic group, the granting process is carried out taking this fact into account, since the applicant's situation is clearly conditioned by what happens to that group.

   In order to facilitate the homogenisation of the different considerations concerning the credit risk of the borrower and/or the transaction/product, and to streamline and homogenise decision-making (during both the granting and monitoring phases), the Group uses a credit risk assessment system based on the combination of two factors: (1) the internal ratings assigned to the customers; and (2) the segmentation of the product in terms of risk (different to the commercial segmentation).

   The internal rating is defined as a system for the assessment of credit risk in order to assign a debtor (or potential debtor) a credit rating on a numerical scale. By combining that internal rating with the risk product typology, the Group assigns to the transaction a probability of default (hereinafter, PD) on the obligations incurred and/or to be incurred.

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

   - The Branch Committee validates the ratings for customers with transactions that require branch-level approval under the internal standard on powers to grant lending transactions.

   - The Credit Committee validates the ratings for customers with transactions that fall within its remit under the internal standard on powers to grant lending transactions. In general terms, this committee is responsible for the review, resolution and control of all transactions for which it has decision-making powers up to a maximum amount of EUR 1,000 thousand.

   - The Senior Credit Committee validates the ratings of customers with transactions that fall within its remit under the internal standard on powers to grant lending transactions. The Senior Credit Committee is the highest decision-making body for the granting of operations and provides continuity in the review and validation of operations that exceed the approval powers of the Credit Committee. However, it is under the continuous supervision of the Bank's Board of Directors, which oversees all transactions above EUR 10,000 thousand.

   Both the Credit Committee and the Senior Credit Committee can request the review and/or modification of a rating, and the Monitoring Unit of the Credit Operations and Foreclosed Asset Management Department samples the ratings to oversee their update and quality.

   The Group has a standard for assessing ratings, which sets out the qualitative and quantitative factors to be considered in the assignment of a rating. The same standard also defines the weightings that each of these factors should have in the result of the assessment. The value of a rating is between 1 and 10, depending on repayment capacity, and it is distributed as follows:

Optimal	10-9
Good	8-7
Watchlist	6
Special watchlist	5 and 4
Low	3-1

In addition, all borrowers who have defaulted (for objective or subjective reasons), cease to have an internal rating and subsequently become classified as in default. Finally, the Group takes the rating into account as part of the risk approval process, as the standard on powers to grant lending transactions (1) limits the maximum risk that can be granted by each committee, and (2) sets a minimum credit spread level applicable to loan investment transactions.

Below is a table showing a breakdown of the loan investment by internal rating, including the balance of commitments and guarantees given to customers at 31 December 2021 and 2020.

31.12.21	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	405,462	46	-	405,508	184,277	4	-	184,281	589,739	50	-	589,789
Rating 8 and 7	1,291,453	16,560	-	1,308,013	411,728	160	-	411,888	1,703,181	16,720	-	1,719,901
Rating 6	159,741	213,411	-	373,152	20,110	3,986	-	24,096	179,851	217,397	-	397,248
Rating 5 and 4	59,180	211,622	-	270,802	12,225	13,310	-	25,535	71,405	224,932	-	296,337
Rating 3, 2 and 1	64	8,759	-	8,823	-	581	-	581	64	9,340	-	9,404
Default	-	-	156,839	156,839	-	-	1,109	1,109	-	-	157,948	157,948
No rating	98	167	-	265	4,125	339	-	4,464	4,223	506	-	4,729
Gross book value	**1,915,998**	**450,565**	**156,839**	**2,523,402**	**632,465**	**18,380**	**1,109**	**651,954**	**2,548,463**	**468,945**	**157,948**	**3,175,356**
Credit risk hedging	-6,011	-60,288	-66,204	-132,503	-1,512	-1,815	-313	-3,640	-7,523	-62,103	-66,517	-136,143
Net book value	**1,909,987**	**390,277**	**90,635**	**2,390,899**	**630,953**	**16,565**	**796**	**648,314**	**2,540,940**	**406,842**	**91,431**	**3,039,213**

31.12.20	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	350,830	49	-	350,879	183,604	-	-	183,604	534,434	49	-	534,483
Rating 8 and 7	1,188,598	8,698	-	1,197,296	377,695	396	-	378,091	1,566,293	9,094	-	1,575,387
Rating 6	152,721	251,971	-	404,692	21,229	4,231	-	25,460	173,950	256,202	-	430,152
Rating 5 and 4	60,736	261,555	-	322,291	10,312	20,570	-	30,882	71,048	282,125	-	353,173
Rating 3, 2 and 1	26	12,252	-	12,278	-	881	-	881	26	13,133	-	13,159
Default	-	-	153,657	153,657	-	-	1,958	1,958	-	-	155,615	155,615
No rating	342	634	-	976	5,387	352	-	5,739	5,729	986	-	6,715
Gross book value	**1,753,253**	**535,159**	**153,657**	**2,442,069**	**598,227**	**26,430**	**1,958**	**626,615**	**2,351,480**	**561,589**	**155,615**	**3,068,684**
Credit risk hedging	-6,208	-58,868	-66,645	-131,721	-941	-1,465	-281	-2,687	-7,149	-60,333	-66,926	-134,408
Net book value	**1,747,045**	**476,291**	**87,012**	**2,310,348**	**597,286**	**24,965**	**1,677**	**623,928**	**2,344,331**	**501,256**	**88,689**	**2,934,276**

The table below shows details of loan investment by product segment in terms of risk and including the balance of commitments and guarantees given to customers as at 31 December 2021 and 2020. In this respect, the risk associated with the new Government-backed loans due to the COVID-19 pandemic has been transferred to the “Central banks and central governments” segment and mitigated in accordance with this counterparty.

31.12.21	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 central governments	91,979	361	49	92,389	36,219	-	-	36,219	128,198	361	49	128,608
Other public bodies and semi-public bodies	51,085	-	-	51,085	9,231	-	-	9,231	60,316	-	-	60,316
Financial corporates	169,241	5,313	594	175,148	55,682	45	607	56,334	224,923	5,358	1,201	231,482
Other corporate	1,048,992	144,414	77,526	1,270,932	447,808	14,470	334	462,612	1,496,800	158,884	77,860	1,733,544
Exposures secured by first home/commercial mortgages	327,675	35,003	22,394	385,072	15,000	250	156	15,406	342,675	35,253	22,550	400,478
Exposures secured by mortgages on land	7,152	147,174	49,015	203,341	23	-	-	23	7,175	147,174	49,015	203,364
Retail - SME	23,724	792	673	25,189	10,899	97	12	11,008	34,623	889	685	36,197
Retail leverage	32,676	287	17	32,980	11,550	50	-	11,600	44,226	337	17	44,580
Retail others	85,125	2,871	135	88,131	24,785	309	-	25,094	109,910	3,180	135	113,225
Speculative financing real estate	63,670	114,350	6,436	184,456	18,863	3,159	-	22,022	82,533	117,509	6,436	206,478
Financing venture capital and alternatives	14,679	-	-	14,679	2,405	-	-	2,405	17,084	-	-	17,084
Gross book value	**1,915,998**	**450,565**	**156,839**	**2,523,402**	**632,465**	**18,380**	**1,109**	**651,954**	**2,548,463**	**468,945**	**157,948**	**3,175,356**
Credit risk hedging	-6,011	-60,288	-66,204	-132,503	-1,512	-1,815	-313	-3,640	-7,523	-62,103	-66,517	-136,143
Net book value	**1,909,987**	**390,277**	**90,635**	**2,390,899**	**630,953**	**16,565**	**796**	**648,314**	**2,540,940**	**406,842**	**91,431**	**3,039,213**

31.12.20	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 central governments	109,494	340	-	109,834	47,775	-	-	47,775	157,269	340	-	157,609
Other public bodies and semi-public bodies	56,756	-	-	56,756	19,686	-	-	19,686	76,442	-	-	76,442
Financial corporates	143,673	5,640	514	149,827	34,856	-	607	35,463	178,529	5,640	1,121	185,290
Other corporate	907,077	166,594	86,094	1,159,765	406,597	19,551	1,320	427,468	1,313,674	186,145	87,414	1,587,233
Exposures secured by first home/commercial mortgages	321,295	47,282	28,026	396,603	18,560	400	-	18,960	339,855	47,682	28,026	415,563
Exposures secured by mortgages on land	5,933	174,871	31,138	211,942	-	3,135	-	3,135	5,933	178,006	31,138	215,077
Retail - SME	25,025	2,119	189	27,333	8,994	57	2	9,053	34,019	2,176	191	36,386
Retail leverage	28,909	296	23	29,228	20,924	-	-	20,924	49,833	296	23	50,152
Retail others	79,734	3,665	176	83,575	21,625	299	29	21,953	101,359	3,964	205	105,528
Speculative financing real estate	55,361	134,352	7,497	197,210	19,078	2,988	-	22,066	74,439	137,340	7,497	219,276
Financing venture capital and alternatives	19,996	-	-	19,996	132	-	-	132	20,128	-	-	20,128
Gross book value	**1,753,253**	**535,159**	**153,657**	**2,442,069**	**598,227**	**26,430**	**1,958**	**626,615**	**2,351,480**	**561,589**	**155,615**	**3,068,684**
Credit risk hedging	-6,208	-58,868	-66,645	-131,721	-941	-1,465	-281	-2,687	-7,149	-60,333	-66,926	-134,408
Net book value	**1,747,045**	**476,291**	**87,012**	**2,310,348**	**597,286**	**24,965**	**1,677**	**623,928**	**2,344,331**	**501,256**	**88,689**	**2,934,276**

2. **Operation guarantee level.** Even where the basic criterion that the repayment capacity of the operation must be guaranteed by the viability of the financed operation itself and by the borrowers involved is met, obtaining additional guarantees is also considered, especially in long-term operations.

   As such, collateral is considered to be the group of assets and/or solvency affected by securing the fulfilment of an obligation. According to the analysis conducted, each lending operation has a percentage of guarantee coverage over the amount financed (value-to-loan) or (loan-to-value) in terms of financing over the amount of the guarantee. In accordance with the different purposes of lending operations, minimum coverage limits are also established, which may only rarely be exceeded and in no case without the approval of the Credit Committee and/or the Senior Credit Committee.

   However, as with the level of credit risk, the level and quality of collateralisation also has an impact on the price of the operation, since eligible collateral is a mitigating factor for credit risk exposure and is therefore considered a determining factor for the price or credit margin. For example, in the case of second home mortgage operations, the Group's policy is to increase the risk premium for the operation with respect to that which would be applied in the case of financing for a first home.

   In the case of leveraged transactions related to the private banking business—where often, as an exception to the main rule, the quantity, quality and levels of liquidity of the financial collateral securing said transactions are the main factor analysed in the granting process—lending value limits are set 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 secured operation and, in the event of default:

   - The borrower is required to replenish sufficient collateral within a period of less than 7 days from the time when the loan balance in relation to the market value of the collateral is equal to or greater than the agreed percentage (margin of manoeuvre) in the pledge contract.

     If additional collateral is not provided within 7 days, and/or if the resulting percentage of the loan balance in relation to the market value of the collateral is equal to or higher than the percentage agreed in the pledge contract (margin call), the assets will be partially or fully sold off until the loan obligation is adequately secured.

   The table below shows details of loans and advances to customers at 31 December 2021 and 2020 broken down by loan to value (LTV) ratio, taking into account guarantees.

31.12.21	Loans and advances				Cash collateral and securities				Mortgage guarantee			
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
LTV >= 100%	145,283	75,483	109,994	330,760	79,438	54	-	79,492	33,663	58,887	94,035	186,585
LTV >= 80%	83,382	7,730	6,857	97,969	16,991	362	-	17,353	79,411	8,228	7,687	95,326
LTV >= 50%	489,020	286,854	4,001	779,875	277,697	2,728	-	280,425	530,833	483,371	6,888	1,021,092
LTV >= 25%	507,309	50,827	23,799	581,935	557,952	433	-	558,385	784,792	148,257	73,158	1,006,207
LTV <= 25%	214,044	16,026	1,852	231,922	1,186,202	4,809	-	1,191,011	778,326	95,561	17,130	891,017
Personal guarantee	476,960	13,645	10,336	500,941	-	-	-	-	-	-	-	-
Gross value	**1,915,998**	**450,565**	**156,839**	**2,523,402**	**2,118,280**	**8,386**	-	**2,126,666**	**2,207,025**	**794,304**	**198,898**	**3,200,227**

31.12.20 In thousands of euros	Loans and advances				Cash collateral and securities				Mortgage guarantee			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
LTV >= 100%	131,570	68,317	109,630	309,517	69,869	13	-	69,882	42,601	39,345	93,620	175,566
LTV >= 80%	112,555	30,724	12,057	155,336	26,317	50	-	26,367	104,978	34,562	12,581	152,121
LTV >= 50%	472,881	299,295	8,175	780,351	272,413	2,827	-	275,240	450,856	505,358	12,790	969,004
LTV >= 25%	430,125	88,724	11,162	530,011	376,886	225	70	377,181	779,468	247,903	31,021	1,058,392
LTV <= 25%	160,256	19,515	1,139	180,910	876,905	6,085	-	882,990	860,729	96,879	14,381	971,989
Personal guarantee	445,866	28,584	11,494	485,944	-	-	-	-	-	-	-	-
Gross value	1,753,253	535,159	153,657	2,442,069	1,622,390	9,200	70	1,631,660	2,238,632	924,047	164,393	3,327,072

The segment of transactions with personal guarantees includes exposures to public administrations and semi-public entities, which at 31 December 2021 amounted to EUR 52,263 thousand (EUR 88,886 thousand at 31 December 2020).

3. **Term of the operation**. The term is the duration of the requested operation and is a critical variable that adds uncertainty to the operation. The terms of the operations must be consistent with the purpose, taking into account the nature of the investment to be financed. In general, the Group's policy provides for:

    - Credit facility operations (to finance leverage secured by securities, company working capital, temporary investments, etc.) are carried out for a maximum term of one year (12 months).
    - Operations with a repayment term of more than 5 years (60 months) will require sufficient collateral or guarantees.

    For more information on the terms of operations included under “Customer loans and advances”, see Note 5.3.1.

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

Monitoring

Adequate credit risk management requires continuous monitoring of borrowers throughout the life of their operations. Risk monitoring is focused on borrowers holding debt instruments and off-balance-sheet exposures that entail credit risk.

The purpose of the monitoring is (1) to determine the quality of the risk assumed with a borrower (internal rating update), and (2) on the basis of the risk level ratings resulting from the previous point, to estimate the impairment of the operations of the borrowers being monitored.

Both objectives can be achieved individually or collectively. The Group establishes thresholds to determine the appropriate approach to be taken on the basis of cost/risk optimisation.

1. **Determining the quality of risk** assumed with a borrower (internal rating) after the loan is granted.

    As mentioned in the section entitled “Granting”, the rating will be established or reviewed on a mandatory basis for all customers with outstanding loan investment transactions. The rating is valid for a maximum of 12 months and is therefore necessarily renewed annually whether or not it involves the submission of a new lending transaction.

The account manager and the customer's branch manager or director are responsible for periodically initiating the monitoring process which should result in an updated rating. As mentioned in the "Granting" section, ratings are ultimately validated by the Branch Committee, the Credit Committee or the Senior Credit Committee depending on the applicable standard of powers in force at any given time. The distribution of responsibility for monitoring is as follows:

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

This periodic monitoring process is carried out, documented and supervised in a more exhaustive manner depending on the levels of risk (both in terms of nominal exposure and the level of risk identified).

As described in Note 2.8.1.1. "Classification based on insolvency risk", the Group has defined a series of thresholds in terms of variation of the factors involved (mainly the internal rating) from the time of granting / origination in order to identify transactions with a significant increase in credit risk (Stage 2).

Individual and expert monitoring of borrowers or economic groups with significant risk levels or large exposures

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

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

The monitoring report must necessarily cover the aspects considered to be critical:

- Establishing the true financial and economic situation of the borrower.
- Reviewing the valuation of the guarantees securing each risk.
- Assessing the capacity to generate future funds based on the analysis of the market position and the outlook for the sector.
- Setting out, where appropriate, the policy to be followed for each borrower through the action plan.
- Approximating a risk-return analysis in order to establish appropriate pricing policies.

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

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

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

The movement in loans and advances to customers by type during the 2021 and 2020 financial years is set out below.

	Loans and advances				Commitments and guarantees			
In thousands of euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Book value at 31.12.20	**1,753,253**	**535,159**	**153,657**	**2,442,069**	**598,227**	**26,430**	**1,958**	**626,615**
Change of stage								
Transfer from Stage 1 to 2	-7,027	7,027	-	-	-369	369	-	-
Transfer from Stage 2 to 3	-	-21,364	21,364	-	-	-301	301	-
Transfer from Stage 3 to 2	-	247	-247	-	-	62	-62	-
Transfer from Stage 2 to 1	25,103	-25,103	-	-	3,448	-3,448	-	-
					-	-	-	
Net origination	144,669	-45,401	-14,657	84,611	31,159	-4,732	-1,086	25,341
Foreclosures and assignments	-	-	-	-	-	-	-	-
Recognition of write-offs	-	-	-3,278	-3,278	-	-	-2	-2
Book value at 31.12.21	**1,915,998**	**450,565**	**156,839**	**2,523,402**	**632,465**	**18,380**	**1,109**	**651,954**

	Loans and advances				Commitments and guarantees			
In thousands of euros	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Book value at 31.12.19	**1,693,595**	**543,404**	**180,135**	**2,417,134**	**442,511**	**26,407**	**892**	**469,810**
Change of stage								
Transfer from Stage 1 to 2	-25,051	25,051	-	-	-584	584	-	-
Transfer from Stage 2 to 3	-	-13,652	13,652	-	-	-171	171	-
Transfer from Stage 3 to 2	-	962	-962	-	-	32	-32	-
Transfer from Stage 2 to 1	6,564	-6,564	-	-	314	-314	-	-
					-	-	-	
Net origination	83,495	-14,023	-33,132	36,340	155,986	-108	937	156,815
Foreclosures and assignments	-	-	-	-	-	-	-	-
Recognition of write-offs	-5,350	-19	-6,036	-11,405	-	-	-10	-10
Book value at 31.12.20	**1,753,253**	**535,159**	**153,657**	**2,442,069**	**598,227**	**26,430**	**1,958**	**626,615**

2. Impairment estimate for operations and borrowers.

The Risk Department is responsible for constructing, maintaining and monitoring the credit risk measurement systems. This department is independent of the business areas, to ensure that risk assessment criteria are not affected by commercial considerations.

The measurement of risk, and therefore its hedging, is structured around the **basic concepts** described below.

- **Default.** Default is defined as the existence of objective evidence of impairment that implies a borrower is unable to repay its entire credit exposure.

  Crèdit Andorrà classifies different transactions with exposure to credit risk on the basis of objective and subjective criteria, although the existence of defaults of over 90 days is considered irrefutable evidence of impairment.

Therefore, a transaction or group of transactions may be classified as defaulted or non-performing either for reasons of customer arrears or for reasons other than customer arrears (see Note 2.8).

- **Exposure**. Exposure at default (EAD) estimates the outstanding debt in the event of customer default. This figure is particularly relevant to financial instruments that have a variable amortisation structure depending on the drawdowns made by the customer (credit accounts, credit cards and, in general, any redeemable financing).

  This estimate is based on the contractual balance according to the amortisation schedule agreed with the customer and the current exposure plus a contingent credit risk conversion factor (available limit), which aims to estimate the effective exposure at the time of default. This conversion factor is determined based on the requirements of the reference standard for the calculation of credit risk capital consumption (CDR IV/CRR).

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

  Crèdit Andorrà estimates PD on the basis of its past experience of default and it incorporates measures to adjust the results to the economic cycle, with the aim of providing relatively stable long-term measures, which may differ from the observed default rates at any given point in time (PD PiT).

  This metric is implemented as part of the management of the banking business, as it is calculated on the basis of the main factors on which the Group's credit risk management is based: the borrower's internal rating, customer segmentation and the type of product in terms of risk.

  The grouping of transactions based on homogeneous segments that coincide with the main management factors is what enables risks to be grouped on the basis of the same anticipated NPL ratio and is, therefore, the basis for developing risk-adjusted pricing policies in each of the segments with an appropriate level of granularity.

  In this regard, the Group estimates the following types of PDs:

  i. **Lifetime PD.** This is the probability that a borrower will not repay the entire debt during the expected lifetime of the operation. Due to the long time horizon, to estimate the Lifetime PD, the Group models a number of possible scenarios (core scenario, optimistic scenario and conservative scenario) by incorporating forward-looking parameters that have historically shown a strong correlation with the default levels (chiefly GDP). Therefore, the Lifetime PD is the weighted average of the scenarios considered, with a 60% weighting for the core 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 repay the entire debt within the next 12 months. Due to the short time horizon, to estimate the 12-month PD, the Group does not model possible scenarios using forward-looking parameters as, by definition, the differences between the scenarios would be immaterial.

- **Loss given default.** Loss given default (LGD) refers to the percentage of the debt that it will not be possible to recover in the event of customer default.

  Crèdit Andorrà monitors the results of debt recovery procedures on an ongoing basis. As a result of this procedure, based on historical observations, an estimate is made as to what would be (1) the expected recovery to be obtained from the execution and liquidation of the available guarantees (expected time of foreclosure and sale, costs of sale, valuation adjustments, etc.), and (2) the recovery expected directly from curing the borrower without having to resort to foreclosures.

In this regard, the expected recovery value is estimated in terms of the net present value based on the initial interest rate of the transaction. In the case of guarantees, the estimate is made depending on the type of guarantee (monetary guarantee, securities guarantee, land mortgage guarantee and real estate mortgage guarantee), and in the case of recovery, directly from the borrower based on the time that has passed since default.

- **Expected credit losses.** Expected credit losses correspond to the difference between contractual cash flows for a financial asset and all the cash flows that are expected to be received (i.e., the entire cash flow shortfall), discounted at the original effective interest rate or, for financial assets purchased or originated credit impaired, at the effective interest rate adjusted for credit quality, or the interest rate at the reporting date when it is variable.

  In the case of loan commitments given, a comparison is made between the contractual cash flows that would be due to the Group in the case of drawdown on the loan and the cash flows expected by the Group if the commitment is drawn down. In the case of financial guarantees given, the payments the Group expects to make less the cash flows the Group expects to receive from the guaranteed holder.

  The Group estimates the cash flows of the transaction over its expected life, and where it is not possible to estimate the expected life reliably, the remaining contractual term of the transaction is used.

  The cash flows taken into account include those for the sale of collateral received, taking into account the cash flows that would be obtained from its sale, less the amount of the costs necessary to obtain, maintain and subsequently sell it, or other credit enhancements that form an integral part of the contractual terms, such as financial guarantees received.

  - **Expected credit losses over the life of the transaction**: the expected credit losses from the estimation of potential default events over the expected life of the transaction given an exposure and guarantees (see definition of lifetime PD).

  - **12-month expected credit losses**: the portion of expected credit losses over the life of the transaction corresponding to the expected credit losses arising from default events that may occur in the 12 months following the reference date (see definition of 12-month PD).

Method for estimating expected credit losses

Hedging calculations can be performed individually or collectively. The Group sets thresholds (see Note 2.8) to determine the appropriate approach based on the requirements of accounting standards (IFRS 9), the level of standardisation of the transactions and the optimisation of the cost-risk ratio.

Collective analysis. Crèdit Andorrà divides the collective estimation process for expected credit losses into two phases:

a. Calculation of expected credit loss allowance requirements according to the “alternative solutions developed by the AFA”.

   As part of the *Supervisory Guide on applying IFRS 9: Credit risk management* (see Note 1.2), the AFA published percentages of allowances for expected credit losses for a number 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 the regulator of the Andorran banking system, historical default data, credit losses of Andorran institutions and a projection of the future evolution of the principal macroeconomic variables. Consequently, the AFA considers that the percentages represent a reliable estimate of the expected losses from transactions granted to economic operators in the Principality of Andorra.

In order to adapt the alternative to the Bank's best estimate model, specific graduations will have to be applied to the general model through the proposed hedging percentages and guarantee discounts.

b. Reasonableness of the hedges calculated using the internal models developed by the Group.

The Group, using the internal models developed, estimates expected credit losses from a transaction so that these losses reflect:

- a weighted and unbiased amount determined by assessing a range of possible outcomes;
- the time value of money; and
- the reasonable and substantiated information available at the reference date, without disproportionate cost or effort, about past events, current conditions and forecasts of future economic conditions.

To determine allowances for credit loss, the Bank uses models to estimate the probability of default (PD), the loss given default (LGD), models of recoverable value from mortgage guarantees (haircuts) and adjustments to incorporate lifetime and forward-looking effects.

The models used to determine allowances are based on the discounted cash flow method (relating to the borrower or the guarantees). The cash flows are estimated based on internal experience of defaults and recoveries in the portfolios.

In the case of Stage 2 and Stage 3 (for which IFRS 9 requires the recognition of lifetime expected credit losses), the Group generates a baseline scenario for the future focusing on economic variables, as well as a conservative scenario and a favourable scenario that enable it to adjust the expected loss according to a probability weighting. In the case of Stage 1 transactions, only a core scenario is used on the basis of a 12-month time horizon (the result of including or excluding different scenarios would be similar due to the short time horizon used to calculate provisions). In relation to Stage 2 and Stage 3, the scenarios referred to the previous paragraph are incorporated by using the weighted averages of the PDs from the scenarios considered (see the definitions of Lifetime PD and 12-month PD).

Definition of scenarios on 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 inputs 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 considered. For the Crèdit Andorrà Group, the following information has been taken into account:

- the historical series (2004-2020) for Andorran GDP, imports and CPI;
- the level of imports of the Principality of Andorra (although there are no projections of this variable by independent institutions, it has been considered appropriate to include it in the analysis because of its relevance in explaining the economic situation of the country, since historically it has behaved in a very similar way to Andorran GDP, while also increasing the number of local macroeconomic variables available);

- 3-year GDP projections from the Bank of Spain and historical parity coefficients from the Andorran Department of Statistics.

- The time horizon for this analysis is three years.

The default probabilities of the different segments in the loan portfolio have been extrapolated (see Note 5.2.1.1. “Credit risk management cycle — Approval and granting”) by means of a linear auto-regressive model constructed on the basis of projections made under different scenarios by economic institutions.

The table below shows the results of the projections made for Andorra CPI.

Variable	Year projected	Core scenario	Conservative scenario	Optimistic scenario
GDP	2021	6.93%	4.29%	8.77%
	2022	4.29%	4.88%	4.90%
	2023	1.74%	1.96%	1.92%

The use of scenarios makes it possible to calculate the expected loss on an exposure as many times as scenarios considered, where the provision is the weighted average of the expected losses. As mentioned above, to estimate expected losses from credit risk, the Group has determined the following weightings based on the estimated probability of occurrence: (1) baseline 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%.

Definition of backtesting

In order to ensure the reliability and consistency of the hedge estimates, the Group has designed backtesting, whereby it compares the estimates made with the actual losses observed, and benchmarking, whereby it compares the estimates with the expected loss estimates in terms of solvency and any other benchmark data considered relevant.

Once the results obtained from the application of the alternative solutions developed by the AFA have been compared with the results offered by Crèdit Andorrà’s internal models (with, where applicable, the subsequent analysis of the main differences), it is concluded that the recognised hedges do not significantly differ from the estimates.

In this regard, the Group preferably records the expected losses obtained from the application of the alternative solutions developed by the AFA on a transitional and conservative basis without its own graduations, pending the availability of a more representative historical contrast that would stabilise the entity’s best estimate.

Individualised analysis. The specific coverage of the operations is estimated using an expert and detailed analysis of the customer cash flows, taking into account the situation of the holder and the cash flows expected to be recovered.

The individualised monitoring procedures are applied in portfolios with significant risk exposures and/or with specific characteristics, and consist of the preparation of periodic reports on the economic groups of borrowers in order to assess the existence of objective evidence of impairment and/or significant increase in credit risk since the initial recognition of the borrower.

The Group has a methodological guide for carrying out individual analyses in compliance with IFRS 9. The guide makes a distinction between:

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

To determine the recoverable amount from borrowers subject to individualised analysis, the Group has developed a calculation method that proposes a dual approach. Providing for the particularities of the loan investment, a method is established to calculate the amount of the impairment loss associated with each financial asset individually in the different scenarios and taking into account the forward-looking information available. The method includes the following two approaches:

- Discounted cash flow approach to debt servicing. Used in cases where, although the borrower shows evidence of a significant increase in credit risk, it is estimated that the borrower has the capacity to generate free future cash flows in the development of its business that will enable it to repay the debt. Here it is important to note that a last residual cash flow is considered in the optimistic and baseline scenario projections in order to incorporate the terminal value as a result of applying the "going concern" principle.

- Collateral recovery approach. Estimates recoverability according to the collateral available to the borrower, assuming an eventual execution of the collateral. This methodology is applied to borrowers without the capacity to generate free cash flows from the development of their own business, so they are forced to liquidate assets to meet debt repayments.

  In this approach, an analysis is made of the effectiveness of the guarantees to be taken into account. Among the factors considered in that analysis will be: the time required to execute the guarantees; the capacity of the entity to execute the guarantees; and its experience in executing them.

- Mixed approach. Sometimes there is the possibility to combine the two methodologies above, as the debtor has non-essential guarantees for the generation of cash flows to service the debt that may be used to repay the debt. The value of the guarantees is taken into account in determining the recoverable amount (terminal value).

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

The individualised analysis of significant or non-homogeneous borrowers with normal risk is methodologically different from that described in the previous point, as expected credit losses are calculated over 12 months, unlike Stages 2 and Stages 3, where losses are calculated over the lifetime.

In this respect, neither forward looking information nor macroeconomic scenarios are incorporated in the individualised analysis methodology, since the result of including or not including them would be similar given the time horizon of only 12 months. In general, the method used is the adjustment of the provisions that would result from applying the collective model by adjusting the PD or LGD (that which would correspond to the combination of the internal customer rating and the risk product analysed) on the basis of the analyst's expert view, since their exhaustive and detailed knowledge of the borrower's situation enables them to adjust the parameters derived from the collective model more specifically.

Below is a breakdown of the customer loans and advances, alongside their hedging levels, based on their default status, the method used to calculate the hedge and, where applicable, the number of days past due.

In thousands of euros	Customer loans and advances 31.12.2021	Customer loans and advances 31.12.2020	Customer commitments and guarantees given 31.12.2021	Customer commitments and guarantees given 31.12.2020	Total customers 31.12.2021	Total customers 31.12.2020
Not in default (Stages 1 and 2)						
Central banks and central governments	92,340	109,834	36,219	47,775	128,559	157,609
Other public bodies and semi-public bodies	51,085	56,756	9,231	19,686	60,316	76,442
Financial corporates	174,554	149,313	55,727	34,856	230,281	184,169
Other corporate	1,193,406	1,073,671	462,278	426,148	1,655,684	1,499,819
Exposures secured by first home/commercial mortgages	362,678	368,577	15,250	18,960	377,928	387,537
Exposures secured by mortgages on land	154,326	180,804	23	3,135	154,349	183,939
Retail - SME	24,516	27,144	10,996	9,051	35,512	36,195
Retail leverage	32,963	29,205	11,600	20,924	44,563	50,129
Retail others	87,996	83,399	25,094	21,924	113,090	105,323
Speculative financing real estate	178,020	189,713	22,022	22,066	200,042	211,779
Financing venture capital and alternatives	14,679	19,996	2,405	132	17,084	20,128
Gross value	2,366,563	2,288,412	650,845	624,657	3,017,408	2,913,069
Individually calculated hedge	-61,410	-60,857	-2,674	-1,728	-64,084	-62,585
Collectively calculated hedge	-4,889	-4,219	-653	-678	-5,542	-4,897
Net value	2,300,264	2,223,336	647,518	622,251	2,947,782	2,845,587
In default (Stage 3)						
<= 30 days	76,303	85,140	953	1,958	77,256	87,098
<= 60 days	626	9	-	-	626	9
<= 90 days	18,737	1	-	-	18,737	1
<= 180 days	483	244	156	-	639	244
<= 365 days	4,368	13,924	-	-	4,368	13,924
> 365 days	56,322	54,339	-	-	56,322	54,339
Gross value	156,839	153,657	1,109	1,958	157,948	155,615
Individually calculated hedge	-60,938	-61,349	-288	-208	-61,226	-61,557
Collectively calculated hedge	-5,266	-5,296	-25	-73	-5,291	-5,369
Net value	90,635	87,012	796	1,677	91,431	88,689
Total	**2,390,899**	**2,310,348**	**648,314**	**623,928**	**3,039,213**	**2,934,276**
Accumulated write-offs	118,430	122,450	-	-	118,430	122,450
Total with write-offs	**2,509,329**	**2,432,798**	**648,314**	**623,928**	**3,157,643**	**3,056,726**

Management and recovery of NPLs

Recovery activity is conceived as an integral management circuit that begins even before the default or enforceability of the obligation. The Commercial Department has primary responsibility for managing NPLs.

NPL management principles include:

- **Prevention.** Prevention is one of the most important principles in the early detection of the risk of non-payment with a view to managing it and normalising the situation even before it occurs.

- **Customer focus**. Recovery efforts are aimed at helping customers find solutions to payment irregularities. These efforts are also a way to build customer loyalty.

  Incidents are handled on a unitary basis, i.e., considering all customer positions and not each of the positions with incidents separately. The customer's link within an economic group or with other customers is also taken into account.

- **Anticipation.** Insofar as possible, attempts are made as early as possible in order to reach early solutions and to anticipate the actions of other creditors, in order to achieve a better position with regard to debtors and other creditors.

The Group holds regular meetings between the heads of the Credit Operations and Foreclosed Asset Management department and the business units in order to continuously monitor all transactions with suspended ratings, i.e., those in default and those with indications of increased risk, such as past-due operations, etc. At these meetings, the various action plans are monitored and the results of the NPL recovery processes (mainly transactions with past-due balances) are analysed.

Recovery targets are monitored on a fortnightly basis, separating the population already in default from that not yet in default. Therefore, management of the curing period before classification as impaired is important.

Refinancing and restructuring of operations

These operations correspond to those where the customer has had or is expected to have financial difficulties in meeting payment obligations under the current contractual terms and, for this reason, the operation has been changed, cancelled or a new operation has been formalised.

As a general rule, refinanced or restructured operations and new operations are classified in the category of performing with increased risk. However, taking into account the specific characteristics of the operations, they are classified as non-performing when they meet the general criteria for classification as such (for more information, see Note 2.8.1.1. "Classification based on insolvency risk").

The Group's exposure to operations that have been refinanced and that at 31 December 2021 and 2020 have not been cured amount to EUR 368,841 thousand and EUR 394,266 thousand, respectively.

Assets acquired in lieu of debt

Although Crèdit Capital Immobiliari SA's sole activity is the holding and management of real estate, the Group's policy is that this special purpose vehicle manages the real estate for the Group's own use and that the Bank directly holds and manages the assets acquired lieu of debts incurred as part of the banking business.

In general, the Bank acquires real estate assets in lieu of debt via the following channels:

- **Foreclosure** at auction as a consequence of judicial foreclosure proceedings. The auction prices are set, within the limits determined by the applicable legislation at any given time, on the basis of updated appraisals carried out by independent experts (see Note 2.16).

- Through **assignment** or donation in payment by the borrowers with the subsequent subrogation and cancellation of debt. In this case, the prices are determined with reference to the latest available appraisals. For reasons of practicality and diligence, the Group's policy is to prioritise assignment, wherever logistically and financially possible.

In either case, the entire process is managed by the Recoveries Department, with the collaboration of the Legal Advisory, Compliance and Anti-Money Laundering Division.

For further information on the volume of assets from debt payments (via foreclosure or assignment), see Note 18.

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

5.2.1.2. Movement in impairment provisions

The movement in impairment provisions for financial assets granted to customers at 31 December 2021 and 2020 is as follows:

In thousands of euros	Loans and advances				Commitments and guarantees			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Credit risk hedge at 31/12/20	**-6,208**	**-58,868**	**-66,645**	**-131,721**	**-941**	**-1,465**	**-281**	**-2,687**
Movements affecting net allocations	**314**	**-1,417**	**-1,995**	**-3,098**	**-571**	**-345**	**-34**	**-950**
Changes of stage								
Transfer from Stage 1 to 2	810	-810	-	-	4	-4	-	-
Transfer from Stage 2 to 3	-	217	-217	-	-	3	-3	-
Transfer from Stage 3 to 2	-	-56	56	-	-	-46	46	-
Transfer from Stage 2 to 1	-172	172	-	-	-34	34	-	-
Changes to models (alternative solutions, updates to assumptions, methods, etc.)	-	-2,009	-3,748	-5,757	-	-	-	-
Net origination and changes to estimates	-324	1,069	1,914	2,659	-541	-332	-77	-950
Movements affecting financial margin	**-**	**-**	**-459**	**-459**	**-**	**-**	**-**	**-**
Impact on recognition of interest Stage 3 (see Note 2.10.1)	-	-	-459	-459	-	-	-	-
Movements with no change in profit and loss	**-117**	**-3**	**2,895**	**2,775**	**-**	**-5**	**2**	**-3**
Foreclosures and assignments	-	-	-	-	-	-	-	-
Recognition of write-offs	-	-	3,278	3,278	-	-	2	2
Other movements	-117	-3	-383	-503	-	-5	-	-5
Credit risk hedge at 31/12/21	**-6,011**	**-60,288**	**-66,204**	**-132,503**	**-1,512**	**-1,815**	**-313**	**-3,640**

In thousands of euros	Loans and advances Stage 1	Stage 2	Stage 3	Total	Commitments and guarantees Stage 1	Stage 2	Stage 3	Total
Credit risk hedge at 31/12/19	**-9,526**	**-63,306**	**-59,244**	**-132,076**	**-1,003**	**-1,620**	**-259**	**-2,882**
Movements affecting net allocations	**-2,032**	**4,419**	**-13,015**	**-10,628**	**62**	**155**	**-29**	**188**
Changes of stage								
Transfer from Stage 1 to 2	27	-253	-	-226	1	-32	-	-31
Transfer from Stage 2 to 3	-	4,796	-5,373	-577	-	21	-22	-1
Transfer from Stage 3 to 2	-	-63	-294	-357	-	-3	1	-2
Transfer from Stage 2 to 1	-9	124	-	115	-	7	-	7
Changes to models (alternative solutions, updates to assumptions, methods, etc.)	-1,397	-2,009	-7,594	-11,000	-	-	-	-
Net origination and changes to estimates	-653	1,824	246	1,417	61	162	-8	215
Movements affecting financial margin	**-**	**-**	**-308**	**-308**	**-**	**-**	**-**	**-**
Impact on recognition of interest Stage 3 (see Note 2.10.1)	-	-	-308	-308	-	-	-	-
Movements with no change in profit and loss	**5,350**	**19**	**5,922**	**11,291**	**-**	**-**	**7**	**7**
Foreclosures and assignments	-	-	-	-	-	-	-	-
Recognition of write-offs	5,350	19	6,036	11,405	-	-	7	7
Other movements	-	-	-114	-114	-	-	-	-
Credit risk hedge at 31/12/20	**-6,208**	**-58,868**	**-66,645**	**-131,721**	**-941**	**-1,465**	**-281**	**-2,687**

5.2.1.3. Principal figures

At 31 December 2021 and 2020, the NPL ratio was 6.2% and 6.3%, respectively (5.0% and 5.1% including customer commitments and guarantees given). At 31 December 2021 and 2020, the coverage ratio of provisions to non-performing assets was 42.2% and 43.4%, respectively (42.1% and 43.0% including customer commitments and guarantees given). Furthermore, the coverage ratio, understood as the total level of provisions relative to the volume of exposure of Stage 3 operations, amounted to 84.48% at 31 December 2021 (85.72% at 31 December 2020).

5.2.1.4. Sector and geographic concentration

The Crèdit Andorrà Group monitors credit risk concentration. The details of loan investment by economic sector and geographic region as at 31 December 2021 and 2020 are shown below.

	Loans and advances to customers		Of which in default		Coverage for credit risk	
In thousands of euros	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Concentration by sector						
Public sector	**34,732**	**66,910**	**-**	**-**	**-123**	**-123**
Financial corporations	**251,058**	**213,194**	**568**	**515**	**-1,223**	**-878**
Non-financial corporations	**1,363,699**	**1,281,039**	**84,250**	**93,390**	**-83,650**	**-83,147**
Agriculture, livestock and fisheries	1,166	1,032	-	6	-5	-9
Extractive industries	15	42	-	-	-	-
Manufacturing industry	23,398	20,453	-	-	-411	-389
Construction	244,003	259,278	6,437	7,737	-30,934	-27,254
Wholesale and retail trade	194,909	188,003	17,154	19,347	-10,331	-9,082
Transport and storage	17,734	14,367	24	13	-86	-54
Hotels	59,259	60,753	90	112	-1,589	-1,478
Information and communications	43,278	1,347	-	-	-11	-8
Real estate activities	111,928	110,037	1,743	1,714	-3,374	-3,122
Professional activities	434,834	72,967	58,692	2,405	-30,517	-1,219
Public administration and social security	17,531	21,976	-	-	-	-4
Education	8,051	7,869	-	-	-37	-40
Healthcare activities and social services	3,154	2,934	-	-	-13	-17
Artistic and recreational activities	60,306	41,605	-	-	-138	-53
Other services	144,133	478,376	110	62,056	-6,204	-40,418
Individuals	**873,913**	**880,926**	**72,021**	**59,752**	**-47,507**	**-47,573**
Total exposure by sector	**2,523,402**	**2,442,069**	**156,839**	**153,657**	**-132,503**	**-131,721**
Geographic concentration						
Andorra	1,897,921	1,927,915	154,490	151,367	-131,075	-130,565
Spain	278,593	219,301	2,111	2,249	-1,261	-1,073
France	3,724	10,318	5	5	-5	-7
Other countries in the Euro Zone	122,883	124,802	109	30	-88	-36
Other European countries	19,238	3,615	-	-	-21	-6
Latin America and the Caribbean	149,196	105,157	23	2	-25	-8
Other	51,847	50,961	101	4	-28	-26
Total exposure by region	**2,523,402**	**2,442,069**	**156,839**	**153,657**	**-132,503**	**-131,721**

5.2.1.5. Impact of COVID-19

The declaration of the COVID-19 pandemic in 2020 and the measures adopted in many countries including Andorra, with restrictions on economic activity and the movement of people—necessary to combat the pandemic—have had economic consequences that have extended into 2021.

The Andorran economy has followed the same dynamic as other European countries, where restrictive measures have hit the business sector and individuals hard.

In order to minimise these impacts in both the medium and long term, the Government of Andorra has approved a series of measures since the beginning of the pandemic. These measures include economic aid as described below (see Note 48.2).

- Extraordinary guarantee programme backed by the government through the Decree approving an extraordinary programme of guarantees for companies and businesses due to the health emergency caused by the SARS-CoV-2 coronavirus of 24 March 2020, and its subsequent amendments.
- Approval of the exceptional measures law establishing measures such as the moratoria or grace periods on loans and credits (Law 5/2020 of 18 April on new exceptional and urgent measures due to the health emergency caused by the SARS-CoV-2 pandemic).
- Extraordinary guarantee programme backed by the government through the Decree approving a second extraordinary guarantee programme for companies and businesses due to the health emergency caused by coronavirus SARS-CoV-2 of 20 May 2020, and its subsequent amendments.
- The approval of the exceptional measures law incorporating amendments to Law 5/2020 and establishing new legislative moratoria (Law 16/2020 of 4 December on new exceptional and urgent measures due to the health emergency caused by the SARS-CoV-2), and its subsequent amendments (Law 1/2021 of 28 January and Law 3/2021 of 18 March).
- The approval of Decree 323/2021 of 29 September 2021 regulating the repayment or loan conversion of outstanding debt corresponding to the first and second extraordinary guarantee programmes for companies and businesses due to the health emergency caused by the SARS-CoV-2 coronavirus.

Furthermore, on 11 June 2020, the financial sector, represented by Andorran Banking, agreed to a programme of sectoral moratoria, adopted by the AFA under the same terms as the legislative moratoria, with the aim of responding to those situations which, not being covered by the regulatory measures, required an adequate response from the sector from a social and economic perspective. This agreement was subsequently amended on 17 July 2020 and 11 December 2020 in order to support the above measures following the guidelines of the European Banking Authority and to extend the application date until 31 March 2021.

To this end, various international institutions, including the International Accounting Standards Board (IASB), the European Banking Authority (EBA), the European Central Bank (ECB) and the European Securities and Market Authority (ESMA), have issued guidelines to clarify the treatment of moratoria as well as to ensure consistent application across countries.

Pursuant to Article 4.2.a) of Law 10/2013 of 23 May, the Andorran Financial Authority (AFA) with Recommendation EB01/2020 *Supervisory guidance on legislative and non-legislative moratoria and extensions on loans and credits applied in the context of the COVID-19 crisis*, and in compliance with Section 7 of Article 39 of Law 05/2020, adopts as its own:

- At the accounting level, the clarifications published on 27 March 2020 by the International Accounting Standards Board (IASB) under the title *IFRS 9 and covid-19. Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic.*

- At the supervisory level, the measures adopted and published on 1 April 2020 by the European Central Bank (ECB) under the title *IFRS 9 in the context of the coronavirus (COVID-19) pandemic – Guidance on the use of forecasts to estimate the ECL during the COVID-19 pandemic*, and
- At the prudential level, the measures adopted by the European Banking Authority (EBA) in *EBA/GL/2020/02 Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*, dated 2 April 2020. This was later amended by *EBA/GL/2020/15 Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*, which established 31 March 2021 as the new deadline for its application, an extension for applying for the sectoral moratorium approved by Andorran Banking on 11 December 2020, which is in line with the aforementioned amendment to the EBA guidelines.

Below is a breakdown of the outstanding operations at 31 December 2021 and 2020 that have undergone a change in the initially agreed terms as they have been subject to pandemic-related moratoria:

31.12.21

In thousands of euros	Number of operations	Outstanding risk on moratoria	Classification by stage Stage 1	Stage 2	Stage 3	Credit risk hedging	Average moratoria in months
Non-financial corporations	**33**	**33,817**	**11,543**	**22,274**	-	**781**	**9**
Trade	3	3,780	745	3,034	-	271	11
Transport and storage	8	3,846	3,846	0	-	10	10
Hospitality	11	15,378	1,284	14,095	-	114	7
Real estate activities	9	10,395	5,250	5,145	-	386	7
Other services	2	418	418	-	-	-	10
Individuals	**61**	**8,491**	**5,269**	**3,221**	-	**281**	**7**
Total moratoria	**94**	**42,308**	**16,812**	**25,495**	-	**1,062**	**8**
Legislative	**46**	**5,074**	**3,249**	**1,825**	-	**183**	**7**
Non-legislative	**48**	**37,234**	**13,563**	**23,670**	-	**879**	**8**
Total moratoria	**94**	**42,308**	**16,812**	**25,495**	-	**1,062**	**8**

31.12.20

In thousands of euros	Number of operations	Outstanding risk on moratoria	Classification by stage Stage 1	Stage 2	Stage 3	Credit risk hedging	Average moratoria in months
Non-financial corporations	**27**	**33,595**	**12,503**	**21,092**	-	**337**	**8**
Trade	4	3,805	781	3,025	-	272	7
Transport and storage	8	3,831	3,831	0	-	13	10
Hospitality	3	14,026	90	13,937	-	9	7
Real estate activities	9	11,406	7,384	4,022	-	43	7
Other services	3	527	418	108	-	0	7
Individuals	**61**	**9,388**	**5,254**	**4,135**	-	**307**	**6**
Total moratoria	**88**	**42,984**	**17,757**	**25,227**	-	**644**	**7**
Legislative	**49**	**6,102**	**3,646**	**2,456**	-	**225**	**5**
Non-legislative	**39**	**36,882**	**14,111**	**22,771**	-	**419**	**8**
Total moratoria	**88**	**42,984**	**17,757**	**25,227**	-	**644**	**7**

The total outstanding risk of operations with moratoria applied amounts to EUR 39,321 thousand at 31 December 2021 (EUR 43,603 thousand at 31 December 2020). All moratoria periods ended before year-end 2021.

Below is a breakdown of the outstanding government-backed operations as at 31 December 2021 and 2020:

31.12.21

In thousands of euros	Number of operations	Amount granted	Amount outstanding risk	Amount available	Average maturity date
Non-financial corporations	**766**	**99,020**	**90,494**	**573**	**22/04/2022**
Agriculture, livestock and fisheries	-	-	-	-	-
Extractive industries	-	-	-	-	-
Manufacturing industry	47	4,026	3,604	-	22/04/2022
Construction	82	6,680	5,822	-	22/04/2022
Wholesale and retail trade	206	50,180	45,469	-	20/04/2022
Transport and storage	34	5,668	5,042	15	19/04/2022
Hospitality	149	6,878	6,445	-	22/04/2022
Real estate activities	143	12,356	11,755	-	24/04/2022
Public administration and social security	2	1,177	1,177	-	15/04/2022
Education	12	404	380	-	26/04/2022
Healthcare activities and social services	28	580	504	-	23/04/2022
Other services	63	11,071	10,296	558	24/04/2022
Individuals	**20**	**1,068**	**1,029**	**-**	**21/04/2022**
Total outstanding operations	**786**	**100,088**	**91,523**	**573**	**21/04/2022**

31.12.20

In thousands of euros	Number of operations	Amount granted	Amount outstanding risk	Amount available	Average maturity date
Non-financial corporations	**858**	**88,698**	**76,983**	**11,715**	**25/04/2021**
Agriculture, livestock and fisheries	1	10	-	10	22/04/2021
Extractive industries	1	26	26	-	17/04/2021
Manufacturing industry	47	4,017	3,518	499	23/04/2021
Construction	96	6,941	5,963	978	22/04/2021
Wholesale and retail trade	246	52,154	44,804	7,351	24/04/2021
Transport and storage	34	2,382	1,700	681	29/04/2021
Hospitality	144	6,032	5,522	511	25/04/2021
Real estate activities	158	11,955	10,807	1,149	25/04/2021
Public administration and social security	2	610	607	2	15/04/2021
Education	16	437	382	55	24/04/2021
Healthcare activities and social services	34	737	504	233	22/04/2021
Other services	79	3,396	3,150	245	29/04/2021
Individuals	**23**	**622**	**204**	**418**	07/05/2021
Total outstanding operations	**881**	**89,319**	**77,187**	**12,132**	**25/04/2021**

This set of soft loans are classified as *Stage* 1 and 100% guaranteed by the Government of Andorra.

In this regard, with respect to the estimation of expected losses, the following should be noted:

- **Treatment of significant increase in credit risk**

  The clarification published by the IASB, adopted by AFA as its own in Recommendation EB 01/2020 on 27 March 2020, under the title *IFRS 9 and covid-19. Accounting for expected credit losses applying IFRS 9*

Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic, clarifies that entities, in order to assess both the SICR and expected loss, must assess the changes over the expected life of the financial instrument and they must rely on reasonable and supportable information available to them without undue cost or effort.

Furthermore, banking institutions must take into consideration in their internal models the macroeconomic effects of COVID-19 and the measures taken by governments. Where it is not possible to incorporate these effects, expert adjustments to their internal models must be made continuously on the basis of the information available at the time or in relation to the application of the alternative solution established in the *Supervisory guide on applying IFRS 9 – Credit risk management*, issued by the AFA on 21 December 2018 and its subsequent amendment of 3 November 2020.

- **Treatment of moratoria**

The moratorium approved by the Government of Andorra in 2020, and amended in 2021, has led to the deferral of loan payments (principal and interest) and does not provide for the cancellation of these payments.

From a prudential point of view, within Recommendation EB 01/2020, the AFA adopted the guidelines published by the EBA on 2 April 2020 (*EBA/GL/2020/02 Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*) to clarify which moratoria do not automatically trigger a change in the risk classification and under which circumstances the assessment should be made on a case by case basis, as well as the application of the definition of default in terms of the treatment of restructuring or refinancing.

On 21 September 2020, the EBA issued *EBA/GL/2020/15 Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*, whereby it decides to reactivate EBA/GL/2020/02 and sets 31 March 2021 as the new deadline for its application. However, due to the significant increase in the risk that some customers and firms may become insolvent and the importance of reflecting this risk in banks' capital positions, the reactivation of the guidelines is conditional on additional restrictions, which also apply to existing moratoria. Specifically:

- The period of time for which the moratoria and extensions are valid is limited, not exceeding 9 months.
- This limitation does not apply to moratoria or extensions granted prior to 30 September 2020, the duration of which exceeds 9 months.
- For moratoria granted between 1 October and 1 December 2020, the EBA guidelines may apply provided that they comply with the requirements.
- An additional documentation requirement to be submitted to the regulator is introduced for plans to assess the probability of default of exposures subject to legislative and non-legislative moratoria.

Despite the stipulations of EBA/GL/2020/02 and taking into account the conditions established in Article 49 of Law 16/2020 regulating the new legislative moratoria, and with the aim of adapting this EBA guide to the specificities of the Andorran market, the AFA has determined that:

(i) the Guidelines also apply to legislative moratoria put in place prior to 30 June 2021; and

(ii) the maximum term of nine months will not apply.

On 29 September 2021, Decree 323/2021 entered into force, with the aim of establishing the procedure for the repayment or loan conversion of outstanding debt with banking institutions in the framework of the extraordinary programme of guarantees granted to companies and businesses due to the health emergency caused by the SARS-CoV-2 coronavirus, and regulated by Decree of 24/03/2020 approving a programme of extraordinary guarantees for companies and businesses due to the health emergency caused by the SARS-

CoV-2 coronavirus and Decree of 20/05/2020 approving a second programme of extraordinary guarantees for companies and businesses due to the health emergency caused by the SARS-CoV-2 coronavirus, and their subsequent amendments.

- **Updating macroeconomic scenarios**

  - At the supervisory level, the measures adopted by the ECB and published on 1 April 2020 under the title *IFRS 9 in the context of the coronavirus (COVID-19) pandemic – Guidance on the use of forecasts to estimate the ECL during the COVID-19 pandemic*. In this guidance, the ECB advises entities to avoid procyclical assumptions, warns of the sensitivity of macroeconomic variables in collective models and recommends the use of these variables in the long term as far as this information is representative.

  - As a prudential measure, in view of the global economic situation caused by the COVID-19 pandemic, in 2020 the Group applied a specific methodology to calculate the expected losses in an adverse lockdown scenario, which resulted in a generic add-on.

    To determine this add-on, a collective model was developed for the whole Andorran financial sector within Andorran Banking. This situation is based on assumptions in line with international best practices in the sector and with the recommendations issued by the European Central Bank: impairment of stage 1 and stage 2 operations; macroeconomic forecasts in different scenarios to include the forward-looking effect (GDP as a catalyst for the crisis and its comparability with the country's economic situation); impairment of mitigating guarantees in the form of an increase in the haircuts applied; and reduction in the cure ratio of non-performing operations. For the calculation of the individually provisioned portfolio in stage 3, no probability of cure was foreseen, and the mortgage guarantee haircut was replaced by an impaired projection of the future sale value based on GDP.

    The table below shows the methodology of the impacts by stage:

	Lockdown scenario
Stage 1	a) 4% of the EAD at stage 1 is transferred to stage 2 multiplied by the average stage 2 coverage ratio.
Stage 2	a) Lockdown projections based on the forward-looking effect of PD. b) 4% of the EAD at stage 2 is transferred to stage 3 multiplied by the stage 3 average coverage ratio for defaults of 90 to 180 days.
Stage 3	a) Increase in mortgage guarantee haircuts (9% in collective analysis and according to macroeconomic projection in individual analysis) b) Decrease in cure ratio of 10% in collective analysis.

    These criteria reflect an increase in the projected NPL ratios and a reduction in the recoverability of defaulted operations. The table below, corresponding to 2020, shows the generic add-on that was applied at the close of the respective year.

In thousands of euros	Collective	Individual	Total
Stage 1	698	699	**1,397**
Stage 2	-53	2,062	**2,009**
Stage 3	437	7,156	**7,593**
Total	**1,083**	**9,917**	**11,000**

Given that the potential direct and indirect impacts of the pandemic are reflected in the estimates of credit risk parameters through long-term averages of default rates (PDs) and recovery rates (LGDs) based on their assigned weighting over the total available observations, it is concluded that, with the calibration in place during 2021, it is not possible to observe the full impact of the pandemic on the collective estimates of the loan investment portfolio.

In line with this statement and with the intention of widening the margin of conservatism in view of the remaining uncertainty, it was decided to include the impact of the pandemic within the risk parameters implicitly through the calibration at year-end 2020 and to revise the generic add-on expertly on the basis of the evolution of the overall observed solvency of borrowers, thereby obtaining the following add-on at year-end 2021.

31.12.21

In thousands of euros	Collective	Individual	Total
Stage 1	698	699	1,397
Stage 3	437	3,407	3,845
Total	**1,135**	**4,107**	**5,242**

5.2.2. Interbank deposits and debt securities

5.2.2.1. Counterparty and settlement risk

The table below shows the composition of the balance of loans and advances to credit institutions at 31 December 2021 and 2020, according to the credit quality of the counterparty.

	At amortised cost	
In thousands of euros	31.12.21	31.12.20
Between AAA and AA-	-	-
Between A+ and BBB	420,352	645,604
BBB-	46,221	49,981
Between BB+ and B+	-	-
Between B and CCC	-	-
D	-	-
N/D	178	7,806
Gross book value	466,751	703,391
Credit risk hedging	-	-
Net book value	**466,751**	**703,391**

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

At 31 December 2021 and 2020, the Group has no past due or unpaid positions with credit institutions.

At 31 December 2021 and 2020, the Group recognises its total exposure to credit institutions as normal risk (Stage 1).

The table below shows the composition of the balance with debt securities at 31 December 2021 and 2020, according to the credit quality of the issuer and the valuation model in which they appear in the statement of financial position.

In thousands of euros	At amortised cost		Fair value through other comprehensive income		Fair value through profit and loss		Total	
	31.12.21	31.12.20	31.12.21	31.12.20	31.12.21	31.12.20	31.12.21	31.12.20
Between AAA and AA-	465,326	199,669	147,869	6,029	-	-	613,195	205,698
Between A+ and BBB	342,326	575,141	88,866	69,331	14,523	19,242	445,715	663,714
BBB-	7,055	8,595	-	-	-	-	7,055	8,595
Between BB+ and B+	1,091	1,086	-	-	20,493	-	21,584	1,086
Between B and CCC	-	-	-	-	-	-	-	-
D	-	-	-	-	-	-	-	-
N/D	-	-	-	-	43,461	855	43,461	855
Gross book value	815,798	784,491	236,735	75,360	78,477	20,097	1,131,010	879,948
Credit risk hedging	-165	-518	-	-	-	-	-165	-518
Net book value	**815,633**	**783,973**	**236,735**	**75,360**	**78,477**	**20,097**	**1,130,845**	**879,430**

At 31 December 2021 and 2020, the debt securities portfolio does not include any past due or unpaid positions.

At 31 December 2021 and 2020, the Group recognises its total debt securities portfolio as being normal risk (Stage 1).

The balance of the debt securities portfolio at 31 December 2021 and 2020, with the rating of BBB+, includes the debt of the Government of Andorra, for an amount of EUR 142,375 thousand and EUR 105,948 thousand respectively.

By means of an internal model for assigning exposure by counterparty, which is intended to establish an internal and objective criterion for measuring the credit quality of the different interbank counterparties and financial institutions, the Group aims to assign the maximum exposure limit, in accordance with the range of limits considered at any given time. A uniform and equitable assignment is then made for each Crèdit Andorrà Group subsidiary while respecting the maximum exposure limit assigned.

In terms of the exposure of off-balance-sheet financial counterparties, a grid of ratios is established according to the maturity of the assets in order to weigh the consumption of assets concentrated off the balance sheet. A financial counterparty cap has also been established by adding together the total consumption on and off the balance sheet.

The Global Risk Division 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 an asset or the monetary value of an asset on the settlement date specified in the contract with the other counterparty.

The settlement risk limit for a financial lending institution is at least that resulting from the maximum exposure limit assigned by the counterparty exposure model.

5.2.2.2. Sector and geographic concentration

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

Below is a breakdown of the exposure with credit institutions by geographical area as at 31 December 2021 and 2020.

In thousands of euros	Loans and advances to credit institutions 31.12.21	31.12.20
Geographic concentration		
USA	-	-
France	111,367	337,403
Spain	353,253	354,900
Germany	-	-
UK	-	-
Other	2,131	11,088
Total	**466,751**	**703,391**

Below is a breakdown of the debt securities portfolios by economic sector and geographic region at 31 December 2021 and 2020:

	Debt securities		Credit risk hedging	
In thousands of euros	31.12.21	31.12.20	31.12.21	31.12.20
Concentration by sector				
Public sector	953,454	731,488	-96	-382
Credit institutions and other financial institutions	108,506	125,700	-31	-96
Non-financial corporations	69,050	22,760	-38	-40
Total exposure by sector	**1,131,010**	**879,948**	**-165**	**-518**
Geographic concentration				
Italy	99,084	405,369	-25	-303
USA	482,485	148,353	-5	-4
France	16,663	13,217	-6	-5
Spain	211,439	119,428	-34	-88
Germany	1,190	2,491	-1	-3
UK	58,348	9,025	-16	-16
Andorra	142,375	107,576	-51	-73
Other	119,426	74,489	-27	-26
Total exposure by geography	**1,131,010**	**879,948**	**-165**	**-518**

Country risk is the risk incurred by counterparties residing in a given country due to circumstances other than normal commercial risk. Depending on the economic evolution of the countries, their political situation, the regulatory and institutional framework, and the rating assigned by the credit rating agencies in each country, the Group classifies its transactions with third parties and assigns to each group the percentages of provisions for bad debts resulting from this analysis.

With regard to exposure by geographical area, the ALCO establishes percentage limits of maximum exposure for countries or groups of countries, as appropriate. The purpose of this is to control the maximum concentration in certain geographies.

The consolidated amount in euros, calculated on a country-by-country basis, includes on-balance-sheet or off-balance-sheet investments with a specific country exposure.

5.2.2.3. Movement in impairment provisions

The movement in provisions for impairment of loans and advances to credit institutions and debt securities during the financial years ending 31 December 2021 and 2020 is as follows.

In thousands of euros	31.12.20	Net allocations	Exchange rate differences and others	31.12.21
Loans and advances to credit institutions	-	-	-	-
Debt securities	-518	353	-	-165
Total hedges	**-518**	**353**	**-**	**-165**

In thousands of euros	31.12.19	Net allocations	Exchange rate differences and others	31.12.20
Loans and advances to credit institutions	-	-	-	-
Debt securities	-564	46	-	-518
Total hedges	**-564**	**46**	**-**	**-518**

5.2.3. Derivatives

In order to mitigate exposure to counterparty risk, the Group maintains a solid base of guarantee contracts. Almost all of the risks assumed by derivatives trading are covered by the signing of a standardised ISDA Master Agreement and/or Master Agreement for Financial Transactions, which take into account in their clauses the possibility of netting the outstanding collection and payment flows between the parties for all the transactions covered by these agreements.

In addition, the Group has signed collateral agreements (CSAs) with interbank counterparties, which serve as a guarantee for the market value of the derivatives transactions.

The Group collateralises all derivatives transactions with financial institutions, as well as transactions involving repurchase commitments, hedged by Global Master Repurchase Agreements (GMRAs) or similar.

Below is a breakdown of the net exposure to credit risk associated with derivatives transactions as at 31 December 2021 and 2020.

	Nominal amount		Gross amount		Net collateral (CSA)		Net exposure	
In thousands of euros	2021	2020	2021	2020	2021	2020	2021	2020
Held-for-trading assets	995,297	1,003,555	19,335	22,323				
Hedging assets	-	-	-	-				
Gross book value - Asset	**995,297**	**1,003,555**	**19,335**	**22,323**				
Held-for-trading liabilities	-892,340	-858,724	-20,944	-25,107				
Hedging liabilities	-61,451	-69,871	-13,087	-18,318				
Gross book value - Liability	**-953,791**	**-928,595**	**-34,031**	**-43,425**				
Total net exposure	**41,506**	**74,960**	**-14,696**	**-21,102**	**21,700**	**31,610**	**7,004**	**10,508**

In line with market practice, the CSA agreements contain clauses to determine the levels above which collateral exchange is required and, therefore, the net exposures should not be zero. However, taking into account the credit quality of the counterparties and the limits on collateral exchange, the Group considers the credit risk associated with these transactions to be immaterial. Nonetheless, the figure for "Gross amount – Liabilities held for trading" and, therefore, the figure for "Net exposure" for 2021 and 2020, includes the value of the put option held by the shareholders of Banco Alcalá SA (see Note 3.6).

5.3. Liquidity risk management

Liquidity risk is the risk arising from potential difficulties in meeting obligations associated with liabilities that are settled by the delivery of cash or another financial asset. Liquidity risk therefore represents the risk of not having sufficient funds to meet payment obligations to third parties or having to do so at a higher cost.

The Global Risk Division is responsible for monitoring, controlling and reporting to the Assets, Liabilities and Risk Committee (ALCO) regarding liquidity risk and the corresponding regulatory and management liquidity ratios and metrics. The ALCO is responsible for defining liquidity management targets, determining portfolio investment strategies and taking decisions on proposals for balance sheet management.

The key objective for liquidity risk is to establish a robust control and management environment to ensure that payment commitments can be met at all times through high quality liquid assets and other instruments and processes within the Group on a timely basis; and to have a sufficient liquidity buffer to enable the Group to develop its business and achieve its strategic objectives.

The measurement of liquidity risk is approached from the point of view of liquidity needs, i.e., making decisions on how to meet these needs. These measures should cover both the short term and the medium/long term, and always with a global vision, including both retail and wholesale positions.

The Group has a liquidity risk contingency plan in place, which includes commercial and institutional measures to deal with various systemic and/or idiosyncratic crisis scenarios.

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

Below is a breakdown of the balances by contractual remaining maturities, disregarding, where applicable, valuation adjustments and impairment:

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 2021						
Financial assets (inflows)						
Cash, cash balances in central banks and other demand deposits	587,245	587,245	-	-	-	-
Loans and receivables	2,857,650	551,085	304,763	883,836	710,095	407,871
Credit institutions	466,751	466,505	-	27	219	-
Customers	2,390,899	84,580	304,763	883,809	709,876	407,871
Debt securities	1,130,845	33,123	153,411	113,671	679,596	151,044
Derivatives	19,335	7,262	1,574	4,231	5,142	1,126
Book value	**4,595,075**	**1,178,715**	**459,748**	**1,001,738**	**1,394,833**	**560,041**
Financial liabilities (outflows)						
Central bank deposits	51,196	24	-	31,121	20,000	51
Credit institution deposits	103,530	15,602	-	87,928	-	-
Customer deposits	4,001,096	38,656	403,882	275,436	3,229,786	53,336
Debt securities at amortised cost	51,582	-	-	-	-	51,582
Financial liabilities at fair value	125,910	158	54,254	29,776	41,249	473
Financial liabilities at amortised cost	59,304	44	738	3,209	19,990	35,323
Other financial liabilities	3,599	-	-	-	-	3,599
Derivatives	34,031	1,965	2,254	2,980	9,807	17,025
Book value	**4,430,248**	**56,449**	**461,128**	**430,450**	**3,320,832**	**161,389**

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 2020						
Financial assets (inflows)						
Cash, cash balances in central banks and other demand deposits	399,792	399,792	-	-	-	-
Loans and advances	3,013,739	518,967	508,060	710,202	824,109	452,401
Credit institutions	703,391	407,191	295,994	-	206	-
Customers	2,310,348	111,776	212,066	710,202	823,903	452,401
Debt securities	879,430	4,186	14,329	245,626	518,528	96,761
Derivatives	22,323	9,729	3,992	1,872	5,014	1,716
Book value	**4,315,284**	**932,674**	**526,381**	**957,700**	**1,347,651**	**550,878**
Financial liabilities (outflows)						
Central bank deposits	47,555	15,257	4,120	2,357	25,770	51
Credit institution deposits	84,777	6,360	-	-	78,417	-
Customer deposits	3,822,744	91,067	397,505	328,752	2,955,736	49,684
Debt securities at amortised cost	51,582	-	-	-	-	51,582
Financial liabilities at fair value	78,338	9,866	4,854	56,333	6,918	367
Financial liabilities at amortised cost	62,011	52	871	3,837	17,990	39,261
Other financial liabilities	4,482	-	-	-	-	4,482
Derivatives	43,425	6,925	3,195	1,585	9,105	22,615
Book value	**4,194,914**	**129,527**	**410,545**	**392,864**	**3,093,936**	**168,042**

The maturity of certain items included in the above tables (mainly customer deposits with no contractual maturity) has been estimated based on the past experience of effective maturities, and this information is consistent with the information used by the Group in its liquidity management.

The Group also has commitments and guarantees given (see Note 5.2.), although a significant portion of these amounts will mature without being used or any payment obligation materialising for the Group. Therefore, the aggregate balance of these commitments cannot be considered as a certain future need for liquidity or financing to be granted to third parties to the Group.

5.3.2. Available liquidity

Crèdit Andorrà has good availability of liquid assets. These assets can be classified, under internal criteria, into different levels according to the degree of liquidity. At the same time, this will determine the level of discount (haircut) that a counterparty would apply under normal market conditions. In general terms, the definitions of these levels are as follows:

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

The table below shows the market value volumes of Level 1 to 3 assets as defined above on 31 December 2021 and 2020, differentiating between those currently available for additional liquidity and those that are not.

In thousands of euros	Encumbered	Unencumbered	Total	Average haircut	Available liquidity
31 December 2021					
Level 1	143,853	758,060	901,913	3.98%	727,871
Level 2	-	1,267	1,267	5.76%	1,194
Level 3	7,429	76,132	83,561	32.98%	51,027
Total assets	**151,282**	**835,459**	**986,741**	**6.63%**	**780,092**

In thousands of euros	Encumbered	Unencumbered	Total	Average haircut	Available liquidity
31 December 2020					
Level 1	163,902	527,494	691,396	7.30%	488,986
Level 2	20,370	30,584	50,954	9.53%	27,668
Level 3	-	11,232	11,232	25.78%	8,336
Total assets	**184,272**	**569,310**	**753,582**	**7.78%**	**524,990**

The level of available liquid assets and the average haircut of 6.63% at 31 December 2021 and 7.78% at 31 December 2020 are evidence of the excellent quality of the Group's portfolio.

5.3.3 Key figures

Once Technical Communiqué no. 107 on liquidity ratios was repealed, as set out in AFA Communiqué no. 255/19 of 27 March 2019, the LCR is reported according to European standards, as established in Article 81 of Law 35/2018 of 20 December on solvency, liquidity and prudential supervision of banking institutions and investment firms.

The LCR is now calculated and reported monthly, under the guidelines of Commission Implementing Regulation (EU) 2016/322 of 10 February 2016. This ratio compares the level of liquid assets in relation to net liquidity outflows at 30 days, which, as set out in the second transitional provision, on 31 December 2021 is required to be no less than 100% (80% on 31 December 2020).

The Crèdit Andorrà Group has maintained this ratio comfortably above 100%.

The table below shows individual and consolidated liquidity ratios at 31 December 2021 and 2020.

	31.12.21	31.12.20
Individual	162.61%	153.46%
Consolidated	141.96%	141.66%

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

5.4. Market risk management

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 various assets and financial risk factors. In all cases, market risk relates to the 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 ALCO approves a global structure of limits implemented through the existence of:

- Limits on investment; limit on volume.
- Limits on investment by issuer rating, maturity and portfolio or sub-portfolio.
- Limits on investment by issuer concentration.
- Limits for market risk; VaR per portfolio and overall VaR.
- Limits for annual, quarterly and monthly maximum cumulative loss.

The Risk Oversight Department in the Global Risk Division is responsible for monitoring and controlling 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 2021 and 2020.

In thousands of euros	Book value	Portfolio: trading	Portfolio: non-trading
31 December 2021			
Assets subject to market risk	**530,885**	**23,224**	**507,661**
Derivatives	19,335	19,335	-
Other	511,550	3,889	507,661
Liabilities subject to market risk	**159,941**	**20,944**	**138,997**
Derivatives	34,031	20,944	13,087
Other	125,910	-	125,910

In thousands of euros	Book value	Portfolio: trading	Portfolio: non-trading
31 December 2020			
Assets subject to market risk	**313,145**	**27,699**	**285,446**
Derivatives	22,323	22,323	-
Other	290,822	5,376	285,446
Liabilities subject to market risk	**121,763**	**25,107**	**96,656**
Derivatives	43,425	25,107	18,318
Other	78,338	-	78,338

5.4.2. Market risk oversight

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

The Group's VaR calculation method is historical simulation, which calculates the impact on the value of the current portfolio of historical changes in risk factors, taking into account the variations over the last 250 days and a one-day time horizon.

A detailed report indicating VaR, with various time horizons and confidence intervals, is regularly sent to the members of the Management Committee and the ALCO. These VaR measures allow for, among other things, a test of completeness and consistency.

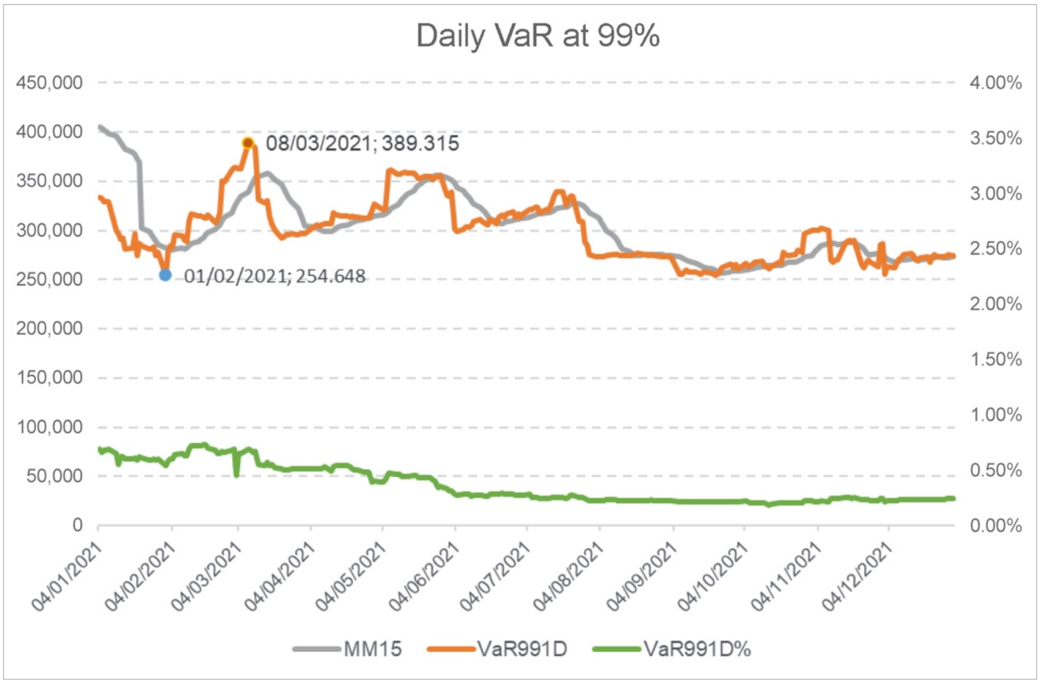
Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to certain limitations. Among these limitations is the fact that it is a metric that does not include the liquidity risk of the positions. This is a risk that could cause an increase over time of holding the asset in the portfolio, due to insufficient liquidity in the market to be able to close the position, as well as an increase in the cost of liquidating the position in the less liquid assets, thus increasing the potential losses. In addition, a confidence level of 99% does not reflect the potential losses that may occur outside this range. This means that within the model used, there is a 1% probability that losses will exceed the calculated VaR. Another limitation of VaR is that it is calculated on the basis of the day's closing positions and, therefore, does not reflect the contributions from the intraday trading positions.

Another limitation of this method is that the use of historical data for determining the possible range of future variations does not cover those scenarios that have not occurred in the past or those that are exceptional.

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

To supplement the limitations of the VaR method, the Group sets additional limits for positions, stop losses (at monthly, quarterly and annual time horizons), as well as concentration limits to restrict the potential effects on trading books.

The graph below shows the summary of the daily VaR of the trading book during the 2021 financial year.



A summary of the 1-day VaR with a confidence level of 99% in the trading book at 31 December 2021 and 2020 is shown below.

	VaR		Average		Maximum		Minimum	
In thousands of euros	2021	2020	2021	2020	2021	2020	2021	2020
Exchange rate risk	-	-	-	-	-	-	-	-
Interest rate risk	-	-	-	-	-	-	-	-
Credit risk	154	304	205	462	341	2,280	82	6
Equity risk	141	174	130	313	271	414	102	170
Other	46	179	90	181	185	262	46	59
Diversification effect	-66	-157	-125	-115	N/A	N/A	N/A	N/A
Total	**275**	**500**	**300**	**841**	**389**	**2,418**	**255**	**275**

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

5.5. Structural interest rate risk

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

The ALCO is the body responsible for defining interest rate risk management objectives, determining portfolio investment strategies, hedging strategies and deciding on structural risk management proposals.

The Global Risk Division is responsible for measuring, analysing, controlling and reporting to the ALCO on the interest rate risk to which the Group is exposed. To properly carry out this task, the Group has an Asset and Liability Management (ALM) working group comprising the Investment, Innovation and Digital Transformation Division, the Financial Planning, Operations and Resources Division and the Global Risk Division. This group is responsible for analysing and validating, prior to submission to the ALCO, both the structural risk monitoring reports and asset management proposals in the statement of financial position.

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

The control and monitoring of structural interest rate risk management is performed by means of a series of tools and models aimed at showing the risk profile, on the basis of which maximum exposure limits are established:

- Sensitivity measurement and scenario analysis of interest rate movements and assessment of the impacts that could materially affect the Group. The scenarios used provide for both parallel movements of the interest rate curve and changes in the slope and curvature.

- 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 help to provide an overview of the Group's structural risk.

- Static maturity and repricing gaps, which allow for the analysis of the difference between the assets and liabilities sensitive to different terms and, on the basis of these, the possible sensitivity to rate changes.

- Monte Carlo stochastic simulations for generating random scenarios of interest rate curve movements and obtaining metrics such as EaR (earnings at risk) with a given confidence level and time horizon.

The models used also require the development of a number of assumptions as to the behaviour of certain items in the statement of financial position in order to model behaviour as close as possible to reality. Among these assumptions, it is worth highlighting those relating to contracts with options and those with no contractual maturity, such as demand accounts. In these cases, behavioural assumptions are considered on the basis of historical data for these items.

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

5.5.1. Gap analysis

The static gap shows the distribution of maturities and interest rate revisions at a given date. For the items of the statement of financial position without contractual maturity, their sensitivity to interest rate movements is analysed, together with their granularity and stability, also considering the implicit option of early cancellation of some products by the customer. The following table summarises the interest rate repricing gap for all financial assets and liabilities, excluding portfolios including trading activities:

In thousands of euros	Book value	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Not sensitive
31 December 2021							
Cash, cash balances in central banks and other demand deposits	587,245	498,027	-	-	-	-	89,218
Loans and receivables	2,857,650	1,575,736	564,989	468,284	91,346	82,850	74,445
Credit institutions	466,751	466,532	-	-	219	-	-
Customers	2,390,899	1,109,204	564,989	468,284	91,127	82,850	74,445
Debt securities	1,130,845	181,614	112,601	10,759	676,137	149,734	-
Other assets	42,546	-	-	-	-	-	42,546
Total assets	4,618,286	2,255,377	677,590	479,043	767,483	232,584	206,209
Financial liabilities at amortised cost	4,270,307	489,382	197,407	262,723	3,152,924	56,120	111,751
Central bank deposits	51,196	51,145	-	-	-	-	51
Credit institution deposits	103,530	25,113	78,417	-	-	-	-
Customer deposits	4,001,096	413,124	118,990	262,723	3,152,924	4,538	48,797
Debt securities	51,582	-	-	-	-	51,582	-
Other financial liabilities	62,903	-	-	-	-	-	62,903
Financial liabilities at fair value	125,910	33,925	37,377	14,864	39,271	473	-
Other liabilities	65,253	-	-	-	-	-	65,253
Total liabilities	4,461,470	523,307	234,784	277,587	3,192,195	56,593	177,004
Interest rate risk hedging effects	-	55,232	-2,610	-1,597	-20,454	-30,571	-
Total net	**156,816**	**1,787,302**	**440,196**	**199,859**	**-2,445,166**	**145,420**	**29,205**

In thousands of euros	Book value	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Not sensitive
31 December 2020							
Cash, cash balances in central banks and other demand deposits	399,792	297,798	-	-	-	-	101,994
Loans and receivables	3,013,739	1,747,342	537,779	480,855	112,659	83,233	51,871
Credit institutions	703,391	703,185	-	-	206	-	-
Customers	2,310,348	1,044,157	537,779	480,855	112,453	83,233	51,871
Debt securities	879,430	8,390	24,211	503,241	246,913	96,675	-
Other assets	44,145	-	-	-	-	-	44,145
Total assets	4,337,106	2,053,530	561,990	984,096	359,572	179,908	198,010
Financial liabilities at amortised cost	4,073,151	474,180	224,115	328,110	2,878,936	51,582	116,228
Central bank deposits	47,555	45,147	2,357	-	-	-	51
Credit institution deposits	84,777	6,360	-	78,417	-	-	-
Customer deposits	3,822,744	422,673	221,758	249,693	2,878,936	-	49,684
Debt securities	51,582	-	-	-	-	51,582	-
Other financial liabilities	66,493	-	-	-	-	-	66,493
Financial liabilities at fair value	78,338	11,694	31,462	30,210	4,605	367	-
Other liabilities	63,267	-	-	-	-	-	63,267
Total liabilities	4,214,756	485,874	255,577	358,320	2,883,541	51,949	179,495
Interest rate risk hedging effects	-	51,244	7,071	-2,769	-22,862	-32,684	-
Total net	**122,350**	**1,618,900**	**313,484**	**623,007**	**-2,546,831**	**95,275**	**18,515**

5.5.2. Sensitivity analysis

The sensitivity measure on the financial margin shows the possible impact on the repricing of transactions included in the statement of financial position caused by changes in the yield curve. This sensitivity is obtained by comparing the simulation of the most probable financial margin with other forecast scenarios of decreases or increases in rates and shocks in the slope of the curve.

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

- The application of six scenarios: parallel shock up; parallel shock down; steepener shock (short rates down and long rates up); flattener shock (short rates up and long rates down); short rates shock up; and short rates shock down.
- The setting of a floor on the shifted curve for the scenario of a decline of -100 basis points (bp) for immediate maturities; the floor increases 5 bp per year up to 0% for maturities of 20 years and more.
- The impacts of the margin, on the one hand, and economic value, on the other, of each currency are added linearly to each rate scenario; the impacts of those currencies that generate an increase in the scenario are weighted by a factor of 50%.
- Different shocks depending on the currency in order to capture heterogeneous economic environments across jurisdictions.
- The adjustment for the remuneration of unstable demand balances considering the assumptions of behaviour under different scenarios of interest rate increases.
- The sensitivity of the economic value to interest rates measures the impact of changes in interest rates on the present value of statement of financial position items. This sensitivity is measured by comparing the calculation of the Group's economic value and considering the changes in market interest rates, and dividing the result by the Group's Tier 1 capital.

The economic value and financial margin sensitivities to parallel shifts in the yield curve at 31 December 2021 and 31 December 2020 are as follows:

	Economic value sensitivity		Financial margin sensitivity	
In thousands of euros	31.12.21	31.12.20	31.12.21	31.12.20
Increase of 200 bp	13.4%	18.4%	28.9%	30.6%
Decrease of 200 bp	-10.7%	-7.5%	-9.9%	-15.7%

5.6. Structural exchange rate risk

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

The ALCO is responsible for defining and overseeing strategies for managing this type of risk, so as to control the possible impact of exchange rate fluctuations on the Group's solvency and on the euro equivalent value of investments and gains or losses of subsidiaries with currencies other than the euro.

The Investment, Innovation and Digital Transformation Department is responsible for the daily control of the overall exposure in each currency, a position calculated on an aggregate basis for the spot and forward position. A maximum exposure limit is established on this net open position for all currencies. To manage this exposure, the department can hedge with spots, forwards and derivatives. This maximum open currency position limit amounts to EUR 5,000 thousand.

Below is the open position in the main currencies to which the Bank has open exposure (equivalent in euro), calculated on both spot and forward transactions at year-end 2021 and 2020.

Open position (in thousands of euros)	31.12.21	31.12.20
USD	-287	57
GBP	16	6
MXN	3	-

5.7. Operational risk

The Crèdit Andorrà Group, pursuant to the criterion established by the Basel Committee on Banking Supervision, defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This broad definition includes several types of risks, such as fraud, commercial practices, conduct risk, legal risk, technological risk, cybersecurity or human error, but expressly excludes risks such as strategic or business risks and reputational risk.

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

- Identify the exposures to operational risk in all entities that are part of the 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

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

The Risk Oversight Department, which is part of the Global Risk Division, is responsible for developing the operational risk management framework of the Group as a whole. The principal functions it performs in this area are:

- Assisting the Board of Directors in approving an operational risk management policy which establishes a management framework that enables operational risks to be identified, assessed and managed.
- Establishing methodologies for identifying, assessing and monitoring operational risk, as well as providing the Group with the necessary tools for implementing said methodologies.
- Leading the process of self-assessment of operational risk and the compilation of operational risk losses that materialise in the different entities that form part of 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 these coordinators with training or coordinating the operational risk self-assessment process of the entire Group with the direct involvement of all subsidiaries, divisions and departments.
- Monitoring the Group's operational risk profile, while keeping senior management informed of its evolution.

Each department has an operational risk coordinator who, in addition to their functions within the department, works directly with the corporate operational risk control function to identify, assess, manage and report operational risk events to the department.

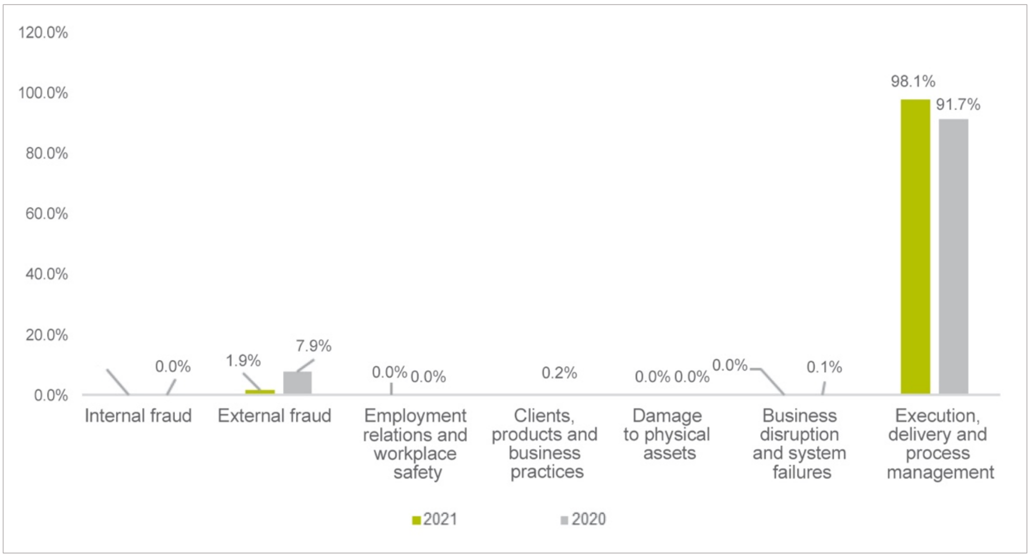
5.7.2. Tools and methodologies for managing operational risk

The operational risk management framework defined by the Crèdit Andorrà Group provides for the integration of quantitative and qualitative methodologies, combining a retrospective view of the losses that have materialised for the Group with a forward-looking view of the exposure to future risk provided by the self-assessment of risks and controls and scenario analysis.

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

- **CAM-ROP (control, analysis and mitigation of operational risk) database of internal losses due to operational risk**. The Group has created an internal database that includes the events involving losses due to operational risk. This database is a quantitative tool that allows understanding and analysis of the operational risk profile based on calculated losses, which have been analysed and classified based on the type of risk, 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 historical data on operational risk losses from 2013 onwards. Along with the database of losses caused by operational risk, the Group has approved several policies and procedures that enable the Risk Oversight Department to receive information related to all operational losses that materialise in all entities that are part of the Crèdit Andorrà Group.

During 2021 and 2020, the percentage distribution of operational risk losses according to the Basel operational risk typologies 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 through the identification of the operational risks inherent in all the processes of the different entities comprising the Group, the controls that exist for mitigating these risks and a forward-looking assessment of the likelihood and severity of the resulting residual risk, after taking into account 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 assist in carrying out a more accurate qualitative assessment of the level of risk exposure, when a sufficient historical basis is not available.

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

- **Regulatory capital calculation**. Law 35/2018 on solvency, liquidity and prudential supervision of banking institutions and investment firms adapts the European Union CRD IV and CRR to the Andorran legal framework. This law introduces the capital requirement for operation risk, enabling entities to use the basic indicator approach or the standardised approach, subject to compliance with a series of requirements set out in the law and notice to the supervisor. The Group calculates its own capital requirements for operational risk in accordance with the basic indicator approach. This calculation provides the capital requirement that must be held to ensure the Group's solvency in the event of unexpected losses due to operational risk.

- **Monitoring and reporting**. The Risk Oversight Department carried out bottom-up and top-down reporting on the operation risk situation. Bottom-up reporting is provided periodically to the ALCO and senior management, with the operational losses that have occurred as well as the self-assessment developments. Top-down reporting is provided to all the departments in the Group to inform them of the developments in their operational risk profile.

5.8. Compliance and conduct risk

The Group’s objectives in managing compliance and conduct risk are: (1) to minimise the likelihood of irregularities occurring with regard to current legislation and internal regulations; and (2) to ensure that any irregularities that do occur are identified, reported and promptly resolved. In addition, certain actions by the Bank may result in a loss of confidence in the entity, or reputational risk.

These risks can be defined as follows:

- The risk of non-compliance is the risk of incurring legal or administrative penalties or financial losses or damage to reputation due to non-compliance with laws, regulations, internal rules and codes of conduct applicable to the banking business.

- Conduct risk refers to the risks associated with the conduct of the Bank’s personnel and with respect to dealing with customers and investors, miss-selling of financial products, non-compliance with rules and/or market abuse.

- Reputational risk is the risk arising from the Bank’s actions that could cause negative publicity relating to its practices and business relationships, leading to a loss in confidence in the Bank and consequently affecting its solvency.

The Bank’s organisational model is based on the identification and management of risks, and part of these risks are structured around the Legal Advisory, Compliance and Anti-Money Laundering Department which, among other functions, is responsible for managing compliance and conduct risks.

The Group's strategy to minimise these risks is based on the following key aspects:

- Oversight of the management and control of non-compliance and conduct risks through a committee structure designed by senior management to address these risks: Management Committee; Assets, Liabilities and Risks Committee; Strategy Committee; Senior Credit Committee, Ethics Committee; and Anti-Money Laundering Committee, which performs the function of the Internal Control and Communication Body (ICCB).
- The existence of corporate policies prepared on the basis of both Andorran and international law and best practices in this area. These policies are subject to a centralised and regular review and verification.
- The empowerment of the Compliance Department as a department independent of the functions of the business areas. In addition, in terms of the second line of defence, the department is responsible for monitoring compliance with applicable laws and internal regulations, overseeing compliance with the Crèdit Andorrà Group’s code of ethics and the internal code of conduct on securities markets of Crèdit Andorrà, SA, as well as proposing improvements.
- The drawing up of rules and procedures that develop the content of the Group’s policies and codes mentioned above, which are approved by the Bank’s relevant bodies.
- The existence of a Customer Service Unit, responsible for processing and managing the complaints and claims of customers and users of the Group’s services, in order to identify the reasons for their dissatisfaction, provide suitable solutions for each case and propose improvements. Furthermore, the Chief Compliance Officer (CCO) is the head of the anonymous Whistleblowing Channel, which allows employees to report any conduct, action or event detected within the organisation that may constitute a breach of the law and/or the Group’s internal rules of conduct.

The Bank’s Board of Directors is responsible for approving, within the area of compliance and conduct risk, the documents that make up the Bank's framework for action, which to date are as follows:

- The Crèdit Andorrà Group Code of Ethics.

- The Crèdit Andorrà, SA Internal Code of Conduct on the Securities Markets.

- The Crèdit Andorrà, SA Conflict of Interest Management Policy.
- The Compliance Policy.
- The Policy on the Prevention of Money Laundering and Combating the Financing of Terrorism.
- The Asset Protection Policy.
- The Incentives Policy.

The compliance function reports to the Audit and Risk Committee on a regular basis, through the head of the Legal Advisory, Compliance and Anti-Money Laundering Division, and through the presentation of a quarterly report prepared by Compliance.

5.8.1. Compliance Department

The Compliance Department is the independent internal department responsible for the effective, independent and continuous identification, assessment, monitoring and reporting of the risk of non-compliance with legislation in force and internal regulations, as well as for advising senior management on compliance and providing guidance and training to personnel.

The main functions of the Compliance Department are:

- Periodically reporting the results of the compliance risk assessment to the Bank's senior management, stating the most relevant aspects that may have arisen and indicating in particular whether the appropriate measures were taken in the event of deficiencies.
- Identifying and assessing compliance risk in order to determine the principal objectives of the monitoring and advisory activities to be carried out, leading, inter alia, to the definition of an action plan for the year.
- Promoting and developing a culture of compliance by drawing up policies and internal rules, as well as providing training and advice.

Among others, the responsibilities of the department include: a) investor protection in the provision of investment and ancillary services; b) the internal code of conduct on securities markets and market abuse; c) conflict of interest management policy; d) automatic exchange of information on tax matters (FATCA, QI and CRS); e) complaints handling service and whistleblowing channel; f) personal data protection; g) legislative monitoring of all the jurisdictions where the Crèdit Andorrà Group operates.

The department has been consolidated as a control function of the second line of defence reporting independently to senior management through the head of the Legal Advisory, Compliance and Anti-Money Laundering Division. In 2021, the department instigated the approval of the following policies:

- The Crèdit Andorrà, SA Asset Protection Policy.
- The Incentives Policy.

The function was also involved in the following projects:

- Responsible Banking – UNEP-FI.
- SFDR – ESG Regulation.
- LIBOR Project.

5.9. Money laundering and terrorist financing risk

Money laundering and terrorist financing risk should be understood as the risk that the Entity may be used to channel, conceal or convert into lawful funds or securities the proceeds of crime, or for the provision or gathering of funds or securities for terrorist purposes.

Money laundering and terrorist financing are a national and international concern, which lead, inter alia, to reputational damage to financial institutions and undermine relations with intermediaries, regulators and the general public. At the Crèdit Andorrà Group, all the business areas and subsidiaries have the strategic mission to have in place an advanced and effective system to prevent money laundering and terrorist financing that is constantly adapted to national and international regulations and standards on the matter. The purpose of such a system is to deal with the emergence of new techniques by criminal individuals and organisations and to prevent Group entities from being used for illicit purposes that could affect the reputation of the Group and/or the countries in which it operates.

For this reason, the Crèdit Andorrà Group bases its money laundering and terrorist financing prevention policy on the following lines of action:

- Having a suitable structure in terms of the organisation, human resources and materials for the prevention of money laundering and terrorist financing, with the aim of developing the banking business, the insurance business and any other business conducted by the entities within the Group, in accordance with the regulations in force and applying the best practices for each sector.
- Having policies, internal procedures and prevention and control systems in place to prevent the use of the Group entities to channel money laundering or terrorist financing operations.
- Having the necessary communication procedures and resources (internal and external) to report the detection of indications or operations that could be related to money laundering or terrorist financing or any other as determined by the legislation in force.
- Ensuring that all Group employees are duly trained and aware of the policies, procedures and regulations in force on the prevention of money laundering and terrorist financing, in particular those related to the identification, knowledge of the customer and detection of suspicious operations.
- Submitting its policies, internal rules and procedures to periodic review by internal and external auditors.

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

The Group entities adopt the appropriate measures to identify, assess and understand their money laundering or terrorist financing risks by regularly preparing risk assessments and definitions. In the case of the Bank in particular, it prepares an individual risk assessment (IRA), duly documented and approved by the Board of Directors.

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, most efforts and measures to reduce and mitigate the risk should be concentrated.

In addition to the policy mentioned above, the Group has the following tools to prevent its entities from being used for criminal purposes:

- A customer classification system built on a risk-based approach (RBA), in accordance with the best international standards, the approval of which requires different hierarchical and organisational levels.
- The existence of anti-money laundering and terrorist financing committees (ICCB).
- Dedicated or shared human resources with a support structure appropriate to the risk and size of each entity.

- Procedures that develop the above policy and that are adapted and updated regularly. These procedures are drawn up by the Compliance Departments in each subsidiary or by the Bank's Anti-Money Laundering Department and are approved by the competent bodies depending on the document type.
- A range of technological tools that allow for AML/CFT controls, such as identifying politically exposed persons, automatic supervision of operations and control of transfers and customers, among others.
- Regular and independent supervision which, depending on the entity concerned, may be carried out by an external expert hired by the subsidiary itself, by the regulator or by the Group's Internal Audit Department, the function of which is corporate. In relation to this point, monitoring by the Bank's corporate function is ongoing, through regular requests for information and documentation that allow for the accreditation of the degree of progress in compliance with the measures to be adopted, as recommended by the corporate function itself and by the internal and external auditors.
- For a period to be determined by the relevant authorities, starting from the end of the relevant business relationship or transaction or operation, the following documents are kept: (1) a copy of the documents required under the due diligence measures; and (2) the original or a verified copy of the documents or records that adequately substantiate the transactions, the parties involved and the business relationships.
- Specific training programmes complemented by training courses that are occasionally initiated at the Bank, with the aim of improving training in this area.

5.9.1. Internal Control and Communication Body

In each of the jurisdictions in which the Group operates, an Anti-Money Laundering Committee is appointed to perform the function of an Internal Control and Communication Body (ICCB).

Its responsibilities include the organisation and monitoring of compliance with standards for the prevention of money laundering and terrorist financing.

The Anti-Money Laundering Committee has the following responsibilities:

- Regularly monitoring and assessing the adequacy and effectiveness of the measures and procedures in place to prevent money laundering, as well as the measures taken to combat any deficiencies in the Bank's compliance with its obligations.
- Advising and assisting the persons responsible for the provision of services and business activities.
- Verifying the ongoing and effective compliance with the obligations of the Bank, its directors, general management and personnel, in accordance with Andorran law on preventing and combating money laundering and terrorist financing and applicable internal regulations. The Anti-Money Laundering Committee must have the authority, the appropriate human resources, training, materials and technical and organisational resources to perform its functions and have access to all the information and documentation concerning customer identification, other documentation relating to compliance with due diligence obligations, transaction records and any other relevant information.

5.9.2. Anti-Money Laundering and Terrorist Financing Department

This is the unit specialising in anti-money laundering and combating the financing of terrorism (AML/CFT), which is part of the Legal Advisory, Compliance and Anti-Money Laundering Division, to which it reports hierarchically and functionally. It performs the functions assigned by the CCO and, where appropriate, by the Anti-Money Laundering Committee, within the framework of the obligations to monitor compliance with the rules on anti-money laundering and combating the financing of terrorism, in particular with regard to customer due diligence and the continuous scrutiny of their operations.

The department plays an important role in maintaining a high level of awareness of the prevention of money laundering and terrorist financing throughout the organisation. Within this framework, it has prepared and delivered the refresher and continuous training course on this subject for the Bank and for all its Andorran subsidiaries.

The head of the department notifies the ICCB of internal reports of suspicions sent by employees or managers of the Bank, as well as requests for confirmation by the ICCB of analyses of proposals to open accounts and of suspicious transactions carried out on his/her own initiative or as a result of the ongoing scrutiny of transactions and customers.

The department is actively involved in developing the prevention control system, including the continuous assessment and updating of this system and its effectiveness. It also advises and assists the parties responsible for the provision of services and business activities.

The department has immediate access to all the documentation concerning customer identification, other documents relating to compliance with due diligence obligations, transaction records and any other relevant information in this regard; it centralises and manages —through the representatives to the UIFAND — the prompt response to requests for additional information sent to them by the UIFAND; and it holds and manages the databases and IT tools for the prevention of money laundering and terrorist financing within the Bank.

6. Fair value of financial instruments

6.1. Introduction and overview

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

If there is no market price, fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence of recent transactions, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, in particular, the various types of risk associated with it. However, the models must preclude arbitrage.

The Internal Risk Control and Validation Department of the Global Risk Division is responsible for determining these unobservable market prices.

All financial instruments are classified in one of the following levels, depending on the method used to obtain the fair value:

- Level I: valuation based on the direct use of the actual listed price of the financial instrument on active markets, which is observable and available from independent sources, i.e., prices listed on active markets.

- Level II: valuation based on applying techniques that use variables obtained from the market, i.e., the assumptions considered correspond to directly or indirectly observable market data, or prices listed on active markets for similar instruments.

- Level III: valuation based on applying techniques that, for some of the significant assumptions, use variables not obtained from observable market data.

6.2. Fair value of financial assets and liabilities

The following table shows the book value at 31 December 2021 and 2020 of the Group's financial assets and liabilities and their corresponding fair value, broken down according to the valuation method used in estimating fair value.

31.12.21 In thousands of euros	Note	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets held for trading	**9**	**23,224**	**23,224**	**3,007**	**20,217**	**-**
Derivatives		19,335	19,335	-	19,335	-
Equity instruments		2,953	2,953	2,953	-	-
Debt securities		936	936	54	882	-
Loans and advances		-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		**179,872**	**179,872**	**150,007**	**-**	**29,865**
Equity instruments		173,672	173,672	150,007	-	23,665
Debt securities		-	-	-	-	-
Loans and advances		6,200	6,200	-	-	6,200
Financial assets designated at fair value through profit or loss	**10**	**77,541**	**77,541**	**35,016**	**22,327**	**20,198**
Debt securities		77,541	77,541	35,016	22,327	20,198
Other		-	-	-	-	-
Financial assets at fair value through other comprehensive income	**11**	**250,248**	**250,248**	**232,349**	**4,386**	**13,513**
Equity instruments		13,513	13,513	-	-	13,513
Debt securities		236,735	236,735	232,349	4,386	-
Financial assets at amortised cost	**12**	**3,667,083**	**3,676,611**	**687,641**	**124,281**	**2,864,689**
Loans and advances		2,851,450	2,864,689	-	-	2,864,689
Credit institutions		466,751	466,751	-	-	466,751
Customers		2,384,699	2,397,938	-	-	2,397,938
Debt securities		815,633	811,922	687,641	124,281	-
Hedging derivatives	**14**	**-**	**-**	**-**	**-**	**-**
Total assets		**4,197,968**	**4,207,496**	**1,108,020**	**171,211**	**2,928,265**
Financial liabilities held for trading	**9**	**20,944**	**20,944**	**-**	**18,596**	**2,348**
Derivatives		20,944	20,944	-	18,596	2,348
Financial liabilities designated at fair value through profit or loss	**10**	**125,910**	**125,910**	**-**	**125,777**	**133**
Financial liabilities at amortised cost	**19**	**4,270,307**	**4,270,307**	**-**	**-**	**4,270,307**
Central bank deposits		51,196	51,196	-	-	51,196
Lending institution deposits		103,530	103,530	-	-	103,530
Customer deposits		4,001,096	4,001,096	-	-	4,001,096
Other financial liabilities		114,485	114,485	-	-	114,485
Hedging derivatives	**14**	**13,087**	**13,087**	**-**	**13,087**	**-**
Total liabilities		**4,430,248**	**4,430,248**	**-**	**157,460**	**4,272,788**

31.12.20 In thousands of euros	Note	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets held for trading	**9**	**27,699**	**27,699**	**2,926**	**24,773**	**-**
Derivatives		22,323	22,323	-	22,323	-
Equity instruments		2,923	2,923	2,923	-	-
Debt securities		2,453	2,453	3	2,450	-
Loans and advances		-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	**9.1**	**178,167**	**178,167**	**154,977**	**-**	**23,190**
Equity instruments		171,967	171,967	154,977	-	16,990
Debt securities		-	-	-	-	-
Loans and advances		6,200	6,200	-	-	6,200
Financial assets designated at fair value through profit or loss	**10**	**17,644**	**17,644**	**17,644**	**-**	**-**
Debt securities		17,644	17,644	17,644	-	-
Other		-	-	-	-	-
Financial assets at fair value through other comprehensive income	**11**	**89,635**	**89,635**	**69,566**	**5,794**	**14,275**
Equity instruments		14,275	14,275	-	-	14,275
Debt securities		75,360	75,360	69,566	5,794	-
Financial assets at amortised cost	**12**	**3,791,512**	**3,834,621**	**712,356**	**95,816**	**3,026,449**
Loans and advances		3,007,539	3,026,449	-	-	3,026,449
Credit institutions		703,391	703,391	-	-	703,391
Customers		2,304,148	2,323,058	-	-	2,323,058
Debt securities	13	783,973	808,172	712,356	95,816	-
Hedging derivatives	**14**	**-**	**-**	**-**	**-**	**-**
Total assets		**4,104,657**	**4,147,766**	**957,469**	**126,383**	**3,063,914**
Financial liabilities held for trading	**9**	**25,107**	**25,107**	**-**	**23,047**	**2,060**
Derivatives		25,107	25,107	-	23,047	2,060
Financial liabilities designated at fair value through profit or loss	**10**	**78,338**	**78,338**	**-**	**78,208**	**130**
Financial liabilities at amortised cost	**19**	**4,073,151**	**4,073,151**	**-**	**-**	**4,073,151**
Central bank deposits		47,555	47,555	-	-	47,555
Lending institution deposits		84,777	84,777	-	-	84,777
Customer deposits		3,822,744	3,822,744	-	-	3,822,744
Other financial liabilities		118,075	118,075	-	-	118,075
Hedging derivatives	**14**	**18,318**	**18,318**	**-**	**18,318**	**-**
Total liabilities		**4,194,914**	**4,194,914**	**-**	**119,573**	**4,075,341**

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

6.3.1. Main valuation methods, assumptions and inputs used

The table below shows the main valuation methods, assumptions and inputs used to estimate the fair value of financial instruments classified in Levels 2 and 3, by type of financial instrument.

Financial instruments 31.12.21	Fair value Level 2	Level 3	Main valuation techniques	Main inputs used
Debt securities				
Financial assets held for trading	**882**	-	**Present value method** (discounted cash flow)	- Prepayment rates - Issuer credit risk - Market interest rate - Market benchmark levels
Non-trading financial assets mandatorily at fair value through profit or loss	-	-		
Financial assets designated at fair value through profit or loss	**22,327**	**20,198**		
Financial assets at fair value through other comprehensive income	**4,386**	-		
Financial assets at amortised cost	**124,281**	-		
Financial liabilities designated at fair value through profit or loss	**125,777**	**133**		
Assets and liabilities at amortised cost				
Loans and receivables	-	**2,864,689**	**Present value method** (discounted cash flow)	- Prepayment rates - Issuer credit risk - Market interest rate
Financial liabilities at amortised cost	-	**4,270,307**		
Equity instruments				
Financial assets held for trading	-	-	**Net equity** **Comparable prices** (prices of similar instruments)	- Net asset value issued by the managers of collective investment institutions - Prices of similar instruments or market benchmarks
Non-trading financial assets mandatorily at fair value through profit or loss	-	**23,665**		
Financial assets at fair value through other comprehensive income	-	**13,513**		
Loans and advances				
Non-trading financial assets mandatorily at fair value through profit or loss	-	**6,200**	**Present value method** (discounted cash flow)	- Prepayment rates - Issuer credit risk - Market interest rate
Derivatives				
Trading derivatives			- **Credit**: probability of default - **Exchange rate**: discounted cash flow, Black-Scholes - **Debt securities**: discounted cash flow - **Equity**: Black-Scholes and discounted cash flow - **Interest rate**: discounted cash flow - **Interest Rate Swaps, Call Money Swaps and FRA**: discounted cash flow - **Caps/Floors**: Libor Market Model - **Options on debt securities**: Black-Scholes	- Exchange rate - 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 credit spreads for issuers - Quoted dividends
Assets	**19,335**	-		
Liabilities	**18,596**	**2,348**		
Hedging derivatives				
Assets	-	-		
Liabilities	**13,087**	-		

Financial instruments 31.12.20	Fair value Level 2	Fair value Level 3	Main valuation techniques	Main inputs used
Debt securities				
Financial assets held for trading	**2,450**	-	**Present value method** (discounted cash flow)	- Prepayment rates - Issuer credit risk - Market interest rate - Market benchmark levels
Non-trading financial assets mandatorily at fair value through profit or loss	-	-		
Financial assets designated at fair value through profit or loss	-	-		
Financial assets at fair value through other comprehensive income	**5,794**	-		
Financial assets at amortised cost	**95,816**	-		
Financial liabilities designated at fair value through profit or loss	**78,208**	**130**		
Assets and liabilities at amortised cost				
Loans and receivables	-	**3,026,449**	**Present value method** (discounted cash flow)	- Prepayment rates - Issuer credit risk - Market interest rate
Financial liabilities at amortised cost	-	**4,073,151**		
Equity instruments				
Financial assets held for trading	-	-	**Net equity** **Comparable prices** (prices of similar instruments)	- Net asset value issued by the managers of collective investment institutions - Prices of similar instruments or market benchmarks
Non-trading financial assets mandatorily at fair value through profit or loss	-	**16,990**		
Financial assets at fair value through other comprehensive income	-	**14,275**		
Loans and advances				
Non-trading financial assets mandatorily at fair value through profit or loss	-	**6,200**	**Present value method** (discounted cash flow)	- Prepayment rates - Issuer credit risk - Market interest rate
Derivatives				
Trading derivatives			- **Credit**: probability of default - **Exchange rate**: discounted cash flow, Black-Scholes - **Debt securities**: discounted cash flow - **Equity**: Black-Scholes and discounted cash flow - **Interest rate**: discounted cash flow - **Interest Rate Swaps, Call Money Swaps and FRA**: discounted cash flow - **Caps/Floors**: Libor Market Model - **Options on debt securities**: Black-Scholes	- Exchange rate - 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 credit spreads for issuers - Quoted dividends
Assets	**22,323**	-		
Liabilities	**23,047**	**2,060**		
Hedging derivatives				
Assets	-	-		
Liabilities	**18,318**	-		

For instruments recognised at amortised cost, where the interest rate is variable, or for fixed rate instruments with maturities of less than one year (for which interest rate risk is not considered material), the Group considers that their book value (including valuation adjustments for credit risk hedges) 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 flow of each instrument, as established in the different contracts, and discounts them to calculate the present value. The necessary inputs may or may not be observable on the market. Some examples could be:

    - Yield curves. For the valuation of any financial instrument, it is necessary to have the discount factors for each of the dates on which a flow is set. The process applied to the calculation of the zero coupon yield curves is known as bootstrapping and is based on the calculation of the discount factors at the different maturities for the benchmarks selected according to the following process: first the discount factors generated by the deposits and deposit futures are calculated, and then for the swaps, each in its own currency.

    - Credit spread. The credit spread represents the difference between the yield of an instrument and the benchmark rate, and reflects the additional yield that a market participant would require to take on the credit risk of said instrument. Therefore, the credit spread of an instrument is part of the discount rate used for calculating the present value of future cash flows. The process applied to the calculation of counterparty curves, or credit spread, quantifies the additional discount to be applied to an issue for the effect of issuer risk and is based on the price of the issuer's credit default swaps (CDS). For those issuers for which no CDS exists, the credit spread is calculated on the basis of the issuer's listed debt securities.

    - Recovery rate. It is defined as the percentage of principal and interest expected to be recovered from a debt instrument that has defaulted.

- **Comparable prices** (prices of similar instruments). Prices of comparable instruments or market benchmarks are used to calculate the fair value of a financial instrument with subsequent adjustments to take into account differences that may exist between the instrument being measured and the one used as a benchmark. It is also possible to simply assume that the market price of one instrument is equivalent to that of another.

- **Net equity**. Represents the total value of all assets and liabilities of a company, fund, etc., and is published by the managers or management company of the investment vehicle.

- **Black-Scholes**. The Black-Scholes model has been the model on which the main organised markets and over-the-counter (OTC) contracts for simple call and put options have been developed. The Black-Scholes model is based on the following assumptions: (1) the prices of the underlying assets follow a geometric Brownian distribution; (2) it is possible to take short positions on the underlying; (3) there is no arbitrage opportunity; (4) market trading is continuous; (5) there are no transaction costs; (6) all the underlying assets are divisible; (7) cash may be borrowed and loaned at the risk-free interest rate; and (8) the share price follows a random walk, where the expected value and standard deviation are constant. As can be seen, options add a new financial variable that conditions valuation: the volatility of the underlying asset.

Value adjustments for default risk

In the valuation of assets that are subject to issuer credit risk, this risk is incorporated into the valuation process through credit value adjustment (CVA). This concept is intended to measure the adjustment to be made to the value of the derivative under the assumption that it is free of risk in order to obtain the value adjusted for the risk of default by the counterparty (risk-adjusted value = risk-free value – CVA).

The amounts corresponding to the value adjustments for issuer credit risk on the positions at 31 December 2021 were EUR -410 thousand (EUR -453 thousand at 31 December 2020).

6.3.2. Sensitivity analysis

At 31 December 2021, the effect on profit or loss of changing the main assumptions used in the valuation of level 3 financial assets for other reasonably possible assumptions (taking as a favourable assumption the parallel shift down of the curve of 100 basis points, and as an unfavourable assumption the parallel shift up of 100 basis points) would be EUR +5,430 thousand and EUR -5,514 thousand respectively (EUR +7,443 thousand and EUR -6,530 thousand respectively at 31 December 2020).

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

The movement in 2021 and 2020 of assets and liabilities classified as level 3 is presented below:

	2021		2020	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
Opening balance	**3,063,914**	**-4,075,341**	**2,441,981**	**-4,307,725**
Value adjustments recognised in profit and loss	1,157	-	-2,293	-
Value adjustments not recognised in profit and loss	-	-	-	-
Purchases, sales and settlements	-136,806	-197,442	624,226	232,159
Net level 3 additions/(disposals)	-	-5	-	225
Exchange rate differences and others	-	-	-	-
Closing balance	**2,928,265**	**-4,272,788**	**3,063,914**	**-4,075,341**

During 2021 and 2020, no significant transfers of financial instruments measured at fair value took place between the different valuation levels.

7. Operating segments

7.1. Segmentation criteria

The purpose of the information by business segment is to carry out the control, monitoring and internal management of the Crèdit Andorrà Group's activity and results. It is compiled according to the different lines of business established in line with the structure and organisation of the Group. The Board of Directors is the highest operational decision-making body for each business.

The definition of business segments considers the inherent risks, the particularities of management and the geographical area of each one. Furthermore, the segregation of business activity and results is based on the core business units for which accounting and management figures are available. The same general principles are applied as those used in the Group's management information, and the measurement, valuation and accounting principles applied are fundamentally the same as those used in preparing the financial statements, without the use of asymmetrical allocations.

Segment results and business volumes are presented in four major business segments:

- **Private banking.** This is the Group's main activity and the line of business specialising in advisory and comprehensive management of customers' assets and investments. It is organised by geographical areas, which are: Andorra, for customers residing in this geography; Europe, mainly comprising the Spanish market and Luxembourg; America, which mainly includes the Latin American market; and New Geographies, the area intended to serve customers in Eastern Europe, Africa and the Middle East.

- **Commercial banking.** This segment includes domestic customers in Andorra, who are offered products and services aimed mainly at financing and savings. It also comprises corporate banking, aimed at offering a specialised service to business and commerce, as well as the public sector.

- **Insurance business.** This encompasses the Group's entire insurance business, focused on life, health and accident insurance in the Andorran and Spanish markets.

- **Investment Department**. This is the Group's treasury and capital markets and asset management departments, including the management and administration of investment vehicles.

7.2. Information by operating segment

The results and business volume of the Crèdit Andorra Group are presented below for the 2021 and 2020 financial years, by business segments.

In thousands of euros	Private Banking	Commercial Banking	Insurance Business	Investments, CS and adjustments	Total 31.12.21
Interest margin	12,523	26,130	-	-6,178	32,475
Net operating result	74,296	41,146	10,603	48,737	174,782
Operating result (1)	57,250	35,952	8,353	-70,213	31,342
Profit for the year	**57,236**	**35,952**	**9,546**	**-69,750**	**32,984**
Assets	827,102	1,639,697	6,200	50,403	2,523,402
Liabilities	2,159,339	1,681,430	-	160,327	4,001,096
Off balance sheet	13,545,680	499,181	-	318,952	14,363,813
Business volume	**16,532,121**	**3,820,308**	**6,200**	**529,682**	**20,888,311**

(1) Net operating result less administrative expenses and depreciation and amortisation

In thousands of euros	Private Banking	Commercial Banking	Insurance Business	Investments, CS and adjustments	Total 31.12.20
Interest margin	11,760	25,898	-	-4,667	32,991
Net operating result	71,835	39,653	15,703	47,941	175,132
Operating result (1)	54,050	34,206	2,559	-53,766	37,049
Profit for the year	**54,071**	**34,206**	**2,904**	**-59,318**	**31,863**
Assets	688,581	1,714,844	6,214	32,430	2,442,069
Liabilities	2,161,733	1,525,806	-	135,205	3,822,744
Off balance sheet	10,450,399	462,643	-	292,358	11,205,400
Business volume	**13,300,713**	**3,703,293**	**6,214**	**459,993**	**17,470,213**

(1) Net operating result less administrative expenses and depreciation and amortisation

The definition of the different components of business volume in the tables above is as defined internally by the Group and, therefore, may differ from the accounting items presented elsewhere in the financial statements.

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

The balance of this item in the statements of financial position as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Cash	35,044	37,409
Cash balances in central banks	311,914	139,378
Other demand deposits	240,287	223,005
Total	**587,245**	**399,792**

9. Assets and liabilities held for trading and non-trading assets mandatorily at fair value through profit or loss

9.1. Financial assets held for trading

The balance of this item in the statements of financial position as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Non-derivative assets		
Equity instruments	**2,953**	**2,923**
Listed instruments	2,953	2,923
Unlisted instruments	-	-
Debt securities	**936**	**2,453**
Public debt and central banks	-	-
Credit institutions	882	2,453
Other financial corporations	54	-
Other	-	-
Loans and advances	-	-
Total non-derivative assets	**3,889**	**5,376**
Derivative assets		
Interest rate	1,510	1,987
Currencies	17,611	20,092
Credit	104	244
Equity instruments	110	-
Other	-	-
Total derivative assets	**19,335**	**22,323**
Total	**23,224**	**27,699**

During the 2021 and 2020 financial years, there have been no reclassifications of financial assets between portfolios. Consequently, the results and equity levels for the financial years 2021 and 2020 have not been affected by reclassifications between portfolios of financial assets or liabilities.

9.2. Non-trading financial assets mandatorily at fair value through profit or loss

The balance of this item in the statements of financial position as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Equity instruments	**173,672**	**171,967**
Listed instruments	150,007	154,976
Of which Unit-Linked	142,471	145,327
Unlisted instruments	23,665	16,991
Debt securities	-	-
Public debt and central banks	-	-
Credit institutions	-	-
Other financial corporations	-	-
Other	-	-
Loans and advances	**6,200**	**6,200**
Total	**179,872**	**178,167**

Unit-linked listed equity instruments correspond to investments linked to the operation of life insurance products where the investment risk is borne by the policyholder. This product is marketed through Crèdit Assegurances, SAU.

Of the total balance disclosed under “Listed instruments” at 31 December 2021, EUR 161 thousand corresponds to the value of units in collective investment institutions, the risk of which is borne by Group customers through the holding of structured liabilities (EUR 306 thousand at 31 December 2020) (see Note 10.2).

At 31 December 2021, of the total balance disclosed under “Loans and Advances”, EUR 6,200 thousand are recognised for the financial instrument arising on the sale of the insurance business (EUR 6,200 thousand at 31 December 2020) (see Note 3.6).

9.3. Financial liabilities held for trading

The balance of this item in the statements of financial position as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Derivative liabilities		
Interest rate	1,655	2,376
Currencies	16,913	20,300
Credit	-	-
Equity instruments	2,376	2,431
Other	-	-
Total derivative liabilities	**20,944**	**25,107**
Total	**20,944**	**25,107**

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

The breakdown of the balance of these items in the statements of financial position as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Assets		
Debt securities	**77,541**	**17,644**
Of which Unit-Linked	-	-
Other financial assets	-	-
Of which Unit-Linked	-	-
Total assets	**77,541**	**17,644**
Liabilities		
Debt securities	**125,910**	**78,338**
Total liabilities	**125,910**	**78,338**

10.1. Other financial assets designated at fair value through profit or loss

At 31 December 2021, EUR 77,541 thousand are recognised as debt securities that are hedges of structured products issued by the Group (EUR 17,644 thousand at 31 December 2020).

At 31 December 2021, there are no amounts recognised under “Unit-linked debt securities” and “Other unit-linked assets”, as they are invested in “Equity instruments” (see Note 9.2).

10.2. Other financial liabilities designated at fair value through profit or loss

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

In this regard, at 31 December 2021, of the total debt securities shown in the above table, EUR 133 thousand are structured liabilities whose underlying items are units in investment undertakings that the Group classifies as “Non-trading financial assets mandatorily at fair value through profit or loss” (EUR 461 at 31 December 2020) (see Note 9.2). However, it should also be noted that said structured liabilities generally do not have 100% of their nominal value linked to the risks and rewards of the underlying. Therefore, the value of the underlying may differ from the values of the structured liabilities.

11. Financial assets at fair value through comprehensive income

The breakdown of the balance of this item by type of financial instrument in the statements of financial position as at 31 December 2021 and 2020 is as follows:

	31.12.21			
In thousands of euros	Cost / Amortised cost	Unrealised capital gains	Unrealised capital losses	Fair value
Equity instruments	**11,550**	**1,963**	**-**	**13,513**
Gross amount	11,550	1,963	-	13,513
Listed instruments	-	-	-	-
Unlisted instruments	11,550	1,963	-	13,513
Accumulated impairment	-	-	-	-
Debt securities	**239,474**	**-**	**-2,739**	**236,735**
Gross amount	239,474	-	-2,739	236,735
Public debt and central banks	236,328	-	-2,711	233,617
Credit institutions	3,146	-	-28	3,118
Other corporations	-	-	-	-
Accumulated impairment	-	-	-	-
Total	**251,024**	**1,963**	**-2,739**	**250,248**

	31.12.20			
In thousands of euros	Cost / Amortised cost	Unrealised capital gains	Unrealised capital losses	Fair value
Equity instruments	**12,390**	**1,885**	**-**	**14,275**
Gross amount	12,390	1,885	-	14,275
Listed instruments	-	-	-	-
Unlisted instruments	12,390	1,885	-	14,275
Accumulated impairment	-	-	-	-
Debt securities	**75,257**	**103**	**-**	**75,360**
Gross amount	75,257	103	-	75,360
Public debt and central banks	75,257	103	-	75,360
Credit institutions	-	-	-	-
Other corporations	-	-	-	-
Accumulated impairment	-	-	-	-
Total	**87,647**	**1,988**	**-**	**89,635**

In 2021, the Crèdit Andorrà Group sold on the market financial assets classified under this item in the consolidated statement and realised unrealised gains of EUR 2,936 thousand gross (EUR 3,208 thousand in 2020), which are recognised under “Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net” in the consolidated profit and loss account (see Note 37).

During the 2021 and 2020 financial years, there have been no reclassifications of financial assets between portfolios. Consequently, the results and equity levels for the financial years 2021 and 2020 have not been affected by reclassifications between portfolios of financial assets or liabilities.

12. Financial assets at amortised cost – Loans and advances

12.1. Loans and advances to credit institutions

The breakdown of the balance of this item in the statements of financial position by type of financial instrument as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Loans and advances to credit institutions	**467,154**	**703,578**
Time accounts	109,500	17,385
Other	2,131	3,791
Reverse repurchase agreements	355,523	682,402
Valuation adjustments	**-403**	**-187**
Interest and fees accrued	-403	-187
Total	**466,751**	**703,391**

12.2. Customer loans and advances

The breakdown of the balance of this item in the statements of financial position by type of financial instrument as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Customer loans and advances	**2,517,202**	**2,435,869**
Debtors with monetary guarantees	123,248	133,365
Debtors with security guarantees	491,845	358,701
Mortgages for purchase of first home	241,408	228,458
Other mortgages	1,013,258	1,087,238
Debtors with personal guarantees	490,604	474,450
Credit cards	18,354	16,433
Commercial discount	15,849	7,435
Credit accounts	256,180	207,318
Overdrafts and overdrawings	728	1,635
Other consumer lending	199,493	241,629
Defaulted assets	156,839	153,657
Valuation adjustments	**-132,503**	**-131,721**
Impairment losses	-132,503	-131,721
Net book value	**2,384,699**	**2,304,148**

13. Financial assets at amortised cost – Debt securities

The breakdown of the balance of this item in the statements of financial position by type of counterparty as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Debt securities	**813,034**	**777,339**
Public debt and central banks	717,698	649,722
Credit institutions and other financial institutions	74,779	104,863
Other corporations	20,557	22,754
Valuation adjustments	**2,599**	**6,634**
Impairment losses	-165	-518
Interest and fees accrued	2,764	7,152
Total	**815,633**	**783,973**

In 2021, the Group sold certain financial assets classified under this item of the statement of financial position, and it realised unrealised gains of EUR 10,098 thousand gross (EUR 35,871 thousand in 2020), which are recognised under "Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net" in the consolidated profit and loss account (see Note 37).

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

The breakdown of the derivatives designated as hedging derivatives and changes in fair value of hedged items in portfolio with interest rate risk hedging as at 31 December 2021 and 2020 is as follows:

All of the hedges shown in the table correspond to interest rate risk hedges carried out using OTC derivative contracts.

In thousands of euros	31.12.21	31.12.20
Assets	**13,239**	**18,910**
Hedging derivatives	-	-
Fair value changes of the hedged items in hedge of interest rate risk	13,239	18,910
Liabilities	**13,087**	**18,318**
Interest rate accounting hedge derivatives	13,087	18,318
Of which micro-hedge	13,087	18,318
Of which macro-hedge	-	-
Fair value changes of the hedged items in hedge of interest rate risk	-	-

14.1. Fair value hedges

These hedges aim to mitigate the impact of changes in the value of the hedged item arising from the hedged risks.

The Group carries out **micro-hedging** of interest rate risk on a portion of the fixed-rate loan portfolio. The hedged items are included under "Financial assets at amortised cost" in the balance sheet.

The hedging instruments used are wholly OTC interest rate swaps that transform the hedged item from fixed rate to floating rate.

At 31 December 2021 and 2020, the Group has carried out the corresponding effectiveness tests in relation to the above hedges. Any hedge ineffectiveness has been recorded in "Gains or losses from hedge accounting, net" in the profit and loss account.

Below is a summary of the information used in the effectiveness tests corresponding to 2021 and 2020. It is not an exhaustive breakdown of the value of the hedged and hedging items.

			Value of hedging instrument as at 31.12.21		Change in FV used to calculate hedge ineffectiveness	Ineffectiveness recognised in profit or loss	Value of hedging instrument as at 31.12.20	
	Risk hedged	Hedging instrument	Assets	Liabilities			Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	-	-	-	-	-	-
Micro-hedges	Fixed-interest loans	Interest rate swaps	-	13,087	5,461	-210	-	18,318
		Total	-	**13,087**	**5,461**	**-210**	-	**18,318**

			Value of hedged item at 31.12.21		Cumulative adjustment to FV of hedged item	Change in FV used to calculate hedge ineffectiveness	Value of instrument item as at 31.12.20	
	Risk hedged	Hedging instrument	Assets	Liabilities			Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	-	-	3,738	-268	-	-
Micro-hedges	Fixed-interest loans	Interest rate swaps	61,220	-	9,501	-5,403	70,105	-
		Total	**61,220**	-	**13,239**	**-5,671**	**70,105**	-

			Value of hedging instrument as at 31.12.20		Change in FV used to calculate hedge ineffectiveness	Ineffectiveness recognised in profit or loss	Value of hedging instrument as at 31.12.19	
	Risk hedged	Hedging instrument	Assets	Liabilities			Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	-	-	-331	-789	-	12,991
Micro-hedges	Fixed-interest loans	Interest rate swaps	-	18,318	2,356	-166	-	24,199
		Total	-	**18,318**	**2,025**	**-955**	-	**37,190**

			Value of hedged item at 31.12.20		Cumulative adjustment to FV of hedged item	Change in FV used to calculate hedge ineffectiveness	Value of instrument item as at 31.12.19	
	Risk hedged	Hedging instrument	Assets	Liabilities			Assets	Liabilities
Macro-hedges	Fixed-interest loans	Interest rate swaps	-	-	4,007	-458	16,436	-
Micro-hedges	Fixed-interest loans	Interest rate swaps	70,105	-	14,903	-2,522	132,930	-
		Total	**70,105**	-	**18,910**	**-2,980**	**149,366**	-

During 2021, the Group has recognised a net result for hedge accounting of EUR -210 thousand (EUR -955 thousand during 2020).

In 2020, the Bank took the decision to discontinue the fair value macro-hedge covering fixed-rate mortgages as well as a fair value micro-hedge that covered fixed-rate policies. Upon discontinuation of the hedge, the hedging derivative is treated as a derivative held for trading, and the valuation adjustment of the hedged item at the date of discontinuation of the hedge is recognised linearly in the profit and loss account up to the maturity date of the hedged item. In this regard, at 31 December 2021, an amount of EUR 4,287 thousand (EUR 4,973 thousand at 31

December 2020) had yet to be recognised prospectively in the profit and loss account. At 31 December 2021 and 2020 all hedges in place were effective.

14.2. Cash flow hedges

The Group does not perform cash flow hedges.

15. Tangible assets

The breakdown of "Tangible assets", their accumulated depreciation, the related impairment allowances, and, if any, the changes that occurred in 2021 and 2020, are as follows:

	Tangible assets for own use								
In thousands of euros	Land and real estate	Building works underway	Furniture and facilities	Hardware	Other	Right of use	Total	Investment property	Total
Cost									
Balance at 31 December 2020	**67,065**	**894**	**81,263**	**20,931**	**7,821**	**71,533**	**249,507**	**70,808**	**320,315**
Additions	-	286	941	269	16	2,504	4,016	-	4,016
Disposals	-	-14	-57,751	-148	-43	-24	-57,980	-	-57,980
Sales	-1,320	-	-625	-	-11	-	-1,956	-1,722	-3,678
Transfers	-	-706	505	199	-	-	-2	-	-2
Exchange rate differences and others	169	-	155	62	1	-	387	-	387
Balance at 31 December 2021	**65,914**	**460**	**24,488**	**21,313**	**7,784**	**74,013**	**193,972**	**69,086**	**263,058**
Accumulated depreciation									
Balance at 31 December 2020	**-4,666**	**-**	**-71,264**	**-17,605**	**-355**	**-11,191**	**-105,081**	**-2**	**-105,083**
Additions	-630	-	-1,842	-1,461	-11	-5,647	-9,591	-	-9,591
Disposals	-	-	56,709	139	43	24	56,915	-	56,915
Sales	35	-	586	-	11	-	632	-	632
Transfers	-	-	1	-	-	-	1	-	1
Exchange rate differences and others	-66	-	-140	-55	-2	-	-263	-	-263
Balance at 31 December 2021	**-5,327**	**-**	**-15,950**	**-18,982**	**-314**	**-16,814**	**-57,387**	**-2**	**-57,389**
Impairment losses									
Balance at 31 December 2020	**-597**	**-**	**-**	**-**	**-**	**-**	**-597**	**-42,016**	**-42,613**
Additions	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	896	896
Sales	-	-	-	-	-	-	-	-	-
Transfers and reclassifications	-	-	-	-	-	-	-	-26	-26
Exchange rate differences and others	-	-	-	-	-	-	-	-	-
Balance at 31 December 2021	**-597**	**-**	**-**	**-**	**-**	**-**	**-597**	**-41,146**	**-41,743**
Net book value at 31 December 2020	**61,802**	**894**	**9,999**	**3,326**	**7,466**	**60,342**	**143,829**	**28,790**	**172,619**
Net book value at 31 December 2021	**59,990**	**460**	**8,538**	**2,331**	**7,470**	**57,199**	**135,988**	**27,938**	**163,926**

The additions under "Right-of-use assets" in the above table correspond to the renewal of lease agreements.

In thousands of euros	Tangible assets for own use: Land and real estate	Building works underway	Furniture and facilities	Hardware	Other	Right of use	Total	Investment property	Total
Cost									
Balance at 31 December 2019	**70,265**	**1,096**	**81,256**	**20,198**	**7,821**	**70,559**	**251,195**	**71,614**	**322,809**
Additions	-	846	325	516	-	1,016	2,703	2,692	5,395
Disposals	-	-	-70	-	-	-42	-112	-	-112
Sales	-3,200	-	-1,039	-	-	-	-4,239	-2,667	-6,906
Transfers	-	-1,048	791	217	-	-	-40	-831	-871
Exchange rate differences and others	-	-	-	-	-	-	-	-	-
Balance at 31 December 2020	**67,065**	**894**	**81,263**	**20,931**	**7,821**	**71,533**	**249,507**	**70,808**	**320,315**
Accumulated depreciation									
Balance at 31 December 2019	**-4,239**	**-**	**-69,937**	**-16,291**	**-344**	**-5,593**	**-96,404**	**-28**	**-96,432**
Additions	-675	-	-2,139	-1,418	-11	-5,617	-9,860	-10	-9,870
Disposals	-	-	33	-	-	19	52	-	52
Sales	248	-	771	-	-	-	1,019	-	1,019
Transfers	-	-	-	5	-	-	5	36	41
Exchange rate differences and others	-	-	8	99	-	-	107	-	107
Balance at 31 December 2020	**-4,666**	**-**	**-71,264**	**-17,605**	**-355**	**-11,191**	**-105,081**	**-2**	**-105,083**
Impairment losses									
Balance at 31 December 2019	**-597**	**-**	**-64**	**-**	**-**	**-**	**-661**	**-42,030**	**-42,691**
Additions	-	-	-	-	-	-	-	-	-
Disposals	-	-	64	-	-	-	64	88	152
Sales	427	-	-	-	-	-	427	-	427
Transfers	-427	-	-	-	-	-	-427	-74	-501
Exchange rate differences and others	-	-	-	-	-	-	-	-	-
Balance at 31 December 2020	**-597**	**-**	**-**	**-**	**-**	**-**	**-597**	**-42,016**	**-42,613**
Net book value at 31 December 2019	**65,429**	**1,096**	**11,255**	**3,907**	**7,477**	**64,966**	**154,130**	**29,556**	**183,686**
Net book value at 31 December 2020	**61,802**	**894**	**9,999**	**3,326**	**7,466**	**60,342**	**143,829**	**28,790**	**172,619**

The amount of impairment losses shown in the above table under “Transfers” (EUR 501 thousand) includes: (1) the reallocation of EUR 10 thousand of provisions on the basis of updated appraisals that was initially allocated to non-current assets available for sale (see Note 18.2); and (2) the reclassification of EUR 491 thousand of provisions for impairment of land and buildings initially classified as non-current assets available for sale (see Note 18.2).

15.1. Property, plant and equipment

This item in the statements of financial position includes property, plant and equipment for own use, which is allocated to cash-generating units (CGUs) of the Group's various businesses (see Note 7). At 31 December 2021 and 2020 there were no indications of impairment on the net value of assets associated with the different CGUs.

At 31 December 2021 and 2020, all properties are unrestricted.

The amount of fully depreciated property, plant and equipment for own use as at 31 December 2021 and 2020 amounts to EUR 16,457 thousand and EUR 71,067 thousand, respectively. In 2021, the Group derecognised fully depreciated idle assets amounting to EUR 56,915 thousand with no impact on the profit and loss account.

At 31 December 2021 and 2020, there are no restrictions on the realisation of the tangible assets and the collection of the income from them.

At 31 December 2021 and 2020, the Group holds no significant commitments to purchase property, plant and equipment.

15.2. Investment property

Annual appraisals are carried out for investment property. As a result of these appraisals, net provisions of EUR 0 thousand and EUR 0 thousand were recognised as at 31 December 2021 and 2020 respectively.

Based on the valuations available at 31 December 2021, the fair value of the investment property portfolio amounts to EUR 27,938 thousand (EUR 28,790 thousand at 31 December 2020). The fair value of real estate assets classified as investment property is classified, according to the fair value hierarchy, as level 2.

The net book value of income-generating investment property at 31 December 2021 amounts to EUR 27,938 thousand (EUR 28,790 thousand at 31 December 2020).

Income from the rental of investment property is recorded under “Other operating income” in the profit and loss account (see Note 38).

16. Intangible assets

The composition of “Intangible assets”, their accumulated depreciation, the related impairment allowances, if any, and the changes that occurred in 2021 and 2020, are as follows:

In thousands of euros	Differences from first consolidation and goodwill	Computer software	Other	Total
Cost				
Balance at 31 December 2020	**68,311**	**111,152**	**8,055**	**187,518**
Additions	274	5,776	-	6,050
Disposals	-960	-	-	-960
Sales	-3,222	-	-6,457	-9,679
Transfers	-	2	-	2
Exchange rate differences and others	3,787	166	-	3,953
Balance at 31 December 2021	**68,190**	**117,096**	**1,598**	**186,884**
Accumulated depreciation				
Balance at 31 December 2020	**-**	**-60,073**	**-2,741**	**-62,814**
Additions	-	-12,662	-321	-12,983
Disposals	-	-	-	-
Sales	-	-	1,870	1,870
Transfers	-	-1	-	-1
Exchange rate differences and others	-	135	-	135
Balance at 31 December 2021	**-**	**-72,601**	**-1,192**	**-73,793**
Impairment losses				
Balance at 31 December 2020	**-11,110**	**-**	**-**	**-11,110**
Additions	-	-	-	-
Disposals	-	-	-	-
Sales	-	-	-	-
Transfers	-	-	-	-
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2021	**-11,110**	**-**	**-**	**-11,110**
Net book value at 31 December 2020	**57,201**	**51,079**	**5,314**	**113,594**
Net book value at 31 December 2021	**57,080**	**44,495**	**406**	**101,981**

In thousands of euros	Goodwill	Computer software	Other	Total
Cost				
Balance at 31 December 2019	**71,454**	**104,782**	**8,158**	**184,394**
Additions	-	6,427	82	6,509
Disposals	-192	-96	-185	-473
Sales	-	-	-	-
Transfers	-	39	-	39
Exchange rate differences and others	-2,951	-	-	-2,951
Balance at 31 December 2020	**68,311**	**111,152**	**8,055**	**187,518**
Accumulated depreciation				
Balance at 31 December 2019	**-**	**-48,863**	**-1,797**	**-50,660**
Additions	-	-11,552	-947	-12,499
Disposals	-	2	-	2
Sales	-	-	-	-
Transfers	-	-5	-	-5
Exchange rate differences and others	-	345	3	348
Balance at 31 December 2020	**-**	**-60,073**	**-2,741**	**-62,814**
Impairment losses				
Balance at 31 December 2019	**-11,110**	**-**	**-**	**-11,110**
Additions	-	-	-	-
Disposals	-	-	-	-
Sales	-	-	-	-
Transfers	-	-	-	-
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2020	**-11,110**	**-**	**-**	**-11,110**
Net book value at 31 December 2019	**60,344**	**55,919**	**6,361**	**122,624**
Net book value at 31 December 2020	**57,201**	**51,079**	**5,314**	**113,594**

16.1. Goodwill and differences from first consolidation

Under this heading in the statement of financial position, the Group recognises both the goodwill included in the individual accounts of the companies in the Group and the differences from the first consolidation arising during the consolidation process. The following is a breakdown by company of the goodwill and first consolidation differences at 31 December 2021 and 2020.

	31.12.21			31.12.20		
In thousands of 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	-2,100	12,224	14,324	-2,100	12,224
Beta Capital Management LP	33,773	-	33,773	29,712	-	29,712
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	269	-	269	4,451	-	4,451
Total	**68,190**	**-11,110**	**57,080**	**68,311**	**-11,110**	**57,201**

The main changes in goodwill and differences from first consolidation, which are ultimately reflected in the composition by company shown in the table above, are chiefly due to the events described below:

- The variation shown in the above table with regard to Beta Capital Management LP is related to the fluctuation of the euro/dollar exchange rate. Here, it is important to note that the Group manages the currency position in the statements of financial position on an aggregated basis, so that only the open currency position has an impact on the profit or loss (see Note 5.6).

- The variation in the above table with regard to Crèdit Assegurances SA is related to the sale of the ERSM Group (see Note 3.6).

Goodwill is not amortised and, instead, impairment tests must be performed to verify whether the true value of goodwill is higher or lower than the carrying amount. If it is lower, the corresponding impairment must be recognised directly in the profit and loss account.

The methodologies used to perform these impairment tests for the years ending 31 December 2021 and 2020 were the discounting of free cash flows. With regard to the discounted free cash flow method, the assumptions used for 2021 were as follows:

- Methodology: discounted free cash flows.
- Time horizon: 7 years and perpetual.
- Expected growth: 1.85% corresponding to expected long-term inflation based on historical euro inflation for the last 20 years.
- Discount rate used (WACC): 8.5% 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. Computer software

Additions under computer software correspond both to the programming of several peripheral and management applications, and the development of the Group's core banking capabilities, in order to adapt them to regulatory and business requirements.

At 31 December 2021 and 2020, there were no intangible assets subject to any restrictions on ownership or that serve as debt collateral.

In addition, at 31 December 2021 and 2020, there are no significant commitments to purchase intangible assets.

At 31 December 2021 and 2020, the Crèdit Andorrà Group held intangible assets for a gross amount of EUR 30,376 thousand and EUR 25,079 thousand, respectively, which are fully amortised.

16.3. Other

Of the total additions to accumulated depreciation, in 2020, EUR -625 thousand correspond to the depreciation of the customer portfolio of the holding company ERSM over its useful life.

Sales of other intangible assets in 2021, both in the intangible asset cost table and in the accumulated depreciation table, correspond to the derecognition of the net value of the aforementioned customer portfolio that appears in the ERSM Group's books (see Note 3.6).

17. Other assets

The balance of this item in the statements of financial position as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Transactions in transit	11,895	12,594
Prepayments and accruals	23,252	24,958
Expenses paid and not accrued	4,846	5,894
Other asset prepayments and accruals	18,406	19,064
Inventories	160	249
Other	7,239	6,344
Total	**42,546**	**44,145**

The item "Transactions in transit" mainly includes ongoing transfers and customer transactions still to be settled. The balance of this item may vary significantly due to the operations carried out by customers.

The item "Other assets" includes, among other things, non-financial services rendered pending collection not related to bank charges.

18. Non-current assets and disposal groups classified as held for sale

This item in the statements of financial position includes assets from acquisitions and foreclosures in the process of regularising lending operations that are not included as assets for own use or investment property, and assets initially classified as investment property, once the decision to sell them has been taken.

18.1. Balance composition

The balance of this item in the statements of financial position as at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Property, plant and equipment	86,123	87,456
From foreclosures	62,132	63,010
Other	23,991	24,446
Other assets	11,440	11,440
Total	**97,563**	**98,896**

The amount shown in the table above under “Other assets” corresponds to financial instruments (mainly shares in a non-financial corporation) that the Bank recognised as part of the loan assignment process. The Group classified these assets as “Non-current assets and disposal groups classified as held for sale”, as the intention is the sell them in the short/medium term as part of the loan recovery process.

18.2. Movements

The composition of this item in the statements of financial position, including impairment allowances, if any, and the changes that have occurred in 2021 and 2020 are as follows:

	Property, plant and equipment		Other assets	
In thousands of euros	From foreclosures	Other	From foreclosures	Total
Cost				
Balance at 31 December 2020	**95,082**	**38,531**	**11,440**	**145,053**
Additions	55	-	-	55
Disposals	-3,813	-	-	-3,813
Transfers	-	-	-	-
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2021	**91,324**	**38,531**	**11,440**	**141,295**
Impairment losses				
Balance at 31 December 2020	**-32,072**	**-14,085**	**-**	**-46,157**
Additions	-	-	-	-
Disposals	2,399	-	-	2,399
Transfers	481	-455	-	26
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2021	**-29,192**	**-14,540**	**-**	**-43,732**
Net book value at 31 December 2020	**63,010**	**24,446**	**11,440**	**98,896**
Net book value at 31 December 2021	**62,132**	**23,991**	**11,440**	**97,563**

	Property, plant and equipment		Other assets	
In thousands of euros	From foreclosures	Other	From foreclosures	Total
Cost				
Balance at 31 December 2019	**97,085**	**51,726**	**11,440**	**160,251**
Additions	748	-	-	748
Disposals	-3,546	-13,195	-	-16,741
Transfers	795	-	-	795
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2020	**95,082**	**38,531**	**11,440**	**145,053**
Impairment losses				
Balance at 31 December 2019	**-35,633**	**-18,467**	**-**	**-54,100**
Additions	-	-	-	-
Disposals	3,060	4,382	-	7,442
Transfers	501	-	-	501
Exchange rate differences and others	-	-	-	-
Balance at 31 December 2020	**-32,072**	**-14,085**	**-**	**-46,157**
Net book value at 31 December 2019	**61,452**	**33,259**	**11,440**	**106,151**
Net book value at 31 December 2020	**63,010**	**24,446**	**11,440**	**98,896**

The disposals of non-current assets held for sale shown in the table above resulted in a gain for the Crèdit Andorrà Group amounting to EUR -345 thousand for the year ended 31 December 2021 (EUR 661 thousand for the year ended 31 December 2020).

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

18.3. Information on foreclosed assets

The net values of assets from loan regularisations, by type of asset and age of the asset, in the statements of financial position as at 31 December 2021 and 2020 are as follows:

In thousands of euros	31.12.21	31.12.20
Assets for residential use	1,333	866
Assets for industrial or commercial use	26,180	26,182
Building works underway	-	-
Land for development	45,872	47,139
Land not for development	187	263
Developed land	-	-
Total	**73,572**	**74,450**
Up to 1 year	-	712
From 1 to 2 years	44	49
From 2 to 3 years	67	19,499
More than 3 years	73,461	54,190
Total	**73,572**	**74,450**

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. Balance composition

The composition of the balance of this item in the statements of financial position at 31 December 2021 and 2020, based on the nature of the financial instrument giving rise to the liability, is as follows:

In thousands of euros	Note	31.12.21	31.12.20
Deposits		**4,155,822**	**3,955,076**
Central bank deposits	19.2.	51,196	47,555
Credit institution deposits	19.3.	103,530	84,777
Customer deposits	19.4.	4,001,096	3,822,744
Debt securities	19.5.	**51,582**	**51,582**
Other liabilities	19.5.	**62,903**	**66,493**
Total		**4,270,307**	**4,073,151**

19.2. Central bank deposits

The composition of the balances for this item in the financial information statements at 31 December 2021 and 2020, based on the nature of the operations, is as follows:

In thousands of euros	31.12.21	31.12.20
Central bank deposits	**51,146**	**47,509**
Demand	25,503	15,282
Term	25,643	32,227
Interest accrued	**50**	**46**
Total	**51,196**	**47,555**

19.3. Credit institution deposits

The composition of this item in the financial information statements at 31 December 2021 and 2020, based on the nature of the operations, is as follows:

In thousands of euros	31.12.21	31.12.20
Credit institution deposits	**103,519**	**84,806**
Demand	25,102	6,390
Term	-	-1
Repurchase agreements	78,417	78,417
Interest accrued	11	-29
Total	**103,530**	**84,777**

19.4. Customer deposits

The composition of this item in the financial information statements at 31 December 2021 and 2020, based on the nature of the operations and customer economic segment, is as follows:

In thousands of euros	31.12.21	31.12.20
By nature	**4,001,096**	**3,822,744**
Current and other demand accounts	3,367,059	3,073,688
Term deposits	634,037	749,056
By sector	**4,001,096**	**3,822,744**
Public administrations	58,411	84,447
Private sector	3,942,685	3,738,297

19.5. Debt securities and other liabilities

The composition of the balance of this item in the statements of financial position at 31 December 2021 and 2020, based on the nature of the financial instrument giving rise to the liability, is as follows:

In thousands of euros	31.12.21	31.12.20
Debt securities	51,582	51,582
Lease liabilities	59,304	62,011
Other liabilities	3,599	4,482
Total	**114,485**	**118,075**

19.5.1. Debt securities and subordinated liabilities

In July 2019, Crèdit Andorrà SA issued EUR 50 million in instruments fully eligible as Tier II under the terms of Law 35/2018 of 20 December on solvency, liquidity and prudential supervision of banking institutions and investment firms and its implementing Regulation of 6 March 2019 (regulation aimed at transposing CRD IV and the CRR into Andorran law) (see Note 28).

These instruments (Fixed Rate Resettable Callable Subordinated Securities, according to the terminology used in the issue prospectus) have a maturity of 10 years, although they can be redeemed early by the Bank five years after their issue provided that a number of conditions are met, as set out in the regulation, including obtaining authorisation from the regulator. However, these instruments remunerate their holders with an initial fixed coupon of 7% annual for the first five years of the issue, and then at a fixed rate indexed to the 5-year mid-swap with a spread of 724 basis points.

19.5.2. Lease liabilities

This item includes the amount of lease liabilities arising from the application of IFRS 16.

A list of the maturities of these lease liabilities are shown in Note 5.3.1.

Lease payments of EUR 6,520 thousand were recorded during 2021 (EUR 6,414 thousand in 2020).

The movement in lease liabilities during 2021 and 2020 is shown below.

In thousands of euros	
Balance at 31 December 2019	**66,080**
Additions for contract amendments	976
Financial depreciation	-5,045
Balance at 31 December 2020	**62,011**
Additions for contract amendments	2,504
Financial depreciation	-5,211
Balance at 31 December 2021	**59,304**

19.5.3. Other liabilities

This item mainly includes the amount equivalent to the redeemable value of outstanding E shares for which the Bank has a current or future repurchase obligation (see Note 24.1).

In 2021, the redeemable value of outstanding E shares was adjusted. This resulted in an adjustment of EUR 683 thousand which has been recognised under “Gains or losses on financial assets and liabilities held for trading, net” in the profit and loss account (no adjustment was made to this item in 2020).

20. Assets and liabilities under insurance and reinsurance contracts

The composition of the balance of these items in the statements of financial position at 31 December 2021 and 2020, based on the nature of the provision giving rise to the liability, is as follows:

	31.12.21		
In thousands of euros	**Direct insurance and reinsurance assumed**	**Reinsurance ceded**	**Total (net)**
Unearned premiums and unexpired risks	4	-	4
Mathematical provision	112,025	-	112,025
Provision for claims outstanding	4,138	-	4,138
Bonuses and rebates	23	-	23
Provisions for life insurance policies where the investment risk is borne by the policyholders	142,553	-	142,553
Other technical provisions	25	-	25
Total	**258,768**	-	**258,768**

	31.12.20		
In thousands of euros	**Direct insurance and reinsurance assumed**	**Reinsurance ceded**	**Total (net)**
Unearned premiums and unexpired risks	2	-	2
Mathematical provision	111,661	-	111,661
Provision for claims outstanding	1,818	-	1,818
Bonuses and rebates	18	-	18
Provisions for life insurance policies where the investment risk is borne by the policyholders	144,613	-	144,613
Other technical provisions	10	-	10
Total	**258,122**	-	**258,122**

The assets under insurance and reinsurance contracts correspond to the portion of the mathematical provisions assumed by top-level international reinsurance companies independent from the Crèdit Andorrà Group and by virtue of a reinsurance contract. At 31 December 2021 and 2020 there were no assets assigned to reinsurance ceded.

21. Provisions

The composition of the balance of this item in the statements of financial position at 31 December 2021 and 2020, based on the nature of the risk giving rise to the provision, is as follows:

In thousands of euros	31.12.21	31.12.20
Pensions and other post-employment obligations	11,308	11,445
Other long-term employee benefits	3,008	3,659
Provisions for taxes and other legal contingencies	451	1,708
Commitments and guarantees given	3,640	2,687
Other provisions	1,101	195
Total	**19,508**	**19,694**

21.1. Movement in provisions not related to post-employment benefits and other commitments with employees

Movement in provisions not related to post-employment benefits and other commitments with employees during 2021 and 2020:

In thousands of euros	Provisions for taxes and other legal contingencies	Commitments and guarantees given	Other provisions	Total
Balance at 31 December 2019	**7,345**	**2,882**	**1,384**	**11,611**
Allowances	300	89	178	567
Charged to profit and loss account	300	89	178	567
Charged to other comprehensive income	-	-	-	-
Recoveries	-5,937	-277	-523	-6,737
Charged to profit and loss account	-5,937	-277	-523	-6,737
Charged to other comprehensive income	-	-	-	-
Applications / payments	-	-	-755	-755
Transfers	-	-	-	-
Other movements	-	-7	-89	-96
Balance at 31 December 2020	**1,708**	**2,687**	**195**	**4,590**
Allowances	213	1,136	758	2,107
Charged to profit and loss account	213	1,136	758	2,107
Charged to other comprehensive income	-	-	-	-
Recoveries	-	-186	-	-186
Charged to profit and loss account	-	-186	-	-186
Charged to other comprehensive income	-	-	-	-
Applications / payments	-1,315	-	-152	-1,467
Transfers	-	-	-	-
Other movements	-155	3	300	148
Balance at 31 December 2021	**451**	**3,640**	**1,101**	**5,192**

The amounts disclosed above under "Other movements" are mainly related to the reclassification of certain amounts to other accounting items with no impact on the profit and loss account.

21.1.1. Provisions for taxes and other legal contingencies

The balance of provisions for taxes and other legal contingencies at 31 December 2019 mainly corresponds to the potential impact that the Group recognised in relation to the recognition of E shares as financial liabilities (see Note 19.5) rather than equity instruments (see Note 24), in compliance with IAS 32. However, in 2020, the movement observed is due to the reversal of these provisions in the amount of EUR 5,937 thousand as a result of favourable rulings issued by the Andorran courts during the financial year 2020 and early 2021. At 31 December 2021, the Group has no provision in this respect as it does not expect to incur any future outlays in relation to this matter.

Based on the information available, the Group believes that, at 31 December 2021 and 2020, it has reliably estimated the obligations associated with each of the proceedings and has recognised, where required, adequate provisions to reasonably cover the liabilities that may arise, if any, from these tax and legal situations. It also believes that the liabilities that may arise from these proceedings will not, over all, have a material adverse effect on the Group's business, financial position or operating profit.

21.1.2. Commitments and guarantees given

This item records the credit risk provisions for guarantees and contingent commitments outstanding at the end of the years ended 31 December 2021 and 2020 (see Note 5.2.1).

21.1.3. Other provisions

This item records the provisions that, due to the nature of the risk or type of contingency covered, cannot be classified in the other categories described above. At 31 December 2021, it mainly includes contingent liabilities related to guarantees provided to ERSM Group buyers.

22. Post-employment benefits and other commitments with employees

The composition of the balance of these items in the statements of financial position at 31 December 2021 and 2020, based on the nature of the risk giving rise to the provision, is as follows:

In thousands of euros	31.12.21	31.12.20
Pensions and other post-employment obligations	11,308	11,445
Other long-term employee benefits	3,008	3,659
Total	**14,316**	**15,104**

On 30 January 2012, the Crèdit Andorrà Group converted the commitments linked to retirement (Crèdit Andorrà mutual pension and employee assistance fund) into a defined contribution system for active employees and a defined benefit system for former passive mutual fund members and for active employees close to retirement. In addition, as a result of the CaixaBank acquisition, Crèdit Andorrà assumed the post-employment benefits with its passive employees. The Crèdit Andorrà Group currently has a defined contribution plan to which employees may also make contributions.

22.1. Post-employment defined benefit pension obligations

Obligations for post-employment defined benefit pensions at year-end 2021 amounted to EUR 11,308 thousand (EUR 11,445 thousand at year-end 2020). All of the commitments are insured through policies taken out with Crèdit Assegurances SAU, a company that reports to the Group and, consequently, these insurance contracts do not meet the conditions required to be plan assets. The fair value of the insurance contracts is recorded on the asset side of the individual statement of financial position of Crèdit Andorrà SA under “Other assets - Insurance contracts linked to pensions”.

22.1.1. Movement in the provisions for post-employment commitments

The movement in the present value of the post-employment defined benefit obligation during the years ended 31 December 2021 and 2020 is as follows.

In thousands of euros	Present value of obligations	Fair value of plan assets	Liabilities for defined benefits, net (assets)
Balance at 31 December 2019	11,821	-	11,821
Total impact on profit	429	-	429
Current service cost	-	-	-
Past service costs	-	-	-
Net result for interest	429	-	429
Total impact on other comprehensive income	-105	-	-105
Actuarial losses/(gains)	-105	-	-105
Other	-	-	-
Other impact	-700	-	-700
Benefits paid	-700	-	-700
Other movements	-	-	-
Capital settlements	-	-	-
Balance at 31 December 2020	11,445	-	11,445
Total impact on profit	415	-	415
Current service cost	-	-	-
Past service costs	-	-	-
Net result for interest	415	-	415
Total impact on other comprehensive income	144	-	144
Actuarial losses/(gains)	144	-	144
Other	-	-	-
Other impact	-696	-	-696
Benefits paid	-696	-	-696
Other movements	-	-	-
Capital settlements	-	-	-
Balance at 31 December 2021	**11,308**	-	**11,308**

22.1.2. Actuarial methodology and assumptions

All of the pension commitments are in the payment phase; therefore, no new obligation arising from the accrual of years of service is generated.

The actuarial assumptions used in these calculations are:

		31.12.21	31.12.20
Mortality tables		PERM/F-2000 P	PERM/F-2000 P
Technical interest rate	Plan 1	3.72%	3.72%
	Plan 2	3.72%	3.72%
	Pension	3.85%	3.85%
CPI		2.00%	2.00%

The amounts projected at 31 December 2021 were determined on the basis of the real CPI in 2021 for payments in the year 2021 and for all other future years according to the assumption made.

The amounts projected at 31 December 2020 were determined on the basis of the real CPI in 2020 for payments in the year 2020 and for all other future years according to the assumption made.

22.1.3. Sensitivity analysis of the main assumptions

The variations of the main assumptions may affect the calculation of the commitments. The effect on the obligation resulting from increasing or decreasing the assumptions is shown below:

		31.12.21		31.12.20	
In thousands of euros	Variation in basis points	Increase	Decrease	Increase	Decrease
Technical interest rate	100	-1,280	1,024	-1,124	1,361
CPI	100	911	-1,193	1,212	-1,031

The sensitivity analysis was determined by replicating the calculation of the value of the obligations changing the variable in question and keeping the other actuarial assumptions constant.

22.2. Defined contribution plans

For further information on the contributions to defined contribution plans during 2021 and 2020, see Note 39.

These contributions are an expense for the year when they accrue and are expensed in the profit and loss account of the corresponding year. Therefore, they do not lead to the recognition of liabilities for this item on the liabilities side of the Group's statement of financial position.

22.3. Obligations for other long-term commitments

The Crèdit Andorrà Group has commitments with pre-retired employees whereby it undertakes to pay an agreed long-term remuneration to terminate the employment relationship prior to retirement.

A fund is set up to cover retirement-related commitments to its pre-retired employees, both in terms of salary and social security contributions, from the time of their pre-retirement until the date of their actual retirement.

22.3.1. Movement in provisions for other long-term employee benefits

The present value of the Crèdit Andorrà Group's long-term employee benefit commitments at 31 December 2021 and 2020 is shown below.

In thousands of euros	Present value of obligations	Fair value of plan assets	Liabilities for defined benefits, net (assets)
Balance at 31 December 2019	5,131	-	5,131
Total impact on profit	104	-	104
Current service cost	-	-	-
Net interest cost	10	-	10
Past service costs	-	-	-
Actuarial losses/gains	94	-	94
Total impact on other comprehensive income	-	-	-
Actuarial losses/(gains)	-	-	-
Other	-	-	-
Other impact	-1,576	-	-1,576
Benefits paid	-1,576	-	-1,576
Other movements	-	-	-
Balance at 31 December 2020	3,659	-	3,659
Total impact on profit	547	-	547
Current service cost	-	-	-
Net interest cost	17	-	17
Past service costs	576	-	576
Actuarial losses/gains	-46	-	-46
Total impact on other comprehensive income	-	-	-
Actuarial losses/(gains)	-	-	-
Other	-	-	-
Other impact	-1,198	-	-1,198
Benefits paid	-1,198	-	-1,198
Other movements	-	-	-
Balance at 31 December 2021	**3,008**	-	**3,008**

22.3.2. Actuarial methodology and assumptions

The value of other long-term employee benefit obligations has been determined by applying unbiased and mutually compatible actuarial assumptions. The main assumptions used in the calculations are:

	31.12.21	31.12.20
Mortality tables	PERMF 2000P	PERMF 2000P
Technical interest rate	0.54%	-0.28%
CPI	0%	0%

The technical interest rate used to discount the cash flows was determined on the basis of the Iboxx Corporate with the 3-5-year AA curve.

22.3.3. Sensitivity analysis of the main assumptions

The variations of the main assumptions may affect the calculation of the commitments. The effect on the obligation resulting from increasing or decreasing the assumptions is shown below.

In thousands of euros	Variation in basis points	31.12.21 Increase	31.12.21 Decrease	31.12.20 Increase	31.12.20 Decrease
Technical interest rate	100	-57	60	-75	78

The sensitivity analysis was determined by replicating the calculation of the value of the obligations changing the variable in question and keeping the other actuarial assumptions constant.

22.4. Share-based payment obligations

Neither at 31 December 2021 and 2020 nor during the years ended on those dates did the Group have share-based payment obligations to employees.

23. Other liabilities

The composition of the balance of this item in the statements of financial position at 31 December 2021 and 2020, based on the nature of the event giving rise to the liability, is as follows:

In thousands of euros	31.12.21	31.12.20
Transactions in transit	33,517	25,130
Prepayments and accruals	24,930	27,579
Expenses accrued not paid	11,006	11,898
Other liability prepayments and accruals	13,924	15,681
Suppliers and other creditors	4,256	4,602
Other	2,550	5,956
Total	**65,253**	**63,267**

The item "Transactions in transit" mainly includes ongoing transfers and customer transactions still to be settled. The balance of this item may vary significantly due to the operations carried out by customers.

The item "Other liabilities" includes, among other things, non-financial services received pending payment not related to bank charges.

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 economic and political rights, although Class E shares are syndicated in terms of transfer rights and in terms of the exercise of political rights.

Furthermore, as regards the Class E shares, on 31 December 2016, they were distributed between the following two syndication regimes, as chosen by each shareholder respectively:

- **Original share syndication regime**, characterised by the fact that holders are entitled to have their shares purchased by the Bank at the price set by the Bank's General Shareholders' Meeting at their request, and at least at the time of death of the employee.

- **Share syndication regime**, known as a liquidity window, which is characterised by the fact that holders can buy and sell the shares (at the price set according to supply and demand) through a liquidity window mechanism to which only employees in the "E" group have access. However, if they have not previously sold the shares in any of the liquidity windows, the holders are entitled to have the shares purchased by the Bank at least 20 years after the termination or death of the employee.

In accordance with IAS 32, a share that provides for mandatory redemption for a fixed or determinable amount, on which the issuer may pay dividends at its discretion, is a compound instrument in which the liability component equals the present value of the redemption price, and the residual amount of the issue price is allocated to the equity component as the future sequence of potential non-cumulative dividends. This requirement is equally applicable when the price of the redemption equals the fair value, on the redemption date, of the underlying equity instrument (Class E shares in this case). In this respect, the present value of the obligation to repurchase the class E shares assumed by the Bank coincides with their fair value at the analysis date.

Therefore, since the entry into force of EU-IFRS, Class E shares, regardless of their syndication regime, must be recognised as financial liabilities (see Note 19.5).

In this regard, prior to the date of first application of EU-IFRS, some former employees who had been covered by the original regime brought a claim against the Bank arguing that the price at which their Crèdit Andorrà Class E shares should be bought back should not include the discount rates agreed by the Ordinary General Shareholders' Meeting in the case of the voluntary sale of shares. On 27 October 2016, the claim was resolved in the second instance by a ruling from the High Court, which determined that the Bank must repurchase the claimant's shares without applying the discount premium that was agreed.

Taking into account the information provided in the preceding paragraphs, on 1 January 2016, as part of the first-time application of EU-IFRS, Crèdit Andorrà recognised a financial liability for the expected redemption amount associated with all 210,000 outstanding E shares (EUR 239.6 million).

Consequently, due to the significance of the aforementioned impact, the Extraordinary General Meeting of Crèdit Andorrà, held on 3 March 2017, resolved to:

- Acquire the class E shares that had indebtedness deriving from the purchase of these shares from the holders who wanted to sell them, for the price equivalent to their outstanding debt (76,014 shares).

- Acquire 17,385 Class E shares subject to the original syndication regime from holders who expressed their willingness to sell them at the price set by the General Meeting for this purpose.

- Redeem 93,399 Class E shares acquired under the above transactions.

- Convert into Class A shares the 102,293 Class E shares whose holders expressly stated this wish.

Once the relevant authorisations had been obtained from the AFA (formerly INAF), the decisions taken by the aforementioned General Meeting were implemented, with the following final result:

- 76,014 Class E shares subject to the liquidity window syndication regime were acquired from holders who wished to sell them in exchange for the outstanding debt derived from the loans granted to acquire said shares, resulting in a cancellation of financial liabilities of EUR 83,615 thousand.

- 17,385 Class E shares subject to the original syndication regime were acquired, resulting in a cancellation of financial liabilities of EUR 19,123 thousand.

- 102,293 Class E shares were converted into Class A shares, resulting in a cancellation of financial liabilities of EUR 112.5 million, as well as an increase in own funds for the same amount.

- 93,399 Class E shares were redeemed, reducing the share capital by EUR 6,537,930.

The Extraordinary General Meeting of Crèdit Andorrà held on 12 December 2018 resolved to:

- Reduce the share capital by EUR 360 thousand by redeeming 5,142 Class E shares.
- Convert 2,103 Class E shares into Class A shares. These shares were pending conversion as they could not previously be converted for reasons of succession.

In May 2019, once the relevant authorisations were obtained from the AFA, the aforementioned decisions taken by the General Meeting were implemented. Therefore, at 31 December 2021, the share capital of Crèdit Andorrà SA amounts to EUR 63,102,130 (EUR 63.102.130 at 31 December 2020), distributed in 901,459 shares (901,459 shares at 31 December 2020), specifically 894,396 Class A shares and 7,063 Class E shares (894,396 Class A shares and 7,063 Class E shares at 31 December 2020), each with a nominal value of EUR 70.

24.2. Issue premium and reserves

The composition of the balance of this item in the statements of financial position at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Restricted reserves	**114,994**	**110,244**
Legal	14,000	14,000
Restricted reserves Law 20/2018	42,062	40,470
Fagadi	13,264	14,907
SAGI	2,384	2,333
Treasury stock and shares	-	-
Notices 227/12 and 228/12	43,284	38,534
Unrestricted reserves	**304,973**	**283,716**
Reserves for investments in subsidiaries	119,533	105,939
Other	185,440	177,777
Total	**419,967**	**393,960**

24.2.1. Restricted reserves

24.2.1.1. Legal reserve

In accordance with the Companies Act approved by the Andorran Parliament on 18 October 2007, a legal reserve of a minimum amount equivalent to 10% of the profits must be set aside, up to 20% of the share capital. At 31 December 2021 and 2020, the Bank has fully established this reserve.

24.2.1.2. Fagadi and SAGI

On 4 October 2018, Law 20/2018 of 13 September regulating the Andorran deposit guarantee fund (Fagadi) and the Andorran investment guarantee system (SAGI) entered into force. In compliance with the provisions of Law 20/2018 (see Note 48.1.8), Crèdit Andorrà reallocated the guarantee reserve it had set aside up to that date pursuant to Law 1/2011 on the creation of a guarantee scheme for banking institutions (EUR 57,710 thousand) as follows:

- The guarantee reserves arising from Law 1/2011 and which were affected in the coverage of investments (EUR 2,689 thousand) were kept as guarantee reserves for investments covered by the SAGI together with the liquid assets assigned to them in accordance with the second transitory provision of Law 20/2018.
- An amount equivalent to 1.6% of the guaranteed deposits (EUR 17,464 thousand) were kept as deposit guarantee reserves with the corresponding liquid assets assigned to these reserves, which are not subject to charge, lien, attachment, seizure or enforcement order and may not respond to

other obligations or be applied for other purposes than those provided for in Law 20/2018. As established in the first additional provision of Law 20/2018, as and when member banks of the Fagadi make ordinary contributions in accordance with Article 12 of Law 20/2018, these deposit guarantee reserves may be simultaneously reclassified as restricted reserves and they may be used immediately and without restriction by banking institutions to cover risks or losses when they occur.

- Lastly, the deposit guarantee reserves arising from Law 1/2011 not allocated according to the preceding two points (EUR 37,557 thousand) were reclassified as restricted reserves, which may be used immediately and without restriction to cover risks and losses when they occur. These reserves must be kept in this category until used to cover risks or losses when they occur, or until the AFA authorises their reclassification to available reserves.

During 2021, having received confirmation from the Deposit Guarantee System Management Committee of the ordinary annual contribution to constitute the *ex-ante* portion of the Fagadi and from the Investment Guarantee System Management Committee of the restricted reserve to be held for the SAGI, amounts calculated by the Banking Institution Deposit Guarantee System Management Committee on the basis of the calculation on 31 December 2020, the adjustment was recorded against restricted reserves, as stipulated in Law 20/2018. In this regard, at 31 December 2021, the Fagadi guarantee reserve is EUR 13,264 thousand, the guarantee reserve held restricted and assigned to the SAGI is EUR 2,384 thousand and the restricted reserve is EUR 42,062 thousand.

24.2.1.3. Treasury stock and shares

Pursuant to Article 23 of Law 20/2007 of 18 October on public limited companies and limited liability companies, the Group is required to set up restricted reserves for the outstanding amount of loans granted to shareholders for the purchase of treasury shares.

However, Crèdit Andorrà has not set up any restricted reserves in relation to the financing of the Class E shares since, as explained in section 24.1, under EU-IFRS, the Class E shares are considered financial liabilities and not equity instruments. Therefore, the full fair value of the outstanding Class E shares is no longer part of the Group's equity.

With regard to Class A shares, regardless of the fact that the Group prudently over-collateralises transactions with shares of the Parent Company (i.e., to complement the principal guarantees on which the decision to grant the transactions was originally taken and on which the recoverability analysis of such transactions is based), the Group has not set aside any restricted reserves.

24.2.1.4. Reserves for differences from first consolidation and goodwill

In addition, on the basis of the provisions of Notice 227/12 on differences from first consolidation and Notice 228/12 on goodwill, the Bank, through the appropriation of profit or loss, establishes a restricted reserve each year of at least 10% of the book value of the differences from first consolidation and goodwill that appear, directly or indirectly, in its statement of financial position, up to 100% of their value. In order to avoid duplication, this reserve is not established for goodwill arising from subsidiaries where local regulations require them to set aside a reserve of a similar nature to the one described above. At 31 December 2021, the restricted reserve was EUR 43,284 thousand (EUR 38,534 thousand at 31 December 2020).

24.2.2. Voluntary reserves

These reserves correspond to profits from previous years that have not been distributed by the General Shareholders' Meeting and have not been allocated to a restricted reserve.

24.2.2.1. Consolidation reserves

Consolidation reserves correspond to profits accrued in previous years by Group companies forming part of the consolidation scope from the date of their acquisition or constitution, up to 31 December 2021 and 2020, that have not been distributed as dividends.

In thousands of euros	31.12.21	31.12.20
Entities consolidated by full integration	**106,636**	**93,412**
Patrigest subgroup	5,025	3,892
Banque BPP subgroup	32,107	28,663
CA Panamá subgroup	9,518	8,528
Banco Alcalá subgroup	2,795	2,125
Holding Luxembourg subgroup	-2,026	-5,519
Crèdit Iniciatives subgroup	1,560	1,445
Beta Capital subgroup	13,053	10,637
Crèdit Capital Immobiliari SAU	-7,306	-7,239
Credi-Invest SA	5,209	5,902
Crèdit Andorrà Preference LTD	-	1
Informàtica Crèdit Andorrà SLU	3,917	3,454
Insurance Group	41,701	40,143
CA Vincles	1,083	1,380
Entities consolidated by the equity method	**12,807**	**15,040**
SERMIPA XXI	-23	-54
CA Life	170	-
ENSISA	-	15,094
SETAP365	12,660	-
Consolidation reserves	119,444	108,452
Conversion reserves	89	-2,513
Total investment reserves in Group companies	**119,533**	**105,939**

In addition, for accrual purposes, the change in the amount and composition of the consolidation reserves for "Entities consolidated by the equity method" in 2021 is mainly due to the corporate operations explained in Note 3.6.

25. Treasury stock

At 31 December 2021 and 2020, Crèdit Andorrà SA does not hold any treasury shares, neither in terms of Class E shares nor Class A shares.

26. Valuation adjustments

The composition of the balance of this item in the statements of financial position at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Financial assets through other comprehensive income	-776	1,988
Cash flow hedges (effective portion)	-	-
Exchange rate differences	-	-
Non-current assets available for sale	-	-
Other recognised income and expenses	603	733
Total	**-173**	**2,721**

The amounts included in the above table under "Other recognised income and expenses" relate to the actuarial differences arising from defined benefit pension obligations (see Note 22.1).

The balances recognised under these items are net of their corresponding tax effect. The statement of changes in equity shows the movements that have occurred in the financial years ended 31 December 2021 and 2020.

27. Minority interests

This item includes the amount of equity of subsidies attributable to equity instruments not owned, directly or indirectly, by the parent company, including the corresponding share of profit or loss for the year.

At 31 December 2021 and 2020, the breakdown of "Minority interests" in the statements of financial position is as follows:

In thousands of euros	31.12.21	31.12.20
Banco Alcalá Group	7,178	7,179
Actiu Assegurances Group	-	3,724
ERM Group	-	3,168
Total	**7,178**	**14,071**

The reductions to the minority interest balances shown in the table above are due to the fact that in 2021 the Insurance Group (1) consolidated the Actiu Assegurances Group by the equity method after selling part of its share in Caser Seguros, and (2) formalised the sale of its entire share in the ERSM Group (see Note 3.6).

28. Equity and capital management

On 26 June 2013, the Basel III legal framework was transposed into European law through Directive 2013/36 (CRD IV) and Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR).

As a result of the signing of the Monetary Agreement on 30 June 2011, CRD IV was transposed into Andorran law through Law 35/2018 of 20 December on solvency, liquidity and prudential supervision of banking institutions and investment firms, and with the approval of the implementing Regulation of Law 35/2018 of 6 March 2019, which completes the adaptation to Andorran law.

The application of this regulation (CRR in Europe) entered into force in 2019, with a gradual implementation schedule that allows for progressive adaptation to the new requirements.

Law 35/2018 on solvency, liquidity and prudential supervision, as well as its implementing Regulation, also restrict the concentration of risks in favour of a single counterparty to 25% of the Group's eligible capital for non-financial counterparties and EUR 150,000 thousand for financial counterparties.

28.1. Eligible capital

The elements that make up the eligible capital are known as the total capital, which is the sum of the Common Equity Tier 1 capital (CET1), Additional Tier 1 capital (AT1) and Tier 2 capital.

Common Equity Tier 1 capital (CET1) is made up of the highest quality capital (mainly eligible capital) after the application of the prudential filters provided for in the regulations and the progressive application of the transitory provisions according to national discretionary practices. These elements are adjusted by the CET1 deductions, having applied the regulatory limits and taking into account the gradual implementation of the standard.

Below are the figures for the current year and a comparison with the previous year.

At 31 December 2021, the instruments eligible as regulatory CET1 amounted to EUR 429,050 thousand (EUR 410,006 thousand at 31 December 2020), while the deductions applicable to regulatory CET1 amounted to EUR 93,104 thousand (EUR 82,946 thousand at 31 December 2020). The change in deductions is mainly due to the following factors:

- Intangible assets subject to deduction reduced by EUR 5,178 thousand.
- On the other hand, the updating of the ratios associated with the transitional provisions caused the deduction from the insurance holding to pass from Tier 2 to Tier 1, increasing the deduction of the latter by EUR 5,151 thousand.

As set out in the AFA notice “EB 03/2020 – Informative Note”, the result at 31 December 2021 was considered Common Equity Tier 1 capital (CET1). As a result, the regulatory CET1 ratio was 16.36% (15.91% at 31 December 2020).

Additional Tier 1 capital (AT1) consists of eligible hybrid issues net of AT1 deductions. In the absence of AT1, all deductions are allocated to CET1, so Tier 1 capital is equal to CET1.

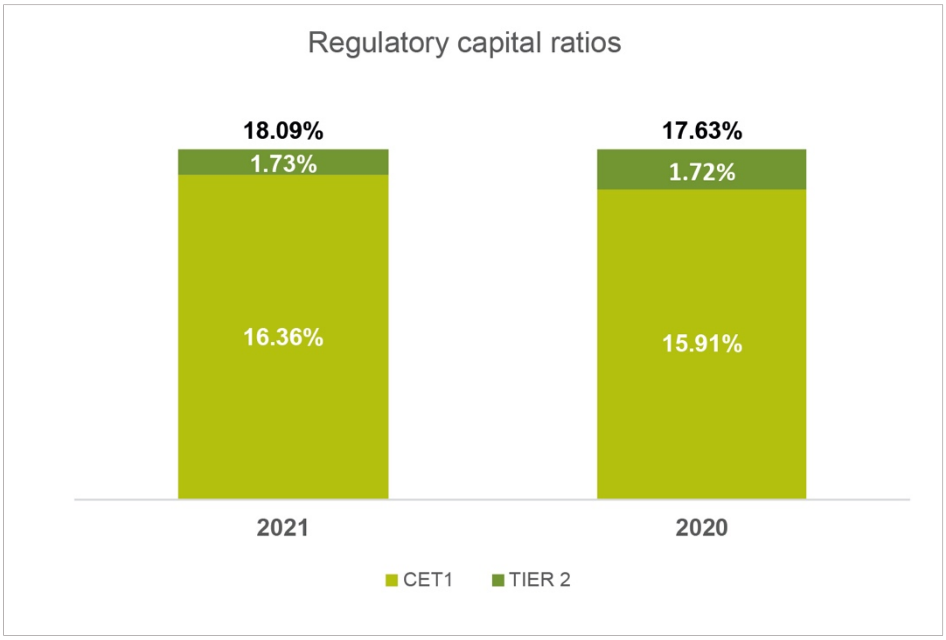
Tier 2 capital components include subordinated financing of EUR 50,000 thousand issued in October 2019. The Tier 2 deductions associated with the significant holdings in entities in the financial sector, in accordance with the sixth transitional provision of the implementing Regulation of Law 35/2018, amounted to EUR 4,601 thousand (EUR 5,680 thousand in 2020). This reduction of EUR 1,079 thousand is due to the update to the ratios in said transitional provision. As a result, Tier 2 capital stands at 1.73% (1.72% in 2020).

Total capital amounts to EUR 474,449 thousand (EUR 454,325 thousand in 2020) and the total regulatory capital ratio is 18.09% (17.63% at 31 December 2020).

The distribution of eligible capital is as follows:

	(Regulatory)	
In thousands of euros	**31.12.21**	**31.12.20**
CET1	**429,050**	**410,006**
Additional Tier 1	-	-
Tier 1	**429,050**	**410,006**
Tier 2	45,399	44,320
Total capital	**474,449**	**454,325**
RWA	**2,622,672**	**2,576,853**

The solvency ratios that are applicable to the Bank under Law 35/2018 on solvency, liquidity and prudential supervision of banking institutions and investment firms are detailed below.



In relation to concentration, the Bank, in accordance with Law 35/2018, must report the level of concentration of those counterparties whose original exposure, excluding the application of risk mitigation techniques and credit conversion factors, exceeds 10% of eligible capital. In this regard:

- The maximum eligible risk concentration associated with a single beneficiary at 31 December 2021 amounts to 16.27% (19.71% at 31 December 2020). In both cases, the maximum concentration is below the 25% limit set by Law 35/2018.

28.2. Capital requirements

The total volume of RWAs (risk-weighted assets) at 31 December 2021 was EUR 2,622,672 thousand (EUR 2,576,853 thousand at 31 December 2020).

The distribution of the risks included in Pillar 1 is similar to the previous year.

28.3. Capital management

Capital management in the Crèdit Andorrà Group is carried out comprehensively, in order to ensure the Group's solvency, compliance with regulatory requirements and to maximise profitability. To this end, a series of guidelines have been established, which shape the Group's approach to capital management:

- Establish adequate capital planning to cover current needs and to provide the capital necessary to cover the needs of business plans, regulatory requirements and the associated risks.

- Ensure that, under stress scenarios, the Group and its companies maintain sufficient capital to cover the needs arising from the increase in risks due to deteriorating macroeconomic conditions.

- Optimise the use of capital through appropriate allocation between the businesses based on relative return on regulatory capital, taking into account risk appetite, growth and strategic objectives.

29. Commitments and guarantees given

The composition of the guarantees and contingent commitments given at 31 December 2021 and 2020 is as follows.

In thousands of euros	31.12.21	31.12.20
Loan commitments given	**502,473**	**496,055**
Public sector	40,500	50,704
Credit institutions	-	-
Other financial corporations	74,095	70,038
Non-financial corporations	266,579	255,968
Individuals	121,299	119,345
Financial guarantees given	**149,442**	**130,497**
Public sector	32	2
Credit institutions	7,188	18,399
Other financial corporations	-	-
Non-financial corporations	125,716	96,524
Individuals	16,506	15,572
Other commitments and guarantees given	**39**	**63**
Non-financial corporations	39	63
Total	**651,954**	**626,615**

A significant portion of these amounts will mature without any payment obligation materialising for the Group. Therefore, the aggregate balance of these commitments cannot be considered a certain future need for liquidity or financing to be given to third parties to the Group.

The provisions recorded to cover these guarantees have been recognised under "Provisions – Commitments and guarantees given" (see Note 21.1).

At 31 December 2021 and 2020, the Group had no additional guarantees or contingent commitments other than those described in the aforementioned note.

30. Assets assigned to other own and third-party obligations

The most significant items at 31 December 2021 and 2020 comprising assets assigned to other own and third-party obligations are detailed below.

- At 31 December 2021, the Group has pledged deposits with financial intermediaries as collateral for its commitments amounting to EUR 21,700 thousand (EUR 31,610 thousand at 31 December 2020) (see Note 5.2.3).

- At 31 December 2021, the Group uses a total of EUR 60,262 thousand of the portfolio of debt securities at amortised cost to cover the reserve requirements arising as a result of the entry into force of Law 20/108 (EUR 63,668 thousand in December 2020) (see Note 24.2 and Note 48.1.8).

- At 31 December 2021, the Group uses a total of EUR 33,310 thousand to guarantee the credit lines with regulators (EUR 38,509 thousand at 31 December 2020).

31. Purchase and sale commitments

At 31 December 2021, the Group has repurchase agreements with independent third parties affecting EUR 78,417 thousand of the portfolio of debt securities at amortised cost (EUR 78,417 thousand at 31 December 2020) (see Note 19.3). These repurchase agreements bear interest at a rate of between -0.56% and -0.49% (-0.38% and 0.33% at 31 December 2020).

At 31 December 2021, the Group has reverse repurchase agreements for a market value of EUR 352,523 thousand (EUR 602,481 thousand at 31 December 2020). These reverse repurchase agreements bear interest at a rate of between -1.08% and 0.66% (between -1.05% and 0.11% at 31 December 2020).

32. Third-party operations

The composition of the assets deposited by third parties as at 31 December 2021 and 2020 is as follows.

In thousands of euros	31.12.21	31.12.20
Financial instruments deposited by third parties	**8,486,998**	**7,426,379**
Of which managed by the Group	2,195,858	1,946,607
Discretionary portfolios	901,474	818,471
Collective investment institutions	1,294,384	1,128,136
Other	6,291,140	5,479,772
Total	**8,486,998**	**7,426,379**

The amounts recognised in the above table relate to financial assets held by customers with Group entities, excluding financial liabilities. Therefore, these assets do not form part of the Group's statement of financial position as the customer does not assume the credit risk of Crèdit Andorrà.

33. Business volume

The composition of the Group's business volume at 31 December 2021 and 2020 is as follows:

In thousands of euros	31.12.21	31.12.20
Loans and receivables from customers	**2,523,402**	**2,442,069**
Customer assets under management	**18,364,909**	**15,028,144**
Customer deposits	4,001,096	3,822,744
Financial instruments deposited by third parties	6,780,895	6,002,587
Financial instruments not held by the Group	7,582,918	5,202,813
Total	**20,888,311**	**17,470,213**

The definition of the different components of business volume shown in the tables above is as defined internally by the Group and may, therefore, differ from the items presented elsewhere in these financial statements.

For more information on the breakdown of business volume by operating segments, see Note 7.

34. Interest income and expenses

The source of interest income and expenses recognised in the accompanying profit and loss account for the financial years ended 31 December 2021 and 2020 is as follows.

In thousands of euros	2021	2020
Interest income		
Financial assets held for trading	514	884
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	1,087	192
Financial assets at fair value through other comprehensive income	914	910
Financial assets at amortised cost	44,769	51,070
Correction for hedging income	92	157
Other income	84	398
Liability interest income	783	-
Total interest income	**48,243**	**53,611**
Interest expenses		
Central bank deposits	-240	-37
Financial liabilities held for trading	-386	-951
Financial liabilities designated at fair value through profit or loss	-619	-398
Financial liabilities at amortised cost (*)	-11,152	-13,417
Correction for hedging expenses	-2,586	-5,398
Other financial liabilities	-	-419
Asset interest expenses	-785	-
Total interest expenses	**-15,768**	**-20,620**
Net interest income	**32,475**	**32,991**

(*) Includes EUR 1,300 thousand as interest expense on lease liabilities in 2021 and EUR 1,368 in 2020 (see Note 2.17)

This section of the accompanying profit and loss account includes interest accrued during the year on financial assets/liabilities with implicit or explicit returns obtained by applying the effective interest rate method, as well as adjustments to income as a result of accounting hedges.

34.1. Average effective interest rate

The average effective interest rate for the different categories of financial assets and liabilities in 2021 and 2020, respectively, calculated on average gross balances, is shown below.

These rates result from interest accrued during the year and do not include corrections from hedging operations or the return of products accounted for at fair value through profit or loss.

	2021	2020
Income		
Financial assets at fair value through other comprehensive income	0.14%	0.63%
Financial assets at amortised cost		
Loans and receivables		
Credit institutions	-0.43%	-0.23%
Customers	1.72%	1.82%
Debt instruments	0.65%	1.07%
Expenses		
Deposits		
Central bank deposits	-0.24%	-0.29%
Credit institution deposits	-0.30%	-0.27%
Customer deposits	0.07%	0.17%
Debt securities		
At amortised cost	7.00%	7.00%
At fair value	0.64%	0.61%

35. Dividend income

The balance of this items in the accompanying profit and loss account corresponding to the financial years ended on 31 December 2021 and 2020 is as follows:

In thousands of euros	2021	2020
From financial assets held for trading and financial assets designated at fair value through profit or loss	17	32
Non-trading financial assets mandatorily at fair value through profit or loss	37	-
Financial assets at fair value through other comprehensive income	233	115
Other	-	10
Total	**287**	**157**

36. Net fee and commission income

The most significant fee and commission income and expenses recognised in the accompanying profit and loss account for 2021 and 2020 are detailed in the table below, according to the nature of the non-financial service that gave rise to them.

In thousands of euros	2021	2020
Fee and commission income		
Securities and currency transactions	27,548	34,902
Custody of securities	13,975	11,960
Asset management and advisory	11,966	14,479
Account administration and maintenance	8,777	9,955
Product marketing	29,614	26,311
Credit operations	8,094	6,948
Other	5,028	7,350
Total fee and commission income	**105,002**	**111,905**
Commission expense		
Brokerage	-418	-493
Transactions with financial intermediaries	-17,272	-23,552
Other	-5,055	-4,333
Total commission expense	**-22,745**	**-28,378**
Net fee and commission income	**82,257**	**83,527**

37. Gains or losses on financial assets and liabilities and net exchange rate differences

The balance of these items in the accompanying profit and loss account for 2021 and 2020 is as follows.

In thousands of euros	2021	2020
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**13,165**	**38,764**
Equity instruments	-	-
Debt securities	13,034	38,633
Other	131	131
Gains or losses on financial assets and liabilities held for trading, net	**4,524**	**5,146**
Derivatives	2,843	3,338
Equity instruments	194	517
Debt securities	1,487	1,291
Other	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**6,929**	**-2,461**
Equity instruments	6,929	-2,461
Debt securities	-	-
Other	-	-
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-52**	**1,165**
Equity instruments	-	1
Debt securities	-52	1,164
Exchange rate differences (gain or loss), net	**2,737**	**4,785**
Gains or losses on derecognition of non-financial assets, net	**23,166**	**-88**
Total net result	**50,469**	**47,311**

The item “Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net – Debt securities” in the table above in relation to 2021 includes EUR 10,098 thousand from the sale of financial assets classified as “Financial assets at amortised cost – Debt securities” (see Note 13) and EUR 2,936 thousand from the sale of financial assets classified as “Financial assets at fair value through comprehensive income” (see Note 11).

With regard to the sale of the HTC book mentioned in the previous paragraph, this consisted of sales of securities for a total market value of EUR 438.2 million, forming part of the HTC-ST portfolio. This sale was made to offset the effects of COVID-19 and is therefore not considered a change in the business model (see Note 2.1.1.).

However, the item “Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net – Debt securities” in the table above in relation to 2020 includes EUR 35,871 thousand from the sale of financial assets classified as “Financial assets at amortised cost – Debt securities” (see Note 13) and EUR 3,208 thousand from the sale of financial assets classified at "Financial assets at fair value through comprehensive income" (see Note 11).

With regard to the sale of the HTC book mentioned in the previous paragraph, it consisted in sales of securities for a total market value of EUR 623.1 million, forming part of the HTC-LT portfolio. This sale, which stemmed from the Group's strategy for the following years of strengthening credit and migrating customer positions to off-balance-sheet positions, was considered by the Group as a change in the business model of the HTC-LT book for accounting purposes (see Note 2.1.1 and Note 2.3).

The item "Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss – Equity" includes the profit or loss obtained from the change in the price of units in venture capital funds for which the Group has not transferred the associated risks and benefits to customers, as well as the change in the price of units in collective investment institutions for which Crèdit Andorrà has transferred the associated risks and benefits to customers through the issue of structured liabilities (see Note 9.2). However, the item "Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net – Debt securities" includes the change in the market value of these structured liabilities (see Note 10.2).

The item "Exchange rate differences (gain or loss), net" includes, in addition to the net results of translating the financial assets and liabilities denominated in foreign currencies into euro, the results from foreign currency transactions (mainly derivatives) on both its own account and on behalf of customers.

The item "Gains or losses on derecognition of non-financial assets, net" mainly includes the result of corporate operations related to SETAP 365, SA and the insurance business described in Note 3.6.

38. Other operating income and expenses, and income and expenses from assets and liabilities under insurance and reinsurance contracts

38.1. Other operating income and expenses

The breakdown of the balance in these items in the accompanying profit and loss account for 2021 and 2020 is shown in the following tables:

In thousands of euros	2021	2020
Other operating income	11,651	13,535
Other operating expenses	-3,129	-2,333
Net result	**8,522**	**11,202**

Under the items "Other operating income" and "Other operating expenses", the Group records: (1) all income and expenses from the results of the Insurance Group but which do not form part of the technical result of the insurance business (classified under "Income from assets under insurance and reinsurance contracts" and "Expenses from liabilities under insurance and reinsurance contracts") or correspond to administrative expenses; and (2) other operating income or expenses not related to the banking business, such as income from real estate rentals, etc.

The item "Other operating income" at 31 December 2021 includes EUR 138 thousand from property sublease income (EUR 110 thousand at 31 December 2020).

38.2. Other income and expenses from assets and liabilities under insurance and reinsurance contracts

The breakdown of the balance in these items in the accompanying profit and loss account for 2021 and 2020 is shown in the following tables:

	2021	2020
	20,129	**18,446**
Insurance and reinsurance premium income	20,129	18,446
Reinsurance income	-	-
	-19,147	**-17,547**
Claims paid, other insurance-related expenses and net provisions for insurance contract liabilities	-19,107	-17,509
Reinsurance premiums paid	-40	-38
	982	**899**

39. Staff expenses

The composition of this item in the accompanying profit and loss account for 2021 and 2020 is shown in the following table:

In thousands of euros	2021	2020
Wages and salaries	-57,799	-56,605
Social security	-6,354	-6,158
Termination benefits	-828	-137
Provisions for defined post-employment contribution pensions (Note 22)	-4,034	-3,499
Provisions for defined post-employment benefit pensions	-	-
Training	-341	-392
Other staff expenses	-4,540	-4,217
Total staff expenses	**-73,896**	**-71,008**

The expense recorded under “Provisions for defined post-employment contribution pensions” mainly includes the mandatory contributions established in the Internal Regulation of the Pension Plan for Crèdit Andorrà employees. These contributions to the pension plan are made to cover retirement, death or disability commitments and certain departures of active employees.

To cover these commitments, Crèdit Andorrà makes a monthly contribution equivalent to a percentage of the pensionable wages, ranging from 0% to 12% depending on the contribution percentage chosen by the employee, which can be between 0% and 5.5%. The employee has the option to change the contribution rate once a year, so he/she has the flexibility to adjust the monthly net salary received and the contributions to the pension plan according to his/her liquidity needs.

“Other staff expenses” includes, among other things, the remuneration and bonuses for supplementary medical, life and debit balance insurance, and other short-term social benefits, as well as expenses related to expatriate employees.

During 2021 and 2020, the composition of the Crèdit Andorrà Group workforce, in average terms, by professional category and gender, is as follows:

	31.12.21			31.12.20		
	Men	Women	Total	Men	Women	Total
Directors	10	3	13	10	3	13
Managers	136	70	206	145	66	211
Administration staff	233	286	519	289	389	678
Temporary staff	1	3	4	11	16	27
Total	**380**	**362**	**742**	**455**	**474**	**929**

The reduction in the number of employees in 2021 is due to the sale of the ERSM Group by the Insurance Group, which took place in December.

40. Other administrative expenses

The composition of this item in the accompanying profit and loss account for 2021 and 2020 is shown in the following table:

In thousands of euros	31.12.21	31.12.20
Supplies	-616	-632
External services	-38,888	-36,627
Property repair and maintenance	-7,298	-7,176
Independent professional services	-14,006	-11,869
Surveillance and cash courier services	-1,187	-1,176
Insurance premiums	-934	-1,078
Advertising and public relations	-2,776	-2,638
Utilities	-6,266	-6,375
Other	-6,421	-6,315
Taxes	-4,816	-4,677
Other operating expenses	-2,650	-2,770
Total	**-46,970**	**-44,706**

The variation in the heading “Independent professional services” is mainly due to the development of certain strategic projects, as well as other projects needed to comply with recurring regulatory changes.

The item “External services – Other” mainly includes the expenses for representation, travel and fees paid to bodies and associations such as the Andorran Banking Association.

41. Depreciation and amortisation

The composition of this item in the accompanying profit and loss account for 2021 and 2020 is shown in the following table:

In thousands of euros	2021	2020
Tangible assets	**-9,591**	**-9,870**
For own use	-3,944	-4,244
Investment property	-	-10
Right of use assets	-5,647	-5,616
Intangible assets	**-12,983**	**-12,499**
Total	**-22,574**	**-22,369**

42. Provisions or reversal of provisions

The composition of this item in the accompanying profit and loss account for 2021 and 2020 is shown in the following table:

In thousands of euros	2021	2020
Taxes and other legal contingencies (Note 21)	-213	5,637
Commitments and guarantees given (Note 21)	-950	188
Other provisions (Notes 21 and 22)	-1,288	345
Total	**-2,451**	**6,170**

Net provisions for commitments and guarantees given include the net provision for credit risk hedging of guarantees given by the Group.

43. Impairment or reversal of impairment on financial assets not measured at fair value through profit and loss

The composition of this item in the accompanying profit and loss account for 2021 and 2020 is shown in the following table:

In thousands of euros	2021	2020
From financial assets at fair value through other comprehensive income	**-21**	**-23**
Debt securities	-21	-23
Equity instruments	-	-
Financial assets at amortised cost	**1,344**	**-7,327**
Debt securities	353	69
Customer loans and advances	991	-7,396
Loans and advances to credit institutions	-	-
Total	**1,323**	**-7,350**

During 2021, the Group recognised income from recoveries of write-offs amounting to EUR 4,089 thousand (EUR 3,232 thousand in 2020).

Impairment of financial assets at fair value through other comprehensive income of debt securities is calculated in the same way as impairment of the financial asset portfolio at amortised cost, but the accumulated impairment allowance is recognised in "Equity / Accumulated other comprehensive income / Items subject to reclassification to profit or loss / Fair value changes in debt instruments measured at fair value through changes in other comprehensive income" and not in assets, as the book value of this portfolio is its market value.

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

Below is a breakdown of the results obtained during 2021 and 2020 by the multi-group and associate companies (see Note 3) consolidated by the equity method.

In thousands of euros	2021	2020
Clíniques Geriàtriques SA	74	117
Societat Pirenaica d'Aparcaments SA	42	42
Actiu Assegurances SA	106	-
Financera d'Assegurances SA	-	541
Línia Asseguradora SL	-	8
Assegur Diversos	230	1,250
Assegur SA	133	169
CA Vida	2,069	2,006
ERSM Insurance Brokers Correduría de Seguros y Reaseguros, SA	-	880
Enterprise Risk Management SA	891	-
Compass Capital SL	-	-8
Concatsa Correduría de Seguros, SL	-	59
CA Life Insurance Experts SA	177	170
Esports de Neu Soldeu-Incles SA	-	-2,434
Serveis i Mitjans de Pagament XXI SA	32	14
Total	**3,754**	**2,814**

45. Tax expense or income from continuing operations

In accordance with the tax law in force in Andorra, the special tax consolidation regimen for corporation tax (CT) includes Crèdit Andorrà SA as the parent company and the Andorran companies that meet the requirements established by the regulations as investee companies. The tax group, in effect since the entry into force of the law in 2012, with group number G-800529-D, at 31 December 2021 is made up of the companies listed below, of which more than 75% of the share capital is held, and all of which have the same financial year as the Bank.

- Credi-Invest SA
- Patrigest SAU
- Crèdit Capital Immobiliari SA
- Informàtica Crèdit Andorrà SLU
- Crèdit Iniciatives SA
- Crèdit Assegurances SAU
- CA Vincles Actuarial SLU

The other Group companies file returns in accordance with the tax regulations applicable in the jurisdictions in which they are based.

Corporation tax assessments have been estimated for the current year, but they cannot be considered definitive until July, when they will be formally submitted to the tax authorities of the jurisdictions where the Group operates. Therefore, the figures for the current year are forecasts.

The taxation process is explained in Note 2.13.1 “Income tax”.

45.1. Income tax expense

45.1.1. Amount recognised in profit and loss

The composition of this item in the accompanying profit and loss account for 2021 and 2020 is shown in the following table:

In thousands of euros	2021	2020
Current tax result	**-434**	**-2,427**
Current tax year	-482	-1,360
Adjustments for previous years	48	-1,067
Deferred tax result	**-656**	**-4,407**
For temporary differences	1,310	-341
For tax rate variation		-
For tax loss carryforwards	-2,165	-4,006
Adjustments for previous years	199	-60
Total	**-1,090**	**-6,834**

45.1.2. Amount recognised in accumulated other comprehensive income

The composition of the amount recognised in accumulated other income during the financial years ended 31 December 2021 and 2020, based on the nature of the asset or transaction giving rise to it, is shown in the following tables:

In thousands of euros		31.12.21	
	Before tax	Tax benefit (expense)	Net of tax
Items that will not be reclassified to profit or loss	**-57**	5	**-52**
Actuarial gains or losses on defined benefit pension plans	-144	14	-130
Fair value changes of equity instruments measured at fair value through other comprehensive income	87	-9	78
Items subject to reclassification to profit or loss	**-3,652**	**810**	**-2,842**
Financial assets through other comprehensive income	-3,652	810	-2,842
Cash flow hedges (effective portion)	-	-	-
Hedges of net investments in foreign operations (effective portion)	-	-	-
Exchange rate differences	-	-	-
Non-current assets for sale	-	-	-
Other recognised income and expenses	-	-	-
Total	**-3,709**	**815**	**-2,894**

In thousands of euros		31.12.20	
	Before tax	Tax benefit (expense)	Net of tax
Items that will not be reclassified to profit or loss	**154**	**-10**	**144**
Actuarial gains or losses on defined benefit pension plans	105	11	116
Fair value changes of equity instruments measured at fair value through other comprehensive income	49	-1	48
Items subject to reclassification to profit or loss	**-78**	**-23**	**-101**
Financial assets through other comprehensive income	-78	-23	-101
Cash flow hedges (effective portion)	-	-	-
Hedges of net investments in foreign operations (effective portion)	-	-	-
Exchange rate differences	-	-	-
Non-current assets for sale	-	-	-
Other recognised income and expenses	-	-	-
Total	**76**	**-33**	**43**

Irrespective of the income taxes charged to profit or loss, in 2021 and 2020 the Group recognised certain valuation adjustments for financial assets at fair value through other comprehensive income in equity at the amount net of tax, and additionally recognised this effect as a deferred liability and deferred asset, respectively.

45.2. Reconciliation of effective tax rate

A reconciliation between the income tax expense using the effective tax rate in Andorra (10%) and the expense recorded for this tax, as well as the effective tax rate for the years ended 31 December 2021 and 2020, is shown below.

	31.12.21		31.12.20	
In thousands of euros	Effective rate	Amount	Effective rate	Amount
Pre-tax result		33,931		39,432
CT with local tax rate		-4,567		-3,581
Effect of foreign tax rates		-937		-1,795
Non-deductible expenses		-240		-123
Non-taxable income		4,646		1,139
Rebates		201		1,596
Other effects (temporary effects, etc.)		415		1,404
Total tax expense	**-1%**	**-482**	**-3%**	**-1,360**

During the financial years analysed, the income and expenses of the Andorran tax group are almost entirely taxed at the local rate of 10%. However, there is income in the profit or loss that is exempt from taxation, such as eliminations of group entities, which consolidate the CT, dividends accrued from other investees through the exemption method as well as tax credits.

Although the different tax rates from other jurisdictions in which the subsidiaries operate increase the effective tax rate, the application of tax loss carryforwards and the rebates applied lead to a greater decrease in the effective tax rate.

45.3. Tax loss carryforwards

At 31 December 2021, the subsidiary Banque de Patrimoines Privés SA had tax loss carryforwards pending offset amounting to EUR 9,697 thousand (EUR 11,544 thousand at 31 December 2020), which already existed at the date of takeover by the Crèdit Andorrà Group.

At 31 December 2021, Banco Alcalá SA had tax loss carryforwards pending offset amounting to EUR 1,676 thousand (EUR 1,177 thousand at 31 December 2020) generated during 2018 and 2019.

At 31 December 2021, Gesalcalá had tax loss carryforwards pending offset amounting to EUR 218 thousand (EUR 49 thousand at 31 December 2020) generated during 2020 and 2021.

At 31 December 2021, the tax group Crèdit Andorrà SA had tax loss carryforwards pending offset amounting to EUR 42,875 thousand not capitalised for accounting purposes in (EUR 40,398 thousand and capitalised for accounting purposes in the amount of EUR 1,367 thousand at 31 December 2020). The increase in tax bases compared to the previous year is not due to the new generation of new tax loss carryforwards for the year, but rather to an increase in the bases resulting from the completion of a corporate income tax audit procedure for 2017 and 2018 at Crèdit Andorrà (see Note 45.5). These tax loss carryforwards originate from (1) the first-time application settlements made by Crèdit Andorrà with effect from 01/01/2016 due to the entry into force of EU-IFRS in Andorra (for more information, see the consolidated financial statements for 2017); and (2) the first-time application settlements made with effect from 01/01/2018 due to the entry into force of IFRS 9.

The Bank's directors expect the tax loss carryforwards detailed in this Note to be applied, where appropriate, before the expiry of the statutory right to offset them.

45.4. Deferred tax assets and liabilities

45.4.1. Composition of deferred tax assets and liabilities

Under current tax regulations, in 2021 and 2020, there are certain temporary differences that must be taken into account when quantifying the corresponding income tax expense.

The source of the deferred tax assets/liabilities recorded in the statement of financial position at 31 December 2021 and 2020 is as follows:

	31.12.21		31.12.20	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
Tangible and intangible assets	438	2,408	483	3,932
Financial assets through other comprehensive income	768	263	-	293
Actuarial gain/loss from defined benefit plans	-	67		81
Fair value hedges	-	-	-	-
Loan loss	10,565	-	10,946	240
Tax loss carryforwards to be offset in coming years	2,301	-	4,467	-
Other	1,732	113	1,666	231
Net assets and liabilities	**15,804**	**2,851**	**17,562**	**4,777**

The Group has no significant unrecognised deferred tax assets.

45.4.2. Movement in deferred tax assets and liabilities

The movement in deferred tax assets/liabilities recorded in the statement of financial position at 31 December 2021 and 2020 is as follows:

	Balance at 31/12/20	Other movements during the year recognised in		Balance at 31/12/21
In thousands of euros		Profit/loss	OCI	
Tangible and intangible assets	-3,449	1,479	-	-1,970
Financial assets through other comprehensive income	-291	-	798	507
Actuarial gain/loss from defined benefit plans	-81	-	14	-67
Fair value hedges	-	-	-	-
Loan loss	10,706	-141	-	10,565
Tax loss carryforwards to be offset in coming years	4,467	-2,165	-	2,302
Other	1,433	183	-	1,616
		,		
Total	**12,785**	**-644**	**812**	**12,953**

In thousands of euros	Balance at 31/12/19	Other movements during the year recognised in Profit/loss	OCI	Balance at 31/12/20
Tangible and intangible assets	-3,872	423		-3,449
Financial assets through other comprehensive income	-268	-	-23	-291
Actuarial gain/loss from defined benefit plans	-71	-	-10	-81
Fair value hedges	-	-	-	-
Loan loss	10,658	48		10,706
Tax loss carryforwards to be offset in coming years	9,287	-4,820	-	4,467
Other	1,486	-53		1,433
Total	**17,220**	**-4,402**	**-33**	**12,785**

Under current tax regulations, there are certain temporary taxable and deductible differences that must be taken into account when quantifying the corresponding corporation tax expense. All these temporary differences have been recorded at the rate at which they are estimated to reverse.

The Bank's directors expect the deferred taxes detailed in this Note to be reversed over the coming 5 years.

45.5. Other relevant tax information

Current assets and current liabilities correspond mainly to the balances of corporation tax receivable and payable, respectively, both in Andorran and the other jurisdictions in which the Group operates.

The Crèdit Andorrà Group has the last years open for review by the tax authorities for the main taxes applicable to it in the jurisdictions in which it operates.

In 2019, the Andorran Department of Taxation and Borders (DTF) opened limited corporation tax audits on Patrigest SAU and Crèdit Capital Immobiliari SA for the year 2016 corresponding to: (1) depreciation and amortisation, impairment on sale or derecognition of intangible assets and tangible assets; (2) non-current assets; and (3) deductions for new investments. However, the companies understand that their technical position is correct and that the final ruling, now in the hands of the Mayor's Office, should be favourable.

On 5 January 2022, Crèdit Andorrà finalised the corporate income tax audit corresponding to the adjustments for the first-time application of IFRS carried out in 2017 and 2018, resulting in a definitive settlement from the Tax Department that increased the tax loss carryforwards by EUR 3.3 thousand (LP21003701).

46. Related parties

46.1. Remuneration for Senior Management

Crèdit Andorrà defines the Group's Senior Management as executive or non-executive personnel comprising (1) the Board of Directors, (2) General Management, (3) the Management Committee and (4) the management of the Internal Audit Department.

The remuneration accrued during 2021 and 2020 by the members of Senior Management, due to their status as Senior Managers, totalled EUR 5,232 thousand and EUR 5,405 thousand, respectively.

Of the total remuneration received during 2021, EUR 4,596 thousand correspond to short-term benefits and EUR 636 thousand correspond to post-employment benefits (EUR 4,825 thousand and EUR 580 thousand for 2020, respectively).

At 31 December 2021 and 2020 there are no transactions with members of the Board of Directors and/or the General Management (non-shareholders) that individually represent more than 10% of the shareholders' equity and 5% of the profit for the year.

46.2. Transactions with related parties.

Details of related party balances at 31 December 2021 and 2020 are as follows:

	31.12.21			31.12.20		
In thousands of euros	Senior Management	Subsidiaries	Other related parties	Senior Management	Subsidiaries	Other related parties
Assets	**90,865**	**54,276**	**121,535**	**101,655**	**29,029**	**148,259**
Loans, receivables and guarantees	93,015	54,418	175,481	103,944	29,041	203,097
Hedges	-2,150	-142	-53,946	-2,289	-12	-54,838
Financial liabilities at amortised cost	**5,036**	**15,411**	**3,099**	**2,809**	**4,441**	**4,235**
Financial liabilities at amortised cost	5,036	15,411	3,099	2,809	4,441	4,235
Off-balance-sheet accounts	**42,335**	**10,415**	**254,767**	**50,686**	**1,778**	**317,103**
Assets in custody	42,335	10,415	254,767	50,686	1,778	317,103
Amounts recognised in profit and loss	**1,727**	**624**	**3,140**	**2,121**	**661**	**3,267**
Interest income	1,727	545	3,099	2,108	611	3,208
Interest expenses	-18	-233	-19	-12	-24	-17
Fee and commission income	18	312	60	25	74	76

The “Subsidiaries” segment includes balances with companies which have not been consolidated using the full integration method.

“Other related parties” includes balances with economic groups which, without being part of Senior Management or subsidiaries, hold the status of related to the Group. In this regard, the latter group includes shareholders holding more than 5% of the Bank's shares.

47. Lease commitments

Below is a breakdown of the Bank’s lease commitments with third parties outside the Group at 31 December 2021 and 2020:

In thousands of euros	31.12.21	31.12.20
Up to 1 year	6,852	6,710
Between 1 and 5 years	24,410	23,211
More than 5 years	39,737	42,935
Total	**70,998**	**72,856**

On 31 December 2014, Crèdit Andorrà signed an agreement with a group of foreign investors resident in Andorra for the purchase and sale and leaseback with an operating lease for 20 years (with an option to extend for a further 10 years, at the Bank’s discretion) of certain properties assigned to its operations, including the Bank’s head office.

Of the total lease commitments on 31 December 2021 detailed in the table above, EUR 4,849 thousand, EUR 19,395 thousand and EUR 38,790 thousand correspond to lease commitments in connection with the purchase and sale and leaseback transaction (EUR 4,694 thousand, EUR 18,755 thousand and EUR 42,245 thousand, respectively, at 31 December 2020).

48. Additional information

48.1. Legal compliance

48.1.1. Law 14/2017 of 22 June 2017 on preventing and combating money laundering and terrorist financing

On 24 July 2001, the Law on international criminal cooperation and combating the laundering of money or securities from international crime entered into force, replacing the previous Law on the protection of bank secrecy and prevention of the laundering of money or securities from crime of 1995.

In its session on 11 December 2008, the General Council of the Principality of Andorra approved the amendment to the Law on international criminal cooperation and combating the laundering of proceeds of international crime and the financing of terrorism. The resulting revised text and the subsequent amendments, passed on 25 May 2011, 10 October 2013, 27 March 2014, 15 January 2015 and 16 July 2015, update the previous law, bring it in line with international standards on the matter and harmonise it with equivalent laws in Europe.

As a continuation of the regulatory deployment of this Law, on 13 May 2009, the Government approved the Regulation of the Law on international criminal cooperation and combating the laundering of proceeds of international crime and the financing of terrorism. Like the Law, this Regulation was also updated on 18 May 2011 and 20 November 2013.

On 20 July 2017, Law 14/2017 on preventing and combating money or securities laundering and terrorist financing entered into force. This Law implements Directive (EU) 2015/849, known as the fourth European Directive on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing, as well as Regulation (EU) 2015/847 on information accompanying transfers of funds.

As a continuation of the regulatory deployment of the Law, on 23 May 2018, the Government of Andorra approved the Regulation of the Law implementing Law 14/2017.

Law 14/2017 was initially amended by Law 21/2019 of 28 November, which entered into force on 16 January 2020. The purpose of this amendment was to incorporate into the Andorran legal system the improvements recommended by the committee of experts for the assessment of anti-money laundering and terrorist financing measures (Moneyval) and by the joint committee, composed of representatives of the Principality of Andorra and the European Union, within the framework of the Monetary Agreement signed between the Principality and the European Union on 30 June 2011, as well as to strengthen interpretative aspects observed during the course of the validity of the Law.

These two bodies had recently made observations to complement the implementation of the FATF Recommendations and the transposition of Directive (EU) 2015/849.

Subsequently, the Legislative Decree of 19/02/2020 of the revised text of Law 14/2017 of 22 June on preventing and combating money or securities laundering and terrorist financing included the aforementioned amendments.

Lastly, Law 37/2021 of 16 December amending Law 14/2017 of 22 June on preventing and combating money or securities laundering and terrorist financing incorporates and transposes to the Andorran legal system the provisions of Directive (EU) 2018/843 of the European Parliament and of the Council (known as the 5th European Directive).

The Group has gradually adapted its internal procedures to the successive national and international legislative amendments, taking into account the recommendations of the Financial Action Task Force (FATF), Moneyval and the Basel Committee on Banking Supervision, among others, in order to ensure that the financial services provided by any member of the Group cannot be used by any criminal organisation.

48.1.2. Law regulating mandatory investment ratios

In 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 using them in granting loans and other investments to maintain an investment ratio in Andorran public funds.

On 9 December 2009, the Decree amending the Decree regulating the Law of 22 August 1994 on the regulation of the mandatory investment ratios was approved, obliging banks to maintain an investment ratio of 2% in public funds in their assets.

Government debt

In compliance with the Law on the regulation of mandatory investment ratios, at 31 December 2021 and 2020, the Group has underwritten EUR 94,874 thousand in government debt of the Principality of Andorra, issued on 31 March 2017 at an increasing variable interest rate (0.25% for the first two years, 0.5% for the third year, and 0.75% for the last two years up to maturity on 30 March 2022). The amount underwritten by the Group in this issue is included under "Financial assets at amortised cost – Debt securities" on the asset side of the accompanying consolidated statement of financial position.

48.1.3. Programme aimed at privileged financing for start-ups, innovation, restructuring and entrepreneurial projects

Also eligible as public funds are loans granted under a programme classified as of national and social interest for the privileged financing of start-ups, innovation, restructuring and entrepreneurial projects, approved by the Government of Andorra on 3 March 2010. At 31 December 2021, the loans outstanding under this programme amounted to EUR 14 thousand and are recognised under "Loans and advances – Customers" in the consolidated statement of financial position (EUR 56 thousand at 31 December 2020). These loans bear an annual interest rate of one-year Euribor and the Government acts as the guarantor.

48.1.4. Programme aimed at privileged financing for the renovation of housing and residential buildings

Also eligible as public funds are the loans granted as part of a programme classified as of a national and social interest, and aimed at privileged financing for the renovation of housing and residential buildings, approved by the Government of Andorra on 23 March 2011. At 31 December 2021, outstanding loans under this programme amounted to EUR 791 thousand (EUR 951 thousand at 31 December 2020) and are recognised under "Loans and advances – Customers" in the consolidated statement of financial position. These loans bear an annual interest of one-year Euribor plus 0.5%.

48.1.5. Law 1/2011 on the creation of a deposit guarantee system for banking institutions

On 2 February 2011, the General Council of the Principality of Andorra passed Law 1/2011 on the creation of a deposit guarantee system for banking institutions in order to guarantee the return of deposited cash and securities to depositors. The aforementioned Law establishes that, in order for the guarantee system to comply with the obligations attributed to it by this Law, all banking institutions authorised to operate in Andorra must create and maintain a restricted reserve for the fulfilment of the guarantees covered, and that an amount equivalent to this reserve must be kept invested in safe and liquid assets that comply with a series of requirements established by law for this purpose.

On 3 October 2018, Law 20/2018 of 13 September regulating the Andorran deposit guarantee fund and the Andorran investment guarantee system was published in the Official Gazette of the Principality of Andorra. By means of its repeal provision, it repealed Law 1/2011 of 2 February, on the creation of a deposit guarantee system for banking institutions, with the exception of the fourth transitional provision "Treatment of deposits and investments held by Banca Privada d'Andorra, SAU" (see Note 48.1.7).

48.1.6. Law 8/2015 on urgent measures to implement mechanisms for the restructuring and resolution of banking institutions

On 2 April 2015, the General Council passed Law 8/2015 on urgent measures to implement mechanisms for the restructuring and resolution of banking institutions.

The aim of this Law is to ensure the optimal 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 public resources should not be used to bear losses within a context of the restructuring and resolution of a banking institution.

A large part of the administration of the system designed by the law is attributed to the State Agency for the Resolution of Banking Institutions (AREB) as the competent resolution authority. Furthermore, in order to finance, to the extent necessary, the measures agreed in application of this Law, the Andorran Fund for the Resolution of Banking Institutions (FAREB), an entity without legal personality that will be managed by the AREB, is created in accordance with the provisions of Directive 2014/59/EU.

48.1.7. Law 20/2018 of 13 September regulating the Andorran deposit guarantee fund and the Andorran investment guarantee system.

This law allows for alignment with the European Union as regards the protection of deposit holders in banking institutions in the Principality of Andorra and of investments in banking institutions and financial investment institutions in the Principality of Andorra.

48.1.7.1. Andorran deposit guarantee fund

The law regulates the Andorran deposit guarantee fund (Fagadi) as a deposit guarantee system under the terms established in Directive 2014/49/EU and with an additional buffer of financial resources to ensure the Fagadi immediately has more resources than those required by the directive itself.

This law, like the directive, establishes a transition period during which member banks of the Fagadi must make annual contributions as determined by the management committee, in order to have available *ex-ante* financial resources of an amount equivalent to 0.8% of the guaranteed deposits by 30 June 2024. In addition, this law provides that Andorran banking institutions will continue to make annual contributions to the Fagadi from their profit and loss account during a period of eight years from 2024 in order to have available an additional volume of *ex-ante* financial resources equivalent to 0.8% of the guaranteed deposits to protect depositors (thus reaching a total of 1.6% of the guaranteed deposits).

A dual system to ensure the immediate availability of financial resources will be in place during the period foreseen for the provisioning of the *ex-ante* fund. Therefore, banking institutions must maintain part of the deposit guarantee reserves already constituted under Law 1/2011, and the assets allocated to these reserves may only be used immediately at the request of the Fagadi management committee. The remaining portion of the deposit guarantee reserves held by Andorran banking institutions by virtue of the application of Law 1/2011 at the date of entry into force of this law is reclassified to restricted reserves that can be used to cover possible risks or losses. The AFA may authorise their reclassification to unrestricted reserves.

The Fagadi maintains the coverage regime of EUR 100,000 per depositor and per institution, and incorporates additional coverage in exceptional cases to guarantee up to EUR 300,000 (deposits from transactions with residential and private real estate, payments received by the depositor on a one-off basis and linked to marriage, divorce, retirement, termination, disability or death, etc.).

48.1.7.2. Andorran investment guarantee system

The law establishes the Andorran investment guarantee system (SAGI) as an ex-post guarantee system now involving, together with the banking institutions that are already participants, financial investment institutions (financial investment companies, financial investment agencies and asset management companies offering discretionary and individualised portfolio management in the form of direct management) and management companies of collective investment institutions authorised to provide administration and custody services for financial instruments on behalf of customers in Andorra.

The main regulatory features of the investment guarantee system are as follows:

- The coverage regime is maintained at EUR 100,000 per holder, above the EUR 20,000 coverage level set by Directive 97/9/EC. The law also establishes a total limit on SAGI resources and increases the total maximum coverage established by Law 1/2011.
- Losses arising from fluctuations in the value of investments are not guaranteed. The guarantee covers situations in which the recovery of the securities is impossible due to the insolvency of the entity providing the securities administration and custody service.
- The target for SAGI resources is maintained at 1.5% of the base for calculating the investments regulated by Law 1/2011, with 30 June 2020 as the deadline for compliance.
- The amount of the investment guarantee reserve to be held by each SAGI member institution should be calculated annually and correspond to the proportion that the amount of investments guaranteed to the institution represents of the aggregate total of guaranteed investments in all SAGI member institutions. For the purposes of calculating the investment guarantee reserve, this is understood to be 5% of the market value of the investments held by the SAGI member institutions.
- The system of investment guarantee reserves earmarked for the fulfilment of the guarantee by banks is maintained.

48.1.8. Law 12/2017 of 22 June on the regulation and supervision of insurance and reinsurance in the Principality of Andorra

This law, which entered into force on 1 January 2018 and is based on the system established by the EU known as Solvency II, seeks to establish the system for regulating and supervising insurance and reinsurance in the Principality of Andorra, with the aim of ensuring transparency, promoting its orderly development and instructing on the rights of the policyholders, insured parties and beneficiaries.

In particular, this law establishes the conditions for accessing and conducting business, the system applicable with regard to supervision and solvency, and it also regulates the restructuring and settlement of insurance and reinsurance institutions with registered address in the Principality of Andorra.

The supervision and control functions of the insurance and reinsurance market in the Principality of Andorra are performed by the Insurance and Reinsurance Supervisory Authority.

As established by the "Second transitional provision. Regime of insurance and reinsurance institutions with authorisation to operate obtained before the entry into force of this law", the institutions and delegations referred to in the preceding paragraphs must adapt to the law in the following terms:

- As of 1 January 2018, the law will be fully applicable to institutions and delegations, without prejudice to the provisions of Section IV below.
- The adaptation to Section IV "Regime for conducting business" of the law by the institutions and the delegations referred to in the preceding paragraphs will be carried out gradually and proportionally over a period of five years, beginning 1 January 2018. Section IV establishes the central core of the new supervisory regime, which includes the basic requirements deriving from the three pillars of Solvency II. In particular, it is worth mentioning the establishment of the solvency capital requirement and the minimum capital requirement, or the regulation of market conduct or certain corporate transactions, among many other conditions to which the sector must henceforth adapt.

48.2. COVID-19-related regulations

48.2.1. Decree on the approval of an extraordinary guarantee programme for companies and businesses due to the health emergency caused by the SARS-CoV-2 coronavirus of March 2020 and its subsequent amendments

The purpose of this decree is to adopt measures to respond to the economic impact on the country's companies and businesses due to the health emergency caused by the SARS-CoV-2 coronavirus, in accordance with the decrees approved by the Government, on 11 March 2020 and subsequent dates, establishing exceptional measures.

This decree, in accordance with the government's willingness to support the country's economic fabric and guarantee jobs, aims to help the country's companies and businesses whose turnover, operations and normal financing have been affected by the health emergency, such that this has caused them cash flow problems or difficulties in meeting their normal and necessary operating expenses, especially the payment of employee salaries. This exceptional and temporary situation may jeopardise the continuity of Andorran companies and businesses that would otherwise be perfectly viable under normal conditions and which, therefore, will continue to be viable when the situation returns to normal.

The aim is to minimise the effects of the health emergency for companies and citizens in Andorra, and also to facilitate a fast economic recovery once the current situation subsides.

This decree instrumentalises two soft loans granted by banks to the economic fabric with the guarantee and payment of interest by the government. The first soft loan, in the amount of EUR 60 million, is intended to cover the operational costs of companies and self-employed workers. The second, in the amount of EUR 70 million, is intended to refinance the loan repayments that these entrepreneurs and self-employed workers may have.

48.2.2. Decree approving a second extraordinary guarantee programme for companies and businesses due to the health emergency caused by the SARS-CoV-2 coronavirus of May 2020 and its subsequent amendments.

A government-backed extraordinary guarantee programme is approved, which will be formalised in the form of guaranteed financing facilities aimed at providing liquidity to the country's companies and businesses to respond to the payment of the employer's share of the temporary suspension of work contracts (STCT) or the reduction of working hours (RJL), the financing of loan repayments and possible investments in the adaptation of establishments for public service to adapt them to the health requirements arising from the emergency caused by SARS-CoV-2. Subsequent amendments have also extended the list of items for which the government guarantee can be requested, including the cost of utilities and leasing on commercial premises, the cost of fuel for transport, and the payment of the employer's share of the STCT and/or RJL is replaced by personnel costs, understood as the cost of wages and salaries and contributions to the Andorran Social Security Fund.

This second public guarantee programme has a total amount of up to EUR 100 million.

48.2.3. Law 5/2020 of 18 April on new exceptional and urgent measures due to the health emergency caused by the SARS-CoV-2 pandemic

This law establishes a series of measures, moratoria for loans or extensions to maturities, which can be extended until the government declares, by decree, the end of the health emergency. The law establishes that:

- Salaried persons affected by a temporary suspension of the work contract or a reduction in working hours may request and obtain a moratorium on mortgage or personal loan repayments, or an extension of the repayment period for mortgage loans they have taken out with banks to finance the purchase of their primary residence or their own vehicle, provided that the monthly repayment amount of these loans and credits, plus the basic expenses and utilities of the household, is equal to or greater than 30% of the net income resulting from the temporary suspension of the work contract. In the case of a current account credit, it must mature during the period between the date of entry into force of this law and 31 December 2020.

- Natural persons owning business premises and up to two dwellings intended for rent or use affected by the reduction in rent provided for in Articles 36 and 38 of this law, who have taken out a mortgage loan or credit intended for the acquisition of these premises or dwellings, may also obtain a moratorium for the mortgage loans or an extension of the repayment period in order to finance the amount of the acquisition of the aforementioned premises or dwellings.

- The moratoria on the repayments relating to mortgage loans and personal loans, and the extension of the repayment period of mortgage loans referred to in the previous paragraphs, are also applicable, on the same basis and with the same set time limit, to salaried persons who have been made redundant as a result of the health emergency caused by SARS-CoV-2, for as long as they are unemployed and receiving involuntary unemployment benefits, until the government declares the end of said emergency, by decree. Likewise, they also apply to self-employed natural persons who have been mandatorily suspended by government decree, or who are subject to an on-call or standby regime by government decree, until the government declares otherwise by decree, on the understanding that once the mandatory suspension or the on-call or standby regime cease to be in force, it will be necessary to demonstrate a significant decline in turnover.

The granting of the moratorium up to 31 December 2020 on mortgage loan or personal loan repayments, or the extension of the repayment period for mortgage loans, entails the extension of the repayment schedule of the loan or the maturity of the credit, and the non-application of the maturity clause in the loan or credit agreement during its period of validity. During the period of validity of the moratorium or extension, the bank may not demand the payment of the instalment nor any of the items that form part of it (repayment of capital or payment of interest).

48.2.4. Law 16/2020 of 4 December on new exceptional and urgent measures due to the health emergency caused by the SARS-CoV-2 pandemic

This law incorporates a number of amendments to the moratoria approved by Law 5/2020 and establishes the new legislative moratoria as set out below. the law was subsequently amended on 18 March by Law 3/2021 of 18 March and Law 1/2021 of 28 January. However, these amendments have no impact on the financial sector.

The new legislative moratoria established by the law are:

- Salaried persons affected by a temporary suspension of the work contract or a reduction in working hours may request and obtain a moratorium on mortgage or personal loan repayments, or an extension of the repayment period for mortgage loans they have taken out with banks to finance the purchase of their primary residence or their own vehicle, provided that the monthly repayment amount of these loans and credits, plus the basic expenses and utilities of the household, is equal to or greater than 30% of the net income resulting from the temporary suspension of the work contract. In the case of a current account credit, it must mature during the period between the date of entry into force of this law and 30 June 2021.

- Natural persons owning business premises and up to two dwellings intended for rent or use affected by the reduction in rent provided for in Articles 36 and 38 of this law, who have taken out a mortgage loan or credit intended for the acquisition of these premises or dwellings, may also obtain a moratorium for the mortgage loans or an extension of the repayment period in order to finance the amount of the acquisition of the premises or renovations to the premises or aforementioned dwellings.

- The moratoria on the repayments relating to mortgage loans and personal loans, and the extension of the repayment period of mortgage loans referred to in the previous paragraphs, are also applicable, on the same basis and with the same set time limit, to salaried persons who have been made redundant as a result of the health emergency caused by SARS-CoV-2, for as long as they are unemployed and receiving involuntary unemployment benefits, until the government declares the end of said emergency, by decree. Likewise, they also apply to self-employed persons whose principal activity has been mandatorily suspended by government decree, or who are subject to an on-call or standby regime by government decree, until the government declares otherwise by decree, on the understanding that once the mandatory suspension or the on-call or standby regime cease to be in force, it will be necessary to demonstrate a significant decline in turnover.

The granting of the moratorium on or before 30 June 2021 on mortgage loan or personal loan repayments, or the extension of the repayment period for mortgage loans, entails the extension of the repayment schedule of the loan or the maturity of the credit, and the non-application of the maturity clause in the loan or credit agreement during its period of validity. During the period of validity of the moratorium or extension, the bank may not demand the payment of the instalment nor any of the items forming part of it (repayment of capital or payment of interest).

48.2.5. Decree 323/2021 of 29 September 2021 regulating the repayment or loan conversion of outstanding debt corresponding to the first and second extraordinary guarantee programmes for companies and businesses due to the health emergency caused by the SARS-CoV-2 coronavirus.

The Decree of March 2020, and its subsequent amendments, instrumentalises two soft loans granted by banks to the economic fabric with the guarantee and payment of interest by the government. The first soft loan, for EUR 60 million, and the second, for EUR 70 million, were earmarked to cover operating costs and to refinance loan repayments of companies and self-employed workers, respectively.

The Decree of May 2020, and its subsequent amendments, approved a government-backed extraordinary guarantee programme, which will be formalised in the form of guaranteed financing facilities aimed at providing liquidity to the country's companies and businesses to respond to the payment of staff expenses, the cost of utilities and leasing on commercial premises, the cost of fuel for transport and for the financing of loan repayments and possible investments to upgrade premises to serve the public in order to adapt them to the health requirements arising from the emergency caused by SARS-CoV-2. This second public guarantee programme has a total amount of up to EUR 100 million.

On 29 January 2021, the Government's Technical Commission (TC) automatically extended the maturities of credit facilities formalised in the year 2020, corresponding to the first and second extraordinary guarantee programmes, for a period of six months (in addition to the twelve-month repayment period) from the maturity date stated in the contract for the formalisation of the respective facilities.

Decree 323/2021 of 29 September 2021 aims to establish the procedure for the repayment or loan conversion of outstanding debt with banking institutions in the framework of the programmes of extraordinary guarantees granted to companies and businesses due to the health emergency caused by the SARS-CoV-2 coronavirus and regulated in the decrees of March and May 2020 and their subsequent amendments.

This decree establishes that:

- The natural or legal persons benefiting from the guarantee programmes must submit to their bank the request for the return or loan conversion for the outstanding debt within 30 days after the maturity date of the current debt for policies maturing before 31 December 2021 or 60 days before the maturity for all other policies. Beneficiaries of the guarantee programme that are deemed by the TC to remain in a temporary situation of liquidity stress due to the SARS-CoV-2 coronavirus are eligible for conversion of the outstanding debt into a loan.
- The TC automatically extends the maturities of credit policies maturing before 31 December 2021, up to a maximum of six months. This includes policies that have been extended in accordance with the TC decision of 29 January 2021 and that mature before 31 December 2021. The beneficiaries who opt to repay the credit policies will be able to use the new maximum period of six months to repay the debt. For policies maturing before 31 December 2021, they will do so within the maximum period of six months granted in the first paragraph of this article, and no later than fifteen days before the new extended maturity of the policies. For policies maturing on or after 1

January 2022, the TC approves the loan conversion or denies it within 60 days from the date of submission of the application.

- Loan operations constituted under this decree must comply with the operational characteristics set out in the body of the document (term of the conversion, monthly amortisation, rates and fees applied, reason for early maturity, etc.).

- On a quarterly basis, the banking institutions must submit a list of the current lending operations to the Government Public Accounts Department, the Technical Commission and the Andorran Financial Authority (AFA). On the final maturity of the loan, coinciding with the payment of the last instalment, the Government Public Accounts Department is notified of the cancellation of the loan and the guarantee.

48.2.6. Sector moratoria

In the context of the health emergency caused by SARS-CoV-2, on 11 June 2020, the member institutions of the Andorran Banking Association approved at their general assembly a private and contractual sector-specific moratorium to provide a mechanism to defer loan or credit repayments for those customers financially affected by COVID-19.

The configuration, scope, effect and regulations of the private sector-specific moratorium adopted are subject to the guidelines on the treatment of public and private moratoria approved by the European Banking Authority on 2 April 2020 and amended on 25 June 2020.

The sector agreement foresaw that the moratoria could be requested from the different banking institutions, complying with a series of subjective and objective requirements, up to 31 July. On 17 July, by means of an addendum to the sector agreement, the deadline for applying for the moratoria was extended to 30 September 2020.

However, on 11 December 2020, by means of an addendum to the sector agreement, the deadline for applying for the moratoria was extended to 31 March 2021 and it was established that the moratorium period for payments under loan or credit agreements resulting from the application or reapplication of the overall moratorium period could not exceed a maximum duration of 9 months (with the exception of modifications to payment schedules agreed before 30 September 2020, which are not subject to this 9-month restriction).

48.3. 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 personality, is of Andorran nationality and of a private nature. The Foundation is registered in the Register of Foundations in accordance with Law 11/2008 of 12 June under number 7/2010.

The Foundation, which is a non-profit organisation, aims to contribute to the improved quality of Andorra’s economic, cultural and social life by assuming, planning, funding and achieving specific goals. Among these goals, of particular note is the awarding of study scholarships to deserving individuals, in order to help them obtain the best possible education in any area that may have an impact on the improvement of the country’s economic, scientific, educational, cultural and service structure.

During 2021, and always with the aim of adapting its actions to the needs of the country, the activities carried out by the Fundació Privada Crèdit Andorrà were focused on three main areas: social activities, especially aimed at the elderly and organisations working with disabled people; educational activities, especially the awarding of scholarships; and cultural activities, with a particular emphasis on educational aspects and all areas directly related to the country, its history and its natural environment.

49. Subsequent events

49.1. Managing the effects of the COVID-19 pandemic

On 11 March 2020, the World Health Organization raised the level of the health emergency caused by the outbreak of the coronavirus (COVID-19) to a global pandemic. The evolution of events, both nationally and worldwide, caused an unprecedented health crisis that has affected the macroeconomic environment and business development. To combat this situation, the Government of Andorra has established a series of exceptional measures to mitigate the economic and social impact of the pandemic (see Note 48.2).

The evolution of the pandemic is affecting the Group's overall business and operations. The effects in the coming months are uncertain and will largely depend on how the pandemic evolves and spreads.

49.2. Acquisition of Vall Banc, SA

On 11 February 2022, having received the relevant authorisations from the Andorran and Spanish supervisory bodies, and after the split-off of the customer non-performing or write-off debt positions and the real estate assets foreclosed or received in payment of debts, Crèdit Andorrà formalised the acquisition of 100% of the share capital of Vall Banc, SA, an entity which until then had been owned by the J.C. Flowers & Co fund, thereby ratifying the agreement announced in September 2021.

Vall Banc, SA is the parent company of the Vall Banc Group, which had the following investees at the date of acquisition: Vall Banc Fons, SAU (100%), Vall Banc Assegurances, SAU (100%), Serveis i Mitjans de Pagament XXI, SA (20%) and Argenta Patrimonios, EAF, SL (90%).

The price paid by Crèdit Andorrà for Vall Banc, SA was EUR 60 million, an amount lower than the equity of the acquired company. Crèdit Andorrà is currently estimating the allocation of the price paid to the assets and liabilities of the acquired business.

With this acquisition, Crèdit Andorrà consolidates its leadership of the Andorran market and accelerates the fulfilment of the objectives included in its 2021-2023 Strategic Plan.

49.3. Acquisition of GBS Finanzas Investcapital, A.V., S.A

On 24 January 2022, having received the relevant authorisations from the Andorran and Spanish supervisory bodies, Banco Alcalá, SA acquired 100% of the share capital of the securities firm GBS Finanzas Investcapital, AV, SA (315,790 shares each with a nominal value of EUR 1). This operation is part of the Group's growth project and is not limited only to the purchase of the shares of the securities firm, but rather it is aimed at the acquisition of a new line of business.

49.4. Ukraine-Russia Conflict

Russia's invasion of Ukraine is causing, among other effects, an increase in the price of certain commodities and the cost of energy. This is in addition to the activation of sanctions, embargoes and restrictions on Russia itself, which are affecting the overall economy and companies with operations with and within Russia specifically. The degree to which this war will have an impact on the company's business will depend on the development of future events, which cannot be reliably predicted at the date of preparation of these financial statements. In any case, despite the uncertainty, the company's directors do not expect this situation to lead to non-compliance with the relevant contractual obligations of the company and will not affect compliance with the going concern principle.

49.5. Other subsequent events

In addition to the events detailed in this note, as well as those that may be included in the other notes to these financial statements, there have been no further significant events during the period between 31 December 2021 and the date of preparation of these consolidated financial statements.

Appendix I - Holdings in companies consolidated by full integration

Appendix I, which is an integral part of Note 3, includes the breakdown of the subsidiaries, consolidated by full integration and using the equity method, that make up the Crèdit Andorrà Group at 31 December 2021 and 2020.

Appendix I.1 - Holdings in companies consolidated by full integration - 31 December 2021

Company	Registered Office	Activity	% voting rights Direct	% voting rights Indirect	% voting rights Total	Thousand euros Net book value	Thousand euros Assets 31.12.21	Thousand euros Liabilities 31.12.21	Thousand euros Equity 31.12.21	Thousand euros Result 31.12.21
Credi-Invest SA	Andorra	Fund Manager	100.0%		100.0%	744	7,873	1,665	6,208	5,210
Crèdit Iniciatives SA	Andorra	Venture Capital	100.0%		100.0%	8,459	19,328	7,457	11,871	2,640
Patrigest SAU	Andorra	Holding	100.0%		100.0%	7,362	19,328	7,457	11,871	2,640
Cassamanya Ltd.	Malta	Instrumental		100.0%	100.0%	-	-	37	-37	-75
Crèdit Capital Immobiliari SA	Andorra	Instrumental	100.0%		100.0%	122,668	124,983	308	124,675	1,681
Crèdit Andorrà Panamá Holding SA	Panama	Holding	100.0%		100.0%	14,102	13,566	441	13,124	-
Banco Crèdit Andorrà (Panamá) SA	Panama	Banking		100.0%	100.0%	10,551	186,892	167,133	19,759	1,143
Crèdit Andorrà Panamá Patrimonial SA	Panama	Holding		100.0%	100.0%	2,942	2,960	5	2,955	7
Crèdit Andorrà Panamá Call Center SA	Panama	Inactive		100.0%	100.0%	5	5	-	5	-
Private Investment Management Advisors Panamá SA	Panama	Investment advisory		100.0%	100.0%	44	904	290	614	174
Informàtica Crèdit Andorrà SLU	Andorra	Instrumental	100.0%		100.0%	33,368	45,767	10,186	35,581	-822
Banque de Patrimoines Privés SA	Luxembourg	Banking	100.0%		100.0%	37,618	808,282	749,962	58,320	568
Banco Alcalá SA	Spain	Banking	81.9%		81.9%	36,690	380,957	345,748	35,208	-196
Gesalcalá SA	Spain	Fund Manager		81.9%	81.9%	2,581	3,827	1,513	2,314	-263
CA Holding Luxembourg SARL	Luxembourg	Holding	100.0%		100.0%	12,505	12,722	28	12,694	-46
Crèdit Andorrà Asset Management Luxembourg SA	Luxembourg	Fund Manager		100.0%	100.0%	400	930	280	650	89
Crèdit Andorrà Holding España SAU	Spain	Holding		100.0%	100.0%	10,638	10,710	59	10,651	292
CA Vincles Actuarial Chile SPA	Chile	Actuarial advisory		100.0%	100.0%	-	-	-	-	-
CA Perú SAC (in liquidation)	Peru	Securities firm		100.0%	100.0%	-	4	54	-51	53
CA México Asesores Patrimoniales SA de CV	Mexico	Investment advisory		100.0%	100.0%	-	824	6,894	-6,070	-56
Beta Capital Securities LLC	United States	Securities firm	100.0%		100.0%	35,850	45,458	28,903	16,555	600
Crèdit Andorrà US GP LLC	United States	Holding	100.0%		100.0%	6,091	1,578	38	1,540	-454
Beta Capital Management LLC	United States	Investment advisory		100.0%	100.0%	-3,418	2,493	673	1,820	1,322
Crèdit Assegurances SAU	Andorra	Insurance	100.0%		100.0%	9,000	305,724	271,839	33,885	3,984
CA Vincles Actuarial SLU	Andorra	Actuarial advisory	100.0%		100.0%	3	1,258	142	1,115	29
Financera d'Assegurances SA	Andorra	Insurance		12.8%	12.8%	2,852	19,058	12,469	6,589	1,005
Consell Assegurador SA	Andorra	Insurance		10.2%	10.2%	464	123	6	117	14
Enterprise Risk Management SA	Spain	Insurance broker	10.0%	90.0%	100.0%	3,667	11,371	1,024	10,347	6,774
Línia Asseguradora Andorrana SL	Andorra	Insurance		12.8%	12.8%	288	106	34	72	29

Appendix I.2 - Holdings in companies consolidated by full integration - 31 December 2020

Company	Registered Office	Activity	% voting rights Direct	Indirect	Total	Thousand euros Net book value	Assets 31.12.20	Liabilities 31.12.20	Equity 31.12.20	Result 31.12.20
Credi-Invest SA	Andorra	Fund Manager	100.0%		100.0%	744	11,642	4,153	7,489	2,617
Crèdit Iniciatives SA	Andorra	Venture Capital	100.0%		100.0%	8,459	19,931	9,550	10,381	-647
Patrigest SAU	Andorra	Holding	100.0%		100.0%	7,362	19,931	9,550	10,381	-647
PIM Private Investment Management SA (in liquidation)	Switzerland	Investment advisory		100.0%	100.0%	-	661	16	645	-281
Cassamanya Ltd.	Malta	Instrumental		100.0%	100.0%	3	-	58	-58	-
Crèdit Capital Immobiliari SA	Andorra	Instrumental	100.0%		100.0%	122,668	123,730	487	123,243	457
Crèdit Andorrà Preference Ltd. (in voluntary liquidation)	Cayman Islands	Financial	100.0%		100.0%	1	2	-	2	-
Crèdit Andorrà Panamá Holding SA	Panama	Holding	100.0%		100.0%	13,016	12,521	407	12,113	-
Banco Crèdit Andorrà (Panamá) SA	Panama	Banking		100.0%	100.0%	9,738	155,414	138,277	17,137	987
Crèdit Andorrà Panamá Patrimonial SA	Panama	Holding		100.0%	100.0%	2,715	2,724	3	2,721	-4
Crèdit Andorrà Panamá Call Center SA	Panama	Inactive		100.0%	100.0%	5	5	-	5	-
Private Investment Management Advisors Panamá SA	Panama	Investment advisory		100.0%	100.0%	41	495	95	399	7
Informàtica Crèdit Andorrà SLU	Andorra	Instrumental	100.0%		100.0%	33,368	53,138	16,735	36,402	25
Banque de Patrimoines Privés SA	Luxembourg	Banking	100.0%		100.0%	37,618	744,643	685,009	59,634	3,445
Banco Alcalá SA	Spain	Banking	81.9%		81.9%	36,690	319,315	283,351	35,965	363
Gesalcalá SA	Spain	Fund Manager		100.0%	100.0%	2,581	3,513	901	2,612	-122
CA Holding Luxembourg SARL	Luxembourg	Holding	100.0%		100.0%	12,505	12,784	44	12,740	-83
Crèdit Andorrà Asset Management Luxembourg SA	Luxembourg	Fund Manager		100.0%	100.0%	400	5,173	4,332	841	-223
Crèdit Andorrà Holding España SAU	Spain	Holding		100.0%	100.0%	10,638	10,419	59	10,360	-9
CA Vincles Actuarial Chile SPA	Chile	Actuarial advisory		100.0%	100.0%	85	85	1	84	-
CA Perú SAC (in liquidation)	Peru	Securities firm		100.0%	100.0%	-	4	46	-42	-231
CA México Asesores Patrimoniales SA de CV	Mexico	Investment advisory		100.0%	100.0%	-	512	6,212	-5,700	9
Beta Capital Securities LLC	United States	Securities firm	100.0%		100.0%	32,681	31,459	17,164	14,295	1,602
Crèdit Andorrà US GP LLC	United States	Holding	100.0%		100.0%	5,622	2,335	672	1,663	-684
Beta Capital Management LLC	United States	Investment advisory		100.0%	100.0%	-1,630	2,412	486	1,926	1,288
Crèdit Assegurances SAU	Andorra	Insurance	100.0%		100.0%	9,000	300,434	270,505	29,929	1,695
CA Vincles Actuarial SLU	Andorra	Actuarial advisory	100.0%		100.0%	3	1,186	99	1,087	36
Actiu Assegurances SA	Andorra	Insurance		44.7%	44.7%	899	9,197	5,504	3,693	174
Consell Assegurador SA	Andorra	Insurance		35.7%	35.7%	464	108	5	103	10
Enterprise Risk Management SA	Spain	Insurance broker	10.0%	90.0%	100.0%	3,667	5,397	1,524	3,873	272
Enterprise Risk Special Management, SL	Spain	Insurance broker		45.9%	45.9%	3,471	13,854	842	13,013	765
Enterprise Risk Management Consultoría SA	Spain	Insurance broker		45.9%	45.9%	60	115	30	85	37
ERSM Insurance Brokers Correduría de Seguros y Reaseguros S.A.U.	Spain	Insurance broker		45.9%	45.9%	12,701	14,203	10,203	3,999	1,882

Appendix I.3 - Holdings in companies consolidated by equity method - 31 December 2021

			% voting rights controlled by the bank			Thousand euros					
								Subsidiary data			
Company	Registered Office	Activity	Direct	Indirect	Total	Equity-method value	Net book value	Assets 31.12.21	Liabilities 31.12.21	Equity 31.12.21	Result 31.12.21
Clíniques Geriàtriques SA	Andorra	Services for the elderly		25.0%	25.0%	1,991	1,991	7,965	-	7,965	296
Societat Pirenaica d'Aparcaments SA	Andorra	Car parking operation		25.0%	25.0%	187	187	749	-	749	169
CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU	Spain	Insurance	44.0%		44.0%	4,660	4,660	28,817	18,458	10,358	401
Ca Vida Assegurances SAU	Spain	Insurance		49.0%	49.0%	22,321	22,321	13,981	6,426	7,554	4,222
Actiu Assegurances SA	Andorra	Insurance		24.9994%	24.9994%	1,078	-	29,821	18,441	11,380	1,345
Assegur SA	Andorra	Insurance		50.0%	50.0%	1,858	1,858	3,527	1,257	2,270	265
Assegur Diversos	Andorra	Insurance		12.5%	12.5%	2,286	7,195	19,288	13,758	5,530	1,841
Grup Setap 365	Andorra	Sports management	39.8%		39.8%	44,470	44,470	111,729	-	111,729	-
Serveis i Mitjans de Pagament XXI SA	Andorra	POS services	20.0%		20.0%	101	92	506	-	506	159
						78,953	**82,774**				

Appendix I.4 - Holdings in companies consolidated by equity method - 31 December 2020

			% voting rights controlled by the bank			Thousand euros					
								Subsidiary data			
Company	Registered Office	Activity	Direct	Indirect	Total	Equity-method value	Net book value	Assets 31.12.20	Liabilitie s 31.12.20	Equity 31.12.20	Result 31.12.20
Clíniques Geriàtriques SA	Andorra	Services for the elderly		25.0%	25.0%	2,034	2,034	8,137	-	8,137	468
Societat Pirenaica d'Aparcaments SA	Andorra	Car parking operation		25.0%	25.0%	146	146	584	-	584	169
CA Life Insurance Experts, Compañía de Seguros y Reaseguros SAU	Spain	Insurance		46.0%	46.0%	4,483	4,483	29,223	18,869	10,354	386
Ca Vida Assegurances SAU	Spain	Insurance		49.0%	49.0%	22,258	22,258	14,966	7,506	7,460	4,093
Financera d'Assegurances SA	Andorra	Insurance		20.3%	20.3%	2,798	2,002	19,584	13,340	6,244	1,208
Línia Asseguradora Andorrana SL	Andorra	Insurance		10.3%	10.3%	29	29	108	51	58	16
Compass Capital SL	Spain	Insurance		11.5%	11.5%	2	2	22	16	6	-31
Concatsa Correduría de Seguros, SL	Spain	Insurance		13.7%	13.7%	81	81	273	-	273	198
Grup ERSM Insurance Brokers (subsidiaries with eq. met.)	Spain	Insurance		<50%	<50%	2,800	2,800	14,203	10,203	3,999	1,882
Assegur SA	Andorra	Insurance		50.0%	50.0%	1,724	1,724	3,298	1,296	2,002	338
Assegur Diversos	Andorra	Insurance		22.3%	22.3%	8,445	7,195	17,153	13,025	4,129	2,500
Esports de Neu Soldeu-Incles SA	Andorra	Sports management	49.6%		49.6%	29,497	16,837	59,510	-	59,510	-4,911
Serveis i Mitjans de Pagament XXI SA	Andorra	POS services	20.0%		20.0%	52	92	258	-	258	69
						74,350	**59,683**				

Appendix II – Annual report

This annual report has been prepared in compliance with the provisions of Article 90 of Law 35/2018 of 20 December on solvency, liquidity and prudential supervision of banking institutions and investment firms of the Government of Andorra.

The criteria used for the preparation of the report for financial year 2021 are detailed below.

a. Name, nature of business and geographical location

Crèdit Andorrà SA, with registered office and fiscal address in Andorra, at Avinguda Meritxell, 80, Andorra la Vella, was authorised in 1949 as a public limited company with the corporate purpose of engaging in banking activities.

Crèdit Andorrà SA is established in Andorra, has no foreign branches or representative offices, and has a network of 10 physical branches distributed throughout Andorra.

Appendix I lists the companies that comprise the Group, including, among other information, their name, geographical location and nature of business.

b. Business volume, gross pre-tax result and income tax

For the purpose of this report, business volume is defined as net operating income; gross pre-tax result as gains or losses before tax; and income tax as expenses or income from taxes on gains, in accordance with how these items are presented in the consolidated profit and loss account and excluding intercompany activities.

c. Number of full-time equivalent employees

The full-time workforce at 31 December 2021, distributed by country, can be seen in the accompanying table.

d. Public subsidies received

During 2021, the Group has not received any significant public subsidies or grants intended for the financial sector aimed at promoting the development of the banking business.

e. Return on assets

At 31 December 2021, the return on assets for the Group, calculated by dividing the “Gains or losses for the year” by the “Total assets”, is 0.62%.

	Thousand euros			
	Subsidiary data			
Jurisdiction	Business volume	Number of employees	Pre-tax result	Income tax
Andorra	113,747	467	23,927	1,916
Spain	25,906	81	5,748	-1,754
Luxembourg	19,284	104	1,103	491
Panama	4,946	37	1,341	15
United States	9,761	41	1,890	422
Mexico	1,138	12	-56	-
Peru	-	-	53	-
Switzerland	-	-	-	-
Malta	-	-	-75	-
Group Total	**174,782**	**742**	**33,931**	**1,090**

Credit Andorrà Group financial statements

Mr Antoni Pintat Mas
Chairman

Mr Jaume Casal Mor
Vice Chairman

Mr Xavier Cornella Castel
CEO

Ms Rosa Pintat Santolària
Board member

Mr Alfons Casanova Martí
Independent board member

Mr André Roelants
Independent board member

Andorra la Vella, 30 March 2022

Crèdit Andorrà Financial Group

www.creditandorragroup.com