Annual report 2019

ANDBANK
Private Bankers

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00 / Key Figures

Key figures

Financial group founded in 1930. Preserving and growing the wealth of our customers is our only goal. Our customers' trust is our most valuable asset.

6
Banking licenses

3
Asset Managers

5
Fund Managers

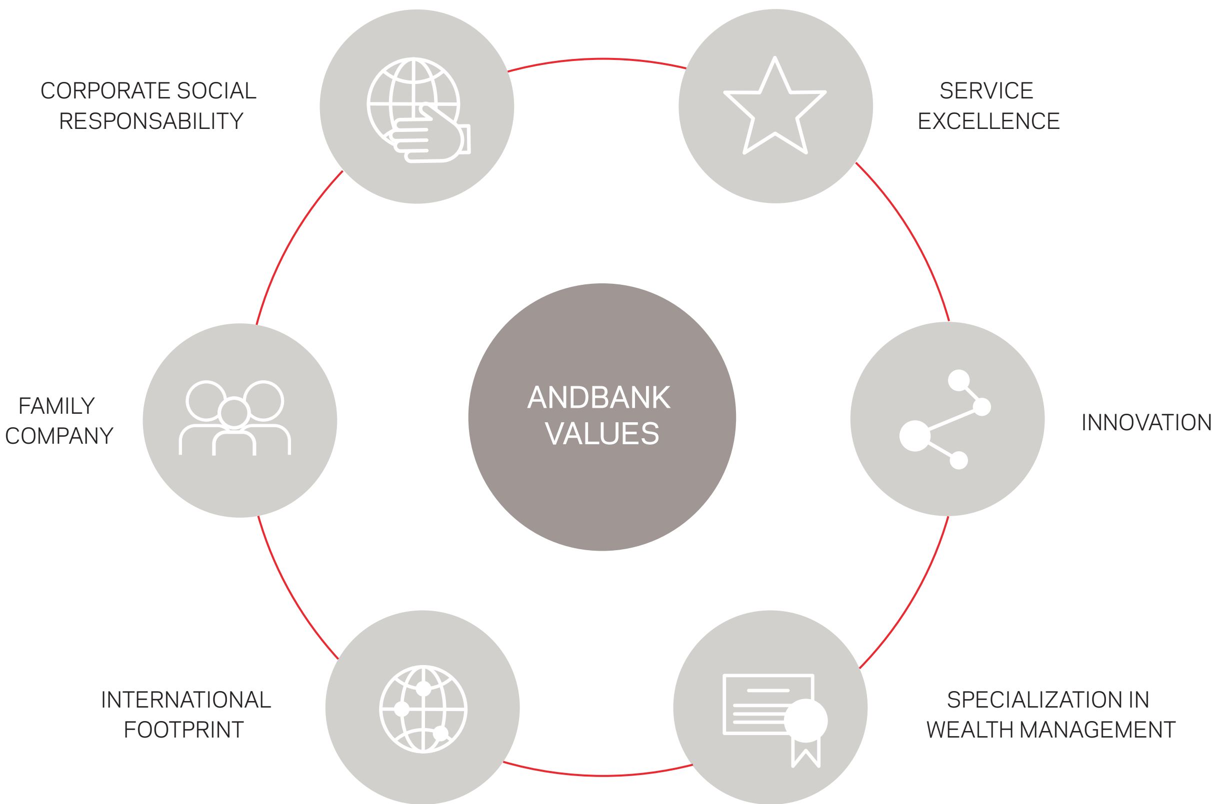
1,055
Employees

37
Nacionalities

Vision

Consolidate ourselves as a leading and recognized private family bank in the reference markets of Europe and Latin America and among the affluent and wealth segments for our wealth management, based on a long-term value creation strategy and a commitment to innovation.

Andbank Values



Key Figures

23,842 M€	267.33 %
AUM	**Liquidity LCR**
537 M€	16.04 %
Core Capital	**TIER 1**
28 M€	2.93 %
Net profit	**NPL Ratio**
1,611 M€	5.4 %
Investment stood	**ROE**
BBB	14.33 %
Fitch Ratings	**ROTE**
Stable	
Outlook	

2019 Awards

01/ Letter from the Chairman

Letter from the Chairman

This letter is written in early 2020, amid an unprecedented global health crisis, one that is sure to change the way we interact with one another, that forces us to think how we can reinvent ourselves in the new economic and financial environment, and that will have a lasting impact on society, health and the economy. In this complex, unpredictable context, all social and economic actors face the challenge of learning to operate within a new global framework.

In operational terms, the Andbank Group is in the best possible position to weather this crisis, with an advanced technological platform that allows us to continue to conduct our business as normal, even in the context of social distancing.

At the global level, 2019 was marked by a slowdown in GDP growth, which ended the year at 2.3%, down from 3% in 2018. Following the same trend, GDP growth in the euro area in 2019 was 1.2%, down from 1.8% in 2018. In Spain, GDP grew 2% during 2019, slightly below the 2.4% rate recorded in 2018. Also in 2019, the GDP of Latin America grew at a rate of 0.6%, which represents a slowdown of one percentage point compared to 2018. In Brazil, GDP grew 1.1% in 2019, two-tenths below the rate recorded in 2018.

Another important issue during the year was Brexit. The negotiations over the United Kingdom's withdrawal from the European Union dominated the European political agenda throughout much of 2019, ending with a sufficient parliamentary majority to approve the exit agreement. The challenge for 2020 will be to negotiate the future trading relationship, a complex, long-drawn-out process that may require a further extension beyond the initial extension, which expires in December 2020.

In the financial sector, the year was marked by strong credit market performance across all categories. The earnings of European banks remained stable, thanks to growth in business volume as well as in fee and commission income. Asset quality was generally robust and the ratio of non-performing loans was reduced. The average CET 1 ratio of the European financial sector on a fully phased-in basis continued to rise, reaching 14.8% at the end of 2019.

In our immediate environment, Andorra's banking sector has taken important steps to become a major player in the international arena. On the one hand, it has made progress in seeking accession to the International Monetary Fund; on the other, it has stated openly its willingness to sign an association agreement with the European Union that will give the Principality access to the European internal market.

In this context, 2019 was a year of technological migration which not only made us more agile and efficient and improved our control and management but, at the same time, allowed us to standardise our operations across jurisdictions. This continues to be a key project requiring a high level of employee participation, of which I am proud, because the results are testimony to a noteworthy group effort.

Turning to the key business performance indicators, having reached the midpoint of our 2018-2021 strategic plan, I would like to point out that we ended 2019 with a record volume of customer funds, nearly 24,000 million euros. During the year, we made a net profit of over 28 million euros, with a ROE of 5.4%. Moreover, these results have allowed us to maintain our strong capital and liquidity structure, with a liquidity coverage ratio (LCR) of 267% and a non-performing loans ratio of 2.9%. Thanks to this structural strength, the Group's Tier 1 capital ratio on a fully phased-in basis reached 14.95%.

Our international business is crucial and increasingly well-established, thanks to the talent we have deployed in all the countries in which we are present.

I would therefore like to highlight the performance of Andbank Spain, which last year consolidated its leading position as one of Spain's top ten private banking franchises, with a record business volume of more than 10.5 billion euros and consolidated profit of 10.9 million euros.

Once again in 2019, our good results and strong capital and liquidity levels earned recognition from Fitch Ratings, which affirmed Andbank's long-term rating at BBB and its short-term rating at F3, in both cases with a stable outlook. Fitch also highlighted our institution's international diversification, high asset quality, strong capitalisation and resilient business model.

To conclude, I would like to emphasise our social awareness in the corporate environment. The fight against cancer remains a fundamental strategic pillar and goal for our institution. In 2019 we continued to support the SJD Pediatric Cancer Center in Barcelona, one of the top facilities in Europe for the treatment of childhood cancer, while continuing to collaborate with the Fero Foundation, which supports and promotes cancer research projects.

However, neither our good results nor our investment in technological transformation nor our contribution to the fight against cancer would be possible without the trust of our customers and the loyalty and support of our employees. For this reason, on behalf of Andbank's shareholders and Board of Directors, I would like once again to give them our deepest thanks.

We want to continue to deserve your trust in 2020, so will continue to work to the highest standards of rigour and professionalism, so as to deliver the best practices and the highest quality service to our customers, regardless of the environment in which we must operate.

Manel Cerqueda Donadeu
Chairman

02/ Economic Trends and Financial Markets 2019

Economic trends and financial markets 2019

External environment and global economic performance in 2019

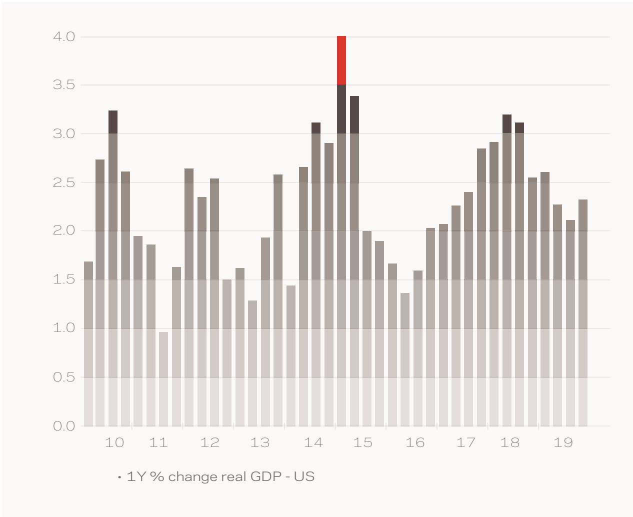
The outlook for world economic activity remained weak throughout much of the year, although there were constant signs of stabilisation, which allowed us to talk down the likelihood of global recession. At the global level, purchasing manager indices (PMIs) rose moderately in the last quarter of 2019. In particular, possibly marking the highlight of the year, the manufacturing component recovered in the fourth quarter worldwide, reviving the scenario of gradual improvement in global activity which had gradually weakened since 2018 as a result of the various trade disputes. At the same time, the services sector remained strong and started growing again in the last quarter.

To sum up, we could say that the risks to the global outlook persisted throughout much of the year, but as the year went on, they were less tilted to the downside. The so-called "Phase 1" partial trade deal between the United States and China brought a welcome easing of tensions. The deal was important because it was intended to foster changes in areas ranging from exchange rate policy to intellectual property protection and technology transfer. Washington made it clear that some of the tariffs then in force (those introduced in September 2019) would be halved and plans to impose further tariffs in December 2019 would be shelved. China agreed to drop the tariffs scheduled for December and will continue not to impose retaliatory tariffs on US-made cars and components.

United States

In the United States, economic growth continued during the second half of 2019. In the third quarter, real US GDP grew at an annualised rate of 2.1%. Despite the modest uptick from the 2% rate recorded in the second quarter, economic activity eased somewhat as the effects of the 2018 tax reform gradually faded and the business cycle matured. Risks to the outlook decreased in the US, too, although we always expected further moderation in activity in 2020. Although trade tensions with China eventually subsided, other bad news, such as Boeing's announcement that it will halt production of its 737 MAX aircraft indefinitely from January onwards, created new risk spots. Boeing's problems apart, the US economy continued to be somewhat weighed down by the prolonged trade uncertainty and sluggish global growth. Also, the widespread appreciation of the US dollar in recent years has done nothing to help the external sector have an accelerating effect on GDP.

US GDP growth
% YoY



Source: Refinitiv Datastream / ANDBANK

Eurozone

The growth of eurozone economic activity remained moderate throughout 2019. Even in the last part of the year, with fewer external risks, eurozone GDP continued to grow at a very moderate pace. Quarter-on-quarter growth in the third quarter of 2019 was 0.3%, up from 0.2% in the second quarter. The contribution of domestic demand and changes in inventory was slightly negative, while net external demand contributed positively. That said, the early economic indicators we monitor have consistently pointed to continued moderate yet positive growth. At no time have they signalled a risk of recession in 2019.

Eurozone labour markets remained strong throughout the year, albeit moderating their growth, as is normal. In the third quarter of 2019, employment grew 0.1% quarter-on-quarter, compared to 0.2% in the second quarter. Employment growth was widespread across countries and sectors: since mid-2013, employment has expanded for 25 quarters in a row and the number of people in employment at eurozone level has increased by around 11.4 million. Our projections (based on business opinion indicators) have been indicating that the employment figures would continue on a growth path, albeit increasingly moderate.

Business investment has remained contained, in a context of still high uncertainty and low profit margins, but has been supported by favourable financing conditions. We have been projecting a leap in investment as the external uncertainty dissipates.

Japan

In the last part of the year, Prime Minister Shinzo Abe's government announced a fiscal stimulus package aimed at addressing the downside risks arising from the weak external environment and recent natural disasters. The measures entailed fiscal expenditure equivalent to 2.4% of GDP, making this one of the largest packages approved in the context of the economic policy known as "Abenomics". Most of the stimulus measures will be put into effect in 2020-2021. One of the goals of these measures is to partly offset the recent increase in VAT. Manufacturing weakness throughout 2019 pushed growth into negative territory in the last quarter of 2019. Throughout the year we maintained the view that the Japanese economy should see modest positive growth in 2020, when the impact of the temporary factors disappears and the fiscal spending takes effect. Consumer price inflation accelerated slightly, with the headline rate rising to 0.5% in November. However, limited wage growth and expectations of stable, low levels of inflation indicated, throughout the year, that the reflation of the economy is losing momentum.

Emerging economies of Asia and EMEA

In **China**, the preliminary US-China trade deal removed some of the obstacles to Chinese economic activity and trade. The Chinese economy had already been showing signs of stabilisation and we expected it to move forward once the Phase 1 trade agreement with the United States was signed. The trade deal was supposed to support growth by improving net external demand and, above all, reducing uncertainty in trade relations. Inflation finally stabilised towards the end of the year at 4.5%, though remaining above the official target. The December figure was still high, due to high food price inflation driven by the swine fever outbreak and its impact on meat prices (which rose 97% year-on-year in December, compared to 110% in November). Excluding energy and food, inflation held steady at 1.4% at the end of the year.

In **India**, successive reforms have been introduced to modernise the economy. Even Prime Minister Modi's advisers seemed surprised by the transformation and the slew of liberalising reforms. There had been talk of reducing taxation for the middle class as a fillip to flagging consumer spending. Another long discussed "possibility" was that of relaxing the clearly outdated land laws and labour regulations (pending issues for Modi). Reports pointing to the privatisation of state assets (a measure now back on the reform agenda) proliferated (state-owned Air India would be put back on the market, but this time without the onerous conditions that initially deterred buyers). The government also prepared to submit for parliamentary approval the whole of its stake in four major public sector companies (including the sixth largest in sales, Bharat Petroleum). One of the purposes of selling state-owned assets is to help plug the fiscal gap, especially since structural reforms always take a few years to yield the desired results. Tax cuts and tax simplification (earlier reforms) always improve companies' profitability and help them maintain jobs. But companies only start to invest when they see the impact of those reforms on the economy as a whole (i.e. when consumer spending picks up), so it was foreseeable that it would be a year or two before a new wave of direct investment materialised. On a negative note, the credit squeeze in the informal banking sector (an essential source of small loans) continued, weighing heavily on GDP. The reason is that non-bank financial companies are still unable to obtain money from banks. The government recently instructed 32 large state-owned enterprises to accelerate their expenditure, so as to compensate for listless private sector spending. Coupled with the other fiscal measures, this could push up interest rates. This has always been a risk to be monitored because if bond investors withdraw, the rupee could come under pressure too, dragging the rest of India's financial assets into the hands of foreigners.

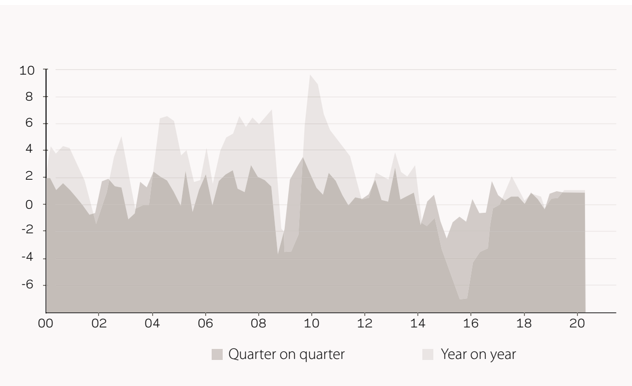
Latin America

In **Brazil**, exchange rate turbulence was unremitting throughout the year. Behind the turbulence lie a number of factors, including political instability in some neighbouring Latin American countries, the erratic progress of the reform agenda and a sharper than expected worsening of the external position. All these factors unquestionably exerted downward pressure on the Brazilian real, which reached a level well above four reais per US dollar. The fact that the October current account deficit was the second worst figure recorded for that month since 1995 (approximately USD 7.9 billion) is undoubtedly worrying. The deficit accumulated in the last 12 months has grown to 3% of GDP (compared to 2.3% in September), while FDI came out below the range of market expectations, without covering the gap during the month. Even so, the overall external outlook is not bad, as the final FDI figure for the last 12 months (4.4% of GDP) still comfortably covers the external current account deficit. The historically low levels of domestic interest rates have prompted outflows of portfolio investments (mainly in fixed income) and have encouraged companies to bring forward payment of their debt in foreign currency. These circumstances, coupled with a rapidly shrinking trade surplus, tend to cause the currency to depreciate. The demand for dollars among residents is partly explained by the political unrest following Lula's release but also by recent statements by Minister Guedes suggesting that people would do well to get used to a weak real, prompting speculation about possible voluntary devaluation measures. Another negative factor was the disappointing auction of oil concessions, due to the lack of interest on the part of US and European oil majors in bidding for the country's fields. Against this background, the BCB announced a series of spot market auctions to stabilise the currency but reaffirmed its intention to intervene only in the event of market failure or high volatility. It should be noted that the prices of other Brazilian assets did not change significantly during the year. Over period, the Brazilian currency depreciated by almost 13%, whereas the five-year CDS narrowed by almost 5 bps, revealing a great disparity in behaviour between Brazilian assets. On the political front, former Brazilian President Lula da Silva was released on 8 November, having spent 580 days in jail, after the Supreme Court ruled that defendants could only be imprisoned once all appeals to higher courts have been exhausted. Lula's release will further exacerbate the polarisation in the 2020 municipal elections.

The main social criticisms have to do with economic policy and high unemployment. However, we do not see Lula as a viable candidate for the 2022 presidential election. On 12 November, President Jair Bolsonaro decided to leave the Social Liberal Party (PSL) and form another party, the Alliance for Brazil. Bolsonaro has already launched the strategy for his re-election in 2022. The planned fiscal and administrative reforms have been postponed to 2020.

Economy and central bank: The economic estimates in the Focus Report reflected improvements in growth forecasts and falls in inflation for Brazil. The consensus GDP forecast for 2019 was revised upwards, from 0.88% to 0.92% year-on-year, due to a slight improvement in activity data. The GDP forecast for 2020 was raised to 2.08%, although industrial confidence indicators struggled to gain momentum, due to the persisting perception that a global slowdown was on the cards. The consensus forecasts for long-term interest rates show stability for 2020, linked to the anchoring of inflation expectations.

Brazil GDP
Porcentage changes



Source: Refinitiv Datastream / ANDBANK

In **Mexico**, Banxico decided to cut the reference interest rate by 25 bp to 7.50% at the end of the year. Overall, the monetary authorities' statement was moderate, as they distanced themselves from the US Federal Reserve and left the door open to further rate cuts. This favours the debt market. Third quarter inflation in Mexico supports our thesis of a moderate central bank, as the general price index remained at 3% per annum, its long-term target. The anchoring of prices is the result of controls on agricultural products and petrol, with some of these sub-indices having reached low levels (in year-on-year terms) compared to the past. Monetary policy will drive interest rates down, as any uptick in prices will be the result of the removal of an electricity price subsidy in the north of the country. Public finances and politics appeared not to pose a risk for the country during 2019. The 2020 budget was passed, with an approved primary surplus unchanged at 0.7%. Recent public finance data show a continuing decline in revenue, partly offset by lower execution of budgeted expenditure. However, the government was forced to use half of a Stabilisation Fund (some MXN 150 billion) to balance budget execution in the last quarter of 2019.

Pemex appeared to have stopped being a risk. The successful placement of the Pemex debt issue to modify the company's maturity profile substantially improved perceptions of the risk associated with the company, although the credit rating agencies have not yet reviewed the company's ratings.

In **Argentina**, the newly elected president has begun his term of office, but uncertainties remain as to the economic measures that will be adopted. The incoming government will need to show from day one that it has an economic plan. So far, tax increases (wealth tax, export duties, import taxes, etc.) seem to be the order of the day, in an attempt to send the message that this government also intends to keep public finances under control. However, there has been no announcement of a cut in public spending. The higher tax burden may certainly put the public finances on a stronger footing in the short term, but acting only on the revenue side can be inconsistent. When it comes to solving the debt puzzle, the question everyone is asking is, how and when? Net debt as a percentage of GDP (offset by net intra-governmental debt balances) is around 60%, which on the face of it seems manageable. The first challenge to be tackled is the debt in ARS (USD 15 billion until May 2020); then the debt issued in USD under Argentine law; and last but not least, the debt with the IMF and that issued under foreign law. Despite Fernández's initial stance of trying to solve the problem simply by extending the maturity of short-term debt (the path followed by Uruguay in 2003), Argentine politicians seem to have insufficient economic incentive to follow the Uruguayan path (as they need to reduce interest payments, which today represent 3% of GDP). In our opinion, we can expect: i) an extension for the payment of principal (5 to 10 years); ii) a haircut on the principal (probably 20%); and iii) a reduction of the coupon. In this regard, we believe the nominal reduction will be limited, as Argentina needs to return to the capital markets as soon as possible to attract foreign investment after years of meagre capital formation.

The current indecision over the debt renegotiation continues to cause a decline in Argentine sovereign bonds, while provincial and corporate bonds continue to show, on average, a recovery trend. That said, we expect higher recovery values, with considerable upside potential from current levels, driven by a lower haircut than is implied in current prices and the real possibility that debt will enter a sustainable path. The BCRA's decision to allow a more flexible exchange rate regime may facilitate this. The announcement states that if a foreign company invests in Argentina in pesos, the BCRA will guarantee access to the foreign exchange market when transferring profits abroad (up to 30% of the fixed investment).

Financial market performance in 2019

Equity markets

2019 was an extraordinary year for stock index performance, reported here in order of appreciation. In China, the Shenzhen surged 36%, while Shanghai rose 22.3%. In the US, the S&P 500 climbed 29%. In Brazil, the iBovespa soared 31.6%. In Europe, the Stoxx Europe 600 rose 23.2%. The Japanese Nikkei gained 18.2%. In India, the Sensex rose 14.4%. Spain's Ibex gained 12%. And in Mexico, the CPI index rose 4.6%.

Government bond markets

2019 was also an extraordinary year for benchmark (10-year) government debt securities, most of which combined price gains (due to declines in yield) with positive carry. The US Treasury bond gained 8.8% (with the IRR falling from 2.7% to 1.9%). The UK Gilt gained 4.9%. The Bund delivered a yield of 3.6%. The Japanese bond, in contrast, lagged behind, offering 0.2%.

In peripheral debt, the Italian bond offered a yield of 13.5%. Portugal +12%. Greece +27.4%. Spain +9.1%. Ireland +7.3%.

Among emerging market bonds, the best performer was the Turkish government bond (in local currency), which offered a yield of +47.4%. Russia yielded +28.4%. Brazil in local currency yielded +28.4% (+15.8% on the USD bond). The Mexican bond yielded +22.9% in local currency, and 17.5% for its USD-denominated version. In Asia, the Indian bond yielded +13.9% and the Philippines bond, 27.9%. China offered a moderate 3.4%.

Corporate bond markets

Investment grade corporate bonds denominated in euros offered a net yield of +1.9% (between price effect and coupon). In contrast, HY bonds in euros offered +7.9%. In the dollar universe, IG bonds gained 4.7%, while HYs gained a substantial 12.1%.

Commodity markets

Oil performed positively in 2019, rising 34% (from USD 45.4/bbl to USD 61.1/bbl for WTI).

Gold rose 18% in 2019 to USD 1,517/oz.

Foreign exchange market

In 2019, the euro depreciated 2.3% against the USD. The pound sterling gained against the greenback (+3.94%). The Swiss franc rose +1.4% against the USD and the yen rose +0.8%. The Mexican peso held up well, rising 3.6%. The Brazilian real, however, fell 3.57%. The Chinese yuan remained stable, with an increase of 1%.

03 / Global Economy and Financial Markets Outlook 2020

Economic and financial market outlook 2020

Eurozone

After the Covid-19 outbreak, we expect gradual (but not homogeneous) easing of restrictions from May, with Germany leading the way on 3 May, followed by France on 11 May. The lifting of restrictions will depend on improvements in the statistics of the pandemic, but also on the growing anxiety of the population, fearful of losing their jobs. A V-shaped recovery could lose ground if the lockdown measures remain in place until June or if some countries lag behind in their exit strategies. This will determine the strength of the rebound. Any delay in the return to normal will have an exponential effect on the economic damage caused to business, so hiring could also fall below the level required to recover the production levels seen before the Covid-19 crisis.

Second-round effects, such as the destruction of confidence among consumers and businesses, will be felt most strongly in the countries that wait longest before reopening their economy. Generally speaking, the crisis has led to higher savings rates and private deleveraging, which can be expected to continue to drag on the economy, as those returning to work are also likely to change their consumption patterns. Social distancing restrictions will therefore play a key role, leading to a faster or slower recovery and thus to a less uniform reactivation among the European countries. There could be "permanent losses" that are difficult to estimate today. We project 2020 eurozone GDP growth in the range of -6% to -10%.

The comprehensive measures taken by the ECB, combined with the new, flexible fiscal approach, may cushion the devastating effects of keeping the economy closed for several months. The ECB has already deployed large-scale purchases, which so far have been clearly biased towards the purchase of Italian assets. These purchases will continue to be necessary for much of the year, owing to growing funding needs. While it is difficult to expect further action from the ECB, the consensus stipulates a further increase in the asset purchase programme (from the current €750 billion to €1.2 trillion). The will to do more on the fiscal front is also a factor and there seems to be no obstacle today for governments to put new proposals on the table. For the time being, on the fiscal front, the average fiscal boost has been around 3-4% of GDP (mainly through subsidy schemes and job retention). Additional aggregate-level support has come from the ESM credit lines for medical care (up to €240 billion), a pan-European guarantee fund that allows the EIB to increase its loans by €200 billion (with a focus on SMEs) and an unemployment support programme of around €100 billion. While we await further details of the battery of measures adopted, it seems obvious that these are impressive figures, although they fall far short of the stimuli applied in the US. Further steps were expected at the Eurogroup meeting on 23 April, from which there emerged the idea of a "temporary, specific and commensurate" recovery fund, which could amount to some €1-1.5 billion. The issue was discussed but, as of the date of this report, the final amount and form of the transfers had not yet been agreed.

United States

It is estimated that between 25 and 30 million jobs could be lost during the first few months of the pandemic, temporarily raising the unemployment rate to 20%. It remains to be seen what percentage of the lost employment will be recovered, but the consensus among analysts puts the unemployment rate in the post-Covid period at around 10%, a level that is expected to be maintained until a vaccine becomes available. If that is true, household spending will shrink considerably, dragging down GDP. As early as March we learned that total sales of retail services were down 8.7%, a drop not seen since 1967.

The sharp fall was not limited to consumer spending. Manufacturing also posted a fall of 5.4% in March and housing construction saw sharp declines. The projections for April are even worse and our expectation is that we will only begin to see a slight recovery in May. The Trump administration's plans to reopen the economy provide guidelines for the states least affected by Covid-19 to accelerate the process. It is a multi-phase programme, with targets that are relatively easy to achieve, but leaves the final decision as to when and how to return to normal in the hands of the states. California seems the one most likely to reopen early. In other areas, such as New York, restrictions have been extended until mid-March, with the possibility of extending the state of emergency until June. Political pressure in an election year is undoubtedly a factor to be taken into account. There has already been civil protest in some states in April, with an increasing number of citizens demanding to return to work.

The Fed cut interest rates by 150 bps in just two steps, bringing them to 0% soon after the start of the Covid-19 crisis, while providing very flexible policy guidance for the rest of the year. The Fed also deployed a major US Treasury bond purchase programme to finance government spending policies aimed at sustaining the economy. The asset purchase programme would be "in the amounts necessary to support the smooth functioning of the market and the effective transmission of monetary policy".

The US Treasury, meanwhile, has deployed a battery of unprecedented programmes. The main ones are: 1) Commercial Paper Funding Facility (CPFF) to finance an SPV vehicle that purchases commercial paper from companies. 2) Primary Market Corporate Credit Facility (PMCCF), which will make loans to, and buy corporate bonds from, investment grade companies. 3) Secondary Market Corporate Credit Facility (SMCCF), which will purchase U.S. investment grade corporate bonds and bond ETFs in the secondary market. 4) Term Asset-Backed Securities Loan Facility (TALF) to enable the issuance of ABS backed by student loans, auto loans and credit card loans. 5) Primary Dealer Credit Facility (PDCF), which provides credit to primary dealers, secured by investment grade debt securities and shares. 6) Market Mutual Fund Liquidity Facility (MMLF), which makes loans available to eligible financial institutions secured by high-quality assets purchased from money market mutual funds. 7) Main Street Lending Program, which will provide loans through commercial banks for businesses with up to 10k employees or revenues of $2.5 billion. (8) The "Phase 2" package (worth around 0.75% of GDP) increases tax support to states, finances small businesses and expands unemployment insurance and food stamps. 9) The Treasury will defer up to $300 billion of tax payments (1.4% of GDP) due on 15 April for up to 90 days. A broad tolerance for federally backed mortgage and student loans is also under consideration. 10) The "Phase 3" package, totalling some $2 trillion (9.5% of GDP), became law on 27 March and includes payroll loans and forgivable loan guarantees for small businesses, direct payments to individuals, extended unemployment insurance, and state and federal spending assistance. 11) Negotiations are under way on the interim tax package to finance an increase in the small business loan programme, which was exhausted after two weeks. 12) The "Phase 4" package is in preliminary stages. We expect that this phase will also involve several hundred billion dollars and will probably focus on fiscal aid to states.

Japan

In response to the pandemic crisis, Japan decided to increase the supplementary budget for 2020 by ¥8.88T ($82.4B), as a result of the new plan to deliver ¥100,000 ($930) to every individual. This programme replaced the former scheme to pay ¥300,000 to households that suffered a drop in income. This brings the extra budget to a total of ¥25.70T ($240B) and increases the fiscal stimulus to ¥117.10T ($1.09T, or 22% of GDP). Abe has urged people to apply online for these $930 universal payments to ensure the aid arrives quickly, possibly in May.

Meanwhile, in a meeting with his G7 counterparts, BOJ governor Haruhiko Kuroda stressed his intention to further ease monetary policy to counteract the effects of Covid-19. In this connection, the governor hinted that unlimited purchases of government debt are being considered as a means of financing the government's spending policies.

The data for the first quarter reflect the effects of the economic restrictions imposed in most countries to contain the spread of Covid-19. In the external sector, exports fell 11.7% y-o-y in March, while imports contracted by 5.0%. The flow of foreign tourists into Japan collapsed by 93% compared to the same month of the previous year. In early data for April, the Economy Observer Survey index fell to a historic low, while the Reuters Tankan index showed business confidence hitting record new low levels for the decade. Most Japanese corporations were disappointed with the government's stimulus plan (valued at $1T). On the basis of these preliminary figures, the government announced that it would lower its economic forecast for the year as a whole, for the second consecutive month.

Emerging economies of Asia and EMEA

In **China**, first-quarter 2020 GDP fell sharply, by 6.8% year-on-year. This contrasts with the 6% increase seen the previous quarter. However, the contraction observed in the first quarter marked a significant improvement, as March industrial production fell only 1.1% year-on-year, compared to a fall of 13.5% in February. As expected, investment in fixed assets collapsed, falling 16.1% year-on-year in March (although this was an improvement compared to the drop of 24.5% recorded in February). The unemployment rate showed the first signs of improvement already in April, falling to 5.9% vs. 6.2% the previous month. It should be pointed out that job vacancies on the Zhaopin.com recruitment website were down 23 million, with the strongest falls in demand for workers in the services and entertainment sectors, with falls of more than 40%. The GDP of Hubei Province contracted 39.2% year-on-year in the first quarter, by far the largest economic contraction in any of China's 31 province-level jurisdictions. The economic damage in the province, which is a key base for the production of cars and parts, was deep and broad-based, with production falling across all industrial sectors. Leading the decline was car production, which fell 60%. In services, retail sales in the province fell 44.9%.

Looking at the country as a whole, in April the GDP growth target for 2020 had not yet been set by Beijing. A consensus of analysts believes that the government will set the target level slightly below +3%.

Latin America

Political noise in **Brazil** peaked again in April, with the resignation of Justice Minister Sergio Moro, former lead judge in the "Car Wash" investigations and one of the most popular cabinet members. The main reason was the dismissal of the head of the Federal Police, which Minister Moro said was unjustified and politically motivated. This was preceded by two other important events. The firing of the Health Minister (after clashes with President Bolsonaro over the response to the pandemic) and public criticism by the government's economic team of a new economic plan based on infrastructure spending projects.

The increase in political risk has the potential to undermine Brazil's ability to respond consistently to the simultaneous supply and demand shock. Brazil's ability to navigate the economic recession by means of unconventional policies depends on political stability and credibility, and also on whether the government returns to long-term fiscal and monetary discipline once the crisis is over. The big challenge is to return to a path of fiscal consolidation, as the action taken to counter Covid-19 could generate a record fiscal deficit of 12% of GDP, with gross debt jumping to 84% of GDP by the end of 2020. However, the central bank may help a little to cushion the cost of servicing this debt, with a Selic rate below the natural price. In April, we expected Copom to eventually reduce the Selic rate to 3% by the end of the year (at that time it stood at 3.75%), a move supported by inflation forecasts that remained below the 2020 and 2021 targets.

In the external sector, the current account surprised to the upside, with a surplus of USD 868mn in March, above the market consensus (USD -200mn), and now totals USD 49.7bn in 12 months (2.8% of GDP), which helps to strengthen the soundness of international reserves held by the central bank, which in turn makes Brazil less vulnerable to external shocks. The trade balance remains relatively strong, with a 12-month surplus of USD 36.9bn, despite the sharp fall in commodity prices. The weakness of the real will help the net foreign sector to offset some of the shocks facing the economy.

As for **Mexico**, the credit rating cuts finally arrived and hit both sovereign bonds and Pemex bonds, which lost their investment grade status after downgrades by Fitch and Moody's. Fitch's final rating for Mexico was BBB-, only one step away from losing investment grade. The rating agency emphasised the following points: persistent obstacles to economic recovery, owing to deterioration of the business climate, the erosion of institutional strength and weakness in public finances, partly due to Pemex. For Moody's, the reasons ranged from lower medium-term growth prospects to recognition of Pemex's financial deterioration.

Mexico has not escaped the ravages caused by Covid-19. The indicators for March already showed the destruction of more formal jobs than were created in the whole of 2019. More importantly, some key indicators have been discontinued until normal activity is restored. As regards inflation, the March CPI showed the downward effect of lower aggregate demand, which Banxico leveraged to cut official interest rates by 50 basis points in an off-schedule meeting, leaving its benchmark rate at 6.50%.

Argentina finally presented a debt swap proposal, with the following details: i) 10 new bonds (five bonds denominated in US dollars and five in euros); ii) maturities in 2030, 2036, 2039, 2043 and 2047; iii) nominal haircuts of between 0% and 12%; iv) the 2030 and 2036 bonds will have a limit ($11.4 billion and $20.7 billion) with priority for short-term bonds. Bondholders had around 20 days from the formal launch to accept the deal. Bondholders' response was initially negative, with three different groups of creditors expressing their dissatisfaction, including one made up of large asset managers (Blackrock, Fidelity, Amundi), who say they hold 25% of the bonds.

The IMF forecasts a 5.7 per cent fall in GDP in 2020 (perhaps not as steep as that of other economies, but this would be the third consecutive year of contraction). The government is implementing an economic aid package in the amount of approximately $12.9 billion (2.9% of GDP) to counteract the impact of the coronavirus; and with tax collection falling in real terms (-10% in March), the fiscal deterioration will be very severe, with primary deficit estimates of between 4% and 5% of GDP. Given the lack of debt financing, the vast majority of the primary deficit is likely to be monetised, pointing to an acceleration in inflation.

04 / Auditor Report

Auditor Report

KPMG, SLU
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AD700 Escaldes-Engordany
Principality of Andorra

Independent Auditor's Report in accordance with International Standards on Auditing

To the shareholders
of Andorra Banc Agrícol Reig, SA

Opinion

We have audited the consolidated annual accounts of Andorra Banc Agrícol Reig, SA (the Bank) and subsidiaries (together the Group), which comprise the consolidated statement of financial position at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the explanatory notes to the consolidated annual accounts, which include a summary of significant accounting policies.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the financial position of the Group at 31 December 2019, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by Andorra (IFRS-Andorra) and International Financial Reporting Standards as adopted by the European Union (IFRS-EU).

Basis for Opinion

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

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

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

Directors' Responsibility for the Consolidated Annual Accounts

The Bank's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view in accordance with International Financial Reporting Standards as adopted by Andorra (IFRS-Andorra), and for such internal control as the Bank's Directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error. As mentioned in note 2(b) to the accompanying consolidated annual accounts and in accordance with the Decree approving the new accounting framework applicable to entities operating in the Andorran financial system and to Andorran collective investment undertakings, the Directors of the Bank also confirm that the accompanying consolidated annual accounts comply with IFRS-EU.

In preparing the consolidated annual accounts, the Bank'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 Bank's Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts 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 is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those 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, and 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 the reasonableness of accounting estimates and related disclosures made by the Bank's Directors.

3

- Conclude on the appropriateness of the Bank'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 annual accounts 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 annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with those charged with governance of the Group regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG, SLU

Albert Rosés
3 April 2020

05/ Financial Statements Andbank Group

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APPENDIX

Appendix I: Andbank Group companies

Consolidated statements of financial position

		Thousands of euros
ASSETS	**31/12/2019**	**31/12/2018**
Cash, cash balances at central banks and other demand deposits (note 5)	1,058,885	1,433,393
Cash	19,209	19,556
Cash balances at central banks	721,153	823,096
Other demand deposits	318,523	590,741
Financial assets held for trading (note 6)	174,198	201,326
Derivatives	76,796	74,495
Equity instruments	7,351	1,269
Debt securities	90,051	125,562
Loans and advances	-	-
Non-trading financial assets mandatorily at fair value through profit or loss (note 7)	10,073	56,655
Equity instruments	10,073	6,279
Debt securities	-	50,376
Loans and advances	-	-
Financial assets designated at fair value through profit or loss (note 8)	-	-
Financial assets at fair value through other comprehensive income (note 9)	514,318	418,702
Equity instruments	23,560	20,838
Debt securities	490,758	397,864
Loans and advances	-	-
Financial assets at amortised cost (note 10)	2,185,554	1,880,725
Debt securities	195,424	181,391
Loans and advances	1,990,130	1,699,334
Derivatives - Hedge accounting (note 11)	822	-
Changes in the fair value of hedged items in portfolio hedges of interest risk (note 11)	4,609	3,809
Investments in subsidiaries, joint ventures and associates (note 12)	2,862	2,978
Assets under insurance and reinsurance contracts	4,520	6,863
Tangible assets (note 13)	146,987	30,989
Property, plant and equipment	137,882	24,719
Investment property	9,105	6,270
Intangible assets (note 14)	293,510	268,171
Goodwill	169,216	163,929
Other intangible assets	124,294	104,242
Tax assets (note 15)	27,499	31,764
Current tax assets	5,446	5,575
Deferred tax assets	22,053	26,189
Other assets (note 16)	126,002	74,316
Non-current assets and disposal groups classified as held for sale (note 17)	24,674	33,295
TOTAL ASSETS	**4,574,513**	**4,442,986**

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2019.

LIABILITIES	31/12/2019	31/12/2018
		Thousands of euros
Financial liabilities held for trading (note 6)	53,663	66,227
Derivatives	53,663	66,227
Short positions	-	-
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost (note 18)	3,858,847	3,727,811
Deposits	3,282,533	3,241,894
Debt securities issued	458,060	472,618
Other financial liabilities	118,254	13,299
Derivatives - Hedge accounting (note 11)	5,224	7,322
Changes in the fair value of hedged items in portfolio hedges of interest risk (note 11)	-	-
Liabilities under insurance and reinsurance contracts	4,520	6,863
Provisions (note 19)	22,740	17,479
Tax liabilities (note 15)	14,632	18,485
Current tax liabilities	4,056	7,651
Deferred tax liabilities	10,576	10,834
Share capital repayable on demand	-	-
Other liabilities (note 16)	77,728	82,155
Liabilities included in disposal groups classified as held for sale	-	-
TOTAL LIABILITIES	4,037,354	3,926,342

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2019.

CAPITAL AND RESERVES	31/12/2019	31/12/2018
		Thousands of euros
Capital (note 20)	**78,842**	**78,842**
Called up paid capital	78,842	78,842
Unpaid capital which has been called up	-	-
Share premium (note 20)	**73,441**	**73,441**
Equity instruments issued other than capital	**35,000**	**35,000**
Equity component of compound financial instruments	-	-
Other equity instruments issued	35,000	35,000
Other equity	**-**	**-**
Accumulated other comprehensive income (note 21)	**(2,713)**	**(8,334)**
Items that will not be classified to profit or loss	*276*	*-*
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or losses on defined benefit pension plans	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	276	-
Hedge ineffectiveness of fair value hedges for 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)	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Items that may be reclassified to profit or loss	*(2,989)*	*(8,334)*
Hedge of net investments in foreign operations (effective portion)	-	-
Foreign currency translation	17	12
Hedging derivatives Cash flow hedges reserve (effective portion)	(2,825)	(3,753)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(181)	(4,593)
Hedging instruments (not designated elements)	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
Retained earnings (note 20)	**427,156**	**411,782**
Revaluation reserves (note 20)	**-**	**645**
Revaluation reserves	**-**	**-**
Other reserves (note 20)	**(101,496)**	**(100,982)**
Reserves or accumulated losses of investments in subsidiaries, joint ventures and associates	38,634	38,349
Other	(140,130)	(139,331)
(-) Treasury shares	**(1,927)**	**(1,927)**
Profit or loss attributable to owners of the Parent	**28,040**	**27,078**
(-) Interim dividends	**-**	**-**
Minority interests (non-controlling interests)	**816**	**1,099**
Accumulated other comprehensive income	816	1,099
Other items	-	-
TOTAL EQUITY	**537,159**	**516,644**
TOTAL EQUITY AND LIABILITIES	**4,574,513**	**4,442,986**

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2019.

Consolidated income statements

INCOME STATEMENT	31/12/2019	31/12/2018
		Thousands of euros
Interest income (note 24)	49,278	50,711
Financial assets held for trading	5,849	8,699
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	5,418	5,848
Financial assets at amortised cost	38,011	36,164
Derivatives - Hedge accounting, interest rate risk	-	-
Other assets	-	-
Interest income on liabilities	-	-
(Interest expenses) (note 24)	(31,477)	(27,248)
(Financial liabilities held for trading)	-	-
(Financial liabilities designated at fair value through profit or loss)	-	-
(Financial liabilities measured at amortised cost)	(29,567)	(26,384)
(Derivatives - Hedge accounting, interest rate risk)	-	-
(Other liabilities)	(1,910)	(864)
(Interest expense on assets)	-	-
(Expenses on share capital repayable on demand)	-	-
Dividend income (note 25)	169	592
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	169	592
Financial assets at fair value through other comprehensive income	-	-
Investments in subsidiaries, joint ventures and others accounted for using the equity method	-	-
Fee and commission income (note 26)	175,100	162,847
(Fee and commission expenses) (note 27)	(47,691)	(43,469)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (note 28)	17,161	(26)
Financial assets at fair value through other comprehensive income	11,368	(26)
Financial assets at amortised cost	5,793	-
Financial liabilities measured at amortised cost	-	-
Other	-	-
Financial assets at fair value through other comprehensive income	-	-
Gains or losses on financial assets and liabilities held for trading, net (note 28)	36,294	33,567
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net (note 28)	2,008	72
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or losses from hedge accounting, net (note 28)	(228)	(33)
Exchange differences (gain or loss), net (note 29)	6,227	8,964
Gains or losses on derecognition of non-financial assets, net	488	760
Other operating income (note 30)	5,776	6,066
(Other operating expenses) (note 30)	(5,207)	(3,854)
TOTAL OPERATING INCOME/EXPENSES, NET	**207,898**	**188,949**

INCOME STATEMENT	31/12/2019	31/12/2018
		Thousands of euros
(Administrative expenses) (note 31)	(150,445)	(154,776)
(Staff expenses)	(102,973)	(96,661)
(Other administrative expenses)	(47,472)	(58,115)
(Amortisation and depreciation)	(23,748)	(9,960)
(Property, plant and equipment) (note 13)	(15,687)	(3,252)
(Investment properties) (note 13)	(142)	(312)
(Goodwill)	-	-
(Other intangible assets) (note 14)	(7,919)	(6,396)
Modification gains or losses, net	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	-	-
(Provisions or reversal of provisions) (note 32)	(3,479)	1,610
(Commitments and guarantees given)	(58)	19
(Other provisions)	(3,421)	1,591
(Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss) (note 33)	1,441	5,931
(Financial assets at fair value through other comprehensive income)	(42)	-
(Financial assets at amortised cost)	1,483	5,931
(Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates) (note 12)	(300)	-
(Impairment or reversal of impairment on non-financial assets) (note 34)	(73)	(311)
(Property, plant and equipment)	10	(161)
(Investment properties)	-	-
(Goodwill)	-	-
(Other intangible assets)	26	(75)
(Other)	(109)	(75)
Negative goodwill recognised in profit or loss	-	19
Share of the profit or loss of investments in subsidiaries, joint ventures and associates	292	223
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (note 35)	1,595	2,354
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**33,181**	**34,039**
(Tax expense or income related to profit or loss from continuing operations)	(5,143)	(6,678)
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**28,038**	**27,361**
Profit or loss after tax from discontinued operations	-	-
Profit or loss before tax from discontinued operations	-	-
(Tax expense or income related to discontinued operations)	-	-
PROFIT OR LOSS FOR THE YEAR	**28,038**	**27,361**
Attributable to minority interest (non-controlling interests)	(2)	283
Attributable to owners of the Parent	28,040	27,078

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2019.

Consolidated statements of comprehensive income

		Thousands of euros
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	31/12/2019	31/12/2018
Profit of loss for the year	**28,040**	**27,078**
Other comprehensive income	**5,621**	**(6,524)**
Items that will not be classified to profit or loss	**276**	**-**
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or losses on defined benefit pension plans	-	-
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
Income tax relating to items that will not be reclassified	-	-
Share of other recognised income and expense of entities accounted for using the equity method	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	307	-
Gains or losses from hedge accounting of equity instruments 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 their credit risk	-	-
Income tax relating to items that will not be reclassified	(31)	-
Items that may be reclassified to profit or loss	**5,345**	**(6,524)**
Hedge of net investments in foreign operations (effective portion)	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	5	13
Translation gains or losses taken to equity	5	13
Transferred to profit or loss	-	-
Other reclassifications	-	-
Hedging derivatives Cash flow hedges (effective portion)	1,031	(4,170)
Valuation gains or losses taken to equity	1,031	(4,170)
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications		-
Hedging instruments (Not designated elements)	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	4,903	(3,092)
Valuation gains or losses taken to equity	4,903	(3,092)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
Income tax relating to items that may be reclassified to profit or loss	(594)	725
Total comprehensive income for the year	**33,661**	**20,554**
Attributable to minority interest (non-controlling interest)	(2)	283
Attributable to owners of the Parent	33,663	20,271

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2019.

Consolidated statements of changes in equity

	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Accumulated other comprehensive income
Balance at 31 December 2018	**78,842**	**73,441**	**35,000**	**-**	**(8,334)**
Effects of correction of errors	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-
Balance at 1 January 2019	**78,842**	**73,441**	**35,000**	**-**	**(8,334)**
Issuance of ordinary shares	-	-	-	-	-
Issuances of preferred shares	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-
Capital reduction	-	-	-	-	-
Dividends	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-
Share based payments	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	5,621
Balance at 31 December 2019	**78,842**	**73,441**	**35,000**	**-**	**(2,713)**

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2019.

Thousands of euros

Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the Parent	(-) Interim dividends	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
411,782	**645**	**(100,982)**	**(1,927)**	**27,078**	**-**	**1,099**	**-**	**516,644**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
411,782	**645**	**(100,982)**	**(1,927)**	**27,078**	**-**	**1,099**	**-**	**516,644**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
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-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
17,299	(645)	-	-	(27,078)	-	-	-	(10,424)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(1,925)	-	(514)	-	-	-	(281)	-	(2,720)
-	-	-	-	28,040	-	(2)	-	33,659
427,156	**-**	**(101,496)**	**(1,927)**	**28,040**	**-**	**816**	**-**	**537,159**

Consolidated statements of changes in equity

	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Accumulated other comprehensive income
Balance at 31 December 2017	**78,842**	**73,441**	**-**	**-**	**(1,810)**
Effects of correction of errors	-	-	35,000	-	-
Effects of changes in accounting policies	-	-	-	-	-
Balance at 1 January 2018	**78,842**	**73,441**	**35,000**	**-**	**(1,810)**
Issuance of ordinary shares	-	-	-	-	-
Issuances of preferred shares	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-
Capital reduction	-	-	-	-	-
Dividends	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-
Share based payments	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(6,524)
Balance at 31 December 2018	**78,842**	**73,441**	**35,000**	**-**	**(8,334)**

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2019.

Thousands of euros

Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the Parent	(-) Interim dividends	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
375,208	**1,942**	**(58,338)**	**(1,605)**	**39,153**	**-**	**607**	**-**	**507,440**
-	-	(6,820)	-	-	-	-	-	28,180
-	-	(35,438)	-	-	-	-	-	(35,438)
375,208	**1,942**	**(100,596)**	**(1,605)**	**39,153**	**-**	**607**	**-**	**500,182**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
36,795	(1,297)	-	-	(39,153)	-	-	-	(3,655)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(221)	-	(386)	(322)	-	-	492	-	(437)
-	-	-	-	27,078	-	-	-	20,554
411,782	**645**	**(100,982)**	**(1,927)**	**27,078**	**-**	**1,099**	**-**	**516,644**

Consolidated Statements of Cash Flows

		Thousands of euros
	31/12/2019	**31/12/2018**
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(370,592)**	**(86,860)**
Profit for the year	28,040	27,078
Adjustments to obtain cash flows from operating activities	4,506	(608)
Depreciation and amortisation	23,748	9,960
Other adjustments	(19,242)	(10,568)
Net increase/(decrease) in operating assets	(400,995)	(119,364)
Financial assets held for trading	27,128	121,715
Non-trading financial assets mandatorily at fair value through profit or loss	(1,794)	9,810
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	(80,056)	(197,786)
Financial assets at amortised cost	(292,965)	(43,696)
Other operating assets	(53,308)	(9,407)
Net increase/decrease in operating liabilities	(2,777)	7,237
Financial liabilities held for trading	(12,564)	9,003
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	24,590	6,828
Other operating liabilities	(14,803)	(8,594)
Income tax receivable/payable	634	(1,202)
B) CASH FLOWS FROM INVESTING ACTIVITIES	**12,567**	**27,067**
Payments	(43,912)	(40,905)
Tangible assets	(7,696)	(9,572)
Intangible assets	(30,929)	(23,729)
Investments in joint ventures and associates	(5,287)	(6,626)
Subsidiaries and other business units	-	(978)
Non-current assets and liabilities held for trading	-	-
Amounts received	56,479	67,972
Tangible assets	3,030	11,358
Intangible assets	-	-
Investments in joint ventures and associates	116	-
Subsidiaries and other business units	-	-
Non-current assets and liabilities held for trading	11,197	16,535
Financial assets at fair value through other comprehensive income	42,136	40,079
Other amounts received related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(16,483)**	**46,182**
Payments	(1,925)	(542)
Dividends	-	-
Debt securities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments		(322)
Other payments relating to financing activities	(1,925)	(220)
Amounts received	(14,558)	46,724
Debt securities	(14,558)	46,724
Issue of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other amounts received relating to financing activities	-	-
D) EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(374,508)**	**(13,611)**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,433,393**	**1,447,004**
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**1,058,885**	**1,433,393**

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2019.

Notes to the Consolidated Annual Accounts

1. Nature, Activity and Composition of the Group

Andorra Banc Agrícol Reig, S.A. (hereinafter "Andbank" or "the Bank") is a limited liability company incorporated in 1930, protected by the law of Andorra, with registered offices in Escaldes-Engordany (Principality of Andorra). The Bank's statutory activity is to carry out banking activities, as defined by the regulations of the Andorran financial system. In addition, it can undertake any activity related to or which complements its statutory activity. The Bank operates under the Tax Registration Number (TRN) A700158F.

In order to adapt to Law 7/2013 of 9 May 2013, on 28 June 2013 the Board of Directors expanded the statutory activities to all those activities that Andorran financial system legislation allows banking entities to carry out, including as many operations and activities which are accessory or complementary to the principal activity.

The Bank's registered offices are at Carrer Manel Cerqueda i Escaler, number 4-6, Escaldes - Engordany, Principality of Andorra.

In order to carry out the aforementioned statutory and principal activity, Andorra Banc Agrícol Reig, SA has the following commercial numbers: 915893 A, Casa Muxero, AD100-Canillo; .908555 X, Avda. Copríncep Episcopal, 6, AD200-Encamp; 906922 G, Carrer Sant Jordi 12, Edifici La Morera, Local E, Pas de la Casa, AD200-Encamp; 909868 F, Casa Nova Joanet, AD300-Ordino; 909099 Z, Avda. Sant Antoni 32, Edifici Ferrand's, AD400-La Massana; 917946 Z, Plaça Rebés 8, AD500-Andorra La Vella; 911590 B, Avda. de Tarragona 14, Edifici l'Illa, AD500-Andorra La Vella; 906921 H, Avda. Verge de Canòlich, 53, AD600-Sant Julià de Lòria; 910675 E, Avda. Fiter i Rosell, 4 B, Edifici Centre de Negoci, AD700-Escaldes-Engordany.

At an extraordinary and universal meeting held on 10 May 2002, the shareholders adopted a resolution to change its registered name from Banc Agrícol i Comercial d'Andorra, S.A., to Andorra Banc Agrícol Reig, S.A., together with a corresponding modification of article 1 of its articles of association.

Andbank is the Parent of the Andorra Banc Agrícol Reig Group (hereinafter the Andbank Group), which comprises the companies listed in Appendix I.

As a member of the Andorran financial system, the Andbank Group is subject to the supervision of the AFA, the Andorran financial system's authority which performs its functions independently from the General Administration. The Bank is also subject to compliance with local Andorran legislation (see note 41).

2. Basis of Presentation of the Consolidated Annual Accounts

▪a. Compliance with IFRS as adopted by the Andorran Government

The consolidated annual accounts for 2019 have been prepared in accordance with International Financial Reporting Standards as adopted by the Andorran Government (IFRS-Andorra) which are set out in the Decree dated 28 December 2016 which approves the accounting framework applicable to entities operating in the Andorran financial system and to Andorran collective investment undertakings in accordance with the international financial reporting standards as adopted by the European Union (IFRS-EU) which have now been adopted by Andorra, to give a fair view of the consolidated equity, consolidated financial position, consolidated results of operations, consolidated cash flows and changes in consolidated equity of Andorra Banc Agrícol Reig, S.A. and subsidiaries at 31 December 2019 in accordance with the aforementioned framework.

These consolidated annual accounts have also been prepared in accordance with IFRS-EU prevailing at the reporting date.

International Financial Reporting Standards are the standards and interpretations issued by the International Accounting Standards Board (IASB). These standards comprise:

- International Financial Reporting Standards (hereinafter IFRS).
- International Accounting Standards (hereinafter "IAS").
- IFRIC interpretations (hereinafter "IFRIC"); and
- SIC interpretations (hereinafter "SIC")

▪b. Basis of presentation of the annual accounts

The consolidated annual accounts have been prepared on the basis of the accounting records of Andorra Banc Agrícol Reig, SA and the entities included in the Andbank Group, on a going concern basis, except for Andbank Bahamas which will be wound up in 2020.

The consolidated annual accounts have been prepared using the relevant accounting principles and valuation standards detailed in note 3. No mandatory accounting principles having a significant effect on the consolidated annual accounts have been excluded during their preparation. Since the accounting principles and measurement criteria applied in the preparation of the Andbank Group's 2018 consolidated annual accounts may differ from those used by some of the entities comprising the Andbank Group, certain adjustments and reclassifications have been made in the consolidation process in order to standardise these principles and criteria and bring them into line with IFRS-Andorra and IFRS-EU applied by the Bank.

The consolidated annual accounts for 2018, prepared in accordance with IFRS-Andorra and IFRS-EU in force in 2018, were approved by the shareholders at a general meeting held on 30 April 2019. The 2019 consolidated annual accounts of the Andbank Group and the annual accounts of the entities forming part of the Andbank Group, are pending approval by their respective shareholders. However, the Bank's directors consider that these annual accounts will be approved without any significant changes.

▪c. Comparative information

At 31 December 2019 the consolidated annual accounts have been prepared in accordance with IFRS-Andorra and IFRS-EU and based on this accounting framework they include comparative information. The information contained in the accompanying consolidated financial statements at 31 December 2018 and consolidated notes thereto, prepared in accordance with standards prevailing in 2018, is presented solely and exclusively for the purpose of comparison with the information for 2019 and therefore does not constitute consolidated annual accounts of the Andbank Group for 2019.

As of 1 January 2019 IFRS 16 Leases replaces IAS 17 Leases and includes amendments to lessee accounting (see note 3.q). The Bank has opted to apply the modified retrospective approach and, consequently, it has not re-expressed the figures for 2018 for comparative purposes, as permitted by the standard. The effects of first-time adoption of IFRS 16 are shown in note 2(f).

d. Functional and presentation currency

The figures disclosed in these consolidated annual accounts are expressed in Euros, the Bank's functional currency. All the financial information is expressed in thousands of Euros.

e. Relevant accounting estimates and relevant assumptions and judgements when applying accounting policies

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the accounting principles to prepare the consolidated annual accounts in accordance with IFRS-Andorra and IFRS-EU. A summary of the items requiring a higher degree of judgement, complexity or where the assumptions and estimates made are significant to the preparation of the consolidated annual accounts, is as follows:

(I) Relevant accounting estimates and assumptions

The main estimates made by the Bank's directors to prepare these consolidated annual accounts are as follows:

- Impairment losses on financial assets and fair value of associated guarantees.
- Impairment losses on tangible assets.
- Impairment losses on non-current assets held for sale.
- Estimates of useful lives of intangible assets.
- Estimates used to calculate provisions.
- Assumptions used in actuarial calculations made to measure pension obligations and post-employment obligations.
- Fair value of certain financial assets and financial liabilities not quoted or quoted on official secondary markets.

These estimates have been calculated based on the best information available at the date of these consolidated annual accounts, although future events may require changes to these estimates in subsequent years.

(II) Relevant judgements

Information on critical judgements on the application of accounting policies which have a significant effect on the amounts recognised in the consolidated financial statements mainly refers to:

- Classification of financial assets: evaluation of the business model used by the Andbank Group for managing the financial assets and evaluation of the contractual cash flow characteristics of financial assets.
- Establishing of criteria to determine whether the credit risk of financial assets has increased significantly since initial recognition and determining of the methodology to measure the expected credit loss.
- Determination of control over investees.

f. New requirements of the IFRS introduced in 2019

During 2019 the following standards, amendments and interpretations published by the IASB and approved for their adoption in the European Union and Andorra have come into force:

Standards and interpretations approved for their adoption in the European Union and Andorra		Mandatory adoption - years beginning on or after:
IFRS 16 Leases	**New standard on leases** which replaces IAS 17: This standard introduces a single accounting model for lessees.	1 January 2019
IFRIC 23 Uncertainty over income tax treatments	**Uncertainty over income tax treatments:** The standard clarifies how to apply the recognition and measurement requirements of IAS 12 when uncertainty over income tax treatment exists.	1 January 2019
Amendments to IFRS 9 Financial instruments	**Prepayment features with negative compensation:** This enables entities to measure certain prepayable financial assets with negative compensation at amortised cost or fair value through accumulated other comprehensive income if they meet certain conditions.	1 January 2019
Amendments to IAS 28 Investments in Associates and Joint Ventures	**Long-term interests in associates and joint ventures:** Shall affect companies that finance entities with preference shares or loans for which redemption/repayment in the near future is not expected (known as long-term interests).	1 January 2019
Amendments to IAS 19 Employee benefits	**Plan amendment, curtailment or settlement:** Amendment in relation to the accounting of amendments, curtailments or settlements of an employee benefits plan.	1 January 2019
Annual improvements to the IFRS 2015-2017 cycle	**These introduce amendments to the following standards:** ▪ IFRS 3 Business combinations ▪ IFRS 11 Joint arrangements ▪ IAS 12 Income taxes ▪ IAS 23 Borrowing costs	1 January 2019

Of all the standards, amendments and interpretations adopted at 1 January 2019, IFRS 16 Leases has had a significant impact on the Andbank Group's financial statements at 31 December 2019.

At 1 January 2019 IFRS 16 has replaced IAS 17 Leases. The new standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all lease contracts. The lessee must recognise a right-of-use asset which represents its right to use the leased asset that is recognised under Tangible assets - Property, plant and equipment (see note 13) and a lease liability that represents its obligation to make lease payments which are recognised under Financial liabilities measured at amortised cost - Other financial liabilities on the statement of financial position (see note 18). With regard to the income statement, depreciation of the right-of-use must be recognised under Depreciation - Tangible assets (see note 13) and the finance cost associated with the lease liability must be recorded under Interest expenses - Financial liabilities measured at amortised cost.

At the transition date, the Andbank Group opted to apply the modified retrospective approach that consists of measuring lease liabilities at the amount equivalent to the present value of future payments committed at 1 January 2019. The Andbank Group has chosen to recognise right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position before the date of first-time adoption.

Lease liabilities in which the Andbank Group companies act as lessees, as a result of the entry into force of IFRS 16, correspond to the present value of future payments committed during the lease term (see note 18). First-time adoption of IFRS 16 generated a liability at 1 January 2019 that did not coincide with the minimum future payments of operating leases that are disclosed in the annual accounts for 2018 and which were calculated in accordance with previous legislation (IAS 17). The difference is mainly due to the discount rate used to discount future payments, as well as the lease terms that include, when it is considered reasonably certain that they can be exercised, extension options and/or cancellation options. The discount rate used stood at 0.76% at the date the standard entered into force. At 1 January 2019 the Group recognised a right-of-use asset and a lease liability of Euros 121,007 thousand.

▪g. Recent IFRS pronouncements

At the date these annual accounts were authorised for issue, the most significant standards, amendments and interpretations published by the IASB and approved for their adoption in the European Union, but which are still pending approval for adoption in Andorra, are as follows:

Standards and interpretations approved for their adoption in the European Union and pending approval for adoption in Andorra		Mandatory adoption - years beginning on or after:
Amendments to references to the conceptual framework of IFRS	The revised conceptual framework is more complete than the previous framework: its aim is to **provide a complete series of tools for standard configuration.** It covers all the aspects of the standard configuration from the objective of financial reporting to presentation and disclosure.	1 January 2020
Amendments to IAS 1 and IAS 8. Definition of material or relative importance	**The concept of material has been redefined to make it easier to understand.** This has to be a clearly understandable concept and therefore those responsible for preparing the financial statements do so in an appropriate manner given that the former definition included immaterial information. Furthermore, the definition of significant erroneous omissions or declarations has been erased.	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7. Interest Rate Benchmark Reform	The amendments deal with issues affecting financial reporting in the period before the IBOR reform. They are mandatory and apply to all hedging relationships that are directly affected by the uncertainties relating to the IBOR reform. These interest rates are used to determine the price of different financial instruments.	1 January 2020

The Andbank Group is currently analysing the possible impacts arising from the adoption of these standards on its accounting criteria, information to be disclosed in the annual accounts and its reporting procedures and systems. Nevertheless, the Andbank Group avails of the necessary means to adopt these standards and is currently analysing the effects that could arise.

On the other hand, at the date these annual accounts were authorised for issue, the most significant standards, amendments and interpretations published by the IASB but which have still not been adopted by the European Union or Andorra, are as follows:

Standards and interpretations pending approval for their adoption in the European Union and Andorra		Mandatory adoption - years beginning on or after:
Amendment of IFRS 3. Definition of a business	An entity shall determine whether a **transaction or other event is a business combination by applying the definition of this IFRS,** which requires that the assets acquired and liabilities assumed constitute a business.	1 January 2020
IFRS 17 Insurance contracts	**This sets out the principles that an entity must apply to account for insurance contracts:** This new standard replaces IFRS 4. The new standard introduces a single accounting model for all insurance contracts and requires that entities use assumptions in line with their estimates.	1 January 2021
Amendment of IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures	**Sale or contribution of assets between an investor and its associate or joint venture:** When a parent loses control of a subsidiary in a transaction with an associate or joint venture, there are discrepancies between the existing consolidation guidance and the accounting of equity. The amendments require that the total gain is recognised when the transferred assets meet the definition of a "business" in accordance with IFRS 3 Business combinations.	Available for optional adoption
IFRS 14 Regulatory deferral accounts	This provides **interim guidance on the accounting of regulatory deferral account balances** for which IFRS is adopted for the first time.	It has not been approved

At the date these annual accounts were authorised for issue, the Andbank Group had still not evaluated the effect that these standards could have on its annual accounts, as they had not been approved for use in the European Union or Andorra.

3. Relevant Accounting Principles and Valuation Standards

▪a. Business combinations and consolidation principles

The consolidated financial statements of the Andbank Group at 31 December 2019 and 2018 have been prepared by the management of the Bank.

The Andbank Group's consolidated statement of position includes, in addition to the figures for the Parent, those corresponding to the subsidiaries, jointly-controlled entities and associates. Appendix I contains a list of these companies.

The process used to integrate the assets and liabilities of these companies is carried out based on the type of control or influence exercised thereon.

(I) Subsidiaries

The statement of position includes, in addition to the figures for the Parent, those corresponding to the subsidiaries, jointly-controlled entities and associates.

The process used to integrate the assets and liabilities of these companies is carried out based on the type of control or influence exercised thereon.

The Andbank Group considers subsidiaries to be those over which it has control. Control arises when:

- It has power over the investee.
- It has exposure, or rights, to variable returns from its involvement with the investee.
- It has the ability to use its power over the investee to affect the amount of the investor's returns

Generally, voting rights give the power to direct relevant activities of an investee. To calculate this, all the direct and indirect voting rights are taken into account, including the potential rights such as call options on equity instruments of the investee. In certain situations, power could be used to direct activities without having the majority of voting rights.

In these situations it is evaluated whether it has the practical ability to direct its relevant activities unilaterally. Relevant activities include financial or operating activities or those relating to the appointment and remuneration of the management bodies, inter alia.

Prior to consolidation the financial statements of the subsidiaries are unified to IFRS-EU and IFRS-Andorra.

The subsidiaries are fully consolidated, irrespective of their activity, with those of the Andbank Group, which involves aggregating the assets, liabilities and equity, income and expenses of a similar nature disclosed in the individual statements of financial position. A percentage of the carrying amount of direct and indirect holdings in subsidiaries is eliminated equivalent to the proportion of equity of these subsidiaries represented by these holdings. The remaining balances and transactions between consolidated companies are eliminated in the consolidation process.

Results of the subsidiaries acquired during the year are consolidated based on the results generated since the acquisition date. Likewise, the results of subsidiaries which cease to be subsidiaries during the year, are consolidated by the amount of the results generated from the beginning of the year to the date on which control is lost.

Acquisitions and disposals which do not imply a change of control in the investee are recognised as asset and liability transactions and no gains or losses are recognised in the consolidated income statement. The difference between the consideration given or received and the decrease or increase of non-controlling interests, respectively, is recognised under reserves.

IFRS 10 stipulates that when control of a subsidiary is lost, the assets, liabilities and non-controlling interests, as well as other items which could be recognised in valuation adjustments are derecognised from the consolidated statement of financial position and the fair value of the consideration received as well as any retained investment is recognised. The difference between both these amounts is recognised in the consolidated income statement.

(II) Joint ventures (jointly-controlled entities)

The Andbank Group considers jointly-controlled entities to be those which are not subsidiaries and which, due to contractual agreement, it controls together with other shareholders. In these situations, decisions about the relevant activities generally require the unanimous consent of the parties sharing control.

Prior to consolidation the financial statements of the jointly-controlled entities are unified to IFRS-EU and IFRS-Andorra.

(III) Associates

Associates are entities over which the Andbank Group, either directly or indirectly, exercises significant influence (understood as the power to participate in the financial and operating policy decisions of an entity but is not control of those policies) and which are not subsidiaries or jointly-controlled entities. Significant influence arises, in the majority of cases, when 20% or more of the voting power of the investee is held. If less than 20% of the voting power is held, significant influence shall arise if any of the circumstances indicated in IAS 28 exist. The circumstances which usually evidence the existence of significant influence are the representation on the board of directors, participation in policy-making processes, the existence of material transactions between the entity and its investee, the interchange of managerial personnel or the provision of essential technical information.

Exceptionally, those entities in which more than 20% of voting rights are held in the investee are not considered as associates, since it can be clearly demonstrated that this influence does not exist and therefore the Andbank Group loses the power to participate in financial and operating policy decisions.

Prior to consolidation the financial statements of the associates are unified to IFRS-EU.

Associates are accounted for in the consolidated statement of financial position of the Andbank Group using the equity method, i.e. for the percentage of their equity equal to the Andbank Group's percentage shareholding, after taking into account dividends received and other equity eliminations. The same percentage of any gains or losses from transactions with associates is eliminated. The proportional part is recognised in the Andbank Group's income statement based on the economic participation of the results of associates.

The Andbank Group has not used the financial statements of entities which are equity accounted and which refer to a date different to that of the Parent of the Andbank Group.

(IV) Andbank Group companies

Appendix 1 includes information on the subsidiaries, jointly-controlled entities and associates included in the consolidated group, providing details of their domicile, percentage ownership and activities.

A brief description of the significant events arising in the Andbank Group companies during 2019 and 2018 is as follows:

On 30 November 2017 the AFA agreed to authorise the winding up and liquidation of the Panamanian company (a wholly-owned subsidiary of ANDBANK (PANAMÁ), S.A.) called ANDPRIVATEWEALTH SECURITIES, S.A., which had been previously authorised by the Superintendency of the Securities Market of Panama on 23 February 2017. This transaction was completed in 2018.

On 9 March 2018 the AFA granted authorisation to wind up and liquidate the company domiciled in the British Virgin Islands, APW INTERNATIONAL ADVISORS, LTD. This company was liquidated in 2018, as accredited by the AFA by means of a dissolution certificate dated 18 June 2018.

On 12 March 2018 the AFA granted prior authorisation to liquidate and extinguish the Andorran mercantile company CLAU D'OR, SLU. On 20 December 2018 the company's deed of liquidation and extinguishment was granted.

On 21 December 2017 the AFA authorised the acquisition of newly created shares representing 40% of the share capital of SIGMA M PARTNERS LTD, for an amount of Israeli Shekels 2,000 thousand. These two transactions resulted in the Bank obtaining a 49.78% interest in the share capital of Sigma M Partners, which was formalised on 11 January 2018.

On 21 December 2017 the AFA gave prior authorisation to for the acquisition of an additional interest of 5.74% in SIGMA INVESTMENT HOUSE LTD for an amount of Israeli Shekels 1,610 thousand. The acquisition was carried out on 11 January 2018, with the Bank attaining a 65.74% interest in the aforementioned company.

On 25 October 2015 the AFA authorised share capital increases in ANDBANK (BRASIL) HOLDING FINANCEIRA, LTDA and BANCO ANDBANK (BRASIL), SA for an amount of up to Euros 20 million for each of the transactions. The share capital of Andbank (Brasil) Holding Financeira Ltda increased from Brazilian Reals 132,026 thousand to Brazilian Reals 216,385 thousand and the share capital of BANCO ANDBANK (BRASIL), SA rose from Brazilian Reals 136,786 thousand to Brazilian Reals 211,145 thousand. On 8 November 2018 a letter was received from the Central Bank of Brazil to execute the aforementioned share capital increase.

On 23 November 2018 the AFA granted prior authorisation for ANDBANK ESPAÑA, SAU's acquisition of up to 100% of MERCHBAN, S.A. This transaction was carried out on 27 December 2018. The Spanish Securities Market Commission (CNMV) has notified our Spanish banking subsidiary that on 5 December 2018 the CNMV Executive Committee adopted the resolution not to oppose the acquisition of a significant indirect interest in the capital of MERCHBANC, S.A., SGIIC and MERCHBOLSA AGENCIA DE VALORES, SA. companies wholly owned by MERCHBAN, SA, as a result of ANDBANK ESPAÑA, S.A.'s acquisition of the share capital of MERCHBAN, S.A. As a result of this acquisition of Merchban, S.A., the entities Merchban International, SARL, Merch Gestión Inmobiliaria, SL and Merchban EGFP, SA were acquired indirectly.

On 11 November 2019 a public deed was raised for the merger of MERCHBAN, S.A., MERCHBOLSA, AV, SA and MERCH GESTIÓN, SLU with ANDBANK ESPAÑA, SAU. This transaction was authorised by the AFA on 31 May 2019 and pursuant to the Ministerial Order of the Spanish Ministry of the Economy and Business issued on 10 September 2019.

On 25 January 2019 a public deed was raised by Andbank España for the incorporation of MYINVESTOR, SL. This transaction was authorised by the AFA on 23 January 2019. This company is registered by the Banco de España as an agent of ANDBANK ESPAÑA, SAU.

The Andbank Group in Brazil has carried out the following corporate restructuring transactions in 2019:

- Takeover merger of Andbank Financeira Ltda. (absorbed company) by Andbank Distribuidora de Titulos e Valores Mobiliarios Ltda. (absorbing company). Consequently, Banco Andbank (Brasil), S.A. became the direct shareholder of Andbank Distribuidora de Titulos e Valores Mobiliarios Ltda.

- Takeover merger of Andbank (Brasil) Holding Financeira Ltda. (absorbed company) by Banco Andbank (Brasil) S.A. (absorbing company). Consequently, Andorra Banc Agrícol Reig, S.A. became the direct shareholder of Banco Andbank (Brasil), S.A.

- Takeover merger of Andbank Wealth Participaçoes Ltda. (absorbed company) by Andbank Participaçoes Ltda. (absorbing company) to simplify the structure of the holding.

- Spin-off of Andbank Participaçoes Ldta. The two companies resulting from the spin-off (Andbank Participaçoes Ltda. "1" and Andbank Participaçoes Ltda. "2") became, respectively, shareholders of Andbank Corretora de Seguros de Vida Ltda. and Andbank Gestao de Patrimonio Financeiro Ltda. At the same time the takeover merger took place of Andbank Participaçoes Ltda. "1" (absorbed company) by Andbank Corretora de Seguros de Vida Ltda. (absorbing company) and the takeover merger of Andbank Participaçoes Ltda. "2" (absorbed company) by Andbank Gestao de Patrimonio Financeiro Ltda. (absorbing company).

▪b. Financial instruments

(I) Classification of financial assets and financial liabilities
IFRS 9 defines the criteria for classifying financial instruments based on an analysis of the business model of financial assets and the characteristics of contractual cash flows. The Bank has identified three different business models for the debt securities portfolio and a business model for the loans and advances portfolio.

The three business models for the debt securities portfolio are as follows: a) model focused on receiving contractual cash flows, which mainly include financial instruments with a long-term time horizon and for the purpose of generating a stable financial margin; b) model focused on receiving contractual cash flows and on sales, which mainly include financial instruments with a medium-term time horizon for the purpose of generating a stable financial margin, as well as generating cash flows for sales when there are optimum market conditions; and c) other business models, which include, on the one hand, a model focused on generating cash flows for active management of purchases and sales of financial instruments, as well as, on the other hand, a model focused on the management of liquidity through purchases and sales with a short-term time horizon.

The business model identified for the loan and advances portfolio is a model focused on receiving contractual cash flows for the purpose of generating a stable financial margin.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, measured at fair value through other comprehensive income, measured at fair value through profit or loss and held for trading.

The classification of financial instruments in the category of amortised cost or fair value involves two tests: the business model and assessment of contractual cash flows, known as solely payments of principal and interest (SPPI) criteria. The objective of the SPPI test is to determine whether, in accordance with the contractual characteristics of the instrument, its cash flows represent solely the payment of the principal and interest, understood as consideration of the time value of money and the credit risk of the debtor. Therefore, taking into consideration the business model and contractual cash flows:

- A financial instrument is classified in the amortised cost portfolio when it is held within a business model, whose objective is to hold the financial instrument in order to collect contractual cash flows and comply with the SPPI test.

- A financial instrument is classified under financial assets at fair value through other comprehensive income if the financial instrument is held within a business model, whose objective is achieved by both collecting contractual cash flows, and selling and complying with the SPPI test.

- A financial instrument is classified at fair value through profit or loss provided that the Andbank Group's business model for its management or the characteristics of its contractual cash flows, means that it should not be classified in any of the aforementioned portfolios.

Details of the valuation methods of financial instruments, taking into consideration their classification, are as follows:

- Amortised cost: These include financial instruments held within a business model whose objective is to collect principal and interest contractual cash flows, over those where no significant unjustified sales exist and fair value is not a key factor in managing these changes. Unjustified sales are those that are different from sales related to an increase in the asset's credit risk, with unanticipated funding needs (stress case scenarios), even if such sales are significant in value, or from sales of assets that no longer meet the credit criteria specified in the investment policy Additionally, the contractual cash flow characteristics substantially represent a "basic financing agreement".

Initial and subsequent measurement:

Financial assets and financial liabilities at amortised cost are initially measured at fair value, plus or minus transaction costs, and are subsequently measured at their amortised cost using the effective interest method.

- **Fair value through other comprehensive income:** These include financial instruments held within a business model whose objective is achieved by both collecting cash flows of principal and interest and selling these assets, with the fair value being a key element in the management of assets. Additionally, the contractual cash flow characteristics substantially represent a "basic financing agreement".

  Initial measurement:

  Financial assets at fair value through other comprehensive income are initially recognised at fair value plus transaction costs directly attributable to the acquisition.

  Subsequent measurement:

  Subsequent to initial recognition financial assets classified in this category are measured at fair value, recognising gains or losses in other comprehensive income, with the exception of exchange gains or losses and expected credit losses. The amounts recognised under other comprehensive income are recognised in profit or loss upon derecognition of financial assets. However, interest calculated using the effective interest method is recognised in profit or loss.

- **Fair value through profit or loss for the period:** These include financial instruments held within a business model whose objective is not achieved using any of the aforementioned methods, with the fair value being a key factor in the management of these assets. In addition, the characteristics of the contractual cash flows do not substantially represent a basic financing agreement.

These include financial instruments designated upon initial recognition, such as for example hybrid financial assets and liabilities which have to be fully measured at fair value, as well as financial assets which are managed together as Liabilities under insurance contracts measured at fair value, or with financial derivatives to reduce exposure to variations in fair value or are managed together with financial liabilities and derivatives for the purpose of reducing the global interest rate risk exposure.

In general, this category includes all those assets which, in being classified as such, eliminate or significantly reduce a measurement or recognition inconsistency (accounting mismatches). The financial instruments in this category must be permanently subject to an integrated and consistent system of measuring, managing and controlling risks and results, which enables it to be proven that the risk is effectively reduced. Financial assets and financial liabilities can only be included in this portfolio on the date of their acquisition or when they originate.

Initial measurement:

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the acquisition or issue are recognised as an expense when incurred.

Subsequent measurement:

After initial recognition, they are recognised at fair value through profit or loss. Changes in fair value include the interest and dividend component. Fair value is not reduced by transaction costs incurred on sale or disposal.

All financial liabilities are initially recognised at fair value, minus transaction costs that are directly attributable to the issue of financial instruments that are not measured at fair value through profit or loss.

Financial liabilities are classified in the following categories:

- Financial liabilities measured at amortised cost: liabilities recognised in this line item of the statement of financial position are measured after their acquisition at amortised cost, which is determined in accordance with the effective interest rate method.

- Financial liabilities held for trading: instruments are included in this category when the Bank's objective is to generate profits through purchasing and selling these instruments.

  After their initial recognition these financial instruments are measured at fair value and changes in their value (gains or losses) are recognised at their net amount in Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net on the income statement.

(II) Impairment of financial assets

The impairment model also applies to financial assets at amortised cost and financial assets at fair value through other comprehensive income, but not to equity investments and financial guarantee contracts and loan commitments that can be unilaterally revoked by the Bank. Likewise, the business model excludes all financial instruments measured at fair value through profit or loss.

When measuring financial assets or financial liabilities it will always be considered whether they are held for trading or whether they are mandatorily measured at fair value through profit or loss, financial assets and financial liabilities at amortised cost or financial assets measured at fair value through other comprehensive income, separating the equity instruments designated as such from the remaining financial assets.

IFRS 9 classifies financial instruments into three categories, depending on the performance of their credit risk from initial recognition. The first category includes transactions when they are initially recognised (Stage 1), the second category includes transactions for which a significant rise in the credit risk since initial recognition has been identified (Stage 2) and the third category includes credit-impaired transactions (Stage 3).

The calculation of credit risk coverage in each of these three categories is done differently. A 12-month expected credit loss must be recognised for transactions classified in the first of the aforementioned categories, whilst estimated credit losses for the whole of the expected remaining life of the transactions must be recognised for the transactions classified in the other two categories.

IFRS 9 differentiates between the following concepts of expected credit loss:

- 12-month expected credit losses: Are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date of the financial statements; and
- Life-time expected credit losses: Are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

(III) Transfers and derecognition of financial assets and financial liabilities

A financial asset is fully or partially derecognised from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the asset is transferred to a third party outside the entity. Likewise, the derecognition of financial assets in those circumstances in which the Andbank Group retains the contractual rights to receive the cash flows only takes place when the contractual obligations to pay the cash flows to one or more recipients have been assumed and the following requirements are met:

- Payment of the cash flows is conditional on their prior collection;
- The Andbank Group is unable to sell or pledge the financial asset, and
- Cash flows collected on behalf of eventual recipients are remitted without material delay and the Andbank Group is not entitled to reinvest such cash flows. This criteria is not applied in the case of investments in cash or cash equivalents made by the Andbank Group during the settlement period from the collection date to the date of required remittance to the eventual recipients, provided that the interest earned on such investments is passed to the eventual recipients.

The accounting treatment of transfers of assets depends on the extent to which the risks and rewards of ownership of the assets are transferred: In this case:

- If the risks and rewards of ownership of the financial asset are transferred substantially, (as in the case of unconditional sales, sales of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to new holders, inter alia), the transferred financial asset is derecognised in the consolidated statement of financial position and any right or obligation retained or created in the transfer is recognised simultaneously.
- If the risks and rewards inherent to ownership of the transferred financial asset are substantially retained (such as in the case of financial assets sold under an agreement to repurchase them at a fixed price or at the sale price plus a lender's return, the securities loan agreements in which the borrower is under the obligation to return these securities or similar assets or other similar situations) they are not derecognised in the consolidated statement of financial position and continue to be measured using the same criteria used prior to the transfer and the following are recognised:
    - An associated financial liability for an amount equal to that of the consideration received, which is measured subsequently at amortised cost, unless the requirements are met for classifying it as other liabilities at fair value through profit or loss.
    - Income from the transferred financial asset that is not derecognised and any expense incurred on the new financial liability without being offset.
- If all the risks and rewards associated with the transferred financial assets are neither substantially transferred nor retained (i.e. sale of a financial asset with a call option acquired or put option written in or outside the market, securitisation in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases) a distinction is made between:
    - If the transferor does not retain control of the transferred financial asset, it is derecognised from the consolidated statement of financial position and any right or obligation retained or created in the transfer is recognised.
    - If the transferor retains control of the transferred financial asset, it continues to recognise the asset in the consolidated statement of financial position for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred asset. The net amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the asset is measured at amortised cost; or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Likewise, financial liabilities are removed from the consolidated statement of financial position when the obligations specified in the contract are discharged or cancelled or expire.

If, as a result of a transfer, a financial asset is derecognised in its entirety, the financial assets obtained or financial liabilities, including uncorrected servicing liabilities, are recognised at fair value.

(IV) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset, and consequently are presented in the consolidated statement of financial position at the net amount, only when the Andbank Group has the legally enforceable right to set off the recognised amounts and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. So that the Andbank Group has the legally enforceable right, it must not be contingent on a future event and must be legally enforceable in the normal course of business, the event of default, or in the event of insolvency or bankruptcy.

At 31 December 2019 there are no offset financial asset and financial liability positions.

(V) Hedge accounting
The assets and liabilities recognised in these line items of the consolidated statement of financial position are measured at fair value.

Changes arising subsequent to the designation of the hedge, in the measurement of financial instruments designated as hedged items and financial instruments designated as accounting hedges, are recognised as follows:

- In the case of fair value hedges, the differences arising in the fair value of the derivatives and hedged instrument attributable to the hedged risk, are recognised directly under Gains or losses from hedge accounting, net on the consolidated income statement; using as a balancing entry the headings of the consolidated statements of financial position where the hedging item is recognised (Derivatives - hedge accounting) or the hedged item, where applicable. Almost all of the hedges made by the Andbank Group are interest rate hedges for which their valuation differences are recognised under Interest income or Income expenses in the consolidated income statement.

- When hedging the fair value of interest rate risk of a portfolio of financial instruments or own debt (macro hedges), gains or losses arising from the valuation of the hedging instrument are recognised directly in the consolidated income statement and gains or losses arising from the valuation of the fair value of the hedged item (attributable to hedged risk) are also recognised in the consolidated income statement (in both cases under Gains or losses from hedge accounting, net) using as a balancing entry the asset and liability headings Changes in the fair value of hedged items in portfolio hedges of interest risk in the consolidated statements of financial position, where applicable.

- For cash flow hedges, the differences in value arising in the effective portion of the hedged items are temporarily recognised under Accumulated other comprehensive income - Items that may be reclassified to profit or loss - Hedging derivatives. Cash flow hedges on the consolidated statements of financial position, with a balancing entry in Derivatives - hedge accounting under assets or liabilities on the consolidated statements of financial position, where applicable. These differences are recognised in the consolidated income statement under Interest income or Interest expenses when the losses or gains on the hedged item are recognised in profit or loss, when the foreseen transactions are performed or on the maturity date of the hedged item. Almost all of the Andbank Group's hedges are interest rate hedges and therefore, differences in value are recognised under Interest income or Interest expenses in the consolidated income statement.

- Differences in value of the hedging instrument corresponding to the non-effective portion of the cash flow hedging operations are recognised directly under Gains or losses from hedge accounting, net in the consolidated income statement.

- For hedging of net investments in foreign operations, the differences in value arising in the effective portion of the hedged items are recognised temporarily in Accumulated other comprehensive income - Items that may be reclassified to profit or loss - Hedge of net investments in foreign operations on the consolidated statements of financial position, with a balancing entry under Derivatives - hedge accounting in assets or liabilities of the consolidated statements of financial position, where applicable. These differences in value are recognised under Exchange differences, net on the consolidated income statement when the foreign investment is disposed of or derecognised in the consolidated statements of financial position.

(VI) Fair value of financial instruments
All financial instruments are classified in one of the following input levels based on the methodology used to obtain their fair value:

- Level 1: Based on quoted prices in active markets.

- Level 2: Using valuation techniques in which the inputs considered correspond to directly or indirectly observable market data or quoted prices in active markets for similar instruments.

- Level 3: Using valuation techniques where some of the significant inputs are not derived from directly observable market data.

  - *Process of determining the fair value*

  - The process for determining the fair value established by the Andbank Group ensures that assets and liabilities are adequately measured. The Andbank Group has set up a structure of committees in charge of proposing and validating the contracting of financial instruments on the market. Market inputs and other parameters and methodologies used to measure and quantify risks, as well as the conditioning factors for recognising transactions and possible impacts of an accounting, legal or tax nature are subject to analysis prior to authorisation by the areas in charge. Issues relating to the measurement of derivative instruments and fixed income instruments are the responsibility of an independent and organisational unit located within the Middle Office department. The members of this unit report the decisions made to the management area where the new product is to be contracted. Without jeopardising its autonomy and independence in decision making with regard to the measurement and quantification of risks, this analysis involves contrasting, reconciling and, where possible, agreement with the business areas.

  - For the Andbank Group, the majority of the financial instruments recognised at fair value have as an objective benchmark for determining their fair value, quoted prices on active markets (Level 1) and therefore, in order to determine their fair value the price which would be paid in an organised, transparent and deep market would be used (quoted price or market price). In general, this level would include debt securities in a liquid market, quoted equity instruments and derivatives traded on organised markets, as well as investment funds.

  - The fair value of those instruments classified in Level 2 for which no directly observable market price exists, is estimated based on recent quoted prices of similar instruments and valuation models which have been sufficiently tried and trusted by the international financial community, taking into consideration the specific features of the instrument to be valued and, above all, the different types of associated risk.

Almost all financial instruments recognised as trading derivatives and hedging derivatives are measured in accordance with the criteria set out for Level 2.

- In order to obtain the fair value of the other financial instruments classified in Level 3, for the valuation no directly observable market data exists, and alternative techniques are used, including the request of the price from the trading entity or the use of market parameters corresponding to instruments with a risk profile similar to the instrument subject to valuation, adjusted for the purpose of obtaining the different intrinsic risks.

- For unquoted equity instruments classified in Level 3, it is considered that their cost of acquisition, reduced by any impairment loss obtained based on publicly available information is the best estimate of their fair value.

- Valuations obtained for internal models could differ if other methods or assumptions had been applied in the interest rate risk, credit risk spreads, market risk, currency risk or in the corresponding matching and volatility. Nevertheless, the directors of the Andbank Group consider that the models and techniques applied adequately reflect the fair value of the financial assets and financial liabilities recognised in the consolidated statement of financial position, as well as the results generated by these financial instruments.

- All financial instruments are initially recognised at fair value which, unless there is evidence to the contrary, equals the transaction price.

- Subsequently, on a specific date, the fair value is taken to be the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The most objective benchmark for the fair value of a financial instrument is the quoted price in an active, transparent and deep market, for which the quoted price or market price is used.

- If there is no market price, the fair value is estimated based on the price of recent transactions involving similar instruments and, failing that, on models that have been adequately tested and recognised by the international financial community. Consideration must always be given to the specific nature of the instrument to be valued and, in particular, to the different types of risk associated with the instrument.

- Except for trading derivatives, all the variations in the value of financial instruments due to the accrual of interest and similar items, are recognised under Interest and similar income or Interest and similar charges, where applicable, in the income statement for the year in which the accrual takes place. Dividends received from other companies are recognised as Dividend income in the consolidated income statement of the year when the right to receive them arises.

- *Transfers between levels*

  In accordance with international standards, classification levels established based on the observability and significance of the inputs used in the methodology to calculate the fair value must be reviewed periodically. The criteria applied to revalue the portfolio is reviewed at least every month and two circumstances could arise:

  - Improvements to the valuation level of financial instruments as a result of having obtained prices published by market price contributors or because the quality of the price published has improved.

  - Worsening of the valuation level of financial instruments as a result of the market price contributors having ceased to publish prices or because the quality of the price published has worsened.

- *Sensitivity analysis*

  In order to determine whether a significant variation arises in the value of financial instruments classified in Level 3, as a result of changes to one or more unobservable market inputs which reflect reasonably probable alternative valuations, the Andbank Group has performed an analysis of the most significant instruments and no substantial alterations to the values obtained have come to light. (see note 38 on risk management).

- *Credit valuation adjustments*

  The credit valuation adjustment (CVA) is an adjustment to the valuation of over-the-counter (OTC) derivatives as a result of the risk associated with credit exposure of each counterparty.

  The CVA is calculated taking into consideration the expected exposure with each counterparty in each future term, with the CVA for a certain counterparty being equal to the sum of CVA for all the terms. The adjustments to be made are calculated using an estimate of the exposure at impairment, the probability of impairment and the loss given impairment for all the derivatives on any underlying, at legal entity level with which the Andbank Group has exposure.

  The data required to calculate the probability of impairment and the loss given impairment arise from credit markets (credit default swaps), applying that of the Bank in cases where it exists. For those cases in which this information is not available, the Andbank Group carries out an exercise which takes into consideration, inter alia, the sector and rating of the counterparty to assign probabilities of both probability of impairment and loss given impairment, calibrated directly to market or with an adjustment market factor for the probability of impairment and historical expected loss.

  The debit valuation adjustment (DVA) is a valuation adjustment similar to the CVA, but in this case it arises as a result of the Bank's own risk, which is assumed for those counterparties which have exposure with OTC derivatives. Likewise, the DVA is calculated as the result of the expected negative exposure given the probability of impairment and multiplying the result by the loss given impairment of the Andbank Group.

  The credit spread at a certain term can be expressed as the result between the probability of impairment in this term and the loss given impairment.

▪c. Equity instruments issued

An equity instrument is any contract that evidences a residual interest in the assets or an entity after deducting all of its liabilities. Therefore, to be classified as such, an instrument must meet both of the following conditions:

- There is no contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable (to the issuer of the instrument).
- If a derivative can or may be settled in the issuer's own equity instruments then it is a derivative for which the issuer is obliged to deliver a fixed number of own equity instruments; or a derivative that will only be settled by the issuer by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Therefore, an instrument is considered to be a financial liability if:

- There is a contractual obligation to deliver cash or another financial asset to another entity;
- There is a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable (to the issuer of the instrument) or;
- It is a non-derivative for which the issuer is obliged to deliver a variable number of its own equity instruments; or
- A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

On the contrary if these four conditions are not met the instrument will be classified as an equity instrument because as set out in IAS 32 an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

▪d. Financial guarantees

- *Financial guarantees issued*

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under contractual terms, irrespective of the way in which the obligation is instrumented, whether a guarantee, financial guarantee, insurance contract or credit derivative.

Financial guarantees are all those which directly or indirectly guarantee debt instruments such as loans, credits, finance lease operations and late payment of all kinds of debts.

Guarantees or guarantee contracts are insurance contracts which include the obligation to reimburse a beneficiary in the event that a specific obligation different to a specific debtor's payment obligation is not met, i.e. guarantees to secure participation in auctions and tenders, irrevocably formalised guarantee promises or any other technical guarantee.

All these operations are disclosed in a memorandum item to the statement of financial position, under Contingent exposure.

Upon formalising financial guarantees and guarantee contracts they are recognised at fair value plus transaction costs, understood as the premium received plus the present value of future cash flows under Loans and receivables - Debt securities with a balancing entry under Financial liabilities measured at amortised cost - Other financial liabilities or under Other liabilities, respectively. Changes to the fair value of the contracts are recognised as finance income in the consolidated income statement.

Financial guarantees and guarantee contracts, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to estimate the provision amount. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments measured at amortised cost.

Provisions created for these contracts are recognised under Provisions - Provisions for contingent exposures and commitments.

Should it be necessary to set up a specific provision for financial guarantee contracts, the corresponding fees and commissions pending accrual are reclassified from Financial liabilities measured at amortised cost - Other financial liabilities to Provisions - Provisions for contingent exposures and commitments.

- *Financial guarantees received*

The Andbank Group has not received significant guarantees for which it is authorised to sell or pledge, unless non-payment by the holder of the guarantee has arisen, except for those pertaining to the treasury business.

▪e. Foreign currency and functional currency transactions

The Andbank Group's functional and presentation currency is the Euro. Therefore, all balances and transactions denominated in currencies other than the Euro are deemed to be denominated in foreign currency. Functional currency is understood to be the currency of the main economic environment in which the Andbank Group operates. Depending on the country, the functional currency could differ from the Euro. The presentation currency is that which the Andbank Group uses to prepare its financial statements.

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

At the end of each reporting period foreign currency monetary items are converted into Euros using the average exchange rate of the spot currency market corresponding to each year end. Non-monetary items valued at their historical cost are converted to Euros at the exchange rate in force at the purchase date and non-monetary items valued at their fair value are converted at the exchange rate in force at the date on which such fair value was determined.

Forward contracts in foreign currencies, which are not hedges, are valued at the forward currency market exchange rates at reporting date.

The exchange rates used to convert the foreign currency balances to Euros are those published by the Association of Andorran Banks at 31 December of each year.

The exchange differences produced when converting the balances in foreign currency to the functional currency of the Andbank Group are generally recognised under Exchange differences (net) in the consolidated income statement. However, the exchange differences arising from changes in the value of non-monetary items are recognised under equity in the consolidated statement of financial position when arising, whilst exchange differences arising on financial instruments classified at fair value through profit or loss are recognised in the consolidated income statement, without differentiating them from the other changes in fair value.

The assets and liabilities of subsidiaries in currencies other than the Euro have been converted to Euros using the market exchange rate in force at the statement of financial position date, except for non-monetary items valued at historical cost, and the profit/loss for the year of subsidiaries have been converted into Euros using the average exchange rate for the period.

Although differences between domestic and foreign currencies are usually reflected in profit/loss for the year, in certain circumstances they are recognised in the statement of other comprehensive income:

- Financial assets at fair value through other comprehensive income.
- A financial liability designated for hedging investments in a foreign transaction, taking into consideration that this hedging is considered effective.
- Cash flow hedges provided that it is considered as effective hedging.

▪f. Recognition of income and expenses

The most significant criteria used by the Andbank Group to recognise its income and expenses are summarised as follows:

- *Interest income and expenses, dividends and similar items*

  Interest income, interest expenses and similar items are recognised on an accrual basis using the effective interest method, independently of when the associated cash or financial flows arise. Interest accrued on receivables classified as doubtful, including those associated with country risk, is credited to income when collected, as an exception to the general rule. Dividends received from other companies are recognised as income when the right to receive them arises, i.e. when the dividend payment is officially declared by the company's governing body.

- *Fees and commissions*

  The recognition of income and expenses for fees and commissions in the consolidated income statement varies according to the nature of such items.

  Financial fees and commissions, such as loan arrangement fees, are a part of the integral return or effective cost of a financial transaction and are recognised under the same headings as the finance income or costs, i.e. Interest and similar income and Interest and similar charges. These fees and commissions, which are collected in advance, are recognised in the consolidated income statement over the life of the transaction. For financial instruments measured at fair value through profit or loss the fees and commission are recognised immediately in the income statement.

  Non-financial fees and commissions deriving from the provision of services are recognised under Fee and commission income and Fee and commission expense over the period in which the service is provided, except for those relating to services provided in a single act, which are accrued when the single act is carried out.

- *Non-finance income and expense*

  These are recognised for accounting purposes on an accrual basis.

- *Deferred collections and payments*

  These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

▪g. Investment funds, pension funds and other managed equity

Investment funds and pension funds managed by the consolidated companies are not recognised in the Andbank Group's consolidated statement of financial position because the fund assets are owned by third parties. Fees and commissions accrued during the year for this activity are recognised under Fees and Commissions received in the consolidated income statement.

The consolidated statement of financial position does not include other assets managed by the consolidated companies which are owned by third parties and for which a fee is obtained for their management

▪h. Employee benefits

Obligations for contributions to defined contribution plans are considered as an expense in the consolidated income statement. Contributions paid in advance are recognised as an asset as it is understood that reimbursement by part of the funds or a reduction in future payments could take place.

This includes all the types of consideration given in exchange for the services rendered by Andbank Group employees or for termination benefits. They can be classified into three categories:

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

Short-term employee benefits

These reflect benefits to employees, which differ from termination benefits, which are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. They include wages and salaries and social security contributions, paid annual leave and paid sick leave or bonuses and non-monetary benefits for employees.

The cost of services rendered is recognised under Administrative expenses - Staff expenses in the consolidated income statement.

Credit facilities granted to employees under market conditions are considered as non-monetary remuneration and are estimated as the difference between the market conditions and conditions agreed with the employees. This difference is recognised under Administrative expenses – Staff expenses with a balancing entry under Interest and similar income in the consolidated income statement.

Post-employment benefits

Post-employment benefits are those benefits that the Andbank Group has assumed with its employees and which will be settled at the end of their employment with the Andbank Group. They include retirement benefits, e.g. pensions and lump sum payments on retirement and other post-employment benefits such as post-employment life insurance and post-employment medical care.

Other long-term employee benefits

Other long-term employee benefits, such as commitments with early retired personnel (those who have ceased to render services in the Bank but who, without being legally retired, continue with economic rights until being legally retired) and other similar items are recognised, where applicable, with the exception of actuarial gains and losses which are recognised under Provisioning expense in the consolidated income statement.

▪i. Income tax

On 1 December 2011 the General Council of the Principality of Andorra approved Law 17/2011 of 1 December 2011 amending Law 95/2010 of 29 December 2010 on income tax (published in edition 80 of the Official Gazette of the Principality of Andorra (BOPA), dated 28 December 2011). This Law came into force the day after it was published in the BOPA and applies to taxation periods starting after 1 January 2012. The Bank pays tax at a rate of 10%.

On 13 June 2012 the Andorran Government approved the Regulation regulating Law 95/2010 of 29 December 2010 on income tax and Law 96/2010 of 29 December 2010 on taxation of economic activities, which sets out the formal obligations of the parties required to pay these taxes as well as the system for managing, settling and monitoring the aforementioned taxes.

Payment on account is calculated by applying 50% to the net tax payable for the prior year.

Taxable income is determined using the direct determination method and is calculated by adjusting the accounting profit, in accordance with the Accounting Plan for the Financial Sector, applying the principles and criteria of classification, valuation and temporary recognition set out in the requirements of the Income tax law, which permit off-balance sheet adjustments. Income tax expense represents the sum of the income tax expense for the year and the effect of the changes in deferred tax assets and liabilities and tax credits.

Both positive and negative off-balance sheet tax adjustments can be permanent or temporary according to whether they are reversed or not in subsequent tax periods. The income tax expense for each year is calculated based on profit before tax, adjusted for permanent differences with fiscal criteria and less any applicable tax credits and deductions. The tax effects of temporary differences, unused credits for tax losses and rights to deductions and credits pending application are included, where applicable, in the corresponding consolidated statement of financial position captions, classified on the basis of the term according to the forecast review or realisation period.

Deferred tax assets and liabilities include temporary differences identified as those amounts which are payable or recoverable for differences between the carrying amounts of assets and liabilities and their tax value, as well as tax loss carryforwards and credits for tax credits not applicable for tax purposes. These amounts are recognised by applying the temporary difference or credit at the tax rates at which they are expected to be recovered or settled.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets identified with temporary differences, unused tax losses and unused tax credits are only recognised to the extent that it is considered probable that the Bank has future taxable profit against which they can be utilised.

At each reporting date, recognised deferred tax assets and liabilities are reviewed for the purpose of verifying that they remain effective and the appropriate corrections are made on the basis of the results of the analysis carried out.

This expense is recognised under Expenses or income due to income tax on continuing operations in the income statement, for the amount accrued during the year, and in the statement of financial position under Tax assets for the amount payable and the amount of withholdings and payments on account.

▪j. Indirect tax on goods delivered, services rendered and imports

In its session held on 21 June 2012 the General Council of the Principality of Andorra approved the Law governing indirect general taxation (IGI) which entered into force on 1 January 2013. This tax is levied on goods delivered, service rendered and imports made by onerous contract in Andorra by business people or professionals usually or occasionally as part of their economic activity, irrespective of the purpose or the results achieved in the economic activity or in each particular transaction, including the condition of importer.

The general tax rate is 4.5%, with a reduced rate of 1% and an increased rate of 9.5%, which is only applied to banking and financial services rendered.

The fifth additional provision to Law 11/2012 governing Indirect General Tax approved by Law 10/2014 of 3 June 2014 amending Law 11/2012, stipulates a special tax regime for the financial sector to which banks and non-banking specialised credit institutions carrying out activities subject to the increased tax rate stipulated in article 60 of the Law must adhere. This special regime entered into force on 1 July 2014. This regime restricts the deduction of input tax to a maximum amount equivalent to 10% of the output tax at a rate of 9.5% for the rendering of bank and financial services.

The settlement period depends on the annual net turnover for all of the activities carried out by the tax payer in the immediately previous year. Payments can be made half-yearly, quarterly or monthly. Tax payers have to determine the tax debt in each settlement period, reducing the general indirect tax payable during the period by the general indirect tax instalments receivable, which are deductible in nature. The entry into force of Law 11/2012 of 21 June 2012 governing Indirect General Tax and subsequent amendments repeals the Law governing indirect taxation on the rendering of banking and financial services of 14 May 2002.

▪k. Non-resident income tax

In accordance with Law 94/2010 of 29 December 2010 on non-resident income tax (hereinafter Law 94/2010) which taxes the income obtained in Andorra by individuals and entities considered by law as non-resident for tax purposes, the Andbank Group companies resident for tax purposes in Andorra are subject to withholding and has applied withholding of 10% on non-resident suppliers of services since 1 April 2011, the enactment date of this law. On 1 December 2011 the General Council of the Principality of Andorra approved Law 18/2011 of 1 December 2011 amending Law 94/2010 which will be applicable as of 1 January 2012.

The Andbank Group recognises transitory balances corresponding to personal income tax collected from non-residents under Other liabilities/Taxes/Tax collection accounts, provided that payment has not been definitively made to the corresponding authority.

▪l. Law 5/2014 of 24 April 2014 on personal income tax

On 24 April 2014 the General Council of the Principality of Andorra approved Law 5/2014 on personal income tax which entered into force on 1 January 2015. This law constitutes a basic pillar of the Principality of Andorra's economic opening process, to the extent that it involves the creation of personal income tax which is compatible with that existing in neighbouring countries, the European Union and the OECD.

This tax is levied, inter alia, on the savings of taxpayers and individuals, specifically interest and similar income (investment yield), as well as capital gains or losses at a tax rate of 10%.

The Andbank Group recognises transitory balances corresponding to personal income tax collected under Other liabilities/Taxes/Tax collection accounts in the consolidated statement of financial position, provided that payment has not been definitively made to the corresponding authority.

▪m. Tax assets and liabilities

Deferred tax assets and deferred tax liabilities include temporary differences which are defined as the amounts to be settled or recovered in future periods arising from differences between the carrying amount of an asset or liability and their corresponding tax bases (tax value), as well as unused tax losses and unused tax credits and tax rebates not applied. These amounts are recognised by applying to each temporary difference the tax rate at which they are expected to be recovered or settled.

Tax assets in the consolidated statement of financial position include the amount of all the assets of a tax nature, differentiating between: Current tax assets (amounts recoverable for taxes in the next twelve months) and Deferred tax assets (the amounts of taxes recoverable in future periods, including those deriving from unused tax losses or tax credits). Tax liabilities in the consolidated statement of financial position include the amount of all the liabilities of a tax nature, except for provisions for taxes, differentiating between: Current tax liabilities (amount to be settled in the next twelve months for income tax in respect of the taxable profit for the period and other taxes) and Deferred tax liabilities (which represent income taxes payable in future periods).

Deferred tax liabilities arising from temporary differences associated with investments in subsidiaries, associates or jointly-controlled entities are recognised, except if the Andbank Group is able to control the timing of the reversal of the temporary difference and it is not probable that the difference will reverse in the future. Deferred tax assets are only recognised provided that it is probable that the consolidated entities will have sufficient taxable income against which they can be utilised and that they do not arise from the initial recognition (in a business combination) of other assets and liabilities in a transaction that affects neither accounting profit nor taxable income.

At each reporting date, the Andbank Group reviews recognised deferred tax assets and liabilities for the purpose of verifying that they remain effective and the appropriate adjustments are made on the basis of the findings of the analyses performed. In those circumstances in which it is uncertain how a specific requirement of the tax law applies to a particular transaction or circumstance, and the acceptability of the definitive tax treatment depends on the decisions taken by the relevant taxation authorities in the future, the entity recognises and measures current and deferred tax assets and liabilities, where applicable, considering whether it is probable or not that the taxation authorities will accept a certain uncertain tax treatment, then the valuation of the corresponding tax assets or liabilities reflects the amounts that the entity intends to recover from (pay to) to the taxation authorities.

Income or expenses recognised directly in equity that do not increase or decrease taxable income are accounted for as temporary differences.

▪n. Tangible assets

Tangible assets include buildings, land, furniture, vehicles, IT equipment and other installations acquired under ownership or under finance lease. Tangible assets are disclosed in the consolidated statement of financial position as follows: Tangible assets and Investment property.

Tangible assets include those for own use and assets under operating lease. Tangible assets for own use include assets, that the Andbank Group has for present or future administrative uses or for the production or supply of goods, that are expected to be used for more than one financial year.

Tangible assets are normally recognised at acquisition cost less accumulated depreciation and any adjustment resulting from a comparison of the net value with the corresponding recoverable amount.

Depreciation is calculated on a straight-line basis on the acquisition cost of the assets less their residual value. As an exception, land is not depreciated because it is estimated that it has an indefinite useful life.

Depreciation of tangible assets is charged to Amortisation and depreciation in the consolidated income statement, and is basically calculated using the following rates based on the estimated useful life of each asset type:

Depreciation of tangible assets	Estimated years of useful life
Buildings	
Buildings for own use	33
Installations and machinery	10
Furniture and fixtures	5 - 8
Electronic equipment	5 - 8
Other	5

At each reporting date, the Andbank Group analyses whether there are indications that the net value of tangible assets exceeds their corresponding recoverable amount, understood as the higher amount between the fair value less costs to sell and value in use.

The Andbank Group's tangible assets for own use mainly comprise those allocated to the Bank Business cash generating unit (CGU). This CGU is tested for impairment to verify that sufficient cash flows are generated to support the value of the assets included therein. If it is determined that it is necessary to recognise an impairment loss, it is recognised under Impairment losses on other assets (net) - Other assets in the consolidated income statement, reducing the carrying amount of the assets to their recoverable amount. After recognition of the impairment loss, future depreciation charges are adjusted in proportion to the adjusted carrying amount and the remaining useful life.

Similarly, when it can be observed that the value of the assets has been recovered, the Andbank Group recognises the reversal of the impairment loss recognised in prior periods and adjusts the future depreciation charges accordingly. Under no circumstances may the reversal of an impairment loss on an asset increase its carrying amount above the carrying amount it would have if no impairment losses had been recognised in previous years.

Once a year, or when circumstances make it advisable, the estimated useful lives of tangible assets are reviewed and any necessary adjustments made to the depreciation to be charged to the consolidated income statement in future financial years.

Upkeep and maintenance expenses are charged to Administrative expenses - Other general administrative expenses in the consolidated income statement. Likewise, operating income on investment property is recognised under Other operating income in the consolidated income statement, whilst associated operating expenses are recognised under Other operating expenses.

After initial recognition of the asset, only those costs incurred which will generate future economic benefits, which can be qualified as probable, and for which the amount of the aforementioned costs can be reliably measured are capitalised. In this regard, costs of day-to-day servicing are recognised in profit or loss as incurred.

Replacements of tangible assets that qualify for capitalisation are recognised as a reduction in the carrying amount of the items replaced. Where the cost of the replaced items has not been depreciated independently and it is not possible to determine the respective carrying amount, the replacement cost is used as indicative of the cost of items at the time of acquisition or construction.

Increases in the carrying amount of each tangible asset item, as a result of the revaluation, are accounted for in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset. The revaluation decreases of each tangible asset item are recognised in other comprehensive income up to the amount of any revaluation previously recognised for each asset. Any excess is recognised in profit or loss.

Revaluations accounted for in other comprehensive income are transferred to reserves upon sale or disposal of each asset.

- *Disposals*

The Andbank Group recognises the disposal of tangible assets when they are disposed of or when it is expected that no future economic benefits will be received for their use or disposal. The disposal date is the date on which the purchaser acquires control of the assets as indicated in the accounting policy on Revenues from customer contracts. The amount of the consideration for the disposal of tangible assets and the recognition of subsequent changes thereto, is determined by applying the criteria indicated in the accounting policy on Revenues from customer contracts.

The Andbank Group recognises the disposal of the real estate investment when it is disposed of or when it is expected that no future economic benefits will be received for its disposal. The disposal date is the date on which the purchaser acquires control of the investment as indicated in the accounting policy on Revenues from customer contracts. The amount of the consideration for the disposal of the real estate investment and the recognition of subsequent changes, is determined by applying the criteria indicated in the accounting policy on Revenues from customer contracts.

▪o. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which are acquired from third parties or which are developed internally.

- *Goodwill*

Goodwill represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not able to be individually identified and separately recognised. Goodwill is only recognised when the business combinations are made onerously.

In business combinations goodwill arises as the positive difference between:

- The consideration given
- Plus, where applicable, the fair value of the interest held in the assets and liabilities of the acquiree and the amount of the non-controlling interests.
- The fair value net of identified assets acquired less liabilities assumed.

Goodwill is recognised under Intangible assets - Goodwill.

Under no circumstances is goodwill amortised.

At each reporting date or when there are indications of impairment, an estimate is made of whether impairment has arisen which reduces the recoverable amount to under the net cost recognised and, if this is the case, they are written off with a balancing entry under Impairment losses on other assets (net) - Goodwill and other intangible assets on the consolidated income statement. Impairment losses are not subject to subsequent reversal.

- *Other intangible assets*

This item includes identifiable intangible assets, including intangible assets arising from business combinations and IT software.

Other intangible assets can be of indefinite useful life when, based on the assessments made of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which it is expected that net cash inflows will be generated for the Andbank Group. In the remaining cases, intangible assets are of finite useful life.

Intangible assets with indefinite useful lives are not amortised. However, at each reporting date or when there are indications of impairment the Andbank Group reviews the remaining useful lives in order to ensure that they are still indefinite or, on the contrary, it proceeds accordingly.

Intangible assets with finite useful lives are amortised on the basis of their useful life, applying criteria similar to those adopted for the depreciation of tangible assets.

The amortisation expense is recognised under Amortisation and depreciation in the consolidated income statement.

Losses arising on the recognised value of these assets, whether of indefinite or finite useful life, are recognised with a balancing entry in Impairment losses on other assets (net) - Goodwill and other intangible assets in the consolidated income statement. The criteria to recognise impairment of these assets and, where applicable, recovery of impairment losses recognised in prior years are similar to those applied for tangible assets.

- *Disposals*

The Andbank Group recognises the disposal of intangible assets when they are disposed of or when it is expected that no future economic benefits will be received for their use or disposal. The disposal date is the date on which the purchaser acquires control of the assets as indicated in the accounting policy. The amount of the consideration for the disposal of intangible assets and the recognition of subsequent changes, is determined by applying the criteria indicated in the accounting policy on Revenues from customer contracts.

p. Non-current assets held for sale and liabilities associated with non-current assets held for sale

The assets recognised in this line item of the consolidated statement of financial position include the carrying amount of individual items or those integrated in a disposal group or which form part of a business unit to be disposed of (discontinued operations), with the sale of the assets being highly probable in their present condition within a period of one year from the date of the consolidated statement of financial position. The recovery of the carrying amount of these items shall foreseeably take place through the price obtained on their disposal.

Specifically, real estate assets or other non-current assets received to fully or partially cancel the payment obligations of debtors for loan operations are considered as Non-current assets held for sale, except if it is decided to continue to use these assets.

Symmetrically, Liabilities associated with non-current assets held for sale in the consolidated statement of financial position include balances payable originating from the disposal groups and discontinued operations.

Non-current assets held for sale are generally measured, initially and subsequently, at the lower of their fair value less costs to sell and carrying amount calculated at the date they were assigned to this category.

The carrying amount at the acquisition date of non-current assets held for sale arising from foreclosures or recoveries is their amortised cost, defined as the balance receivable for loans/credits upon cancellation net of estimated impairment which will be at least 5%. The fair value of non-current assets held for sale arising from foreclosures or recoveries corresponds to the market appraisal value of the asset received in its present condition less costs to sell.

Any foreclosed assets which remain in the consolidated statement of financial position for a period of time longer than initially foreseen for their sale, shall be analysed individually to recognised any impairment loss arising subsequent to their acquisition. Impairment testing shall take into consideration, in addition to the reasonable offers received in the period prior to the sale price offered, the difficulties in finding purchasers, as well as, in the case of tangible assets, any physical deterioration which could have impaired their value.

At 31 December 2019 the fair value of these assets has been determined using appraisals.

Available-for-sale non-current assets are not depreciated whilst they remain in these categories.

Impairment losses of an asset or disposal group, due to reductions in their carrying amount to their fair value (less costs to sell) are recognised under Gains(Losses) on non-current assets held for sale not classified as discontinued operations in the consolidated income statement. Gains on a non-current asset held for sale due to subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the same line item of the consolidated income statement up to an amount equal to that of the previously recognised impairment losses.

▪q. Leases

As of 1 January 2019 IFRS 16 Leases replaces IAS 17 Leases and includes amendments to lessee accounting. The Andbank Group has opted to apply the modified retrospective approach and, consequently, has not re-expressed for comparative purposes the 2018 figures to which the accounting policies stipulated by IAS 7 were applied, as permitted by the standard. A description of the accounting policies under IAS 7 and IFRS 16 is provided separately.

Policy applicable as of 1 January 2019 (IFRS 16):
The single lessee accounting model requires that assets and liabilities for all lease contracts are recognised. The standard presents two exceptions to the recognition of lease assets and liabilities, which can be applied in the case of short-term leases and leases for which the underlying asset is of low value. The lessee must recognise a right-of-use asset which represents its right to use the leased asset that is recognised under Tangible assets - Property, plant and equipment and Tangible assets - Investment property on the statement of financial position (see note 13) and a lease liability that represents its obligation to make lease payments which are recognised under Financial liabilities measured at amortised cost - Other financial liabilities on the statement of financial position (see note 18).

At the lease commencement date the lease liability represents the present value of all the outstanding lease payments Liabilities recognised in this line item of the statement of financial position are measured, after their initial recognition, at amortised cost, in accordance with the effective interest rate method. Right-of-use assets are initially recognised at cost. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs incurred; and an estimate of costs to be incurred by the lessee such as costs relating to the dismantling and removing of the underlying asset. The assets recognised in this line item of the statement of financial position are measured, after their initial recognition, at cost, less:

- Any accumulated depreciation and any accumulated impairment losses; and
- Any corresponding remeasurement of the lease liability.

Interest expense on the lease liability is recognised in the income statement under Interest expense (see note 28). Variable lease payments not included in the initial measurement of the lease liability are recognised under Administrative expenses - Other administrative expenses (see note 31).

Depreciation is calculated on a straight-line basis on the acquisition cost of the assets over the lease term. Depreciation charges on tangible assets are recognised under Depreciation on the consolidated income statement.

In the event of opting for one of the two exceptions for not recognising the corresponding right-of-use and liability in the statement of financial position, lease payments are recognised in the income statement over the lease term or on a straight-line basis or another basis that best represents the structure of the lease transaction under Other operating expenses.

Income from subleasing and operating leases is recognised in the income statement under Other operating income,

The lessor accounting model requires that, from the commencement date, leases are classified as finance leases when they transfer substantially all the risks and rewards incidental to ownership of the underlying asset. Leases that are not finance leases are considered operating leases.

For finance leases, when the Bank acts as the lessor of an asset, the sum of the present values of the amounts receivable by a lessor plus the guaranteed residual value, which normally is equivalent to the price of exercising the purchase option by the lessee at the end of the lease, is recognised as financing to third parties, and included under Financial assets at amortised cost on the statement of financial position.

For operating leases, if the Bank acts as the lessor, the cost of acquisition of the leased assets is recognised under Tangible assets - Property, plant and equipment - Leased out under operating lease on the statement of financial position. These assets are depreciated in accordance with the policies adopted for similar tangible assets of own use and income and expense arising from leases are recognised in the income statement on a straight-line basis under Other operating income and Other operating expenses, respectively.

In the event of sale and leaseback transactions at fair value, any gains or losses generated on the sale, for the portion effectively transferred, are recognised in the income statement

Policy applicable prior to 1 January 2019 (IAS 7):

- *Finance leases*

  Finance leases are considered to be those in which substantially all the risks and rewards incidental to ownership of the asset subject to the lease are transferred to the lessee.

  In transactions where the Andbank Group acts as lessor of the asset, the lease is recognised as financing under Loans and receivables in the consolidated statement of financial position for the amount resulting from the aggregate present values of cash flows receivable from the lessee These cash flows include the price of exercising the purchase option in favour of the lessee when the contract expires, in those cases where the price is sufficiently lower than the fair value of the asset upon expiry date of the option, in such a way that it is reasonable certain that the option will be exercised.

When the Andbank Group acts as the lessee, the cost of the leased assets is recognised in the corresponding line items of the consolidated statement of financial position according to the nature of the asset and, simultaneously, a liability is recognised for the same amount, which will be the lower of the fair value of the leased assets or aggregate present values of the amounts payable to the lessee plus, where applicable the price of exercising the option.

These assets are amortised using the same criteria used for the remaining assets for own use.

Both finance income when the Andbank Group acts as lessor and finance costs when it acts as lessee are recognised in the consolidated income statement under Interest and similar income or Interest and similar charges, respectively.

- *Operating leases*

Operating leases are considered to be those in which substantially all the risks and rewards incidental to the underlying asset and ownership remain with the lessor.

In transactions where the Andbank Group acts as lessor, the acquisition cost of the leased assets is recognised under Tangible assets in the consolidated statement of financial position. The assets are depreciated using the same criteria used for other tangible assets for own use and income corresponding to these contracts is recognised under Other operating income in the consolidated income statement.

The Andbank Group recognises operating lease income, net of incentives granted, as income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits deriving from the leased asset are diminished.

When the Andbank Group acts as lessee, the expenses from these contracts are recognised under Administrative expenses - Other general administrative expenses in the consolidated income statement.

- *Sale and leaseback transactions*

Any gain or loss generated on asset sale and leaseback transactions is recognised immediately in the consolidated income statement. If the asset is sold at a price lower than its fair value, the gain or loss shall also be immediately recognised in the consolidated income statement, except if the loss is compensated by future lease instalments below market value, which in this case shall be deferred and charged in proportion to the instalments paid during the period over which it is expected to use the asset. On the contrary, if the sale price is higher than the fair value, the excess shall be deferred and charged to the consolidated income statement over the period during which it is expected to use the asset.

In sale and leaseback transactions, the Andbank Group has established a procedure to carry out a prospective follow up of the transaction, paying special attention to the market performance of office rental prices in comparison to rents stipulated by contract payable by the Andbank Group and the situation of sold assets.

The review is carried out annually, unless exceptional circumstances in the office rental market make a higher frequency advisable. The Andbank Group plans to make the necessary provisions if, as a result of the aforementioned review, any permanent and significant situation requiring provision arises.

In addition, at inception, it is evaluated whether the lease agreement includes an embedded derivative financial instrument which requires separation.

▪r. Contingent assets

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised.

Contingent assets are assessed continuously to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

▪s. Provisions

Provisions are recognised when the Andbank Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated. The discount rate is a pre-tax rate that reflects the time value of money and the specific risks for which future cash flows associated with the provision have not been adjusted at each reporting date.

The financial effect of provisions is recognised as a finance cost in profit or loss.

The tax effect and gains on the expected disposal of assets are not taken into account in measuring a provision.

Rights to reimbursement from third parties of the expenditure required to settle a provision are recognised as a separate asset provided that it is virtually certain that the reimbursement will be received. Any income deriving from the reimbursement is recognised in profit or loss as a reduction in the provision expense up to the amount of the provision.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The provision is reversed against the income statement caption in which the related expense was recognised, and any surplus is accounted for in other income.

The Andbank Group's consolidated statement of financial position includes all the significant provisions with respect to circumstances in which it is considered that it is more likely than not that the obligation will have to be settled. Provisions are recognised in the consolidated statement of financial position according to the obligations covered, including provisions for pensions and similar obligations, provisions for taxes and for contingent exposures and commitments.

Provisions, which are quantified based on the best information available regarding the success of their purpose and are re-estimated at each reporting date, are used to cover specific obligations for which they were originally recognised. Provisions are fully or partially reversed when the obligations cease to exist or decrease.

A contingent liability is recognised when a present obligation exists but it is not probable that an outflow of resources embodying economic benefits will exist. Contingent liabilities can perform differently than initially expected and are therefore subject to continuous review for the purpose of determining whether the outflow of resources becomes probable. If it is confirmed that the outflow of resources is more likely than not to occur, the corresponding provision is recognised in the consolidated statement of financial position.

Provisions are recognised as liabilities under Provisions in the consolidated statement of financial position based on the covered obligations. Contingent liabilities are recognised as a memorandum item in the consolidated statement of financial position.

▪t. Insurance transactions

The Andbank Group applies the requirements set out in IFRS 4 - Insurance contracts to all assets and liabilities in its consolidated financial statements which derive from insurance contracts, in accordance with the definition included in the aforementioned standard.

The Andbank Group does not separate any deposit component associated with insurance contracts. This separation is voluntary. Likewise, it is estimated that the fair value of the surrender options issued in favour of the insurance contract policyholders have a value of nil or, on the contrary, their valuation forms part of the value of liabilities under insurance contracts.

In accordance with IFRS, insurance entities have to carry out an adequacy test, in relation to the contractual commitments assumed, on the liabilities under insurance contracts recognised in their consolidated statement of financial position.

For this purpose, the following is determined:

(i) The difference between the carrying amount of its insurance contracts, less deferred acquisition costs or any intangible assets related to the insurance contracts subject to evaluation and the present value of cash flows deriving from insurance contracts and related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees.

(ii) The difference between the carrying amount and present value of projected cash flows from financial assets under insurance contracts.

For the purpose of determining the present value of cash flows from insurance contracts the same interest rate is used as that used to estimate the present value of financial assets under insurance contracts.

When the difference in point i) is higher than the difference in point ii) this reflects that the provisions for insurance contracts recognised in the consolidated statement of financial position are insufficient and this amount is recognised in the consolidated income statement for the period.

Details of the main components included as technical provisions are as follows:

- Provision for unearned premiums and unexpired risks

  The provision for unearned premiums corresponds to the portion of premiums accrued during the year which have been charged to the period between the reporting date and the end of the policy coverage period.

  The purpose of the provision for unexpired risks is to complement the provision for unearned premiums insofar that its amount is insufficient to cover the valuation of all the risks and expenses for the coverage period not elapsed at the reporting date.

- Provision for life insurance

  This provision mainly comprises mathematical provisions for insurance contracts, as well as unearned premiums of insurance contracts with a coverage period equal to or less than a year. Mathematical provisions represent the surplus actuarial present value of the future obligations of subsidiary insurance companies on that of the premiums which have to be paid by the policyholder.

- Provision for life insurance policies where the investment risk is borne by the policyholders.

  This type of provision comprises technical provisions of insurance contracts in which the policyholder bears the risk of the investment.

- Claims provision

  This includes the total outstanding obligations deriving from claims incurred prior to the reporting date. The Andbank Group calculates this provision as the difference between the estimated or certain total cost of claims to be reported, settled or paid, including external and internal expenses of managing and processing claims and the total amounts already paid for these claims.

- Provisions for bonuses and rebates

  These include the bonuses accrued in favour of insured parties or beneficiaries still not assigned at reporting date. They do not include the effect of assigning the portion of underlying gains from the investment portfolio to the policyholders.

Technical provisions for accepted reinsurance are determined using the same criteria as that used for direct insurance.

Technical provisions for direct insurance and accepted reinsurance are shown as Liabilities under insurance contracts in the consolidated statement of financial position.

Technical provisions linked to risks ceded to reinsurance entities are calculated based on the reinsurance contracts underwritten following similar criteria to those established for direct insurance. The amount is shown as Assets under reinsurance in the consolidated statement of financial position.

The Andbank Group applies the accounting option set out in IFRS 4 known as shadow accounting. In accordance with this accounting option, the standard permits, but does not require that an insurer change its accounting policies so that a recognised but unrealised gain or loss on an asset affects those measurements in the same way that a realised gain or loss does. The related adjustment to the insurance liability (or deferred acquisition costs or intangible assets) is recognised in other comprehensive income if, and only if, the unrealised gains or losses are recognised in other recognised income and expenses.

▪u. Treasury shares

The value of net equity instruments issued by entities under the power of group entities - basically the Bank's shares and derivatives on shares held by certain consolidated companies which meet the requirements to be recognised as equity instruments are recognised, less consolidated equity, under Capital and reserves - Treasury shares in the consolidated statements of financial position.

These financial assets are recognised at cost of acquisition and profit and loss generated on their disposal is credited or charged, where applicable to Capital and reserves - Retained earnings in the consolidated statement of financial position.

4. Distribution of Profit

The directors of Andorra Banc Agrícol Reig, SA will propose to the shareholders at their annual general meeting that the profit for 2019 be distributed as follows:

	Thousands of euros
	2019
Legal reserve	-
Voluntary reserves	30,726
Interim dividend	-
Dividends	-
	30,726

Distribution of profit for the year ended 31 December 2018, approved by the shareholders at their general meeting on 30 April 2019, was as follows:

	Thousands of euros
	2018
Legal reserve	-
Voluntary reserves	16,654
Interim dividend	-
Dividends	-
	16,654

5. Cash, Cash Balances at Central Banks and Other Demand Deposits

Details of cash, cash balances at central banks and other demand deposits at 31 December 2019 and 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Cash	19,209	19,556
Cash balances at central banks	721,153	823,096
Other demand deposits	318,523	590,741
	1,058,885	**1,433,393**

6. Financial Assets and Liabilities Held for Trading

Details of these line items of the consolidated statement of financial position at 31 December 2019 and 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Financial assets held for trading		
Derivatives	76,796	74,495
Equity instruments	7,351	1,269
Debt securities	90,051	125,562
Loans and advances	-	-
	174,198	**201,326**

		Thousands of euros
	31/12/2019	**31/12/2018**
Financial liabilities held for trading		
Derivatives	53,663	66,227
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
	53,663	**66,227**

Note 38 (Risk management) includes certain information relating to credit, liquidity and market risks assumed by the Andbank Group in relation to the financial assets and financial liabilities included in this category, as well as information on the concentration of risks.

In addition, note 39 (Fair value of financial instruments) includes information in relation to the financial instruments for which their carrying amount coincides with their fair value and provides a description of the valuation techniques and input data used to measure fair value.

▪a. Financial assets held for trading

A breakdown of the balance, by type of instrument and issuer, of this line item of the accompanying consolidated financial statements, is as follows:

		Thousands of euros
	31/12/2019	31/12/2018
	Carrying amount	Carrying amount
Derivatives	76,796	74,495
Equity instruments	7,351	1,269
Of which: at cost	-	-
Of which: credit institutions	-	-
Of which: other financial corporations	-	1,254
Of which: non-financial corporations	7,351	15
Debt securities	90,051	125,562
Central banks	-	-
General governments	380	42,448
Credit institutions	23,606	73,487
Other financial corporations	6,301	5,189
Financial corporations	59,764	4,438
	174,198	201,326

A breakdown of the balance, by financial assets held for trading secured by guarantee, of this line item of the accompanying consolidated annual accounts, is as follows:

				Thousands of euros
	31/12/2019		31/12/2018	
	Financial assets pledged as collateral for liabilities	Financial assets not pledged as collateral for liabilities	Financial assets pledged as collateral for liabilities	Financial assets not pledged as collateral for liabilities
Financial assets held for trading				
Derivatives	-	76,796	-	74,495
Equity instruments	-	7,351	-	1,269
Debt securities	7,970	82,081	2,288	123,274
Loans and advances	-	-	-	-
	7,970	166,228	2,288	199,038

▪b. Reclassification of financial assets between categories

There have been no significant reclassifications between financial assets which could have an impact on the income statement or statement of comprehensive income.

▪c. Derivatives

The Andbank Group's derivative portfolio arises from the need to hedge the risks it incurs during the normal course of business, as well as the commercialisation of products to customers.

A breakdown, by type of risk and type of product or market, of the fair value as well as the related notional values, of financial trading derivatives, recognised in the accompanying statement of financial position, differentiating between contracts in organised and non-organised markets at 31 December 2019 and 31 December 2018, is as follows:

			Thousands of euros
			Notional amount
At 31 December 2019	Financial assets held for trading	Financial liabilities held for trading	Total
Interest rate	34,825	11,104	573,326
Of which: economic hedges	34,825	11,104	573,326
OTC options	-	-	-
OTC other	34,825	11,104	573,326
Organised market options	-	-	-
Organised market other	-	-	-
Equity risk	21,310	21,109	284,056
Foreign exchange and gold	2,652	3,080	410,744
Of which: economic hedges	2,652	3,080	410,744
OTC options	-	-	
OTC other	2,652	3,080	410,744
Organised market options	-	-	-
Organised market other	-	-	-
Credit	17,825	18,370	1,069,882
Of which: economic hedges	17,825	18,370	1,069,882
Credit default swap	17,825	18,370	1,069,882
Credit spread options	-	-	-
Total return swaps	-	-	-
Other	-	-	-
Commodity	-	-	-
Of which: Economic hedges	-	-	-
Other	184	-	5,374
Of which: Economic hedges	184	-	5,374
DERIVATIVES	**76,796**	**53,663**	**2,343,382**
Of which: OTC - Credit institutions	43,003	34,758	1,629,454
Of which: OTC - Other financial corporations	33,793	18,905	713,928
Of which: OTC - Other	-	-	-
	76,796	**53,663**	**2,343,382**

At 31 December 2018	Financial assets held for trading	Financial liabilities held for trading	Notional amount Total
			Thousands of euros
Interest rate	15,798	7,468	714,543
Of which: economic hedges	15,008	7,094	678,817
OTC options	(113)	-	28,017
OTC other	15,911	7,468	686,526
Organised market options	-	-	-
Organised market other	-	-	-
Equity risk	43,301	43,221	341,677
Foreign exchange and gold	3,023	2,522	1,096,479
Of which: economic hedges	2,963	2,472	1,074,549
OTC options	-	-	130,435
OTC other	3,023	2,522	966,044
Organised market options	-	-	-
Organised market other	-	-	-
Credit	12,169	13,003	1,056,440
Of which: economic hedges	12,169	13,003	1,056,440
Credit default swap	12,169	13,003	1,056,440
Credit spread options	-	-	-
Total return swaps	-	-	-
Other	-	-	-
Commodity	-	-	-
Of which: Economic hedges	-	-	-
Other	204	13	5,973
Of which: Economic hedges	204	13	5,973
DERIVATIVES	**74,495**	**66,227**	**3,215,112**
Of which: OTC - Credit institutions	49,912	44,087	2,150,615
Of which: OTC - Other financial corporations	21,603	19,456	930,650
Of which: OTC - Other	2,980	2,684	133,847
	74,495	**66,227**	**3,215,112**

7. Non-trading Financial Assets Mandatorily at Fair Value through Profit or Loss

Details of these line items of the statement of financial position at 31 December 2019 and 2018 are as follows:

	31/12/2019	31/12/2018
		Thousands of euros
Equity instruments	10,073	6,279
Debt securities	-	50,376
Loans and advances	-	-
	10,073	**56,655**

8. Financial Assets Designated at Fair Value through Profit or Loss

At 31 December 2019 and 2018 the Bank does not present any balance classified as financial assets or financial liabilities designated at fair value through profit or loss.

9. Financial Assets Designated at Fair Value through Comprehensive Income

Details of this line item of the accompanying statements of financial position at 31 December 2019 and 2018 are as follows:

		Thousands of euros
	31/12/2019	31/12/2018
Equity instruments	23,560	20,838
Debt securities	490,758	397,864
Loans and advances	-	-
	514,318	**418,702**

Details of valuation adjustments to the financial assets designated at fair value through other comprehensive income portfolio are shown in note 21 (Accumulated other comprehensive income).

Note 38 (Risk management) includes certain information relating to credit, liquidity and market risks assumed by the Bank in relation to the financial assets and financial liabilities included in this category, as well as information on the concentration of risks.

In addition, note 39 (Fair value of financial instruments) includes information in relation to the financial instruments for which their carrying amount coincides with their fair value and provides a description of the valuation techniques and input data used to measure fair value.

Details of assets which are not impaired, impaired assets and the cumulative impairment of assets classified as financial assets designated at fair value through other comprehensive income, by type of issuer, at 31 December 2019 and 31 December 2018 are as follows:

				Thousands of euros
At 31 December 2019	Unimpaired assets	Impaired assets	Carrying amount	Accumulated impairment
Equity instruments				
Others (CIU, securitisation)				
Companies	23,560	-	23,560	-
Banking and financial entities	-	-	-	-
	23,560	**-**	**23,560**	**-**
Debt securities				
Central banks	-	-	-	-
General governments	246,683	-	246,683	-
Credit institutions	146,175	-	146,175	-
Other financial corporations	53,202	-	53,202	-
Non-financial corporations	44,698	-	44,698	-
	490,758	**-**	**490,758**	**-**

At 31 December 2018	Unimpaired assets	Impaired assets	Carrying amount	Accumulated impairment
				Thousands of euros
Equity instruments				
Others (CIU, securitisation)	16,317	-	16,317	-
Companies	4,521	-	4,521	-
Banking and financial entities	-	-	-	-
	20,838	**-**	**20,838**	**-**
Debt securities				
Central government and central banks	202,403	-	202,403	-
Others (CIU, securitisation)	34,205	-	34,205	-
Multilateral development banks	-	-	-	-
Companies	60,104	-	60,104	-
Banking and finantial entities	41,536	-	41,536	-
Public sector entities	59,616	-	59,616	-
	397,864	**-**	**397,864**	**-**

10. Financial Assets at Amortised Cost

Details of this line item of the accompanying statement of financial position, taking into consideration the balancing entry for the financial instrument from which they originate, at 31 December 2019 and 2018 are as follows:

31 December 2019	Net carrying amount	Assets without significant increase in credit risk since initial recognition (Stage 1)
Debt securities	**195,424**	**195,424**
Central banks	-	-
General governments	45,656	45,656
Credit institutions	59,483	59,483
Other financial corporations	38,886	38,886
Non-financial corporations	51,399	51,399
Loans and advances	**1,990,130**	**1,791,368**
Central banks	0	-
General governments	45,060	45,287
Credit institutions	379,290	379,290
Other financial corporations	57,896	57,644
Non-financial corporations	671,296	512,610
Households	836,588	796,537
FINANCIAL ASSETS AT AMORTISED COST	**2,185,554**	**1,986,792**

31 de desembre de 2018	Net carrying amount	Assets without significant increase in credit risk since initial recognition (Stage 1)
Debt securities	**181,391**	**181,391**
Central banks	-	-
General governments	112,091	112,091
Credit institutions	30,077	30,077
Other financial corporations	38,390	38,390
Non-financial corporations	833	833
Loans and advances	**1,699,334**	**1,491,892**
Central banks	-	-
General governments	43,420	43,638
Credit institutions	241,816	241,817
Other financial corporations	50,905	50,783
Non-financial corporations	651,312	500,561
Households	711,881	655,093
FINANCIAL ASSETS AT AMORTISED COST	**1,880,725**	**1,673,283**

Note 38 (Risk management) includes certain information relating to interest rate, liquidity and market risks assumed by the Andbank Group in relation to the financial assets and financial liabilities included in this category, as well as information on the concentration of risks.

Thousands of euros

	Gross carrying amount		Accumulated impairment		
	Assets with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	Credit-impaired assets (Stage 3)	Assets without significant increase in credit risk since initial recognition (Stage 1)	Assets with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	Credit-impaired assets (Stage 3)
	-	**-**	**-**	**-**	**-**
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	200,293	**47,269**	**(1,567)**	**(31,894)**	**(15,340)**
	-	-	-	-	-
	-	-	(226)	-	-
	-	-	-	-	-
	160	184	(12)	(1)	(79)
	159,528	29,013	(534)	(23,593)	(5,728)
	40,605	18,072	(795)	(8,300)	(9,533)
	200,293	**47,269**	**(1,567)**	**(31,894)**	**(15,340)**

Thousands of euros

	Gross carrying amount		Accumulated impairment		
	Assets with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	Credit-impaired assets (Stage 3)	Assets without significant increase in credit risk since initial recognition (Stage 1)	Assets with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	Credit-impaired assets (Stage 3)
	-	**-**	**-**	**-**	**-**
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	211,012	**53,847**	**(2,221)**	**(33,044)**	**(22,152)**
	-	-	-	-	-
	-	-	(218)	-	-
	-	-	-	-	-
	6	184	(14)	(5)	(49)
	154,343	29,706	(940)	(24,287)	(8,072)
	56,663	23,957	(1,049)	(8,752)	(14,031)
	211,012	**53,847**	**(2,221)**	**(33,044)**	**(22,152)**

▪a. Details of loans and receivables by sector of activity and type of product

Details of the subheadings comprising loans and receivables, by sector of activity and type of product, at 31 December 2019 and 2018 are as follows:

Thousands of euros

31 December 2019	Gross carrying amount	Net carrying amount					
		Central banks	General governments	Credit institutions	Other financial corporations	Other financial corporations	Households
On demand and short notice (current account)	1,052,689	721,153	127	318,523	313	6,401	6,171
Credit card debt	5,700	-	-	54	71	832	4,650
Trade receivables	2,513	-	-	9	3	2,426	54
Finance leases	-	-	-	-	-	-	-
Reverse repurchase loans	372,931	-	-	372,931	-	-	-
Other term loans	1,644,775	-	44,934	6,296	57,509	661,638	825,712
Advances that are not loans	-	-	-	-	-	-	-
Loans and advances	**3,078,608**	**721,153**	**45,061**	**697,813**	**57,896**	**671,297**	**836,587**

Thousands of euros

31 December 2018	Gross carrying amount	Net carrying amount					
		Central banks	General governments	Credit institutions	Other financial corporations	Other financial corporations	Households
On demand and short notice (current account)	1,427,063	823,095	227	590,741	13	4,223	8,205
Credit card debt	5,364	-	-	-	76	771	4,288
Trade receivables	2,346	-	-	-	1	2,255	71
Finance leases	-	-	-	-	-	-	-
Reverse repurchase loans	-	-	-	-	-	-	-
Other term loans	1,735,814	-	43,193	241,817	50,815	644,063	699,318
Advances that are not loans	-	-	-	-	-	-	-
Loans and advances	**3,170,587**	**823,095**	**43,420**	**832,558**	**50,905**	**651,312**	**711,882**

▪b. Valuation adjustments of loans and receivables

An essential instrument used for managing credit risk is that of ensuring that financial assets acquired or contracted by the Bank include collateral securities and other loan enhancements in addition to the debtor's personal guarantee.

The Bank's policies for analysing and selecting risk define, based on the different characteristics of the operations, such as the purpose of risk, counterparty, maturity period, use of own funds etc., the collateral securities or loan enhancements required in addition to the debtor's personal guarantee for such arrangements to be contracted (see note 38(c) Credit risk management).

Collateral securities are measured based on the nature of the collateral received. Generally, collateral securities in the form of real estate are measured at their appraisal value, calculated by independent entities.

With a frequency of at least one year the Bank must verify the existence of indications of significant decreases in its benchmark valuations for operations classified as standard exposure with real estate guarantees. Only in the case that evidence of losses in value of this collateral exists or in those cases in which impairment in the debtor's solvency arises which could imply that these guarantees could have been used, this valuation is updated based on the same criteria: collateral securities in the form of securities quoted in active markets are measured at quoted value, adjusted by a percentage to cover any possible variations in this market value which could jeopardise the coverage of the risk; guarantees and similar collateral used to cover credit risk are measured, for the purpose of determining the coverage, at nominal amount which is equivalent to the covered risk; guarantees in the form of pledged deposits are measured at the value of these deposits and in the event they are denominated in foreign currency they are converted at the exchange rate at each valuation date.

▪c. Details of loans and advances based on collateral securities and personal securities

Details of loans and advances based on collateral securities and the maximum credit risk covered by each of these guarantees, at 31 December 2019 and 2018, are as follows:

					Thousands of euros
	Loans collateralised by immovable property		Other loans with collateral security		Total
31 December 2019	Residential immovable property	Commercial immovable property	Cash (debt securities issued)	Other	Total
Loans and advances	**629,490**	**217,228**	**149,625**	**275,846**	**1,272,189**
Of which: Other financial corporations	1,238	155	16,199	37,804	55,397
Of which: Non-financial corporations	212,493	187,010	52,859	90,351	542,712
Of which: Households	415,759	30,063	80,567	147,691	674,080

					Thousands of euros
	Loans collateralised by immovable property		Other loans with collateral security		Total
31 December 2018	Residential immovable property	Commercial immovable property	Cash (debt securities issued)	Other	Total
Loans and advances	**467,308**	**223,539**	**132,879**	**248,441**	**1,072,167**
Of which: Other financial corporations	850	-	6,647	37,460	44,957
Of which: Non-financial corporations	167,614	185,093	63,778	93,058	509,543
Of which: Households	298,844	38,446	62,454	117,923	517,667

▪d. Details of loans and advances by activity

Details of net loans and advances to customers by activity at 31 December 2019 and 31 December 2018 are as follows:

								Thousands of euros
				LTV				
31 December 2019	Total 31 December 2019	Of which: Real estate guarantees	Of which: other collateral security	Lower or equal to 40%	Higher than 40% and less than or equal to 60%	Higher than 60% and less than or equal to 80%	Higher than 80% and less than or equal to 100%	Higher than 100%
General governments	45,060	-	-	-	-	-	-	-
Credit institutions	379,290	-	-	-	-	-	-	-
Other financial corporations	57,897	155	78,568	21,541	20,348	12,875	23,959	-
Non-financial corporations	671,296	261,982	358,483	172,412	318,972	110,248	9,812	9,021
Households	836,587	359,450	429,126	204,628	205,678	282,852	61,297	34,120
Subtotal	**1,990,130**	**621,587**	**866,177**	**398,581**	**544,998**	**405,975**	**95,068**	**43,141**

								Thousands of euros
				LTV				
31 December 2018	Total 31 December 2018	Of which: Real estate guarantees	Of which: other collateral security	Lower or equal to 40%	Higher than 40% and less than or equal to 60%	Higher than 60% and less than or equal to 80%	Higher than 80% and less than or equal to 100%	Higher than 100%
General governments	43,420	-	-	-	-	-	-	-
Credit institutions	241,816	-	-	-	-	-	-	-
Other financial corporations	50,904	161	73,212	973	19,483	15,019	37,897	-
Non-financial corporations	651,312	343,433	240,114	138,127	281,329	143,088	10,112	10,892
Households	711,882	346,749	297,070	166,851	190,280	185,631	70,908	30,150
Subtotal	**1,699,334**	**690,343**	**610,396**	**305,951**	**491,092**	**343,738**	**118,917**	**41,042**

At 31 December 2019 assets classified as doubtful amount to Euros 47,269 thousand (Euros 53,847 thousand at 31 December 2018). These amounts do not include guarantees given which amount to Euros 107,585 thousand at 31 December 2019 (Euros 101,195 thousand at 31 December 2018).

11. Derivatives - Hedge Accounting and Fair Value Changes

The balances of these line items of the accompanying statements of financial position are as follows:

		Thousands of euros
Derivatives - Hedge accounting and changes in fair value	**31/12/2019**	**31/12/2018**
ASSETS	**5,431**	**3,809**
Derivatives - Hedge accounting	822	-
Changes in the fair value of hedged items in portfolio hedges of interest risk	4,609	3,809
LIABILITIES	**5,224**	**7,322**
Derivatives - Hedge accounting	5,224	7,322
Changes in the fair value of hedged items in portfolio hedges of interest risk	-	-

At 31 December 2019 and 2018 the Bank's main hedged positions and the derivatives designated to hedge those positions correspond to hedges of fixed interest rate loans, using interest rate derivatives and cash flow hedges of future commitments.

Note 38 (Risk management) includes certain information relating to interest rate, liquidity and market risks assumed by the Andbank Group in relation to the financial assets and financial liabilities included in this category, as well as information on the concentration of risks.

In addition, note 39 (Fair value of financial instruments) includes information in relation to the financial instruments for which their carrying amount coincides with their fair value and provides a description of the valuation techniques and input data used to measure fair value.

Details of the carrying amount of hedging instruments, as well as the nominal amounts of hedging financial derivatives in the accompanying consolidated statement of financial position at 31 December 2019 and 2018, distinguishing between risk category for each kind of hedge, are as follows:

				Thousands of euros
	Carrying amount		**Notional amount**	
31 December 2019	Assets	Liabilities	Total hedges	Of which: sold
FAIR VALUE HEDGES				
Interest rate	-	3,970	5,653	-
OTC options	-	-	-	-
OTC other	-	3,970	5,653	-
Organised market options	-	-	-	-
Organised market other	-	-	-	-
CASH FLOW HEDGES	822	1,254	200,624	-
TOTAL DERIVATIVES - HEDGE ACCOUNTING	**822**	**5,224**	**206,277**	**-**
Of which: OTC - Credit institutions	822	5,224	206,277	-
Of which: OTC - Other financial corporations	-	-	-	-
Of which: OTC - Other	-	-	-	-

31 December 2018	Carrying amount		Notional amount	
	Assets	Liabilities	Total hedges	Of which: sold
FAIR VALUE HEDGES	**-**	**-**	**-**	**-**
Interest rate	-	3,041	5,603	-
OTC options	-	-	-	-
OTC other	-	3,041	5,603	-
Organised market options	-	-	-	-
Organised market other	-	-	-	-
CASH FLOW HEDGES	-	4,281	189,382	-
TOTAL DERIVATIVES - HEDGE ACCOUNTING	**-**	**7,322**	**194,985**	**-**
Of which: OTC - Credit institutions	-	7,322	194,985	-
Of which: OTC - Other financial corporations	-	-	-	-
Of which: OTC - Other	-	-	-	-

Thousands of euros

12. Investments in Subsidiaries, Joint Ventures and Associates

Details, by company, of Investments in subsidiaries, joint ventures and associates at 31 December 2019 and 2018 in the accompanying consolidated statements of financial position are as follows:

2019 — Thousands of euros

Company name	Investment	Impairment	Cost	Total
Medipatrimonia Invest, SL	51.00%	-	2,000	2,000
Sigma M. Partners, LTD	49.78%	-	862	862
		-	**2,862**	**2,862**

2018 — Thousands of euros

Company name	Investment	Impairment	Cost	Total
Medipatrimonia Invest, SL	51.00%	-	2,000	2,000
Sigma M. Partners, LTD	49.78%	-	978	978
		-	**2,978**	**2,978**

The Andbank Group fully consolidates subsidiaries, with the exception of Medipatrimonia Invest, SL and Sigma M. Partners, LTD, which are directly consolidated.

13. Tangible Assets

A breakdown of items included in Tangible assets during 2019 and 2018 is as follows:

Thousands of euros

	31/12/2019	31/12/2018
Tangible assets		
Property, plant and equipment	137,882	24,719
For own use	137,882	24,719
Leased out under operating lease	-	-
Earmarked for social projects (savings bank and credit cooperatives)	-	-
Investment property	9,105	6,270
Of which: Leased out under finance lease	-	-
	146,987	**30,989**

As a result of the entry into force of IFRS 16 on 1 January 2019, the Company has recognised right-of-use assets for an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position before the date of initial application.

The right-of-use corresponds mainly to the lease of premises where some of the Group companies' offices are located (see note 2.f).

▪a. Movement in tangible assets

A breakdown of tangible assets, based on the nature of the items included therein, is as follows:

31 December 2019			
	31/12/2018	Additions	Disposals
Cost			
FOR OPERATING ACTIVITIES			
Land	1,246	-	(1,558)
Buildings	13,483	58	(2,109)
Furniture	9,972	41	(31)
Installations	25,256	4,596	(1,761)
IT equipment	28,887	1,180	(1,678)
Vehicles	2,001	196	(411)
Under construction	1,857	741	-
Rights-of-use	-	121,007	-
Subtotal	**82,702**	**127,819**	**(7,548)**
FOR NON-OPERATING ACTIVITIES			
Land	-	-	-
Buildings	1,601	-	(466)
Installations	830	3	(3)
IT equipment	104	-	-
Furniture	36	-	-
Vehicles	458	-	-
Investment property	6,595	881	(619)
Subtotal	**9,624**	**884**	**(1,088)**
Accumulated depreciation			
FOR OPERATING ACTIVITIES			
Buildings	(6,168)	(172)	1,265
Furniture	(8,210)	(138)	29
Installations	(16,880)	(1,904)	1,806
IT equipment	(26,426)	(1,025)	2,255
Vehicles	(1,284)	(272)	234
Rights-of-use	-	(12,119)	-
Subtotal	**(58,968)**	**(15,630)**	**5,589**
FOR NON-OPERATING ACTIVITIES			
Buildings	(751)	(50)	498
Installations	(900)	(4)	-
IT equipment	(100)	(3)	-
Furniture	(33)	-	-
Operating leases	(260)	-	-
Investment property	(325)	(141)	40
Subtotal	**(2,369)**	**(198)**	**538**
Net balance	**30,989**	**112,875**	**(2,509)**

Thousands of euros

Transfers to/from non-current assets for sale	Other transfers	Exchange differences, net	Other movements	31/12/2019
-	312	-	-	-
-	(312)	-	-	11,120
-	-	-	-	9,982
-	-	-	-	28,091
-	3,608	-	-	31,997
-	-	-	-	1,786
-	(650)	-	-	1,948
	-		-	121,007
-	**2,958**	**-**	**-**	**205,931**
-	-	-	-	-
-	-	-	-	1,135
-	-	-	-	830
-	-	-	-	104
-	-	-	-	36
-	-	-	-	458
2,674	-	-	-	9,531
2,674	**-**	**-**	**-**	**12,094**
-	-	-	-	(5,075)
-	-	-	-	(8,319)
-	-	-	-	(16,978)
-	-	-	-	(25,196)
-	-	-	-	(1,322)
			-	(12,119)
-	**-**	**-**	**-**	**(69,009)**
-	-	-	-	(303)
-	-	-	-	(904)
-	-	-	-	(103)
-	-	-	-	(33)
-	-	-	-	(260)
-	-	-	-	(426)
-	**-**	**-**	**-**	**(2,029)**
2,674	**2,958**	**-**	**-**	**146,987**

31 December 2018			
	31/12/2017	Additions	Disposals
Cost			
FOR OPERATING ACTIVITIES			
Land	3,099	-	(1,853)
Buildings	6,843	24	(216)
Furniture	10,032	118	(178)
Installations	23,880	49	(467)
IT equipment	27,518	1,362	(23)
Vehicles	1,604	506	(109)
Under construction	1,825	62	-
Subtotal	**74,801**	**2,121**	**(2,846)**
FOR NON-OPERATING ACTIVITIES			
Land	-	-	-
Buildings	1,966	-	(365)
Installations	976	-	(146)
IT equipment	104	-	-
Furniture	41	-	(5)
Vehicles	458	-	-
Investment property	12,416	1,064	(8,606)
Subtotal	**15,961**	**1,064**	**(9,122)**
Accumulated depreciation			
FOR OPERATING ACTIVITIES			
Buildings	(5,398)	(232)	608
Furniture	(7,919)	(294)	3
Installations	(14,901)	(757)	283
IT equipment	(24,876)	(1,627)	77
Vehicles	(1,111)	(274)	101
Subtotal	**(54,205)**	**(3,184)**	**1,072**
FOR NON-OPERATING ACTIVITIES			
Buildings	(977)	(56)	282
Installations	(895)	(5)	-
IT equipment	(96)	(4)	-
Furniture	(38)	-	5
Operating leases	(256)	(4)	-
Investment property	(13)	(312)	340
Subtotal	**(2,275)**	**(381)**	**627**
Net balance	**34,282**	**(380)**	**(10,269)**

During 2019 and 2018 no interest or exchange differences corresponding to fixed assets have been capitalised.

At 31 December 2019 all these items remain under ownership by the Bank and are used for its activity.

Thousands of euros

	Transfers to/from non-current assets for sale	Other transfers	Exchange differences, net	Other movements	31/12/2018
	-	-	-	-	1,246
	-	-	-	6,832	13,483
	-	-	-	-	9,972
	-	-	-	1,794	25,256
	-	30	-	-	28,887
	-	-	-	-	2,001
	-	(30)	-	-	1,857
	-	**-**	**-**	**8,626**	**82,702**
	-	-	-	-	-
	-	-	-	-	1,601
	-	-	-	-	830
	-	-	-	-	104
	-	-	-	-	36
	-	-	-	-	458
	1,721	-	-	-	6,595
	1,721	**-**	**-**	**-**	**9,624**
	-	-	-	(1,146)	(6,168)
	-	-	-	-	(8,210)
	-	-	-	(1,505)	(16,880)
	-	-	-	-	(26,426)
	-	-	-	-	(1,284)
	-	**-**	**-**	**(2,651)**	**(58,968)**
	-	-	-	-	(751)
	-	-	-	-	(900)
	-	-	-	-	(100)
	-	-	-	-	(33)
	-	-	-	-	(260)
	(340)	-	-	-	(325)
	(340)	**-**	**-**	**-**	**(2,369)**
	1,381	**-**	**-**	**5,975**	**30,989**

▪b. Revalued assets

With express authorisation granted by the AFA on 9 December 2008, the Bank revalued the carrying amount of the buildings housing its headquarters and network of branches with effective date 30 November 2008. Every two years, through an appraisal conducted by an independent expert, the aforementioned assets are tested to determine whether their market value is higher than their carrying amount, the appropriate provisions being recognised where this is not the case. At 31 December 2019 it has not been necessary to revalue the carrying amount of buildings used in operations.

▪c. Investment property

Tangible assets include an amount of Euros 9,105 thousand which reflect the Bank's investment property. The Bank does not receive any significant revenues from rents, nor does it incur any direct expenses arising from investment property. In addition, there are no contractual purchase, construction or development obligations on the investment property held at 31 December 2019.

14. Intangible Assets

▪a. Goodwill

A breakdown of the balance and movement in this item of the accompanying consolidated statements of financial position, by company, is as follows:

					Thousands of euros
	31/12/2018	Additions	Exchange differences, net	Other adjustments	31/12/2019
Cost	163,929	6,719	-	(1,432)	169,216
Accumulated impairment	-	-	-	-	-
	163,929	**6,719**	**-**	**(1,432)**	**169,216**

					Thousands of euros
	31/12/2017	Additions	Exchange differences, net	Other adjustments	31/12/2018
Cost	157,303	6,620	-	6	163,929
Accumulated impairment	-	-	-	-	-
	157,303	**6,620**	**-**	**6**	**163,929**

The acquisition of Quest Capital Advisers, S.A. on 17 December 2009 generated goodwill of Euros 13,556 thousand, of which Euros 7,482 thousand was capitalised in 2010 to recognise deferred payments relating to the acquisition. As a result of subsequent adjustments on the basis of real payments of deferred commitments, goodwill totals Euros 13,588 thousand at 31 December 2018.

The acquisition of Columbus de México, S.A. on 11 April 2008 generated goodwill on consolidation of Euros 3,572 thousand. Subsequently, payment of the success premium of US Dollars 3,111 thousand is made, with goodwill totalling Euros 7,043 thousand at 31 December 2018.

Likewise, the acquisition of Andbank Mònaco, SAM on 30 June 2011 generated goodwill on consolidation of Euros 11,347 thousand.

On 25 October 2011 the acquisition of Andbank Participaçoes, Ltda (formerly LLA Participaçoes Ltda) generated goodwill on consolidation of Euros 10,482 thousand. In 2015 an additional interest of 26.31% was purchased and in 2017 an additional interest of 22.06% was purchased in the aforementioned company, raising goodwill to Euros 20,412 thousand.

The acquisition on 15 April 2014 of Andbank Wealth Management SGIIC, SAU by Andbank España, S.A. generated goodwill on consolidation of Euros 1,290 thousand.

The acquisition of Banco Inversis, S.A.'s retail business branch of activity by Andbank España, S.A. and the acquisition of Swiss Asset Advisors portfolio by Andbanc Advisory LLC has generated goodwill on consolidation of Euros 89,841 thousand and Euros 1,676 thousand, respectively.

During 2015, the acquisition of Banco Andbank (Brasil), S.A. generated goodwill of Euros 5,969 thousand. The acquisition of LLA DTVM by Andbank (Brasil) Holding Financeira Ltda generated goodwill of Euros 189 thousand. During 2019, Banco Andbank (Brasil), S.A. acquired the TRIAR portfolio, generating goodwill of Euros 5,851 thousand.

During 2015, the acquisition of Sigma Investment House Ltd generated goodwill of Euros 3,584 thousand. Furthermore, as agreed as part of the acquisition of this company, payments were made in 2016 and 2017 in line with its growth policy which have given rise to goodwill of Euros 2,370 thousand. During 2019 an additional 24.38% interest in the company has been acquired, generating goodwill of Euros 868 thousand.

During 2018, the acquisition of Merchban, S.A. by Andbank España, S.A. generated goodwill on consolidation of Euros 6,620 thousand. In accordance with applicable legislation, in the year after this acquisition and following the definitive distribution of the cost of acquisition based on the definitive PPA, the goodwill associated with Merchban stands at Euros 5,188 thousand.

▪b. Impairment testing

For the purpose of testing goodwill and intangible assets with indefinite useful lives for impairment, Group cash generating units (CGU) have been assigned based on the country of operation.

- The recoverable amount of a CGU is determined based on a calculation of its value in use. These calculations, which are annual, use cash flow projections based on financial budgets approved by management which cover a period of between four and eight years depending on the CGU, in which:

- The annual growth rate of managed assets is adjusted to the growth observed in each business unit in recent years and to the growth expectations according to the future plans, together with an improvement in market expectations.

- The annual growth rate of the gross margin arises from the average growth of assets under management for the period, as well as their return. The return is adapted to each business unit based on the growth observed in recent years, as well as market expectations, which are more conservative in the Euro zone due to the European monetary framework and the high level of competition in the sector.

- The annual growth rate of operating expenses is in line with the growth observed in previous years and the expectations of inflation and growth in support expenses for the business of each unit.

- Lastly, the currency risk to which Quest –Uruguay– (EUR/UYU and EUR/USD), Columbus –Mexico– (EUR/MXN), Andbank Wealth Management –Miami USA– (EUR/USD), Sigma Investment House –Israel– (EUR/ILS) and Andbank Brasil (EUR/BRL) have been exposed has been determined based on the constant exchange rate for 2019.

Cash flows beyond that period are extrapolated using the growth rate (g) set at between 2.50% and 3.50% for all the companies of the Andbank Group in Europe and between 0.00% and 3.50% for all non-European Andbank Group companies.

The discount rate (Ke) has been calculated based on the risk-free rate, taking as a benchmark the "good" at ten years of each country. Beta has been calculated based on the average beta of a sample of quoted entities from the sector (universal banks of each country, global private banks and portfolio and/or global investment fund managers). Lastly, the risk premium used is that included in the KPMG research document “Equity Market Risk Premium – Research Summary” dated June 2019. This discount rate ranges between 7.28% and 12.18% for 2019, depending on the CGU.

▪c. Other intangible assets

A breakdown and movement of items included in Intangible assets during 2019 and 2018 is as follows:

Thousands of euros

At 31 December 2019	31/12/2018	Additions	Internally-generated additions	Disposals	Other transfers	Exchange differences, net	Other movements	31/12/2019
Cost								
IT software and applications	75,266	5,583	-	(234)	17,157	-	-	97,772
Multi-owned assets	834	-	-	-	-	-	-	834
Intangible assets in progress	-	-	-	-	-	-	-	-
Other	95,038	26,536	-	(344)	(20,115)	-	-	101,115
	171,138	**32,119**	**-**	**(578)**	**(2,958)**	**-**	**-**	**199,721**
Accumulated amortisation								
IT software and applications	(46,265)	(6,767)	-	215	-	-	-	(52,817)
Multi-owned assets	(683)	(11)	-	-	-	-	-	(694)
Intangible assets in progress	-	-	-	-	-	-	-	-
Other	(18,276)	(1,141)	-	-	-	-	(657)	(20,074)
	(65,224)	**(7,919)**	**-**	**215**	-	**-**	**(657)**	**(73,585)**
Accumulated impairment	**(1,672)**	**-**	**-**	**-**	**-**	**-**	**(170)**	**(1,842)**
Net balance	**104,242**	**24,200**	**-**	**(363)**	**(2,958)**	**-**	**(827)**	**124,294**

At 31 December 2018	31/12/2017	Additions	Internally-generated additions	Disposals	Other transfers	Exchange differences, net	Other movements	31/12/2019
								Thousands of euros
Cost								
IT software and applications	66,996	2,473	-	(500)	4,807	-	1,490	75,266
Multi-owned assets	834	-	-	-	-	-	-	834
Intangible assets in progress	-	-	-	-	-	-	-	-
Other	78,285	21,560	-	-	(4,807)	-	-	95,038
	146,115	**24,033**	**-**	**(500)**	**-**	**-**	**1,490**	**171,138**
Accumulated amortisation								
IT software and applications	(41,009)	(3,924)	-	158	-	-	(1,490)	(46,265)
Multi-owned assets	(672)	(4)	-	-	-	-	(7)	(683)
Intangible assets in progress	-	-	-	-	-	-	-	-
Other	(15,928)	(2,468)	-	211	-	-	(91)	(18,276)
	(57,609)	**(6,396)**	**-**	**369**	**-**	**-**	**(1,588)**	**(65,224)**
Accumulated impairment	**(1,597)**	**(75)**	**-**	**-**	**-**	**-**	**-**	**(1,672)**
Net balance	**86,909**	**17,562**	**-**	**(131)**	**-**	**-**	**(98)**	**104,242**

Others under Intangible assets include IT software under construction amounting to Euros 31,408 thousand, as part of the Bank's technological transformation project (Newton Project) which will start to be amortised when the development work has been completed and the software is in use.

At 31 December 2019 all these items remain under ownership by the Bank and are used for its activity.

15. Tax Assets and Liabilities

Details of tax assets and liabilities at 31 December 2019 and 31 December 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Tax assets		
Current tax assets	5,446	5,575
Deferred tax assets	22,053	26,189
- Tax credits	22,053	22,255
- IFRS 9 transition	-	3,934
	27,499	**31,764**

Tax liabilities		
Current tax liabilities	4,056	7,651
Deferred tax liabilities	10,576	10,834
- Tax liabilities	10,576	10,834
	14,632	**18,485**

16. Other Assets and Liabilities

A breakdown of the asset and liability captions of the consolidated statement of financial position at 31 December 2019 and 31 December 2018 is as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Other assets		
Inventories	14	14
Other assets	125,988	74,302
Prepayments and accrued income	43,175	27,742
Operations in progress	37,603	6,010
Other items	45,210	40,550
	126,002	**74,316**

		Thousands of euros
	31/12/2019	**31/12/2018**
Other liabilities		
Other liabilities	77,728	82,155
Accrued expenses and deferred income	10,854	8,030
Operations in progress	2,236	4,963
Other items	64,638	69,162
	77,728	**82,155**

17. Non-current Assets and Disposal Groups Classified as Held for Sale

Non-current assets and disposal groups classified as held for sale in the accompanying statement of financial position mainly reflect the Bank's foreclosed assets.

A breakdown and movement of this item in the accompanying statements of financial position are as follows:

Thousands of euros

	31/12/2018	Additions	Disposals	Transfers to investment property	Valuation adjustments	Other	31/12/2019
Cost							
Property, plant and equipment	-	-	-	-	-	-	-
From foreclosures	59,211	6,044	(16,001)	(4,762)	-	5,280	49,772
Additions	-	-	-	-	-	-	-
	59,211	**6,044**	**(16,001)**	**(4,762)**	**-**	**-**	**49,772**
Impairment losses							
Property, plant and equipment	-	-	-	-	-	-	-
From foreclosures	(24,071)	(2,390)	6,723	2,088	-	(5,280)	(22,930)
Other	(1,845)	-	-	-	(323)	-	(2,168)
	(25,916)	**(2,390)**	**6,723**	**2,088**	**(323)**	**-**	**(25,098)**
Net balance	**33,295**	**3,654**	**(9,278)**	**(2,674)**	**(323)**	**-**	**24,674**

Thousands of euros

	31/12/2017	Additions	Disposals	Transfers to investment property	Valuation adjustments	Other	31/12/2018
Cost							
Property, plant and equipment	-	-	-	-	-	-	-
From foreclosures	105,510	1,580	(21,582)	(1,721)	-	(24,576)	59,211
Other	-	-	-	-	-	-	-
	105,510	**1,580**	**(21,582)**	**(1,721)**	**-**	**(26,297)**	**57,490**
Impairment losses							
Property, plant and equipment	-	-	-	-	-	-	-
From foreclosures	(56,217)	(15)	8,669	340	(1,424)	24,576	(24,071)
Other	(2,328)	(46)	529	-	-	-	(1,845)
	(58,545)	**(61)**	**9,198**	**340**	**(1,424)**	**26,297**	**(24,195)**
Net balance	**46,965**	**1,519**	**(12,384)**	**(1,381)**	**(1,424)**	**-**	**33,295**

The fair value of non-current assets and disposal groups classified as held for sale is as follows:

Thousands of euros

	31/12/2019	**31/12/2018**
Land	37,669	37,222
Premises	1,076	1,071
Car parks	1,906	1,695
Storage rooms	142	133
Housing	17,570	30,521
	58,363	**70,642**

The fair value of real estate assets classified as non-current assets held for sale are classified as Level 2 based on the fair value hierarchy.

Foreclosed assets are appraised periodically and are recognised as the lower of fair value less costs to sell and carrying amount.

From the analyses carried out it can be concluded that the market values of the assets does not significantly differ from their carrying amounts.

The following main independent sources have been used to value buildings and land:

- Intervalor
- Peritand
- Peritaxa
- Tecnitasa
- Victor Naudi

The appraisal companies chosen to appraise the foreclosed assets have been selected based on their benchmark appraisal methodology using the valuation standards set out in Spanish Order ECO/05/2003.

The appraisal companies mainly use the comparative valuation method.

The Bank has an active policy of disposing of all non-current assets and disposal groups which have been classified as held for sale, with the appraisals obtained being higher than their carrying amounts.

Foreclosures and recoveries

A classification by category and by average permanence in the portfolio of non-current assets and disposal groups classified as held for sale is as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Up to 12 months	2,157	1,903
From 1 to 2 years	857	12,675
From 2 to 5 years	10,562	12,751
More than 5 years	11,098	5,966
	24,674	**33,295**

Details, by type of asset, of the profit and loss recognised in 2019 and 2018 due to the sale of non-current assets and disposal groups which have been classified as held for sale are as follows:

				Thousands of euros
	31/12/2019		**31/12/2018**	
	Profit	Loss	Profit	Loss
Apartments	2,291	(579)	4,467	(693)
Car parks	10	(11)	4	-
Premises	82	-	-	-
Land	125	-	-	-
Adjustments due to asset depreciation	-	(323)	-	(1,424)
	2,508	**(913)**	**4,471**	**(2,117)**

At 31 December 2019 and 2018 the Andbank Group has no liabilities associated with non-current assets and disposal groups which have been classified as held for sale.

18. Financial Liabilities Measured at Amortised Cost

Details of this line item of the statement of financial position at 31 December 2019 and 31 December 2018 are as follows:

		Thousands of euros
Financial liabilities at amortized cost	**31/12/2019**	**31/12/2019**
Deposits	3,282,533	3,241,894
Central banks	76,407	59,825
Credit institutions	369,962	538,471
Other creditors	2,836,164	2,643,598
Debt securities issued	458,060	472,618
Other financial liabilities	118,254	13,299
	3,858,847	**3,727,811**

Note 38 (Risk management) includes certain information relating to interest rate, liquidity and market risks assumed by the Andbank Group in relation to the financial assets and financial liabilities included in this category, as well as information on the concentration of risks.

Financial liabilities comprising the financial liabilities measured at amortised cost portfolio are initially recognised at fair value and measured at amortised cost, using the effective interest rate method.

▪a. Deposits

A breakdown of the balance of this line item in the accompanying consolidated statement of financial position, by type of financial instrument, is as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Central banks	76,407	59,825
Current accounts/overnight deposits	48,532	47,614
Deposits with agreed maturity	27,875	12,211
Deposits redeemable at notice	-	-
Repurchase agreements	-	-
Credit institutions	369,962	538,471
Current accounts/overnight deposits	36,115	219,527
Deposits with agreed maturity	22,322	318,944
Deposits redeemable at notice	-	-
Repurchase agreements	311,525	-
Other creditors	2,836,164	2,643,598
Current accounts/overnight deposits	2,443,411	2,168,835
Deposits with agreed maturity	392,753	474,763
Deposits redeemable at notice	-	-
Repurchase agreements	-	-
	3,282,533	**3,241,894**

▪b. Debt securities

I) Debt securities issued by Andorra Banc Agrícol Reig, S.A.

The balance of this line item of the accompanying statement of financial position at 2019 and 2018 includes debt issues amounting to Euros 15,730 thousand made by the Bank during 2015.

At its meeting held on 26 November 2014 the Bank's board of directors agreed to request authorisation to issue bonds amounting to Euros 15,000 thousand. On 29 December 2014 the AFA granted authorisation to issue perpetual convertible contingent subordinated bonds of Euros 15,000 thousand. These bonds are considered as equity for Andbank's capital adequacy purposes, upon confirmation of registration with the AFA.

Taking as a benchmark the requirements set out in EU legislation and, more specifically, Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV) and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) these bond issues can be computed as additional Tier 1 capital instruments in accordance with the aforementioned regulatory framework.

During the first few months of 2015, these products were issued and commercialised, with the whole amount of the issue being subscribed and accruing interest at an annual rate of 5.5%.

II) Debt securities issued by Andorra Capital Agrícol Reig, BV and AB Financials Products, DAC

The balance of this line item also includes the issue of securities by Andorra Capital Agricol Reig, B.V. and AB Financial Products, D.A.C., which are shown by maturity dates in 2019 and 2018:

					Thousands of euros
31 December 2019	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Debt securities issued in 2013	16,216	7,673	-	-	23,889
Debt securities issued in 2015	30,000	-	-	-	30,000
Debt securities issued in 2016	-	18,917	25,000	-	43,917
Debt securities issued in 2017	25,833	145,888	39,083	-	210,803
Debt securities issued in 2018	14,907	74,385	-	-	89,292
Debt securities issued in 2019	2,000	42,429	-	-	44,429
	88,956	**289,290**	**64,083**	**-**	**442,329**

					Thousands of euros
31 December 2018	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Debt securities issued in 2013	-	23,889	-	-	23,889
Debt securities issued in 2015	-	30,000	-	-	30,000
Debt securities issued in 2016	-	18,747	25,000	-	43,747
Debt securities issued in 2017	12,605	172,848	39,083	-	224,536
Debt securities issued in 2018	2,787	131,929	-	-	134,716
	15,392	**377,413**	**64,083**	**-**	**456,888**

Amongst the issues made by Andorra Capital Agrícol Reig, B.V during 2017, the issue as part of its covered bonds issue programme should be highlighted. This issue was listed on the Global Exchange Market of the Irish Stock Exchange for an amount of Euros 135 million, maturing in 5 years and with a coupon pegged to Euribor with quarterly payments, which at 31 December 2019 was secured by part of the Andbank Group's mortgage loan portfolio for an amount of Euros 157,265 thousand, and by a sum of Euros 15,763 thousand deposited in a correspondent account.

▪c. Other financial liabilities

A breakdown of the financial liabilities measured at amortised cost line item of the consolidated statement of financial position is as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Lease liabilities	110,715	-
Bonds payable	3,427	9,299
Guarantees received	-	-
Clearing houses	21	-
Deposit accounts	-	-
Special accounts	-	-
Financial guarantees	9	-
Other items	4,082	4,000
	118,254	**13,299**

At 31 December 2019, Other financial liabilities include a balance for Lease liabilities due to the entry into force of IFRS 16 on 1 January 2019 (see note 2.f).

Details of maturity dates of lease liabilities maturing after 31 December 2019 are as follows:

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Maturities of lease liabilities	10,634	17,033	17,383	65,665	110,715

19. Provisions

A breakdown of this line item of the statement of financial position at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Pensions and other benefit obligations and other long-term employee benefits	5,754	6,701
Other long-term employee benefits	-	-
Pending legal issues and tax litigation	3,507	1,850
Commitments and guarantees given	496	387
Other provisions	12,983	8,541
	22,740	**17,479**

Movement by type of provision during 2019 and 2018 was as follows:

							Thousands of euros
	Pensions and other benefit obligations and other long-term employee benefits	Other long-term employee benefits	Restructuring	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balance at 1 January 2019	6,701	-	-	1,850	387	8,541	17,479
Net provisions	163	-	-	225	58	3,034	3,480
Amounts used	(1,109)	-	-	-	-	-	(1,109)
Other movements	-	-	-	1,432	50	1,408	2,890
Balance at 31 December 2019	**5,755**	**-**	**-**	**3,507**	**495**	**12,983**	**22,740**

							Thousands of euros
	Pensions and other benefit obligations and other long-term employee benefits	Other long-term employee benefits	Restructuring	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balance at 1 January 2018	7,331	-	-	3,283	1,099	16,980	28,693
Net provisions	2	-	-	(64)	(19)	(1,529)	(1,610)
Amounts used	(1,632)	-	-	(1,369)	(229)	(893)	(4,123)
Other movements	1,000	-	-	-	(464)	(6,017)	(5,481)
Balance at 31 December 2018	**6,701**	**-**	**-**	**1,850**	**387**	**8,541**	**17,479**

▪a. Pensions and other defined post-employment benefit obligations and Other long-term employee benefits

The Bank has recognised different obligations in relation to personnel: retired employees, early retirees, and funds for other obligations with current Bank employees.

Employees from what was previously called Banc Agrícol i Comercial d'Andorra, S.A., who retired before 22 December 1995 have a defined benefit retirement pension plan created in 1989. Employees who joined the Bank after 1 May 1995, except for certain groups belonging to a defined contribution scheme, do not belong to the retirement pension plan.

The Bank signed individual early-retirement agreements with certain employees (in accordance with Law 17/2008 and related regulations).

Under the agreements signed by retired personnel, the Bank has to make supplementary remuneration payments.

The actuarial variables and other assumptions used in the valuation at 31 December 2019 for retired personnel and early retirees are as follows:

	Retirees	Early retirees
Mortality tables	PERmf2000	PERmf2000
Nominal discount rate	0.50%	0.50%
Nominal rate of salary growth	-	-
Annual rate of pension growth	-	-
Retirement age	-	65

The possible changes arising in the actuarial variables would not have a significant effect on these annual accounts.

Payments made to retirees and early-retirees (in accordance with Law 17/2008 and related regulations) during 2019 and 2018 have been recognised against goodwill.

The other obligations fund, which is for current employees, is secured by deposits transferred to the interbank market.

Current personnel adhering to the plan for other obligations can, upon request, transfer their funds to investment schemes managed by the Bank off the balance sheet. At 31 December 2019 balances managed off the balance sheet amounted to Euros 394 thousand, whilst internal funds recognised under Pensions and other obligations amount to Euros 3,307 thousand (Euros 3,541 thousand at 31 December 2018).

▪b. Other provisions

Other provisions comprise events and other provisions not included in previous line items.

The Bank's directors do not expect that the resolution of these events could significantly affect the consolidated financial statements.

20. Capital and Reserves

Details of movement in the Andbank Group's capital and reserves in 2019 and 2018 is shown in the statement of changes in equity.

▪a. Capital

At 31 December 2019 the Bank's share capital comprises 1,769,343 shares (1,751,825 class A shares, 14,232 class B shares and 3,286 class C shares) at Euros 44.56 par value each, fully subscribed and paid up and represented by book entries. All of the Bank's shares have the same voting and economic rights and there are no different voting rights for any of the shareholders. There are no shares representing capital. Shares are not listed on organised markets.

All of the Bank's shares have the same voting and economic rights and there are no different voting rights for each shareholder. There are no shares representing capital. Shares are not listed on organised markets.

▪b. Share premium, retained earnings, revaluation reserves and other reserves

Details of these line items of the statement of financial position at 31 December 2019 and 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Share premium	73,441	73,441
Retained earnings	**427,156**	**411,782**
Legal reserve	15,768	15,768
Guarantee reserves	27,026	27,026
Statutory reserves	-	-
Voluntary reserves	382,435	367,061
Own share reserves	1,927	1,927
Revaluation reserves		645
	500,597	**485,868**

- Share premium
  At 31 December 2019 the balance of this line item of the statement of financial position amounted to Euros 73,441 thousand (Euros 73,441 thousand at 2018).

- Legal reserve
  In accordance with Andorran mercantile law, banks must allocate 10% of the year's profit to the legal reserve until it reaches 20% of the share capital. At 31 December 2019 the legal reserve was fully appropriated.

- Guarantee reserves
  This item includes the deposit guarantee reserves and other operating obligations which have to be deposited with the AFA by entities belonging to the financial system.

  In compliance with Law 20/2018 of 13 September 2018 regulating Andorran deposit guarantees and the Andorran system for guaranteeing investments, at 31 December 2019 and 2018 Guarantee reserves totalled Euros 27,026 thousand (see note 42).

- Voluntary reserves
  Voluntary reserves include an amount of Euros 94,473 thousand for differences on first-time consolidation that are restricted.

- Revaluation reserves
  Revaluation reserves reflect the revaluation of the carrying amount of some of the Bank's buildings to reflect their market value.

The revaluation reserves are not available for distribution unless the assets effectively leave the Bank and/or the AFA authorises their distribution.

- Consolidation reserves

At 31 December 2019 and 2018 consolidation reserves correspond to the following companies:

		Thousands of euros
	31/12/2019	**31/12/2018**
Andorra Gestió Agrícol Reig, SAU	186	653
Andorra Assegurances Agrícol Reig, SA	471	467
Nobilitas N.V. Group	2,246	3,664
Andbank (Bahamas) Limited	13,999	16,904
Andbank Luxembourg Group	10,436	7,302
Andbank España Group	8,213	2,585
Andbank Panamá	8,305	7,198
APW Consultores Financeiros Lda	(841)	(772)
Other	(4,381)	348
	38,634	**38,349**

Movement in consolidation reserves in 2019 and 2018 is as follows:

	Thousands of euros
Balance at 31 December 2017	37,755
Distribution of 2017 profit to reserves	3,655
Other consolidation adjustments	(3,061)
Balance at 31 December 2018	38,349
Distribution of 2018 profit to reserves	10,423
Other consolidation adjustments	(10,138)
Balance at 31 December 2019	38,634

- Other reserves

The reserves included under Others and Other reserves comprise the adjustments for the first-time adoption of IFRS, as well as those adjustments made during 2018 due to the first-time adoption of IFRS 9.

- Equity instruments issued other than capital

At 31 December 2019 and 2018 equity instruments issued other than capital reflect perpetual contingent subordinated obligations issued on 24 December 2014 for an amount of Euros 35,000 thousand.

At its meeting held on 26 November 2014 the Bank's board of directors agreed to request authorisation to issue bonds amounting to Euros 35,000 thousand. On 29 December 2014 the AFA granted authorisation to issue perpetual contingent subordinated bonds of Euros 35,000 thousand. These bonds are considered as equity for Andbank's capital adequacy purposes, upon confirmation of registration with the AFA.

Taking as a benchmark the requirements set out in EU legislation and, more specifically, Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV) and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) these bond issues can be computed as additional Tier 1 capital instruments in accordance with the aforementioned regulatory framework.

During the first few months of 2015, this product was issued and commercialised, with the whole amount of the issue being subscribed and accruing interest at an annual rate of 5.5%.

▪c. Profits/losses attributable to the Andbank Group

Details of profits/losses contributed by each of the companies comprising the Andbank Group during 2019 and 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Andorra Banc Agrícol Reig, SA	**30,726**	**16,654**
Fully consolidated companies:	**13,871**	**7,774**
Andorra Gestió Agrícol Reig, SA	1,741	1,063
Andbank (Bahamas) Limited	(1,176)	(1,048)
Nobilitas N.V. Group	1,998	91
Columbus de México, SA, CV	415	408
And Private Wealth, SA	(128)	(401)
Quest Capital Advisers	635	(29)
Andbanc Wealth Management LLC Group	1,345	299
Consolidation adjustments Nobilitas Group	(269)	(186)
Andbank Luxembourg Group	(191)	(2,420)
Andbank Luxembourg SA	1,429	(2,725)
Andbank Asset Management Luxembourg, SA	428	200
Consolidation adjustments Andbank Luxembourg Group	(2,048)	105
Andbank España Group	10,898	7,904
Andbank España, SAU	5,183	5,284
Andbank Wealth Mangament,SGIIC, SAU	5,762	1,818
APC SSAA	26	122
Andbank correduria de Seguros, SL	220	114
Merchbanc, SGIIC, SAU	561	-
Merchbanc, EGPF, SA	(60)	-
Merchbanc, Internacional SARL	68	-
Consolidation adjustments Andbank España Group	(862)	566
Andbank (Panamá), SA	(662)	106
APW Consultores Financeiros Ltda.	(132)	(11)
Andbank Monaco, SAM	838	926
Banco Andbank Brasil Ltda.	111	(64)
Andorra Assegurances Agrícol Reig, SA	177	121
Other	269	1,106
Consolidation adjustments	**(16,557)**	**2,650**
	28,040	**27,078**

21. Accumulated Other Comprehensive Income - Equity

Details of accumulated other comprehensive income during 2019 and 2018 by type of instrument are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Items that will not be reclassified to profit or loss	**307**	**-**
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or losses on defined benefit pension plans	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	307	-
Hedge ineffectiveness of fair value hedges for 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)	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Items that may be reclassified to profit or loss	**(3,321)**	**(9,167)**
Hedge of net investments in foreign operations (effective portion)	-	-
Foreign currency translation	19	13
Hedging derivatives Cash flow hedges reserve (effective portion)	(3,139)	(4,128)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(201)	(5,052)
Hedging instruments (not designated elements)	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
	(3,014)	**(9,167)**
Income tax relating to items that may be reclassified to profit or loss	**301**	**833**
	(2,713)	**(8,334)**

The statement of recognised income and expenses for 2019 and 2018, which forms an integral part of the statement of consolidated changes in equity, shows the movements in this line item of the consolidated statement of financial position during these years.

The changes in recognised income and expenses recognised under Equity as accumulated other comprehensive income are due to the gains on the valuation of treasury shares classified under Changes to fair value of debt instruments measured at fair value through other comprehensive income, Hedging instruments. Cash flow hedges and Currency conversion.

22. Off-balance Sheet Exposures

▪a. Loan commitments, financial guarantees and other commitments given and received

A breakdown of the balance of these amounts at 31 December 2019 and 31 December 2018 is as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Loan commitments given	**326,270**	**280,155**
Of which: Non-performing:	**11**	**58**
Central banks	-	-
General governments	3,474	10,815
Other financial corporations	11,473	5,080
Non-financial corporations	210,838	143,615
Of which SMEs	125,490	10,712
Households	100,485	120,645
Financial guarantees given	**55,021**	**58,713**
Of which: Non-performing:	**-**	**-**
Central banks	-	-
General governments	71	71
Other financial corporations	4,851	12,356
Non-financial corporations	31,441	34,714
Of which SMEs	13,470	6,124
Households	18,658	11,572
Other commitments given	**10,646**	**6,567**
Of which: Non-performing:	**-**	**-**
Central banks	-	-
General governments	-	-
Other financial corporations	6,310	-
Non-financial corporations	3,723	-
Of which SMEs	-	-
Households	613	6,567

		Thousands of euros
	31/12/2019	**31/12/2018**
	Maximum amount of guarantee	Maximum amount of guarantee
Financial guarantees received	**364,009**	**346,746**
Central banks	-	-
General governments	3,830	17,758
Financial corporations	76	81
Other non-financial companies	50,050	17,336
Of which SMEs	14,601	17,335
Households	310,053	311,571

23. Third Party Transactions

A breakdown of the most significant accounts included in this line item at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Shares and other variable-income securities	2,815,751	2,673,471
Bonds and other fixed-income securities	2,611,779	3,223,356
Units in investment funds not managed by the Group	6,172,346	5,849,546
Units in investment funds managed by the Group	101,044	200,657
Other	6,839	6,947
	11,707,759	**11,953,977**

Details of assets managed for third parties on or off the balance sheet, whether held in custody or not by the Andbank Group at 31 December 2019 and 2018 are as follows:

						Thousands of euros
	2019			**2018**		
	Held in custody / deposited by the Bank	Held in custody / deposited by third parties	Total	Held in custody / deposited by the Bank	Held in custody / deposited by third parties	Total
Collective investment undertakings	1,184,876	1,094,112	2,278,988	1,203,347	1,055,790	2,259,137
Individual customer portfolio managed discretionally	1,704,857	7,780,802	9,485,659	3,145,179	6,835,614	9,980,793
Other individual customers	12,058,115	17,933	12,076,048	9,533,964	-	9,533,964
	14,947,848	**8,892,847**	**23,840,695**	**13,882,490**	**7,891,404**	**21,773,894**

24. Interest Income and Expenses

a. Interest income

This comprises interest accrued during the year for financial assets for which the implicit or explicit return is obtained by applying the effective interest method, regardless of whether it is measured at fair value, as well as modifications of income as a result of hedging.

Details of interest income recognised in the consolidated income statement at 31 December 2019 and 31 December 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Financial assets held for trading	5,849	8,699
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	5,418	5,848
Financial assets at amortised cost	38,011	36,164
Of which: Loans and advances	25,662	25,546
Derivatives - Hedge accounting, interest rate risk	-	-
Other assets	-	-
	49,278	**50,711**

▪b. Interest expenses

This comprises interest accrued during the year for financial liabilities with implicit or explicit returns, including that from remuneration in kind, which is obtained by applying the effective interest method, regardless of whether it is measured at fair value, as well as modifications of cost as a result of hedging.

Details of interest expenses recognised in the consolidated income statement at 31 December 2019 and 31 December 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	29,567	26,384
Of which: deposits	18,308	16,537
Of which: Debt securities issued	11,260	9,847
Other liabilities	1,910	864
Interest expense on assets	-	-
Derivatives - hedge accounting, interest rate risk	-	-
	31,477	**27,248**

25. Dividend Income

This comprises dividends and remuneration from equity instruments corresponding to profits generated by subsidiaries:

		Thousands of euros
	31/12/2019	**31/12/2018**
Dividend income		
Non-trading financial assets mandatorily at fair value through profit or loss	169	592
	169	**592**

26. Fee and Commission Income

This includes the amount of fees and commissions accrued during the year, except those which form an integral part of the effective interest rate of financial instruments.

A breakdown of the balance of this line item of the consolidated income statement at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Fee and commission income		
Fees and commission on services	5,755	7,461
Income from services	11,387	12,372
Fees and commission on giros	935	1,097
Fees and commission on safe deposit rental	493	820
Fees and commission on credit cards	1,919	1,987
Fees and commission on account maintenance	5,596	5,782
Other	2,444	2,686
Surety bonds	573	627
Fees and commission on transferable securities	157,385	142,387
Stock exchange transactions on behalf of customers	51,586	54,105
Securities depositary management	19,056	20,203
Financial transactions	86,743	68,079
	175,100	**162,847**

27. Fee and Commission Expenses

These include the amount of all fees and commissions paid or payable and accrued during the year, except those which form an integral part of the effective interest rate of financial instruments.

A breakdown of the balance of this line item of the consolidated income statement at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Fee and commission expenses		
Securities deposits	964	841
Fees and commission on credit cards	1,236	1,178
Swift expenses	235	201
Representation expenses	41,255	36,949
Other	4,001	4,300
	47,691	**43,469**

28. Gains or Losses on Financial Assets and Liabilities

This note includes Gains or losses derecognised in financial liabilities not measured at fair value through profit or loss, net; Gains or losses on financial assets and liabilities held for trading, net; Gains or losses on financial assets and financial liabilities designated at fair value through profit or loss, net; and Gains or losses from hedge accounting, net.

Details of the balances of this line item of the accompanying consolidated income statement at 31 December 2019 and 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Gains or losses on financial assets and liabilities		
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	17,161	(26)
Financial assets at fair value through other comprehensive income	11,368	(26)
Financial assets at amortised cost	5,793	-
Financial liabilities measured at amortised cost	-	-
Other	-	-
Gains or losses on financial assets and liabilities held for trading, net	36,294	33,567
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	2,008	72
Gains or losses from hedge accounting, net	(228)	(33)
	55,235	**33,580**

a. Details of Gains or losses derecognised in financial assets and financial liabilities not measured at fair value through profit or loss, net at 31 December 2019 and 31 December 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Gains or losses on financial assets and liabilities held for trading, net		
Derivatives	(422)	20,165
Equity instruments	7,037	(338)
Debt securities	29,679	13,740
	36,294	**33,567**

b. Details of Gains or losses from hedge accounting, net at 31 December 2019 and 31 December 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Gains or losses from hedge accounting, net		
Fair value changes of the hedging instrument (including discontinuation)	(1,028)	21
Fair value changes of the hedged item attributable to the hedged risk	800	(54)
Ineffectiveness in profit or loss from cash flow hedges	-	-
Ineffectiveness in profit or loss from hedges of net investments in foreign operations	-	-
	(228)	**(33)**

29. Exchange Differences, Net

This line item of the consolidated income statement basically includes the gains and losses obtained on the purchase and sale of currencies and the differences arising when converting monetary items in foreign currency in the consolidated statement of financial position to Euros.

These net exchange differences recognised in the consolidated income statement at 31 December 2019, excluding those corresponding to the portfolio of financial assets and financial liabilities at fair value through profit or loss, amount to Euros 6,227 thousand (Euros 8,964 thousand at 31 December 2018).

30. Other Operating Income/Expenses

A breakdown of the balance of this line item in the consolidated income statement at 31 December 2019 and 31 December 2018 is as follows:

				Thousands of euros
	31/12/2019		31/12/2018	
Other operating income and other operating expenses	Income	Expenses	Income	Expenses
Changes in fair value of tangible assets measured using the fair value model	-	-	-	-
Investment property	132	-	146	-
Operating leases other than investment property	950	-	1,157	-
Other	4,694	(5,207)	4,763	(3,854)
	5,776	**(5,207)**	**6,066**	**(3,854)**

31. Administrative Expenses

▪a. Staff expenses

A breakdown of the amounts included under this line item in the consolidated income statement for 2019 and 2018 is as follows:

		Thousands of euros
Staff expenses	**31/12/2019**	**31/12/2018**
Salaries and bonuses to current employees	78,034	74,406
Social Security contributions	13,301	12,919
Other salary commitments	635	757
Severance payments	2,218	2,393
Other staff expenses	8,785	6,186
	102,973	**96,661**

▪b. Other administrative expenses

A breakdown of this line item of the consolidated income statement at 31 December 2019 and 2018 is as follows:

		Thousands of euros
Other administrative expenses	**31/12/2019**	**31/12/2018**
Furniture, fittings and materials	1,655	12,777
Utilities	946	813
IT and communications	15,231	15,008
Publicity and advertising	3,664	3,257
Security and fund courier services	390	471
Insurance and self-insurance premiums	778	600
Independent professional services	15,811	14,974
Repairs and maintenance	1,496	1,972
Administration	4,236	4,614
Other	3,265	3,629
	47,472	**58,115**

32. Provisions or Reversals of Provisions

At 31 December 2019 and 31 December 2018 net charges to this line item of the consolidated income statement are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Provisions or reversals of provisions		
Pensions and other post employment defined benefit obligations and other long-term employee benefits	(162)	(2)
Pending legal issues and tax litigation	(225)	64
Commitments and guarantees given	(58)	19
Other provisions	(3,034)	1,529
	(3,479)	**1,610**

33. Impairment or Reversal of Impairment of Financial Assets not Measured at Fair Value through Profit or Loss

Impairment losses on financial assets, disclosed by nature of these assets, recognised in the consolidated income statement at 31 December 2019 and 31 December 2018 are as follows:

			Thousands of euros
31 December 2019	**Gains**	**(Losses)**	**Total net of gains and losses**
Financial assets carried at cost	-	-	-
Financial assets at fair value through other comprehensive income	-	(42)	(42)
Financial assets at amortised cost	3,903	(2,420)	1,483
	3,903	**(2,462)**	**1,441**

			Thousands of euros
31 December 2018	**Gains**	**(Losses)**	**Total net of gains and losses**
Financial assets carried at cost	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-
Financial assets at amortised cost	9,017	(3,086)	5,931
	9,017	**(3,086)**	**5,931**

34. Impairment or Reversal of Impairment on Non-financial Assets

At 31 December 2019 and 2018 the Andbank Group presents the following balance classified as impairment or reversal of impairment on non-financial assets:

		Thousands of euros
	31/12/2019	**31/12/2018**
Gains or losses on derecognition of non-financial assets		
Property, plant and equipment	10	(161)
Investment property	-	-
Intangible assets	26	(75)
Other assets	(109)	(75)
	(73)	**(311)**

35. Profit or Loss from Non-current Assets and Disposal Groups Classified as Held for Sale not Qualifying as Discontinued Operations

Details of the balance of this line item of the consolidated income statements at 31 December 2019 and 31 December 2018 are as follows:

		Thousands of euros
	31/12/2019	**31/12/2018**
Net gains on sale of buildings	1,918	3,778
Impairment of non-current assets held for sale	(323)	(1,424)
Gains (losses) on sale of investments classified as non-current assets held for sale	-	-
Gains (losses) on sale of other equity instruments classified as non-current assets held for sale	-	-
	1,595	**2,354**

36. Balances and Transactions with Related Parties

Andorra Banc Agrícol Reig, SA and other Andbank Group companies carry out transactions with their related parties within the normal course of business. All these transactions are carried out in normal market conditions. Other related parties include shareholders with significant influence over the Bank, i.e. with an interest of more than 5%. A breakdown of transactions with related parties identified in 2019 and 2018 is as follows:

▪a. Transactions with related entities and individuals

The balances of the accompanying consolidated statements of financial position and income statements originating due to transactions carried out by the Andbank Group with related parties at 31 December 2019 and 2018 are as follows:

		Thousands of euros
	Outstanding balances	
2019	Key management personnel of the Bank or its Parent	Other related parties
Selection of financial assets	**974**	**96,580**
Equity instruments	-	-
Debt securities	-	-
Loans and advances	974	96,580
Of which: financial assets subject to impairment	-	14
Selection of financial liabilities	**4,470**	**32,742**
Deposits	4,370	32,742
Debt securities issued	100	-
Nominal amount of loan, financial guarantee and other commitments given	**44**	**9,308**
Notional amount of derivatives	**129**	**-**
Income statement	**22**	**1,078**
Finance income	4	909
Finance costs	-	(4)
Fee and commission income	18	174
Fee and commission expenses	-	-
Memorandum items	**10,159**	**114,398**
Security deposits and other securities held in custody	10,159	114,398

2018	Outstanding balances	
	Key management personnel of the Bank or its Parent	Other related parties
Selection of financial assets	897	78,008
Equity instruments	-	-
Debt securities	-	-
Loans and advances	897	78,008
Of which: financial assets subject to impairment	-	-
Selection of financial liabilities	2,985	18,794
Deposits	2,985	18,693
Debt securities issued	-	101
Nominal amount of loan, financial guarantee and other commitments given	44	2,278
Notional amount of derivatives	-	-
Income statement	6	865
Finance income	3	796
Finance costs	(2)	(7)
Fee and commission income	6	76
Fee and commission expenses	-	-
Memorandum items	38,470	80,688
Security deposits and other securities held in custody	38,470	80,688

Thousands of euros

▪b. Remuneration of key management personnel of the Bank

The Andbank Group considers key management personnel to be the Bank's board of directors, as well as the members of the Bank's senior management.

Details of remuneration accrued in 2019 and 2018 by key management personnel are as follows:

Thousands of euros

	2019	2018
Remuneration		
Fixed remuneration	4,083	4,512
Variable and deferred remuneration	1,806	1,742
Other staff expenses	225	442
Total	**6,114**	**6,696**

37. Taxation

The Andbank Group's Andorran companies file corporate income tax returns in accordance with the revised Law 95/2010 of 29 September 2010 on corporate income tax. In accordance with prevailing legislation, these companies' profits are taxed at a rate of 10%. Tax payable is eligible for certain deductions in accordance with legislation prevailing at any given time. Foreign subsidiaries are taxed in accordance with the legislation of each country.

In the opinion of the Bank's directors and its tax advisors, there are no significant tax contingencies which could give rise to possible different interpretations of prevailing tax legislation in the event of an inspection. Details of this line item of the consolidated income statement are as follows:

Thousands of euros

	31/12/2019	31/12/2018
Current income tax for the year	(2,372)	(1,612)
Deferred tax income	-	-
Income tax adjustments	207	237
Local income tax	(2,165)	(1,375)
Foreign income tax	(2,978)	(5,303)
Total	**(5,143)**	**(6,678)**

Due to the difference in the treatment of certain operations stipulated by tax legislation, the accounting income differs from the taxable income. A reconciliation between accounting profit for the year and the basis used to calculate the income tax expense of the Andbank Group's Andorran companies is shown below. Movement in prepaid and deferred taxes recognised during the year is presented hereinbelow.

	Thousands of euros	
	31/12/2019	31/12/2018
Accounting profit before tax	34,804	19,192
Permanent differences	(1,491)	1,443
originating in the year	(1,491)	1,443
originating in prior years	-	-
Accounting income	33,313	20,635
Temporary differences	-	-
originating in the year	-	-
Taxable income	33,313	20,635
Tax rate of 10%	3,331	2,064
Tax payable	3,331	2,064
Deductions and credits	(959)	(452)
Income tax expense for the year	2,372	1,612
Withholdings and payments on account	-	-
Tax difference	2,372	1,612

A reconciliation between accounting profit before tax and the aggregate income tax expense of the Andbank Group's Andorran companies for 2019 and 2018 is as follows:

	Thousands of euros	
	31/12/2019	31/12/2018
Income and expenses for the year	**34,804**	**19,192**
10% of the income and expenses balance for the year	3,480	1,919
Tax effect of permanent differences	(149)	145
Deductions and credits for the current year	(959)	(452)
Income tax expense	**2,372**	**1,612**

As a result of prevailing legislation, certain temporary differences have arisen which have been recognised in the consolidated statement of financial position at 31 December 2019 and 2018. Movement in the different deferred tax assets and liabilities of the Andbank Group's Andorran companies during 2019 and 2018 has been as follows (in thousands of Euros):

				Thousands of euros
	Deferred tax assets		Deferred tax liabilities	
	2019	2018	2019	2018
Opening balance	15,487	12,858	15	9
Increases (*)	4,135	14,095	16	6
Decreases	(8,475)	(11,466)	-	-
Closing balance	**11,147**	**15,487**	**31**	**15**

(*) Data for 2018 includes the tax effect of the first-time adoption of IFRS 9.

Details, by type, of the origin of deferred tax assets and liabilities of the Andbank Group's Andorran companies at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	31/12/2019	31/12/2018
Deferred tax assets		
Differences due to temporary charging of income and expenses		
Provisions and other impairment	3,213	8,098
Other	239	61
Other assets	7,695	7,328
	11,147	**15,487**
Deferred tax liabilities		
Other	31	15

Deferred tax assets include amounts recognised by the Andbank Group's Andorran companies for unused deductions (Euros 943 thousand) and for tax losses (Euros 67,523 thousand) once the forecast income tax for 2019 has been accounted for.

38. Risk Management

▪a. General model for risk management and control

One of the Bank's key issues and priority objectives has always been to achieve a robust and efficient risk control and management model. 2019 has been a year of continuity with regard to developing and strengthening the integral risk management model, which covers all risks to which the Bank is exposed and enables optimum management of capital.

In order to ensure a shift towards advanced risk management, during 2016 the Bank implemented a Corporate Risks Plan, setting out the bases for developing an integral management model in line with the recommendations of the regulators and best market practices. In 2017 the main areas of action as part of this programme were implemented and the Bank's integral risk management model became a reality, and was consolidated in 2018.

The model for managing and controlling risks is based on establishing the metrics and limits of the risk appetite framework, such as the quantity and type of risks which are considered reasonable to assume as part of the business strategy. New metrics have been incorporated into the risk appetite framework in 2019, both in order to improve the tools for managing and controlling the business and to deal with new regulatory requirements. At year end the metrics and limits of the risk appetite framework have been reviewed for the purpose of adapting them to the Bank's business strategy and its attainment of objectives.

The established control environment enables the risk profile to be kept within the risk appetite stage and to adapt to a growing and increasingly strict regulatory environment.

The main items ensuring effective control are:

- A robust risk governance structure led by the Risks Committee, which acts as an advisor to the board of directors with regard to risk exposure. This Committee has two specialised advisors in charge of guaranteeing compliance with regulations and conformity with the best international standards with regard to risk control and management.
- The corporate risk and capital policy framework sets out the basic principles for the management of all risks to which the Bank is exposed. This framework enables a homogeneous risk control and management model to be set up in all of the Andbank Group's subsidiaries, in line with its global strategy.
- Independence of the risk function guaranteeing the separation between the risk generating units and those responsible for controlling these risks.
- Aggregated supervision and consolidation of all the risks.
- A risk culture integrated throughout the organisation, comprising a series of attitudes, values, skills and measures in view of all risks.

b. Capital management

As part of the process of officially validating the legislative framework in line with European legislation and in particular, with regard to prudential legislation, the General Council of the Principality of Andorra approved Law 35/2018 on solvency, liquidity and prudential supervision of banking entities and investment firms at its session held on 20 December 2018. The aim of this Law, in conjunction with the related regulation, is to encompass the EU CRD IV legislation enforced by Regulation EU no. 575/2013 and Directive 2013/36/EU.

This Law entered into force on 24 January 2019 and repeals the Law regulating the capital adequacy and liquidity criteria of financial institutions of 29 February 1996.

The new Law obliges banking entities to maintain a minimum CET1 of 4.5%, minimum TIER1 capital of 6% and a total capital ratio of 8%. At 31 December 2019 Andbank's capital is significantly above these minimum ratios. In this regulatory environment, Andbank's capital ratios at 31 December 2019 are:

CET1 ratio	13.61%
TIER1 ratio	16.04%
Total capital ratio	16.04%

c. Credit risk

Credit risk refers to the potential loss deriving from fully or partially failing to discharge a contractual obligation of a customer or counterparty with the Andbank Group.

The Andbank Group's main business strategy is focused on private banking activities, with not only a very broad customer base but also a high diversification and low concentration of customer funds. In addition, the Bank exclusively carries out retail banking activities for the Andorran market, by giving loans to individuals and small and medium-sized companies in Andorra.

For the purpose of ensuring optimum credit risk management integrated into the global risk management structure, thus enabling a return to be obtained in accordance with the assumed risk level, the Andbank Group has defined certain shared basic principles to guarantee adherence with the Bank's business plan, the risk appetite defined and compliance with regulatory guidelines.

Credit risk management is based on a solid organisational and governance model participated in by the board of directors and different risk committees, which define the risk policies and procedures, the limits and delegation of powers and approve and supervise the framework of implementation of the credit risk function.

Within the exclusive credit risk scenario, the credits committee is the decision-making body responsible for supervising and controlling the Andbank Group's credit risk. The aim of this committee is to be an instrument for the effective control of credit risk, advising the Executive Committee, in order to ensure that the credit risk is managed in line with the approved risk appetite level.

(i) Credit risk cycle

The full credit risk management cycle encompasses the entire life of the transaction, from the analysis of feasibility and the admission of the risk according to the established criteria, follow up of outstanding transactions and ending with the recovery of the impaired assets.

- Analysis and admission of transactions:

  A feature of the process of analysing and admitting loan and credit transactions is the strict analysis of the customer's ability to repay the debt, as well as the nature, liquidity and quality of the guarantees provided.

  This process must take into consideration the criteria for approving transactions defined in the credit risk policy, as well as the delegation rules based on the allocation of powers to the different governing bodies according to the type of product, amount and maturity date.

  In addition, for the purpose of mitigating the risk exposure, the Andbank Group has defined a model setting out the limits and authorised limits with each counterparty. This model is approved by the board of directors and is reviewed on a yearly basis. Any new transaction is subject to compliance with these limits, which is monitored continuously.

  This analysis and admission process comprises three phases:

  - Proposal: the manager presents the transaction with an analysis of the customer's credit quality, its positions, solvency and yield based on the assumed risk.
  - Analysis of transaction: the credit risk department analyses the details of the proposal, validating that the information relating to the transactions exists in documentary form, as well as the quality and accessibility of the information required for subsequent approval.
  - Approval of the transaction: once the transaction has been analysed, the credit risk department approves it taking into account not only the granting policies defined but also the risk appetite limits, whilst striving to keep a balance between risk and yield.

- Communication: the admission process concludes with the issue and signing of a document and its subsequent reporting to the involved parties so that it can be correctly registered in the systems.

- Monitoring:

  Monitoring of customers and transactions comprises an analysis of all the items which could have an effect on their credit quality, to detect in advance any incidents which could arise so that actions can be taken to mitigate or resolve them.

  As a result of this monitoring, those customers or transactions are identified which require a more thorough review and a more exhaustive follow up, either because their credit quality is impaired or because their nature and/or amount so require.

  In addition, daily monitoring and control is performed on compliance of limits and lines of risk approved. At market close, all the exposures are recalculated in accordance with the inflows and outflows of transactions, market variations and risk mitigation mechanisms established. In this way, exposures are subject to daily monitoring and a control of the approved limits.

- Recoveries:

  Recovery is a relevant function within the credit risk environment. This process defines the strategies and measures required to ensure the correct regularisation and recovery of credits in an irregular situation, in the shortest timeframe and at the lowest cost possible. This function is carried out by the collection and recovery department. This department is an area of direct customer management and its added value is based on the efficient and effective management of collections, either by regularisation of balances payable or full recovery.

  The recovery management model requires the adequate coordination of different departments (sales, risks and legal advisory) and is subject to permanent review and ongoing improvement in management processes and methodologies, adapting them based on the prevailing legislation and best practices in the sector.

(ii) Credit risk impairment

A financial asset or credit risk are considered impaired if there is objective evidence of impairment as a result of one or more events which give rise to a negative impact on the estimated future cash flows when the transaction is formalised, due to the materialisation of a credit risk. Impairment losses on debt instruments and other off-balance sheet loan exposures are recognised as an expense in the consolidated income statement for the year in which this impairment is estimated. The recovery of previously recognised losses, where applicable, is also recognised in the consolidated income statement for the year in which the impairment disappears or is reduced.

Impairment of financial assets is calculated based on the type of instrument after taking into consideration the effective guarantees received For debt instruments measured at amortised cost, the Andbank Group recognises both valuation allowances when loan loss allowances and provisions are made for impairment losses, and direct write offs against assets, when it considers that recovery is remote.

Accounting classification based on credit risk due to insolvency

The Andbank Group has established criteria to enable it to identify borrowers with significantly increased risk or weaknesses or objective evidence of impairment and classify them based on their credit risk.

Credit exposure, as well as off-balance sheet exposures, are classified based on the credit risk, in the following stages:

- Standard or Stage 1: transactions that do not meet the requirements for classification in other categories.

- Standard exposure with significant increase in risk or Stage 2: this category comprises all transactions which, without qualifying individually for classification as Stage 3 or write-off, have shown significant increases in credit risk since initial recognition. This category includes transactions for which there are amounts more than 30 days past due. Refinanced and restructured transactions, classified in this category, are transferred to a lower risk category when they meet the requirements established for this reclassification. Transactions classified as standard under special monitoring (Stage 2), due to significant increases in risk or as a result of amounts more than 30 days past due, are reclassified in the standard exposure category (Stage 1) once the six-month trial period has elapsed, based on the probability of entering the standard exposure under special monitoring category.

- Doubtful or Stage 3: comprises debt instruments, either past due or not, for which without meeting the circumstances to be classified under write-off show reasonable doubts regarding their full repayment (principal and interest) by the borrower, as well as off-balance sheet exposures, payment of which by the Andbank Group is probable and their recovery doubtful.

  - Due to customer arrears: transactions with an amount (principal, interest or contractually agreed expenses), generally more than 90 days past due (although the particular nature of the purchased or originated credit-impaired transactions are taken into consideration), unless they should be classified as write-off. This category also includes the collateral given when the borrower defaults on the secured transaction. Likewise, amounts of all transactions of a borrower are included when transactions with amounts generally past due, as indicated above, by more than 90 days exceed 20% of the amounts receivable.

  - For reasons other than customer arrears: transactions which, without meeting the conditions for being classified as write-off or stage 3 due to customer arrears, show reasonable doubts about the obtaining of estimated cash flows, as well as off-balance sheet exposures not classified in Stage 3 due to customer arrears, payment of which by the Andbank Group is probable and their recovery doubtful.

The accounting definition of Stage 3 is in line with that used by the Andbank Group to manage credit risk. Likewise, it is in line with the definition of regulating default, with the exception that in regulating terms default is considered to be all transactions of a borrower in a business segment when there are amounts past due by more than 90 days, whilst the accounting definition specifies that all borrowers' transactions are Stage 3 when amounts past due by more than 90 days exceed 20% of the amounts receivable.

- Write-off: The Group derecognises from the statements of financial position transactions the recovery of which, after an individual analysis, is considered fully or partially remote. This category includes risks of customers under insolvency, with request for liquidation, as well as transactions classified as Stage 3 due to customer arrears past due by more than four years, or less when the amount not hedged with effective guarantees has been held with a credit risk hedge of 100% over a period of more than two years, except for balances with sufficient effective guarantees. It also includes transactions which, without any of the aforementioned circumstances, show a significant and irrecoverable impairment in solvency.

(iii) Estimated hedging of credit risk losses

Debt instruments not included in financial assets held for trading, as well as off-balance sheet exposures are classified based on the insolvency credit risk, in the categories included in the sections below.

Hedging transactions classified as standard exposure are associated with a group of transactions with similar credit risk characteristics (homogeneous risk group) and therefore, they can be estimated collectively, taking into consideration the credit losses on transactions with similar risk characteristics.

Hedging of transactions classified as standard risk with significant increase in risk can be associated with a homogeneous risk group or with a transaction. When they are associated with a homogeneous risk group they are estimated collectively; when they are associated with specific transactions they can either be estimated individually based on credit losses, or collectively.

Finally, hedging of transactions classified as doubtful risk are associated with specific transactions and can be estimated either individually or collectively.

(iv) Credit risk mitigation

Exposure to credit risk is strictly managed and monitored based on an analysis of borrowers' insolvency and their ability to meet payment of their obligations with the Andbank Group, and exposure limits established for each counterparty are brought into line with a level considered to be acceptable. It is also usual practice to modulate the level of exposure by the borrower setting up collateral and guarantees in favour of the bank.

Normally, these relate to collateral securities, mainly monetary collateral, securities or mortgages on buildings destined for housing (finished or under construction). The Andbank Group also accepts, albeit to a lesser extent, other types of collateral such as mortgages on retail premises, industrial bays, etc., as well as financial assets. Another credit risk mitigation technique often used by the Bank is the acceptance of guarantees, in this case conditioned by the guarantor showing proven solvency.

All these risk mitigation techniques are subject to legal assurance, i.e. by legal contracts binding all of the parties and enabling their legal enforcement in all pertinent jurisdictions in order to ensure, at all times, the possibility of liquidating the collateral.

Maximum exposure to credit risk

In accordance with IFRS 7 Financial instruments: Disclosures, details are provided below, by line item of the consolidated statement of financial position, of the distribution of the Andbank Group's maximum exposure to credit risk at 31 December 2019 and 2018, without deducting the collateral security or the credit enhancements obtained to ensure compliance with payment obligations, disclosed by nature of the financial instruments.

		Thousands of euros
Maximum exposure to credit risk	**31/12/2019**	**31/12/2018**
Financial assets held for trading	174,198	201,326
Derivatives	76,796	74,495
Equity instruments	7,351	1,269
Debt securities	90,051	125,562
Loans and advances	-	-
Financial assets designated at fair value through profit or loss	10,073	56,655
Equity instruments	10,073	6,279
Debt securities	-	50,376
Loans and advances	-	-
Financial assets designated at fair value through profit or loss	514,318	418,702
Equity instruments	23,560	20,838
Debt securities	490,758	397,864
Loans and advances	-	-
Financial assets at amortised cost	1,806,336	1,639,087
Debt securities	195,424	181,391
Loans and advances	1,610,912	1,457,697
Derivatives - Hedge accounting	-	-
Total exposure for financial assets	**2,504,925**	**2,315,771**
Loan commitments given	326,270	280,155
Financial guarantees given	55,022	58,713
Other commitments and other guarantees given	10,647	6,567
Total commitments and guarantees given	**391,939**	**345,435**
Total maximum exposure to credit risk	**2,896,864**	**2,661,206**

The maximum exposure to credit risk is determined based on financial assets, as explained below:

- In the case of financial assets recognised in the consolidated statements of financial position, it is considered that the exposure to credit risk is equal to their carrying amount, without considering impairment losses, with the sole exception of trading and hedging derivatives.
- It is considered that the maximum exposure to credit risk for financial guarantees given is the highest amount that the Andbank Group would have to pay if the guarantee were executed, which corresponds to its carrying amount.
- The maximum exposure to credit risk for derivatives is based on their market value and their potential risk. Market value reflects the difference between the original commitments and the mark-to-market value at the date of the financial statements. As indicated in note 3, in accordance with IFRS 9, derivatives are recognised at each reporting date at their fair value. On the other hand, the potential risk is an estimate of the maximum expected rise of the exposure to risk through a derivative marked to market, with a statistical confidence level, as a result of future changes in the valuation prices in the residual term until the maturity of the transaction.

Credit quality of financial assets

As indicated in the accounting policy on impairment, the Andbank Group has different methods to determine expected loan losses.

The gross value of financial assets by category and their credit rating, as indicated in the accounting policies, is as follows:

Rating	31/12/2019	31/12/2018
AAA	146,623	119,410
AA+	843	4,719
AA	2,596	48,286
AA-	6,241	16,162
Aa3	-	-
A+	95,547	54,631
A	58,763	22,686
A-	159,489	149,530
BBB+	138,247	185,886
BBB	145,856	92,014
BBB-	4,455	50,612
BB+	-	-
BB	65	418
BB-	14,818	9,101
B+	-	140
B	-	-
B-	26	-
CCC+	-	-
CCC	-	-
CCC-	-	-
CC	-	-
C	-	-
DDD	-	-
DD	-	-
D	42	57
N/A	2,222	1,541

Past-due but not impaired risks and doubtful or impaired risks

The following tables provide details by counterparty and by product of risks that are past due but not considered to be impaired at 31 December 2019 and 2018, listed by their first past-due date; as well as the breakdown of the debt securities and loans and advances individually and collectively estimated, and the specific valuation adjustments for individually estimated and for collectively estimated:

		Non-doubtful		
31 December 2019			Not past due or past due <= 30 days	Past due >30 days <= 90 days
Loans and advances	**2,038,931**	**1,991,663**	**1,983,119**	**8,544**
Central banks	-	-	-	-
General governments	45,287	45,287	45,287	-
Credit institutions	379,290	379,290	379,290	-
Other financial corporations	57,988	57,805	57,648	157
Other non-financial corporations	701,151	672,138	668,150	3,988
Of which: small and medium-sized enterprises	644,284	620,235	616,265	3,969
Of which: secured by commercial real estate	211,754	197,489	197,489	-
Households	855,215	837,143	832,744	4,399
Of which: secured by residential real estate	424,248	413,010	410,221	2,789
Of which: credit for consumption	241,128	235,132	233,550	1,581

		Non-doubtful		
31 December 2018			Not past due or past due <= 30 days	Past due >30 days <= 90 days
Loans and advances	**1,756,751**	**1,702,904**	**1,686,177**	**16,727**
Central banks	-	-		-
General governments	43,638	43,638	43,638	-
Credit institutions	241,816	241,816	241,816	-
Other financial corporations	50,973	50,789	50,789	-
Other non-financial corporations	684,611	654,905	650,377	4,528
Of which: small and medium-sized enterprises	602,575	582,433	577,905	4,528
Of which: secured by commercial real estate	212,278	194,742	194,742	-
Households	735,713	711,756	699,557	12,199
Of which: secured by residential real estate	312,756	295,670	292,474	3,196
Of which: credit for consumption	263,058	218,519	210,136	8,383

	Gross carrying amount / Nominal amount					
	Doubtful					
		Payment improbable not past due or past due <= 90 days	Past due >90 days <= 180 days	Past due > 180 days <= 1 year	Past due >1 year <=5 years	Past due > 5 years
	47,269	**11,624**	**7,926**	**2,801**	**16,406**	**8,512**
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	184	-	1	1	182	-
	29,013	10,975	6,240	770	8,336	2,693
	24,049	6,220	6,035	770	8,332	2,693
	14,266	4,554	1,478	247	7,670	316
	18,072	649	1,685	2,030	7,888	5,819
	11,238	367	1,338	923	3,878	4,732
	5,997	143	337	524	3,905	1,087

	Gross carrying amount / Nominal amount					
	Doubtful					
		Payment improbable not past due or past due <= 90 days	Past due >90 days <= 180 days	Past due > 180 days <= 1 year	Past due >1 year <=5 years	Past due > 5 years
	53,847	**5,164**	**6,336**	**4,424**	**21,887**	**16,036**
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	184	-	-	183	1	-
	29,706	2,947	4,456	1,941	12,917	7,445
	20,142	2,947	65	1,941	12,824	2,365
	17,536	-	4,391	-	7,777	5,368
	23,957	2,217	1,880	2,300	8,969	8,591
	17,086	1,566	998	2,015	5,520	6,987
	44,539	623	317	271	41,723	1,605

31 December 2019		Non-doubtful exposure - Accumulated impairment and provisions	
Loans and advances	**(48,800)**	**(33,460)**	**(15,340)**
Central banks	-	-	-
General governments	(226)	(226)	-
Credit institutions	-	-	-
Other financial corporations	(92)	(13)	(79)
Other non-financial corporations	(29,855)	(24,127)	(5,728)
Of which: small and medium-sized enterprises	(28,938)	(24,005)	(4,932)
Of which: secured by commercial real estate	(23,474)	(20,899)	(2,575)
Households	(18,627)	(9,094)	(9,533)
Of which: secured by residential real estate	(6,582)	(822)	(5,760)
Of which: credit for consumption	(3,675)	(410)	(3,265)

31 December 2018		Non-doubtful exposure - Accumulated impairment and provisions	
Loans and advances	**(57,417)**	**(35,265)**	**(22,152)**
Central banks	-	-	-
General governments	(218)	(218)	-
Credit institutions	(1)	-	(1)
Other financial corporations	(68)	(18)	(50)
Other non-financial corporations	(33,299)	(25,227)	(8,072)
Of which: small and medium-sized enterprises	(30,574)	(24,888)	(5,686)
Of which: secured by commercial real estate	(25,477)	(21,310)	(4,167)
Households	(23,831)	(9,802)	(14,029)
Of which: secured by residential real estate	(9,818)	(919)	(8,899)
Of which: credit for consumption	(5,345)	(621)	(4,724)

Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Doubtful exposure - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				
	Payment improbable not past due or past due <= 90 days	Past due > 90 days <=180 days	Past due >180 days <=1 year	Past due > 1 year <= 5 years	Past due >5 years
	(1,092)	**(1,524)**	**(1,148)**	**(6,110)**	**(5,466)**
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	(1)	(78)	-
	(892)	(740)	(349)	(2,205)	(1,541)
	(305)	(535)	(348)	(2,202)	(1,541)
	(537)	(249)	-	(1,609)	(180)
	(200)	(784)	(798)	(3,827)	(3,925)
	(96)	(569)	(298)	(1,690)	(3,107)
	(102)	(209)	(400)	(1,737)	(817)

Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Doubtful exposure - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				
	Payment improbable not past due or past due <= 90 days	Past due > 90 days <=180 days	Past due >180 days <=1 year	Past due > 1 year <= 5 years	Past due >5 years
	(1,404)	**(1,155)**	**(1,380)**	**(9,272)**	**(8,941)**
	-	-	-	-	-
	-	-	-	-	-
	(1)	-	-	-	-
	-	-	(49)	(1)	-
	(831)	(590)	(555)	(3,047)	(3,049)
	(831)	(53)	(555)	(3,045)	(1,202)
	-	(537)	-	(1,665)	(1,965)
	(572)	(565)	(776)	(6,224)	(5,892)
	(158)	(213)	(546)	(3,481)	(4,501)
	(414)	(249)	(220)	(2,450)	(1,391)

Impairment losses

Movements during 2019 and 2018 in the provisions recognised in the accompanying consolidated statements of financial position to cover the impairment or reversal of the impairment of the estimated value of loans and advances and debt securities are as follows:

31 December 2019	Opening balance	Increases due to origin and acquisition	Decrease due to disposals
Provisions for financial assets without increase in credit risk since initial recognition (Stage 1)	**(2,221)**	**(406)**	**1,113**
Debt securities	-	-	-
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	-	-	-
Non-financial corporations	-	-	-
Loans and advances	(2,221)	(406)	1,113
Central banks	-	-	-
General governments	(218)	(43)	57
Credit institutions	-	-	-
Other financial corporations	(14)	(39)	146
Non-financial corporations	(940)	(192)	327
Households	(1,049)	(132)	583
Provisions for debt instruments with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	**(33,045)**	**(72)**	**4,932**
Debt securities	-	-	-
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	-	-	-
Non-financial corporations	-	-	-
Loans and advances	(33,045)	(72)	4,932
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	(5)	-	4
Non-financial corporations	(24,287)	(45)	4,670
Households	(8,753)	(27)	258
Provisions for credit-impaired debt instruments (Stage 3)	**(22,151)**	**(580)**	**3,270**
Debt securities	-	-	-
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	-	-	-
Non-financial corporations	-	-	-
Loans and advances	(22,151)	(580)	3,270
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	(49)	(21)	-
Non-financial corporations	(8,072)	(382)	542
Households	(14,030)	(177)	2,728
Total	**(57,417)**	**(1,058)**	**9,315**

Changes due to modification in credit risk (net)	Changes due to modifications without derecognition (net)	Decreases due to adjustments to the value of derecognised write-offs	Other adjustments	Closing balance
539	**(1)**	**-**	**(591)**	**(1,567)**
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
539	(1)	-	(591)	(1,567)
-	-	-	-	-
(22)	-	-	-	(226)
(1)	-	-	-	(1)
-	-	-	(105)	(12)
333	-	-	(62)	(534)
229	(1)	-	(424)	(794)
1,043	**(4,504)**	**-**	**(248)**	**(31,894)**
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,043	(4,504)	-	(248)	(31,894)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(45)	-	-	45	(1)
638	(4,504)	-	(65)	(23,593)
450	-	-	(228)	(8,300)
(443)	**(262)**	**3,634**	**1,193**	**(15,339)**
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(443)	(262)	3,634	1,193	(15,339)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	288	(297)	(79)
1,868	(257)	1,667	(1,094)	(5,728)
(2,311)	(5)	1,679	2,584	(9,532)
1,139	**(4,767)**	**3,634**	**354**	**(48,800)**

31 December 2018	Opening balance	Increases due to origin and acquisition	Decrease due to disposals
Provisions for financial assets without increase in credit risk since initial recognition (Stage 1)	**3,188**	**702**	**(1,591)**
Debt securities	-	-	-
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	-	-	-
Non-financial corporations	-	-	-
Loans and advances	3,188	702	(1,591)
Central banks	-	-	-
General governments	279	29	(43)
Credit institutions	-	-	-
Other financial corporations	6	8	(3)
Non-financial corporations	755	297	(230)
Households	2,148	368	(1,315)
Provisions for debt instruments with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	**38,322**	**23**	**1,689**
Debt securities	-	-	-
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	-	-	-
Non-financial corporations	-	-	-
Loans and advances	38,322	23	1,689
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	1	-	-
Non-financial corporations	28,335	1	85
Households	9,986	22	1,604
Provisions for credit-impaired debt instruments (Stage 3)	**31,031**	**227**	**(5,635)**
Debt securities	-	-	-
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	-	-	-
Non-financial corporations	-	-	-
Loans and advances	31,031	227	(5,635)
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	-	3	-
Non-financial corporations	7,925	54	(993)
Households	23,106	170	(4,642)
Total	**72,541**	**952**	**(5,537)**

Changes due to modification in credit risk (net)	Changes due to modifications without derecognition (net)	Decreases due to adjustments to the value of derecognised write-offs	Other adjustments	Closing balance
328	**-**	**(696)**	**181**	**2,112**
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
328	-	(696)	181	2,112
-	-	-	-	-
(48)	-	-	-	217
-	-	-	-	-
3	-	-	2	16
181	-	(380)	309	932
192	-	(316)	(130)	947
(599)	**113**	**(299)**	**(5,730)**	**33,519**
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(599)	113	(299)	(5,730)	33,519
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(1)	-	-	27	27
(651)	(38)	(1)	(2,592)	25,139
53	151	(298)	(3,165)	8,353
(4,777)	**(2,198)**	**(7,285)**	**10,421**	**21,784**
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(4,777)	(2,198)	(7,285)	10,421	21,784
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	57	60
(1,589)	(539)	(1,895)	5,141	8,104
(3,188)	(1,659)	(5,390)	5,223	13,620
(5,048)	**(2,085)**	**(8,280)**	**4,872**	**57,415**

__Risk concentration__

Details of the risk concentrations of the different financial instruments, by product and geographical area, at 31 December 2019 and 31 December 2018, are as follows:

31/12/2019	**Financial assets held for trading**			**Non-trading financial assets mandatorily at fair value through profit or loss**	
Concentration by country	Debt securities	Equity instruments	Derivatives	Debt securities	Equity instruments
Spain	56,082	2	11,528	-	1,515
France	3,113	-	1,070	-	-
Italy	732	-	-	-	-
Germany	5,580	-	-	-	-
Holland	2,313	-	54	-	-
Andorra	7,607	10	640	-	5,518
Rest of Europe	6,380	6,483	11,428	-	-
USA	3,904	4	18,335	-	3,040
Latin America	2,279	738	-	-	-
Other	2,061	114	33,739	-	-
	90,051	**7,351**	**76,796**	**-**	**10,073**

31/12/2018	**Financial assets held for trading**			**Non-trading financial assets mandatorily at fair value through profit or loss**	
Concentration by country	Debt securities	Equity instruments	Derivatives	Debt securities	Equity instruments
Spain	100,817	1	618	-	-
France	2,953	-	794	-	-
Italy	164	-	-	50,376	-
Germany	5,289	-	-	-	-
Holland	1,954	-	-	-	-
Andorra	4,836	11	-	-	4,803
Rest of Europe	3,437	1,137	49,859	-	-
USA	3,581	3	5,286	-	1,476
Latin America	2,372	-	-	-	-
Other	159	117	17,938	-	-
	125,562	**1,269**	**74,495**	**50,376**	**6,279**

Thousands of euros

Financial assets at fair value through other comprehensive income		Held-to-maturity investments	Financial assets at amortised cost		
Debt securities	Equity instruments	Debt securities	Interbank	Central banks and other demand deposits (interbank)	Gross loans and receivables
109,196	1,267	30,016	201,638	730,590	457,849
38,346	-	10,334	68,839	91,846	102,018
-	-	78,512	-	394	2,987
22,083	-	10,210	-	1,886	2,319
10,589	-	-	-	1,937	4,468
73,632	6,617	400	-	4,335	653,186
40,848	11,026	19,146	42,635	128,850	247,316
180,224	36	46,806	223	37,729	39,942
14,668	-	-	2,756	3,208	138,339
1,172	4,615	-	63,126	38,901	11,291
490,758	**23,560**	**195,424**	**379,217**	**1,039,676**	**1,659,714**

Thousands of euros

Financial assets at fair value through other comprehensive income		Held-to-maturity investments	Financial assets at amortised cost		
Debt securities	Equity instruments	Debt securities	Interbank	Central banks and other demand deposits (interbank)	Gross loans and receivables
91,595	1,027	-	92,185	441,316	364,278
46,210	-	-	77,006	234,508	83,622
-	-	129,331	-	481	2,811
-	-	7,086	-	312	1,704
30,065	-	833	-	238	4,125
90,825	5,800	-	-	2,279	698,711
34,615	13,571	-	48,958	327,084	197,772
97,080	76	44,141	219	256,059	30,185
7,474	-	-	22,795	1,299	122,728
-	364	-	474	150,260	9,176
397,864	**20,838**	**181,391**	**241,637**	**1,413,836**	**1,515,112**

Netting of assets and liabilities

The Bank presents on the consolidated statements of financial position the fair value of asset and liability derivatives at gross amount and has not carried out any netting. However, some of the financial derivatives contracted are subject to settlement agreements such as ISDA master agreements or similar agreements. These agreements permit the settlement of contracts deriving from the netting in the event of the counterparty's default, but not in the course of ordinary business, and the Bank does not have the intention to settle these contracts at net amount. The table below shows the value of assets and liabilities recognised on the statement of financial position subject to the agreements described at 31 December 2019, as well as the balances of collateral and other offsetting agreements:

			Thousands of euros
31 December 2019	Carrying amount	Clearing agreements and collateral	Net exposure
Financial assets			
Derivatives	77,618	(24,698)	52,920
Loans and advances	332,581	(6,343)	326,238
Financial liabilities			
Derivatives	58,541	(45,298)	13,243
Deposits	311,524	(70,677)	240,847

			Thousands of euros
31 December 2018	Carrying amount	Clearing agreements and collateral	Net exposure
Financial assets			
Derivatives	74,495	(11,099)	63,396
Loans and advances	217,719	(27,796)	189,923
Financial liabilities			
Derivatives	73,550	(62,925)	10,625
Loans and advances	281,528	(70,927)	210,601

▪d. Market risk

Sensitivity analysis

Market risk is understood as the potential loss to which the trading portfolio is exposed due to changes in market conditions, such as asset prices, interest rates, volatility and market liquidity. The measure the Bank uses to manage market risk in its investment portfolio is value at risk (VaR), as a general market standard, together with stress testing of the held-to-maturity portfolio.

VaR is calculated using the historical method. The calculation obtained corresponds to the maximum expected loss over a given time horizon and with a given confidence level. The Bank calculates VaR for a time horizon of one day and with a confidence level of 99%, and the historical period used for the calculation is one year. During 2019 the average VaR calculated for the trading portfolio was Euros 278 thousand, with a maximum of Euros 1,958 thousand and a minimum of Euros 57 thousand. The average position of the trading portfolio was Euros 252 million. Globally the trading portfolio comprises bonds with good credit ratings and of a very short duration, which determines a very reduced VaR.

The Bank stress tests its investment portfolio to assess the expected loss in extreme situations involving increases in the yield curve or widening of credit spreads. These tests use simulations to predict how the market value of the portfolio assets is likely to change in different scenarios. Seven scenarios are analysed: four are historical (2010 Greek crisis, Lehman Brothers bankruptcy in 2008, 2001 terrorist attacks on the Twin Towers and 1998 Russian debt crisis) and three are hypothetical (decrease of the yield curve, general widening of credit spreads, and decrease of the yield curve correlated with a widening of credit spreads).

The table below shows a summary of the VaR positions from the Bank's trading activity at 31 December 2019 and 2018, as well as during the period (based on a confidence level of 99% and a historical period of one year considered for the calculation):

				Thousands of euros
At 31 December 2019	VaR at 31/12/2019	Average VaR for the period	Maximum VaR for the period	Minimum VaR for the period
Interest rate and spread risk	28	253	1,957	13
Currency risk	-	-	-	-
Variable income risk	55	69	50	55
Volatility/matching risk	-	-	-	-
Diversification effect	(21)	(44)	(49)	(11)
Total	**62**	**278**	**1,958**	**57**

				Thousands of euros
At 31 December 2018	VaR at 31/12/2018	Average VaR for the period	Maximum VaR for the period	Minimum VaR for the period
Interest rate and spread risk	108	327	1,306	64
Currency risk	-	-	-	-
Variable income risk	106	123	177	39
Volatility/matching risk	-	-	-	-
Diversification effect	(63)	(86)	(155)	(29)
Total	**151**	**364**	**1,328**	**74**

Exposure to interest rate risk - Non-trading activity

Interest rate risk is defined as the impact on the market value of the Bank's assets and liabilities resulting from movements in interest rates. The measures the Bank uses to assess this impact are the sensitivity of the net interest margin over a one year period to 25 basis point parallel shifts in the yield curve for the main statement of financial position currencies and the sensitivity of the market value of own funds to 100 basis point parallel shifts in the yield curve.

In the historically low interest rate scenario of recent years, the Bank maintains a positive exposure to shifts in the interest rate curve; i.e. the Bank's financial margin would increase if the interest rate were to rise and decrease if the interest rate were to fall, despite the fact that in the current rate levels this sensitivity is asymmetric and positive sensibility shows a much higher figure than negative sensitivity. The repricing gap of the Bank's interest-rate-sensitive assets and liabilities is positive, i.e., overall, the repricing of assets precedes in time the repricing of liabilities. This position is reflected in the transfer of interbank deposits to very short terms and in the holding of a fixed income investment portfolio mainly invested in bonds with yield pegged to floating interest rates, or fixed income bonds with short and medium-term maturity, although part of the portfolio comprises long-term fixed-interest bonds which enable an additional margin to be generated and increase the duration of the asset on the consolidated statement of financial position. Most of these bonds are financed in the market through fixed rate repos, which enable the duration risk to be hedged. During 2019 interest rate swaps and futures have been contracted to hedge the duration risk of bonds in the medium and long term from the investment portfolio.

The limit on the sensitivity of equity to a 100 basis point parallel shift in the yield curve has been set by the board of directors at 5%. During 2019 the sensitivity of own funds has remained under this limit.

A table showing the position of the Bank's interest rate gap for the non-trading activity is as follows:

Thousands of euros

31 December 2019	Up to one month	From one month to three months	From three months to one year	From one to five years	More than five years	Not sensitive	Total balance
Cash, balances with other central banks and other demand deposits	1,017,457	-	41,428	-	-	-	1,058,886
Financial assets	55,961	113,122	81,639	250,127	270,559	122,604	894,013
Loans and receivables	719,952	438,446	757,784	64,962	55,567	(46,580)	1,990,130
5.2.- Loans and credits to entities	283,798	51,761	42,821	608	-	229	379,217
5.3 Credits to customers	436,153	386,685	714,963	64,354	55,567	(46,809)	1,610,912
Hedging derivatives	-	-	-	-	-	822	822
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	2,862	2,862
Other assets	-	-	-	-	-	627,801	627,801
Total assets	**1,793,370**	**551,568**	**880,851**	**315,089**	**326,126**	**707,509**	**4,574,513**
Financial liabilities held for trading	-	-	-	-	-	53,663	53,663
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	501,931	383,017	1,217,806	345,791	64,083	1,346,220	3,858,847
3.1. - Deposits in central banks	48,532	-	27,874	-	-	1	76,407
3.2. - Deposits in banks	223,487	122,495	20,985	-	-	2,995	369,963
3.3. - Customer deposits	218,711	260,522	1,085,253	48,330	-	1,223,347	2,836,164
3.3.1.- Demand	101,809	203,618	916,279	-	-	1,221,705	2,443,411
3.3.2.- Term	116,902	56,904	168,975	48,330	-	-	391,111
3.3.3.- Unpaid interest incurred	-	-	-	-	-	1,642	1,642
3.3.4.- Other financial liabilities.	-	-	-	-	-	-	-
3.4.- Debt securities	11,200	-	83,694	297,461	64,083	1,622	458,060
3.5. Other financial liabilities						118,254	118,254
Hedging derivatives	-	-	-	-	-	5,224	5,224
Liabilities under insurance contracts	-	-	-	-	-	-	-
Other assets	(89)	-	-	-	-	119,709	119,620
Total liabilities	**501,842**	**383,017**	**1,217,806**	**345,791**	**64,083**	**1,524,816**	**4,037,354**
Equity	-	-	-	35,000	-	502,159	537,159
Total Liabilities + Equity	**501,842**	**383,017**	**1,217,806**	**380,791**	**64,083**	**2,026,975**	**4,574,513**
Assets	1,793,370	551,568	880,851	315,089	326,126	707,509	4,574,513
Liabilities	501,842	383,017	1,217,806	380,791	64,083	2,026,975	4,574,513
IRS - Derivatives	**-**	**(23,152)**	**(515)**	**38,000**	**515**	**-**	**14,848**

SIMPLE GAP	1,291,528	145,399	(337,470)	(27,702)	262,559	(1,319,466)	(14,847)
ACCUMULATED GAP	1,291,528	1,436,927	1,099,457	1,071,755	1,334,314	14,847	-

Thousands of euros

31 December 2018	Up to one month	From one month to three months	From three months to one year	From one to five years	More than five years	Not sensitive	Total balance
Cash, balances with other central banks and other demand deposits	1,159,084	4,046	15,263	88,530	156,823	9,648	1,433,394
Financial assets	59,359	63,737	64,636	314,682	252,379	103,281	858,074
Loans and receivables	246,866	131,111	486,354	417,015	473,157	(55,171)	1,699,332
5.2.- Loans and credits to entities	148,778	20	-	474	91,955	422	241,649
5.3 Credits to customers	98,088	131,091	486,354	416,541	381,202	(55,393)	1,457,883
Hedging derivatives	-	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	2,978	2,978
Other assets	-	-	-	-	-	449,208	449,208
Total assets	**1,465,309**	**198,894**	**566,253**	**820,227**	**882,359**	**509,944**	**4,442,986**
Financial liabilities held for trading	-	-	-	-	-	66,227	66,227
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	795,767	131,678	377,460	824,587	1,116,714	481,605	3,727,811
3.1. - Deposits in central banks	47,614	12,000	210	-	-	-	59,824
3.2. - Deposits in banks	255,043	(719)	5,002	136,322	131,885	11,512	539,045
3.3. - Customer deposits	492,611	118,722	359,550	310,711	905,746	455,684	2,643,024
3.3.1.- Demand	391,621	61,345	146,095	245,862	905,746	417,593	2,168,262
3.3.2.- Term	100,990	57,377	213,455	64,849	-	35,684	472,355
3.3.3.- Unpaid interest incurred	-	-	-	-	-	2,407	2,407
3.3.4.- Other financial liabilities.	-	-	-	-	-	-	-
3.4.- Debt securities	499	1,675	12,698	377,554	79,083	1,110	472,619
3.5. Other financial liabilities	-	-	-	-	-	13,299	13,299
Hedging derivatives	-	-	-	-	-	7,322	7,322
Liabilities under insurance contracts	-	-	-	-	-	262	262
Other assets	-	-	-	-	-	124,720	124,720
Total liabilities	**795,767**	**131,678**	**377,460**	**824,587**	**1,116,714**	**680,136**	**3,926,342**
Equity	-	-	-	-	35,000	481,644	516,644
Total Liabilities + Equity	**795,767**	**131,678**	**377,460**	**824,587**	**1,151,714**	**1,161,780**	**4,442,986**
Assets	95,888	159,342	10,552	-	-	-	265,782
Liabilities	78,545	124,642	10,405	401	51,789	-	265,782
IRS - Derivatives	**17,343**	**34,700**	**147**	**(401)**	**(51,789)**	**-**	**-**
SIMPLE GAP	687,750	101,917	188,939	(4,760)	(321,145)	(652,701)	-
ACCUMULATED GAP	687,750	789,667	978,606	973,846	652,701	-	-

Sensitivity analysis

An analysis of the Andbank Group's sensitivity to fluctuations in the market interest rate in a time horizon of one year is as follows:

Thousands of euros

	Impact on net interest margin		Impact on economic value	
31 December 2019	Increase of 25 basis points	Decrease of 25 basis points	Increase of 100 basis points	Decrease of 100 basis points
Average for the period	12.10%	-11.95%	-0.32%	0.00%
Maximum for the period	13.66%	-9.52%	2.36%	3.18%
Minimum for the period	9.52%	-13.35%	-3.05%	-2.36%
31 December 2018				
Average for the period	10.69%	-10.58%	1.66%	-1.66%
Maximum for the period	13.93%	-13.50%	4.20%	-4.20%
Minimum for the period	9.59%	-9.17%	0.04%	-0.04%

Exposure to currency risk

Currency risk is defined as the risk that movements in exchange rates will have an impact on the market value of the Andbank Group's assets and liabilities denominated in currencies other than the Euro, with the positive positions being long positions and the negative positions being short positions. Spot and forward currency transactions are monitored on a daily basis to ensure that the open position in foreign currency is kept within the authorised limits. The main net positions for currencies with the equivalent value in Euros, are as follows:

Thousands of euros

Foreign currency exposure	2019	2018
USD	5,828	5,370
GBP	(501)	(20)
CHF	-	3,260
JPY	-	2

▪e. Liquidity risk

Liquidity risk is defined as the risk that the Bank is unable to meet its payment obligations in the short term, whether arising from, among others, the maturing of deposits, the drawdown of committed credit facilities or guarantees on collateralised transactions.

The Asset and Liability Committee manages liquidity risk ensuring at all times that there is sufficient liquidity to meet liability settlements, whilst keeping a liquidity retainer to be able to take advantage of asset investment opportunities.

In order to correctly manage liquidity the consolidated statements of financial position are analysed for contractual maturities. The Bank has IT tools to correctly distribute maturities of asset and liability items over time, in such a way that future collection and payment flows can be analysed and possible gaps assessed.

Most of the Bank's funds come from customer deposits, although the interbank market is also a relevant source of funding, mainly through repo transactions.

On a daily basis the financial risk management department controls the liquidity available at different day ends, verifying that they remain above the minimum liquidity level established. During 2019 this minimum level currently stands at Euros 300 million in a day and Euros 500 million in cash and highly liquid positions available within one year. This control includes daily monitoring of positions to be financed through repo and of the liquid portfolio. The Bank has complied with these limits throughout the year.

In order to comply with international standards, the Andbank Group calculates and monitors the liquidity coverage ratio (LCR). This ratio is defined by the Basel Banking Supervision Committee and links highly liquid and available assets with net cash inflows less outflows in the following 30 days. The Andbank Group has a LCR of 267% at 2019 reporting date, fully complying with the limit imposed by legislation (100%).

Andbank Andorra calculates from the month of March and on a quarterly basis the long-term LCR based on the short-term LCR. This ratio is also described by the Basel Banking Supervision Committee which defines it as the amount of available stable funding for the Entity relative to the amount of required stable funding with a time horizon of one year. The level of this ratio at reporting date is 141%, fully complying with the limit imposed by legislation (100%).

Since the start of the international financial crisis the Bank has prepared a liquidity contingency plan, which is updated monthly. This plan includes an assessment of contingent liquidity, assuming different levels of conversion of liquid assets into cash and available funding sources, taking the cost at which the liquidity could be generated into account. The assets that can be converted into cash and the manageable sources of liquidity are ranked, so as to give priority to the use of liquidity sources that have a low impact on the income statement, while postponing the use of liquidity sources that have a high negative impact on the income statement. In addition, potential outflows of liquidity, whether resulting from customer activity or activity in the financial markets, are identified and classified as either probable or improbable, based on likelihood of occurrence. Finally, the liquidity that could be generated is compared with the potential outflows to check that the surplus is above the approved minimum level of liquidity.

Analysis of maturity dates for financial assets and financial liabilities

The following tables shows the classification of the Andbank Group's main asset and liability accounts at 31 December 2019 and 2018 by contractual maturity or, where applicable by expected realisation or settlement terms:

Thousands of euros

31 December 2019	Up to one month	From one month to three months	From three months to one year	From one to five years	More than five years	Not sensitive	Total balance
Cash, balances with other central banks and other demand deposits	806,651	4,521	52,380	57,320	128,344	9,669	1,058,885
Financial assets	3,626	12,241	26,903	319,232	409,406	122,604	894,013
Loans and receivables	262,460	84,112	400,066	733,589	556,477	(46,574)	1,990,130
5.2. Loans and credits to entities	179,550	-	42,821	62,876	93,741	229	379,217
5.3. Credits to customers	82,910	84,112	357,245	670,713	462,736	(46,803)	1,610,913
Hedging derivatives	-	-	-	-	-	822	822
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	2,862	2,862
Other assets	-	-	-	-	-	627,801	627,801
Total assets	**1,072,737**	**100,874**	**479,349**	**1,110,141**	**1,094,227**	**717,184**	**4,574,513**
Financial liabilities held for trading	-	-	-	-	-	53,663	53,663
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	655,395	126,016	440,565	691,288	1,350,608	594,975	3,858,847
3.1. Deposits in central banks	48,532	-	27,874	-	-	1	76,407
3.2. Deposits in banks	37,561	-	-	78,941	250,466	2,995	369,963
3.3. Customer deposits	558,102	126,016	328,997	329,886	1,021,059	472,103	2,836,163
3.3.1.Demand	441,200	69,112	164,590	276,988	1,021,059	470,461	2,443,410
3.3.2. Term	116,902	56,904	164,407	52,898	-	-	391,111
3.3.3. Unpaid interest incurred	-	-	-	-	-	1,642	1,642
3.3.4. Other financial liabilities.	-	-	-	-	-	-	-
3.4. Debt securities	11,200	-	83,694	282,461	79,083	1,622	458,060
3.5. Other financial liabilities	-	-	-	-	-	118,254	118,254
Hedging derivatives	-	-	-	-	-	5,224	5,224
Liabilities under insurance contracts	-	-	-	-	-	-	-
Other assets	(89)	-	-	-	-	119,709	119,620
Total liabilities	**655,306**	**126,016**	**440,565**	**691,288**	**1,350,608**	**773,572**	**4,037,354**
Equity	-	-	-	-	35,000	502,159	537,159
Total Liabilities + Equity	**655,306**	**126,016**	**440,565**	**691,288**	**1,385,607**	**1,275,731**	**4,574,513**
SIMPLE GAP	417,432	(25,142)	38,784	418,853	(291,380)	(558,547)	-
ACCUMULATED GAP	417,432	392,290	431,074	849,927	558,547	-	-

31 December 2018	Up to one month	From one month to three months	From three months to one year	From one to five years	More than five years	Not sensitive	Total balance
							Thousands of euros
Cash, balances with other central banks and other demand deposits	1,159,084	4,046	15,263	88,530	156,823	9,648	1,433,394
Financial assets	59,359	63,737	64,636	314,682	251,513	104,147	858,074
Loans and receivables	246,866	131,112	486,354	417,015	473,157	(55,171)	1,699,333
5.2. Loans and credits to entities	148,778	20	-	474	91,955	422	241,648
5.3. Credits to customers	98,088	131,092	486,354	416,541	381,202	(55,593)	1,457,685
Hedging derivatives	-	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	2,978	2,978
Other assets	-	-	-	-	-	449,207	449,207
Total assets	**1,465,309**	**198,895**	**566,253**	**820,227**	**881,493**	**510,809**	**4,442,986**
Financial liabilities held for trading	-	-	-	-	-	66,227	66,227
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	795,768	133,117	377,460	824,586	1,115,275	481,605	3,727,811
3.1. Deposits in central banks	47,614	12,000	210	-	-	-	59,824
3.2. Deposits in banks	255,043	719	5,002	136,322	130,446	11,512	539,044
3.3. Customer deposits	492,612	118,723	359,551	310,711	905,746	455,684	2,643,027
3.3.1. Demand	391,621	61,346	146,095	245,862	905,746	417,593	2,168,263
3.3.2. Term	100,991	57,377	213,456	64,849	-	35,684	472,357
3.3.3. Unpaid interest incurred	-	-	-	-	-	2,407	2,407
3.3.4. Other financial liabilities.	-	-	-	-	-	-	-
3.4. Debt securities	499	1,675	12,697	377,553	79,083	1,110	472,617
3.5. Other financial liabilities	-	-	-	-	-	13,299	13,299
Hedging derivatives	-	-	-	-	-	7,322	7,322
Liabilities under insurance contracts	-	-	-	-	-	262	262
Other assets	-	-	-	-	-	124,720	124,720
Total liabilities	**795,768**	**133,117**	**377,460**	**824,586**	**1,115,275**	**680,136**	**3,926,342**
Equity	-	-	-	-	35,000	481,644	516,644
Total Liabilities + Equity	**795,768**	**133,117**	**377,460**	**824,586**	**1,150,275**	**1,161,780**	**4,442,986**
SIMPLE GAP	670,407	65,777	188,792	(4,359)	(268,783)	(651,835)	-
ACCUMULATED GAP	670,407	736,184	924,976	920,617	651,835	-	-

Those assets which at 31 December 2019 and 2018 are committed (provided as collateral or guarantee with regard to certain liabilities) and those which are free of charges, are shown as follows:

				Thousands of euros
At 31 December 2019	Carrying amount of committed assets	Market value of committed assets	Carrying amount of non-committed assets	Market value of non-committed assets
Equity instruments	-	-	41,634	41,634
Debt securities	241,781	245,558	534,635	522,194
Loans and advances	-	-	-	-

				Thousands of euros
At 31 December 2018	Carrying amount of committed assets	Market value of committed assets	Carrying amount of non-committed assets	Market value of non-committed assets
Equity instruments	-	-	30,326	30,326
Debt securities	213,688	213,688	545,819	545,819
Loans and advances	-	-	-	-

At 31 December 2019 and 2018 collateral received mainly for the temporary acquisition of assets or securities loaned, the majority of which could be committed, for the purpose of obtaining financing, are shown as follows:

			Thousands of euros
At 31 December 2019	Fair value of committed guarantees received or own shares issued	Fair value of guarantees received or own shares issued available for commitment	Fair value of guarantees received or own shares issued not available for commitment
Guarantees received			
Equity instruments	-	-	-
Debt securities	352,084	107,792	244,292
Loans and advances	-	-	-

			Thousands of euros
At 31 December 2018	Fair value of committed guarantees received or own shares issued	Fair value of guarantees received or own shares issued available for commitment	Fair value of guarantees received or own shares issued not available for commitment
Guarantees received			
Equity instruments	-	-	-
Debt securities	218,797	171,355	47,442
Loans and advances	-	-	-

Guarantees received in the form of the temporary acquisition of assets or securities loaned are committed through their use in transactions for the assignment of assets under repurchase agreements, in the same way as for debt securities.

▪f. Operational risk

In accordance with the guidelines of the Basel Committee, the Andbank Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The operational risk is inherent to all the activities, products, systems and processes and its origins are diverse (processes, internal and external fraud, technology, human resources, commercial practices, disasters, providers). Consequently the Andbank Group considers it important to ensure that operational risk management is integrated into the Bank's global risk management structure and that the risk is managed actively.

The Andbank Group's main objective in relation to operational risk is to identify, evaluate, control and monitor all the events which imply a risk focus, with or without economic loss, for the purpose of adopting the best measures for its mitigation.

The main aim of the Operational Risk Department is to develop an advanced framework to manage operational risk, thus contributing to reducing the level of future exposure and the losses affecting the income statement. Its main responsibilities are:

- To promote and develop an operational risk culture throughout the Andbank Group, involving all business functions in management and control of operational risk.
- To design and implement a framework to manage and control operational risk, guaranteeing that all events subject to generating operational risk are identified and duly managed.
- To oversee the correct design, maintenance and implementation of legislation regarding operational risk.
- To monitor the operational risk limits set, ensuring that the risk profile remains within the Bank's risk appetite level.
- To supervise the management and control of operational risk in the different business and support areas.
- To ensure that senior management and the board of directors receive a global overview of all the relevant risks, ensuring that the operational risk profile is reported.

The main tools used to manage operational risk within the Andbank Group are:

- A database of events, enabling all events with operational risk within all of the Andbank Group's subsidiaries to be captured and registered. The most relevant events of each subsidiary and of the Andbank Group are specifically reviewed and documented.
- A risks and controls map enabling all the risks from the Bank's daily operations to be identified, as well as the persons in charge and controls. The objective is to define mitigation measures and action plans to reduce risk exposure.
- The annual Risk & Control Self-Assessment (RCSA), consisting of an assessment of the processes, enables critical points and the level of risk management quality to be identified in order for it to be improved and strengthened.
- Key risk indicators (KRIs) enable proactive management of the risk, evaluating the level of operational control through analysis and monitoring of its performance.

The governance and methodology of analysis is established under the directives of the Basel Committee.

▪g. Regulatory compliance risk

Compliance with prevailing legislation regulating the banking activity and the rendering of financial services is an essential objective for Andbank. The Bank has adopted a series of measures to manage legislative compliance and reputational risks. Regulatory compliance risk is understood to be the possibility of material or reputational sanctions or financial losses as a result of non-compliance with prevailing legislation and/or the Andbank Group's own internal procedures. Therefore, the regulatory compliance risk is closely linked to reputational risk, which implies that the Andbank Group is negatively perceived by public opinion or interest groups (customers, counterparties, employees, regulators) due to failures by the Bank during the course of its activity.

Andbank considers that its public image is its best asset when retaining the trust of customers, regulators, shareholders and investors.

Andbank has a legislative compliance function in line with its strategic objectives, which carries out its activities separately from the business areas and is formed of professionals specialised in each jurisdiction in which the Andbank Group operates. The Bank dedicates a significant amount of resources to continuously improve its human capital and the available technical resources, which enable the development of a permanently-updated risk control and management model compliant with legislation

Taking into consideration the aforementioned objectives, a series of global policies have been designed, approved by the board of directors. These policies are regularly reviewed to bring them into line with Andbank's activity. The global policies are applicable for the whole Andbank Group, as are a series of internal controls for managing legislative and reputational risk.

Likewise, the Bank has created a Legislative Compliance and Ethics Committee, the main aim of which is to oversee and supervise the adequacy and sufficiency of the legislative compliance model for the whole of the Andbank Group.

The main pillars on which Andbank has instrumented the management of regulatory compliance risk and reputational risk are as follows:

Ethical and conduct rules

Andbank adopts measures to promote ethical conduct by all of the Andbank Group's employees. For this purpose, Andbank understands that the customer is its key element and that no business can be admitted if it generates reputational risk.

The Bank has an Ethical Code stipulating the strict standards of conduct with which all employees, directors and administrators must comply and binding them to a responsible conduct when carrying out their duties. Employees avail of a secure channel to resolve any queries or report activities which could breach the Bank's standards of conduct.

Prevention of money laundering and terrorism financing

Andbank undertakes to actively combat money laundering, financing of terrorism and other financial crimes. The effective implementation of procedures and rules based on the "Know your customer" (KYC) rules are fundamental for the Andbank Group.

KYC implies the entity having in-depth knowledge of both the individuals and entities with which it operates (whether it be a simple transaction or a long-standing commercial relationship) or to which it offers services, as well as knowing who are the final beneficiaries and related parties. KYC is an ongoing process which starts with acceptance of the customer and lasts during the whole business relationship. Likewise, a similar procedure, called KYE (Know Your Employee), is applied when hiring new employees.

In the framework of private banking the Bank has a global money laundering model based on EU directives. This model includes necessary adaptations to the particularities of the business of each subsidiary and to local legislation and is constantly being changed to bring it into line with legislative amendments.

For this purpose, Andbank applies a series of reinforced measures when carrying out and monitoring customer transactions. On the basis of information provided by customers and the information obtained by the Bank, all customers are classified in view of their potential risk in accordance with international standards (such as country of origin, residence or professional activity).

Andbank supports new technologies and has cutting-edge technical resources to detect suspicious patterns of behaviour and operations related to money laundering or the financing of terrorism.

The legislative compliance function is focused on carrying out an independent review to provide sufficient guarantees when contracting new customers. This process is not just limited to accepting customers, it is also vital to perform ongoing monitoring to guarantee adequate knowledge of our customers at all times and therefore be able to detect transactions which could breach prevailing legislation.

For the purpose of standardisation and increasing efficiency with regard to the control over potential compliance risks, the function has prepared a procedures manual containing the activities through which risks are managed. This manual is updated in accordance with local regulations and international standards.

In order to reinforce good governance in this field, critical for any financial institution, Andbank has set up various committees in which senior management participates and in which the contracting of especially relevant customers is reviewed. A follow up is also carried out of the measures taken by the legislative compliance function, making as many decisions as considered necessary for the aforementioned purposes.

Investor protection

The Andbank Group's commitment to its customers has two fundamental dimensions: the creation of long-term value and maximum information transparency. For this purpose, in order to guarantee that requirements stipulated by different legislations are met, the Andbank Group has global policies and procedures in place which are in line with each jurisdiction in which it operates.

The model established by Andbank to mitigate risks of legislative and reputational compliance takes into consideration the following:

- An organisational structure focused on risk management.
- Allocation of functions and responsibilities within the organisation.
- Transparent policies and procedures available to customers.
- Reinforcement of rules of conduct to increase investor protection.
- A procedure of distributing financial products based on classification of services, type of customer and products offered.
- Ongoing review of the control model to bring it into line with changes originating from new regulations.

In this regard, the Andbank Group ensures that the following is achieved:

- Financial services in line with customer requirements.
- A transparent bilateral relationship with rights and obligations for both parties.
- Fair resolution of customer complaints.

Law 8/2013 of 9 May 2013 on organisational requirements and operating conditions of the operating entities of the financial system, investor protection, market abuse and financial collateral arrangements has recently been amended through Law 17/2019 of 15 February 2019 and the Regulation developing Law 8/2013. Both these texts arise from the transposition of the MiFID regulatory framework and Andorran legislation.

CRS (Common Reporting Standard)

CRS is a system for the automatic exchange of information in tax matters between countries, which enables taxation authorities of the adhered countries to obtain, on an annual basis, tax information relating to investments or positions of its tax residents in financial institutions located abroad (outside the country where they are resident for tax purposes).

The Principality of Andorra approved Law 9/2016 of 30 November 2016 on the automatic exchange of information in tax matters, which sets out the principles established by the OECD for Common Reporting Standards (CRS), included in the Convention on Mutual Administrative Assistance (CMAA) in Tax Matters, in relation to the automatic exchange between competent authorities in member countries on certain information in tax matters. The Law was published on the website of the Official Gazette of the Principality of Andorra (BOPA) (www.bopa.ad).

This Law stipulates that financial institutions are legally under the obligation to report to their respective competent authorities (in the case of the Principality of Andorra, reporting is made to the Department of Taxes and Borders) certain personal and tax information regarding the accounts of non-resident customers.

Knowledge management and training

One of the Andbank Group's priorities in this area is the implementation of training, to ensure that all employees are aware of the requirements arising from applicable laws and regulations and of the procedures implemented.

Every year the Andbank Group defines the training plans required in all jurisdictions, which are given by the Andbank Group or external providers either in situ or via the online channel. Transmitting a culture of compliance to the whole of the organisation is essential for the adequate management of regulatory compliance risk.

As part of these annual programmes courses are given on taxation, money laundering and financing of terrorism and investor protection. The subject matter and complexity of these courses are adapted to the activities carried out by course recipients.

Incidents and complaints

Andbank gives priority at all times to its customers and therefore, it never fails to consider or deal with their opinions or possible complaints. The Quality Department channels all complaints that customers submit to the Bank through the various communication channels available. This department's aim is to quickly resolve any incidents and push forward any necessary changes in policies and procedures to mitigate the risk of these incidents happening again.

39. Fair Value of Financial Instruments

▪a. Measurement models and framework

Financial instruments, the carrying amount of which coincides with their fair value, have been measured in accordance with one of the following methodologies:

- **Level 1:** the fair value has been determined taking quoted prices in active markets, without making any adjustment to these prices.
- **Level 2:** the fair value has been estimated based on quoted prices in active markets for similar instruments or by using valuation techniques in which all significant inputs are based on directly or indirectly observable market data.
- **Level 3:** the fair value has been estimated using valuation techniques in which a certain significant input is not based on observable market data. An input is considered significant when it is important in determining the fair value as a whole.

▪b. Recognised assets and liabilities measured at fair value (fair value hierarchy)

A classification of assets and liabilities measured at fair value in the accompanying consolidated statements of financial position, broken down based on the valuation method used to estimate their fair value, is as follows:

31 December 2019	Level 1	Level 2	Level 3
Financial assets held for trading	**89,790**	**84,408**	-
Derivatives	-	76,796	-
Equity instruments	7,222	129	-
Debt securities	82,568	7,483	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1,582**	**8,491**	-
Equity instruments	1,582	8,491	-
Debt securities	-	-	-
Financial assets designated at fair value through profit or loss	**393,680**	**120,638**	-
Equity instruments	12,843	10,717	-
Debt securities	380,837	109,921	-
Derivatives - Hedge accounting	-	**822**	-
Financial assets not measured at fair value	**121,346**	**74,078**	-
Equity instruments	-	-	-
Debt securities	121,346	74,078	-
Financial liabilities held for trading	-	**58,887**	-
Derivatives	-	53,663	-
Derivatives - Hedge accounting	-	5,224	-

31 December 2018	Level 1	Level 2	Level 3
Financial assets held for trading	119,886	81,440	-
Derivatives	-	74,495	-
Equity instruments	1,123	146	-
Debt securities	118,763	6,799	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	56,655	-
Equity instruments	-	6,279	-
Debt securities	-	50,376	-
Financial assets designated at fair value through profit or loss	281,002	137,700	-
Equity instruments	8,720	12,118	-
Debt securities	272,282	125,582	-
Derivatives - Hedge accounting	-	-	-
Financial assets not measured at fair value	112,981	68,410	-
Equity instruments	-	-	-
Debt securities	112,981	68,410	-
Financial liabilities held for trading	-	73,550	-
Derivatives	-	66,227	-
Derivatives - Hedge accounting	-	7,322	-

(*) Data originally reported, in accordance with legislation prevailing in 2017.

During 2019 and 2018 no significant movements have arisen between the fair value hierarchy levels.

c. Valuation techniques

For the recurrent and non-recurrent fair value measurements classified in Level 2 and Level 3 of the fair value hierarchy, a description, by type of instrument, of the valuation technique/s and inputs used to measure fair value at 31 December 2019 and 2018 is provided below:

31 December 2019	Fair value	Valuation techniques	Significant non-observable input	Range of estimates (weighted average) for non-observable input
Level 2 financial instruments				
Derivatives	77,618	Discount Model, Credit Default Model Black-Scholes Futures	Not applicable	-
Equity instruments	23,249	Deal Value	Not applicable	-
Debt securities	181,843	Credit RiskyModels, Discount Model, Deal Value, others	Not applicable	-

31 December 2018	Fair value	Valuation techniques	Significant non-observable input	Range of estimates (weighted average) for non-observable input
Level 2 financial instruments				
Derivatives	74,495	Discount Model, Credit Default Model Black-Scholes Futures	Not applicable	-
Equity instruments	18,543	Deal Value	Not applicable	-
Debt securities	251,166	Credit Risk Models, Discount Model, Deal Value, others	Not applicable	-

▪d. Financial instruments not measured at fair value

The table below shows the fair value of financial instruments which are not measured at fair value in the statements of financial position and are measured by fair value hierarchy level for 2019 and 2018:

Financial assets at amortised cost	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
31/12/2019	124,353	64,777	-	189,130	195,424
31/12/2018	108,115	51,117	-	159,232	181,391

40. Events After the Reporting Period

On 11 March 2020, the World Health Organisation declared the outbreak of Coronavirus disease 2019 (COVID-19) to be a pandemic, due to its rapid spread across the globe, having affected over 150 countries. The majority of governments are taking restrictive measures to contain the spread, including: isolation, confinement, quarantine and restrictions on the free movement of people, the closure of public and private premises (except for basic necessities and health services), border closures and a drastic reduction in air, sea, rail and land transport.

This situation is having a significant impact on the global economy due to the interruption or slowdown of supply chains and the substantial increase in economic uncertainty, evidenced by greater volatility in asset prices and exchange rates, and a drop in long-term interest rates.

In Andorra, the government enacted the Decree of 11 March 2020 establishing exceptional measures for the health emergency triggered by the novel coronavirus SARS-CoV-2 (and the Decrees of 14 March 2020, 17 March 2020, 18 March 2020 and 21 March 2020) to manage the economic and social impact of COVID-19.

The consequences derived from COVID-19 are considered an event after the reporting period that does not require an adjustment in the annual accounts for 2019, without prejudice to having to be disclosed in the annual accounts for 2020.

At the date the annual accounts were authorised for issue no significant consequences have arisen from the events described above. During 2020, the Andbank Group will assess the impact of the above-mentioned events on the equity and financial position at 31 December 2020 and on the results of operations and cash flows for the year then ended.

41. Compliance with Legislation

Law regulating mandatory investment ratios (Llei de regulació del coeficient d'inversions obligatòries)

In a session held on 30 June 2994 the Principality of Andorra's General Council passed a Law regulating mandatory investment ratios. The Regulations pursuant to this law exclusively concern banking institutions and oblige them to maintain a certain investment ratio of assets in Andorran public funds.

On 31 December 2005 the Government enacted a Decree for public debt issue to which the Bank subscribed in an amount of Euros 59,566 thousand, with maturity on 31 December 2009 and accruing interest at the official one-year rate of the European Central Bank. It was renewed for successive years, amounting currently to Euros 59,566 thousand, falling due on 30 March 2022.

Law regulating deposit guarantee reserves and other operating obligations held and deposited by entities belonging to the financial system (Llei de regulació de reserves en garantia de dipòsit i d'altres obligacions operacionals a mantenir i dipositar per les entitats enquadrades en el sistema financer)

In a session held on 11 May 1995 the Principality of Andorra's General Council, passed a Law regulating deposit guarantee reserves and other operational obligations, which are to be held and deposited by entities operating in the financial system. This law obliges the banks forming part of the Andorran financial system to maintain in their permanent funds various minimum reserves of equity to secure their operational obligations up to a limit of 4% of their total investments, after deducting investments made using equity and banking funds. In accordance with Law 1/2011 of 2 February 2011 for the creation of a deposit guarantee scheme for banks, amounts deposited in the AFA pursuant to the provisions of the Law on deposit guarantee reserves and other operational obligations were released. Accordingly, as a consequence of the agreement reached by the guarantee fund Management Commission on 29 August 2011, pursuant to Law 1/2011 of 2 February 2011, the Bank created a reserve of Euros 25,929 thousand at 31 December 2016 (see note 20).

By virtue of Law 20/2018 of 13 September 2018 regulating Andorran deposit guarantee funds and the Andorran investment guarantee system, Law 1/2011 was repealed, except for the fourth transitional provision. This Law sets out the need for an additional buffer of funds for the guarantee fund and the annual contribution, as an ex-ante system, of contributions of an amount equivalent to 0.8% of the deposit guarantees up to 30 June 2024. At the same time the maximum coverage is increased by the investment guarantee system, stipulated by this Law, giving the Fund management committees and Guarantee system the possibility of requesting additional extraordinary contributions from the member entities.

On 23 April 2014 the Andorran Government issued the Regulation governing the programme for adjustments to improve national real estate, enhance energy efficiency of buildings and the use of renewable energy, amended by the revised Regulation dated 11 February 2015. The amount outstanding at 31 December 2019 for operations under this programme is Euros

1,220 thousand (Euros 1,383 thousand at 31 December 2018), recognised under loans and advances to customers in the consolidated statement of financial position.

Law 14/2017 of 22 June 2017 on the prevention and combat against the laundering of money or securities and the financing of terrorism (Llei 14/2017, del 22 de juny, de prevenció i lluita contra el blanqueig de diners o valors i el finançament del terrorisme)
In its session held on 22 June 2017, the Principality of Andorra's General Council approved the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime. This law was published in the Official Gazette of the Principality of Andorra on 19 July 2017 and entered into force on 20 July 2017.

The implementation of international standards on the prevention of and combat against the laundering of money or securities and the financing of terrorism has become a national priority in Andorra, leading to the adoption of legislative initiatives in recent years and a review of the system for preventing and suppressing these criminal activities order to achieve the most effective framework to combat them.

In this context, the Principality of Andorra is periodically subject to assessments by the European Council, carried out by a committee of experts, to evaluate the measures being taken to combat the laundering of money or securities and against the financing of terrorism (Moneyval). These assessments require an adequate and effective implementation of international standards in this matter, materialising in the new recommendations of the Financial Action Task Force (FATF).

The purpose of this law is to reinforce even further the Principality of Andorra's commitment towards preventing and suppressing money laundering and the financing of terrorism, through an ongoing process of adapting legislation to international standards.

In accordance with this law, the Bank has set up proper and sufficient control and internal communications procedures to protect banking secrecy and prevent and impede operations related to money laundering generated by criminal activities. Specific personnel training programs have been carried out to this effect.

Law on the legal regime governing entities operating in the Andorran financial system and other provisions regulating financial activities in the Principality of Andorra (Llei sobre el règim jurídic de les entitats operatives del sistema financer andorrà i altres disposicions que regulen l'exercici de les activitats financeres al Principat d'Andorra)
In the session held on 9 May 2013 the General Council approved Law 7/2013 on the legal regime governing entities operating in the Andorran financial system and other provisions regulating financial activities in the Principality of Andorra (Llei sobre el règim jurídic de les entitats operatives del sistema financer andorrà i altres disposicions que regulen l'exercici de les activitats financeres al Principat d'Andorra)

The purpose of this law is to unify the legislation governing banks operating in the financial system contained in Laws 24/2008, 13/2010, 14/2010 and the 1996 Law regulating the operational functions of the different components of the financial system into one single text. For this reason, although this Law does not introduce any significant amendments to the existing regulations, it does act to reinforce and restructure the prevailing laws to provide increased legal security to the legislative framework governing the Andorran financial system.

Approval of Law 7/2013 implies repealing the following laws: 1996 Law regulating the operational functions of the different components of the financial system; Law 24/2008 regulating the regime of specialised non-banking credit institutions; Law 13/2010 regulating the legal regime of investment entities and collective investment undertaking management companies; and articles 8 to 17 of Law 14/2010 regulating the legal regime of banking entities and the basic administrative regime of entities operating in the financial system.

Law on organisational requirements and operating conditions of the operating entities of the financial system, investor protection, market abuse and financial collateral arrangements (Llei sobre els requisits organitzatius i les condicions de funcionament de les entitats operatives del sistema financer, la protecció de l'inversor, l'abús de mercat i els acords de garantia financera)
In the session held on 9 May 2013 the General Council approved Law 8/2013 on organisational requirements and operating conditions of the operating entities of the financial system, investor protection, market abuse and financial collateral arrangements (Llei sobre els requisits organitzatius i les condicions de funcionament de les entitats operatives del sistema financer, la protecció de l'inversor, l'abús de mercat i els acords de garantia financera).

The purpose of this law is to maintain a structurally and functionally sound financial system, aiming at clarifying the legal framework regulating the financial system prevailing in Andorra. As a result, the provisions of Law 14/2010 and the prevailing provisions of the Law regulating the Andorran financial system dated 27 November 1993 are unified into a single text which incorporates commitments acquired regarding privileged information and market manipulation and abuse into Andorran legislation with the signing of the Monetary Agreement with the European Union.

This law includes the principles set out in Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004, known as MiFID (Markets in Financial Instruments Directive), relating to the rules regarding ethics and conduct to be complied with by investment entities.

The approval of Law 8/2013 involves repealing articles 1 to 7, 18 to 44 and 46 to 55 of Law 14/2010 regulating the legal regime of banking entities and the basic administrative regime of entities operating in the financial system; and repealing the Law regulating the Andorran financial system of 27 November 1993. This Law has been amended by Law 35/2018 of 20 December 2018 on solvency, liquidity and prudential supervision of banking entities and investment firms, and by Law 8/2018 of 17 May 2018 on payments services and electronic money and Law 27/2018 of 25 October 2018 amending Law 8/2018 of 17 May 2018 on payment services and electronic money.

Law governing the Andorran Financial Authority (Llei de l'Autoritat Financera Andorrana)

At the session held on 23 May 2013 the General Council approved Law 10/2013 regulating the Andorran National Institute of Finance (AFA).

The purpose of this law is to provide the AFA with the necessary resources to meet its objectives whilst, taking into consideration the AFA's global scope of operations in a context of international expansion of the Andorran financial system, increasing these resources in line with the global growth of financial markets and pursuant to the commitments Andorra has acquired from signing the Monetary Agreement with the European Union.

The approval of Law 10/2013 implies repealing the following laws: Law 14/2003 regulating the Andorran INAF; article 45 of Law 14/2010 regulating the legal regime of banking entities and the basic administrative regime of entities operating in the financial system; and article 22 of the Law regulating the capital adequacy and liquidity criteria of financial institutions of 29 February 1996, amongst other regulations.

Law governing indirect general taxation (Llei de l'Impost General Indirecte)

In its session held on 21 June 2012 the General Council of the Principality of Andorra approved the Law governing indirect general taxation (IGI) which entered into force on 1 January 2013. This law was subsequently amended by Law 29/2012 of 18 October 2012 and by Law 11/2013 of 23 May 2013, amending Law 11/2012. This general indirect tax is levied on goods delivered, service rendered and imports made by onerous contract in Andorra by business people or professionals usually or occasionally as part of their economic activity, irrespective of the purpose or the results achieved in the economic activity or in each particular transaction, including the condition of importer. The general tax rate is 4.5%, with a reduced rate of 1% and an increased rate of 9.5%, which is only applied to banking and financial services rendered.

The fifth additional provision to Law 11/2012 governing indirect general tax approved by Law 10/2014 of 3 June 2014 amending Law 11/2012, stipulates a special tax regime for the financial sector to which banks and non-banking specialised credit institutions carrying out activities subject to the increased tax rate stipulated in article 60 of the Law have adhered. This regime restricts the deduction of input tax to a maximum amount equivalent to 10% of the output tax at a rate of 9.5% for the rendering of bank and financial services. It is not applicable to real estate property.

The settlement period depends on the annual net turnover for all of the activities carried out by the tax payer in the immediately previous year. Payments can be made half-yearly, quarterly or monthly. Tax payers have to determine the tax debt in each settlement period, reducing the general indirect tax payable during the period by the general indirect tax installments receivable, which are deductible in nature. The payable to or receivable from the Andorran Government deriving from the declaration of the aforementioned tax is recognised under Loans and receivables or Current payables on the consolidated statements of financial position.

The entry into force of Law 11/2012 of 21 June 2012 governing indirect general tax repeals the Law governing indirect taxation on the rendering of banking and financial services of 14 May 2002.

Law governing non-resident income tax (Llei de l'Impost sobre la Renda de No Residents Fiscals)

In a session held on 29 December 2010 the General Council of the Principality of Andorra approved the Law governing non-resident income tax. This direct tax is levied on income obtained in the Principality of Andorra by individuals or entities which are non-resident for tax purposes.

The net tax payable is calculated by deducting the deduction for double taxation from the taxable income, determined in accordance with the Law governing non-resident income tax.

Pursuant to Law 94/2010 of 29 December 2010 governing non-resident income tax, amended by Law 18/2011 of 1 December 2011, the tax rate applicable in 2018 stands at 10% for general purposes, 1.5% when income derives from reinsurance operations and 5% when income is received in the form of royalties.

Law 8/2015 of 2 April 2015 on urgent measures to implement restructuring and resolving mechanisms in banking entities (Llei 8/2015, del 2 d'abril, de mesures urgents per implantar mecanismes de reestructuració i resolució d'entitats bancàries)

In the session held on 2 April, the Principality of Andorra's General Council approved Law 8/2015 of 2 April 2015 on urgent measures to implement restructuring and resolving mechanisms in banking entities.

This law is the Principality of Andorra's response to certain events suggesting that the financial system is closely interconnected and that any crisis in a financial institution could spread rapidly to other banks and to the global economy. Certain measures have been set up to flexibly respond to various situations related to this systemic risk, including the creation of an Agency for the Resolution of Banking Entities (AREB) as the competent authority in the area of resolution. In addition, an Andorran Fund for the Resolution of Banking Entities (FAREB) has been created for the purpose of backing to the extent possible, the measures agreed when applying the aforementioned law. The FAREB is an entity without legal personality managed by the AREB.

The wording and drafting of this Law have been inspired on the principles of Directive (EU) no 2014/59.

Law 19/2016 of 30 November 2016 on automatic exchange of information in tax matters (Llei 19/2016, del 30 de novembre, d'intercanvi automàtic d'informació en matèria fiscal)

This Law regulates the legal framework required to meet the commitments regarding the automatic exchange both with the European Union and those commitments assumed by virtue of the multilateral agreement of the Council of Europe and the OECD and adapts and incorporates the OECD's Common Reporting Standards (CRS) to the Andorran legal system.

Likewise, Law 11/2005 of 13 June 2005 applying the Agreement between the Principality of Andorra and the

European Community in relation to the establishment of measures equivalent to those provided for in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments, was repealed.

Law 35/2018 of 20 December on solvency, liquidity and prudential supervision of banking entities and investment firms (Llei 35/2018, del 20 de desembre, de solvència, liquiditat i supervisió prudencial d'entitats bancàries i empreses d'inversió)

In order to adapt the Andorran legal framework to legislative changes in the European Union, a substantial amendment is required to the prevailing legislation in relation to the following: (i) Supervisory regime, (ii) seed capital requirements, (iii) access to activity, (iv) corporate governance requirements and (v) sanctioning regime.

Therefore, on 20 December 2018 the General Council approved the new Law on solvency, liquidity and prudential supervision which is implemented coherently and clearly and includes all the necessary legislative changes to incorporate community legislation into the Andorran legal framework. This Law comes into force on 24 January 2019 and certain aspects are subject to an adaptation timetable.

Amongst the main differences from a solvency standpoint we can highlight various differentiating capital items based on their capacity to absorb losses; stricter requirements when considering capital instruments as equity items; a significant increase in the total amount of exposure to the different risks to which entities are exposed; a capital buffer regime; self-assessment of the risk for each entity liaising with the Andorran Financial Authority (AFA), as well as the need to make a provision of capital to cover risks not included in the total exposure to the risk identified in the review and supervisory assessment processes; market transparency regarding entities meeting solvency and liquidity requirements and, finally, the AFA obligation to publish information in relation to financial regulation and supervision.

From a liquidity standpoint, the Law represents a significant improvement with regard to refining the calculation of the short-term liquidity ratio, in order to guarantee that sufficient liquid assets or a liquidity buffer are held to fully cover cash outflows less liquidity inflows, in scenarios of tension, over a period of 30 days. The former liquidity regime under the Law regulating capital adequacy and liquidity criteria of financial institutions of 29 February 1996 only stipulated that banking entities had to cover 40% of their short-term commitments with sufficiently liquid assets. The new liquidity regime also stipulates that entities have to calculate and inform the AFA regarding the long-term structural liquidity ratio or stable financing ratio, understood as the ratio between liabilities providing stable financing, such as equity and non-current deposits, and non-current assets which require stable financing. Until progress is made with regard to EU regulation on stable financing, it is not planned that a stable financing limit will be incorporated into the Andorran legal framework.

To conclude, the aim of this Law is none other than to boost the resilience of the Andorran banking and financial sector to ensure that it is better placed with regard to financial crises and to guarantee that banking entities continue to finance economic activity and economic growth with adequate and sufficient own funds.

Regulation relating to the legal regime on payment and electronic money services and on payment entities and electronic money institutions

In accordance with the Monetary Agreement, Andorra undertook to implement in its legal framework, inter alia, the EU legal provisions relating to Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC.

For the purpose of meeting the aforementioned commitments, at its session held on 17 May 2018 the General Council approved Law 8/2018 of 17 May 2018 on payment services and electronic money. This Law entered into force the day after its publication and its purpose was to include payment entities and electronic money institutions as new entities operating in the Andorran financial system, with their own legal regime and to regulate the rights and obligations of providers and users in relation to the rendering and use of payment services and the issue of electronic money. This law was subsequently amended by Law 27/2018 of 25 October 2018, modifying Law 8/2018 of 17 May 2018.

Lastly, the Government, making use of the capacity set out in the final ninth provision of Law 27/2018 of 25 October 2018, amending Law 8/2018 of 17 May 2018 on payment services and electronic money, enacted Title III of the Law 8/2018 which is drafted in accordance with the amendments of Law 27/2018 of 25 October 2018, amending Law 8/2018 of 17 May 2018 on payment services and electronic money, and rights and obligations in relation to the rendering and use of payments services; and Title IV of Law 8/2018, which is drafted in accordance with the amendments to Law 27/2018 of 25 October 2018 amending Law 8/2018 of 17 May 2018 on payment services and electronic money, authorising payment operations and their execution, both of payment orders and amounts transferred, as well as the execution period and the value date and corresponding responsibility regime.

The purpose of this law is to maintain a structurally and functionally sound financial system, aiming at clarifying the legal framework regulating the financial system prevailing in Andorra. As a result, the provisions of Law 14/2010 and the prevailing provisions of the Law regulating the Andorran financial system dated 27 November 1993 are unified into a single text which incorporates commitments acquired regarding privileged information and market manipulation and abuse into Andorran legislation with the signing of the Monetary Agreement with the European Union.

This law includes the principles set out in Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004, known as MiFID (Markets in Financial Instruments Directive), relating to the rules regarding ethics and conduct to be complied with by investment entities.

The approval of Law 8/2013 implies the repeal of articles 1 to 7, 18 to 44 and 46 to 55 of Law 14/2010 regulating the legal regime of banking entities and the basic administrative regime of entities operating in the financial system; and the repeal of the Law regulating the Andorran financial system of 27 November 1993.

Anex

Company	Registered offices	Activity	% Direct ownership
Caronte 2002, SLU (*)	Andorra	Services	100%
Mon Immobiliari	Andorra	Real estate	100%
Andorra Gestió Agrícol Reig, SAU	Andorra	Fund manager	100%
Andbank (Bahamas) Limited *	Bahamas	Bank	100%
Nobilitas, N.V.	Dutch Antilles	Holding	100%
Egregia B.V	Holland	Special purpose vehicle	-
Zumzeiga Cooperatief U.A	Holland	Special purpose vehicle	-
Andorra Assegurances Agrícol Reig, SAU	Andorra	Insurance	100%
AndPrivate Wealth S.A	Switzerland	Wealth management	-
Columbus de México, SA de CV	Mexico	Wealth management	-
Quest Capital Advisers Agente de Valores, SA	Uruguay	Securities broker	-
Andbank Asset Management Luxembourg	Luxembourg	Fund manager	-
Andbank Luxembourg, SA	Luxembourg	Bank	100%
Andbank España, SAU	Spain	Bank	100%
Andbank Wealth Management, SGIIC, SAU	Spain	Fund manager	-
Medipatrimonia Invest, SL	Spain	Investment services	-
Merchbanc, S.G.I.I.C, S.A.U	Spain	Fund manager	-
Merchbanc, E.G.F.P. S.A.	Spain	Pension fund manager	
Merchbanc, International, S.A.R.L (Luxemburg)	Luxembourg	Shareholder	
Andbank Correduria de Seguros SL	Spain	Insurance	-
My Investor, S.L.U.	Spain	Agent. Auxiliary services	
Andbank Monaco S.A.M.	Monaco	Bank	100%
Andbank Corretora de Seguros de Vida, Ltda	Brazil	Insurance	99.98%
Andbank Gestao de Patrimonio Financeiro, Ltda	Brazil	Wealth management	99.99%
Banco Andbank (Brasil), S.A	Brazil	Bank	100%
Andbank Distribuidora de títulos e Valores Mobiliários, Ltda	Brazil	Intermediation of securities and discretional portfolio management	-
Sigma Investment House Ltd.	Israel	Holding	90.12%
Sigma Portfolio Management Ltd.	Israel	Portfolio management	-
Sigma Premium Ltd.	Israel	Portfolio management and advisory services	-
Sigma Mutual Funds	Israel	Investment fund manager	-
Sigma Financial Planning Pensíón Insurance Agency Ltd.	Israel	Investment fund manager	-
APW Uruguay SA	Uruguay	Services	100%
APC Servicios Administrativos SLU	Spain	Services	-
Andbanc Wealth Management LLC	USA	Holding	-
Andbanc Advisory LLC	USA	Advisory services	-
Andbanc Brokerage LLC	USA	Financial services	-
APW Consultores Financeiros, Lda	Brazil	Financial services	100%
AND PB Financial Services, S.A	Uruguay	Representation office	100%
Andorra Capital Agrícol Reig BV	Holland	Special purpose vehicle	100%
Andbank (Panamá) S.A.	Panama	Bank	100%
AB Systems, SAU	Andorra	Services	100%
AB Covered Bond	Ireland	Special purpose vehicle	100%
AB Financial Products, D.A.C.	Ireland	Special purpose vehicle	100%
Sigma M. Partners, LTD	Israel	Advisory services	49.78%
Quest Capital Advisers , S.A. (AAGI)	Argentina	Agente Asesor Global de Inversiones	95.00%

(*) Under liquidation

2019

% Indirect ownership	Audited company	Interim dividend	Equity	Capital	Reserves	Unused prior years' profit (losses)	Profit/(loss)
-	No	-	114	32	6	77	(1)
-	No	-	34	30	95	(108)	18
-	Yes	950	3,759	1,000	1,019	-	1,741
-	No	-	1,303	3,500	58	(1,079)	(1,176)
-	Yes	-	29,052	1,000	26,791	1,482	(221)
100%	Yes	-	15,846	180	13,801	2,025	(160)
100%	Yes	-	22,016	11,710	1,903	8,618	(215)
-	Yes	130	3,070	2,404	481	8	177
100%	Yes	-	2,986	3,710	(2)	(594)	(128)
50%	Yes	-	1,721	580	36	690	416
100%	Yes	-	2,695	13	(0)	2,048	635
100%	Yes	-	3,739	3,000	311	-	428
-	Yes	-	43,070	54,100	147	(12,606)	1,429
-	Yes	-	184,182	75,000	95,071	8,928	5,183
100%	Yes	-	13,619	1,004	6,854	-	5,762
51%	Yes	331	1,105	54	521	-	531
100%	Yes	493	1,332	200	570	-	561
100%	Yes	-	1,374	601	833	-	(60)
100%	No	-	2,236	25	2,322	(179)	68
100%	Yes	-	337	3	-	114	220
100%	No	-	2,803	2,803	-	-	-
-	Yes	-	27,273	21,000	4,016	1,419	838
-	Yes	-	18	1	(19)	107	(70)
-	Yes	-	110	11	(6)	6	98
-	Yes	-	45,423	61,218	(4,633)	(11,160)	(2)
100%	Yes	-	132	243	1	(50)	(63)
-	Yes	-	7,937	388	7,923	(373)	(0)
100%	Yes	-	4,329	0	6,859	(2,388)	(142)
100%	Yes	-	(1,691)	-	799	(2,390)	(100)
100%	Yes	-	1,854	180	721	587	366
70%	Yes	-	(1,663)	0	-	(1,518)	(145)
-	Yes	-	659	371	(121)	107	302
100%	Yes	-	3,535	2,069	1,440	-	26
100%	Yes	-	(2,099)	11,773	(3)	(15,028)	1,160
100%	Yes	-	2,340	1,211	847	-	281
100%	Yes	-	2,426	2,266	-	(757)	917
-	Yes	-	640	1,322	539	(1,088)	(132)
-	Yes	-	124	162	(6)	(33)	1
-	Yes	-	288	18	-	332	(61)
-	Yes	-	13,051	6,655	(26)	7,085	(662)
-	No	-	53	60	-	(3)	(4)
-	Yes	-	70	0	-	38	32
-	Yes	-	(292)	1	-	(327)	35
-	Yes	-	354	516	911	(1,099)	26
-	Yes	-	177	346	(115)	0	-53

Anex

Company	Registered offices	Activity	% Direct ownership
Caronte 2002, SLU (**)	Andorra	Services	100%
Clau d'Or, SL (*)	Andorra	Real estate	100%
Mon Immobiliari	Andorra	Real estate	100%
Andorra Gestió Agrícol Reig, SAU	Andorra	Fund manager	100%
Andbank (Bahamas) Limited	Bahamas	Bank	100%
Nobilitas, N.V.	Dutch Antilles	Holding	100%
Egregia B.V	Holland	Special purpose vehicle	-
Zumzeiga Cooperatief U.A	Holland	Special purpose vehicle	-
Andorra Assegurances Agrícol Reig, SAU	Andorra	Insurance	100%
AndPrivate Wealth S.A	Switzerland	Wealth management	-
Columbus de México, SA de CV	Mexico	Wealth management	-
Quest Capital Advisers Agente de Valores, SA	Uruguay	Securities broker	-
Andbank Asset Management Luxembourg	Luxembourg	Fund manager	-
Andbank Luxembourg, SA	Luxembourg	Bank	100%
Andbank España, SAU	Spain	Bank	100%
Andbank Wealth Management, SGIIC, SAU	Spain	Fund manager	-
Medipatrimonia Invest, SL	Spain	Investment services	-
Merchban, SA	Spain	Wealth management	-
Andbank Correduria de Seguros SL	Spain	Insurance	-
Andbank Monaco S.A.M.	Monaco	Bank	100%
Andbank Participaçoes Ltda	Brazil	Portfolio and collective investment undertaking management company	1
Andbank (Brasil) Holding Financeira Ltda	Brazil	Holding	1
Banco Andbank (Brasil), S.A	Brazil	Bank	-
LLA Holding	Brazil	Holding	-
Lla Distribuidora de Tilulos e Valores Mobiliários Ltda (DTVM)	Brazil	Intermediation of securities and discretional portfolio management	-
Sigma Investment House Ltd.	Israel	Holding	0.6574
Sigma Portfolio Management Ltd.	Israel	Portfolio management	-
Sigma Premium Ltd.	Israel	Portfolio management and advisory services	-
Sigma Mutual Funds	Israel	Investment fund manager	-
Sigma Financial Planning Pensíón Insurance Agency Ltd.	Israel	Investment fund manager	-
APW Uruguay SA	Uruguay	Services	100
APC Servicios Administrativos SLU	Spain	Services	-
Andbanc Wealth Management LLC	USA	Holding	-
Andbanc Advisory LLC	USA	Advisory services	-
Andbanc Brokerage LLC	USA	Financial services	-
APW Consultores Financeiros, Lda	Brazil	Financial services	100%
AND PB Financial Services, S.A	Uruguay	Representation office	100%
Andorra Capital Agrícol Reig BV	Holland	Special purpose vehicle	100%
Andbank (Panamá) S.A.	Panama	Bank	1
AB Systems, SAU	Andorra	Services	100%
AB Covered Bond	Ireland	Special purpose vehicle	100%
AB Financial Products, D.A.C.	Ireland	Special purpose vehicle	100%
Sigma M. Partners, LTD	Israel	Services	49.78%

(*) Company wound up during 2018

(**) Under liquidation

2018

% Indirect ownership	Audited company	Interim dividend	Equity	Capital	Reserves	Unused prior years' profit (losses)	Profit/(loss)
-	No	-	116	32	6	(7)	85
-	No	-	-	-	-	-	-
-	No	-	17	31	95	(110)	1
-	Yes	692	2,390	1,000	1,019	-	1,063
-	Yes	-	37,210	21,500	16,758	-	(1,048)
-	Yes	-	5,684	1,000	28,038	(23,341)	(12)
100%	Yes	-	3,427	180	11,469	(8,220)	(2)
100%	Yes	-	(4,251)	11,487	(16,142)	-	405
-	Yes	100	2,910	2,404	481	3	121
100%	Yes	-	3,008	3,580	(9)	(161)	(401)
50%	Yes	-	1,265	547	32	279	408
100%	Yes	-	2,036	12	0	2,053	(29)
100%	Yes	-	5,202	3,000	132	1,870	200
-	Yes	-	41,797	54,100	251	(9,829)	(2,725)
-	Yes	-	209,657	75,000	125,729	3,644	5,284
100%	Yes	-	7,858	1,004	5,036	-	1,818
100%	Yes	300	575	54	1,836	(1,476)	461
100%	Yes	-	11,989	407	12,628	(1,046)	-
100%	Yes	-	117	3	-	-	114
-	Yes	-	30,235	21,000	4,769	3,539	926
-	Yes	-	109	13	-	110	12
-	Yes	-	47,482	48,971	1,869	(3,265)	(93)
100%	Yes	-	41,531	50,048	52	(8,496)	(73)
100%	No	-	197	192	-	(117)	122
100%	Yes	-	162	213	-	(172)	121
-	Yes	-	7,332	365	7,304	(324)	(14)
60%	Yes	-	3,901	0	6,182	(2,287)	6
60%	Yes	-	(1,408)	-	720	(2,155)	27
60%	Yes	-	1,387	162	650	(262)	837
42%	Yes	-	(1,311)	0	-	(1,153)	(159)
-	Yes	-	422	371	-	(40)	152
100%	Yes	-	3,509	2,069	1,318	-	122
100%	Yes	-	(2,562)	11,549	10	(14,419)	299
100%	Yes	-	2,354	1,495	684	-	176
100%	Yes	-	1,729	2,459	-	(1,302)	572
-	Yes	-	785	1,322	-	(1,078)	(11)
-	Yes	-	106	162	-	(30)	(7)
-	Yes	-	350	18	-	262	69
-	Yes	-	13,450	6,655	1,111	6,975	106
-	No	-	57	60	-	-	(3)
-	Yes	-	38	0	-	(34)	72
-	Yes	-	(326)	1	-	(329)	1
-	Yes	-	309	465	821	(1,014)	37

06 / Risk Management

Risk management

Achieving a robust and efficient risk control and risk management model has always been a priority for the Andbank group. The comprehensive risk management model was developed and strengthened during 2019 to ensure that it covers all the risks to which the group is exposed and facilitates optimal capital management. The main risks to which the group is exposed in the course of its activities are:

Interest rate risk,
Exchange rate risk,
Market risk,
Credit risk,
Liquidity risk,
Operational risk,
Reputational risk,
Capital management

Overall responsibility for ongoing risk monitoring and control is assigned to the Chief Risk Officer (CRO), who oversees the following departments: Credit Risk, which manages and monitors credit risk with customers; Financial Risk Control, which supervises interest rate risk, exchange rate risk, market risk, counterparty risk, country risk and liquidity risk; Subsidiaries Controller, which oversees the activities of the international subsidiaries to ensure that they operate within the relevant regulatory framework and that supervisory requirements in each jurisdiction are met; Operational Risk, which supervises the entity's operational risks; and Capital Management. As risk management is an enterprise-wide function, the heads of risk control in each group entity also report functionally to the CRO, who supervises their activities and ensures that, beyond local requirements, consistent control standards are applied across the group.

The Internal Audit Department acts as a third line of defence to detect, and propose corrective measures for, any non-compliance or unauthorised risk taking that has not been detected and reported by those responsible for regular ongoing risk control.

To drive progress towards advanced risk management, in 2016 the group carried out the Corporate Risks Plan and laid the foundations for the development of a comprehensive risk management model in line with the regulators' recommendations and market best practice. In the following years, the main lines of action of this programme were put into effect and the integrated risk management model in the Andbank group was made a reality.

This risk management and risk control model is founded on the metrics and limits set in the risk appetite framework, which defines the amount and types of risk the organisation considers it reasonable to take in the pursuit of its business strategy.

The existing control environment helps ensure that the risk profile is maintained within the level set by the risk appetite, while adapting to an increasingly strict and comprehensive regulatory environment.

Effective risk control is built on the following elements:

- A robust risk governance structure led by the Risk Committee, which acts as advisor to the Board of Directors in risk matters. This committee has two specialised directors, whose task is to ensure compliance with regulations and adherence to the best international risk control and risk management standards.
- The corporate risk and capital policy framework, which sets out the basic principles for the management of all the risks to which the entity is exposed. This framework ensures that all the group's subsidiaries have a risk control and risk management model that is consistent and aligned with the group's overall strategy.
- Independence of the risk function, ensuring proper separation between the risk-generating units (first line of defence) and the units responsible for risk control (second line of defence).

- Aggregated risk oversight and consolidation.
- A risk culture that is thoroughly embedded in the organisation, comprising a set of attitudes, values, skills and guidelines for dealing with all types of risk.

The risk limits are reviewed periodically to adapt them to the current economic and market situation. They are also submitted at least once a year to the Board of Directors for approval.

Country risk limits are assigned partly on the basis of relatively static factors such as membership of international bodies (EU, OECD) and credit ratings, and partly on the basis of dynamic factors (market variables) such as credit default swap (CDS) spreads. In assigning risk limits to financial institutions, factors such as rating grades and Tier 1 capital are taken into account, as well as market indicators, especially CDS prices. This methodology allows the group to maintain stable risk exposures in countries and counterparties with good credit quality, while swiftly adjusting its exposure to countries and counterparties whose credit standing has deteriorated.

The Asset and Liability Committee (ALCO), as the body responsible for managing interest rate, exchange rate, country, counterparty, liquidity and market risk, meets at monthly intervals. The ALCO is also responsible for balance sheet management and capital management. The ALCO delegates supervision of these risks to the Financial Risk Control Department.

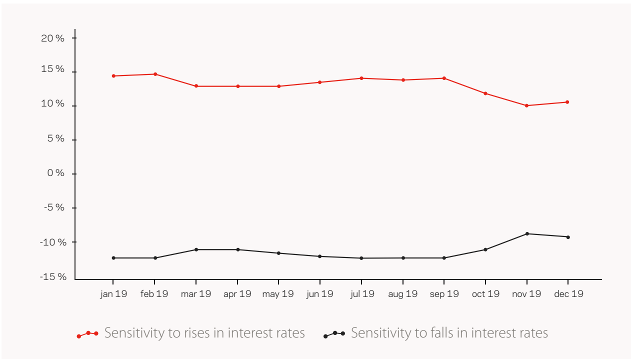
Responsibility for ensuring that the asset management activity is carried out in accordance with the established legal and regulatory framework and for evaluating the activity's results and risks is assigned to the Management Monitoring Committee, which meets monthly. This committee delegates the monitoring of the asset management activity to the Financial Risk Control Department. Besides verifying that investment bodies and models comply with the regulatory framework, Financial Risk Control also assesses compliance with the investment policy and periodically monitors the measures of risk and return.

Interest rate risk

Interest rate risk is defined as the impact of interest rate movements on the market value of the group's assets and liabilities. The measures the group uses to assess that impact are the sensitivity of net interest income to 25 basis point parallel shifts in the yield curve over a one-year horizon for the main balance sheet currencies, and the sensitivity of the market value of equity to 100 basis point parallel shifts in the yield curve.

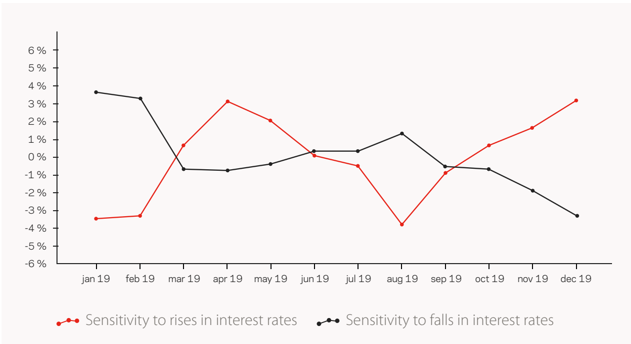
In the negative interest rate environment that has prevailed in recent years for the euro, the group has maintained positive exposure to upward shifts in the yield curve. In other words, if interest rates were to increase, the group's net interest income would increase, and vice versa. The repricing gap of interest rate-sensitive balance sheet assets and liabilities is therefore positive, i.e., asset repricing generally precedes liability repricing. This positioning is reflected in very short-term lending in the interbank market and the holding of a fixed income portfolio invested mainly in bonds, with yields linked to Euribor, or short- or medium-term fixed-rate bonds (despite the fact that part of the portfolio is made up of longer-term fixed-rate bonds, which generate additional margin and increase the duration of the balance sheet assets). A large part of these long-term bonds are financed in the market with fixed-rate repo transactions, which cover the duration risk.

Interest rate sensitivity of net interest income at one year



The limit to the sensitivity of equity to 100 basis point parallel shifts in the yield curve was set by the Board of Directors at 5%. Throughout 2019, as a result of the interest rate strategy adopted and the balance sheet positioning, the interest rate sensitivity of the group's equity fluctuated between positive and negative territory but remained below that limit at all times.

Interest rate sensitivity of equity



Exchange rate risk

The group defines *exchange rate risk* as the impact of exchange rate movements on the market value of the group's assets and liabilities denominated in currencies other than the euro. Spot and forward foreign exchange transactions are monitored daily to ensure that the open currency position remains within authorised limits.

The main net positions in foreign currencies, stated in euros, are as follows:

Thousands of euros

Foreign currency exposure	2019	2018
USD	5,828	5,370
GBP	(501)	(20)
CHF	-	3,260
JPY	-	2

Market risk

Market risk is the potential loss to which the trading portfolio is exposed as a result of changes in market conditions, such as asset prices, interest rates, credit curves, volatility or liquidity. The measure the group uses to manage the market risk of the trading portfolio is Value at Risk (VaR), the market standard, as well as stress testing for the Hold to collect (HTC), Hold to collect and sell (HTC&S) and trading portfolios.

VaR is calculated using the historical method. The result of the VaR calculation is the maximum loss expected over a specified investment horizon with a given confidence level. The bank calculates VaR for a one-day horizon with a confidence level of 99 % using one year of observations. During 2019, the average VaR for the trading portfolio was 278 thousand euros, with a high of 1,958 thousand euros and a low of 82 thousand euros, while the average total position in the trading portfolio was 252 million euros. Overall, the trading portfolio is made up of bonds with good credit quality and very short duration, which entails a very small VaR.

Thousands of euros

31 December 2019	VaR at 31/12/2019	Average VaR for the period	Maximum VaR for the period (*)	Minimum VaR for the period (*)
Interest rate risk and spread	28	253	1,957	13
Exchange rate risk	-	-	-	-
Equity risk	55	69	50	55
Volatility/ correlation risk	-	-	-	-
Diversification effect	(21)	(44)	(49)	(11)
Total	**62**	**278**	**1,958**	**57**

(*) The observed values for maximum and minimum VaR by risk component are the maximum and minimum observed with total VaR

The group applies stress tests to the banking book to estimate the probable loss in extreme situations characterised by sharp increases in the yield curve or a widening of credit spreads.

These tests involve simulating changes in the market value of banking book assets under different scenarios.

Six scenarios are analysed, four of which are historical (2010 Greek crisis, 2008 Lehman Brothers bankruptcy, 2001 Twin Towers terrorist attacks and 1998 Russian debt crisis) and two hypothetical (steepening of the yield curve, flattening of credit spreads).

The following table shows the impact of the historical scenarios on the value of the trading book and the HTC&S and HTC portfolios, month by month:

	HTC&S + HTC				TRADING			
Month	Greek debt crisis	Russian debt crisis	Lehman Brothers	Twin Towers	Greek debt crisis	Russian debt crisis	Lehman Brothers	Twin Towers
January	-3.16%	-3.08%	-2.01%	-1.76%	-3.55%	-3.91%	-2.65%	-2.30%
February	-2.51%	-2.40%	-1.67%	-1.37%	-4.25%	-4.71%	-3.18%	-2.75%
March	-3.94%	-3.93%	-3.59%	-2.33%	0.52%	0.73%	0.31%	0.46%
April	-3.74%	-3.69%	-3.40%	-2.14%	0.27%	0.43%	0.23%	0.35%
May	-4.26%	-4.34%	-3.17%	-2.65%	0.53%	0.65%	0.39%	0.48%
June	-3.45%	-3.41%	-2.16%	-2.08%	0.16%	0.36%	0.20%	0.18%
July	-3.44%	-3.38%	-2.20%	-2.10%	0.23%	0.21%	0.17%	0.16%
August	-3.73%	-3.66%	-2.53%	-2.41%	0.36%	0.32%	0.21%	0.20%
September	-3.47%	-3.51%	-2.76%	-2.27%	0.25%	0.23%	0.14%	0.14%
October	-1.21%	-1.29%	-1.45%	-1.02%	0.41%	0.46%	-0.18%	-0.14%
November	-1.68%	-1.83%	-1.38%	-1.40%	-0.30%	-0.27%	-0.24%	0.11%
December	-1.48%	-1.64%	-1.65%	-1.31%	0.01%	0.01%	0.00%	0.01%

Credit risk

Credit risk is the risk of loss arising from failure by a counterparty to meet its obligations to the group. The group's credit risk exposure includes:

- The risk of default arising from ordinary treasury operations, which basically include interbank lending, securities lending and borrowing, repo transactions and transactions with OTC derivatives;
- The risk of default by the issuers of bonds held in the proprietary portfolio;
- The risk of default on loans.

In assigning limits the group follows a prudent policy and authorises exposure only to countries with a high credit rating and, within such countries, only to financial institutions with moderate credit risk. The risk limits are approved by the Board of Directors at least once a year.

The limits are stricter for uncollateralised exposures. In such cases, the counterparty must have high credit ratings assigned by the main agencies (Moody's, Fitch and S&P) and must be considered a moderate credit risk, relatively speaking, as reflected in the market price of its five-year CDS compared to an index. Close observation of this market variable allows the group to swiftly include any change in a counterparty's credit quality in its model.

In various types of transactions (mainly transactions in OTC derivatives, repo transactions, and securities lending and borrowing) the group takes collateral to reduce its risk exposure. Exposures to counterparties with whom an ISDA Master Agreement has been entered into are netted. Andbank has entered into ISDA, CSA and GMRA agreements with various counterparties, so as to diversify the available counterparties for derivative transactions while at the same time limiting its exposure to counterparty risk. It also actively manages collateral, monitoring exposures under the aforementioned agreements daily and making margin calls to counterparties to which there is a risk exposure that needs to be mitigated.

During 2019, the group's fixed-income portfolio was invested in high quality assets, with 39.69 % invested in sovereign and public sector securities. The portfolio is diversified mainly across issuers in the United States, France, Andorra, Spain and Italy.

The fixed-income portfolio is thus made up, on the one hand, of securities in which the group has a direct exposure to the risk of the issuer or guarantor, most of which have an investment grade rating; and on the other, of bonds used to hedge customers' structured deposits, which the group holds on its balance sheet but the risk of which has been transferred to the customers. A breakdown of the fixed-income portfolio by issuer credit rating is given below (in thousands of euros):

Rating	With credit exposure to issuer or guarantor	With risk transferred to customers	Total
AAA	145,941	-	145,941
AA+ to AA-	9,636	-	9,636
A+ to A-	312,345	-	312,345
BBB+ to BBB-	287,221	-	287,221
Investment grade	**755,142**	**-**	**755,142**
BB+ to BB-	14,814	-	14,814
B+	-	-	-
Speculative grade	**14,814**	**-**	**14,814**
Not applicable	2,279	-	2,279
Total	**772,235**	**-**	**772,235**

As regards credit risk exposure in transactions with customers, the group has loans and receivables totalling 1,611 million euros, mainly in credit facilities and loans, a large proportion of which are secured by mortgage (694 million euros) or with a pledge of collateral (784 million euros).

The main tools of credit risk management are the credit approval policies and authorities, the monitoring of exposure levels, and regular committee oversight (Irregular Risk Committee and Executive Committee). Credit risk concentrations are reviewed at least weekly and are monitored to ensure they remain within the parameters set by the supervisor, specifying maximum borrowing levels for certain customer groups. Responsibility for customer credit risk management and control lies with the Credit Risk Department.

At the same time, arrears are monitored for each product, so that credit approval policies and authorities can be adjusted accordingly. Lending decisions are transaction-specific. Risk levels are monitored based on the analysis of qualitative and quantitative variables, tailored to the supervisor's requirements. The group's non-performing loans ratio is 2.93%, below the average for the financial institutions of neighbouring countries.

During 2019, the group maintained a conservative provisioning policy, with the result that total loan loss provisions are greater than the volume of non-performing loans.

Credit risk is the risk of loss arising from failure by a customer or counterparty to meet its contractual obligations to the group.

The Andbank group's main business strategy is focused on private banking activities, with a wide, highly diversified customer base and a low concentration of customer funds. The Company also carries out retail banking business exclusively for the Andorran market, offering loans to private individuals and small and medium enterprises in the Principality.

To optimise credit risk management and integrate it in the overall risk management structure, so as to obtain returns that match the level of risk assumed, the group has defined common core principles which ensure that credit risk management is aligned with the bank's business plan and risk appetite and complies with regulatory requirements.

Credit risk management is based on a sound organisational and governance model, in which the Board of Directors and the various risk committees each play a role, setting risk policies and procedures, limits and delegated powers and approving and supervising the activities of the credit risk function.

The Loans Committee is the body responsible for the supervision and control of the group's credit risk. Its purpose is to effectively control credit risk and advise the Executive Committee, so as to ensure that credit risk is managed in accordance with approved risk appetite levels.

Credit risk cycle

The full risk management cycle covers the entire life of each transaction, from the initial feasibility study through credit approval in accordance with established criteria to monitoring of outstanding loans and, where applicable, recovery of impaired assets.

- Transaction analysis and approval

  The process of analysing and approving loans and credit lines involves a rigorous study of the customer's ability to pay and the nature, liquidity and quality of the security provided.

  This process must take into account the approval criteria set out in the credit risk policy and the rules for the delegation of authority based on the powers assigned to the different governing bodies, depending on product type, amount and maturity.

  To mitigate its exposure to risk, the group has also defined a model that sets the authorised limits and facilities for each counterparty. This model is approved by the Board of Directors and is reviewed annually. All new transactions must comply with these limits and the amount of the limits that has been used up is monitored at all times.

  This analysis and approval process comprises the following stages:

  - Proposal: the manager submits the credit proposal with an analysis of the customer's credit quality, positions, creditworthiness and profitability based on the risk assumed.

- Analysis: the Credit Risk Department analyses the proposal and checks that the information is properly documented, accurate and accessible, as a prerequisite for approval.

- Approval: after analysing the proposed transaction, the Credit Risk Department approves it on the basis of the bank's lending policies and risk appetite, seeking a balance of risk and return.

- Notification: to conclude the approval process, a credit document is issued and signed and is then submitted to the relevant functions, so that it can be properly recorded in the bank's systems.

▪ Monitoring:

Customers and transactions are monitored, analysing all factors that could affect their credit quality to allow early detection of potential incidents, so that measures can be taken to mitigate or resolve them.

Customers or transactions that require more in-depth review or closer monitoring, whether because their credit quality has deteriorated or because of the nature or amount of their debt, are thus identified.

In addition, compliance with approved limits and credit facilities is monitored and controlled on a daily basis. At market close all exposures are recalculated based on credit inflows and outflows, changes in the market, and the established risk mitigation mechanisms. Exposures are thus subject to daily monitoring and control in relation to the approved limits.

▪ Recoveries

Credit recovery is an important credit risk management function. It comprises the strategies and actions required to ensure that delinquent loans are brought current or recovered in the shortest time and at the least possible cost. This function is performed by the Collections and Recoveries Department. This department works directly with customers and adds value through effective and efficient debt collection, whether by bringing payments up to date or by recovering the entire loan.

The recovery management system requires effective coordination between departments (Sales, Risks and Legal) and is subject to ongoing review of management processes and methodologies, which must be adapted to changing legislation and industry best practice.

Credit impairment

A financial asset or credit exposure is considered impaired when there is objective evidence that an event or a combination of events has occurred that adversely affects the estimated future cash flows as calculated at the time of entering into the transaction, due to the materialisation of a credit risk. Impairment losses on debt instruments and other off-balance sheet credit exposures are recognised as an expense in the consolidated income statement for the period in which the impairment become evident, and any recoveries of previously recognised losses are likewise recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

Impairment losses on financial assets are calculated based on the type of instrument, taking into account any effective guarantees received. For debt instruments measured at amortised cost, the group recognises both adjustment accounts (when allowances are recorded to cover impairment losses) and direct write-downs against assets (when recovery is deemed unlikely).

Accounting classification according to credit risk

The group has established criteria for identifying borrowers with significant increases in credit risk, credit weaknesses or objective evidence of impairment, and for classifying them according to their credit risk.

Credit exposures and off-balance sheet exposures are classified according to their credit risk in the following stages:

▪ 'Normal risk', or Stage 1: transactions that do not meet the requirements for inclusion in other categories.

▪ 'Normal risk with a significant increase in credit risk', or Stage 2: this category includes all transactions which, although they do not meet the criteria to be classified individually as Stage 3 or in default, nevertheless show a significant increase in credit risk since initial recognition. Transactions with amounts more than 30 days past due are included in this category. Refinanced and restructured transactions that have been classified in this category are reclassified to a lower risk category when they meet the requirements for such reclassification. Transactions that have been classified as 'Normal risk under special monitoring' (Stage 2) because of a significant increase in credit risk or because they have amounts more than 30 days past due should be reclassified to the 'Normal risk' category (Stage 1) once they have passed a six-month trial period, based on the probability of entering the 'Normal risk under special monitoring' category.

▪ 'Doubtful risk' or Stage 3: this category includes debt instruments, whether past due or not, where the requirements for inclusion in the 'In default' category are not met but there is reasonable doubt as to whether the obligor will repay principal and interest in full; and also off-balance sheet exposures where it is probable the group will have to pay but recovery is doubtful.

  ▪ For arrears of the borrower: transactions where an amount of principal, interest or contractually agreed expenses is more than 90 days past due (although the particular characteristics of purchased or originated credit-impaired loans are taken into account), unless the transaction must properly be classified as 'In default'. Guarantees given are also included in this category when the obligor has defaulted on the guaranteed transaction. Likewise, all the transactions of a given obligor are included in this category when the amounts more than 90 days past due exceed 20% of the total amount outstanding.

  ▪ For reasons other than arrears of the borrower: transactions where the requirements for inclusion in the 'In default' category or in Stage 3 for arrears of the borrower are not met but there is reasonable doubt as to whether the estimated cash flows of the transaction have been obtained; and also off-balance sheet exposures not classified in Stage 3 for arrears of the borrower for which it is probable the group will have to pay but recovery is doubtful.

The accounting definition of Stage 3 coincides with that used in the group's credit risk management. It also coincides with the regulatory definition of default, except that for regulatory purposes all transactions of an obligor in a business segment are considered to be in default when the obligor has amounts more than 90 days past due, whereas for accounting purposes all transactions of an obligor are classified in Stage 3 only when the amounts more than 90 days past due are equal to more than 20% of the total amount outstanding.

- Write-off: the group writes off transactions of which, after an individual analysis, all or part is considered unlikely to be recovered. Transactions included in this category include exposures to customers who are involved in bankruptcy proceedings with a winding-up petition and transactions classified in Stage 3 on account of amounts more than four years past due, or less than four years past due where the amount not covered by effective guarantees has been maintained with credit risk coverage of 100% for more than two years, except for amounts with sufficient effective guarantees. Also included are transactions that meet none of the above criteria but that are manifestly and irrecoverably credit-impaired.

Estimation of impairment loss allowances

Debt instruments not included in the portfolio of financial assets held for trading; and off-balance sheet exposures are classified, based on their credit risk, in one of the categories listed in the following sections.

Allowances for transactions classified as Normal risk are associated with a group of transactions that have similar credit risk characteristics ('homogeneous risk group') and therefore can be estimated collectively, based on the credit losses of transactions with similar risk characteristics.

Allowances for transactions classified as 'Normal risk with a significant increase in credit risk' may be associated with a homogeneous risk group or an individual transaction. Where they are associated with a homogeneous risk group, they must be estimated collectively; where they are associated with specific transactions, they may be estimated either individually, based on the credit losses of the transaction in question, or collectively.

Finally, allowances for transactions classified as doubtful are associated with specific transactions and may estimated individually or collectively.

Credit risk mitigation

Credit risk exposure is rigorously managed and monitored based on analyses of borrowers' creditworthiness and their ability to meet their obligations to the group; and the exposure limits set for each counterparty are adjusted to the level deemed acceptable. The level of exposure is usually also modulated by taking collateral and guarantees provided by the obligor.

As a rule, the guarantees consist of collateral, mostly cash, securities or residential property (finished or under construction). To a lesser extent, the group also accepts other types of collateral, such as mortgages on retail premises and industrial buildings, as well as financial assets. Another credit risk mitigation technique used by the bank is the acceptance of surety bonds, conditional upon the surety's having proven solvency.

In using these mitigation techniques the bank takes steps to ensure legal certainty, i.e. by entering into legal contracts that are binding on all parties and enforceable in all relevant jurisdictions, so that the guarantee can be enforced at any time.

Maximum credit risk exposure

Under IFRS 7 *Financial Instruments*: Disclosures, the distribution of the group's maximum exposure to credit risk at 31 December 2019 and 2018 by item of the consolidated statement of financial position is presented without deducting the collateral or credit enhancements obtained to ensure compliance with payment obligations, broken down by the nature of the financial instruments.

Liquidity risk

Liquidity risk is the risk that, at any given time, the group will be unable to meet its payment obligations, whether arising from the maturity of deposits, drawdown of committed credit facilities or margin calls in collateralised transactions, among other things.

The ALCO manages liquidity risk so as to ensure that sufficient liquidity is available at all times to settle liabilities, while at the same time retaining sufficient liquidity to exploit any investment opportunities that may arise.

Liquidity is managed by analysing the balance sheet in terms of contractual maturities. The bank has IT tools to correctly distribute the maturities of its assets and liabilities over time, so as to be able to analyse future cash flows from receipts and payments and thus anticipate possible gaps.

Most of the funding comes from customer deposits, although the interbank market is also an important source of funding, mainly through repo transactions.

The following table shows the assets and liabilities classified by maturity. Part of certain items, such as current accounts, is considered to have no contractual maturity. The other items are distributed across the different maturity buckets based on a historical review of their volatility, their amount and the nature of the contracts.

31 December 2019	Up to one month	One to three months	Three months to one year	One year to five years	More than five	Not sensitive	Total balance
							Thousands of euros
Cash, balances with other central banks and other demand deposits	806,651	4,521	52,380	57,320	128,344	9,669	1,058,885
Financial assets	3,626	12,241	26,903	319,232	409,406	122,604	894,013
Loans and receivables	262,460	84,112	400,066	733,589	556,477	(46,574)	1,990,130
5.2. Loans and credits to entities	179,550	-	42,821	62,876	93,741	229	379,217
5.3. Credits to customers	82,910	84,112	357,245	670,713	462,736	(46,803)	1,610,913
Hedging derivatives	-	-	-	-	-	822	822
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	2,862	2,862
Other assets	-	-	-	-	-	627,801	627,801
Total assets	**1,072,737**	**100,874**	**479,349**	**1,110,141**	**1,094,227**	**717,184**	**4,574,513**
Financial liabilities held for trading	-	-	-	-	-	53,663	53,663
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	655,395	126,016	440,565	691,288	1,350,608	594,975	3,858,847
3.1. Deposits in central banks	48,532	-	27,874	-	-	1	76,407
3.2. Deposits in banks	37,561	-	-	78,941	250,466	2,995	369,963
3.3. Customer deposits	558,102	126,016	328,997	329,886	1,021,059	472,103	2,836,163
3.3.1.Demand	441,200	69,112	164,590	276,988	1,021,059	470,461	2,443,410
3.3.2. Term	116,902	56,904	164,407	52,898	-	-	391,111
3.3.3. Unpaid interest incurred	-	-	-	-	-	1,642	1,642
3.3.4. Other financial liabilities.	-	-	-	-	-	-	-
3.4. Debt securities	11,200	-	83,694	282,461	79,083	1,622	458,060
3.5. Other financial liabilities	-	-	-	-	-	118,254	118,254
Hedging derivatives	-	-	-	-	-	5,224	5,224
Liabilities under insurance contracts	-	-	-	-	-	-	-
Other assets	(89)	-	-	-	-	119,709	119,620
Total liabilities	**655,306**	**126,016**	**440,565**	**691,288**	**1,350,608**	**773,572**	**4,037,354**
Equity	-	-	-	-	35,000	502,159	537,159
Total Liabilities + Equity	**655,306**	**126,016**	**440,565**	**691,288**	**1,385,607**	**1,275,731**	**4,574,513**
SIMPLE GAP	417,432	(25,142)	38,784	418,853	(291,380)	(558,547)	-
ACCUMULATED GAP	417,432	392,290	431,074	849,927	558,547	-	-

On a daily basis, the Financial Risk Control Department monitors the liquidity available at different maturities, ensuring that liquidity remains above the established minimum. During 2019, the minimum stood at 300 million euros overnight and 500 million euros in cash and highly liquid positions up to one year. Positions that can be financed with repos and the liquid portfolio are monitored daily. The bank remained within these limits during the year.

To comply with international standards, the Andbank group calculates and monitors the liquidity coverage ratio (LCR). The LCR is defined by the Basel Committee on Banking Supervision and compares the amount of available highly-liquid assets with net cash inflows (outflows) over the next 30 days. The levels and compliance schedule are as follows:

	2016	2017	2018	2019
Minimum LCR	70 %	80 %	90 %	100 %

Andbank LCR	267 %

The Andbank group's LCR at the end of 2019 was 267%, well above the regulatory minimum.

Apart from the short-term liquidity coverage ratio, at quarterly intervals, since March, the Andbank Group also calculates the net stable funding ratio (NSFR). This ratio is defined by the Basel Committee on Banking Supervision as the ratio of the amount of stable funding available to an institution to the amount of funding required over a one-year horizon. At year-end 2019 the group's NSFR is 141%, well above the regulatory minimum (100%).

Additionally, at monthly intervals the group prepares a contingency funding plan, in which it assesses contingent funding based on different levels of use of its liquid assets and the available funding sources, taking into account the cost at which the liquidity could be generated. Readily convertible assets and manageable liquidity sources are then ranked, giving priority to the use of liquidity sources that have a low impact on the income statement and postponing the use of those that would have a high negative impact. Potential liquidity outflow scenarios, whether resulting from customer activities or activities in the financial markets, are also identified and classified in two groups (likely and unlikely), according to the likelihood of their occurrence. Finally, the liquidity that could be generated is compared with the potential outflows to determine whether the surplus exceeds the approved minimum liquidity level.

Operational risk

Following the Basel Committee guidelines, the group defines operational risk as the risk of losses arising from inadequate or failed internal processes, people and systems or from external events.

Operational risk is inherent in all the group's activities, products, systems and processes and may come from various sources (processes, internal or external fraud, technology, human resources, business practices, disasters, suppliers). The group therefore considers it important to ensure that operational risk management is integrated in the bank's overall risk management organisation and is managed actively.

The bank's main objective in relation to operational risk is to identity, assess, control and monitor all events that represent a risk focus, with or without economic loss, so as to take appropriate steps to mitigate the risk.

The main task of the Operational Risk Department is to develop an advanced operational risk management framework, so as to reduce future exposure and losses that might affect the income statement. Its main responsibilities are to:

- Promote the development of an operational risk culture throughout the group, involving all business functions in operational risk management and control.
- Design and implement an operational risk management and control framework to ensure that all events liable to generate operational risk are properly identified and managed.
- Oversee the correct design, maintenance and implementation of operational risk standards.
- Monitor operational risk limits, ensuring that the risk profile stays within the levels specified in the bank's risk appetite.
- Supervise operational risk management and control in the different business and support areas.
- Ensure that Senior Management and the Board of Directors receive a holistic view of all relevant risks and that the operational risk profile is properly communicated.

The main tools used to manage operational risk within the group are:

- An incidents database, which captures and records all operational risk events in the group's subsidiaries. The most significant events in each subsidiary and in the group as a whole are reviewed and documented in particular detail.
- A risks and controls map, which identifies all the risks associated with the bank's day-to-day operations, as well as the persons responsible and the controls in place. The aim is to define mitigating measures and action plans to reduce the risk exposure.
- The annual risk and control self-assessment (RCSA), which serves to identify critical points and assess the quality of risk management, so as to be able to improve and strengthen it.
- Key risk indicators (KRIs), which can be analysed and monitored to assess the degree of operational control and so manage risk proactively.

Operational risk governance and the methodology for analysing operational risk are developed in accordance with Basel Committee guidelines.

Reputational risk

For Andbank, complying with the laws and regulations on banking and financial services is an essential objective. The bank has therefore taken steps to manage regulatory compliance and reputational risk. *Regulatory compliance* risk is the risk of incurring financial, material or reputational penalties or losses as a result of non-compliance with applicable laws and regulations or the group's internal procedures. It is therefore closely linked to reputational risk, which is associated with negative perceptions of the Andbank group on the part of the general public or stakeholders (customers, counterparties, employees, regulators) as a result of misconduct by the bank.

Andbank considers its public image its most valuable asset for retaining the trust of customers, regulators, shareholders and investors.

Andbank has a regulatory compliance function that coincides with its strategic objectives, that acts independently of the group's business areas and that is made up of professionals specialised in the different jurisdictions in which the group has a presence. The bank invests heavily in continuous development of its human capital and available technical resources, so as to have a compliance risk control and management system that is always up-to-date.

Bearing in mind the aforementioned objectives, a number of enterprise-wide policies have been designed and approved by the Board of Directors and are regularly reviewed to adapt them to changes in Andbank's activities. These enterprise-wide policies apply to the entire group, together with a set of internal controls for the management of regulatory and reputational risk.

The bank has also created the Ethics and Regulatory Compliance Committee, within the Board of Directors, to monitor and supervise the appropriateness and adequacy of the regulatory compliance model for the whole of the Andbank group.

The main pillars supporting Andbank's management of compliance risk and reputational risk are as follows:

Rules of ethics and conduct

Andbank acts to promote ethical conduct by all the group's employees. For Andbank, the customer is the focus of its activity and no business can be accepted if it is likely to generate reputational risk.

The bank has an ethics code, which sets minimum standards of conduct that all employees, managers and directors must adhere to and places them under an obligation to act responsibly in the performance of their duties. Employees have a secure channel through which to resolve doubts and report activities that may breach the bank's standards of conduct.

Prevention of money laundering and the financing of terrorism

Andbank undertakes to actively combat money laundering, the financing of terrorism and other financial crimes. Effective implementation of KYC ("Know Your Customer") procedures and rules is fundamental to the group

KYC means having full details of the people and entities with which the group does business (be it a single transaction or a long-term business relationship) or to which it provides services, and also having relevant information about the final beneficiaries and related parties. KYC is an ongoing process that starts with customer acceptance and continues throughout the business relationship. A similar "Know Your Employee" (KYE) process is used in staff recruitment.

In private banking, the bank has a comprehensive anti-money laundering model based on EU directives, which is adapted as necessary to the particular characteristics of each subsidiary and its local regulations and which is constantly evolving to keep pace with changes in regulations.

Enhanced due diligence is applied when accepting and monitoring private banking customer transactions. Customers are classified according to their potential risk, based on the information they themselves have provided and the information obtained by the bank, in accordance with international standards (such as the country of origin, residence and business activity).

Andbank invests in new technologies and uses latest generation techniques to detect suspicious behaviour patterns and transactions that may be linked to money laundering or the financing of terrorism.

The Compliance function carries out an independent review to provide the necessary assurance when a new account is opened. This process is not confined to new customers, however; all customers must be monitored continuously to ensure the bank has the information it needs to be able to detect illegal transactions.

To standardise and tighten control over potential regulatory compliance risks, a manual of procedures has been drawn up that sets out the activities through which the risks are managed. The procedures are updated in line with local regulations and international standards.

To strengthen good governance in this area, which is critical for any financial institution, Andbank has set up various committees, in which the company's senior management take part. These committees review decisions to accept particularly sensitive customers, monitor the steps taken by the Compliance Department and take any other decisions required to achieve the aforementioned objectives.

Investor protection

The bank's commitment to its customers has two main dimensions: long-term value creation and the greatest possible information transparency. The group therefore has enterprise-wide policies and procedures, tailored to the particularities of each jurisdiction in which it operates, to ensure compliance with applicable regulatory requirements.

Andbank's compliance and reputational risk mitigation model is built around:

- A risk management-oriented organisational structure.
- Assignment of roles and responsibilities within the organisation.
- Transparent policies and procedures, available to customers.
- Reinforced rules of conduct for enhanced investor protection.
- A procedure for the sale of financial products based on a clear categorisation of services, customer types and products.
- Continuous review of the control model to adapt to changes arising from new laws and regulations.

The bank's aim is to ensure:

- Financial services tailored to customers' needs.
- A transparent, two-way relationship, with rights and obligations on both sides.
- Fair resolution of customer complaints.

CRS (Common Reporting Standard)
The CRS is a standard for the automatic exchange of financial information between jurisdictions that allows the tax authorities of participating countries to obtain, on an annual basis, information on tax residents' investments and accounts held in financial institutions abroad (i.e., in countries in which they are not resident for tax purposes).

The Principality of Andorra passed Law 9/2016 of 30 November on the automatic exchange of tax information, adopting the principles established by the OECD for the Common Reporting Standard and included in the Convention on Mutual Administrative Assistance (CMAA) in Tax Matters regarding the automatic exchange of tax information between competent authorities in member countries. The text of this law was published on the website of the Official Gazette of the Principality of Andorra (BOPA) (www.bopa.ad).

Under this law, financial institutions are legally obliged to report certain personal and tax information in respect of accounts held by non-resident customers to the competent authority (in the Principality of Andorra, the Tax and Borders Department).

Knowledge management and training

The group invests in training to ensure that all employees are aware of the requirements under current laws and regulations and the policies and procedures the bank has adopted.

Each year, the group draws up a training plan for each jurisdiction, which is carried out by the group itself or by external providers, either in the classroom or online. Instilling a compliance culture throughout the organisation is vital for effective compliance risk management.

The annual training plans include courses on tax, prevention of money laundering and the financing of terrorism, and investor protection legislation, tailored to the course participants' level and needs.

Incidents and complaints

Andbank puts its customers' interests first at all times, so their opinions or possible complaints are always listened to and considered. The Quality Department handles all incident reports submitted by customers to the bank through the various channels available to them. The department's mission is to swiftly resolve incidents and drive the necessary changes in policies and procedures to prevent any reoccurrence.

Capital management

In its session on 20 December 2018, as part of the process of bringing the Andorran legal framework into line with the acquis communautaire, particularly as regards prudential legislation, the Andorran parliament passed Law 35/2018 on the solvency, liquidity and prudential supervision of banks and investment firms (Ley 35/2018 de Solvencia, Liquidez y Supervisión Prudencial de Entidades Bancarias y Empresas de Inversión). This law, together with an implementing regulation, is intended to give coverage to the European CRD IV package comprising Regulation EU no. 575/2013 and Directive 2013/36/EU.

The new law came into force on 24 January 2019 and repeals the law regulating the solvency and liquidity of financial institutions of 29 February 1996.

The new law requires banks to maintain a minimum Common Equity Tier 1 (CET1) ratio of 4.5 %, a minimum Tier 1 capital ratio of 6 % and a total capital ratio of 8 %. At 31 December 2019, Andbank's ratios were well above these minimum levels. In this regulatory environment, Andbank's capital ratios at 31 December 2019 are as follows:

	Fully loaded	**Phased-in**
CET1 ratio	12.44%	13.61%
Tier 1 ratio	14.95%	16.04%
Total capital ratio	14.95%	16.04%

Leverage ratio

In this regulatory framework, the Andbank group is in a strong position, with a leverage ratio of 7.26 % at year-end 2019.

07/ Social Responsibility Report 2019

Corporate social responsibility report 2019

Corporate social responsibility is an enterprise-wide activity that involves different departments. As an institution, we aim to be socially responsible, acting ethically and consistently, and are aware that in all business decisions and actions we must bear in mind the three pillars of sustainability: economic progress, social progress and environmental progress. We are convinced that a company's primary responsibility is to create wealth honestly and sustainably.

To put these commitments into effect, Andbank has a set of internal policies and procedures and a code of conduct, which cover all the group's activity and are designed to ensure that all members of the organisation act ethically and responsibly.

In its relationship and engagement with society in general and Andorra in particular, Andbank seeks to act in the way that will contribute most value to society's members, always aiming for excellence and superior customer service.

The purpose of the Andbank group's annual report is to inform all our stakeholders and society in general about the group's activities during 2019 at the economic, social and environmental level.

At Andbank we put our corporate social responsibility into practice in four main areas:

Responsibility for jobs. This area encompasses all the measures taken by the company to foster the well-being of its employees, including talent retention policies, work-life balance, family assistance, etc.

Responsibility to our customers. The bank's commitment to its customers operates along two basic dimensions: long-term value creation and maximum information transparency. The bank therefore has procedures in place to ensure compliance with regulatory requirements in the jurisdictions in which it operates. It also has global policies, which are adapted to the peculiarities of each jurisdiction.

In Andbank, CSR is not managed as a set of specific individual actions but is embedded in the institution: it is the way we operate.

Social responsibility. This is the set of measures designed to generate a positive impact on society, beyond the entity's business activity. These measures include actions linked to the fight against cancer, collaboration with schools and educational initiatives.

Environmental responsibility. Large companies have an impact on the environment. That is why we must optimise our resources and reduce our ecological footprint as far as we can. We can help curb climate change through small steps implemented on a global scale: getting everyone in the Bank to make small changes ultimately can make a big difference.

1. Introduction

Andbank's commitment to society and the community in which it operates has enabled it to achieve significant, sustainable growth year after year, with the primary objective of contributing to social, economic and environmental improvement. This improvement is part of Andbank's corporate social responsibility (CSR), which centres on the idea of developing the business in an ethical and responsible manner and thus fulfilling our commitment to society.

CSR is an initiative that emerged in the 1990s to reduce the negative impact of globalisation and respond to the new circumstances and needs of society. It is a way of doing business in which, as a company, we always take into account the impact we are likely to have, now and in the future, on our customers, suppliers, employees and society at large.

Our values

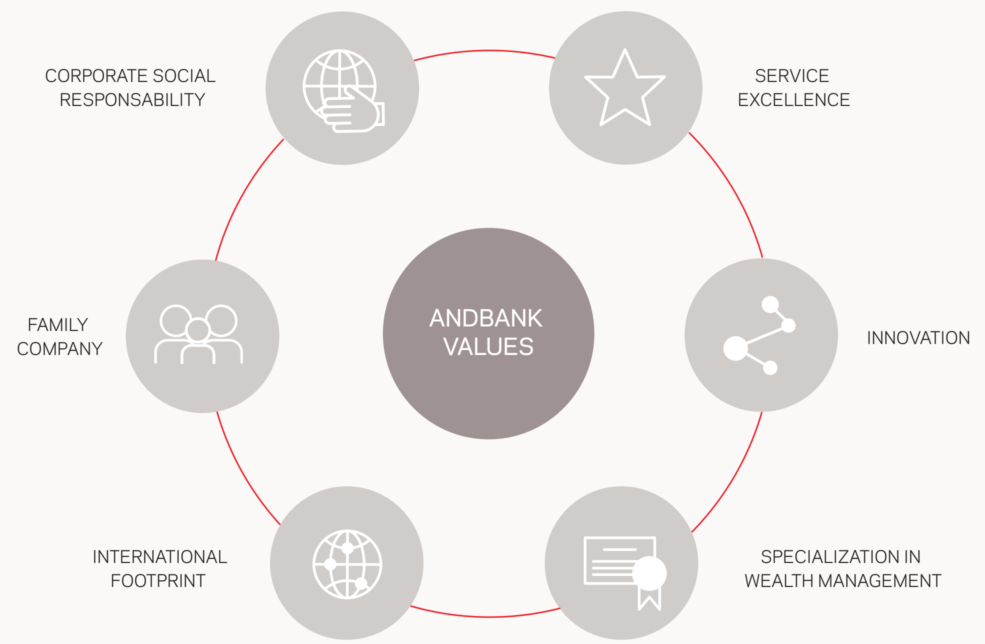
Our values are part of our DNA; they are our compass for daily life and for our work and are what makes Andbank special.

Through corporate social responsibility, service excellence, family business, innovation, a global footprint and a specialisation in asset management, we forge the corporate culture of the Andbank core and define our commitment to our customers and employees, delivering the best advice and service.

This culture also offers the Andbank team opportunities for personal and professional growth and development. It is a culture that encourages and recognises continuous improvement and that allows us to prosper and succeed in our strategy.

Corporate values

- Service excellence
  We want to be recognised by our competitors and our customers as one of the best providers of wealth management services.
- Innovation
  We want our customers to recognise us for providing a good multi-channel digital service that enhances the bank-customer relationship.
- Specialisation in asset management
  We manage our customers' assets on a highly professional and global basis, offering discretionary portfolio management services, SICAVs and a range of bespoke solutions, while also creating long-term value.
- Global footprint
  We are present and active in international markets, giving our global team a privileged global vision.
- Family business
  We are a fully committed, results-oriented institution that has built a brand based on transparency and honesty, trust in colleagues and respect for people.
- Corporate social responsibility
  One of our CSR pillars is the fight against cancer, but we are also committed to assisting and improving the health of all those around us, both at work and beyond.



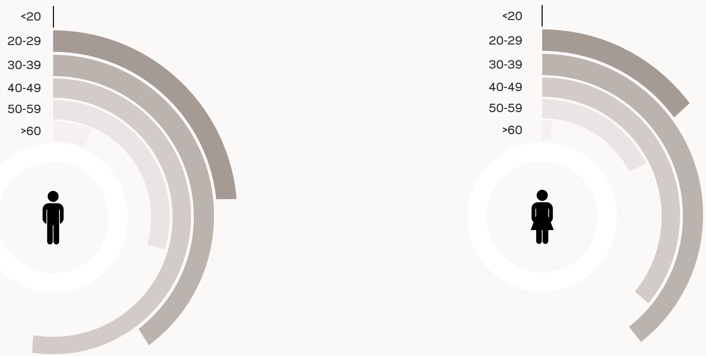
2. The Andbank Team

The Andbank group ended the year with a total workforce of 1,055 employees. Of that total, 319 people work in the corporate headquarters in Andorra and 736 in the group's various international subsidiaries.

Age, gender and length of service

The workforce is made up of 442 women and 613 men. The average age of the team is between 40 and 42.

	MEN		WOMEN		TOTAL	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
People	613	599	442	452	1.055	1.051
Average age	42,35	41,63	40,40	39,86	40,53	41,60
Average length of service	6,90	6,81	6,85	7,05	6,88	6,91

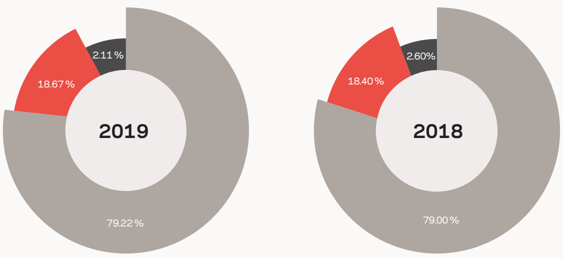


Characteristics of the Andbank team

At present, the group's workforce includes 37 different nationalities, so diversity is a characteristic of the Andbank team.

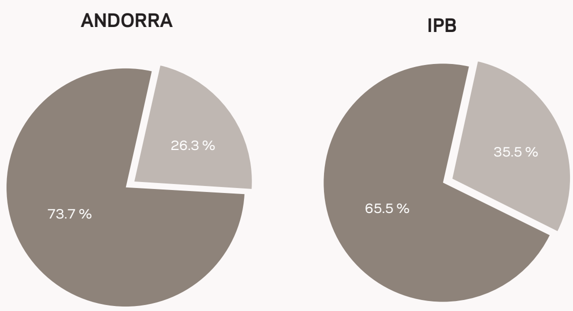
Though relatively young, with an average of age of 40, our team is highly qualified, professional and dynamic. Almost 80% of the Andbank group's workforce have an advanced university degree.

Employees by level of education



Advanced university degree
University degree
Secondary education

Employees by division



Support
Business

Employees by country

Training and talent development

- MiFID II for central services

We are getting ready for the MiFID II regulation, which will come into effect in the Principality of Andorra during 2020, once the European directive has been transposed into the Andorran market. Through Andorran Banking (Association of Andorran Banks), EY was asked to deliver training sessions to professionals working at banks that are impacted by the regulations, the main aim being to acquire knowledge of MiFID II's guiding principles on investor protection, market infrastructure and governance.

The purpose of this training was to convey the knowledge and principles behind the European directive and its impact on the Andorran banking sector, with two goals:

- To align training with the profiles of attendees, focusing on subjects of particular relevance to each person and adopting a practical approach..
- To serve as a basis for analysis of the forthcoming transposition of the European directive in the Andorran banking sector.

A total of 35 employees from different areas attended this training

- European Investment Practitioner (EIP) and European Financial Advisor certificates from EFPA España

Through Instituto de Estudios Financieros (IEF), a blended learning course was provided to prepare for the *European Investment Practitioner* (EIP) and European Financial Advisor certificates offered by EFPA España. The aim was to provide rigorous training for a group of employees, mostly from the Business Area, to obtain certification validating their knowledge in financial information and advice, in accordance with the ESMA guidelines (in Spain, the CNMV Technical Guide).

The general goals of these two trainings were:

- Training of a selected group of employees in the knowledge and skills required to perform advisory and financial information roles.
- Professional certification for regulatory compliance, for the sake of consistency across the network and to meet professional standards.
- **Training has been geared towards acquiring the knowledge required** to obtain EFPA certification (EIP or EFA).

A total of 33 people from the Business Area have enrolled in the EIP course and eight people (two from the Operations Area) have enrolled in the EFA course.

Total no. of training hours: 330 hours per student.

- FIBA

FIBA's AMLCA certification programme provides a robust foundation of AML/CFT knowledge covering all sectors of the financial services industry, with a combination of case studies, real-life examples and theory.

The programme is designed to allow participants to acquire a thorough command of the role which FATF-GAFI's "40 recommendations" play in national law and at the same time acquire practical knowledge of risk-based internal control methods that meet internationally accepted AML/CFT standards.

A total of nine people from the Regulatory Compliance areas of five different subsidiaries have enrolled in the FIBA programme, Andorra being the subsidiary with the most participants.

Total no. of training hours: 180 hours per student.

- IFRS

  In recent years, European standards for the presentation of the annual accounts of banks and other financial institutions have changed significantly. These standards are set out in the Annex to the Monetary Agreement between the Principality of Andorra and the European Union, which must be transposed into Andorran law.

Total no. of training hours: 20 hours per student.

Apart from the training described above, linked to regulatory issues, other training activities have been carried out in relation to technical knowledge, skills and working methodologies. They include:

- Refresher course in employment law

The main objective of this course is to learn about employment law in the Principality of Andorra, which has recently been significantly amended, so that professionals in Andorra are able to apply the law and resolve the most common disputes. The course was supplemented with a review of the amendments to the Social Security law.

Two people from Human Resources enrolled in this course.

Total no. of training hours: 30 hours per student.

- Do you want to be Agile?

Training provided by the Andorran Chamber of Commerce, Industry and Services, aimed at people with project and people management experience, to incorporate *Agile* methodologies in their management, so as to:

- Analyse the current socio-economic situation for business, change management and the role of *Agile* methodologies.
- Learn in detail about the main *Agile* methodologies and terminology and how they can be applied in project management.
- Understand their benefits and learn to identify the levers for *Agile* transformation.
- Discover *Agile* methodologies and their stakeholders.
- Understand change management from the perspective of personal change.

Six people from different areas enrolled in this training: three from Technology and Systems, one from the Business and two from Human Resources.

Total no. of training hours: 8 hours per student.

- Executive Coaching Certification Programme Cycle 1

Programme to acquire the skills, competencies and tools specified by ICF for the practice of coaching within the organisation and its teams.

One person from Human Resources enrolled in this course.

Total no. of training hours: 38 hours per student.

Andbank campus

- Training and talent development

Through the campus, we aim to give every person who works at Andbank the opportunity to develop his or her potential. To improve employability, during 2019 we provided training in the areas of Compliance, Technology and Systems, and Organisation and Risks, among others.

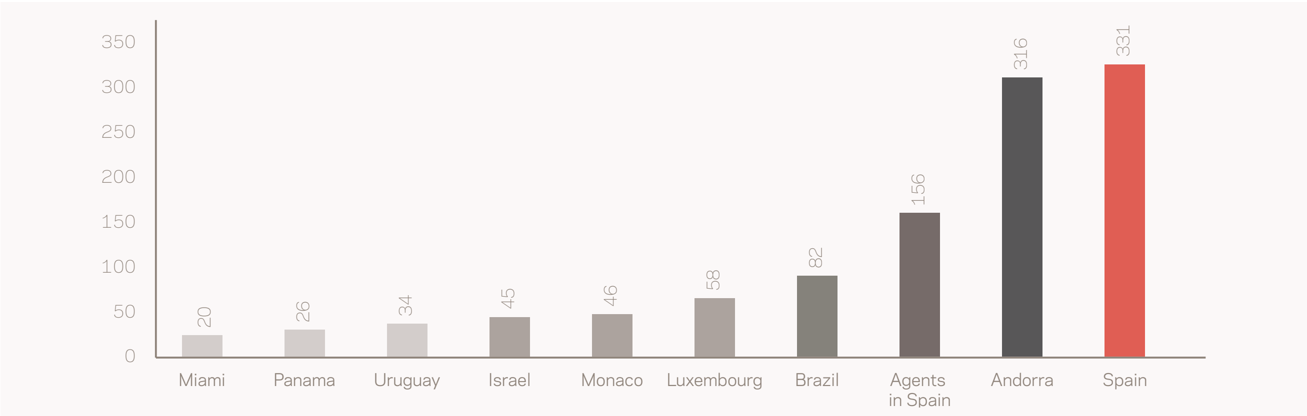
The general characteristics of the Andbank Campus are as follows:

- Virtual campus available in two languages: Spanish and English
- Teaching materials translated into several languages: Spanish, Catalan, Portuguese and English.
- Both mandatory and voluntary courses for different employee groups in different subsidiaries.

Key operating data for the Campus in 2019 are as follows:

- 21 trainings available. Of these 21 trainings, 14 were targeted at subsidiaries, and Andbank Spain was the subsidiary that used the Campus most to train its employees.

Access to the Andbank Campus for all employees in Andorra, subsidiaries and agents in Spain



Total no. of training hours: **4,713**

Total no. of employees enrolled in the Campus: **1,155**

▪ Andbank employee development

2019 saw the consolidation of the Induction Plan for new employees in Andorra. Andbank's Induction Plan is designed as a first training action for people joining the organisation and is divided into three blocks. Depending on the personal profile, each new hire may or may not have a supplementary block.

The plan's objectives are:

- To organise the induction, socialisation and monitoring of new hires in a consistent and structured way.

- To help them adapt and identify with Andbank.

- To make them aware of the internal regulatory framework and safety protocols (emergencies), as well as occupational risk prevention measures.

Block 1 (First day)

Compliance with these standards and policies by all employees is essential to the institution's success.

- Code of Conduct
- General Policy on the prevention of money laundering and the financing of terrorism
- General Policy on anti-corruption measures
- Technical Standard for the classification of information

Block 2 (1 month)

- AML: anti-money laundering
- Basic MiFID: Markets in Financial Instruments Directive
- The euro: security
- General Policy on the use of corporate email
- General Policy on the use of IT resources
- Andbank self-protection plan
- Action in response to criminal acts

Block 3 (2 months)

These courses are part of the Annual Compliance Training Plan. Course participants will learn about the latest anti-money laundering and anti-terrorist financing measures required by the European Commission, Andbank's customer categories, FATCA, tax information exchange and the benefits of the QI regime.

- Advanced MiFID: Markets in Financial Instruments Directive
- IQ: Qualified Intermediary
- FATCA: Foreign Account Tax Compliance Act
- CRS: Common Reporting Standard

Optional

- Satisfaction survey
- Diploma

▪ New news space

During 2019 the campus news space was revamped to offer content fortnightly, mainly in audiovisual format, on topics related to the business and to professional development:

- Trends in the banking world (blockchain, fintech, big data, etc.)
- Skills for professional development
- Regulatory impact on our business

"Employee Experience"

▪ Six-month interview

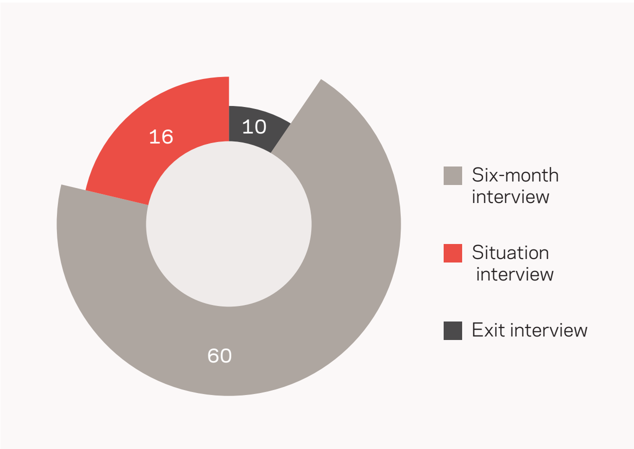
An employee's career in a company goes through several key stages: sharing, learning, contributing and growing. One of the tools we use to promote this process are follow-up interviews. These interviews allow us not only to listen to employees, channel and receive feedback from them and use their opinions, judgements and subjective views to find solutions to the obstacles they encounter in their daily activities, but also to improve and foster employees' commitment to our brand, our values, our processes and our teams. In 2019, we interviewed 10 people who had been working at Andbank for between six and 10 months.

▪ Situation interview

In 2019, we decided to conduct random situation interviews on a sample of employees. We realise we are facing a scenario full of light and shadow and want to know what Andbank's people are like and how they perceive certain factors the Human Resources Department considers crucial. We started with these situation interviews in 2018, when a total of 53 employees were interviewed. In 2019 we decided to interview a few more, reaching a total of 60.

- Interview frequency: annual
- No. of situation interviews: 60
- % of workforce interviewed in 2019: 19 %
- % of workforce interviewed in total: 36 %

The interviews covered a range of subjects: salary, training, work atmosphere, workload, benefits, career opportunities, relations with colleagues, recognition, teamwork, relations with superiors, identification with Andbank, happiness and degree of satisfaction (*Employee Net Promoter Score,* ENPS).



Exit interview

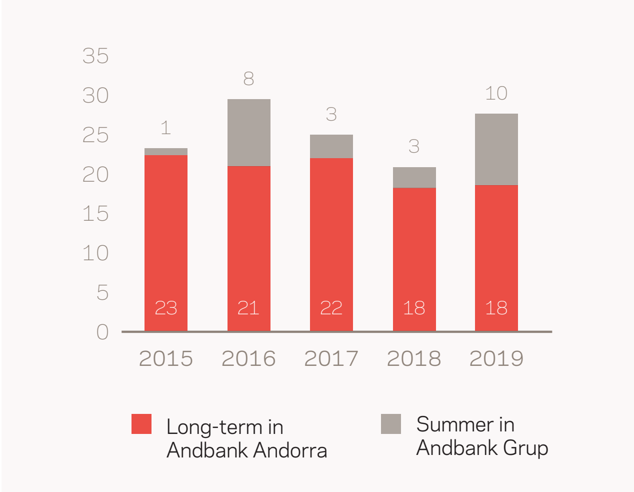
Human Resources conducts exit interviews with every person who leaves Andbank voluntarily. These interviews are used to find out more about the reasons why people decide to give up their job and leave Andbank. They provide an opportunity to gather sincere feedback on the true state of the company. In 2019, we interviewed 30 people.

Andbank Trainee Programme

- Andbank Trainee Programme - summer internships

Through the Andbank Trainee Programme, Andbank offers students the opportunity to do summer internships or win long-term scholarships, so that they can learn on the job and gain work experience. These paid internships can be done in any department of the bank or its subsidiaries and the chosen candidates are given specialised mentors in each area.

In summer 2019, a total of 18 young people joined corporate services in Andorra and the subsidiaries in Spain and Luxembourg as interns. The internships were carried out in the following departments: Marketing, Accounting, Information Technology, General Services, Organisation, Data Governance Office, Operations, Company Store, and branches in Andorra.

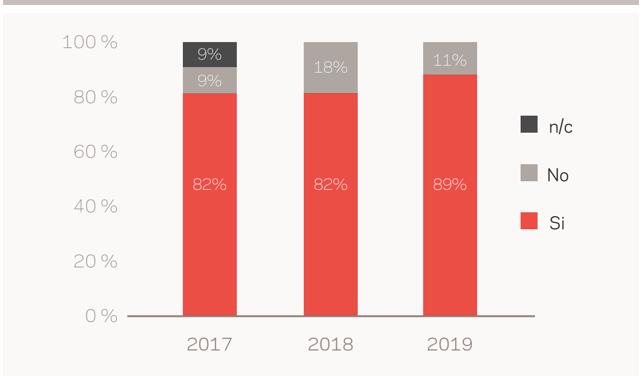


- Andbank Trainee Programme - long-term scholarships

In 2019, a total of 10 young people joined Andbank in the long-term Scholarships Programme. These were people who had completed a higher vocational certificate or a bachelor's or master's degree and were offered the opportunity to acquire experience in the world of banking. They were assigned to the following departments: Marketing, Accounting, Operations, Treasury, Product and Middle Office

At the end of the internship, participants are given a questionnaire in which they are asked to assess the Andbank Trainee Programme and their experience in Andbank. The questions include the following:

Would you be willing to repeat this year's experience in the Andbank Trainee Programme's 2020 summer internships?



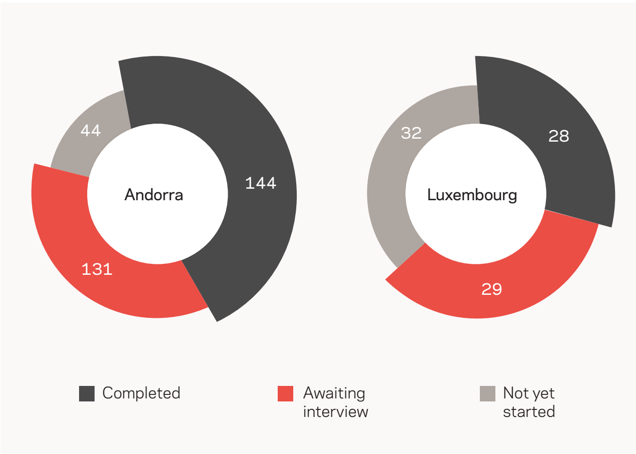
Andbank Performer

As every year, one of the biggest challenges for Andbank's HR policies is to create efficient strategies, models, systems and practices that fit and align with the bank's strategy.

Given that we cannot meet strategic objectives unless we have the right people, the *Andbank Performer* performance management model is a vital tool for managing organisational performance. The goal of performance assessment is to promote each person's overall development through action plans. In 2019 the assessment was expanded to include each employee's own self-assessment. Thus, each employee is asked to assess his or her own performance in order to improve the feedback interviews. The competencies that employees must self-assess are the same ones as are assessed by their supervisors.

ANDBANK PROFILES	COMPETENCIES	CHARACTERISTICS
- Executive - Managers - Banking managers (Business) - Bankers (Business) - Project manager - Regulatory specialist - Investment specialist - Operational specialist	- 29 competencies grouped in 3 families and assessed at 4 levels of behaviour (from 1 to 4)	- Top-down - Based on Andbank's culture and values - Virtual tool - Qualitative assessment

During the first half of 2019, the assessments for 2018 were carried out for Andbank Andorra (head office) and Andbank Luxembourg (bank and manager). This was done for strategic reasons, as the assessments would otherwise have coincided with the year-end 2018 quality survey.



3. Andbank and its customers

Our customers are our guiding light and the main reason for all our activity as a financial institution. We therefore protect their interests and strive to find the best solutions to their needs.

At Andbank we have a wide range of products and services designed by the bank's account managers and specialists, who are constantly searching for ways to offer the solutions that will best suit each person and situation.

We have a number of customer service channels, both face-to-face and virtual, and have invested in technological innovation to improve the customer relationship and swiftly meet customers' demands, at any time and anywhere.

Our goal is to combine the traditional channels with the more innovative ones, striking a balance between technology and proximity, and to maintain a long-term relationship based on personalised service. Content development and technological innovation facilitate access to banking operations through the latest devices, such as smartphones and tablets.

Improvements to protect our customers

1. Investor protection

The bank's commitment to its customers operates along two basic dimensions: long-term value creation and maximum information transparency. The bank therefore has procedures in place to ensure compliance with regulatory requirements in the jurisdictions in which it operates. It also has global policies, which are adapted to the peculiarities of each jurisdiction.

Andbank's model for mitigating compliance and reputational risk comprises:

- An organisational structure designed for managing risks and conflicts of interest.
- A clear assignment of roles and responsibilities within the organisation.
- Transparent policies and procedures, available to customers.
- Reinforcement of the rules of conduct to strengthen investor protection.
- A procedure for selling financial products based on the specific type of service, customer and product.

The bank thus aims to achieve:

- Financial services that match customers' needs.
- A transparent, two-way relationship, with rights and obligations on both sides.
- Fair resolution of customer complaints.

2. Incidents and complaints

The Customer Service Department handles enquiries, complaints and claims from the Quality Department.

Failure to resolve problems and lack of empathy are the main causes of customer attrition in financial institutions. Andbank therefore encourages its customers to report their concerns, complaints and claims and sees to it that complaints and claims reach the right person or department and are acted upon.

Andbank's first objective, therefore, is to satisfy its customers. The second objective is to elicit customers' concerns, so as to be able to correct any errors and thus continue to improve.

All customers receive a response and all incidents are handled differently, depending on the subject matter or sector concerned and the relative ease or difficulty of resolving the matter.

The following channels and resources are available for customers to submit enquiries, complaints and claims:

- Face-to-face in a branch;
- Telephone: customer service hotline on (+376) 873 333 and (+376) 873 308;
- Ad hoc complaint form available in all branches;
- "Complaints and claims" section on the Contacts page of the corporate website;
- By letter or email to the Human Resources Department or the Quality Department.

STATISTICS

Number of complaints and enquiries submitted			
	2017	2018	2019
Claims	119	103	123
Complaints	36	20	26
Enquiries	4	20	10

Means used			
	2017	2018	2019
Letter	15 %	13 %	7 %
Form	22 %	15 %	19 %
Face-to-face	39 %	54 %	44 %
Telephone	2 %	2 %	3 %
Email	22 %	16 %	27 %

Average response time		
2017	2018	2019
31.5 days	9.5 days	13.5 days

Percent of responses in less than one week		
2017	2018	2019
48 %	60 %	43 %

3. Rules of ethics and conduct
Andbank has taken measures that promote ethical conduct by all the bank's employees. For Andbank, the customer is the main focus of the bank's activity and no business can be accepted if it is likely to generate reputational risk.

The bank has an ethics code which sets minimum standards of behaviour that all employees, managers and directors are required to adhere to and which requires them to act responsibly in the performance of their duties.

4. Sustainable products
To integrate the group's corporate social responsibility in the bank's products and services, various socially responsible products have been developed:

AndVida and AndSalut

Andbank Assegurances offers its new life and health insurance products, with increased coverage to meet current health care needs. The life and health insurance products offer our customers optimal solutions, as well as completely flexible benefits tailored to their needs, giving them access to the most advanced, highest quality medical care for enhanced well-being.

4. Corporate social responsibility strategy

Corporate social responsibility (CSR) is a key element of the Andbank group's culture. Accordingly, the CSR strategy is based on the group's principles and values, which define Andbank as a customer-oriented institution that is committed to the societies in which it is present.

One of the group's main objective is to achieve meaningful, sustainable growth, applying the institution's transparency, independence and good governance to safeguard its stakeholders' interests, create value for them and earn their trust and support.

One such line of action and the group's main corporate social responsibility project centres on cancer research and the fight against cancer. Andbank therefore collaborates actively with three organisations that share those objectives, namely, the Vall d'Hebron Institute of Oncology (VHIO) and the Fero Foundation in the field of research and Sant Joan de Déu Hospital in the cure and treatment of child cancer, all three of them pioneering institutions in their field.

Andbank's commitment to cancer treatment and research
Andbank is a founding member of the new Barcelona Paediatric Cancer Centre. Promoted by Sant Joan de Déu Hospital, this is an ambitious project that aspires to become the largest childhood cancer centre in Europe. The first stone was laid in October 2018 and the centre is expected to open in 2021.

The new SJD Barcelona Paediatric Cancer Centre will have capacity for 400 patients per year, 30 % more than Sant Joan de Déu Hospital handles at present (215 new cases each year and 70 relapses and second opinions) and will be equipped with the latest technology for the fight against cancer.

Last year the bank once again worked closely with Fero Foundation in various initiatives aimed at securing additional support for the foundation, involving both the bank and its employees and Andorran society at large.

The Fero Foundation is a private foundation dedicated to cancer research which, thanks to donations from private individuals, has started up several scientific research laboratories. It was founded by Dr. Josep Baselga, a professor of medicine at the Autonomous University of Barcelona and chairman of the VHIO's scientific committee. One of the foundation's most important milestones has been the creation of the Breast Cancer Centre at Vall d'Hebron Hospital, the only centre of its kind in Spain.

For the fourth year running, Andbank was the main sponsor of the charity gala dinner organised by the Fero Foundation in Barcelona, during which the 16th Fero Grant for cancer research was awarded. In this edition, three scholarships of 80,000 euros each were awarded for research into new possibilities for liquid biopsy in breast and prostate cancer.

Charity Gala Dinner - Fero Foundation

Andbank and society

The Andbank Group's commitment to society goes beyond its financial contribution and is driven by a deep awareness of its social responsibility. Accordingly, the group supports organisations that work to improve the well-being of Andorran society.

The bank maintains close ties with the communities in which it operates and generates value in those communities through collaborative activities that benefit society, such as organising educational talks by industry experts, fostering entrepreneurial projects, contributing to socially responsible projects and introducing the youngest members of society to values associated with elite sport, such as effort, tenacity and perseverance, values with which Andbank feels fully identified.

Andbank has promoted a variety of social, cultural and sporting initiatives aimed at expanding and maximising the benefits for society.

Social

- Agreement with the Patronat de les Dames de Meritxell to support the projects carried out each year to develop and improve the Xeridell Occupational Workshop.
- *Cucharas que cuidan (Spoons as caregivers)* is a book published by the Joan Petit foundation for children with cancer. Written by Dr. Antonieta Barahona, the book provides nutritional guidance for children and adults with cancer and is also intended as a an aid for caregivers.
- Series of talks. During 2019, Andbank brought speakers from different areas, including Josep Piqué, who is a member of the advisory board of Andbank Spain and a former government minister, and José María Remacha, a partner at EY and associate lecturer on tax matters at ESADE.
- Workshop series. Health workshop with Meri Ayuso and DermAndTek, and Candelas bracelets charity workshop.
- PedalAndbank. First "pedalling for charity" event at the Andbank Andorra Business Centre, with forty bicycles and more than 160 hours of spinning. The money raised was donated to the fight against cancer.

"Pedalling for charity" event

- Leo Messi Golf Tournament. Collaboration with the Leo Messi Foundation's 2nd Pro Am tournament held at the Vallromanes Golf Club to raise money for the Sant Joan de Déu Hospital Paediatric Cancer Centre.

Culture

- Spanish film series. The 9th Spanish Film Series was presented in collaboration with the Spanish embassy, with showings of five films by well-known directors and the presence of the famous actor and director Carlos Iglesias.
- Collaboration with the French Embassy's cultural season. Once again, the bank collaborated with the Chicos Mambo company, with its *CAR / MEN* show.
- In 2019, the Manuel Cerqueda short fiction award was presented at the 41st annual Literary Evening, organised by the Cercle de les Arts i les Lletres. On this occasion, the prize was deserted.
- Collaboration with the Castell de Peralada Festival. In 2018 Andbank once again contributed to the spread of culture by supporting the festival's excellent musical programme.
- Candle Night Ordino was the venue for the Noche de la Candela, or Candle Night, in which more than 12,000 lighted candles provided the thread for an artistic itinerary through the streets of the town's historical centre, with performances by musicians, dancers, jugglers and fire-eaters.
- Floral Games. A literary awards competition for young people organised by the Sant Ermengol school.

Andbank and sport

The values fostered by youth sport and high-level sport, such as effort, tenacity and perseverance, are values with which Andbank feels fully identified. For that reason, our institution has long had close ties with the world of sport. In 2019 we supported various different sports initiatives.

- Skimo Pal Vip Training. The Pal charity race is one of the top challenges and a highlight in the calendar of events for mountain skiers. In this edition the funds raised went to Unicef.
- Andorran Ski Federation (FAE). Andbank sponsored the Andorran Ski Federation's cross-country and freestyle teams. The young competitors Irineu Esteve and Carola Vila achieved excellent results in the events they took part in.
- Manuel Cerqueda Memorial Race. 2019 saw the 29th edition of the traditional veterans' giant slalom, organised by the Andorra Ski Club.
- Andorran Olympic Committee (COA). Andbank has sponsored the COA's activities for more than a decade. In 2019, the COA took part in the Mediterranean Beach Games in Greece, the European Youth Winter Olympic Festival in Sarajevo, and the Small States of Montenegro Games, in which Andorran competitors won 18 medals.
- Nordic Festival. Andbank collaborated in this event, in which participants competed in a range of disciplines, including biathlon and cross-country skiing, as well as the Marxa Andorra Fons (Andorran Cross-Country Ski Race).
- La Purito. The bank continues to support the project promoted by Joaquim "Purito" Rodríguez, who designed the "queen" stage of the 2015 Vuelta a España bicycle race. The La Purito Andorra cycle tour celebrated its fifth anniversary with a race in which participants cycled from Sant Julià de Lòria to Els Cortals de Encamp, passing through several towns in Andorra. More than 2,700 cyclists registered to take part.

La Purito Andorra 2019

- Andbank Golf Tournament. Golf continues to be one of Andbank's main sponsorships. In 2019, the 19th edition of the Andbank Golf Tournament was held, with seven local rounds. One of the objectives of this tournament has always been to play at top Spanish courses. This year, the tournament rounds were held at the Cerdaña Royal Golf Club, the El Prat Royal Golf Club, the León Golf Club, the Sojuela Golf Club (Logroño), the La Herrería Royal Golf Club (Madrid), the San Sebastián Royal Golf Club and the La Galiana Golf Club (Valencia).

- Andorran Swimming Federation (FAN). Andbank signed a sponsorship agreement with the swimming federation for two seasons to support young Andorran swimmers, who have achieved exceptionally good results.

Andbank and the business community

As a financial and business institution, Andbank is keen to support business initiatives through collaboration agreements with companies and entrepreneurs to strengthen Andorra's growth and development.

- Andorran Family Business. Andbank took part in the 18th Andorran Family Business (EFA) Forum, which this year addressed the challenges and opportunities of climate change for businesses.

- Economic seminars with Àlex Fusté. Our macroeconomics expert, Àlex Fusté, had various international speaking engagements during the year. During 2019 he took part in various economic breakfasts at the bank's headquarters and was a guest speaker in various countries in which Andbank has a presence, including Uruguay, Panama, Spain and Israel.

- IQS Business Forum. Once again Andbank took part in the IQS Business Forum, which brings together students and businesses from different sectors to facilitate talent acquisition.

Economic seminars with Àlex Fusté

Andbank shows solidarity

The Andbank Employees Solidarity Association (ASCA) once again added its charitable efforts to Andbank's solidarity actions and altruistically gave publicity and support to the requests for aid received by the bank. ASCA itself coordinates these projects in Andorra and abroad.

Another Andorran NGO with which Andbank collaborates is AINA, specifically for the publication of the songbook to raise funds for grants for children.

Andbank's international expansion

One of the Andbank group's objectives, within the framework of the strategic plan, is to expand internationally. The bank's commitment therefore extends beyond Andorra and requires maintaining a close relationship and engagement with business and society in all the jurisdictions in which Andbank is present.

During 2019, various actions were carried out in some of the group's locations.

Following the group's CSR strategy, Andbank Spain has entered into an agreement and is actively involved with Save the Children and the CRIS Foundation against cancer. In 2019, Andbank Spain held the second edition of the Charity Paddle Tennis Tournament, with more than 200 participants. It also took part in the "Día Solidario de las Empresas" charity event organised by Atresmedia and the NGO Cooperación Internacional to promote corporate volunteering and shared a day of leisure with the boys and girls of the Madrid Association of Persons with Special Educational Needs on the indoor ski slope in Madrid. More than 1,200 volunteers from 50 companies took part in this 11th edition of the event.

Charity paddle tournament - Barcelona

In the economic sphere, strategy seminars were held in various Spanish cities and Andbank took part in the colloquia organised by various entities in Spain, as well as a day of talks on financial agents, MiFID II and new trends in private banking.

At the community level, Andbank Spain took part in the Charity Triathlon #untriparacris, and the charity dinner to raise funds for the Fero Foundation.

In the field of sport, it took part in the Sport and Health Day organised by the Diari de Girona newspaper; the Madrid Tennis Open; and the Catalonia Historic Rally, a classic car rally organised by the RACC. The revenue from the second edition of the Charity Paddle Tennis Tournament organised by Andbank went to the Montserrat Gabarró Foundation.

Andbank Panama renewed its sponsorship of the Kiwanis club and once again collaborated with the club's charity walk, which in 2019 reached its 35th edition. This event regularly attracts more than 1,000 participants and the money raised goes to help those most in need, mainly children.

Andbank Brazil and the Triar fund management company organised a number of talks, with top-level speakers including Andbank's chief economist Àlex Fusté; Leonardo Hojaij, CEO of Andbank Brazil; and Luciano Dias, Brazil's renowned political scientist. In the field of sport, Andbank Brazil sponsored one of the teams competing in the CODASUR Porsche GT3 Cup Challenge, held in Interlagos, São Paulo. At the community level, it took part in the 58th March and Walk Against Breast Cancer, organised by the Brazilian Cancer Control Institute.

Walk Against Breast Cancer - Brasil

In Uruguay, the second Golf Tournament was held at the La Barra Golf Club in Punta del Este, one of the most modern courses in the country. Nearly 100 guest players took part. The annual client conference in Uruguay was attended by Àlex Fusté and group vice-president Oriol Ribas.

Andbank and the environment

Andbank demonstrates its commitment to the natural environment by implementing various environmental protection measures as part of its business activity, including projects, services and products. The commitment extends to the bank's employees and subsidiaries, as well as partner companies.

As a bank, our activity does not generate any direct material risk for the environment, but we believe that, given our size and influence in society, we must show a commitment to our environment.

The bank has carried out various environmental management initiatives, including both materials and energy management, especially in Andorra.

- Paper consumption;
- Electricity and diesel oil consumption;
- Waste generation.

To reduce this impact and meet targets, several initiatives have been started and their implementation and progress have been monitored:

- Reducing paper use and promoting digital formats (correspondence with customers, advertising, etc.);
- Waste separation (batteries, glass, plastic, cardboard);
- Reducing the amount of printing and printing double-sided and in black and white (printers have been replaced);
- Promoting the use of digital channels and new technologies.

Materials

The main materials consumed in the bank are paper and toner. Following the installation of new printers the previous year, the reduction of toner consumption has continued. The campaign to use lower grammage paper is also continuing.

Materials	2019
Total paper consumed	11t
Paper consumed/employee	34k
Total consumption A4	10.880kg
Total consumption A3	312kg
Total consumption envelopes	700kg

The figures for waste generated, recycled and donated are as follows:

Waste generated	2019
Recyclable materials separated (t/kg)	215 kg
Waste taken to landfill	580 kg

Waste Recycled	
Toner cartridges sent for recycling, with certificate	460 kg
Paper	23.500 kg
Batteries	55 kg
Electrical equipment	120 kg
Plastic caps	100 kg

The energy sources Andbank uses are diesel oil and electricity, which are used both in the corporate headquarters and in the branches in Andorra.

The common areas in the corporate headquarters building and the car park and staircases have a system of motion sensors, which is used to keep lights turned off when nobody is there, so as to save electricity.

Energy	2019
Total electricity consumed	3.504.235 kWh
Electricity consumed/employee	10.985 kWh
Total diesel oil consumed	188.000 m3
Diesel oil consumed/employee	589 m3

Water	2019
Total water consumed	6610 m3
Electricity consumed/employee	20,7 m3

08 / Governance Structure

Governance Structure

Chairmanship

Òscar Ribas Reig
Honorary Chairman

Manel Cerqueda Donadeu
Chairman

Oriol Ribas Duró
Deputy

Board of Directors

Carmen Aquerreta Ferraz
Director

Manel Cerqueda Díez
Director

Javier Gómez Acebo Saenz de Heredia
Director

Jorge Maortua Ruiz-López
Director

Sergi Pallerola Gene
Director

Manel Ros Gener
Director

Xavier Santamaria Mas
Director

Jaume Serra Serra
Director

Josep Vicens Torradas
Director

Pablo García Montañés
Secretary (no Director)

General Management

Ricard Tubau Roca
CEO

Josep Xavier Casanovas Arasa
Deputy Chief Executive Officer

Santiago Mora Torres
Deputy Chief Executive Officer
Investment Area

Josep M. Cabanes Dalmau
Chief Andorran
Business Officer

Pedro Cardona Vilaplana
Chief IT Officer

Jordi Checa Gutés
Chief Resources Officer

Ivan López Llauradó
Chief Compliance Officer

Manuel Ruiz Lafuente
Chief Audit Officer

Jordi Iglesias
Chief Risk Officer

09/ Locations and Addresses

Locations and Adresses

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