



# ANNUAL REPORT 2017



# Andorra Banc Agrícola Reig, S.A. and subsidiaries

Consolidates Annual Accounts

31 December 2017

(With Independent Auditor's Report Thereon)



KPMG, SLU  
Edifici Centre de Nogoci  
C/ Manuel Cerqueda i Escaler, 6  
AD700 Escaldes-Engordany  
Principat d'Andorra

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

To the Shareholders of Andorra Banc Agrícola Reig, SA

### **Opinion**

---

We have audited the consolidated annual accounts of Andorra Banc Agrícola Reig, SA (the "Bank") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2017, 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 2017, and of its 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 we comply with other ethical requirements pursuant to 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.



## **Emphasis of Matter**

---

We draw attention to note 2(b) to the accompanying consolidated annual accounts which indicates that the accompanying consolidated annual accounts for 2017 are the first that the Group prepares under IFRS-Andorra and IFRS-EU. Until now the Group prepared the consolidated annual accounts in accordance with the Accounting Plan for the Andorran Financial System. Consequently, the figures referring to 2016, which are presented in the accompanying consolidated annual accounts for 2017 differ from those included in the consolidated annual accounts for 2016 approved by the shareholders at a general meeting held on 27 April 2017 and which were prepared in accordance with the Accounting Plan for the Andorran Financial System prevailing at that date. Note 41 to the accompanying consolidated annual accounts provides details of the main effects of the differences between both legislation on the consolidated statements of financial position at 1 January and 31 December 2016, on the consolidated equity at 1 January and 31 December 2016 and on the Group's consolidated profit for 2016. Our opinion is not modified in respect of this matter.

## **Directors' Responsibility for the Consolidated Annual Accounts**

---

The 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 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 Group also confirm that the accompanying consolidated annual accounts comply with IFRS-EU.

In preparing the consolidated annual accounts, the 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 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 Directors.
- Conclude on the appropriateness of the 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.

KPM, SLU



Albert Rosés Noguera

31 March 2018

**ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES**

Consolidated annual accounts for the year ended 31 December 2017

# ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

## Index to the Consolidated Financial Statements

### **INDEX FOR THE CONSOLIDATED ANNUAL ACCOUNTS**

#### **CONSOLIDATED FINANCIAL STATEMENTS**

- Consolidated Statements of Financial Position: Assets
- Consolidated Statements of Financial Position: Liabilities
- Consolidated Statements of Financial Position: Equity
- Consolidated Income Statements
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Changes in Equity
- Consolidated Statements of Cash Flows

#### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

- 1** Nature, activities and composition
- 2** Basis of presentation for the consolidated annual accounts
  - a) Compliance with IFRS as adopted by the Andorran Government
  - b) Basis of presentation for the consolidated annual accounts
  - c) Functional and presentation currency
  - d) Relevant accounting estimates and relevant assumptions and judgements when applying accounting policies
  - e) New IFRS pronouncements
- 3** Relevant accounting principles and valuation standards
- 4** Distribution of profit
- 5** Cash, cash balances at central banks and other demand deposits
- 6** Financial assets and financial liabilities held for trading
- 7** Financial assets and financial liabilities at fair value through profit or loss
- 8** Available-for-sale financial assets
- 9** Loans and receivables
- 10** Held-to-maturity investments
- 11** Hedging derivatives and fair value changes of the hedged items in portfolio hedges of interest rate risk
- 12** Investments in subsidiaries, joint ventures and associates
- 13** Tangible assets
- 14** Intangible assets
- 15** Tax assets and liabilities
- 16** Other assets and liabilities
- 17** Non-current assets and disposal groups classified as held for sale
- 18** Financial liabilities at amortised cost

# ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

## Index to the Consolidated Financial Statements

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

- 19** Provisions
- 20** Equity
- 21** Accumulated other comprehensive income
- 22** Off-balance sheet exposures
- 23** Third party transactions
- 24** Interest income and expense
- 25** Dividend income
- 26** Fee and commission income
- 27** Fee and commission expenses
- 28** Gains or losses on financial assets and financial liabilities
- 29** Exchange gains/losses, net
- 30** Other operating income/expenses
- 31** Administrative expenses
- 32** Provisions or reversals of provisions
- 33** Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss
- 34** Impairment or reversal of impairment on non-financial assets
- 35** Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.
- 36** Balances and transactions with related parties
- 37** Taxation
- 38** Risk management
- 39** Fair value of financial assets and financial liabilities
- 40** Events after the reporting period
- 41** First-time adoption of IFRS-EU
- 42** Compliance with legislation

### **APPENDICES**

- Appendix I: Andbank Group companies



ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

Consolidated Statements of Financial Position

(Expressed in thousands of Euros)

**STATEMENT OF FINANCIAL POSITION**

<b>ASSETS</b>	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>01/01/2016</b>
<b>Cash, cash balances at central banks and other demand deposit</b>	<b>1.447.004</b>	<b>1.595.411</b>	<b>936.050</b>
Cash	30.119	53.123	50.844
Cash balances at central banks	929.361	887.800	26.185
Other demand deposits	487.524	654.488	859.021
<b>Financial assets held for trading (note 6)</b>	<b>339.490</b>	<b>426.335</b>	<b>497.390</b>
Derivatives	80.720	46.401	96.516
Equity instruments	9.635	199	-
Debt securities	249.135	379.735	400.874
Loans and advances	-	-	-
<b>Financial assets at fair value through profit or loss (note 7)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Available-for-sale financial assets (note 8)</b>	<b>230.468</b>	<b>318.075</b>	<b>877.301</b>
Equity instruments	27.543	39.626	45.558
Debt securities	202.925	278.449	831.743
Loans and advances	-	-	-
<b>Loans and receivables (note 9)</b>	<b>1.664.601</b>	<b>1.703.068</b>	<b>1.938.075</b>
Debt securities	-	-	-
Loans and advances	1.664.601	1.703.068	1.938.075
<b>Held-to-maturity investments (note 10)</b>	<b>291.569</b>	<b>449.128</b>	<b>370.495</b>
Debt securities	291.569	449.128	370.495
Loans and advances	-	-	-
<b>Derivatives - Hedge accounting (note 11)</b>	<b>90</b>	<b>-</b>	<b>-</b>
<b>Fair value changes of the hedged items in portfolio hedges of interest rate risk (note 11)</b>	<b>4.184</b>	<b>4.546</b>	<b>996</b>
<b>Investments in subsidiaries, joint ventures and associates (note 12)</b>	<b>2.000</b>	<b>-</b>	<b>-</b>
<b>Tangible assets (note 13)</b>	<b>34.788</b>	<b>25.405</b>	<b>23.443</b>
Property, plant and equipment	22.385	25.405	23.443
Investment property	12.403	-	-
<b>Intangible assets (note 14)</b>	<b>251.284</b>	<b>229.838</b>	<b>210.849</b>
Goodwill	157.303	152.918	149.630
Other intangible assets	93.981	76.920	61.219
<b>Tax assets (note 15)</b>	<b>31.600</b>	<b>17.735</b>	<b>27.146</b>
Current tax assets	8.002	6.536	10.138
Deferred tax assets	23.598	11.199	17.008
<b>Other assets (note 16)</b>	<b>79.197</b>	<b>174.925</b>	<b>382.297</b>
<b>Non-current assets and disposal groups classified as held for sale (note 17)</b>	<b>46.965</b>	<b>42.820</b>	<b>42.538</b>
<b>TOTAL ASSETS</b>	<b>4.423.240</b>	<b>4.987.286</b>	<b>5.306.580</b>

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2017.

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

Consolidated Statements of Financial Position

(Expressed in thousands of Euros)

**STATEMENT OF FINANCIAL POSITION**

<b>LIABILITIES</b>	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>01/01/2016</b>
<b>Financial liabilities held for trading (note 6)</b>	<b>58.088</b>	<b>28.187</b>	<b>62.728</b>
Derivatives	58.088	28.187	62.728
Short positions	-	-	-
Deposits	-	-	-
Debt securities issued	-	-	-
Other financial liabilities	-	-	-
<b>Financial liabilities at fair value through profit or loss</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities at amortised cost (note 18)</b>	<b>3.709.259</b>	<b>4.210.464</b>	<b>4.352.621</b>
Deposits	3.245.242	3.998.214	4.128.647
Debt securities issued	460.894	212.250	223.675
Other financial liabilities	3.123	-	299
<b>Derivatives - Hedge accounting (note 11)</b>	<b>3.089</b>	<b>4.454</b>	<b>964</b>
<b>Fair value changes of the hedged items in portfolio hedges of interest rate risk (note 11)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Provisions (note 19)</b>	<b>40.054</b>	<b>94.391</b>	<b>291.901</b>
Pensions and other post-employment defined benefit obligations	7.331	7.081	7.417
Other long-term employee benefits	-	-	-
Restructuring	-	-	-
Legal issues and litigation for outstanding taxes	3.283	-	4.112
Commitments and guarantees given	1.099	761	1.461
Other provisions	28.341	86.549	278.911
<b>Tax liabilities (note 15)</b>	<b>25.027</b>	<b>16.385</b>	<b>35.383</b>
Current tax liabilities	15.097	4.020	10.949
Deferred tax liabilities	9.930	12.365	24.434
<b>Share capital repayable on demand</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other liabilities (note 16)</b>	<b>80.283</b>	<b>155.007</b>	<b>109.094</b>
<b>Liabilities included in disposal groups classified as held for sale</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>3.915.800</b>	<b>4.508.888</b>	<b>4.852.691</b>

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2017.

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

Consolidated Statements of Financial Position

(Expressed in thousands of Euros)

**STATEMENT OF FINANCIAL POSITION**

<b>EQUITY</b>	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>01/01/2016</b>
<b>Capital (note 20)</b>	<b>78.842</b>	<b>78.842</b>	<b>78.842</b>
Paid up capital	78.842	78.842	78.842
Unpaid and called up capital	-	-	-
<b>Share premium (note 20)</b>	<b>73.441</b>	<b>73.441</b>	<b>73.441</b>
<b>Equity instruments issued other than capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other equity items</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Accumulated other comprehensive income (note 21)</b>	<b>(1.810)</b>	<b>695</b>	<b>-</b>
<i>Items that will not be classified to profit or loss</i>	-	-	-
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	-	-	-
<i>Items that may be reclassified to profit or loss</i>	(1.810)	695	-
Hedge of net investments in foreign operations (effective portion)	-	-	-
Foreign currency translation	-	-	-
Hedging derivatives Cash flow hedges (effective portion)	-	-	-
Available-for-sale financial assets	(1.810)	695	-
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	-	-	-
<b>Retained earnings (note 20)</b>	<b>375.208</b>	<b>341.595</b>	<b>326.613</b>
<b>Revaluation reserves (note 20)</b>	<b>1.942</b>	<b>1.942</b>	<b>1.942</b>
<b>Valuation adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other reserves (note 20)</b>	<b>(58.338)</b>	<b>(63.018)</b>	<b>(80.420)</b>
Reserves or accumulated losses on investments in subsidiaries, joint ventures and associates	37.755	30.946	(80.420)
Other	(96.093)	(93.964)	-
<b>(-) Own shares</b>	<b>(1.605)</b>	<b>(1.605)</b>	<b>(1.262)</b>
<b>Profit/(loss) attributable to owners of the Parent</b>	<b>39.153</b>	<b>44.642</b>	<b>54.048</b>
<b>(-) Interim dividend</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Minority interests (non-controlling interests)</b>	<b>607</b>	<b>1.864</b>	<b>685</b>
Accumulated other comprehensive income	607	1.864	685
Other items	-	-	-
<b>TOTAL EQUITY</b>	<b>507.440</b>	<b>478.398</b>	<b>453.889</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4.423.240</b>	<b>4.987.286</b>	<b>5.306.580</b>

\*For comparative purposes it is presented in "Profit/loss attributable to owners of the Parent", as it forms part of reserves under equity.

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2017.

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

Consolidated Income Statements

(Expressed in thousands of Euros)

<u>INCOME STATEMENT</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
Interest income (note 24)	<u>52.373</u>	<u>74.697</u>
(Interest expenses) (note 24)	<u>(23.344)</u>	<u>(36.793)</u>
(Expenses for share capital repayable on demand)	-	-
Dividend income (note 25)	<u>272</u>	<u>195</u>
Financial assets held for trading	-	-
Financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	272	195
Fee and commission income (note 26)	<u>187.114</u>	<u>189.583</u>
(Fee and commission expenses) (note 27)	<u>(40.147)</u>	<u>(42.227)</u>
Gains or losses on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss, net (note 28)	<u>3.539</u>	<u>1.930</u>
Available-for-sale financial assets	3.539	1.930
Gains or losses on financial assets and financial liabilities held for trading, net (note 28)	<u>27.467</u>	<u>54.060</u>
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-
Gains or losses from hedge accounting, net (note 28)	<u>49</u>	<u>408</u>
Exchange differences, net (note 29)	<u>12.303</u>	<u>10.546</u>
Gains or losses on derecognition in non-financial asset accounts, net	<u>2</u>	-
Other operating income (note 30)	<u>7.781</u>	<u>6.371</u>
(Other operating expenses) (note 30)	<u>(7.824)</u>	<u>(10.401)</u>
<b>TOTAL OPERATING INCOME/EXPENSES, NET</b>	<b><u>219.585</u></b>	<b><u>248.369</u></b>
(Administrative expenses) (note 31)	<u>(165.034)</u>	<u>(171.963)</u>
(Personnel expenses)	(104.449)	(107.001)
(Other administrative expenses)	(60.585)	(64.962)
(Amortisation and depreciation)	<u>(13.440)</u>	<u>(13.578)</u>
(Tangible assets)	(4.023)	(4.773)
(Investment property)	-	-
(Other intangible assets)	(9.417)	(8.805)
(Provisions or reversals of provisions) (note 32)	<u>(5.975)</u>	<u>(142)</u>
(Commitments and guarantees given)	-	-
(Other provisions)	(5.975)	(142)
(Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss) (note 33)	<u>5.714</u>	<u>(4.326)</u>
(Financial assets at cost)	-	-
(Available-for-sale financial assets)	-	-
(Loans and receivables)	5.714	(4.326)
(Held-to-maturity investments)	-	-
(Impairment or reversal of impairment on investments in subsidiaries, joint ventures and associates)	<u>(771)</u>	<u>(11)</u>
(Impairment or reversal of impairment on non-financial assets) (note 34)	<u>15</u>	-
(Others)	15	-
Negative goodwill recognised in profit or loss	-	-
Share of gains or losses on investments in subsidiaries, joint ventures and associates	-	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (note 35)	<u>3.036</u>	<u>(8.110)</u>
<b>PRE-TAX GAINS OR LOSSES ON CONTINUING OPERATIONS</b>	<b><u>43.130</u></b>	<b><u>50.239</u></b>
(Income tax expenses or income on continuing operations)	(4.331)	(6.051)
<b>POST-TAX GAINS OR LOSSES ON CONTINUING OPERATIONS</b>	<b><u>38.799</u></b>	<b><u>44.188</u></b>
Post-tax gains or losses on discontinued operations	-	-
<b>GAINS OR LOSSES FOR THE YEAR</b>	<b><u>38.799</u></b>	<b><u>44.188</u></b>
Attributable to minority interests (non-controlling interests)	354	454
Attributable to owners of the Parent	<u>39.153</u>	<u>44.642</u>

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2017.

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Expressed in thousands of Euros)

<u>STATEMENT OF COMPREHENSIVE INCOME</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>Gains or losses for the year</b>	39.153	44.642
<b>Other comprehensive income</b>	(1.810)	695
<b>Items that will not be classified to profit or loss</b>	-	-
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	-	-
Income tax relating to items that will not be reclassified	-	-
<b>Items that may be reclassified to profit or loss</b>	(2.011)	772
Hedge of net investments in foreign operations (effective portion)	-	-
Valuation gains or losses recognised in equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Gains or losses on exchange of currencies recognised in equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Hedging derivatives Cash flow hedges (effective portion)	-	-
Valuation gains or losses recognised in equity	-	-
Transferred to profit or loss	-	-
Transferred to the initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Available-for-sale financial assets	(2.011)	772
Valuation gains or losses recognised in equity	(2.011)	772
Transferred to profit or loss	-	-
Other reclassifications	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Valuation gains or losses recognised in equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
<b>Income tax relating to items that can be reclassified to profit or loss</b>	<b>201</b>	<b>(77)</b>
<b>Total comprehensive income for the year</b>	<b>37.343</b>	<b>45.337</b>
Attributable to minority interests (non-controlling interests)	-	-
Attributable to owners of the Parent	37.343	45.337

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2017.

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

(Expressed in thousands of Euros)

	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Accumulated other comprehensive income	Accumulated gains	Revaluation reserves	Other reserves	(-) Own shares	Profit/(loss) attributable to owners of the Parent	(-) Interim dividend	Minority interests		Total
												Accumulated other comprehensive	Other items	
<b>Balance at 31 December 2016</b>	<b>78.842</b>	<b>73.441</b>	-	-	<b>695</b>	<b>341.595</b>	<b>1.942</b>	<b>(63.018)</b>	<b>(1.605)</b>	<b>44.642</b>	-	<b>1.864</b>	-	<b>478.398</b>
Effect of correction of misstatements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance at 1 January 2017</b>	<b>78.842</b>	<b>73.441</b>	-	-	<b>695</b>	<b>341.595</b>	<b>1.942</b>	<b>(63.018)</b>	<b>(1.605)</b>	<b>44.642</b>	-	<b>1.864</b>	-	<b>478.398</b>
Issuances of common shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuances of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Conversion of debt to equity</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	(5.000)	-	-	-	(5.000)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	(695)	33.613	-	6.724	-	(39.642)	-	-	-	-
Increase or decrease in equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or decreases in equity	-	-	-	-	-	-	-	(2.044)	-	-	-	(1.257)	-	(3.301)
Total comprehensive income for the year	-	-	-	-	(1.810)	-	-	-	-	39.153	-	-	-	37.343
<b>Balance at 31 December 2017</b>	<b>78.842</b>	<b>73.441</b>	-	-	<b>(1.810)</b>	<b>375.208</b>	<b>1.942</b>	<b>(58.338)</b>	<b>(1.605)</b>	<b>39.153</b>	-	<b>607</b>	-	<b>507.440</b>

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2017.



ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

(Expressed in thousands of Euros)

	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Accumulated other comprehensive income	Accumulated gains	Revaluation reserves	Other reserves	(-) Own shares	Profit/(loss) attributable to owners of the Parent	(-) Interim dividend	Minority interests		Total
												Accumulated other comprehensive income	Other items	
<b>Balance at 31 December 2015</b>	<b>78.842</b>	<b>73.441</b>	-	-	-	<b>343.467</b>	<b>1.942</b>	<b>(80.421)</b>	-	<b>54.048</b>	-	-	-	<b>471.319</b>
Effect of correction of misstatements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	(16.855)	-	-	(1.262)	-	-	685	-	(17.432)
<b>Balance at 1 January 2016</b>	<b>78.842</b>	<b>73.441</b>	-	-	-	<b>326.612</b>	<b>1.942</b>	<b>(80.421)</b>	<b>(1.262)</b>	<b>54.048</b>	-	<b>685</b>	-	<b>453.887</b>
Issue of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Conversion of debt to equity</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	(22.117)	-	-	-	(22.117)
Purchase of own shares	-	-	-	-	-	-	-	-	(343)	-	-	-	-	(343)
Sale or cancellation of own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	-	24.410	-	7.521	-	(31.931)	-	-	-	-
Increase or decrease in equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or decreases in equity	-	-	-	-	-	(9.427)	-	9.882	-	-	-	1.179	-	1.634
Total comprehensive income for the year	-	-	-	-	695	-	-	-	-	44.642	-	-	-	45.337
<b>Balance at 31 December 2016</b>	<b>78.842</b>	<b>73.441</b>	-	-	<b>695</b>	<b>341.595</b>	<b>1.942</b>	<b>(63.018)</b>	<b>(1.605)</b>	<b>44.642</b>	-	<b>1.864</b>	-	<b>478.398</b>

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2017.

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Expressed in thousands of Euros)

<b>STATEMENT OF CASH FLOWS</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(528.250)</b>	<b>799.331</b>
<b>Profit for the year</b>	<b>39.152</b>	<b>44.642</b>
<b>Adjustments to obtain cash flows from operating activities</b>	<b>11.436</b>	<b>25.883</b>
Depreciation and amortisation	13.440	13.578
Other adjustments	(2.004)	12.305
<b>Net increase/(decrease) in operating assets</b>	<b>230.956</b>	<b>857.407</b>
Financial assets held for trading	90.709	71.056
Financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	85.596	561.827
Loans and receivables	20.188	213.065
Other operating assets	34.463	11.459
<b>Net increase/decrease in operating liabilities</b>	<b>(804.773)</b>	<b>(114.832)</b>
Financial liabilities held for trading	25.946	(34.541)
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(749.850)	(130.432)
Other operating liabilities	(80.869)	50.141
<b>Income tax receivable/payable</b>	<b>(5.021)</b>	<b>(13.769)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>136.200</b>	<b>(105.786)</b>
<b>Investment</b>	<b>(33.699)</b>	<b>(115.217)</b>
Tangible assets	(2.837)	(6.735)
Intangible assets	(26.478)	(27.794)
Investments in joint ventures and associates	(4.384)	-
Subsidiaries and other business units	-	(1.847)
Non-current assets and liabilities classified as held for sale	-	(208)
Held-to-maturity investments	-	(78.633)
Other payments related to investing activities	-	-
<b>Divestments</b>	<b>169.899</b>	<b>9.431</b>
Tangible assets	1.019	208
Intangible assets	-	-
Investments in joint ventures and associates	-	-
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	11.320	9.223
Held-to-maturity investments	157.560	-
Other amounts received related to investing activities	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>243.644</b>	<b>(34.184)</b>
<b>Investment</b>	<b>(5.000)</b>	<b>(34.184)</b>
Dividends	(5.000)	(22.117)
Debt securities	-	(11.724)
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	(343)
Other payments relating to financing activities	-	-
<b>Divestments</b>	<b>248.644</b>	<b>-</b>
Debt securities	248.644	-
Issue of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other amounts received relating to financing activities	-	-
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)</b>	<b>(148.406)</b>	<b>659.361</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>1.595.411</b>	<b>936.050</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>1.447.004</b>	<b>1.595.411</b>

The accompanying notes form an integral part of the consolidated financial statements for the year ended 31 December 2017.

# ANDORRA BANC AGRÍCOL REIG, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

31 December 2017

## Notes to the Consolidated Annual Accounts

### (1) Nature, Activity and Composition of the Group

Andorra Banc Agrícola 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.

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.

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

Andbank is the Parent of the Andorra Banc Agrícola 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 INAF, 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 42).

### (2) Basis of presentation of the consolidated annual accounts

#### a) Compliance with IFRS as adopted by the Andorran Government

The annual accounts for 2017 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 Agrícola Reig, S.A. and subsidiaries at 31 December 2017 in accordance with the aforementioned framework.

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

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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")

The consolidated annual accounts for 2017 are the first prepared under IFRS-Andorra and IFRS-EU and, consequently IFRS 1 First-time adoption of International Financial Reporting Standards has been applied.

The consolidated annual accounts of the Andbank Group were previously prepared in accordance with the templates included in the Accounting Plan for the Andorran Financial System (hereinafter "APAFS"), approved by the Andorran Government on 19 January 2000. This legislation differs from IFRS-Andorra and IFRS-EU. For the purpose of compliance with IFRS-Andorra and IFRS-EU, the directors have modified various methods of accounting, measurement and consolidation previously applied in accordance with the APAFS.

Note 41 contains a reconciliation and description of the effect of the transition from the previous Andorran legislation to IFRS-Andorra and IFRS-EU.

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 Agrícola Reig, SA and the entities included in the Andbank Group, on a going concern basis.

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 2017 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.

At 31 December 2017 the 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 relating to 2016 which is included in these notes is solely and exclusively presented for comparative purposes with the information for 2017 and therefore, they do not constitute consolidated annual accounts of the Andbank Group for 2017. To facilitate comparison, the financial statements and information for 2016 have been re-prepared in accordance with the new accounting criteria and presentation standards under IFRS-Andorra and IFRS-EU.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

The consolidated annual accounts for 2016, prepared in accordance with the Accounting Plan for the Andorran Financial System were approved by the shareholders at a general meeting held on 27 April 2017. The 2017 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) 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.

d) 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 greater 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(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:

— Determination of control over investees.

e) Recent IFRS pronouncements

At the date these consolidated 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:

<b>Standards and interpretations approved for their adoption in the European Union and pending approval for adoption in Andorra.</b>	<b>Mandatory adoption - years beginning on or after:</b>	
IFRS 9 Financial instruments	<p><b>Replaces</b> the classification, measurement, recognition and derecognition requirements for financial asset and financial liability accounts and derecognition requirements for accounts of IAS 39 Financial instruments*.</p>	1 January 2018
IFRS 15 Revenue from contracts with customers.	<p><b>New standard for revenue recognition which substitutes the following standards*:</b></p> <ul style="list-style-type: none"> <li>- IAS 11 Construction contracts.</li> <li>- IAS 18 Revenue.</li> <li>- IFRIC 13 Customer loyalty programmes.</li> <li>- IFRIC 15 Agreements for the construction of real estate.</li> <li>- IFRIC 18 Transfers of assets from customers.</li> <li>- SIC 31 Barter transactions involving advertising services</li> </ul>	1 January 2018
IFRS 16 Leases	<p><b>New standard on leases</b> which replaces IAS 17 Leases: This standard introduces a single accounting model for lessees*.</p>	1 January 2019
Amendment of IFRS 4 Insurance contracts	<p><b>Adoption of IFRS 9 Financial instruments with IFRS 4 Insurance contracts*:</b></p> <p>This amendment has been issued to cover the concerns arising from the different</p>	1 January 2018



## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

dates in force between IFRS 9 and the new standard on insurance contracts.

Amendments to IFRS 2 Share-based payment	<b>Sets out</b> requirements in relation to the classification and measurement of share-based payment transactions*	1 January 2018
--	---	----------------

\* Adoption in advance is permitted with prior authorisation of the INAF. On 21 March 2018 the Bank received authorisation from the INAF to adopt, in advance, IFRS 9 and IFRS 15 for 2018.

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 consolidated 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:

<b>Standards and interpretations pending approval for their adoption in the European Union and Andorra.</b>		<b>Mandatory adoption - years beginning on or after:</b>
Amendment of IFRS 10 Consolidated financial statements IAS 28 Investments in associates and joint ventures	<b>Sale or contribution of assets between an investor and its associate or joint venture:</b> 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.	1 January 2019
Improvements to the IFRS 2014-2016 cycle	<b>These introduce minor amendments to the following standards:</b> - IFRS 1 Adoption of International Financial Reporting Standards - IAS 28 Investments in Associates and Joint Ventures.	1 January 2018
IFRIC 22 Foreign currency transactions and advance consideration	<b>The interpretation provides guidance clarifying the exchange rate to be used in transactions</b> which involve an advance consideration in foreign currency.	1 January 2018
IFRS 17 Insurance contracts	<b>This sets out the principles that an entity must apply to account for insurance contracts:</b> 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

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

IFRIC 23 Uncertainty over income tax treatments	<b>Uncertainty over income tax treatments:</b>  This clarifies how to apply the recognition and measurement requirements of IAS 12 when uncertainty over income tax treatment exists.	1 January 2019
<b>Standards and interpretations pending approval for their adoption in the European Union and Andorra.</b>		<b>Mandatory adoption - years beginning on or after:</b>
Amendment of IAS 40 Investment property	The amendment clarifies the principles to make transfers to, or from, investment property, when there is an evident change in use.	1 January 2018
Amendments to IFRS 9  Financial instruments	<b>Prepayment features with negative compensation:</b>  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
Improvements to the IFRS 2015-2017 cycle	<b>These introduce amendments to the following standards:</b> - IFRS 3 Business combinations - IFRS 11 Joint arrangements. - IAS 12 Income taxes - IAS 23 Borrowing costs	1 January 2019

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

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(3) Relevant accounting principles and valuation standards**a) Business combinations and consolidation principles

The consolidated financial statements of the Andbank Group at 31 December 2017 and 2016 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.

**Subsidiaries**

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

- It has power over the investee
- It is exposed, or has 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 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 balance sheet 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.

**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.

**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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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.

**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 2017 and 2016 is as follows:

LLA Participações Ltda is the holding company of a group of Brazilian portfolio and collective investment undertaking management companies. The Andbank Group acquired 51.63% of the holding company's shares on 25 October 2011. During 2015 the Andbank Group acquired an additional 26.31% of the capital in this company. During 2017 the remaining 22.06% was purchased, with the Bank owning 100% of the shares. The transaction was also authorised by the INAF on 27 July 2017.

On 21 January 2014 the Bank requested prior authorisation from the INAF to acquire up to 100% of the shares of Banco Bracce, SA. which subsequently changed its name to Banco Andbank (Brasil), S.A. On 17 December 2014 the Central Bank of Brazil (Bacen) authorised this acquisition, in conjunction with a series of share capital increases for Euros 33 million between 2016 and 2017.

In addition, the Bank has incorporated a non-financial company called Andbank (Brasil) Holding Financeira Ltda, which will hold 100% of Banco Andbank Brasil, S.A.'s shares. The Bank holds 99.99% of its shares. During 2017 capital was increased by Brazilian Real 13.5 million.

APW Consultores Financeiros, Ltda is a company wholly owned by Andorra Banc Agrícola Reig, SA. During 2017 the Bank converted a Brazilian Real 40 million loan into capital, Brazilian Real 36.3 million of which were used to offset prior years' losses. The transaction was authorised by the INAF on 17 July 2017.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

On 19 November 2015, a contract was signed for the purchase of the shares representing 99.99% of the share capital of LLA Holding Financeira Ltda, by the subsidiary Banco Andbank (Brasil), S.A., which now directly controls LLA Holding Financeira Ltda and indirectly controls LLA Distribuidora de Títulos e Valores Mobiliarios Ltda. On 30 March 2016 the Central Bank of Brazil ("Bacen") issued a letter approving the change of control in LLA Holding Financeira Ltda. The transaction was also authorised by the INAF on 27 May 2016.

On 18 November 2014 a contract was signed for the sale and purchase of 60% of the Israeli company Sigma Investment House, Ltd (hereinafter Sigma) through the subscription of 100% of newly created shares.

Subsequently, authorisations were received from the Israeli supervisors, the Israel Securities Authority and the Commissioner of the Insurance on 11 June 2015 and 30 June 2015, respectively. Subsequently, the Board of Directors of the INAF authorised this transaction at its meeting held on 8 October 2015. On 24 November 2014, the aforementioned sale and purchase transaction was closed, with the final phase of formally registering the transaction in the corresponding Israeli mercantile registry being completed during the first fortnight of February 2016.

Sigma is the head of four companies carrying out different activities in Israel. It is the 100% shareholder of Sigma Mutual Funds Ltd, Sigma Portfolio Management Ltd and Sigma Premium Ltd and a 70% shareholder of Sigma Financial Planning Pension Agency (2011) Ltd.

On 12 June 2015 the subsidiary AndPrivateWealth Securities, S.A. was incorporated and is wholly owned by the subsidiary Andbank (Panamá), S.A. This company applied for a securities company license from the Superintendency of the Securities Market of Panama and the Superintendency of Banks of Panama. However, on 5 January 2017 it informed the supervisor of its intention to withdraw the licence which had been granted in May 2016. At no moment in time did the company start operations as a securities company.

On 6 July 2017 the board of directors of the INAF agreed to authorise the acquisition of the newco AB Covered Bonds DAC in Ireland, wholly-owned by the Bank. This company was created for the purpose of purchasing a mortgage loan portfolio from Andbank (mortgage loans extended by the Bank to customers), in order to carry out an issue through the EMTN issue programme which would be secured by the aforementioned portfolio.

On 27 May 2016 the INAF agreed to authorise the acquisition of the newco AB Financial Products DAC in Ireland, wholly-owned by the Bank. This company was created to set up programmes to issue equity linked notes and other products.

On 23 November 2017 the board of directors of the INAF agreed to authorise the incorporation of the Andorran mercantile company AB Systems, SAU, the statutory activity of which is to render IT, technology and asset management services using IT programs and equipment. On 1 December 2017 the Bank granted the incorporation deed for the aforementioned company.



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

b) Financial instruments**Classification of financial assets and financial liabilities**

Financial assets are recognised in the consolidated financial statement of position in the different categories for the purpose of their management and measurement: Financial assets held for trading, Financial assets at fair value through profit or loss, Available-for-sale financial assets, Loans and receivables and Investments held to maturity, except where they have to be presented as Non-current assets for sale or correspond to Cash and cash balances at central banks or Hedging derivatives, which are presented individually.

Likewise, financial liabilities are classified in the following categories: Financial liabilities held for trading, Financial liabilities at fair value through profit or loss and Financial liabilities at amortised cost, except where they have to be presented as Liabilities associated with non-current assets held for sale or correspond to Adjustments to financial liabilities due to macro hedging or Hedging derivatives which are presented independently.

- Financial assets and financial liabilities held for trading: this is mainly formed of financial assets/liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term or which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Short positions of securities as a result of the sale of assets sold under non-optional repurchase agreements or securities loaned are also considered as held to maturity portfolios. Lastly, asset and liability derivatives which do not meet the definition of a financial guarantee contract or do not qualify as hedging instruments are also considered as part of the trading portfolio.
- Financial assets and financial liabilities at fair value through profit or loss: include those financial instruments designated by the Andbank Group 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 for 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 financial 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.
- Available-for-sale financial assets: these comprise debt and capital instruments which have not been classified in other categories.
- Loans and receivables: this includes financing granted to third parties in connection with the ordinary lending activities carried out by the Andbank Group, and receivables from purchasers of goods and users of services. They also include unquoted debt securities or debt securities which are traded on markets which are not sufficiently active.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

- Held-to-maturity investments: these contain the debt securities traded in an active market with fixed maturity and cash flows for a determined or determinable amount, and for which there exists the intention and proven capacity for these items to be held in portfolio until maturity date.
- Financial liabilities at amortised cost: these include financial liabilities which have not been classified as trading portfolio or as other financial liabilities at fair value through profit or loss. The balances recognised in this category correspond to the normal activities of obtaining funds carried out by credit institutions, irrespective of the type of operation or its maturity.

When measuring financial assets or financial liabilities it will always be considered whether they are held for trading or whether they are obligatorily 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.

**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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the Andbank Group, the majority of the financial instruments recognised as available-for-sale financial assets 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.

**Measurement of financial instruments and recognition of variations arising in subsequent measurement.**

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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 income statement of the year when the right to receive them arises.

Changes in valuations arising after initial recognition due to causes other than those mentioned in the paragraph above, are treated based on the type of financial asset and financial liability, as follows:

- Financial assets and financial liabilities held for trading, Other financial assets at fair value through profit or loss and Other financial liabilities at fair value through profit or loss are initially measured at fair value and subsequently, any changes are recognised as a balancing entry under Gains/losses from financial operations (net) in the income statement.
- Financial instruments included in Available-for-sale financial assets are initially measured at fair value and, subsequently, the variations arising, net of their tax impact, are recognised as a balancing entry under Equity. Valuation adjustments - Available-for-sale financial assets and Equity. Valuation adjustments - Exchange gains/losses in the consolidated statement of financial position.
- Derivatives are recognised at fair value in the consolidated statement of financial position. Upon being contracted, and except to the contrary, the transaction price is the fair value and is recognised as an asset if positive and a liability if negative. In the event that, at the contracting date, the price differs from the fair value, the difference is recognised immediately in the income statement for derivatives classified in levels 1 and 2 of the fair value hierarchy (see Fair value of financial instruments section).
- Subsequent changes in the fair value of derivatives are recognised in the income statement under Gains/losses from financial operations (net), except if they are cash flow hedging derivatives, which are recognised in Equity. Valuation adjustments - Cash flow hedges in equity.

Derivatives embedded in other financial instruments or contracts are disclosed separately when their risks and characteristics are not closely related to those of the host instrument or contract, provided it is possible to assign a reliable, independent fair value to the embedded derivative.

- Financial instruments included under Loans and receivables, Investments held to maturity and Financial liabilities at amortised cost are measured at amortised cost. Amortised cost is the adjusted acquisition cost, plus or minus the value where applicable, of principal repayments and the part taken to profit and loss using the effective interest method, of any difference between that initial amount and the value of the reimbursement upon maturity. In addition, amortised cost is reduced by the amount of the valuation adjustments as a result of asset impairment.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

The effective interest rate is the rate that exactly discounts the initial amount of a financial instrument to its estimated cash flows of all kinds until maturity or cancellation. For fixed interest rate financial instruments the effective interest rate coincides with the contractual interest rate plus, where applicable, the fees and commissions and transaction costs which form part of the financial return. In order to calculate the effective interest rate of variable rate financial instruments the variable interest rate is taken as fixed until the next benchmark interest rate review.

**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 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.

**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. Because this is the first year in which the fair value calculation methodology is applied, there have been no transfers between levels. With regard to subsequent years, the criteria applied to revalue the portfolio shall be 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.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 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).

#### c) Hedge accounting

The Andbank Group uses financial derivatives as a tool to hedge financial risks. When these transactions meet certain requirements, they are considered as hedging transactions.

When the Andbank Group designates a transaction as a hedging transaction, it does so from the date of inception of the transactions or instruments included in the hedge, and documents the hedging transaction, in accordance with current regulatory requirements. The hedge accounting documentation includes a clear identification of the hedged item(s) and the hedging instrument(s), the nature of the risk being hedged and the criteria or methods used to assess the effectiveness of the hedge over its duration, taking into account the risk to be hedged. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

The Andbank Group only applies hedge accounting for hedges that are considered highly effective. A hedge is regarded as highly effective if, during its expected life, the changes in the fair value or cash flows of the hedged item that are attributable to the risk being hedged in the operation are almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To measure the effectiveness of hedges defined as such, the Andbank Group analyses whether, from the inception to the end of the term defined for the hedge, it can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost completely offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s) and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item.

In accordance with IAS 39 the valuation methods used to estimate the fair value of the hedged and hedging instruments are in line with best market practices and both the retrospective and prospective effectiveness measurements meet the regulatory requirements:

- Effectiveness of the hedge is within a range of 80%-125%.

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

$$80\% \quad \frac{(\text{PV variation} + \text{Realised for month}) \text{ of the hedging items}}{(\text{PV variation} + \text{Realised for month}) \text{ of the hedged items}} \leq 125\%$$

PV: Present value or fair value, is the present valuation of future cash flows of the transaction.  
Realised: flows already settled from the transaction.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- The evaluation is carried out at least every time the Bank prepares its financial statements using retrospective methods and every day using prospective methods.
- VaR and sensitivity methods verify the high statistical matching between the variations in fair value of the hedged item and the item to be hedged which arise from the hedged risk (mainly interest rate risk).
- VaR and sensitivity measurements take into consideration the time value of money (sensitivities based on cash flow discounting and therefore, on present values).
- The prospective method verifies that the sensitivity ratio of the item to be hedged and the sensitivity of the hedging instruments falls within a range of 80%-125%.
- The hedging transactions performed by the Andbank Group are classified into two categories:
  - Fair value hedges that hedge the exposure to changes in fair value of financial assets or liabilities or unrecognised firm commitments, or an identified portion of such assets, liabilities or firm commitments, that is attributable to a particular risk, provided that it affects profit or loss.
  - Cash flow hedges that hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a financial asset or financial liability or a highly probable forecast transaction, provided that it affects profit or loss.

In fair value hedges, the gain or loss on the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised in profit or loss. In fair value macro hedges, differences in the valuation of hedged items, attributable to interest rate risk are directly recognised in the income statement, but instead of recognising the balancing entry in line items where hedged items are recorded, it is recognised under Adjustments to financial assets for macro hedging or Adjustments to financial liabilities due to macro hedging, based on the nature of the hedged item. In the event that the derivative is not to be commercialised, nor does it serve to hedge any risk, any loss or gain will be recognised directly in the income statement.

In cash flow hedges the effective portion of the variation in the value of the hedging instrument is recognised temporarily under Valuation adjustments - Cash flow hedges in equity until the hedging transactions take place. As of this moment, the amounts previously recognised in equity are taken to the income statement symmetrically to the hedged cash flows. The hedged items are recognised in accordance with criteria set out in IAS 39, paragraph 95, without any modification because they are considered as hedged items.

When hedging derivatives cease to meet the requirements to be considered as such, they are reclassified as trading derivatives. In the case of fair value hedges the previously recognised adjustments to the hedged item are recognised in the income statement using the effective interest rate method resulting at the date of discontinuance. In the case of cash flow hedges the accumulated amount of the hedging instrument recognised in equity is maintained until the hedging transaction takes place, when it is recognised in the income statement, unless it is expected that the transaction will not take place and therefore it is recognised immediately.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

On the whole, the Andbank Group individually hedges the market risk associated with derivatives contracted with customers using symmetrical derivatives in the market and it recognises both in the trading portfolio. As a result, the position risk or market risk generated by this transaction is immaterial.

**d) Offsetting of 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 2017 there are no offset financial asset and financial liability positions.

**e) Derecognition of financial instruments**

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.



## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 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.

#### f) 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 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 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 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.

g) Impairment of financial assets.

A financial asset is considered to be impaired when there is objective evidence of a negative impact on the future cash flows that were estimated at the transaction date, or when the carrying amount is not fully recoverable. A reduction of the fair value to below acquisition cost does not of itself constitute evidence of impairment.

As a general rule, the carrying amount of impaired financial instruments is recognised under Impairment losses on financial assets (net) on the income statement for the period in which impairment has occurred, and the reversal, if any, of previously recognised impairment losses is recognised in the same line item of the income statement for the period in which the impairment is eliminated or reduced.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### Debt instruments carried at amortised cost

Based on the loan loss risk attributable to the customer or to the transaction, these are classified in one of the following categories:

- *Standard exposures*: these include instruments which fail to meet the requirements to be classified in other categories.
- *Doubtful exposures*:
  - *As a result of borrower arrears*: includes the total amount of debt instruments, whosoever the borrower and whatever the guarantee or collateral, in any part of whose principal, interest or contractually agreed expenses is more than 90 days past due, unless such instruments should be classified as being written off.

The refinancing or restructuring of transactions that have amounts past due does not interrupt arrears, nor are they reclassified as standard exposures unless there is reasonable certainty that the customer is able to make payment in the timeframe foreseen or can provide new effective guarantees.

Effective guarantees are considered to be pledge guarantees over monetary deposits, quoted equity instruments and debt securities issued by creditworthy issuers; mortgage guarantees on finished housing, offices and multi-purpose buildings and rural property, deducting, where applicable prior charges; and personal guarantees such as guarantees, collateral or the incorporation of new holders, which implies the direct and joint responsibility to the Andbank Group falls on new guarantors, which are individuals or entities whose solvency is sufficiently verified to ensure the full reimbursement of the transaction under the established terms.

- *For reasons other than arrears*: includes debt instruments, whether past due or not, which are not classifiable as write-off or doubtful due to borrower arrears, but for which there are reasonable doubts about their full repayment under the contractual terms.

As a general rule, only legally claimable expenses such as notary and court procedural representative expenses are capitalised and therefore increase the amount of the debt.

- *Write-off*: this category includes debt instruments, whether due or not, for which the Andbank Group, after analysing them individually, considers the possibility of recovery to be remote and they are derecognised without prejudice to any actions that may be taken by the Andbank Group to collect the amount until the rights extinguish in full either by becoming time-barred, through debt forgiveness, or for other reasons.

Except with evidence to the contrary, this category includes all debits, except for amounts covered with sufficient efficient guarantees, when the borrowers undergo evident and irrecoverable impairment of their solvency, when the phase involving liquidation of the creditors' agreement has been declared or when more than four years have elapsed since their classification as doubtful as a result of borrower arrears.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the purpose of determining whether a financial asset or a group of financial assets has undergone impairment it is analysed at the end of each period whether there is objective evidence thereof. The main events which could be indicative of the existence of impairment are:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as default or late payment of interest or principal;
- concessions or advantages granted to the borrower for economic or legal reasons relating to the financial difficulty that the lender would not otherwise consider;
- it is probably that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- there is observable data which indicates that there exists a detrimental impact on the estimated future cash flows of a group of financial assets since initial recognition. However, the decrease cannot be identified using individual financial assets of the group, with this data including:
  - adverse changes in the payment status of borrowers of the group of assets.
  - local or national economic conditions that are linked to defaults in assets of the group.

In order to determine impairment losses the loan portfolio is segmented based on internal credit risk management models, grouping financial assets based on similar credit risk characteristics of the debtors which are indicative of their capacity to pay the full amounts due. The analysis is carried out:

- Individually: impairment losses of all the transactions of a significant amount of assets classified as doubtful as a result of borrower arrears are estimated individually taking into consideration the age of the default amounts, the guarantees provided and the economic situation of the customer and guarantors. The limit for the analysis of transactions has been set at those transactions of the Andbank Group amounting to more than Euros 1 million.
- Collectively: the calculation of impairment losses for the remaining transactions classified as doubtful as a result of borrower arrears is carried out collectively, grouping together those instruments which have similar credit risk characteristics and which are indicative of the debtors' capacity to repay the owed amounts, principal and interest, in accordance with the contractual terms. The credit risk characteristics taken into account to group the assets are, inter alia: the type of instrument, sector of activity of the debtor, geographical area of the activity, type of guarantee, ageing of past-due amounts and any other relevant factor to estimate future cash flows.

On the basis of the information provided by its internal management models, Andbank has a methodology for calculating uncorrected losses based on the result of three factors: exposure at impairment (EAI), probability of impairment (PI) and loss given impairment (LGI).

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

As a general rule, the amount of an impairment loss incurred on these instruments is equal to the positive difference between their respective carrying amounts and the present values of their estimated future cash flows for the recoverability of assets forming part of the guarantee, where applicable.

In the estimate of hedging due to impairment of instruments classified as doubtful as a result of borrower arrears determined collectively, the historical percentage of the loss associated with the type of guarantee is applied with its discounted value at the original interest rate of the transaction, for those cases in which recoverability is expected in a subsequent period.

In the case of debt instruments which have collateral, the value of the rights received in guarantee is taken as the best estimate of the recoverable amount of these instruments, provided that the rights are charged first and are duly incorporated and registered in favour of the Andbank Group.

In order to determine the value of rights received in guarantee, the lower between the deed cost or certified cost of the asset and the appraisal value in its current condition is used. When the date that the asset was registered by deed has long past, the amount of the asset shall be adjusted using an indicator which adequately reflects the variation in the cost between the deed date and estimation date.

The outstanding risk which exceeds the value of the guarantee is considered as a transaction without collateral. In addition, the performance of the undrawn amount shall be taken into consideration in those transactions which have become doubtful, in order to calculate the EAI of standard transactions. In this regard, in those segments where there are doubtful transactions throughout the year, it shall be observed how the undrawn amount of these transactions has performed during the analysis. The exchange rate shall be applied to the standard exposure to obtain the EAI. This factor applied to the outstanding standard risk is called the credit conversion factor and is defined in Regulation (EU) no. 575/2013 as follows: *the ratio of the currently undrawn amount of a commitment that could be drawn and that would therefore be outstanding at default to the currently undrawn amount of the commitment, the extent of the commitment being determined by the advised limit, unless the unadvised limit is higher.*

**Available-for-sale debt securities**

Impairment losses on debt securities included in the available-for-sale financial assets portfolio equal the positive difference between their acquisition cost (net of any principal amortisation) and fair value, after deducting any impairment loss previously recognised in the income statement. The market value of quoted debt instruments is considered a fair estimate of the present value of their future cash flows.

When there is objective evidence that the positive differences arising on measurement of these assets are due to impairment, they are no longer recognised in equity as Valuation adjustments – Available-for-sale financial assets and are recognised in the consolidated income statement for the amount considered to be the accumulated impairment loss to date. If all or part of the impairment losses are subsequently recovered, the amount is recognised in the income statement for the period in which the recovery occurred.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**Available-for-sale equity instruments**

Impairment losses on equity instruments included in the available-for-sale financial assets portfolio equal the positive difference between their acquisition cost and fair value, after deducting any impairment loss previously recognised in the income statement.

When there is objective evidence of impairment, such as a 40% reduction in the fair value or sustained losses over a period of more than 18 months, unrealised losses are recognised in accordance with the recognition criteria for impairment losses applied to the debt securities classified as available-for-sale, except in the case of any recovery arising from these losses recognised in equity under Valuation adjustments - Available-for-sale financial assets.

**Equity instruments measured at acquisition cost**

The impairment losses on equity instruments measured at acquisition cost are the positive difference between their carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities. The estimate of impairment of these kinds of asset takes into consideration the equity of the investee, except for valuation adjustments due to cash flow hedges, determined based on the most recently approved consolidated statement of financial position, adjusted by unrealised gains at measurement date.

Impairment losses are recognised in the income statement for the period in which they arise as a direct reduction of the cost of the instrument.

**h) 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.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 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 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:

- Available-for-sale assets.
- 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.

#### i) 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 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 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.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

— 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.

#### j) 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.

#### k) Employee benefits.

Obligations for contributions to defined contribution plans are considered as an expense in the 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 twelve 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 - Personnel expenses in the income statement.



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 - Personnel expenses with a balancing entry under Interest and similar income in the 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, eg 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 income statement.

1) 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 Company 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.

m) 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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.

n) 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.

o) 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.

p) 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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.

q) 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

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

<b>Depreciation of tangible assets</b>	<b>Estimated years of useful life</b>
Buildings	
Buildings for own use	33
Installations and machinery	10
Furniture and fixtures	5
Electronic equipment	3 - 5
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 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 income statement in future financial years.

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

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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.

r) 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 transferred 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 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 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 on the 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 on Revenues from customer contracts. 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

s) 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 recognise 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 2017 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 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 income statement up to an amount equal to that of the previously recognised impairment losses.



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

t) Leases*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 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 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 income statement.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

*Sale and leaseback transactions*

Any gain or loss generated on asset sale and leaseback transactions is recognised immediately in the 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 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 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.

u) 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.

v) 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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.

w) 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 for 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 for insurance contracts recognised in their consolidated statement of financial position.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 for 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 for 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 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

## — 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 under Liabilities for 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 under Assets for 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.

x) Own 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 Equity - Own 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 Equity - Accumulated gains/losses in the consolidated statement of financial position.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(4) Distribution of Profit**

The directors of Andorra Banc Agrícola Reig, SA will propose to the shareholders at their annual general meeting that the profit for 2017 be distributed as follows:

	<u>Thousands of Euros</u>
	<u>2017</u>
Legal reserve	-
Voluntary reserves	35.498
Interim dividend	-
Dividends	-
	<u>35.498</u>

Distribution of profit for the year ended 31 December 2016, approved by the shareholders at their annual general meeting on 27 April 2017, was as follows:

	<u>Thousands of Euros</u>
	<u>2016</u>
Legal reserve	-
Voluntary reserves	33.613
Interim dividend	-
Dividends	5.000
	<u>38.613</u>
Adjustments due to change to IFRS	<u>(2.829)</u>
	<u>35.784</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(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 2017 and 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
Cash	30.119	53.123
Cash balances at central banks	929.361	887.800
Other demand deposits	487.524	654.488
	<u>1.447.004</u>	<u>1.595.411</u>

**(6) Financial assets and financial liabilities held for trading**

Details of these line items of the consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Financial assets held for trading</b>		
Derivatives	80.720	46.401
Equity instruments	9.635	199
Debt securities	249.135	379.735
Loans and advances	-	-
	<u>339.490</u>	<u>426.335</u>
	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Financial liabilities held for trading</b>		
Derivatives	58.088	28.187
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
	<u>58.088</u>	<u>28.187</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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	
	31/12/2017	31/12/2016
	<u>Carrying amount</u>	<u>Carrying amount</u>
<b>Derivatives</b>	80.720	46.401
<b>Equity instruments</b>	9.635	199
Of which: at cost	-	-
Of which: credit institutions	-	-
Of which: Other financial companies	6.047	197
Of which: non-financial companies	3.588	2
<b>Debt securities</b>	249.135	379.735
Central government and central banks	92.815	66.484
Others (CIU, securitisation)	10.807	74.234
Multilateral development banks	20.992	18.506
Companies	16.520	60.335
Banking and financial entities	104.924	66.121
Public sector entities	3.077	94.055
	<u>339.490</u>	<u>426.335</u>

At 31 December 2017 and 2016 there are no financial assets held for trading for the purpose of collateral on liabilities.

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.



## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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 2017 and 31 December 2016, is as follows:

	Thousands of Euros		
	Financial assets held for trading	Financial liabilities held for trading	Notional amount Total
<b>At 31 December 2017</b>			
<b>Interest rate</b>	<b>43.923</b>	<b>36.507</b>	<b>862.872</b>
Of which: economic hedging	41.727	34.682	819.728
OTC options	108	-	83.465
OTC other	43.815	36.507	779.407
Options in organised markets	-	-	-
Other in organised markets	-	-	-
<b>Equity instruments</b>	-	-	-
<b>Currencies and gold</b>	<b>4.261</b>	<b>4.254</b>	<b>493.378</b>
Of which: economic hedging	4.176	4.169	483.510
OTC options	-	-	-
OTC other	4.261	4.254	493.378
Options in organised markets	-	-	-
Other in organised markets	-	-	-
<b>Credit</b>	<b>32.536</b>	<b>17.327</b>	<b>1.114.231</b>
Of which: economic hedges	29.282	15.594	1.002.808
Hedging swaps for default	32.536	17.327	1.114.231
Credit spread options	-	-	-
Total return swaps	-	-	-
Other	-	-	-
<b>Raw materials</b>			
Of which: Economic hedges	-	-	-
<b>Other</b>			
Of which: Economic hedges	-	-	-
<b>DERIVATIVES</b>			
Of which: OTC - Credit institutions	38.255	41.492	1.836.823
Of which: OTC - Other financial companies	19.490	14.853	560.203
Of which: OTC - Other	21.823	1.872	73.456
	<u>80.720</u>	<u>58.088</u>	<u>2.470.481</u>

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

	Thousands of Euros		
	Financial assets held for trading	Financial liabilities held for trading	Notional amount Total
<b>At 31 December 2016</b>			
<b>Interest rate</b>	<b>22.161</b>	<b>12.058</b>	<b>680.855</b>
Of which: economic hedges	21.053	11.455	646.812
OTC options	-	-	-
OTC other	22.161	12.058	680.855
Options in organised markets	-	-	-
Other in organised markets	-	-	-
<b>Equity instruments</b>	-	-	-
<b>Currencies and gold</b>	<b>2.575</b>	<b>2.482</b>	<b>1.413.677</b>
Of which: economic hedges	2.524	2.432	1.385.404
OTC options	-	-	-
OTC other	2.575	2.482	1.413.677
Options in organised markets	-	-	-
Other in organised markets	-	-	-
<b>Credit</b>	<b>21.665</b>	<b>13.647</b>	<b>1.548.750</b>
Of which: economic hedges	19.499	12.282	1.393.875
Hedging swaps for default	21.665	13.647	1.548.750
Credit spread options	-	-	-
Total return swaps	-	-	-
Other	-	-	-
<b>Raw materials</b>	-	-	-
Of which: Economic hedges	-	-	-
<b>Other</b>	-	-	-
Of which: Economic hedges	-	-	-
<b>DERIVATIVES</b>	-	-	-
Of which: OTC - Credit institutions	5.572	9.654	124.380
Of which: OTC - Other financial companies	-	-	-
Of which: OTC - Other	40.830	18.533	2.105.234
	<u>46.401</u>	<u>28.187</u>	<u>3.643.282</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(7) Financial assets and financial liabilities at fair value through profit or loss**

At 31 December 2017 and 2016 the Bank does not present any balance classified as financial assets or financial liabilities at fair value through profit or loss.

**(8) Available-for-sale financial assets**

Details of this line item of the accompanying consolidated statements of financial position at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
Equity instruments	27.543	39.626
Debt securities	202.925	278.449
Loans and advances	-	-
	230.468	318.075

Details of valuation adjustments to the available-for-sale financial assets portfolio are shown in note 21 (Accumulated other comprehensive income - Equity).

On 21 June 2016 Visa Inc completed its acquisition of Visa Europe Ltd. started in November 2015. On the basis of Andorra Banc Agrícola Reig, S.A.'s interest, this transaction involved the recognition of a gain of Euros 6,879 thousand in the income statement for 2016, as well as the entry into the available portfolio due to the sale of Visa Inc. shares. At 31 December 2017 this interest includes available-for-sale financial assets.

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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

Details of assets which are not impaired, impaired assets and the impairment of the accumulated value of assets classified as Available-for-sale financial assets, by type of issuer, at 31 December 2017 and 31 December 2016 are as follows:

At 31 December 2017	Thousands of Euros			
	Unimpaired assets	Impaired assets	Carrying amount	Accumulated impairment
<b>Equity instruments</b>				
Others (CIU, securitisation)	3.897	-	3.897	-
Companies	5.801	-	5.801	-
Banking and financial entities	17.845	-	17.845	-
	<u>27.543</u>	<u>-</u>	<u>27.543</u>	<u>-</u>
<b>Debt securities</b>				
Central government and central banks	115.715	-	115.715	-
Regional government and local authorities	-	-	-	-
Others (CIU, securitisation)	239	-	239	-
Companies	52.501	-	52.501	-
Banking and financial entities	34.470	-	34.470	-
Public sector entities	-	-	-	-
	<u>202.925</u>	<u>-</u>	<u>202.925</u>	<u>-</u>
At 31 December 2016	Thousands of Euros			
	Unimpaired assets	Impaired assets	Carrying amount	Accumulated impairment
<b>Equity instruments</b>				
Others (CIU, securitisation)	-	-	-	-
Companies	11.613	-	11.613	-
Banking and financial entities	28.013	-	28.013	-
	<u>39.626</u>	<u>-</u>	<u>39.626</u>	<u>-</u>
<b>Debt securities</b>				
Central government and central banks	171.377	-	171.377	-
Regional government and local authorities	25.249	-	25.249	-
Others (CIU, securitisation)	446	-	446	-
Companies	16	-	16	-
Banking and financial entities	21.053	-	21.053	-
Public sector entities	60.308	-	60.308	-
	<u>278.449</u>	<u>-</u>	<u>278.449</u>	<u>-</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(9) Loans and receivables**

Details of the loans and receivables on the accompanying consolidated statement of financial position, taking into consideration the balancing entry for the financial instrument from which they originate, at 31 December 2017 and 2016 are as follows:

a) Disclosure of loans and receivables

<b><u>Loans and receivables</u></b>	Thousands of Euros	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Debt securities	-	-
Loans and advances	1.664.601	1.703.068
Central banks	-	-
Public entities	53.257	91.151
Credit institutions	213.860	123.741
Other financial companies	40.942	33.564
Non-financial companies	600.259	827.977
Home	756.283	626.635
	<u>1.664.601</u>	<u>1.703.068</u>

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.

There are no loans and receivables at fair value through profit or loss.

b) Details of loans and receivables by sector of activity and type of product

Details of the subcaptions comprising loans and receivables, by sector of activity and type of product, at 31 December 2017 and 2016 are as follows:

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Central banks</b>	-	-
<b>Loans and receivables from public entities</b>	<b>53.257</b>	<b>91.151</b>
Current account	-	-
Credit cards	-	-
Customer portfolio	-	-
Finance leases	-	-
Reverse repurchase loans	-	-
Other term loans	53.257	91.151
Advances other than loans	-	-
<b>Loans and receivables from credit institutions</b>	<b>213.860</b>	<b>123.741</b>
Current account	-	-
Credit cards	-	-
Customer portfolio	213.860	123.741
Finance leases	-	-
Reverse repurchase loans	-	-
Other term loans	-	-
Advances other than loans	-	-
<b>Loans and receivables from other financial companies</b>	<b>40.942</b>	<b>33.565</b>
Current account	369	12.661
Credit cards	363	153
Customer portfolio	85	38
Finance leases	-	-
Reverse repurchase loans	-	-
Other term loans	40.125	20.713
Advances other than loans	-	-
<b>Loans and receivables from other non-financial companies</b>	<b>600.259</b>	<b>827.977</b>
Current account	443	2.863
Credit cards	970	1.305
Customer portfolio	2.032	4.575
Finance leases	-	-
Reverse repurchase loans	-	-
Other term loans	596.814	819.234
Advances other than loans	-	-
<b>Loans and receivables - Home</b>	<b>756.283</b>	<b>626.635</b>
Current account	5.949	4.442
Credit cards	5.078	5.347
Customer portfolio	24	18
Finance leases	-	-
Reverse repurchase loans	-	-
Other term loans	745.232	616.828
Advances other than loans	-	-
	<b>1.664.601</b>	<b>1.703.069</b>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

c) Valuation adjustments of loans and receivables

Details of loans and advances at 31 December 2017 and 2016, by activity, the value of which has and has not been impaired, and the corresponding valuation adjustments, are as follows:

Thousands of Euros						
	Unimpaired assets	Impaired assets	Specific valuation adjustments for financial assets, estimated individually	Specific valuation adjustments for financial assets, estimated collectively	Valuation adjustments due to uncorrected but unreported losses	Carrying amount
<b>At 31 December 2016</b>						
<b>Loans and receivables</b>						
Loans and advances						
Public entities	90.906	-	-	-	245	91.151
Credit institutions	123.741	-	-	-	-	123.741
Other financial companies	33.442	12	-	11	121	33.564
Non-financial companies	818.331	29.391	25.473	4.983	10.711	827.977
Home	615.266	36.718	7.569	24.054	6.274	626.635
	<b>1.681.686</b>	<b>66.121</b>	<b>33.042</b>	<b>29.048</b>	<b>17.351</b>	<b>1.703.068</b>
Thousands of Euros						
	Unimpaired assets	Impaired assets	Specific valuation adjustments for financial assets, estimated individually	Specific valuation adjustments for financial assets, estimated collectively	Valuation adjustments due to uncorrected but unreported losses	Carrying amount
<b>At 31 December 2017</b>						
<b>Loans and receivables</b>						
Loans and advances						
Public entities	53.410	-	-	-	153	53.257
Credit institutions	213.888	-	-	-	28	213.860
Other financial companies	40.942	-	-	-	-	40.942
Non-financial companies	611.758	16.483	18.447	4.581	4.954	600.259
Home	755.641	31.866	7.507	17.854	5.863	756.283
	<b>1.675.639</b>	<b>48.349</b>	<b>25.954</b>	<b>22.435</b>	<b>10.998</b>	<b>1.664.601</b>

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.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

#### d) 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 2017 and 2016, are as follows:

	Thousands of Euros					
	Mortgage loans (loans secured by real estate)			Other loans with collateral security		
	Residential property	Retail property	Other	Cash (debt securities issued)	Other	Total
<b>At 31 December 2017</b>						
<b>Loans and advances</b>						
Of which: Other financial companies	-	-	-	2.583	37.398	39.981
Of which: Non-financial companies	74.472	145.668	73.045	71.182	161.905	526.272
Of which: Home	279.058	33.467	23.177	99.383	277.172	712.257
	353.530	179.135	96.222	173.148	476.475	1.278.510

	Thousands of Euros					
	Mortgage loans (loans secured by real estate)			Other loans with collateral security		
	Residential property	Retail property	Other	Cash (debt securities issued)	Other	Total
<b>At 31 December 2016</b>						
<b>Loans and advances</b>						
Of which: Other financial companies	184	-	148	2.612	18.010	20.954
Of which: Non-financial companies	101.901	184.274	99.305	142.230	211.979	739.689
Of which: Home	279.436	44.611	23.204	73.917	202.487	623.655
	381.521	228.885	122.657	218.759	432.476	1.384.298



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

e) Details of loans and advances by activity

Details of net loans and advances to customers by activity at 31 December 2017 and 31 December 2016 are as follows:

	Thousands of Euros							
	Total 31 December 2017	Of which: Real estate guarantees	Of which: other collateral security	Loans with collateral security Carrying amount on most recent appraisal available (loan)				
				Lower or equal to 40%	Higher than 40% and lower or equal to 60%	Higher than 60% and lower or equal to 80%	Higher than 80% and lower or equal to 100%	Higher than 100%
Public entities	53.257	-	-	-	-	-	-	-
Credit institutions	213.860	-	-	-	-	-	-	-
Other financial companies	40.942	39.981	-	-	-	-	-	39.981
Non-financial companies	600.259	273.786	260.528	4.605	3.600	4.193	13.518	508.398
Home	756.283	414.964	313.995	3.887	9.044	25.028	13.768	677.232
Subtotal	<u>1.664.601</u>	<u>728.731</u>	<u>574.523</u>	<u>8.492</u>	<u>12.644</u>	<u>29.221</u>	<u>27.286</u>	<u>1.225.611</u>

	Thousands of Euros							
	Total 31 December 2016	Of which: Real estate guarantees	Of which: other collateral security	Loans with collateral security Carrying amount on most recent appraisal available (loan)				
				Lower or equal to 40%	Higher than 40% and lower or equal to 60%	Higher than 60% and lower or equal to 80%	Higher than 80% and lower or equal to 100%	Higher than 100%
Public entities	91.151	-	-	-	-	-	-	-
Credit institutions	123.741	-	-	-	-	-	-	-
Other financial companies	33.564	19.909	217	-	-	-	217	19.909
Non-financial companies	827.977	359.069	333.174	443	512	4.606	10.232	676.448
Home	626.635	225.141	267.286	8.965	8.276	20.625	12.886	441.677
Subtotal	<u>1.703.068</u>	<u>604.119</u>	<u>600.677</u>	<u>9.408</u>	<u>8.788</u>	<u>25.231</u>	<u>23.335</u>	<u>1.138.034</u>

At 31 December 2017 assets classified as doubtful amount to Euros 48,350 thousand (Euros 66,121 thousand at 31 December 2016). These amounts do not include guarantees given which amount to Euros 54,052 thousand at 31 December 2017 (Euros 65,818 thousand at 31 December 2016).

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(10) Held-to-maturity investments**

Details of this caption of the accompanying consolidated statement of financial position, taking into consideration the balancing entry for the financial instrument from which they originate, at 31 December 2017 and 2016 are as follows:

**31 December 2017:**

31 December 2016	Unimpaired assets (gross carrying amount)	Impaired assets (gross carrying amount)	Specific valuation adjustments for financial assets, estimated individually	Specific valuation adjustments for financial assets, estimated collectively	Valuation adjustments due to uncorrected but unreported losses	Carrying amount
<b>Debt securities</b>	<b>449.128</b>	-	-	-	-	<b>449.128</b>
Central government and central banks	239.766	-	-	-	-	239.766
Regional government and local authorities	9.579	-	-	-	-	9.579
Others (CIU, securitisation)	98.252	-	-	-	-	98.252
Companies	2.139	-	-	-	-	2.139
Banking and financial entities	36.591	-	-	-	-	36.591
Public sector entities	62.801	-	-	-	-	62.801
<b>Loans and advances</b>	-	-	-	-	-	-

**31 December 2016:**

31 December 2017	Unimpaired assets (gross carrying amount)	Impaired assets (gross carrying amount)	Specific valuation adjustments for financial assets, estimated individually	Specific valuation adjustments for financial assets, estimated collectively	Valuation adjustments due to uncorrected but unreported losses	Carrying amount
<b>Debt securities</b>	<b>291.569</b>	-	-	-	-	<b>291.569</b>
Central government and central banks	150.619	-	-	-	-	150.619
Regional government and local authorities	9.912	-	-	-	-	9.912
Others (CIU, securitisation)	98.873	-	-	-	-	98.873
Companies	1.993	-	-	-	-	1.993
Banking and financial entities	30.172	-	-	-	-	30.172
Public sector entities	-	-	-	-	-	-
<b>Loans and advances</b>	-	-	-	-	-	-

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 and credit quality.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(11) Hedging derivatives and fair value changes of the hedged items in portfolio hedges of interest rate risk**

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

Hedging derivatives and fair value changes of the hedged items in portfolio hedges of interest rate risk	Thousands of Euros	
	31/12/2017	31/12/2016
<b>ASSETS</b>		
Derivatives - Hedge accounting	90	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	4.184	4.546
<b>LIABILITIES</b>		
Derivatives - Hedge accounting	3.089	4.454
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-

At 31 December 2017 and 2016 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.

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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

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 2017 and 2016, distinguishing between risk category for each kind of hedge, are as follows:

	Thousands of Euros			
	Carrying amount		Notional amount	
	Assets	Liabilities	Total hedges	Of which: sold
<b><u>31 December 2017</u></b>				
<b><u>FAIR VALUE HEDGES</u></b>				
<b>Interest rate</b>	90	3.089	5.603	-
OTC options	-	-	-	-
OTC other	90	3.089	5.603	-
Options in organised markets	-	-	-	-
Other in organised markets	-	-	-	-
<b>DERIVATIVES - HEDGE ACCOUNTING</b>	90	3.089	5.603	-
Of which: OTC - Credit institutions	90	3.089	5.603	-
Of which: OTC - Other financial companies	-	-	-	-
Of which: OTC - Other	-	-	-	-

	Thousands of Euros			
	Carrying amount		Notional amount	
	Assets	Liabilities	Total hedges	Of which: sold
<b><u>31 December 2016</u></b>				
<b><u>FAIR VALUE HEDGES</u></b>				
<b>Interest rate</b>	-	4.454	10.938	-
OTC options	-	-	-	-
OTC other	-	4.454	10.938	-
Options in organised markets	-	-	-	-
Other in organised markets	-	-	-	-
<b>DERIVATIVES - HEDGE ACCOUNTING</b>	-	4.454	10.938	-
Of which: OTC - Credit institutions	-	4.454	10.938	-
Of which: OTC - Other financial companies	-	-	-	-
Of which: OTC - Other	-	-	-	-

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(12) Investments in subsidiaries, joint ventures and associates**

Details, by company, of Investments in subsidiaries, joint ventures and associates at 31 December 2017 in the accompanying consolidated statements of financial position are as follows:

2017 Company name	Thousands of Euros			<b>Total</b>
	Investment	Impairment	Cost	
Medipatrimonia Invest, SL	51%	-	2.000	2.000
		<b>-</b>	<b>2.000</b>	<b>2.000</b>

The Andbank Group fully consolidates investees, with the exception of Medipatrimonia Invest, SL which until 2016 was fully consolidated, but because control has changed in 2017 it is now consolidated using the direct participation method, as the Bank has significant influence over this company.

**(13) Tangible assets**

A breakdown of items included in Tangible assets during 2017 and 2016 is as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Tangible assets</b>		
Property, plant and equipment	22.385	25.405
For own use	22.385	25.405
Leased out under operating lease	-	-
Earmarked for social projects (savings bank and credit	-	-
Investment property	12.403	-
Of which: Leased out under finance lease	-	-
	<b>34.788</b>	<b>25.405</b>

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

a) Movement in tangible assets

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

At 31 December 2017	Thousands of Euros							
	31/12/2016	Additions	Disposals	Transfers to/from non- current assets for sale	Other transfers	Exchange gains/losses	Other movements	31/12/2017
<b>Cost</b>								
<b><u>FOR OPERATING ACTIVITIES</u></b>								
Land	3.099	-	-	-	-	-	-	3.099
Buildings	6.843	-	-	-	-	-	-	6.843
Furniture	9.190	852	(10)	-	-	-	-	10.032
Installations	24.881	151	-	-	-	-	(1.152)	23.880
IT equipment	29.973	654	(1.383)	-	(788)	24	-	28.480
Vehicles	1.309	296	(1)	-	-	-	-	1.604
Under construction	1.417	32	(313)	-	689	-	-	1.825
Subtotal	<u>76.712</u>	<u>1.985</u>	<u>(1.707)</u>	<u>-</u>	<u>(99)</u>	<u>24</u>	<u>(1.152)</u>	<u>75.763</u>
<b><u>FOR NON-OPERATING ACTIVITIES</u></b>								
Land	-	-	-	-	-	-	-	-
Buildings	1.966	-	-	-	-	-	-	1.966
Installations	976	-	-	-	-	-	-	976
IT equipment	104	-	-	-	-	-	-	104
Furniture	41	-	-	-	-	-	-	41
Vehicles	458	-	-	-	-	-	-	458
Investment property	-	852	-	11.564	-	-	-	12.416
Subtotal	<u>3.545</u>	<u>852</u>	<u>-</u>	<u>11.564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15.961</u>
<b>Accumulated depreciation</b>								
<b><u>FOR OPERATING ACTIVITIES</u></b>								
Buildings	(5.123)	(275)	-	-	-	-	-	(5.398)
Furniture	(7.708)	(211)	-	-	-	-	-	(7.919)
Installations	(15.272)	(781)	-	-	-	-	1.152	(14.901)
IT equipment	(23.674)	(2.445)	688	-	99	-	-	(25.332)
Vehicles	(883)	(228)	-	-	-	-	-	(1.111)
Subtotal	<u>(52.660)</u>	<u>(3.940)</u>	<u>688</u>	<u>-</u>	<u>99</u>	<u>-</u>	<u>1.152</u>	<u>(54.661)</u>
<b><u>FOR NON-OPERATING ACTIVITIES</u></b>								
Buildings	(917)	(60)	-	-	-	-	-	(977)
Fixtures	(891)	(4)	-	-	-	-	-	(895)
IT equipment	(93)	(3)	-	-	-	-	-	(96)
Furniture	(37)	(1)	-	-	-	-	-	(38)
Operating leases	(254)	(2)	-	-	-	-	-	(256)
Investment property	-	(13)	-	-	-	-	-	(13)
Subtotal	<u>(2.192)</u>	<u>(83)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2.275)</u>
<b>Accumulated impairment</b>								
Land	-	-	-	-	-	-	-	-
Buildings	-	-	-	-	-	-	-	-
Furniture	-	-	-	-	-	-	-	-
Installations	-	-	-	-	-	-	-	-
IT equipment	-	-	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-	-	-
Under construction	-	-	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net balance	<u>25.405</u>	<u>(1.186)</u>	<u>(1.019)</u>	<u>11.564</u>	<u>-</u>	<u>24</u>	<u>-</u>	<u>34.788</u>

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

At 31 December 2016	Thousands of Euros							
	31/12/2015	Additions	Disposals	Transfers to/from non- current assets for sale	Other transfers	Exchange gains/losses	Other movements	31/12/2016
<b>Cost</b>								
<b><u>FOR OPERATING ACTIVITIES</u></b>								
Land	3.503	-	-	(404)	-	-	-	3.099
Buildings	7.175	-	-	(332)	-	-	-	6.843
Furniture	8.620	473	-	97	-	-	-	9.190
Installations	22.853	4.057	(2.029)	-	-	-	-	24.881
IT equipment	28.130	1.807	-	36	-	-	-	29.973
Vehicles	1.164	189	(44)	-	-	-	-	1.309
Under construction	1.440	110	-	(133)	-	-	-	1.417
<b>Subtotal</b>	<b>72.885</b>	<b>6.636</b>	<b>(2.073)</b>	<b>(736)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76.712</b>
<b><u>FOR NON-OPERATING ACTIVITIES</u></b>								
Land	-	-	-	-	-	-	-	-
Buildings	1.966	-	-	-	-	-	-	1.966
Installations	889	87	-	-	-	-	-	976
IT equipment	92	12	-	-	-	-	-	104
Furniture	41	-	-	-	-	-	-	41
Vehicles	262	-	(55)	-	-	-	251	458
<b>Subtotal</b>	<b>3.250</b>	<b>99</b>	<b>(55)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>251</b>	<b>3.545</b>
<b>Accumulated depreciation</b>								
<b><u>FOR OPERATING ACTIVITIES</u></b>								
Buildings	(9.406)	(238)	-	4.521	-	-	-	(5.123)
Furniture	(7.222)	(486)	-	-	-	-	-	(7.708)
Installations	(14.220)	(2.972)	1.920	-	-	-	-	(15.272)
IT equipment	(22.971)	(703)	-	-	-	-	-	(23.674)
Vehicles	(693)	(190)	-	-	-	-	-	(883)
<b>Subtotal</b>	<b>(54.512)</b>	<b>(4.589)</b>	<b>1.920</b>	<b>4.521</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52.660)</b>
<b><u>FOR NON-OPERATING ACTIVITIES</u></b>								
Buildings	(880)	(97)	-	-	60	-	-	(917)
Fixtures	(887)	(4)	-	-	-	-	-	(891)
IT equipment	(92)	(1)	-	-	-	-	-	(93)
Furniture	(94)	-	-	-	57	-	-	(37)
Operating leases	(12)	(82)	-	-	(57)	-	(103)	(254)
<b>Subtotal</b>	<b>(1.965)</b>	<b>(184)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(103)</b>	<b>(2.192)</b>
<b>Accumulated impairment</b>								
Land	-	-	-	-	-	-	-	-
Buildings	(736)	(70)	70	736	-	-	-	-
Furniture	-	-	-	-	-	-	-	-
Installations	-	-	-	-	-	-	-	-
IT equipment	-	-	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-	-	-
Under construction	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>(736)</b>	<b>(70)</b>	<b>70</b>	<b>736</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net balance</b>	<b>18.922</b>	<b>1.892</b>	<b>(138)</b>	<b>4.521</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25.405</b>

During 2017 and 2016 no interest or exchange differences corresponding to fixed assets have been capitalised.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

b) Revalued assets

With express authorisation granted by INAF 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 2017 the Bank did not revalue the carrying amount of buildings used in operations.

c) Sale and leaseback contracts

On 29 July 2015, Andorra Banc Agrícola Reig, S.A. ("Andbank") signed a sale and purchase agreement and subsequent operating leaseback for a period of 20 years, extendible tacitly for five-year periods, for the building in which the Andbank Group's headquarters are located. On 24 September 2015 a deed was drawn up declaring compliance with the conditions precedent on this transaction. The transaction price was Euros 80 million and Andbank obtained a gain of Euros 3.4 million on the carrying amount at the date of the sale. Once the building had been derecognised in the consolidated statement of financial position, revaluation reserves were reclassified as voluntary reserves, for the purpose of calculating solvency under Basel III, net of the tax impact, which formed part of the carrying amount of the assets sold, for an amount of Euros 53.3 million.

In relation to this operating lease contract:

- During 2017 and 2016 lease expenses amount to Euros 4,060 thousand and Euros 4,000 thousand, respectively, recognised as External services under Overheads.
- At 31 December 2017 and 2016 the present value of future payments incurred by the Bank during the contract's obligatory term (regardless of tacit renewals) amounts to Euros 3,888 thousand and Euros 3,830 thousand, respectively, in the period of one year, Euros 13,969 thousand and Euros 13,462 thousand, respectively, between one and five years and Euros 40,839 thousand and Euros 41,611 thousand, respectively, in more than five years.

d) Investment property

Tangible assets include an amount of Euros 12,403 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 2017.



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(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				
	31/12/2016	Additions	Exchange gains/losses	Other adjustments	31/12/2017
Cost	152.918	4.735	-	(350)	157.303
Accumulated impairment	-	-	-	-	-
	<u>152.918</u>	<u>4.735</u>	<u>-</u>	<u>(350)</u>	<u>157.303</u>

	Thousands of Euros				
	31/12/2015	Additions	Exchange gains/losses	Other	31/12/2016
Cost	149.630	3.288	-	-	152.918
Accumulated impairment	-	-	-	-	-
	<u>149.630</u>	<u>3.288</u>	<u>-</u>	<u>-</u>	<u>152.918</u>

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 2017.

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 2017.

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

On 25 October 2011 the acquisition of LLA Participações, 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 1,283 thousand.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 Andbank 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 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.

#### 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 use cash flow projections based on five-year financial budgets approved by management. Cash flows beyond the period of five years are extrapolated using the estimated growth rates indicated below.

#### — Key assumptions used to calculate value in use

A summary of the key assumptions for projections is as follows:

	Projection period	Year of residual value	Average growth Assets under management	Average growth Gross margin	Average growth Operating expenses
<u>Main projection assumptions</u>					
Andbank Monaco	2018-2022	2022	7,1%	5,8%	3,6%
Andbank España	2018-2026	2027	3,6%	4,7%	2,4%
Medivalor (Andbank Wealth Management SGIC)	2018-2025	2025	1,7%	2,4%	2,0%
Mediapatrimonia Invest SL.	2018-2024	2024	7,9%	7,9%	2,0%
Quest	2018-2022	2022	10,4%	7,5%	-0,1%
Columbus	2018-2022	2022	7,0%	11,6%	6,0%
Andbank Wealth Management (Miami)	2018-2022	2022	-5,0%	-5,8%	0,0%
Sigma Investment House (Israel)	2018-2022	2022	12,0%	13,9%	4,5%
Andbank Brasil	2018-2025	2025	26,8%	15,7%	4,8%

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.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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 2017.

A summary of the key assumptions used to discount dividends (DDM) is as follows:

<u>Main assumptions DDM</u>	Good at 10		Beta	Equity Risk	
	Ke	years <sup>1</sup>		Premium	g
Andbank Monaco	8,76%	2,00%	1,23	5,50%	3,00%
Andbank España Group	8,36%	1,52%	1,24	5,50%	2,00%
Medivalor (Andbank Wealth Management SGIC)	8,36%	1,52%	1,24	5,50%	2,00%
Mediapatrimonia Invest SL.	8,36%	1,52%	1,24	5,50%	2,00%
Quest	10,82%	4,38%	1,17	5,50%	3,00%
Columbus	12,99%	6,55%	1,17	5,50%	3,00%
Andbank Wealth Management (Miami)	9,34%	2,90%	1,17	5,50%	3,00%
Sigma Investment House (Israel)	8,37%	1,93%	1,17	5,50%	3,00%
Andbank Brasil	13,40%	6,79%	1,20	5,50%	3,00%

The discount rate has been calculated based on the risk-free rate, taking as a benchmark the "good" at ten years of each country (introducing an adjustment in the calculations by Andbank Monaco, Quest, Columbus and Andbank Brasil). 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 January 2018.

The growth rate (g) has been set at 3.00% for all the Andbank Group companies, except for Group companies in the Spanish market for which a 2.00% growth rate has been used.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

— Sensitivity analysis

A sensitivity analysis of the recoverable amount with regard to possible changes in the key assumptions used in the DDM is as follows:

<u>Main assumptions DDM</u>	<u>Ke x 0.95</u>	<u>Ke x 0.975</u>	<u>Ke</u>	<u>Ke x 1.025</u>	<u>Ke x 1.05</u>
Andbank Monaco	8,3%	4,0%	0,0%	-3,7%	-7,1%
Andbank España Group	6,6%	3,2%	0,0%	-3,0%	-5,8%
Medivalor (Andbank Wealth Management SGIC)	6,6%	3,2%	0,0%	-3,0%	-5,8%
Mediapatrimonia Invest SL.	7,3%	3,5%	0,0%	-3,3%	-6,4%
Quest	8,1%	3,9%	0,0%	-3,6%	-7,0%
Columbus	7,6%	3,7%	0,0%	-3,4%	-6,6%
Andbank Wealth Management (Miami)	6,6%	3,2%	0,0%	-3,0%	-5,7%
Sigma Investment House (Israel)	10,5%	5,0%	0,0%	-4,6%	-8,9%
Andbank Brasil	9,6%	4,6%	0,0%	-4,3%	-8,4%

  

<u>Main assumptions DDM</u>	<u>g - 50 b.p.</u>	<u>g - 25 b.p.</u>	<u>g</u>	<u>g + 25 b.p.</u>	<u>g + 50 b.p.</u>
Andbank Monaco	-6,16%	-3,21%	0,00%	3,50%	7,33%
Andbank España	-4,06%	-2,10%	0,00%	2,28%	4,75%
Medivalor (Andbank Wealth Management SGIC)	-4,04%	-2,10%	0,00%	2,27%	4,73%
Mediapatrimonia Invest SL.	-5,04%	-2,62%	0,00%	2,83%	5,90%
Quest	-4,58%	-2,36%	0,00%	2,51%	5,20%
Columbus	-3,32%	-1,70%	0,00%	1,79%	3,67%
Andbank Wealth Management (Miami)	-4,46%	-2,31%	0,00%	2,50%	5,22%
Sigma Investment House (Israel)	-8,29%	-4,33%	0,00%	4,75%	9,99%
Andbank Brasil	-3,25%	-1,66%	0,00%	1,74%	3,57%

For the discount rate a correction factor of 95%, 97.5%, 102.5% and 105% has been applied to observe the impact of the valuation.

For the growth rate a sensitivity analysis has been performed based on the base rate g for each business unit, with variations of +/- 25 b.p.

— Impairment losses

No impairment losses have been recognised during 2017 because the value in use of the business units has been higher than their carrying amount or goodwill in the aforementioned sensitivity scenarios.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

c) Other intangible assets

A breakdown and movement of items included in Intangible assets during 2017 and 2016 is as follows:

At 31 December 2017		Thousands of Euros						
	31/12/2016	Additions	Internally-generated additions	Disposals	Other transfers	Exchange gains/losses	Other movements	31/12/2017
<u>Cost</u>								
IT software and applications	64.557	3.730	-	(509)	8.865	-	-	76.643
Multi-owned assets	830	-	-	-	4	-	-	834
Intangible assets in progress	-	-	-	-	-	-	-	-
Other	64.404	25.610	-	(2.860)	(8.869)	-	-	78.285
	<u>129.791</u>	<u>29.340</u>	<u>-</u>	<u>(3.369)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>155.762</u>
<u>Accumulated amortisation</u>								
IT software and applications	(39.112)	(4.414)	-	(58)	-	-	-	(43.584)
Multi-owned assets	(661)	(11)	-	-	-	-	-	(672)
Intangible assets in progress	-	-	-	-	-	-	-	-
Other	(13.098)	(4.992)	-	565	-	-	-	(17.525)
	<u>(52.871)</u>	<u>(9.417)</u>	<u>-</u>	<u>507</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61.781)</u>
<u>Accumulated impairment</u>								
	-	-	-	-	-	-	-	-
Net balance	<u>76.920</u>	<u>19.923</u>	<u>-</u>	<u>(2.862)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93.981</u>
At 31 December 2016		Thousands of Euros						
	31/12/2015	Additions	Internally-generated additions	Disposals	Other transfers	Exchange gains/losses	Other movements	31/12/2016
<u>Cost</u>								
IT software and applications	46.233	10.605	-	7.801	(82)	-	-	64.557
Multi-owned assets	830	-	-	-	-	-	-	830
Intangible assets in progress	-	-	-	-	-	-	-	-
Other	59.363	12.842	-	(7.801)	-	-	-	64.404
	<u>106.426</u>	<u>23.447</u>	<u>-</u>	<u>-</u>	<u>(82)</u>	<u>-</u>	<u>-</u>	<u>129.791</u>
<u>Accumulated amortisation</u>								
IT software and applications	(34.633)	(5.466)	-	13	1.035	-	(61)	(39.112)
Multi-owned assets	(830)	-	-	-	-	-	169	(661)
Intangible assets in progress	-	-	-	-	-	-	-	-
Other	(9.744)	(3.339)	-	(13)	50	-	(52)	(13.098)
	<u>(45.207)</u>	<u>(8.805)</u>	<u>-</u>	<u>-</u>	<u>1.085</u>	<u>-</u>	<u>56</u>	<u>(52.871)</u>
<u>Accumulated impairment</u>								
	-	-	-	-	-	-	-	-
Net balance	<u>61.219</u>	<u>14.642</u>	<u>-</u>	<u>-</u>	<u>1.003</u>	<u>-</u>	<u>56</u>	<u>76.920</u>

Others under Intangible assets include IT software under construction amounting to Euros 18,452 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(15) Tax assets and liabilities**

Details of tax assets and liabilities at 31 December 2017 and 31 December 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Tax assets</b>		
Current tax assets	8.002	6.536
Deferred tax assets	23.598	11.199
- Tax credits	13.226	1.064
- IFRS transition	10.372	10.135
	<u>31.600</u>	<u>17.735</u>
<b>Tax liabilities</b>		
Current tax liabilities	15.097	4.020
Deferred tax liabilities	9.930	12.365
- Tax liabilities	9.930	12.365
	<u>25.027</u>	<u>16.385</u>

**(16) Other assets and liabilities**

A breakdown of the asset and liability captions of the consolidated statement of financial position at 31 December 2017 and 31 December 2016 is as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Other assets</b>		
Inventories	14	15
Other assets	79.183	174.910
Prepayments and accrued income	25.284	28.921
Operations in progress	10.634	13.079
Other items	43.265	132.910
	<u>79.197</u>	<u>174.925</u>
	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Other liabilities</b>		
Other liabilities	80.283	155.007
Accrued expenses and deferred income	12.093	35.970
Operations in progress	11.830	51.451
Other items	56.360	67.586
	<u>80.283</u>	<u>155.007</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(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							
	31/12/2016	Additions	Disposals	Merger adjustments	Valuation adjustments	Other movements	31/12/2017
<u>Cost</u>							
Tangible assets	-	-	-	-	-	-	-
From foreclosures	96.151	17.917	(8.558)	-	-	-	105.510
Other	-	-	-	-	-	-	-
	<u>96.151</u>	<u>17.917</u>	<u>(8.558)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105.510</u>
<u>Impairment losses</u>							
Tangible assets	-	-	-	-	-	-	-
From foreclosures	(50.688)	(5.529)	-	-	-	-	(56.217)
Other	(2.643)	-	517	-	(202)	-	(2.328)
	<u>(53.331)</u>	<u>(5.529)</u>	<u>517</u>	<u>-</u>	<u>(202)</u>	<u>-</u>	<u>(58.545)</u>
Net balance	<u>42.820</u>	<u>12.388</u>	<u>(8.041)</u>	<u>-</u>	<u>(202)</u>	<u>-</u>	<u>46.965</u>

Thousands of Euros							
	31/12/2015	Additions	Disposals	Merger adjustments	Valuation adjustments	Other movements	31/12/2016
<u>Cost</u>							
Tangible assets	-	-	-	-	-	-	-
From foreclosures	84.574	26.094	(14.517)	-	-	-	96.151
Other	-	-	-	-	-	-	-
	<u>84.574</u>	<u>26.094</u>	<u>(14.517)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96.151</u>
<u>Impairment losses</u>							
Tangible assets	-	-	-	-	-	-	-
From foreclosures	(42.035)	(8.653)	-	-	-	-	(50.688)
Other	-	-	4.265	-	(6.908)	-	(2.643)
	<u>(42.035)</u>	<u>(8.653)</u>	<u>4.265</u>	<u>-</u>	<u>(6.908)</u>	<u>-</u>	<u>(53.331)</u>
Net balance	<u>42.539</u>	<u>17.441</u>	<u>(10.252)</u>	<u>-</u>	<u>(6.908)</u>	<u>-</u>	<u>42.820</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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

	Thousands of Euros	
	31/12/2017	31/12/2016
Buildings	25.165	27.390
Land	42.677	53.816
Premises	2.102	953
Car parks	713	1.253
Storage rooms	52	90
Housing	27.021	42.075
	<u>97.730</u>	<u>125.577</u>

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 independent sources have been used to value buildings and land:

- INTERVALOR
- PERITAND
- PERITAXA
- TECNITASA

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.



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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	
	31/12/2017	31/12/2016
Up to 12 months	18.502	16.869
From 1 to 2 years	9.611	8.763
From 2 to 5 years	16.085	14.665
More than 5 years	2.767	2.523
	<u>46.965</u>	<u>42.820</u>

Details, by type of asset, of the profit and loss recognised in 2017 and 2016 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			
	2017		2016	
	Profits	Losses	Profits	Losses
Apartments	3.238	-	412	(1.822)
Car parks	-	-	219	(11)
Adjustments due to depreciation	-	(202)	-	(6.908)
	<u>3.238</u>	<u>(202)</u>	<u>631</u>	<u>(8.741)</u>

At 31 December 2017 and 2016 the Andbank Group has no liabilities associated with non-current assets and disposal groups which have been classified as held for sale.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(18) Financial liabilities at amortised cost**

Details of this caption of the statement of financial position at 31 December 2017 and 31 December 2016 are as follows:

<b><u>Financial liabilities at amortised cost</u></b>	Thousands of Euros	
	31/12/2017	31/12/2016
Deposits	3.245.242	3.998.214
Central banks	12.166	12.697
Credit institutions	394.053	542.647
Other creditors	2.839.023	3.442.870
Debt securities issued	460.894	212.250
Other financial liabilities	3.123	-
	<u>3.709.259</u>	<u>4.210.464</u>

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 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	
	31/12/2017	31/12/2016
Central banks	12.166	12.697
Current accounts/intraday deposits	12.166	12.478
Term deposits	-	219
Unrestricted time deposits	-	-
Repurchase agreements	-	-
Credit institutions	394.053	542.647
Current accounts/intraday deposits	106.546	329.022
Term deposits	287.507	213.625
Unrestricted time deposits	-	-
Repurchase agreements	-	-
Other creditors	2.839.023	3.442.870
Current accounts/intraday deposits	2.175.710	2.909.394
Term deposits	663.313	533.476
Unrestricted time deposits	-	-
Repurchase agreements	-	-
	<u>3.245.242</u>	<u>3.998.214</u>

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### b) Debt securities

- i) The balance of this line item of the accompanying statement of financial position at 2017 and 2016 includes debt issues amounting to Euros 52,434 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 50,000 thousand. On 29 December 2014 the INAF granted authorisation to issue perpetual contingent subordinated bonds of Euros 35,000 thousand and 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 INAF.

Taking as a reference 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 both issues being subscribed and accruing interest at an annual rate of 5.5%.

- ii) 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 2017 and 2016:

	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Debt securities issued in 2013	1.043	18.043	7.114	-	26.200
Debt securities issued in 2014	-	-	-	-	-
Debt securities issued in 2015	-	30.078	-	-	30.078
Debt securities issued in 2016	-	20.117	23.349	-	43.466
Debt securities issued in 2017	-	308.717	-	-	308.717
	<u>1.043</u>	<u>376.955</u>	<u>30.463</u>	<u>-</u>	<u>408.460</u>

Amongst the issues made by Andorra Capital Agricol 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 2017 was secured by part of the Andbank Group's mortgage loan portfolio for an amount of Euros 165,818 thousand, and by a sum of Euros 6,998 thousand deposited in a correspondent account.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

c) Other financial liabilities

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

	Thousands of Euros	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Bonds payable	-	-
Guarantees received	-	-
Clearing houses	2.354	-
Deposit accounts	-	-
Special accounts	-	-
Financial guarantees	-	-
Other items	<u>769</u>	<u>-</u>
	<u><u>3.123</u></u>	<u><u>-</u></u>

**(19) Provisions**

A breakdown of this line item of the statement of financial position at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Pensions and other benefit obligations and other long-term employee benefits	7.331	7.081
Legal issues and litigation for outstanding taxes	3.283	-
Commitments and guarantees given	1.099	761
Other provisions	<u>28.341</u>	<u>86.549</u>
	<u><u>40.054</u></u>	<u><u>94.391</u></u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

Movement by type of provision during 2017 and 2016 was as follows:

	Thousands of Euros				
	Pensions and other benefit obligations and other long-term employee benefits	Legal issues and litigation for outstanding taxes	Commitments and guarantees given	Other provisions	<b>Total</b>
<b>Balance at 1 January 2017</b>	7.081	-	761	86.549	94.391
Net provisions	522	3.283	51	2.119	5.975
Amounts drawn down	(588)	-	-	-	(588)
Other movements	316	-	287	(60.327)	(59.724)
<b>Balance at 31 December 2017</b>	<b>7.331</b>	<b>3.283</b>	<b>1.099</b>	<b>28.341</b>	<b>40.054</b>

	Thousands of Euros				
	Pensions and other benefit obligations and other long-term employee benefits	Legal issues and litigation for outstanding taxes	Commitments and guarantees given	Other provisions	<b>Total</b>
<b>Balance at 1 January 2016</b>	7.416	4.112	1.461	278.912	291.901
Net provisions	364	-	(222)	-	142
Amounts drawn down	(1.312)	-	(277)	-	(1.589)
Other movements	613	(4.112)	(201)	(192.363)	(196.063)
<b>Balance at 31 December 2016</b>	<b>7.081</b>	<b>-</b>	<b>761</b>	<b>86.549</b>	<b>94.391</b>

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 Agrícola 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

The actuarial variables and other assumptions used in the valuation at 31 December 2017 for retired personnel and early retirees are as follows:

	<u>Retirees</u>	<u>Early retirees</u>
Mortality tables	PERmf2000	PERmf2000
Nominal discount rate	3,50%	3,50%
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 2017 and 2016 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 2017 balances managed off the balance sheet amounted to Euros 355 thousand, whilst internal funds recognised under Pensions and other obligations amount to Euros 4,221 thousand (Euros 4,535 thousand at 31 December 2016).

b) Other provisions

Other provisions comprise provisions for litigation, provisions associated with the insurance activity and other provisions not included in previous captions.

The Bank's directors do not expect that the resolution of this litigation could significantly affect the financial statements.

**(20) Equity**

Details of movement in the Andbank Group's equity in 2017 and 2016 is shown in the statement of changes in equity.

a) Capital

At 31 December 2017 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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, accumulated gains, revaluation reserves and other reserves

Details of these line items of the statement of financial position at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
Share premium	73.441	73.441
Accumulated gains	375.208	341.595
Legal reserve	15.768	15.768
Guarantee reserves	25.929	24.722
Statutory reserves	-	-
Voluntary reserves	331.906	299.500
Own share reserves	1.605	1.605
Revaluation reserves	1.942	1.942
	<u>450.591</u>	<u>416.978</u>

— Share premium

At 31 December 2017 the balance of this line item of the statement of financial position amounted to Euros 73,441 thousand (Euros 73,441 thousand at 2016).

— 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 2017 the legal reserve was fully appropriated.

— Guarantee reserves

This caption includes the deposit guarantee reserves and other operating obligations which have to be deposited with the INAF by entities belonging to the financial system.

In compliance with Law 01/2011 of 2 February 2011 on the creation of a deposit guarantee system for banks, guarantee reserves totalled Euros 25,929 thousand and Euros 24,722 thousand at 31 December 2017 and 2016, respectively (see note 42).

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

— Voluntary reserves

Voluntary reserves include an amount of Euros 63,794 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 INAF authorises their distribution.

— Consolidation reserves

At 31 December 2017 and 2016 consolidation reserves correspond to the following companies:

	Thousands of Euros	
	2017	2016
Andorra Gestió Agrícol Reig, SAU.	1.053	676
Andorra Assegurances Agrícol Reig, SA	352	839
Nobilitas N.V. Group	4.147	(939)
Andbank Bahamas (Limited)	16.538	16.107
Andbank Luxembourg Group	6.906	4.702
Andbank España Group	(2.893)	(827)
AndPrivate Consulting	-	(2.843)
Andbank Panamá	7.505	4.118
APW Consultores Financeiros Lda	(646)	(2.400)
Other	4.793	11.513
	37.755	30.946



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

Movement in consolidation reserves in 2017 and 2016 is as follows:

	Thousands of Euros
Balance at 31 December 2015	24.573
Distribution of 2015 profit to reserves	7.521
Other consolidation adjustments	<u>(1.148)</u>
Balance at 31 December 2016	<u>30.946</u>
Distribution of 2016 profit to reserves	8.859
Other consolidation adjustments	<u>(2.050)</u>
Balance at 31 December 2017	<u>37.755</u>

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 2017.

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 2017.

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

On 25 October 2011 the acquisition of LLA Participações, 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 Medipatrimonia Invest, SL and Andbank Wealth Management SGIIC, SAU by Andbank España, S.A. generated goodwill on consolidation of Euros 1,283 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 Andbank 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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.

— Other reserves

Reserves included under Others in Other reserves comprise first-time adoption adjustments in accordance with IFRS. Note 41 to these annual accounts includes an explanation and reconciliation of these reserves.

c) Profits/losses attributable to the Andbank Group

Details of profits/losses contributed by each of the companies comprising the Andbank Group during 2017 and 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Andorra Banc Agrícola Reig, SA</b>	<b>35.498</b>	<b>35.783</b>
<b>Fully consolidated companies:</b>	<b>7.281</b>	<b>18.059</b>
Andorra Gestió Agrícola Reig, SA	1.301	3.025
Andbank Bahamas (Limited)	1.964	4.055
Nobilitas N.V. Group	20	(46)
Columbus de México, SA, CV	152	98
And Private Wealth, SA	20	117
Quest Capital Advisers	385	1.509
Andbank Wealth Management LLC Group	(354)	(1.369)
Consolidation adjustments Nobilitas Group	(183)	(401)
Andbank Luxembourg Group	(4.839)	(1.039)
Andbank (Luxembourg) SA	(4.895)	(404)
Andbank Asset Management Luxembourg, SA	1	(527)
Consolidation adjustments Andbank Lux Group	55	(108)
Andbank España Group	5.719	4.183
Andbank España, SA	2.281	2.744
Andbank Wealth Mangament,SGIIC, SAU	1.798	1.438
Medipatrimonia Invest, SL	129	(6)
APC SSAA	22	7
Consolidation adjustments Andbank España Group	1.489	-
Andbank (Panamá), SA	4.732	10.246
APW Consultores Financeiros Ltda.	(576)	(498)
Andbank Monaco, SAM	604	1.173
Banco Andbank Brasil Ltda.	(1.087)	(1.748)
Andorra Assegurances Agrícola Reig, SA	(668)	358
Other	111	(1.650)
<b>Consolidation adjustments</b>	<b>(3.626)</b>	<b>(9.200)</b>
	<b>39.153</b>	<b>44.642</b>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(21) Accumulated other comprehensive income - Equity**

Details of accumulated other comprehensive income during 2017 and 2016 by type of instrument are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
Items that will not be classified to profit or loss	-	-
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	-	-
Other valuation adjustments	-	-
Items that may be classified to profit or loss	(2.011)	772
Hedge of net investments in foreign operations (effective portion)	-	-
Foreign currency translation	-	-
Hedging derivatives Cash flow hedges (effective portion)	-	-
Available-for-sale financial assets	(2.011)	772
Debt instruments	(2.587)	772
Equity instruments	576	-
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	-	-
	<u>(2.011)</u>	<u>772</u>
Income tax relating to items that can be reclassified to profit or loss	201	(77)
	<u>(1.810)</u>	<u>695</u>

The statement of recognised income and expenses for 2017 and 2016, 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 own shares classified as available-for-sale financial assets.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

**(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 2017 and 31 December 2016 is as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Loan commitments given</b>	248.472	224.357
<i>Of which: With defaults:</i>	4	1
Central banks	-	-
Public entities	12.590	3.564
Other financial companies	3.280	14.829
Non-financial companies	92.975	83.326
<i>Of which SMEs</i>	8.055	44.075
Home	139.627	122.638
<b>Financial guarantees given</b>	111.664	85.374
<i>Of which: With defaults:</i>	-	-
Central banks	-	-
Public entities	71	71
Other financial companies	11.528	10.357
Non-financial companies	42.253	55.576
<i>Of which SMEs</i>	7.287	30.639
Home	57.812	19.370
<b>Other commitments given</b>	6.882	7.246
<i>Of which: With defaults:</i>	-	-
Central banks	-	-
Public entities	-	-
Other financial companies	-	-
Non-financial companies	-	-
<i>Of which SMEs</i>	-	-
Home	6.882	7.246

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

	Thousands of Euros			
	31/12/2017		31/12/2016	
	Maximum amount of guarantee	Nominal amount	Maximum amount of guarantee	Nominal amount
<b>Loan commitments received</b>	<b>3.359.583</b>	<b>1.247.644</b>	<b>2.447.715</b>	<b>937.697</b>
Central banks	-	-	-	-
Public entities	-	-	-	-
Financial companies	55.433	14.140	289.567	18.983
Other non-financial companies	1.320.195	523.738	1.007.273	462.551
<i>Of which SMEs</i>	47.191	12.330	107.375	19.207
Home	1.983.955	709.766	1.150.876	456.163
<b>Financial guarantees received</b>	<b>206.206</b>	<b>78.308</b>	<b>45.453</b>	<b>27.805</b>
Central banks	-	-	-	-
Public entities	-	-	-	-
Financial companies	2.202	1.627	10.836	9.871
Other non-financial companies	98.314	26.598	23.862	12.926
<i>Of which SMEs</i>	6.711	1.784	7.602	2.524
Home	105.690	50.083	10.756	5.008
<b>Other commitments received</b>	<b>267</b>	<b>267</b>	<b>589</b>	<b>589</b>
Central banks	-	-	-	-
Public entities	-	-	-	-
Financial companies	-	-	-	-
Other non-financial companies	-	-	-	-
<i>Of which SMEs</i>	-	-	-	-
Home	267	267	589	589

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(23) Third party transactions**

A breakdown of the most significant accounts included in this line item at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
Shares and other variable-income securities	2.825.428	2.547.591
Bonds and other fixed-income securities	3.372.806	4.411.606
Units in investment funds not managed by the Group	6.428.878	5.563.312
Units in investment funds managed by the Group	228.141	430.409
Other	9.331	10.427
	<u>12.864.584</u>	<u>12.963.345</u>

Details of assets managed for third parties, whether held in custody or not by the Andbank Group at 31 December 2017 and 2016 are as follows:

	Thousands of Euros			Thousands of Euros		
	31/12/2017			31/12/2016		
	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	1.886.433	879.014	2.765.447	1.811.666	179.389	1.991.055
Individual customer portfolio managed discretionally	1.528.073	6.632.817	8.160.890	1.332.443	5.763.677	7.096.120
Other individual customers	11.302.456	-	11.302.456	12.902.532	-	12.902.532
	<u>14.716.962</u>	<u>7.511.831</u>	<u>22.228.793</u>	<u>16.046.641</u>	<u>5.943.066</u>	<u>21.989.707</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(24) Interest income and expense**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 2017 and 31 December 2016 are as follows:

	Thousands of Euros	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Financial assets held for trading	9.004	7.517
Financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	5.615	8.034
Loans and receivables	31.524	46.100
Of which: Loans and advances	28.942	42.994
Held-to-maturity investments	6.230	13.046
Other assets	-	-
Derivatives - hedge accounting, interest rate risk	-	-
	<u>52.373</u>	<u>74.697</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

b) Interest expense

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 expense recognised in the consolidated income statement at 31 December 2017 and 31 December 2016 are as follows:

	<u>Thousands of Euros</u>	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Financial liabilities held for trading	-	-
Financial liabilities at fair value through profit or loss	28	-
Financial liabilities at amortised cost	20.528	33.964
Of which: deposits	15.812	29.267
Of which: Debt securities issued	4.716	4.697
Other liabilities	2.788	2.829
Interest expense on assets	-	-
Derivatives - hedge accounting, interest rate risk	-	-
	<u>23.344</u>	<u>36.793</u>



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(25) Dividend income**

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

	Thousands of Euros	
	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>Dividend income</b>		
Available-for-sale financial assets	<u>272</u>	<u>195</u>
	<u>272</u>	<u>195</u>

**(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 2017 and 2016 is as follows:

	Thousands of Euros	
	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>Fee and commission income</b>		
Fees and commission on services	20.517	17.547
Income from services	17.561	33.496
Fees and commission on giros	2.842	6.466
Fees and commission on safe deposit rental	1.641	569
Fees and commission on credit cards	2.219	9.783
Fees and commission on account maintenance	8.481	14.154
Other	2.378	2.524
Surety bonds	689	378
Fees and commission on transferable securities	148.347	138.162
Stock exchange transactions on behalf of customers	65.561	64.300
Securities depository management	20.629	14.262
Financial transactions	<u>62.157</u>	<u>59.600</u>
	<u>187.114</u>	<u>189.583</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(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 2017 and 2016 is as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Fee and commission expenses</b>		
Securities deposits	1.147	2.580
Fees and commission on credit cards	1.241	1.361
Swift expenses	247	250
Representation expenses	33.865	37.217
Other	3.647	819
	<u>40.147</u>	<u>42.227</u>

**(28) Gains or losses on financial assets and financial 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 financial liabilities held for trading, net; Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net; and Gains and losses resulting from hedge accounting, net.

Details of the balances of this line item of the accompanying income statement at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Gains or losses on financial assets and financial liabilities</b>		
Gains or losses on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss, net	3.539	1.930
Available-for-sale financial assets	<u>3.539</u>	<u>1.930</u>
Loans and receivables	-	-
Held-to-maturity investments	-	-
Financial liabilities at amortised cost	-	-
Other	-	-
Gains or losses on financial assets and financial liabilities held for trading, net	<u>27.467</u>	<u>54.060</u>
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-
Gains or losses from hedge accounting, net	<u>49</u>	<u>408</u>
	<u>31.055</u>	<u>56.398</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

- 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 2017 and 31 December 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Gains or losses on financial assets and financial liabilities held for trading, net</b>		
Derivatives	9.093	10.531
Equity instruments	(100)	2.984
Debt securities	18.474	40.545
	<u>27.467</u>	<u>54.060</u>

- b) Details of Gains or losses resulting from hedge accounting, net at 31 December 2017 and 31 December 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Gains or losses from hedge accounting, net</b>		
Changes in fair value of hedging instrument (including discontinued operations)	449	(3.142)
Changes in fair value of hedged item attributable to hedged risk	(400)	3.550
Ineffectiveness in results of cash flow hedging	-	-
Ineffectiveness in results of hedging of net investments in foreign operations	-	-
	<u>49</u>	<u>408</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(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 2017, excluding those corresponding to the portfolio of financial assets and financial liabilities at fair value through profit or loss, amount to Euros 12,303 thousand (Euros 10,546 thousand at 31 December 2016).

**(30) Other operating income/expenses**

A breakdown of the balance of this line item in the income statement at 31 December 2017 and 31 December 2016 is as follows:

	Thousands of Euros			
	31/12/2017		31/12/2016	
	Income	Expenses	Income	Expenses
<b><u>Other operating income and other operating expense</u></b>				
Changes in fair value of tangible assets measured using the fair value model	-	-	-	-
Investment property	-	-	-	-
Operating leases other than investment property	1.202	(876)	-	-
Other	6.579	(6.948)	6.371	(10.401)
	<u>7.781</u>	<u>(7.824)</u>	<u>6.371</u>	<u>(10.401)</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(31) Administrative expenses**a) Personnel expenses

A breakdown of the amounts included under this line item in the consolidated income statement for 2017 and 2016 is as follows:

	<u>Thousands of Euros</u>	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Salaries and bonuses to current employees	78.596	82.869
Social Security contributions	13.385	14.307
Other salary commitments	854	17
Termination benefits	1.853	1.000
Training expenses	-	-
Equity-based remuneration	-	-
Other personnel expenses	9.761	8.808
	<u>104.449</u>	<u>107.001</u>

b) Other administrative expenses

A breakdown of this line item of the consolidated income statements at 31 December 2017 and 31 December 2016 is as follows:

	<u>Thousands of Euros</u>	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Furniture, fittings and materials	12.844	15.935
Utilities	801	447
IT and communications	16.074	16.334
Publicity and advertising	3.873	1.890
Security and fund courier services	553	680
Insurance and self-insurance policies	684	249
Independent professional services	17.284	13.002
Repairs and maintenance	2.010	1.461
Administration	3.557	4.703
Other	2.905	10.261
	<u>60.585</u>	<u>64.962</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

**(32) Provisions or reversals of provisions**

At 31 December 2017 and 31 December 2016 net charges to this line item of the consolidated income statement are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
<b>Provisions or reversals of provisions</b>		
Commitments and guarantees given	-	-
Other provisions	(5.975)	(142)
	<u>(5.975)</u>	<u>(142)</u>

**(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 income statement at 31 December 2017 and 31 December 2016 are as follows:

	Thousands of Euros		
	Gains	(Losses)	Total net of gains and losses
<b>31 December 2017</b>			
Financial assets at cost	-	-	-
Available-for-sale financial assets	-	-	-
Loans and receivables	5.714	-	5.714
Held-to-maturity investments	-	-	-
	<u>5.714</u>	<u>-</u>	<u>5.714</u>
<b>31 December 2016</b>			
Financial assets at cost	-	-	-
Available-for-sale financial assets	-	-	-
Loans and receivables	-	(4.326)	(4.326)
Held-to-maturity investments	-	-	-
	<u>-</u>	<u>(4.326)</u>	<u>(4.326)</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(34) Impairment or reversal of impairment on non-financial assets**

At 31 December 2017 and 2016 the Andbank Group does not present a significant balance classified as impairment or reversal of impairment on non-financial assets.

**(35) Gains or losses on non-current assets and disposal groups of classified as held for sale not permitted as discontinued operations.**

Details of the balance of this line item of the consolidated income statements at 31 December 2017 and 31 December 2016 are as follows:

	Thousands of Euros	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Net gains on sale of buildings	3.238	(1.202)
Impairment of non-current assets held for sale	(202)	(6.908)
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	-	-
	<u>3.036</u>	<u>(8.110)</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(36) Balances and transactions with related parties**

Andorra Banc Agrícola 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. A breakdown of transactions with related parties identified in 2017 and 2016 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 2017 and 2016 are as follows:

	Thousands of Euros	
	Outstanding balances	
2017	Key management personnel of the Bank or its Parent	Other related parties
Selection of financial assets	4.885	144.125
Loans and advances	4.885	144.125
Of which: impaired financial assets	-	1
Selection of financial liabilities	5.469	17.691
Deposits	5.469	17.691
Nominal amount of loan, financial guarantee and other commitments given	69	12.112
Income statement	249	2.929
Finance income	171	2.603
Finance costs	-	(47)
Fee and commission income	78	373
Fee and commission expenses	-	-
Memorandum items	70.804	64.249
Security deposits and other securities held in custody	70.804	64.249



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

2016	Thousands of Euros	
	Outstanding balances	
	Key management personnel of the Bank or its Parent	Other related parties
Selection of financial assets	11.303	211.800
Loans and advances	11.303	211.800
Of which: impaired financial assets	-	1
Selection of financial liabilities	10.326	26.522
Deposits	10.326	26.522
Nominal amount of loan, financial guarantee and other commitments given	29	8.843
Income statement	177	3.107
Finance income	195	2.817
Finance costs	(3)	(105)
Fee and commission income	21	478
Fee and commission expenses	(36)	(83)
Memorandum items	59.626	147.540
Security deposits and other securities held in custody	59.626	147.540

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.

Remuneration accrued by the Bank's key personnel include short-term benefits and other long-term benefits. Details of this remuneration in 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Remuneration		
Fixed remuneration	4.587	3.951
Variable and deferred remuneration	2.546	2.326
Other personnel expenses	943	128
Total	8.076	6.405

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(37) Taxation**

The Andbank Group's Andorran companies have been filing income tax returns since 2012. 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 item of the consolidated income statement are as follows:

	<u>Thousands of Euros</u>	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Current income tax for the year	(3.010)	(3.602)
Deferred tax income	-	315
Income tax adjustments	<u>1.178</u>	<u>708</u>
Local income tax	<u>(1.832)</u>	<u>(2.579)</u>
Foreign income tax	<u>(2.499)</u>	<u>(3.472)</u>
Total	<u>(4.331)</u>	<u>(6.051)</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 net tax payable that the Andbank Group expects to declare for its Andorran companies once these financial statements have been authorised for issue, together with details of forecast payments, is as follows:

	Thousands of Euros	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Accounting profit before tax (*)	38.737	44.891
Permanent differences	<u>1.110</u>	<u>(3.733)</u>
originating in the year	1.110	(3.733)
originating in prior years	-	-
Accounting income	<u>39.847</u>	<u>41.158</u>
Temporary differences	<u>-</u>	<u>-</u>
originating in the year	-	-
Taxable income	<u>39.847</u>	<u>41.158</u>
Tax rate of 10%	<u>3.985</u>	<u>4.116</u>
Tax payable	<u>3.985</u>	<u>4.116</u>
Deductions and credits	<u>(975)</u>	<u>(514)</u>
Income tax expense for the year	<u>3.010</u>	<u>3.602</u>
Withholdings and payments on account	<u>(1.587)</u>	<u>(3.960)</u>
Tax difference	<u>1.423</u>	<u>358</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

A reconciliation between accounting profit before tax and the aggregate income tax expense of the Andorran companies for 2017 and 2016 is as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
Income and expenses for the year	38.737	44.891
10% of the income and expenses balance for the year	3.874	4.489
Tax effect of permanent differences	111	(373)
Deductions and credits for the current year	(975)	(514)
Income tax expense	<u>3.010</u>	<u>3.602</u>

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 2017. Movement in the different deferred tax assets and liabilities during 2017 and 2016 has been as follows (in thousands of Euros):

	Deferred tax assets		Deferred tax liabilities	
	2017	2016	2017	2016
Opening balance	11197	11.628	67	5.920
Increases	905	75	-	67
Decreases	(2)	(506)	(58)	(5.920)
Closing balance	<u>12.100</u>	<u>11.197</u>	<u>9</u>	<u>67</u>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

Details, by type, of the origin of deferred tax assets and liabilities at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
Deferred tax assets		
Differences due to temporary charging of income and expenses		
Provisions and other impairment	12.089	11.197
Other	11	-
	<u>12.100</u>	<u>11.197</u>
Deferred tax liabilities		
Other	9	67
	<u>9</u>	<u>67</u>

The balance pending application at 31 December 2016 from the deductions generated by Andbank Group companies subject to the Andorran Income Tax Law amounts to Euros 0 thousand.

**(38) Risk management**a) General model for risk management and control

One of the Andbank Group's key issues and priority objectives has always been to achieve a robust and efficient risk control and management model. 2017 has been a key year with regard to developing and strengthening the integral risk management model, guaranteeing that it covers all risks to which the Andbank Group is exposed and enables optimum management of its capital.

In order to ensure a shift towards advanced risk management, during 2016 the Andbank Group 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 have been implemented and the integrated risk management model has already become a reality for the Andbank Group.

This new model for managing and controlling risks is fundamental for 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.

The established control environment enables the risk profile to be kept within the risk appetite level 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 three specialised advisors in charge of guaranteeing compliance with regulations and conformity with the best international standards with regard to risk control and management.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

- 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**

In a session held on 29 February 1996, the Principality of Andorra's General Council approved the Law regulating capital adequacy and liquidity criteria of financial institutions.

This law obliges banks to maintain a minimum capital adequacy ratio of 10%, based on the recommendation of the Basel Committee on Banking Regulations and Supervisory Practices, calculated on the basis of a ratio that relates the qualifying equity to the weighted risk assets as per the degree of risk of such assets. Banks are also obliged to maintain a liquidity ratio of at least 40%.

The capital adequacy and liquidity ratios of the consolidated financial statements, determined in accordance with this law, were 24.57% and 75.80%, respectively, at 31 December 2017 (25.50% and 65.58% at 31 December 2016).

The Law regulating capital adequacy and liquidity criteria of financial institutions also restricts the concentration of risks in a single beneficiary up to a maximum of 20% of the equity of the bank. The law also stipulates that the accumulation of risks that by themselves exceed 5% of the equity cannot exceed the limit of 400% of the above-mentioned equity. The risk maintained with the members of the board of directors cannot exceed 15% of the equity. These risks are weighted in accordance with the aforementioned law.

During the year the Andbank Group has complied with the requirements of this law. The maximum risk concentration of risk in favour of a single beneficiary was 10.95% of equity (18.80% in 2016). Loans or other operations involving risk in a single beneficiary that exceed 5% of equity have not exceeded an accumulation of risks of 81.74% in the aggregate (216.79% in 2016).

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

In addition, pursuant to the capital requirements in the framework of Basel III (see note 11.h) agreed by the Basel Banking Supervision Committee in 2010 which require at 2017 year end a minimum common equity tier 1 ratio of 5.75%, a minimum tier 1 capital ratio of 7.25% and a minimum capital ratio of 9.25% (including common tier 1 capital items, additional tier 1 capital items as well as tier 2 capital items), the Andbank Group stands at well above these minimum ratios at 31 December 2017 and presents a comfortable situation in order to comply with any regulations complementing current ones. In this stricter regulatory environment, Andbank Group's fully-loaded capital ratios at 31 December 2017 are:

- Common equity tier 1 ratio (CET1) of 13.19%.
- Tier 1 capital ratio of 15.83%.
- Capital ratio of 15.94%.

It should also be highlighted that the Andbank Group's current ratios amply meet the minimum capital requirements to enter into force in 2019 and which set a minimum of 7% for the CET1 ratio, 8.5% for the Tier 1 ratio and 10.5% for the capital ratio.

**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.

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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

## — 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.



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

## — 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.

As explained in more detail in note 41 (First-time adoption of IFRS), Andorra is immersed in an ongoing process of adaptation to international standards. In 2017 the Bank started to apply International Accounting Standard 39 (IAS 39) instead of the Accounting Plan for Andorra. For 2018 the Bank will have to implement another change regarding Loans and receivables, by applying International Financial Reporting Standard 9 (IFRS 9).

Legislation permits, provided that there is a regulatory change, that the potential impacts deriving from first-time adoption are charged against reserves. With the implementation of IAS 39, the balancing entries of the asset which have been the most affected have been the provisions of the loan portfolio and foreclosed assets. Note 41 states that the regulatory changes have led to a gross impact of Euros 106,471 thousand on reserves, Euros 46,028 thousand of which correspond to Loans and receivables and Euros 35,080 thousand to Foreclosed assets.

IFRS 9 entered into force in 2018 and for this reason the Andbank Group is working to adapt its processes to the new standard for classifying financial instruments, accounting for hedges and estimating the impairment of credit risk.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

*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 2017 and 2016, 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	
	31/12/2017	31/12/2016
Financial assets held for trading	339.490	426.334
Derivatives	80.720	46.401
Equity instruments	9.635	199
Debt securities	249.135	379.734
Loans and advances	-	-
Financial assets at fair value through profit or loss	-	-
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Available-for-sale financial assets	230.468	317.804
Equity instruments	27.543	39.355
Debt securities	202.925	278.449
Loans and advances	-	-
Loans and receivables	1.664.601	1.703.068
Debt securities	-	-
Loans and advances	1.664.601	1.703.068
Held-to-maturity investments	291.569	449.128
Debt securities	291.569	449.128
Loans and advances	-	-
Derivatives - Hedge accounting	90	-
<b>Total exposure for financial assets</b>	<b>2.526.218</b>	<b>2.896.334</b>
	-	-
Loan commitments given	248.472	224.357
Financial guarantees given	111.664	85.375
Other commitments and other guarantees given	-	-
<b>Total commitments and guarantees given</b>	<b>360.136</b>	<b>309.732</b>
<b>Total maximum exposure to credit risk</b>	<b>2.886.354</b>	<b>3.206.066</b>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 IAS 39 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

*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:

<b>Rating</b>	31/12/2017	31/12/2016
AAA	446.170	330.128
AA+	10.425	636
AA	25.265	200.622
AA-	10.356	51.486
Aa3	358	-
A+	-	55.586
A	-	86
A-	86.331	2.142
BBB+	170.868	5.488
BBB	-	310.382
BBB-	-	121.973
BB+	11.983	1.643
BB	-	23.139
BB-	-	-
B+	-	126
B	26	-
B-	-	16.054
CCC+	-	-
CCC	-	31
CCC-	-	-
CC	-	-
C	-	-
DDD	-	-
DD	-	-
D	-	-
Not applicable	19.025	27.614

*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 2017 and 2016, 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:

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

	Matured but unimpaired assets						Carrying amount of unimpaired assets	Specific valuation adjustments for financial assets, estimated individually	Specific valuation adjustments for financial assets, estimated collectively	Collective valuation adjustments for losses incurred but not reported	Accumulated write-offs
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 any	> 1 year					
<b>31 December 2017</b>											
Equity instruments	-	-	-	-	-	-	-	-	-	-	-
Of which: at cost	-	-	-	-	-	-	-	-	-	-	-
Of which: credit institutions	-	-	-	-	-	-	-	-	-	-	-
Of which: other financial companies	-	-	-	-	-	-	-	-	-	-	-
Of which: non-financial companies	-	-	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	8.464	805	2.295	-	-	-	48.349	25.954	22.435	10.998	89.232
Central banks	-	-	-	-	-	-	-	-	-	-	-
Public entities	23	-	-	-	-	-	-	-	-	153	-
Credit institutions	-	-	-	-	-	-	-	-	-	28	-
Other financial companies	359	9	-	-	-	-	-	-	-	-	167
Non-financial companies	2.245	94	479	-	-	-	16.483	18.447	4.581	4.954	34.957
Home	5.836	702	1.816	-	-	-	31.866	7.507	17.854	5.863	54.108
<b>TOTAL</b>	<b>8.464</b>	<b>805</b>	<b>2.295</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48.349</b>	<b>25.954</b>	<b>22.435</b>	<b>10.998</b>	<b>89.232</b>
Loans and advances for products, collateral security and subordination	-	-	-	-	-	-	-	-	-	-	-
On demand with short notice (current account)	6.069	141	46	-	-	-	403	-	332	126	-
Credit cards	30	-	-	-	-	-	42	-	40	293	-
Customer portfolio	-	-	-	-	-	-	2	-	2	44	-
Finance leases	-	-	-	-	-	-	-	-	-	-	-
Reverse repurchase loans	-	-	-	-	-	-	-	-	-	-	-
Other term loans	2.365	663	2.249	-	-	-	47.128	25.954	22.061	10.535	-
Advances other than loans	-	-	-	-	-	-	-	-	-	-	-
Of which: Mortgage loans (loans secured by real estate)	295	442	434	-	-	-	28.381	19.264	17.454	7.375	-
Of which: other loans with collateral security	2.501	217	1.744	-	-	-	3.448	96	343	2.033	-
Of which: consumer credit	5.444	259	1.291	-	-	-	8.303	2.314	2.776	898	-
Of which: home loans	121	11	434	-	-	-	25.967	2.552	15.831	3.800	-
Of which: Project financing loans	1.027	3	14	-	-	-	12.155	16.879	2.894	4.410	-

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

	Matured but unimpaired assets						Carrying amount of unimpaired assets	Specific valuation adjustments for financial assets, estimated individually	Specific valuation adjustments for financial assets, estimated collectively	Collective valuation adjustments for losses incurred but not reported	Accumulated write-offs
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 any	> 1 year					
<b>31 December 2016</b>											
Equity instruments	-	-	-	-	-	-	-	-	-	-	-
Of which: at cost	-	-	-	-	-	-	-	-	-	-	-
Of which: credit institutions	-	-	-	-	-	-	-	-	-	-	-
Of which: non-financial companies	-	-	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	1.719	3.261	397	-	-	-	66.121	33.042	29.048	17.351	83.244
Central banks	-	-	-	-	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-	-	-	245	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-
Other financial companies	33	-	-	-	-	-	12	-	11	121	-
Non-financial companies	381	6	34	-	-	-	29.391	25.473	4.983	10.711	32.591
Home	1.305	3.255	363	-	-	-	36.718	7.569	24.054	6.274	50.653
<b>TOTAL</b>	<b>1.719</b>	<b>3.261</b>	<b>397</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66.121</b>	<b>33.042</b>	<b>29.048</b>	<b>17.351</b>	<b>83.244</b>
Loans and advances for products, collateral security and subordination	-	-	-	-	-	-	-	-	-	-	-
On demand with short notice (current account)	241	-	8	-	-	-	357	-	336	193	-
Credit cards	-	-	-	-	-	-	9	-	9	129	-
Customer portfolio	-	-	-	-	-	-	31	-	29	114	-
Finance leases	-	-	-	-	-	-	-	-	-	-	-
Reverse repurchase loans	-	-	-	-	-	-	-	-	-	-	-
Other term loans	1.478	3.260	394	-	-	-	65.724	33.042	28.673	16.916	-
Advances other than loans	-	-	-	-	-	-	-	-	-	-	-
Of which: Mortgage loans (loans secured by real estate)	1.393	2.792	387	-	-	-	44.695	24.144	18.995	11.383	-
Of which: other loans with collateral security	1.443	2.877	241	-	-	-	9.073	907	632	3.426	-
Of which: consumer credit	53	3	-	-	-	-	25.914	2.492	16.295	5.527	-
Of which: home loans	5	17	31	-	-	-	4.190	2.393	1.481	293	-
Of which: Project financing loans	14	2	8	-	-	-	2.020	14.045	598	4.592	-

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

*Impairment losses*

Movements during 2017 and 2016 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:

<u>31 December 2017</u>	Opening balance	Increases due to provisions for estimated loan losses during the period	Decreases due to amounts for reversed estimated loan losses during the period	Decreases due to amounts charged to valuation adjustments	Transfers between valuation adjustments	Other adjustments	Closing balance
Equity instruments							
<b>Specific valuation adjustments for financial assets, estimated individually</b>	<b>34.253</b>	<b>1.359</b>	<b>2.012</b>	<b>5.178</b>	<b>1.885</b>	<b>584</b>	<b>25.954</b>
Debt securities	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-
Non-financial companies	26.665	1.055	1.850	5.178	1.885	360	18.447
Home	7.588	304	161	-	-	224	7.507
<b>Specific valuation adjustments for financial assets, estimated collectively</b>	<b>30.912</b>	<b>9.821</b>	<b>11.155</b>	<b>1.991</b>	<b>5.152</b>	<b>-</b>	<b>22.435</b>
Debt securities	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial companies	11	258	60	-	209	-	-
Non-financial companies	4.983	2.853	1.826	-	1.430	-	4.581
Home	24.054	6.709	6.944	1.991	3.974	-	17.854
<b>Collective valuation adjustments for losses on financial assets incurred but not reported</b>	<b>17.352</b>	<b>5.444</b>	<b>11.496</b>	<b>301</b>	<b>-</b>	<b>-</b>	<b>10.998</b>
Debt securities	-	-	-	-	-	-	-
Loans and advances	17.352	5.444	11.496	301	-	-	10.998
<b>Total</b>	<b>80.793</b>	<b>16.623</b>	<b>22.939</b>	<b>7.470</b>	<b>7.036</b>	<b>584</b>	<b>59.387</b>

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

<u>31 December 2016</u>	Opening balance	Increases due to provisions for estimated loan losses during the period	Decreases due to amounts for reversed estimated loan losses during the period	Decreases due to amounts charged to valuation adjustments	Transfers between valuation adjustments	Other adjustments	Closing balance
Equity instruments							
<b>Specific valuation adjustments for financial assets, estimated individually</b>	<b>31.659</b>	<b>6.123</b>	<b>2.732</b>	<b>796</b>	<b>876</b>	-	<b>33.042</b>
Debt securities	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-
Non-financial companies	27.442	2.727	2.708	796	876	-	25.473
Home	4.216	3.396	24	-	-	-	7.569
<b>Specific valuation adjustments for financial assets, estimated collectively</b>	<b>41.602</b>	<b>14.540</b>	<b>13.880</b>	<b>9.276</b>	<b>3.939</b>	-	<b>29.048</b>
Debt securities	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-
Public entities	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial companies	783	13	785	-	-	-	11
Non-financial companies	8.980	3.678	3.107	4.100	468	-	4.983
Home	31.840	10.849	9.988	5.176	3.471	-	24.054
<b>Collective valuation adjustments for losses on financial assets incurred but not reported</b>	<b>19.137</b>	<b>6.227</b>	<b>6.617</b>	<b>1.395</b>	-	-	<b>17.351</b>
Debt securities	-	-	-	-	-	-	-
Loans and advances	19.137	6.227	6.617	1.395	-	-	17.351
<b>Total</b>	<b>92.397</b>	<b>26.871</b>	<b>22.545</b>	<b>12.467</b>	<b>4.815</b>	-	<b>79.441</b>



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

*Risk concentration*

Details of the risk concentrations of the different financial instruments, by product and geographical area, at 31 December 2017 and 31 December 2016, are as follows:

Thousands of Euros									
31/12/2017	Financial assets held for trading			Available-for-sale financial assets		Held-to-maturity investments	Loans and advances		
Concentration by country	Debt securities	Equity instruments	Derivatives	Debt securities	Equity instruments	Debt securities	Interbank	Central banks and other demand deposits (interbank)	Gross loans and receivables
Spain	79.352	67	2.307	-	268	1.000	109.891	165.524	315.979
France	22.794	-	-	1.010	-	-	-	15.611	99.497
Italy	3	31	-	-	-	58.338	-	567	3.830
Germany	5.444	-	-	-	-	7.168	-	551	51
Holland	-	-	-	-	-	-	-	-	27.016
Andorra	14.230	57	274	84.173	11.811	-	-	10.421	717.978
Rest of Europe (*)	98.517	5.259	64.313	-	20.378	110.873	103.970	955.041	168.019
USA	15.295	375	-	107.833	(5.217)	114.190	-	208.424	16.759
Latin America	3.951	685	6	9.908	-	-	-	9.499	126.008
Other	9.549	3.161	13.820	-	302	-	-	51.248	34.991
	<b>249.135</b>	<b>9.634</b>	<b>80.720</b>	<b>202.924</b>	<b>27.542</b>	<b>291.569</b>	<b>213.860</b>	<b>1.416.885</b>	<b>1.510.128</b>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

Thousands of Euros									
31/12/2016	Financial assets held for trading			Available-for-sale financial assets		Held-to-maturity investments	Loans and advances		
Concentration by country	Debt securities	Equity instruments	Derivatives	Debt securities	Equity instruments	Debt securities	Interbank	Central banks and other demand deposits (interbank)	Gross loans and receivables
Spain	75.760	-	2.225	5.017	771	1.000	42.368	188.256	236.267
France	98.631	199	-	51.042	201	65.783	-	71.366	107.071
Italy	3	-	-	-	-	68.048	-	427	2.628
Germany	24.229	-	-	20.014	1	7.249	-	1.283	62
Holland	-	-	-	-	-	-	-	-	512
Andorra	22.179	-	2	36.572	13.943	63.744	-	1.514	949.560
Rest of Europe (*)	75.833	-	21.217	54.057	20.514	113.220	81.373	877.590	206.841
USA	57.993	-	-	94.391	68	130.083	-	293.970	5.593
Latin America	7.567	-	2.319	17.356	204	-	-	6.233	123.886
Other	17.539	-	20.638	-	3.924	-	-	101.649	26.349
	<b>379.734</b>	<b>199</b>	<b>46.401</b>	<b>278.449</b>	<b>39.626</b>	<b>449.128</b>	<b>123.741</b>	<b>1.542.288</b>	<b>1.658.768</b>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

*Netting of assets and liabilities*

The Andbank Group presents on the statement 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 Andbank Group 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 2017 and 2016, as well as the balances of collateral and other offsetting agreements:

	Carrying amount	Clearing agreements and collateral	Net exposure
<b><u>31 December 2017</u></b>			
Financial assets			
Derivatives	80.720	(16.986)	63.734
Equity instruments	-	-	-
Debt securities	-	-	-
Loans and advances	274.388	(29.136)	245.252
Financial liabilities			
Derivatives	61.178	(13.317)	47.860
Loans and advances	322.272	(34.220)	288.052
	Carrying amount	Clearing agreements and collateral	Net exposure
<b><u>31 December 2016</u></b>			
Financial assets			
Derivatives	46.401	(8.642)	37.759
Equity instruments	-	-	-
Debt securities	-	-	-
Loans and advances	360.276	(27.448)	332.828
Financial liabilities			
Derivatives	32.641	(19.276)	13.365
Loans and advances	302.379	(23.037)	279.342

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 Andbank Group 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 Andbank Group 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 2017 the average VaR calculated for the trading portfolio was Euros 566 thousand, with a maximum of Euros 1,152 thousand and a minimum of Euros 104 thousand. The average position of the trading portfolio was Euros 449 million. Globally the trading portfolio comprises bonds with good credit ratings and of a very short duration, which determines a very reduced VaR.

The Andbank Group 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).

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The table below shows a summary of the VaR positions from the Andbank Group's trading activity at 31 December 2017 and 2016, 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			
	VaR at 31/12/2017	Average VaR for the period	Maximum VaR for the period	Minimum VaR for the period
<b><u>At 31 December 2017</u></b>				
Interest rate and spread risk	88	533	1.140	79
Currency risk	-	-	-	-
Variable income risk	74	143	167	67
Volatility/matching risk	-	-	-	-
Diversification effect	125	566	1.152	104
<b>Total</b>	<b>125</b>	<b>566</b>	<b>1.152</b>	<b>104</b>

	Thousands of Euros			
	VaR at 31/12/2016	Average VaR for the period	Maximum VaR for the period	Minimum VaR for the period
<b><u>At 31 December 2016</u></b>				
Interest rate and spread risk	2.885	992	2.264	293
Currency risk	-	-	-	-
Variable income risk	174	161	179	146
Volatility/matching risk	-	-	-	-
Diversification effect	2.891	1.007	2.264	329
<b>Total</b>	<b>2.891</b>	<b>1.007</b>	<b>2.264</b>	<b>329</b>

*Exposure to interest rate risk - Non-trading activity*

Interest rate risk is defined as the impact on the market value of the Andbank Group's assets and liabilities resulting from movements in interest rates. The measures the Andbank Group 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 balance sheet currencies and the sensitivity of the market value of own funds to 100 basis point parallel shifts in the yield curve.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

In the historically low interest rate environment of recent years, the Andbank Group maintains a positive exposure to shifts in the interest rate curve; i.e. the Andbank Group's financial margin would increase if the interest rate were to rise and decrease if the interest rate were to fall. The repricing gap of the Andbank Group'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. Part of the portfolio comprises long-term fixed rate bonds which enable an additional margin to be obtained and the duration of the asset to be extended. Most of these bonds are financed in the market through fixed rate repos, which enable the duration risk to be hedged. During 2017 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 2017 the sensitivity of own funds has remained under this limit.

The following table shows the line items of the Andbank Group's consolidated statement of financial position at 31 December 2017 and 2016 subject to market risk with the position of the Andbank Group's interest rate gap for non-trading activity.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

31 December 2017	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 at other central banks and other demand deposits	1.447.004	-	-	-	-	-	1.447.004
Financial assets	83.070	196.104	65.699	154.199	246.121	116.334	861.527
Loans and receivables	659.430	480.025	532.528	17.754	30.848	(55.984)	1.664.601
5.2.- Loans and credits to entities	103.682	61.129	48.625	-	-	425	213.861
5.3 Credits to customers	555.748	418.896	483.903	17.754	30.848	(56.409)	1.450.740
Hedging derivatives	-	-	-	-	-	90	90
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	2.000	2.000
Other assets	-	-	-	-	-	448.018	448.018
<b>Total assets</b>	<b>2.189.504</b>	<b>676.129</b>	<b>598.227</b>	<b>171.953</b>	<b>276.969</b>	<b>510.458</b>	<b>4.423.240</b>
Financial liabilities held for trading	-	-	-	-	-	58.088	58.088
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities at amortised cost	492.140	408.566	1.097.911	360.183	202.874	1.147.585	3.709.259
3.1. - Deposits in central banks	12.166	-	-	-	-	-	12.166
3.2. - Deposits in banks	158.039	135.787	8.437	887	89.670	1.233	394.053
3.3. - Customer deposits	318.872	272.779	1.081.768	70.638	5.236	1.089.729	2.839.022
3.3.1.- Demand	90.655	181.309	815.891	-	-	1.087.855	2.175.710
3.3.2.- Term	228.217	91.470	265.877	70.638	5.236	-	661.438
3.3.3.- Unpaid interest incurred	-	-	-	-	-	1.874	1.874
3.3.4.- Other financial liabilities.	-	-	-	-	-	-	-
3.4.- Debt securities	3.063	-	7.706	288.658	107.968	53.500	460.895
3.5. Other financial liabilities	-	-	-	-	-	3.123	3.123
Hedging derivatives	-	-	-	-	-	3.089	3.089
Other assets	-	-	-	-	-	145.364	145.364
<b>Total liabilities</b>	<b>492.140</b>	<b>408.566</b>	<b>1.097.911</b>	<b>360.183</b>	<b>202.874</b>	<b>1.354.126</b>	<b>3.915.800</b>
Equity	-	-	-	-	-	507.440	507.440
<b>Total Liabilities + Equity</b>	<b>492.140</b>	<b>408.566</b>	<b>1.097.911</b>	<b>360.183</b>	<b>202.874</b>	<b>1.861.566</b>	<b>4.423.240</b>
Assets	348.157	26.414	29.196	10.405	-	-	414.172
Liabilities	47.570	41.744	126.948	110.910	87.000	-	414.172
<b>IRS - Derivatives</b>	<b>300.587</b>	<b>(15.330)</b>	<b>(97.752)</b>	<b>(100.505)</b>	<b>(87.000)</b>	<b>-</b>	<b>-</b>
SIMPLE GAP	1.997.951	252.233	(597.435)	(288.735)	(12.904)	(1.351.109)	-
ACCUMULATED GAP	1.997.951	2.250.183	1.652.748	1.364.013	1.351.109	-	-

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

31 December 2016	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 at other central banks and other demand deposits	1.595.411	-	-	-	-	-	1.595.411
Financial assets	324.483	329.248	143.533	191.746	118.302	79.544	1.186.856
Loans and receivables	519.020	461.479	573.121	25.874	102.395	21.180	1.703.069
5.2.- Loans and credits to entities	53.192	-	-	-	70.549	-	123.741
5.3 Credits to customers	465.828	461.479	573.121	25.874	31.846	21.180	1.579.328
Hedging derivatives	-	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	501.950	501.950
<b>Total assets</b>	<b>2.438.914</b>	<b>790.727</b>	<b>716.654</b>	<b>217.620</b>	<b>220.697</b>	<b>602.674</b>	<b>4.987.286</b>
Financial liabilities held for trading	-	-	-	-	-	28.187	28.187
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities at amortised cost	548.946	382.952	1.430.435	181.302	265.613	1.401.217	4.210.465
3.1. - Deposits in central banks	12.697	-	-	-	-	-	12.697
3.2. - Deposits in banks	267.285	-	20.013	28.596	226.754	-	542.647
3.3. - Customer deposits	266.697	368.991	1.314.425	82.960	8.581	1.401.217	3.442.871
3.3.1.- Demand	130.542	242.826	1.092.715	-	-	1.401.217	2.867.299
3.3.2.- Term	136.155	126.166	221.710	82.960	8.581	-	575.572
3.3.3.- Unpaid interest incurred	-	-	-	-	-	-	-
3.3.4.- Other financial liabilities.	-	-	-	-	-	-	-
3.4.- Debt securities	2.268	13.961	95.998	69.746	30.278	-	212.250
3.5. Other financial liabilities	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	4.454	4.454
Other assets	-	-	-	-	-	265.782	265.782
<b>Total liabilities</b>	<b>548.946</b>	<b>382.952</b>	<b>1.430.435</b>	<b>181.302</b>	<b>265.613</b>	<b>1.699.640</b>	<b>4.508.888</b>
Equity	-	-	-	-	-	478.398	478.398
<b>Total Liabilities + Equity</b>	<b>548.946</b>	<b>382.952</b>	<b>1.430.435</b>	<b>181.302</b>	<b>265.613</b>	<b>2.178.038</b>	<b>4.987.286</b>
Assets	392.644	31.839	29.196	10.405	-	-	464.085
Liabilities	57.335	52.595	156.245	155.910	42.000	-	464.085
<b>IRS - Derivatives</b>	<b>335.309</b>	<b>(20.756)</b>	<b>(127.049)</b>	<b>(145.505)</b>	<b>(42.000)</b>	-	-
SIMPLE GAP	2.225.277	387.020	(840.830)	(109.187)	(86.916)	(1.575.364)	-
ACCUMULATED GAP	2.225.277	2.612.297	1.771.467	1.662.280	1.575.364	-	-



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

*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		Impact on economic value	
	Increase of 25 basis points	Decrease of 25 basis points	Increase of 100 basis points	Decrease of 100 basis points
<b>31 December 2017</b>				
Average for the period	9,45%	-9,45%	1,24%	-1,24%
Maximum for the period	10.80%	-10,76%	3,97%	-3,97%
Minimum for the period	8.22%	-8,22%	0.21%	-0.21%
<b>31 December 2016</b>				
Average for the period	10.78%	-10.70%	0.60%	-0.60%
Maximum for the period	11.73%	-11,73%	0.84%	-0.84%
Minimum for the period	9.00%	-9,00%	0.14%	-0,14%

*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. 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:

Foreign currency exposure	Thousands of Euros	
	2017	2016
USD	4.461	1.905
GBP	(4.078)	(222)
CHF	8.784	487
JPY	4	(53)

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

e) Liquidity risk

Liquidity risk is defined as the risk that the Andbank Group 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 ALRCO 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 statement of financial position is 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 Andbank Group's funds come from customer deposits, although the interbank market is also a source of funding, mainly through repo transactions.

On a daily basis the financial risk control department controls the liquidity available at different terms, verifying that they remain above the minimum liquidity level established. This minimum level currently stands at Euros 350 million 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.

The liquidity ratio established by the INAF, the Andorran banking supervisor, is calculated monthly. This ratio compares liquid and relatively liquid assets with liabilities becoming due and payable and is set at a minimum of 40%. This means that the Bank is required to have at least 40% of liquid or semi-liquid assets, available immediately or in the near term, to cover the total amount of the funding received. During 2017 the Andbank Group maintained an average liquidity ratio of 67.12% and at reporting date the ratio stood at 75.80%.

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 345% at 2017 reporting date, fully complying with the limit imposed by legislation (80%).

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

Since the start of the international financial crisis the Andbank Group 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 table shows the classification of the Andbank Group's main asset and liability accounts at 31 December 2017 and 2016 by contractual maturity or, where applicable by expected realisation or settlement terms:

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

31 December 2017	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 at other central banks and other demand deposits	1.446.754	-	-	-	-	250	1.447.004
Financial assets	73.650	57.529	105.965	159.135	348.914	116.334	861.527
Loans and receivables	298.787	191.678	430.762	363.370	435.989	(55.985)	1.664.601
5.2.- Loans and credits to entities	15.906	61.133	48.625	-	87.772	424	213.860
5.3 Credits to customers	282.881	130.545	382.137	363.370	348.217	(56.409)	1.450.741
Hedging derivatives	-	-	-	-	-	90	90
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	2.000	2.000
Other assets	18	-	-	-	1.417	446.583	448.018
<b>Total assets</b>	<b>1.819.209</b>	<b>249.207</b>	<b>536.727</b>	<b>522.505</b>	<b>786.320</b>	<b>509.272</b>	<b>4.423.240</b>
Financial liabilities held for trading	-	-	-	-	-	58.088	58.088
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities at amortised cost	690.247	174.838	455.397	613.872	1.296.257	478.647	3.709.258
3.1. - Deposits in central banks	12.166	-	-	-	-	-	12.166
3.2. - Deposits in banks	136.678	34.514	8.437	887	212.303	1.233	394.052
3.3. - Customer deposits	538.339	140.324	439.255	324.327	975.987	420.791	2.839.023
3.3.1.- Demand	392.862	61.540	146.558	246.641	909.192	418.917	2.175.710
3.3.2.- Term	145.476	78.784	292.697	77.686	66.795	-	661.438
3.3.3.- Unpaid interest incurred	(6)	-	-	-	-	1.874	1.868
3.3.4.- Other financial liabilities.	-	-	-	-	-	-	-
3.4.- Debt securities	3.064	-	7.705	288.658	107.967	53.500	460.894
3.5. Other financial liabilities	-	-	-	-	-	3.123	3.123
Hedging derivatives	-	-	-	-	-	3.089	3.089
Other assets	166	-	-	-	299	144.899	145.365
<b>Total liabilities</b>	<b>690.413</b>	<b>174.838</b>	<b>455.397</b>	<b>613.872</b>	<b>1.296.556</b>	<b>684.723</b>	<b>3.915.801</b>
Equity	-	-	-	-	8.042	499.397	507.439
<b>Total Liabilities + Equity</b>	<b>690.413</b>	<b>174.838</b>	<b>455.397</b>	<b>613.872</b>	<b>1.304.598</b>	<b>1.184.120</b>	<b>4.423.240</b>
SIMPLE GAP	1.128.796	74.369	81.330	(91.367)	(518.278)	(674.849)	-
ACCUMULATED GAP	1.128.796	1.203.164	1.284.494	1.193.127	674.849	-	-

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

31 December 2016	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 at other central banks and other demand deposits	1.595.411	-	-	-	-	-	1.595.411
Financial assets	324.483	329.248	143.533	191.746	118.302	79.544	1.186.856
Loans and receivables	519.020	461.479	573.121	25.874	102.395	21.180	1.703.069
5.2.- Loans and credits to entities	53.192	-	-	-	70.549	-	123.741
5.3 Credits to customers	465.828	461.479	573.121	25.874	31.846	21.180	1.579.328
Hedging derivatives	-	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	2.000	2.000
Other assets	-	-	-	-	-	449.950	449.950
<b>Total assets</b>	<b>2.438.914</b>	<b>790.727</b>	<b>716.654</b>	<b>217.620</b>	<b>220.697</b>	<b>552.674</b>	<b>4.937.286</b>
Financial liabilities held for trading	-	-	-	-	-	28.187	28.187
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities at amortised cost	548.946	382.952	1.430.435	181.302	265.613	1.401.217	4.210.465
3.1. - Deposits in central banks	12.697	-	-	-	-	-	12.697
3.2. - Deposits in banks	267.285	-	20.013	28.596	226.754	-	542.647
3.3. - Customer deposits	266.697	368.991	1.314.425	82.960	8.581	1.401.217	3.442.871
3.3.1.- Demand	130.542	242.826	1.092.715	-	-	1.401.217	2.867.299
3.3.2.- Term	136.155	126.166	221.710	82.960	8.581	-	575.572
3.3.3.- Unpaid interest incurred	-	-	-	-	-	-	-
3.3.4.- Other financial liabilities.	-	-	-	-	-	-	-
3.4.- Debt securities	2.268	13.961	95.998	69.746	30.278	-	212.250
3.5. Other financial liabilities	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	4.454	4.454
Other assets	-	-	-	-	-	265.782	265.782
<b>Total liabilities</b>	<b>548.946</b>	<b>382.952</b>	<b>1.430.435</b>	<b>181.302</b>	<b>265.613</b>	<b>1.699.640</b>	<b>4.508.888</b>
Equity	-	-	-	-	-	478.398	478.398
<b>Total Liabilities + Equity</b>	<b>548.946</b>	<b>382.952</b>	<b>1.430.435</b>	<b>181.302</b>	<b>265.613</b>	<b>2.178.038</b>	<b>4.987.286</b>
Assets	392.644	31.839	29.196	10.405	-	-	464.085
Liabilities	57.335	52.595	156.245	155.910	42.000	-	464.085
<b>IRS - Derivatives</b>	<b>335.309</b>	<b>(20.756)</b>	<b>(127.049)</b>	<b>(145.505)</b>	<b>(42.000)</b>	-	-
SIMPLE GAP	2.225.277	387.020	(840.830)	(109.187)	(86.916)	(1.575.364)	-
ACCUMULATED GAP	2.225.277	2.612.297	1.771.467	1.662.280	1.575.364	-	-

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

Those assets which at 31 December 2017 and 2016 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			
	Carrying amount of committed assets	Market value of committed assets	Carrying amount of non-committed assets	Market value of non-committed assets
<b><u>At 31 December 2017</u></b>				
Equity instruments	-	-	40.424	40.141
Debt securities	271.379	264.034	471.067	457.828
Loans and advances	-	-	-	-

	Thousands of Euros			
	Carrying amount of committed assets	Market value of committed assets	Carrying amount of non-committed assets	Market value of non-committed assets
<b><u>At 31 December 2016</u></b>				
Equity instruments	-	-	39.825	32.955
Debt securities	323.467	321.277	787.005	765.290
Loans and advances	-	-	-	-

At 31 December 2017 and 2016 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		
	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
<b><u>At 31 December 2017</u></b>			
Guarantees received			
Equity instruments	-	-	-
Debt securities	300.240	156.311	143.928
Loans and advances	-	-	-

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

	Thousands of Euros		
	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
<b><u>At 31 December 2016</u></b>			
Guarantees received			
Equity instruments	-	-	-
Debt securities	207.786	110.778	97.009
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 Bank'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.

During 2017 the Andbank Group has driven the improvement of the operational risk management and control model by creating a specific department responsible for its supervision. The main aim of this 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.

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

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

g) Legislative compliance risk

Compliance with prevailing legislation regarding anti money laundering and the rendering of investment services is an essential objective for Andbank. The Bank has adopted a series of measures to manage legislative compliance and reputational risks. Legislative 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 Bank's own internal procedures. Therefore, the legislative 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 legislative 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.



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

*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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

*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.

*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](http://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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

*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 legislative 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:

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

31 December 2017	Level 1	Level 2	Level 3
Financial assets held for trading	223.913	115.577	
Derivatives	-	80.720	-
Equity instruments	5.914	3.721	-
Debt securities	217.999	31.136	-
Available-for-sale financial assets	103.177	127.291	
Equity instruments	20.281	7.261	-
Debt securities	82.895	120.029	-
Derivatives - Hedge accounting	-	90	-
Financial assets not measured at fair value	152.342	139.227	
Equity instruments	-	-	-
Debt securities	152.342	139.227	-
Financial liabilities held for trading	-	61.178	
Derivatives	-	58.089	-
Derivatives - Hedge accounting	-	3.089	-
31 December 2016	Level 1	Level 2	Level 3
Financial assets held for trading	277.576	148.758	
Derivatives	-	46.401	-
Equity instruments	-	199	-
Debt securities	277.576	102.158	-
Available-for-sale financial assets	241.340	76.735	-
Equity instruments	20.680	18.946	-
Debt securities	220.660	57.789	-
Financial assets not measured at fair value	244.077	205.051	-
Equity instruments	-	-	-
Debt securities	244.077	205.051	-
Financial liabilities held for trading	-	32.641	
Derivatives	-	28.187	-
Derivatives - Hedge accounting	-	4.454	-

During 2017 and 2016 no significant movements have arisen between the fair value hierarchy levels.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

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 2017 and 2016 is provided below:

31 December 2017	Fair value	Valuation techniques	Significant non-observable input	Range of estimates (weighted average) for non-observable input
Level 2 financial instruments				
Derivatives	80.720	Discount Model, Credit Default Model Black-Scholes Futures	Not applicable	-
Equity instruments	10.982	Deal Value	Not applicable	-
Debt securities	290.392	Credit Risk Models, Discount Model, Deal Value, others	Not applicable	-
31 December 2016	Fair value	Valuation techniques	Significant non-observable input	Range of estimates (weighted average) for non-observable input
Level 2 financial instruments				
Derivatives	46.401	Discount Model, Credit Default Model Black-Scholes Futures	Not applicable	-
Equity instruments	18.874	Deal Value	Not applicable	-
Debt securities	364.999	Credit Risk Models, Discount Model, 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 2017 and 2016:

Held-to-maturity investments	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
31/12/2017	151.046	119.582	-	270.628	291.569
31/12/2016	236.118	186.872	-	422.990	449.128

**(40) Events after the reporting period**

On 21 March 2018 the Bank received authorisation from the INAF to adopt, in advance, for 2018, the following International Financial Reporting Standards as adopted by the European Union at 1 January 2018:

- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**(41) First-time adoption of IFRS**

The annual accounts for the year ended 31 December 2017 are the first which the Andbank Group has prepared in accordance with International Financial Reporting Standards as adopted by the Andorran Government in its session held on 22 December 2016. Until that date, the Andbank Group prepared its consolidated annual accounts in accordance with generally accepted accounting principles in Andorra for all the operating components of the financial system, published in the Official Gazette of the Principality of Andorra on 26 January 2000 (local legislation).

The Andbank Group has prepared the first annual accounts for the year ended 31 December 2017 in accordance with International Financial Reporting Standards and also presents, solely and exclusively comparative purposes, not only the information at 31 December 2016 but also the information for the year then ended. In the preparation of these financial statements the opening statement of financial position has been considered to be that at 1 January 2016, which is the transition date to the new accounting standards.

As required by IRFS 1, details of the main adjustments made by the Andbank Group when re-expressing the financial statements prepared in accordance with local legislation at 1 January 2016 and at 31 December 2016 are as follows:

**Accounting estimates:**

Accounting estimates made by the Andbank Group at 1 January 2016 and 31 December 2016 are consistent with those made at the same dates in accordance with local legislation (without considering the adjustments for the differences corresponding to the application of different accounting principles).

The estimates made by the Andbank Group in the presentation in accordance with International Financial Reporting Standards refer to the available information for each of the estimates.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### Reconciliation of statements of financial position at 1 January 2016 and 31 December 2016

The effects of adopting International Financial Reporting Standards on the Andbank Group's statements of financial position at 31 December 2016 and 1 January 2016 are as follows:

	At 1 January 2016 (date of first-time adoption)				At 31 December 2016				
	Note	Previous GAAP	Adjustments	Reclassifications	IFRS opening balances	Previous GAAP	Adjustments	Reclassifications	IFRS balances
<b>ASSETS</b>									
Cash, cash balances at central banks and other demand deposits		77.029	-	859.021	936.050	1.595.411	-	-	1.595.411
Cash and central banks of the OECD		-	-	-	-	-	-	-	-
INAF		-	-	-	-	-	-	-	-
Financial assets held for trading		645.360	94.882	(242.852)	497.390	312.934	113.401	-	426.335
Financial assets at fair value through profit or loss		-	-	-	-	-	-	-	-
Available-for-sale financial assets		233.868	(494)	643.927	877.301	221.055	90.339	6.681	318.075
Loans and receivables		2.850.067	(52.971)	(859.021)	1.938.075	1.750.673	(47.605)	-	1.703.068
Held-to-maturity investments		766.725	-	(396.230)	370.495	643.098	(193.970)	-	449.128
Derivatives - Hedge accounting		-	-	-	-	-	-	-	-
Changes in fair value of hedged items of a portfolio with an interest rate risk hedge		-	996	-	996	-	4.546	-	4.546
Financial intermediaries		-	-	-	-	-	-	-	-
Loans and receivables		-	-	-	-	-	-	-	-
Securities portfolio		-	-	-	-	-	-	-	-
Intangible assets and amortisable costs		-	-	-	-	-	-	-	-
Tangible assets		-	-	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates		9.426	(9.426)	-	-	6.681	-	(6.681)	-
Tangible assets		24.159	(716)	-	23.443	25.832	(427)	-	25.405
Intangible assets		224.876	(14.027)	-	210.849	252.518	(22.680)	-	229.838
Tax assets		11.656	15.490	-	27.146	7.363	10.372	-	17.735
Prepayments and accrued income		-	-	-	-	-	-	-	-
Other assets		151.691	230.606	-	382.297	95.214	79.711	-	174.925
Non-current assets and disposal groups classified as held for sale		69.139	(26.601)	-	42.538	77.899	(35.079)	-	42.820
<b>TOTAL ASSETS</b>		<b>5.063.996</b>	<b>237.739</b>	<b>4.845</b>	<b>5.306.580</b>	<b>4.988.678</b>	<b>(1.392)</b>	<b>-</b>	<b>4.987.286</b>

	At 1 January 2016 (date of first-time adoption)				At 31 December 2016				
	Note	Previous GAAP	Adjustments	Reclassifications	IFRS opening balances	Previous GAAP	Adjustments	Reclassifications	IFRS balances
<b>LIABILITIES</b>									
INAF		-	-	-	-	-	-	-	-
Payables		-	-	-	-	-	-	-	-
Debt securities		-	-	-	-	-	-	-	-
Financial liabilities held for trading		-	62.728	-	62.728	2.106	26.081	-	28.187
Financial liabilities at fair value through profit or loss		-	-	-	-	-	-	-	-
Subordinated liabilities		-	-	-	-	-	-	-	-
Financial liabilities at amortised cost		4.352.440	181	-	4.352.621	4.210.464	-	-	4.210.464
Derivatives - Hedge accounting		-	964	-	964	-	4.454	-	4.454
Changes in fair value of hedged items of a portfolio with an interest rate risk hedge		-	-	-	-	-	-	-	-
Provisions for risks and contingencies		13.875	278.026	-	291.901	93.856	535	-	94.391
General risks reserve		-	-	-	-	-	-	-	-
Tax liabilities		30.028	5.355	-	35.383	16.385	-	-	16.385
Share capital repayable on demand		-	-	-	-	-	-	-	-
Prepayments and accrued income		-	-	-	-	-	-	-	-
Other liabilities		115.228	(6.134)	-	109.094	89.765	65.242	-	155.007
Liabilities included in disposal groups classified as held for sale		-	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>		<b>4.511.571</b>	<b>341.120</b>	<b>-</b>	<b>4.852.691</b>	<b>4.412.576</b>	<b>96.312</b>	<b>-</b>	<b>4.508.888</b>

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

The disclosures included in the INAF's Accounting Plan of the Financial System do not coincide with those required under IFRS. For this reason, the line items have been reclassified to obtain an opening statement of financial position in accordance with international standards. This statement of financial position is shown in the previous table in the Previous GAAP column. The main reclassifications made are those corresponding to accruals in the securities portfolio and accruals of loans and receivables, which have been reclassified from Other assets to each of the corresponding portfolios (trading, available-for-sale, held to maturity and loans and receivables).

A reconciliation of equity at 31 December 2016 and 1 January 2016 is as follows:

	Thousands of Euros	
	At 1 January 2016 (transition date)	At 31 December 2016
<b>Equity as per previous GAAP</b>	552.425	576.102
<b>Net impact of adjustments to reserves</b>	(97.274)	(96.099)
Impact on reserves	(107.409)	(106.471)
Loans and receivables (Adjustment 1)	(50.940)	(46.028)
Foreclosed assets (Adjustment 2)	(26.601)	(35.080)
Securities portfolio (Adjustment 3)	(2.128)	(2.645)
Derivatives (Adjustment 4)	(7.574)	(7.367)
Tangible assets	(14.744)	(13.238)
Other provisions	(3.000)	(3.000)
Consolidated loan losses (Adjustment	(2.422)	(2.337)
Consolidated provision for general risk	-	3.224
Tax impact of previous adjustments	(10.135)	(10.372)
<b>Other impacts on equity</b>	(1.262)	(1.605)
Own shares	(1.262)	(1.605)
<b>Equity as per IFRS</b>	453.889	478.398



## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Reconciliation of profit/loss at 31 December 2016

For the purpose of adopting IFRS, the income statement for the year ended 31 December 2016 is as follows:

	At 31 December 2016			
	Previous GAAP	Adjustment s	Reclassifica tions	IFRS balances
<b>Interest income</b>	74.778	(81)	-	74.697
Interest and similar income	-	-	-	-
(Interest expense)	(36.793)	-	-	(36.793)
(Interest and similar charges)	-	-	-	-
Income from variable income securities	-	-	-	-
<b>Dividend income</b>	195	-	-	195
Net fees and commissions on services	-	-	-	-
<b>Fee and commission income</b>	189.583	-	-	189.583
<b>(Fee and commission expenses)</b>	(42.227)	-	-	(42.227)
Gains on financial assets or liabilities	-	-	-	-
Other profit from ordinary activity	-	-	-	-
<b>Gains or losses on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss, net</b>	3.919	(1.989)	-	1.930
<b>Gains or losses on financial assets and financial liabilities held for trading, net</b>	53.561	499	-	54.060
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-	-	-
<b>Gains or losses from hedge accounting, net</b>	-	408	-	408
<b>Exchange differences, net</b>	10.546	-	-	10.546
<b>Gains or losses on derecognition in non-financial asset accounts, net</b>	-	-	-	-
<b>Other operating income</b>	6.371	-	-	6.371
<b>(Other operating expenses)</b>	(10.401)	-	-	(10.401)
<b>TOTAL OPERATING INCOME/EXPENSES, NET</b>	249.534	(1.165)	-	248.369
<b>(Administrative expenses)</b>	(171.963)	-	-	(171.963)
<b>(Amortisation and depreciation)</b>	(15.084)	1.506	-	(13.578)
<b>(Provisions or reversals of provisions)</b>	(142)	-	-	(142)
<b>(Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss)</b>	(4.326)	-	-	(4.326)
<b>(Impairment or reversal of impairment on investments in subsidiaries, joint ventures and associates)</b>	(11)	-	-	(11)
<b>(Impairment or reversal of impairment on non-financial assets)</b>	-	-	-	-
(Tangible assets)	-	-	-	-
<b>Negative goodwill recognised in profit or loss</b>	-	-	-	-
<b>Share of gains or losses on investments in subsidiaries, joint ventures and associates</b>	-	-	-	-
<b>Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.</b>	(8.110)	-	-	(8.110)
<b>PRE-TAX GAINS OR LOSSES ON CONTINUING OPERATIONS</b>	53.384	(3.144)	-	50.240
Post-tax gains or losses on discontinued operations	(6.366)	315	-	(6.051)
<b>GAINS OR LOSSES FOR THE YEAR</b>	47.018	(2.830)	-	44.188
Attributable to minority interests (non-controlling interests)	454	-	-	454
<b>Attributable to owners of the Parent</b>	47.472	(2.830)	-	44.642

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

A reconciliation of pre-tax and post-tax profit/loss for 2016 between IFRS and previous generally accepted accounting principles in Andorra (GAAP) for all the operating components of the Andorran financial system is as follows: Because the previous legislation did not recognise the statement of comprehensive income, the reconciliation is only performed on profit/loss for the year.

	2016	
	Pre-tax	Post-tax
<b>Profit as per previous GAAP</b>	<b>53.384</b>	<b>47.472</b>
<b>Total adjustments to profit</b>	(3.144)	(2.830)
Loans and receivables (Adjustment 1)	4.911	4.419
Foreclosed assets (Adjustment 2)	(8.479)	(7.631)
Securities portfolio (Adjustment 3)	(1.289)	(1.160)
Derivatives (Adjustment 4)	207	187
Intangible assets (Adjustment 5)	1.506	1.355
Other provisions	-	-
<b>Profit as per IFRS</b>	<b>50.240</b>	<b>44.642</b>
<b>Other comprehensive income</b>	<b>695</b>	<b>695</b>
<b>Comprehensive income for the year under IFRS</b>	<b>50.935</b>	<b>45.337</b>

Effect on statement of cash flows

Because under previous GAAP the statement of source and application of funds did not include cash flows from operating activities, investing activities or financing activities, it is not possible to ascertain the impact of adopting IFRS on these activities.

The main adjustments made to the consolidated statement of financial position due to the application of the new accounting framework are explained as follows:

**Adjustment 1 - Loans and receivables**

**Change in the method used to calculate provisions for loans and receivables:** Under local legislation (previous GAAP), Standard X of the Accounting Plan of Andorra describes the scenarios which could potentially give rise to the need to make a provision for credit risk.

For general risks, legislation specified a provision of 0.5% for net loans and receivables in banks and of 1% for net loans to customers, with a series of exceptions. For non-general risks, local legislation made it obligatory to implement a calendar for provisioning based on the time elapsed since non-payment of the guarantee, applying the provision percentages specified in such legislation.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

Following the adaptation to international legislation, the Bank now applies International Accounting Standard 39 (hereinafter IAS 39) to its investments in Loans and receivables. In accordance with IAS 39, the Bank applies a segment-based method of calculating provisions using a calculation of the loss arising from general risks (doubtful and non-doubtful) and through an individual analysis in those transactions which are individually significant.

The Bank has determined as individually significant, those transactions with an outstanding risk exceeding Euros 1 million upon analysis. The key aspect in determining which transactions are subject to a provision is objective evidence of impairment (see accounting policies on impairment of financial instruments in note 3 (g)).

When there is evidence of impairment, and if the transaction is not individually significant, a provision has been calculated for the segment, based on the historical percentage of recovery of the guarantees associated with the transactions of this segment. This percentage is known as loss given impairment (hereinafter LGI).

In addition, where there is no objective evidence of impairment, it will also be necessary to calculate a provision, based on the amount of the segment's transactions which have become doubtful during the year. This percentage of transactions shifting from standard to doubtful during the year is known as probability of impairment (hereinafter PI). This percentage is applied to the outstanding risk of the transactions, together with a credit conversion factor (hereinafter CCF) to reflect the performance of the use of undrawn amounts in doubtful transactions as a best estimate of the future performance of the loan portfolio in that sector. This exposure is known as exposure at impairment (hereinafter EAI) and the historical LGI is applied to the PI and EAI to obtain the amount of the provision to be applied to the standard exposures.

The adjustment of this amount is reflected in Loans and receivables - Other debtors for a gross amount of Euros 50,504 thousand against reserves and Euros 4,911 thousand against profit and loss for 2016.

In addition, the application of international standards has an impact on the calculation of a provision for guarantees and on the calculation of provisions for the subsidiaries. These impacts amount to Euros 2,337 thousand.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**Adjustment 2 - Foreclosed assets****Adjustment to the valuation of foreclosed assets - Non-current assets held for sale:**

Under previous local standards assets acquired by applying other assets were valued at the lower between the carrying amount of the assets applied for their acquisition and the market value of the assets acquired.

With the adoption of international standards, the Bank now applies International Financial Reporting Standard 5 (hereinafter IFRS 5). By applying this standard, the Bank classifies its foreclosed assets as a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. For this classification of Assets held for sale to be applicable, the following series of requirements has to be met:

- the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.
- For a sale to be highly probable there should be a plan for the sale and marketing of assets at fair value.

If the Bank has classified an asset (or disposal group) as held for sale, but it no longer meets the criteria, it shall cease to classify assets or disposal groups as such.

Once it has been determined that an asset is included in this category, it shall be measured at the lower of its fair value less costs to sell and carrying amount. When the sale is expected to occur beyond one year, the Bank measures the costs to sell at their present value.

The Bank recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. The Bank recognises a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised.

For the statement of financial position at the transition date (1 January 2016) the Andbank Group has estimated costs to sell of 5% per annum and has decided to apply haircuts to the values included in appraisals.

Non-current assets held for sale - Foreclosed should be recognised as the lower between the amount of the unsecured outstanding risk and the fair value.

The effects included in this section are recognised under Non-current assets and disposal groups classified as held for sale in the statement of financial position at the transition date for a gross amount of Euros 26,601 thousand against reserves and Euros 8,479 thousand against profit and loss for 2016.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**Adjustments 3 and 4 - Securities and Derivatives portfolio**

Securities portfolio valuation: Chapter IX Specific Classification Standards - classification of fixed income and variable income investments of the Accounting Plan for the Andorran Financial System describes the categories based on the purpose for which the asset was acquired, which comprised the trading portfolio, held-to-maturity portfolio, non-current investment portfolio and ordinary investment portfolio.

With the entry into force of international standards, the Andbank Group now applies IAS 39. From the four categories included in the previous GAAP, the Andbank Group has reclassified securities, taking into consideration their characteristics and has included them in the following portfolios according to the purpose of the categories set out in paragraph 9 of IAS 39: Investments held to maturity, available-for-sale financial assets and financial assets held for trading (see accounting policies in note 3 (b)).

Taking into consideration the different classifications of financial instruments under IAS 39, securities of portfolios classified under the previous Accounting Plan of the Andorran Financial System have been reclassified. Despite having similar definitions, the characteristics of the portfolios are different; the main impact of the transition on these portfolios is that under IFRS-EU figures are presented at fair value, whilst under the previous GAAP the carrying amount was used.

The main revaluation of the portfolio can be observed in those securities which have become part of the Trading and Available-for-Sale portfolios under IFRS-EU, as they are recognised at fair value.

There is no impact on the Investments held to maturity portfolio, as they are measured in the same way in both regulatory frameworks using the amortised cost method.

The change in valuation to bring the financial instruments portfolio into line with IFRS-EU gives rise to a gross impact of Euros 1,356 thousand against equity and Euros 1,289 thousand against profit and loss for 2016.

*Derivatives*

Under local standards, the Accounting Plan of the Andorran Financial System sets out that derivatives transactions shall be accounted for based on the purpose of the transaction and the type of market where they are contracted. In both cases, the previous GAAP stipulate how profit and loss deriving from each kind of derivative has to be recognised in the income statement but do not set out how they should be recognised under assets; these are included in the Andbank Group's memorandum accounts.

On the basis of IAS 39, derivative financial instruments have been recognised in the Andbank Group's statement of financial position for the first time. The adjustments detected have been included under Financial assets/liabilities held for trading and hedge accounting.

The adjustments relating to derivatives give rise to a gross impact of Euros 7,574 thousand and Euros 207 thousand against profit and loss for 2016.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**Adjustment 5 - Intangible assets**

A review of the criteria and terms in relation to intangible assets detailed in note 3 to these annual accounts has given rise to an equity impact due to the matter described in this note.

**(42) Compliance with legislation****Law regulating mandatory investment ratios (Llei de regulació del coeficient d'inversions obligatòries)**

In a session held on 30 June 1994 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 55,766 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 INAF 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).

On 3 March 2010 the Government issued a decree classified as of national and social interest under the program to provide privileged financing for start-up companies and businesses, innovation, conversion and entrepreneurial ventures. Basically, the decree is aimed at promoting and supporting the new ideas of those who, in difficult times and changing environments, see opportunities and challenges which, though not without risk, have the potential to assist the country's economic development. This is to be done by granting loans, subject to a prior assessment and overall approval of proposals by a joint committee made up of representatives of the Chamber of Commerce, Industry and Services of Andorra, the development company Andorra Desenvolupament i Inversió, SAU, the Association of Andorran Banks (ABA) and the Government of Andorra.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

The amount outstanding at 31 December 2017 is Euros 10 thousand (Euros 208 thousand in 2016), recognised under Loans and receivables in the statement of financial position.

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 2017 for operations under this programme is Euros 1,534 thousand (Euros 0 thousand at 31 December 2015), recognised under loans and advances to customers in the statement of financial position.

On 10 October 2013 the Government enacted Law 21/2013 to promote the refurbishment of real estate, improvements in the energy efficiency of buildings and the use of renewable energies. At 31 December 2017 the balance receivable amounts to Euros 1,494 thousand (Euros 1,533 thousand at 2016).

**Law regulating capital adequacy and liquidity criteria of financial institutions (Llei de regulació dels criteris de solvència i de liquiditat de les entitats financeres)**

In a session held on 29 February 1996, the Principality of Andorra's General Council approved the Law regulating capital adequacy and liquidity criteria of financial institutions.

This law obliges banks to maintain a minimum capital adequacy ratio of 10%, based on the recommendation of the Basel Committee on Banking Regulations and Supervisory Practices, calculated on the basis of a ratio that relates the qualifying equity to the weighted risk assets as per the degree of risk of such assets. Banks are also obliged to maintain a liquidity ratio of at least 40%.

The Law regulating capital adequacy and liquidity criteria of financial institutions also restricts the concentration of risks in a single beneficiary up to a maximum of 20% of the equity of the bank. The law also stipulates that the accumulation of risks that by themselves exceed 5% of the equity cannot exceed the limit of 400% of the above-mentioned equity. The risk maintained with the members of the board of directors cannot exceed 15% of the equity. These risks are weighted in accordance with the aforementioned law.

Note 38(b) to these annual accounts shows the Andbank Group's capital adequacy and liquidity ratios at 31 December 2017 and 2016 determined in accordance with the aforementioned law.

**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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

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 Andbank Group 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.



**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**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 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.

**Law regulating the Andorran National Institute of Finance (Llei de l'Institut Nacional Andorrà de Finances)**

At the session held on 23 May 2013 the General Council approved Law 10/2013 regulating the Andorran National Institute of Finance (INAF).

The purpose of this law is to provide the INAF with the necessary resources to meet its objectives whilst, taking into consideration the INAF'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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

**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 indirect general 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 and Current receivables.

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 2016 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.

**ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

Payments on account of non-resident income tax made by the Bank during 2017 and 2016 are recognised under Other assets - Taxes on the accompanying statement of financial position (see note 15).

**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.

Finally, the law stipulates an initial and extraordinary contribution to the FAREB of Euros 30 million by Andorran banking entities and the opening of a financing programme of up to Euros 100 million to finance companies and businesses.

**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.

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

2017											
Company	Registered office	Activity	% Direct ownership	% Indirect ownership	Audited company	Interim dividend	Equity	Capital	Reserves	Prior years' profit (losses) pending offset	Profit/(loss)
Caronte 2002, SLU (**)	Andorra	Auxiliary services	100%	-	No	-	31	32	6	(7)	(1)
Clau d'Or, SLU (**)	Andorra	Real estate	100%	-	No	-	(83)	30	3	(109)	(6)
Mon Immobiliari	Andorra	Special purpose vehicle	100%	-	No	-	16	30	95	(110)	1
Andorra Gestió Agrícola Reig, SAU	Andorra	Collective investment undertaking management	100%	-	Yes	1.701	2.019	1.000	1.419	-	1.301
Andbank Bahamas (Limited)	Bahamas	Bank	100%	-	Yes	1.600	38.909	21.500	17.044	-	1.965
Nobilitas, N.V.	Dutch Antilles	Holding	100%	-	Yes	-	12.764	1.000	34.835	(23.071)	-
Egregia B.V	Holland	Holding	-	100%	Yes	-	3.655	180	11.469	(7.968)	(26)
Zumzeiga Cooperatief U.A	Holland	Special purpose vehicle	-	100%	Yes	-	(6.755)	551	3.419	(11.981)	1.256
Andorra Assegurances Agrícola Reig, SAU	Andorra	Insurance	100%	-	Yes	90	2.906	2.404	481	-	111
AndPrivate Wealth S.A	Switzerland	Wealth management	-	100%	Yes	-	3.357	3.448	1	(112)	20
Columbus de México, SA de CV	Mexico	Collective investment undertaking management	-	50%	Yes	-	816	520	14	129	152
Quest Capital Advisers Agente de Valores, SA	Uruguay	Securities broker	-	100%	Yes	-	2.357	12	1	1.960	385
Andbank Asset Management Luxembourg	Luxembourg	Fund manager	-	100%	Yes	-	4.714	3.000	118	1.595	2
Andbank Luxemburg	Luxembourg	Bank	100%	-	Yes	-	44.422	54.100	9	(4.793)	(4.895)
Andbank España, SA	Spain	Bank	100%	-	Yes	-	204.220	75.000	126.372	1.363	1.691
Andbank Wealth Management, SGIIC, SAU	Spain	Collective investment undertaking management	-	100%	Yes	-	6.040	1.004	3.238	-	1.798
Medipatrimonia Invest, SL	Spain	Investment services	-	100%	Yes	-	563	54	1.732	(1.476)	253
Andbank Monaco S.A.M.	Monaco	Bank	100%	-	Yes	-	30.274	21.000	5.718	2.951	605
LLA Participações Ltda	Brazil	Holding	-	-	Yes	-	123	13	-	28	81
Andbank (Brasil) Holding Financeira Ltda	Brazil	Holding	100%	-	Yes	-	38.046	39.633	2.237	(2.737)	(1.087)
Banco Andbank (Brasil), S.A	Brazil	Bank	-	100%	Yes	-	25.046	34.492	24	(8.314)	(1.156)
LLA Holding Financera Ltd	Brazil	Holding	-	100%	No	-	80	214	-	142	(276)
Lla Distribuidora de Títulos e Valores Mobiliários Ltda (D Brazil	Brazil	Intermediation of securities and discretionary portfolio ma	-	100%	Yes	-	42	237	-	82	(277)
Sigma Investment House Ltd.	Israel	Holding	60%	-	Yes	-	2.352	388	7.752	(4.904)	(884)
Sigma Portfolio Management Ltd.	Israel	Portfolio management	-	60%	Yes	-	248	0	2.854	(2.290)	(317)
Sigma Premium Ltd.	Israel	Portfolio management and advisory services	-	60%	Yes	-	(1.393)	-	746	(1.599)	(541)
Sigma Mutual Funds Ltd	Israel	Investment fund manager	-	60%	Yes	-	554	168	673	(528)	240
Sigma Financial Planning Pensión Insurance Agency Ltd.	Israel	Pension plan distributor	-	42%	Yes	-	(1.113)	0	-	(872)	(241)
APW Uruguay SA	Uruguay	Services	100	-	Yes	-	305	371	-	10	(76)
AndPrivate Wealth Securites SA (**)	Panama	Investment advice	-	100%	Yes	-	642	642	-	-	-
APC Servicios Administrativos SLU	Spain	Auxiliary services	-	100%	Yes	-	4.225	2.069	7	(2)	2.151
Andbank Wealth Management LLC	USA	Holding	-	100%	Yes	-	(2.750)	11.023	-	(13.420)	(354)
Andbank Advisory LLC	USA	Investment advice	-	100%	Yes	-	2.267	1.632	-	(79)	713
Andbank Brokerage LLC	USA	Investment advice	-	100%	Yes	-	1.104	2.347	-	(1.341)	98
APW International Advisors Ltd. (**)	British Virgin Islands	Wealth management	100%	-	Yes	-	23	10	-	14	-
APW Consultores Financeiros, Lda	Brazil	Auxiliary services	100%	-	Yes	-	245	1.322	-	(501)	(577)
AND PB Financial Services, S.A	Uruguay	Representation office	100%	-	Yes	-	132	162	-	(100)	70
Andorra Capital Agrícola Reig BV	Holland	Special purpose vehicle	100%	-	Yes	-	322	18	-	225	79
Andbank (Panamá) S.A.	Panama	Bank	100%	-	Yes	4.174	14.741	6.655	991	6.538	4.732
And Private Wealth (Chile) (*)	Chile	Financial services	-	100%	No	-	-	-	-	-	-
AB Systems, SAU	Andorra	Services	100%	-	No	-	60	60	-	-	-
AB Covered Bond	Ireland	Special purpose vehicle	100%	-	Yes	-	348	0	-	-	348
AB Financial Products, D.A.C.	Ireland	Special purpose vehicle	100%	-	Yes	-	(284)	1	-	-	(285)

(\*) Liquidation completed on 15 January 2018

(\*\*) Under liquidation

## ANDORRA BANC AGRICOL REIG, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

2016

Company	Registered office	Activity	% Direct ownership	% Indirect ownership	Audited company	Interim dividend	Equity	Capital	Reserves	Prior years' profit (losses) pending offset	Profit/(loss)
Caronte 2002, SLU (**)	Andorra	Auxiliary services	100%	-	No	-	31	32	6	-	(7)
Clau d'Or, SL (**)	Andorra	Real estate	100%	-	No	-	(76)	30	3	(94)	(15)
Món Immobiliari, SLU (*)	Andorra	Special purpose vehicle	100%	-	No	-	91	27	64	-	-
Andorra Gestió Agrícol Reig, SAU	Andorra	Collective investment undertaking management	100%	-	Yes	2.700	2.743	1.000	1.419	-	3.024
Andbank Bahamas (Limited).	Bahamas	Bank	100%	-	Yes	3.500	38.479	21.500	16.424	-	4.055
Nobilitas N.V.	Dutch Antilles	Holding	100%	-	Yes	-	(2.844)	1.000	7.172	(10.970)	(46)
Egregia B.V.	Holland	Holding	-	100%	Yes	-	3.681	180	11.469	(8.087)	119
Zumzeiga Coöporatief U.A	Holland	Special purpose vehicle	-	100%	Yes	-	(11.338)	551	-	(11.818)	(71)
Andorra Assegurances Agrícol Reig, SAU	Andorra	Insurance	100%	-	Yes	-	551	-	839	-	(288)
AndPrivate Wealth S.A.	Switzerland	Wealth management	-	100%	Yes	-	3.640	3.758	2	(237)	117
Columbus de México, SA de CV.	Mexico	Independent investment advisor	-	50%	Yes	-	725	563	15	49	98
Quest Capital Advisers Agente de Valores, S.A.	Uruguay	Securities broker	-	100%	Yes	-	3.826	14	1	2.302	1.509
Andbank Asset Management Luxembourg.	Luxembourg	Collective investment undertaking management	-	100%	Yes	-	4.828	3.000	-	2.355	(527)
Andbank Luxembourg S.A.	Luxembourg	Bank	100%	-	Yes	-	49.568	54.100	-	(4.129)	(403)
Andbank España, S.A.	Spain	Bank	100%	-	Yes	-	203.564	75.000	127.219	(1.399)	2.744
Andbank Wealth Management, SGIIC, SAU	Spain	Collective investment undertaking management	-	100%	Yes	-	4.242	1.004	1.800	-	1.438
Medipatrimonia Invest, S.L.	Spain	Collective investment undertaking management	-	51%	Yes	-	150	28	883	(756)	(5)
AndPrivate Consulting, S.L.	Spain	Auxiliary services	100%	-	Yes	-	(3.130)	3	-	(3.477)	344
Andbank Wealth Management LLC	USA	Holding	-	100%	Yes	-	(1.486)	12.552	-	(12.921)	(1.117)
Andbank Advisory LLC	USA	Advisory services	-	100%	Yes	-	1.992	1.859	-	(48)	181
Andbank Brokerage LLC	USA	Financial services	-	100%	Yes	-	1.262	2.672	-	(1.488)	78
APW International Advisors Ltd.(*)	British Virgin Islands	Wealth management	100%	-	Yes	-	1.514	9	-	1.590	(85)
APW Consultores Financeiros, Lda	Brazil	Financial services	100%	-	Yes	-	(8.852)	281	-	(8.636)	(497)
AND PB Financial Services, S.A	Uruguay	Representation office	100%	-	Yes	-	85	162	-	(51)	(26)
Andorra Capital Agrícol Reig BV	Holland	Securities company	100%	-	Yes	-	244	18	-	145	81
Andbank (Panamá) S.A.	Panama	Bank	100%	-	Yes	6655	14.152	6.655	-	3.906	10.246
And Private Wealth (Chile) (*)	Chile	Auxiliary services	-	100%	No	-	-	-	-	-	-
Andbank Monaco S.A.M.	Monaco	Bank	100%	-	Yes	-	27.529	21.000	2.438	2.918	1.173
LLA Participações Ltda	Brazil	Holding	-	-	Yes	-	34	12	9	-	13
Andbank (Brasil) Holding Financeira Ltda	Brazil	Holding	100%	-	Yes	-	35.179	34.568	2.360	-	(1.749)
Banco Andbank (Brasil), S.A	Brazil	Bank	-	100%	Yes	-	26.403	35.956	(213)	(6.990)	(2.350)
LLA Holding Financera Ltd	Brazil	Holding	-	100%	No	-	453	248	35	102	68
Lla Distribuidora de Títulos e Valores Mobiliários	Brazil	Intermediation of securities and discretionary portfolio manager	-	100%	Yes	-	365	274	(39)	102	28
Sigma Investment House Ltd.	Israel	Holding	60%	-	Yes	-	5.686	-	5.694	(4)	(4)
Sigma Portfolio Management Ltd.	Israel	Portfolio management	-	60%	Yes	-	(943)	-	1.104	(1.007)	(1.040)
Sigma Premium Ltd.	Israel	Portfolio management and advisory services	-	60%	Yes	-	(401)	-	459	(717)	(143)
Sigma Mutual Funds Ltd	Israel	Investment fund manager	-	60%	Yes	-	669	103	295	(241)	512
Sigma Financial Planning Pensión Insurance	Israel	Pension plan distributor	-	42%	Yes	-	(382)	-	-	(371)	(11)
APW Uruguay SA	Uruguay	Services	100%	-	Yes	-	(1.787)	371	-	(873)	(1.285)
AndPrivate Wealth Securites SA	Panama	Securities company	-	100%	Yes	-	642	642	-	-	-
APC Servicios Administrativos SLU	Spain	Auxiliary services	-	100%	Yes	-	55	50	(2)	-	7