MORABANC

CONSOLIDATED FINANCIAL STATEMENTS 2019

MORABANC

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Deloitte.

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Translation of a report originally issued in Catalan based on our work performed in accordance with International Standards on Auditing (ISAs). In the event of a discrepancy, the Catalan-language version prevails.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mora Banc Grup, SA,

Opinion

We have audited the accompanying consolidated financial statements of Mora Banc Grup, SA (the Parent) and other companies composing the MoraBanc Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of income, total statement of changes in the consolidated net equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2019, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and concurrently adopted by Andorra (Andorran IFRSs).

Basis for Opinion

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

We are independent of the Group in accordance with the ethical requirements that are applicable to our audit of the consolidated financial statements pursuant to the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code of Ethics) and have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Directors and of the Audit and Compliance Committee for the Consolidated Financial Statements

The directors of the Parent are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and concurrently adopted by Andorra (Andorran IFRSs), and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Parent 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 of the Parent either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit and compliance committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Deloitte Andorra Auditors i Assessors, S.L. Inscrita en el Registre de Societats Mercantils d'Andorra. Núm. Registral de la Societat 13298, Llibre S-186, Foli 81-90, N.R.T.: L-708451-A.
Domicili Social: Bonaventura Armengol, 10. Edifici Montclar, Bloc 1. Planta 1era. Despatx 4. AD500 Andorra la Vella.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description forms part of our auditor's report.

DELOITTE ANDORRA AUDITORS I ASSESSORS, S.L.

Francisco Ignacio Ambrós

31 March 2020

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to 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, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate evidence regarding the information of the entities or business activities within the Group to express an opinion on the Group's consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and compliance committee of the Parent 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.

We also provide the audit and compliance committee of the Parent with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of 31 December 2019 and 2018, in thousands of euros

**MORA BANC GRUP, SA
AND COMPANIES COMPRISING
THE MORABANC GROUP ASSETS**

ASSETS	Note	31/12/2019	31/12/2018(*)
Cash, cash balances in central banks and other demand deposits	**9**	**17,763**	**17,648**
Financial assets held for trading	**7, 10**	**93,195**	**63,512**
Derivatives		32,007	30,242
Equity instruments		19,128	19,541
Debt securities		42,060	13,729
Non-trading financial assets mandatorily measured at fair value through profit or loss	**7, 12**	**379,393**	**357,988**
Equity instruments		289,458	275,466
Debt securities		89,935	82,522
Financial assets at fair value through other comprehensive income	**7, 13**	**651,443**	**622,398**
Equity instruments		44,771	44,495
Debt securities		606,672	577,903
Financial assets at amortised cost	**6, 7 and 14**	**1,746,815**	**1,559,166**
Debt securities		233,787	241,276
Loans and advances		1,513,028	1,317,890
Credit institutions		336,469	277,255
Clients		1,176,559	1,040,635
Derivatives – hedge accounting	**7, 15**	**2**	**191**
Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging	**15**	**2,168**	**559**
Investments in subsidiaries, joint ventures and associates	**4, 16**	**4,720**	**1**
Associated entities and joint ventures		4,720	1
Assets covered by insurance and reinsurance contracts	**22**	**37,304**	**36,324**
Tangible assets	**17**	**102,899**	**103,240**
Fixed assets		60,279	59,581
Property investments		42,620	43,659
Intangible assets	**18**	**13,505**	**13,173**
Other intangible assets		13,505	13,173
Tax assets	**41**	**4,466**	**7,667**
Current tax assets		2,061	3,632
Deferred tax assets		2,405	4,035
Other assets	**19**	**4,925**	**4,541**
Non-current assets and disposable groups of items held for sale	**20**	**1,146**	**1,562**
TOTAL ASSETS		**3,059,744**	**2,787,970**

(*) Submitted solely and exclusively for comparative purposes (see note 2.3)

The attached Notes 1 to 46 form an integral part of the consolidated statement of financial position as of 31 December 2019.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of 31 December 2019 and 2018, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP ASSETS

LIABILITIES	Note	31/12/2019	31/12/2018(*)
Financial liabilities held for trading	**10**	**30,708**	**31,282**
Derivatives		30,708	31,282
Financial liabilities designated at fair value through profit or loss	**12**	**360,603**	**358,891**
Other financial liabilities		360,603	358,891
Financial liabilities at amortised cost	**21**	**2,220,271**	**1,972,271**
Deposits		2,173,534	1,917,964
Deposits of central banks and credit institutions		27,726	48,286
AFA		29,894	27,150
Client deposits		2,115,914	1,842,528
Debt securities issued		27,722	34,158
Other financial liabilities		19,015	20,149
Derivatives – hedge accounting	**15**	**10,661**	**6,699**
Changes in the fair value of the hedged items with interest rate risk	**15**	**794**	**782**
Liabilities covered by insurance and reinsurance contracts	**22**	**84,659**	**86,459**
Provisions	**23**	**24,208**	**25,185**
Pensions and other post-employment defined benefit obligations		15,378	17,787
Other remuneration for long-term employees		1,539	1,265
Procedural issues and litigation for pending taxes		2,116	2,136
Commitments and guarantees granted		1,041	901
Other provisions		4,134	3,096
Tax liabilities	**41**	**3,864**	**3,571**
Current tax liabilities		3,777	3,484
Deferred tax liabilities		87	87
Other liabilities	**19**	**17,112**	**16,243**
TOTAL LIABILITIES		**2,752,880**	**2,501,383**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.3)

The attached Notes 1 to 46 form an integral part of the consolidated statement of financial position as of 31 December 2019.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of 31 December 2019 and 2018, in thousands of euros

**MORA BANC GRUP, SA
AND COMPANIES COMPRISING
THE MORABANC GROUP**

NET EQUITY	Note	31/12/2019	31/12/2018(*)
Capital	25	42,407	42,407
Other comprehensive income	15, 26	(1,016)	(3,227)
Items which will not be reclassified to profit or loss		267	(385)
Fair value changes in equity instruments valued at fair value through other comprehensive income		267	(385)
Items which can be reclassified in profit or loss		(1,283)	(2,842)
Cash flow hedges (effective part)		949	926
Financial assets at fair value through other comprehensive income		(2,232)	(3,768)
Accumulated profits	25	268,217	155,079
Other reserves	25	(27,876)	68,275
Profit or loss attributable to the owners of the controlling company		25,136	24,057
Minority interests (non-controlling interests)		(4)	(4)
Other items	27	(4)	(4)
TOTAL NET EQUITY		306,864	286,587
TOTAL NET EQUITY AND LIABILITIES		3,059,744	2,787,970

(*) Submitted solely and exclusively for comparative purposes (see Note 2.3)

The attached Notes 1 to 46 form an integral part of the consolidated statement of financial position as of 31 December 2019.

CONSOLIDATED INCOME STATEMENTS

As of 31 December 2019 and 2018, in thousands of euros

**MORA BANC GRUP, SA
AND THE COMPANIES COMPRISING
THE MORABANC GROUP**

	Note	2019	2018(*)
Interest income	33	34,865	35,711
Interest expenses	33	(7,957)	(10,356)
Dividend income		1,460	623
Commission income	34	64,653	61,658
Commission expenses	34	(13,570)	(11,389)
Profit or loss of institutions valued by the equity method	36	**209**	**(30)**
Profit or loss from financial transactions	35	**7,352**	**7,883**
For financial instruments not valued at fair value through profit or loss		6,416	3,312
For financial assets and liabilities held for trading		1,695	722
For other financial instruments at fair value through profit or loss		309	1,523
Profits or (-) losses resulting from hedge accounting, net		(2,538)	1,082
Change differences (net)		1,470	1,244
Other operating income	37	**5,504**	**5,182**
Other operating expenses	37	**(622)**	**(366)**
Net operating profit		**91,894**	**88,916**
Administrative costs		(55,136)	(55,903)
Personnel expenses	38	(30,208)	(32,256)
Other administrative general expenses	39	(24,928)	(23,647)
Amortisation	17 and 18	(5,842)	(5,638)
Provisions (net)	23	(2,539)	(1,868)
Impairment of financial assets not valued at their fair value through profit or loss (net)	40	(506)	238
At fair value through other comprehensive income		(62)	239
At amortised cost		(444)	(1)
Impairment of non-financial assets (net)		-	(117)
Tangible assets		-	(117)
Profits or (-) losses on derecognition of non-financial assets and holdings, (net)		(1,020)	142
Profits or losses from non-current assets on sale not classified as discontinued operations	20	124	60
Profit before taxes		**26,975**	**25,830**
Tax on profits	41	(1,839)	(1,773)
Profit or loss for the financial year from continuing operations		**25,136**	**24,057**
Profit or loss from interrupted operations (net)		-	-
PROFIT/LOSS FOR THE PERIOD		**25,136**	**24,057**
Attributable to the owners of the controlling company		**25,136**	**24,057**
Attributable to the minority interests		**(-)**	**(-)**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.3)

The attached Notes 1 to 46 form an integral part of the consolidated income statement for the financial year ending on 31 December 2019.

STATEMENT OF CHANGES IN THE CONSOLIDATED NET EQUITY (1)

As of 31 December 2019 and 2018, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

CONSOLIDATED STATEMENT OF COMPREHESIVE INCOME	2019	2018(*)
PROFIT/LOSS FOR THE PERIOD	**25,136**	**24,057**
OTHER COMPREHENSIVE INCOME	**2,211**	**(6,032)**
Items which will not be reclassified to profit or loss	**652**	**(385)**
Fair value changes in equity instruments valued at fair value through other comprehensive income	**725**	**(428)**
Income tax related to items which cannot be reclassified to profit or loss	**(73)**	**43**
Items which may be reclassified to profit or loss	**1,559**	**(5,647)**
Cash flow hedges	**23**	**75**
Profits (losses) by valuation	23	75
Financial assets at fair value through other comprehensive income	**1,736**	**(6,362)**
Profits (losses) by valuation	4,274	(3,106)
Amounts transferred to the profit and loss account	(2,538)	(3,256)
Income tax related to items which can be reclassified to profit or loss	**(200)**	**640**
COMPREHENSIVE INCOME FOR THE PERIOD	**27,347**	**18,025**
Attributable to the owners of the controlling company	**27,347**	**18,025**
Attributable to the minority interests	**-**	**-**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.3)

The attached Notes 1 to 46 form an integral part of the consolidated statement of comprehensive income for the financial year ending on 31 December 2019.

STATEMENT OF CHANGES IN THE CONSOLIDATED NET EQUITY (II)

As of 31 December 2019 and 2018, in thousands of euros

MORA BANC GRUP, SA
AND COMPANIES COMPRISING
THE MORABANC GROUP

TOTAL STATEMENT OF CHANGES IN THE CONSOLIDATED NET EQUITY

							Minority interests		
	Capital	Other comprehesive income	Accumulated profits	Other reserves	Profit or loss attributable to the owners of the controlling company	(-) Interim dividends	Other comprehe e income	Other items	Total
Balance as of 31 December 2017	**42,407**	**2,806**	**145,608**	**75,841**	**23,517**	**(12,925)**	**-**	**(4)**	**277,250**
Effects of changes in accounting policies	-	-	-	(8,087)	-	-	-	-	(8,087)
Balance as of 1 January 2018 (*)	**42,407**	**2,806**	**145,608**	**67,754**	**23,517**	**(12,925)**	**-**	**(4)**	**269,163**
Distribution of the 2017 profit	-	-	6,327	4,266	(23,517)	12,925	-	-	-
Other increases or decreases in the net equity	-	-	3,144	(3,745)	-	-	-	-	(600)
Total comprehensive income for the period	-	(6,032)	-	-	24,057	-	-	-	18,025
Balance as of 1 January 2019	**42,407**	**(3,227)**	**155,079**	**68,275**	**24,057**	**-**	**-**	**(4)**	**286,587**
Distribution of the 2018 profit	-	-	24,057	-	(24,057)	-	-	-	-
Other increases or decreases in the net equity (Note 25)	-	-	96,287	(96,151)	-	-	-	-	136
Dividend distribution	-	-	(7,206)	-	-	-	-	-	(7,206)
Total comprehensive income for the period	-	2,211	-	-	25,136	-	-	-	27,347
Balance as of 31 December 2019	**42,407**	**(1,016)**	**268,217**	**(27,876)**	**25,136**	**-**	**-**	**(4)**	**306,864**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.3)

The attached Notes 1 to 46 form an integral part of the changes in the consolidated net equity of the financial year ending on 31 December 2019.

CONSOLIDATED CASH FLOW STATEMENT

As of 31 December 2019 and 2018, in thousands of euros

MORA BANC GRUP, SA AND THE COMPANIES COMPRISING THE MORABANC GROUP

		2019	2018(*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		**(30,895)**	**26,941**
Profit/loss for the period		**25,136**	**24,057**
Adjustments to obtain the cash flows from the operating activities		**5,047**	**3,371**
Amortisation		5,842	5,638
Other adjustments		(795)	(2,267)
Net increase/(decrease) in the operating assets		**(316,800)**	**(184,762)**
Financial assets held for trading		(29,682)	131,323
Financial assets at fair value through profit or loss		(21,405)	(842)
Financial assets at fair value through other comprehensive income		(22,754)	(199,109)
Financial assets at amortised cost		(238,298)	(117,628)
Other operating assets		(4,661)	1,494
Net (increase)/decrease in the operating liabilities		**255,722**	**184,275**
Financial liabilities held for trading		(574)	15,115
Financial liabilities at fair value through profit or loss		1,712	(46,979)
Financial liabilities at amortised cost		261,640	232,953
Other operating liabilities		(7,056)	(16,814)
B) CASH FLOWS FROM INVESTMENT ACTIVITIES		**(7,232)**	**(14,162)**
Payments:		**(8,564)**	**(14,729)**
Tangible assets		(1,176)	(9,811)
Intangible assets		(3,638)	(4,918)
Investments in joint ventures and associates		(3,750)	-
Collections:		**1,332**	**567**
Tangible assets		800	-
Non-current assets and liabilities which have been classified as held for sale		532	567
C) CASH FLOWS FROM FINANCING ACTIVITIES		**(13,497)**	**(637)**
Payments:		**(15,124)**	**(637)**
Dividends		(7,206)	-
Acquisition of issued financial instruments		(7,918)	(637)
Collections:		**1,627**	**-**
Sale of issued financial instruments		1,627	-
D) EFFECT OF THE VARIATIONS IN EXCHANGE RATES		**1,469**	**1,244**
E) NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS (A+B+C+D)		**(50,155)**	**13,386**
F) CASH AND EQUIVALENTS AT THE START OF THE PERIOD		**220,434**	**207,048**
G) CASH AND EQUIVALENTS AT THE END OF THE PERIOD (E+F)		**170,279**	**220,434**
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD			
Cash	17,553	17,438	
Balances equivalent to cash in central banks		210	210
Other financial assets		152,516	202,786
TOTAL CASH AND EQUIVALENTS AT THE END OF THE PERIOD		**170,279**	**220,434**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.3)

The attached Notes 1 to 46 form an integral part of the consolidated Cash Flow Statement for the financial year ending on 31 December 2019.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ending on 31 December 2019

**MORA BANC GRUP, SA
AND COMPANIES COMPRISING
THE MORABANC GROUP**

1 INTRODUCTION

Mora Banc Grup, SA (hereinafter, the Bank or the Institution) is an Andorran company with its registered office at Avinguda Meritxell 96 (Andorra la Vella), whose corporate purpose consists of the provision of financial services, in accordance with the legislation in force at any time in the Principality of Andorra.

In addition to the operations it carries out directly, Mora Banc Grup, SA is the parent company of a group of subsidiary institutions (hereinafter, the Group or the Mora Banc Group, see Note 4). Similarly, the Group provides the investment and auxiliary services permitted to banking institutions, as stipulated in Articles 20 and 21 of Law 7/2013, of 9 May, on the legal system of the operating financial institutions in Andorra and other provisions that regulate the financial activity in the Principality of Andorra, and any legislation which may replace or supplement this regulation in the future. Consequently, the Bank undertakes to draw up, in addition to its own individual financial statements, the Group's consolidated financial statements, which additionally include holdings in joint ventures and investments in associate institutions.

The consolidated financial statements of the Mora Banc Group for the 2019 financial year have been prepared by the Board of Directors of Mora Banc Grup, SA and are pending approval by the General Meeting of Shareholders. Despite the above, the Board of Directors of Mora Banc Grup, SA envisages their approval without any modifications. The consolidated financial statements of the MoraBanc Group and its subsidiary companies corresponding to the 2018 financial year were approved by the General Meeting of Shareholders held on 30 April 2019.

As an integral part of the Andorran financial system, the Group is subject to the supervision of the Andorran National Institute of Finance (hereinafter, the INAF/AFA), an authority of the Andorran financial system which performs its functions independently of the General Administration. Mora Banc Grup, SA, forms an integral part of the Andorran Banking Association (hereinafter, ABA).

2 BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Declaration of compliance

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter, the IFRS/NIIF) adopted by the INAF by means of the Decree published on 22 December 2016, and modified by the Decrees published on 19 December 2018 and 27 March 2019, approving the accounting framework applicable to institutions operating within the Andorran financial system and collective investment agencies of Andorran law, in accordance with the IFRS approved by the European Union (IFRS-EU), which have now been adopted by Andorra (IFRS-Andorra), modified by the Decree of 12 December 2018 and by the Decree of 27 March 2019, approving the determined IFRS-EU.

The Group's consolidated financial statements corresponding to the 2019 financial year have been formulated by the Bank's directors in accordance with the provisions of the IFRS-EU, adopted by Andorra (IFRS-Andorra), applying the principles of consolidation, accounting policies and appraisal criteria outlined in Note 3, in such a way that they reflect the true image of the operations' equity and results of its operations, the changes in its net equity and the consolidated cash flows which occurred in the 2019 financial year.

These consolidated financial statements have been drawn up upon the basis of the accounting records kept by the Bank and by each of the institutions comprising the Group, and include the adjustments and reclassifications necessary to standardise the accounting policies and appraisal criteria applied by the Group.

The notes on the consolidated financial statements contain additional information to that submitted in the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in net equity and the consolidated cash flow statement. They express narrative descriptions or breakdowns of the above-mentioned consolidated financial statements in a clear, relevant, reliable and comparable manner.

2.2. New standards and interpretations issued currently in force

As of the end of the 2019 financial year, the most significant standards and interpretations which have entered into force were the following:

Standards and interpretations	Title	Obligatory application for financial years already begun, starting from:
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Modifications IAS 28	Long-term interests in associates and joint ventures	1 January 2019
Modifications to IFRS 9	Clause relating to prepayment with negative compensation	1 January 2019
Annual improvements to the IFRS	2015-2017 Cycle	1 January 2019
Modification to IAS 19	Modification, liquidation or reduction of a plan	1 January 2019

IFRS 16: Leases

On 1 January 2019, IFRS 16 came into force, replacing IAS 17. This standard sets out the principles applicable to the recognition, valuation and presentation of leases.

The new regulations introduce a single accounting model for leases, and require that the assets and liabilities of all leases be recognised. The main types of contracts identified by the Group that have required to estimate an asset for right of use and a lease liability as of 1 January 2019 are real estate leases.

In order to record these leases, the lessee must recognise in their asset a right of use that represents their right to use the leased asset which must be registered under the heading "Tangible asset - fixed assets" and "Tangible Assets - Real Estate Investments" in the consolidated statement of financial position, and a liability for leases that represents the obligation to make the payment of the lease, which must be recorded under the heading "Financial liabilities at amortised cost - Other financial liabilities " in the consolidated statement of financial position. For the purposes of the consolidated income statement, the amortisation of the right of use shall be recorded under the heading "Amortisation" and the financial cost associated with the liability for leases under the heading "Interest expenses".

At the date of transition, the Group has chosen to apply the modified retrospective method, which recognises lease liabilities for an amount equivalent to the current balance of future payments committed on 1 January 2019. With regard to the asset, we have chosen to register the assets by right of use for an amount equal to the lease liabilities, adjusting, if necessary, the amount of any advance payment or accrued lease related to this lease recognised in the statement of financial position as of the date of initial application.

The details as of 31 December 2018 of the headings in the consolidated statement of financial position regarding leases, have not been stated in this report, and so cannot be compared with the information for the 2019 financial year. The impact of the first application of these regulations is detailed in Note 17 of this report.

IFRIC 23 "Uncertainty over income tax processing"

This standard sets out that an institution must consider whether the relevant authority is likely to accept each tax processing, or tax processing group, it uses or intends to use in the submission of income tax.

a) If the institution concludes that a particular tax treatment is likely to be accepted, the institution must determine the taxable profit (tax losses), the taxable bases, the unused tax losses, the unused tax credits and the tax rates in keeping with the tax treatment included in its income in its tax submissions.

b) If the institution concludes that a particular tax treatment is unlikely to be accepted, the institution must use the most likely amount or the expected value of the tax treatment when the taxable profits (tax losses), taxable bases, unused tax losses, tax credits and unused taxes are determined. The decision will be based on the method which provides the best predictions for the resolution of the uncertainty.

Modification IAS 28 "Long-term interests in associates and joint ventures"

The existing requirements are amended to clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures forming part of the institution's net investment in institutions in which it invests.

Modification IFRS 9 "Clause relating to prepayment with negative compensation"

A clarification has been issued on the treatment of certain prepayment options in relation to the evaluation of interest and principal contractual flows on financial instruments.

Annual improvements to the IFRS – 2015-2017 Cycle

IFRS 3 Business combinations

The amendments clarify that an institution will re-measure its previous holding in a joint venture when it obtains control of the business.

IFRS 11 Joint arrangements

The amendments clarify that an institution will re-measure its previous holding in a joint venture when it obtains control of the business.

IAS 12 Tax on profits

The amendments clarify that an institution will account for all tax consequences of dividend payments in the same manner.

IAS 23 Interest costs

The amendments clarify that an institution will treat as part of a loan any loan originally made to develop an asset when the asset is ready for its intended use or sale.

Modifications to IAS 19 “Modification, liquidation or reduction of a plan”

This modification to IAS 19 requires an institution to use updated actuarial assumptions to determine the cost of the current service and net interest for the remainder of the period after a modification, reduction or liquidation of a plan, and to recognise in the results as part of the past service cost, or a gain or loss on liquidation, or any reduction in a surplus, even if that surplus had not been previously recognised due to the impact of the asset limit.

This modification is applicable prospectively to the modifications, liquidations or reductions of defined benefit plans that take place from 1 January 2019, being allowed its early application.

2.3. Comparison of the information

The figures for the 2018 financial year are presented for comparison purposes only.

As of 1 January 2019, IFRS 16 "Leases" replaces IAS 17 "Leases" and includes accounting modifications by the lessee (Note 2.2). The Group has chosen to apply the modified retrospective method and has not restated the prior years for comparative purposes as permitted by the regulation itself.

2.4. Responsibility for the information and estimates made

In the drawing up of the consolidated financial statements, judgements, estimates and assumptions have been made by the Bank's Directors to quantify certain assets, liabilities, income, expenses and commitments recorded therein. These estimates chiefly refer to:

Applicable only to the 2019 financial year for the entry into force of IFRS 16:

- Note 17: Tangible assets and real estate investments: valuation of use rights and liabilities associated with leases

Applicable to the 2019 and 2018 financial years:

- Classification and measurement of financial instruments in relation to the analysis of the business model and the characteristics of contractual flows (Note 6).
- Establishment of criteria for determining whether the credit risk of a financial asset has been significantly increased and the methodology used to measure the expected loss (Note 6).
- The fair value of certain financial assets and liabilities (Note 7).
- Losses due to the impairment of certain financial assets and the fair value of the guarantees associated thereto (Notes 12, 13 and 14).
- The valuation of the holdings in associate companies (Notes 4 and 16).
- The determination of the profit/loss of the holdings in associate companies (Note 16).
- The useful life and impairment losses concerning the tangible and intangible assets (Notes 3.12, 3.14, 17 and 18).
- The actuarial assumptions used in the calculation of the liabilities for insurance contracts and post-employment commitments (Note 24).
- The valuation of the provisions necessary for the hedging of occupational, legal, fiscal and other contingencies (Note 23).
- The expenditure on corporate tax determined by means of the tax rate expected at the end of the year and the activation of the tax credits and their recoverability (Note 41).

These estimates have been made upon the basis of the best available information on the date of the drawing up of these consolidated financial statements. However, it is possible that future events will require amendments of the consolidated financial statements in coming years. These would be performed in a prospective manner.

2.5. Functional and submission currency

The figures in these consolidated financial statements are submitted in euros, which is the Bank's functional currency, unless the use of another monetary unit is expressly indicated. Certain financial information in this report has been rounded off to the nearest thousand units.

2.6. Error correction

In the drawing up of the 2019 consolidated financial statements, no error has been detected leading to the restatement of the amounts included in the 2018 consolidated financial statements.

2.7. Obligatory investments

Obligatory investment coefficient

The General Council of the Principality of Andorra, at its meeting on 30 June 1994, passed the Law regulating the obligatory investment coefficient. This law obliges banking institutions to maintain a coefficient of investment in public funds.

2.7.1. Public debt

In compliance with this coefficient, the Group, as of 31 December 2019, underwrote €62,166,000 in public debt of the Principality of Andorra, issued on 15 March 2017. This debt matures on 30 March 2022 and earns interest at a rate of 0.50%, with a rate schedule established upon its issue.

The amount underwritten by the Group for this issue is recorded under the heading "Financial assets at amortised cost – Debt securities" of the attached consolidated statement of financial position (see Note 14).

2.7.2. Privileged financing programmes

Loans granted by the Group within the framework of qualified programmes of national and social interest approved by the Government of Andorra, designed for the privileged financing of housing, newly-created companies and businesses, innovation, reconversion, entrepreneurial projects and housing restoration are also computable as public funds. Loans granted by the Group for these purposes, as of 31 December 2019 and 2018, accounted for the respective amounts of €524,000 and €599,000 and are recorded under the heading "Financial assets at amortised cost – Loans and advances" of the attached consolidated statement of financial position.

2.7.3. Guarantee reserves

Deposit Guarantee Fund

The General Council of the Principality of Andorra, at its session on 13 September 2018, approved Law 20/2018 regulating Andorra Deposit Guarantee Fund and the Andorran investment guarantee system.

Law 20/2018 regulates the Andorran Deposit Guarantee Fund (FAGADI) as a deposit guarantee system in the terms established by Directive 2014/49/EU with an additional cushion of financial resources for FAGADI.

The main features of the deposit guarantee system are as follows:

- The coverage regime of €100,000 per depositor and per institution is maintained. And additional coverages are incorporated in exceptional cases that provide guarantees up to a limit of €300,000.
- FAGADI's resources must reach 0.8% of the guaranteed deposits with a deadline of 30 June 2024, through the annual contributions of the banking entities. Additionally, as of that date, banks must continue to make annual contributions to the Fund in order for this Fund to reach a level of 1.6% of financial resources within eight years from 2024 despite the maximum FAGADI coverage limit for all beneficiaries not being able to exceed €200 million.

Law 20/2018 maintains the Andorran Investment Guarantee System ("SAGI") as an ex post guarantee system in which the investment financial institutions, together with the banking entities, which have been participating so far, participate and the management companies of collective investment entities authorised to provide administration and custody of financial instruments.

This law obliges banking institutions authorised to operate in the Andorran financial system to maintain investments in liquid and safe assets as a counterpart of an unavailable reserve, affected by compliance with the guarantees covered by the guarantee system.

The amount of the guarantee reserve relating to the Deposit Guarantee Fund established by the Group totalled €25,128,000 as of 31 December 2019. The Group has invested an amount equivalent to the guarantee reserves in fixed-income securities - public debt of the OECD countries and the Principality of Andorra and other assets immediately available or with a maturity not exceeding one month, which can be easily settled, and that the INAF deems appropriate at any time, in accordance with the requirements established in the above-mentioned law (see Notes 25 and 43.1).

In accordance with the same law during this year, €926,000 have been provided and the total amount of the provision constituted is €1,566,000, which is recorded under the heading "Provisions-Other provisions". This annual allowance corresponds to the ordinary contributions that are actually required to form the FAGADI ex-ante part, with a deadline of 30 June 2024.

2.7.4. FAREB (Andorran Fund for the Resolution of Banking Institutions)

Law 8/2015, of 2 April, creates and regulates the Andorran Fund for the Resolution of Banking Institutions (hereinafter, the FAREB) as a financing mechanism for resolution processes involving Andorran banking institutions. The financial resources of the FAREB, as established in Article 59 of Law 8/2015, must, no later than 31 December 2024, reach an amount equal to 1% of the guaranteed deposit amount.

As established in the first additional provision of Law 8/2015, Andorran banking institutions made an extraordinary initial joint contribution to the FAREB for an amount of €30,000,000, to which the Group contributed €5,154,000 (see Note 43).

In accordance with the same Law, the Group recorded the expenditure corresponding to ordinary contributions in the 2019 financial year under the heading "Provisions (net)" of the attached consolidated income statements, for the amount of €531,000 (Note 23). During 2019, the same amount was settled at the FAREB.

2.7.5. Deposits with the AFA

Non-banking institutions forming part of the financial system are obliged to maintain minimum equity reserves to guarantee their operational obligations. Therefore, among its permanent resources, Mora Gestió d'Actius, SAU held minimum equity reserves for the amount of €210,000 as of 31 December 2019 and 2018 (see Note 9). The deposits established for this purpose are recorded in the section titled "Cash balances in central banks" of the assets of the attached consolidated statement of financial position and do not accrue any type of interest at the current time.

3 CONSOLIDATION PRINCIPLES, ACCOUNTING POLICIES AND APPRAISAL CRITERIA

In the drawing up of the Group's consolidated financial statements corresponding to the 2019 financial year, the following principles, accounting policies and appraisal criteria have been applied, in accordance with the provisions of the IFRS-EU which have been adopted by Andorra (IFRS-Andorra):

3.1. Transactions in foreign currencies

Criteria for the conversion of foreign currency balances

The conversion into euros of foreign currency balances is performed in two consecutive phases:

- Conversion of the foreign currency into the functional currency (currency of the main economic environment in which the institution operates).

  Transactions in foreign currencies performed by consolidated institutions whose functional currency is the euro are initially recorded in the corresponding currency. The monetary balances in the foreign currency are subsequently converted into the functional currency, using the exchange rate at the end of the financial year.

  Similarly:

  - Non-monetary items valued at their historical cost are converted into the functional currency at the exchange rate on the date of their acquisition.
  - Non-monetary items valued at their fair value are converted at the exchange rate on the date when this fair value is determined.
  - The income and expenditure are converted at the exchange rates on the date of the transaction.

- Conversion into euros of the balances held in the currencies of the institutions with a functional currency different from the euro.

  The balances of the transitional consolidated statement of financial position of the consolidated institutions whose functional currency is different from the euro are converted into euros in the following manner:

  - The exchange rate at the end of the year is applied to the assets and liabilities.
  - The average exchange rate for the year is applied the income and expenses.
  - The net equity, the historical exchange rates.

Record of the exchange differences

The exchange differences which occur when converting the balances designated in a foreign currency into the functional currency are generally recorded by their net amount in the section titled "Gains/losses on financial transactions - Exchange rate differences (net)" of the consolidated income statement.

The exchange differences which occur when converting into euros the financial statements of the Group's companies designated in the functional currencies of the institutions whose functional currency is different from the euro are recorded under the heading "Other reserves" of the net equity.

3.2. Principles of consolidation

Subsidiary institutions

Subsidiary institutions are regarded as those over which the Group has the capacity to exercise control. This capacity for control is manifested when:

- It has the power to manage its relevant activities, in other words, those which significantly affect its performance, by means of a legal provision, charter or agreement.
- It has the present, in other words, practical capacity to exercise its rights to use this power in order to influence its performance.
- As a result of its involvement, it is exposed or entitled to the variable returns of the investee.

The consolidated financial statements of subsidiary institutions are consolidated with those of the Bank by means of the application of the full consolidation method, consisting of the aggregation of the assets, liabilities, net equity, income and expenses of a similar nature to those contained in their individual financial statements. The carrying amount of the direct and indirect holdings in the equity of the subsidiary institutions is eliminated with the fraction of the net equity of the subsidiary institutions they represent. Consequently, all the balances and effects of the transactions performed by the consolidated companies are eliminated in the consolidation process.

At the time of the acquisition of the control of a subsidiary company, its assets, liabilities and contingent liabilities are recorded at their fair values on the acquisition date. The positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill. The negative differences are recognised in profit or loss on the acquisition date.

In addition, the holdings of third parties in the equity of the Group's companies are submitted in the section titled "Minority interests (non-controlling holdings)" of the consolidated statement of financial position. The profits of the financial year are submitted in the section titled "Profit/loss for the period - attributable to minority interests" in the consolidated income statement.

Under certain circumstances, as established in IFRS 10, the Group treats an investee separately if, and only if, a set of conditions are met:

- The assets specified by the investee (and related credit enhancements, if there are any) are the sole source of payment of the investee's specified liabilities, or any other specified holdings of the latter.
- The parties other than those with the specified liability do not have rights or obligations related to the specified assets or the residual cash flows resulting from said assets.
- There are no yields from specified assets which can be used from the remainder of the investee or separate liabilities of the institution which can be paid with the assets remaining from the investee.
- All the institution's assets, liabilities and equity considered separately are protected from the global investee.

Holdings in joint ventures (jointly-controlled institutions)

Joint ventures are regarded as those which, while not being subsidiary institutions, are jointly controlled by two or more institutions which are not related parties. This is demonstrated by contractual agreements by virtue of which two or more institutions have holdings in institutions, in such a way that the decisions on the relevant activities require the unanimous consent of all the institutions which share the control.

In the consolidated statement of financial position, multi-group institutions are valued by the holding method, in other words, by the fraction of their net equity representing the Group's holding in their capital, once the dividends perceived from the latter and other equity eliminations have been considered. In the event of transactions with a jointly-controlled institution, the corresponding losses or profits are eliminated in the percentage of the Group's holding in its capital.

The Group currently has no holdings in joint ventures.

Associate institutions

These are institutions over which the Group has the capacity to exert a significant influence and are not subsidiary institutions or joint ventures. It is assumed that the Group exercises significant influence if it owns 20% or more of the investee's voting power. If the voting rights are lower than 20%, the significant influence may be demonstrated if any of the circumstances indicated in IAS 28 "Investments in associate companies and joint ventures" occur. Circumstances which usually demonstrate the existence of significant influence include having representation on the Board of Directors, participation in the investee's policy-setting processes, the existence of transactions of relative importance between the institution and the investee, the exchange of management personnel and the provision of essential technical information.

In the consolidated statement of financial position, associate institutions are valued by the equity method, in other words, by the fraction of their net equity representing the Group's holding in their capital, once the dividends perceived from the latter and other equity eliminations have been considered. In the event of transactions with an associate institution, the corresponding losses or profits are eliminated in the percentage of the Group's holding in its capital.

As of 31 December 2019, the Group maintained its holding in Serveis i Mitjans de Pagament XXI, SA and in Societat Financera Pyrénées, SAU as an associate institution in its consolidated statement of financial position (see Note 16 and Note 36).

Business combinations

Business combinations are regarded as those deals by means of which two or more institutions or economic units are merged into a single institution or group of companies.

In 2019 and 2018 the Group did not participate in business combinations.

Changes in the levels of holdings in subsidiary companies

The acquisitions and disposals which do not give rise to a change in control are recognised as equity transactions, without the recognition of a loss or profit in the consolidated income statement and without revaluing the initially recognised goodwill. The difference between the consideration given or received and the respective decrease or increase in the minority interests is recognised in reserves.

Transactions eliminated in the consolidation

Balances and transactions between consolidated institutions and the income or expenses (except for the profits or losses from transactions in foreign currencies) from transactions between consolidated institutions are eliminated during the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised profits, but only insofar as there is no evidence of impairment.

Fund management

The Group manages and administers assets held in mutual investment funds and other means of investment on behalf of investors. The financial statements of these institutions are not included in these consolidated financial statements, except when the Group controls the institution, due to non-compliance with the regulations of IFRS 10, as they are regarded as controlled institutions.

3.3. Definitions and classification of financial instruments

Definitions

A financial instrument is a contract which gives rise to a financial asset in an institution and, simultaneously, a financial liability or equity instrument in another institution.

A capital or net equity instrument is a legal business which demonstrates a residual holding in the assets of the institution which issues it, once all its liabilities have been deducted.

A derivative is a financial instrument or another contract which fulfils the following three characteristics:

- Its value changes in response to the changes in a specified interest rate, the price of a financial instrument or that of a quoted raw material, an exchange rate, a price index or interest rates, a credit rating or index or in accordance with any other variable which, in the case of being non-financial, is not specific to any of the parts of the contract (sometimes referred to as “underlying” in this variable);
- • it does not require a net initial investment or only requires a net initial investment lower than that required for other types of contracts in which a similar response could be expected in the event of changes in the market conditions; and
- it will be settled at a future date.

Hybrid financial instruments are contracts which simultaneously include a principal contract different from a derivative together with a financial derivative, known as an implicit derivative, which is not individually transferable, leading to some of the cash flows of the hybrid contract varying in the same way as the implicit derivative considered in isolation would.

Composite financial instruments are contracts which simultaneously generate a financial liability and an equity instrument for the issuer (such as convertible bonds granting their holder the right to convert them into equity instruments of the issuing institution).

Preferential shares issued whose remuneration is not discretionary are accounted for by the Group as debt securities.

The transactions listed below are not regarded as financial instruments for accounting purposes:

- Holdings in associate and jointly-controlled entities.
- Rights and obligations arising as a result of employee benefit plans.
- Rights and obligations arising from insurance contracts.

Registration and classification of financial assets for valuation purposes

Generally speaking, all financial instruments are initially recorded at their fair value which, unless otherwise stated, matches the transaction price. For financial instruments not recognised at fair value through profit or loss, the fair value is adjusted by adding or deducting transaction costs directly attributable to their acquisition or issue.

For financial instruments at fair value through profit or loss, directly attributable transaction costs are recognised immediately in the consolidated income statement. As a general rule, purchases and sales of financial assets are generally recognised in the Group's consolidated statement of financial position applying the date of the transaction.

Changes in the value of financial instruments arising from the accrual of interest and similar items are recognised in the consolidated income statement. Dividends of other companies are registered in the consolidated income statement for the financial year at the time the right to receive them comes about.

The instruments that form part of a hedging relationship are treated in accordance with the rules applicable to hedge accounting.

Variations in the valuations that occur after the initial registration for causes other than those mentioned above are treated based on the classification of financial assets and liabilities for the purpose of their valuation, which is generally made on the basis of following aspects:

- The business model for managing financial assets, and
- The characteristics of contractual cash flows of financial assets.

Business model

The business model is the way financial assets are managed to generate cash flows, and is determined by considering how financial asset groups are managed together to achieve a specific objective. Therefore, the business model does not depend on the intentions of the Group for an individual instrument but is determined for a set of instruments.

The following are the business models that the Group has in place:

- **Held to receive contractual cash flows (HTC):** under this model, financial assets are managed to collect their contractual cash flows. However, disposals prior to the maturity of assets are allowed in certain circumstances. Sales that may be consistent with a model of holding assets to receive contractual cash flows include: infrequent or insignificant, near-maturity assets, those with an increased credit risk and those carried out to manage concentration risk.
- **Held for sale (HTS):** under this model, financial assets are originated or acquired with the aim of short-term realisation.
- **Combination of the two previous business models (HTC & S):** This business model involves sales, these being essential to the business model, but being the most frequent and of the highest value than in the model of maintaining assets to receive contractual cash flows.

If the Group decides to change its business model for financial asset management, it will reclassify all the affected financial assets in accordance with the requirements of IFRS 9. Such reclassification will be performed prospectively from the date of reclassification.

Pursuant to IFRS 9, business model changes generally occur infrequently. Financial liabilities may not be reclassified from portfolio. No reclassifications were made between business models during 2019 and 2018.

The characteristics of contractual cash flows of financial assets

A financial asset shall be initially classified into one of the following two categories:

- Those assets in which the contractual terms give rise to cash flows which consist solely of interest and principal payments on the principal amount outstanding.
- Rest of financial assets.

For the purpose of this classification, the principal of a financial asset is its fair value at the time of initial recognition, which may change over the life of the financial asset (if there are principal repayments, for example). Interest is also understood to mean the sum of the consideration for the temporary value of the money, the costs of financing and the structure, and the credit risk associated with the principal outstanding amount during a particular period, plus a margin of profit.

Portfolios of classification of financial instruments for the purpose of their valuation

Financial assets are classified for the purposes of their valuation in the following portfolios, based on the aspects described above:

- **Financial assets at amortised cost.** This category includes financial assets that meet the following two conditions:
  - A business model whose purpose is to hold them in order to perceive their contractual cash flows (HTC), and
  - Contractual conditions that give rise to cash flows on specified dates, which are only interest and principal payments and on the outstanding principal amount.

This category includes the loan investment, the deposits lent to other institutions, whatever their legal instrument, the debt securities that fulfil the two conditions mentioned above, as well as the debts incurred by the buyers of goods or users of services that form part of the Group's business.

- **Financial assets at fair value through other comprehensive income.** This category includes financial assets that meet the following two conditions:
  - They are managed with a business model in which the objective combines the perception of their contractual cash flows and their sale, and
  - For debt securities, contractual terms give rise to cash flows on specific dates that are interest and principal payments only on the principal amount outstanding.

In addition, the Group may, irrevocably and at the time of initial recognition, choose to include in the portfolio of financial assets at fair value through other comprehensive income investments in equity instruments that must not be classified as held for trading and would otherwise be classified as financial assets at fair value through profit or loss. This option is carried out instrument by instrument and at the moment of initial recognition.

Losses on impairment of debt instruments or gains on subsequent recovery are recognised in the consolidated statement of comprehensive income and, in the case of equity instruments, in other comprehensive income. The remaining changes in value are reported in other comprehensive income.

When a debt instrument at fair value through other comprehensive income is derecognised, the amount of change in value recorded under "Other accumulated comprehensive income" in the consolidated net equity is reclassified to the consolidated income statement. However, when a fair value instrument with changes in other comprehensive income is derecognised, this amount is not reclassified to the consolidated income statement but to an item of reserves.

- **Financial assets mandatorily at fair value through profit or loss.** A financial asset is classified in the financial assets portfolio mandatorily at fair value through profit or loss provided that it is not appropriate to classify it by the group's management business model or by the nature of its contractual cash flows in any of the portfolios described above.

This portfolio is also subdivided into:

- Financial assets held for trading. Financial assets held for trading are those acquired with the purpose of short-term equity transactions or those that are part of a portfolio of jointly identified and managed financial instruments for which recent actions have been taken to obtain short-term profit. Also considered financial assets held for trading are the derivative instruments that do not meet the definition of a financial guarantee contract and have not been designated as hedge accounting instruments.
- Non-trading financial assets necessarily measured at fair value through profit or loss. This portfolio includes the rest of the financial assets mandatorily held at fair value through profit or loss.

Classification of the financial assets for presentation purposes

The financial assets are included, for the purposes of their presentation, in accordance with their nature in the consolidated statement of financial position, in the following items:

- **Derivatives:** these include the fair value on behalf of the Group of financial derivatives which do not form part of accounting hedges, including implicit derivatives segregated from hybrid financial instruments.
- **Equity instruments:** financial instruments issued by other institutions, such as shares, which have the nature of equity instruments for the issuer, except for holdings in subsidiaries, jointly-controlled and associate companies. This item also includes investments in investment funds.
- **Debt securities:** obligations and other securities which recognise a debt for their issuer, earning remuneration consisting of interest, implemented in securities or account entries.
- **Loans and advances** debtor balances of all the credits and loans granted by the Group, except for those implemented in securities, collection rights on financial leasing operations, as well as other debtor balances of a financial nature on behalf of the Group. They are classified in accordance with the institutional sector to which the debtor belongs:
  - Credit institutions: receivables of any kind, including deposits and monetary market operations, on behalf of credit institutions.
  - Clients: includes the outstanding receivables.
- **Derivatives - Hedge accounting:** includes the fair value on behalf of the Group of the derivatives designated as hedge accounting instruments.
- **Changes in the fair value of the items covered by a portfolio with interest rate risk hedging:** amounts paid to the consolidated income statement originating in the valuation of the portfolios of financial instruments which are effectively hedged from interest rate risk by means of derivatives resulting from fair value hedges.

Classification of the financial liabilities for valuation purposes

The financial liabilities are submitted grouped together, firstly within the different categories into which they are classified for the purpose of their management and valuation, unless they are submitted as "Non-current liabilities and disposable groups of items classified as held for sale", correspond to "Cash, cash balances in central banks and other demand deposits", "Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging" or "Derivatives - Hedge accounting", which are displayed independently.

The financial liabilities are included for the purpose of their valuation in any of the following portfolios:

- **Financial liabilities at amortised cost:** financial liabilities which are not included in any of the previous categories and which respond to typical fund-raising activities by financial institutions, whatever their form of implementation and their maturity date.

- **Financial liabilities at fair value:**

  - **Designated at fair value through profit or loss:** financial liabilities are included in this category when more relevant information is obtained, either because they significantly eliminate or reduce inconsistencies in the recognition or valuation (also known as accounting asymmetries) which would arise in the valuation of the liabilities or through the recognition of their profits or losses with different criteria, or because there is a group of financial assets which are managed and their return is evaluated upon the basis of their fair value, in accordance with a risk management strategy or documented investment and information is provided on this group, also upon the basis of the fair value, to the key personnel in Group Management. Liabilities may only be included in this portfolio on the date of their issue or creation.

  - **Financial liabilities (held for trading:** financial liabilities issued, incurred or assumed, with the aim of benefiting in the short term from the variations the prices undergo or the differences between their purchase and sale prices, as well as the financial derivatives which are not regarded as hedge accounting, and the financial liabilities resulting from the firm sale of financial assets temporarily acquired or received on loan (short security positions).

Classification of the financial liabilities for presentation purposes

Financial liabilities are included, for the purposes of their presentation, in accordance with their nature in the consolidated statement of financial position, in the following items:

- **Derivatives:** includes the fair value of the financial derivatives not forming part of accounting hedges, including implicit derivatives segregated from hybrid financial instruments.

- **Short positions:** amount of the financial liabilities resulting from the firm sale of financial assets acquired temporarily or received as loans.

- **Deposits:** includes the amounts of the reimbursable balances received in cash by the institution, except for instruments which have the nature of subordinated liabilities. It also includes the deposits and consignments in cash received, the amount of which can be freely invested. The deposits are classified in accordance with the institutional sector to which the creditor belongs, in:

  - Deposits of central banks and credit institutions: deposits of any nature, including credits received and monetary market transactions on behalf of credit institutions.

  - AFA: deposits of any nature, including credits received and monetary market transactions on behalf of the AFA.

  - Client deposits: includes the remaining deposits.

- **Other financial liabilities:** includes the amount of the obligations to be paid with the nature of financial liabilities not included in other items and liabilities for financial guarantee contracts, unless they have been classified as doubtful.
- **Debt securities issued:** amount of the financing received which, for the purposes of credit ranking, is positioned behind the common creditors. Similarly, it includes the amount of financial instruments issued by the Group which, having the legal nature of equity, do not meet the requirements to qualify as net equity, such as certain preferential shares issued.
- **Derivatives –** Hedge accounting: includes the fair value of the derivatives designated as hedging instruments in accounting hedges.
- **Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging:** amounts charged to the consolidated income statement originating in the valuation of the portfolios of financial instruments which are effectively hedged by the interest rate risk by means of derivatives of fair value hedges.

3.4. Valuation of the financial assets

Generally speaking, financial assets and liabilities are initially recorded at their fair value which, unless otherwise stated, is the transaction price. For non-valued instruments at their fair value through profit or loss, the latter is adjusted to the transaction costs.

Subsequently, on the occasion of each accounting closure, they are valued in accordance with the following criteria:

Valuation of the financial assets

Financial assets, except those classified as "Financial assets at amortised cost" are stated at fair value, less any transaction costs on their sale.

The fair value of a financial instrument on a given date is regarded as the price which would be received for the sale of an asset or which would be paid to transfer a liability by means of an orderly transaction between market participants acting in conditions of mutual independence. The most objective and usual reference for the fair value of a financial instrument is the price which would be paid for it in an active, transparent and deep market (listed price or market price).

When there is no market price for a particular financial instrument, its fair value is estimated upon the basis of valuation models sufficiently approved by the financial community, taking into account the specific characteristics of the instrument to be valued and, in particular, the different types of risk associated with the instrument in question.

All the derivatives are recorded in the consolidated statement of income at their fair value on the date of their procurement. If their fair value is positive, they are recorded as assets and, if it is negative, they are recorded as liabilities. On the procurement date, it is understood that, unless proven otherwise, their fair value is equal to the transaction price.

Any changes in the fair value of the derivatives following the procurement date are recorded with their balancing entry in the consolidated income statement. Specifically, the fair value of financial derivatives traded in organised markets included in the trading portfolios is equal to their daily price and if, for exceptional reasons, the price cannot be established on a given date, they are valued by means of methods similar to those used to value derivatives procured in non-organised markets. The fair value of derivatives not admitted to trading is equal to the sum of the future cash flows originating in the instrument, discounted on the valuation date (current value or theoretical closure), using methods in the valuation process recognised by the financial markets: current net value, models to determine prices of options, etc.

The changes in fair value, as well as the profit from of the sale of these instruments, are recognised directly in the consolidated income statement.

The assets included in the section titled "Financial assets at amortised cost" are valued at their amortised cost, using the effective interest rate method in their determination. Amortised cost means the cost of acquiring a corrected financial asset or liability (increased or decreased, as applicable) for repayments of the principal and the part systematically attributed to the consolidated income statement by means of the effective interest rate method, the difference between the initial cost and the corresponding repayment value upon maturity. In the case of financial assets, the amortised cost includes, in addition, the corrections to their value caused by the impairment they have undergone. In the loans and accounts receivable hedged in fair value hedging operations, the variations which occur in their fair value related to the risk or risks hedged in these hedging operations are recorded.

In addition, the amortised cost shall be reduced by any reduction in value through impairment recognised directly as a decrease in the amount of the asset or through an allowance account or offsetting amount.

The effective interest rate is the updated rate which exactly matches the initial value of a financial instrument to all of its cash flows calculated for all the purposes throughout its remaining life.

Valuation of the financial liabilities

Financial liabilities are generally measured at amortised cost, as defined previously, except for those measured at fair value which may be included in:

- "Financial liabilities held for trading"
- "Financial liabilities designated at fair value through profit or loss" and,
- Financial liabilities designated as hedged items at fair value (or as hedging instruments) that are measured at fair value.

Valuation techniques

Financial instruments at fair value which are determined upon the basis of price quotations published in active markets **(Level 1)** include public debt, private debt, derivatives traded in organised markets and equity instruments.

In cases in which price quotations cannot be observed, the management performs its best estimate of the price that the market would set by means of the use of internal models. In most cases, these internal models use data based on observable market parameters, directly or indirectly, as significant inputs or prices quoted in active markets for similar instruments **(Level 2)**, and sometimes use significant non-observable inputs in market data **(Level 3).**

Transfers between levels

In accordance with the provisions of the international regulations, the classification levels established in accordance with the observability and significance of the inputs employed in the methodology for the calculation of the fair value must be regularly reviewed. There have been no transfers between levels during the current financial year. For the following financial years, the criterion applied for the revaluation of the portfolio will be reviewed at least quarterly, and two circumstances may arise:

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

Adjustment to the risk assessment of the counterparty or non-compliance

The Credit Valuation Adjustment (CVA) is an adjustment to the valuation of OTC (Over The Counter) derivatives as a result of the risk associated with the credit exposure assumed with each counterparty.

The calculation of the CVA is made taking into account the potential exposure with each counterparty in each future period. The CVA for a given counterparty is equal to the sum of the CVA for all the periods. The following inputs are taken into account to calculate it:

- Expected exposure: including, for each loan, the current market value (MTM), as well as the future potential risk (Add-on) in each period. Mitigating factors such as collaterals and netting contracts, as well as the temporary decline factor for derivatives with intermediate payments, are taken into account.
- Severity: percentage of the final loss assumed in the event of credit/non-payment of the counterparty determined in accordance with the priority of the security in the event of the counterparty's default.
- Probability of non-payment/default: in cases in which there is no market information, estimates generated from companies with CDS (Credit Default Swaps) are used, quoted in the same sector and with the same external valuation as the counterparty.

In the case of implicit derivatives, the Probability of Default (PD) used is calculated internally on the basis of the credit quality of the counterparties.

The Debt Valuation Adjustment (DVA) is a valuation adjustment similar to the CVA, but in this case as a result of the Group's risk assumed by its counterparties in OTC derivatives.

The data necessary for the calculation of the probability of default, as well as its severity, comes from Credit Default Swaps, applying that of the institution in cases in which it exists. In cases in which this information is not available, the Group performs an exercise which considers, among other factors, the sector and rating of the counterparty in order to assign the probability and severity, calibrated directly in the market or with market adjustment factors for the probability of default and expected historical losses.

Valuations obtained by means of the internal models may be different if other methods or other assumptions have been applied to the interest risk, in the differentials of credit risk, market risk or exchange risk or their corresponding correlations and volatilities. Notwithstanding the above, the directors of the Group consider that the fair value of the financial assets and liabilities recorded in the consolidated statement of financial position, as well as the profits generated by these financial instruments, are fair.

Recording of profits

As a general rule, variations in the carrying value of the financial assets and liabilities are recorded with a balancing entry in the consolidated income statement, distinguishing between those which have their origin in the accrual of interest and similar purposes (which are recorded in the section titled "Interest income") and those corresponding to variations in value. The latter are recorded, for their net amount, in the corresponding section of the profit from financial transactions, and are classified in accordance with the corresponding portfolio of the consolidated income statement.

Adjustments for changes in the fair value have a recording method which differs according to their origin:

- Debt securities at fair value through other comprehensive income are temporarily recognised in the equity heading: "Other accumulated comprehensive income - Items that can be reclassified to profit or loss - Financial assets at fair value through other comprehensive income", unless they come from exchange rate differences. In the case of exchange rate differences originating in monetary financial assets, they are recognised in the section titled "Exchange rate differences (net)" of the consolidated income statement.

- Equity instruments at fair value through other comprehensive income are temporarily recognised in the equity heading: "Other accumulated comprehensive income - Items that cannot be reclassified to profit or loss - Fair value changes of equity instruments valued at fair value through other comprehensive income", unless they come from exchange rate differences. In the case of exchange rate differences originating in monetary financial assets, they are recognised in the section titled "Exchange rate differences (net)" of the consolidated income statement.

- The items charged or credited to the heading "Other accumulated comprehensive income - Items that can be reclassified to profit or loss" and corresponding to debt securities, remain part of the Group's consolidated equity until there is no impairment or derecognition in the consolidated statement of financial position, at which time the impact is recorded against the consolidated income statement. In the case of debt instruments, any gain or loss arising from the derecognition of the assets is recognised as a charge or credit in the heading "Result of financial transactions - For financial instruments not valued at fair value through profit or loss" in the consolidated statement of financial position.

- The gains or losses not implemented on the assets classified as "Non-current assets and disposable groups of items classified as held for sale" to be part of a disposal group or a discontinued operation are recognised with a balancing entry in the heading "Other accumulated comprehensive income - Items that can be reclassified to profit or loss" of the consolidated net equity.

Hedging activities

The Group can use financial derivatives for the following purposes:

- to provide these instruments to clients who request them in their risk management,
- to use them in the risk management of the positions of the Group institutions and their assets and liabilities (hedging derivatives), and
- to take advantage of any alterations these derivatives (trading derivatives) undergo in their fair value.

Any financial derivative which does not meet the conditions for it to be regarded as hedging is treated for accounting purposes as a trading derivative.

The Mora Banc Group individually covers the market risk associated with the procured derivatives and proceeds to record both in the trading portfolio. Thus, the positional risk or market risk generated by these operations is not significant.

For a financial derivative to be considered as hedging, it must necessarily:

- Be included in one of the following three models:
  - Fair value hedging: this is hedging of exposure to changes in the fair value of assets or liabilities recognised in the consolidated statement of financial position and unrecognised firm commitments, or an identified portion of said assets, liabilities or firm commitments attributable to a particular risk which may affect the profit or loss of the financial year.
  - Cash flow hedging: this is hedging of the exposure to cash flow variations attributed to a particular risk associated with a previously recognised asset or liability (such as the entirety or some of the future interest payments of a variable interest debt) or to a highly probable planned transaction which may affect the consolidated profit or loss of the year.
  - Net investment of a business abroad: a business abroad is any subsidiary or associate institution, joint venture or branch of the institution whose activities are based or carried out in a country or currency different from those of the reporting institution.
- The effective elimination of any inherent risk to the hedged item or position throughout the whole envisaged hedging period, which means that:
  1) At the moment of procuring the hedging, it is expected that, under normal conditions, the latter will act with a high degree of efficiency, within the established limits of effectiveness of hedging in accordance with the current regulations (with a minimum of 85% and a maximum of 125% in relation to the hedging ratio).
  2) There exists sufficient evidence that the hedging is really effective throughout the life of the hedged item or position (retrospective efficiency).
- When it is suitably documented that the procurement of the financial derivative takes place specifically to serve as hedging of certain balances or transactions and the way in which it is intended to achieve and measure this hedging is demonstrated, provided that this form is in keeping with the risk management performed by the Group.

The differences in the valuation of the accounting hedges are recorded in accordance with the following criteria:

- In fair value hedging, the differences arising in both the hedging elements and the hedged items (in terms of the type of risk hedged) are directly recognised in the consolidated income statement.
- In the hedges of the fair value of the interest rate risk of a portfolio of financial instruments, the profits or losses which arise when valuing the hedging instruments are directly recognised in the consolidated income statement, while the profits or losses due to variations in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the consolidated income statement using as a balancing entry the heading titled "Profit or losses resulting from hedge accounting, net".
- In cash flow hedging, the effective part of the variation in the value of the hedging instrument is temporarily recorded under the heading "Other comprehensive income - Items which can be reclassified in profit or loss - Hedging derivatives - Hedging of cash flows (effective part)" of the consolidated net equity, until the moment at which the planned transactions take place, then recorded in the consolidated income statement, unless it is included in the cost of the non-financial assets or liabilities, in the event that the planned transactions are recognised as non-financial assets or liabilities.
- In hedges of net investments in businesses abroad, the differences in the valuations arising in the effective hedging part of the hedging items are temporarily recorded under the heading "Other comprehensive income - Items which can be reclassified in profit or loss - Hedging of net investments in foreign business (effective part)" of the net equity, until the profits or losses of the hedged item are recorded in the results.
- The differences in valuation of the hedging instrument corresponding to the ineffective part of the cash flow hedging operations and net investments in foreign operations are directly due to the consolidated income statement, under the section titled "Results of financial transactions - Profits or losses resulting from hedge accounting, net".

If a derivative assigned as a hedge, due to its purpose or ineffectiveness or for any other reason, does not meet the requirements indicated above for accounting purposes, this derivative becomes regarded as a trading derivative.

When the fair value hedging is discontinued, the adjustments previously recorded in the hedged item are recognised in profit or loss by using the effective interest rate method, calculating it again on the date when the hedging matures, when its amortisation must be completed upon maturity.

When the cash flow hedges are discontinued, the accumulated result of the hedging instrument recognised in equity will continue to be recognised in this section until the hedged transaction takes place, when it will be recorded in profit or loss, unless it is envisaged that the transaction will not be carried out, in which case they are immediately recorded in results.

Derivatives implicit in hybrid financial instruments

Derivatives implicit in other financial instruments or other main contracts are recorded separately as derivatives when, and only when, the following circumstances occur:

- The hybrid contract is not a financial asset within the scope of IFRS 9.
- The economic characteristics and risks inherent in the implicit derivative are not closely related to those corresponding to the initial contract;
- a separate instrument with the same conditions as the implicit derivative would comply with the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value through profit or loss (in other words, a derivative found implicit in a financial asset or liability measured at fair value through profit or loss for the period will not be separated).

3.5. Derecognition of financial assets and liabilities in the consolidated statement of financial position

The accounting treatment of transfers of financial assets is conditioned by the degree and way in which the risks and benefits associated with the transferred assets or liabilities are passed on to third parties:

- If the risks and benefits are substantially transferred to third parties – as in the case of unconditional sales, sales with repurchase agreements for their fair value on the repurchase date, sales of financial assets with an acquired purchase option or a sale issued deeply out of the money, securitisations of assets in which the transferor does not retain subordinated financing or grant any type of credit enhancement to the new owners and other similar cases – the transferred financial asset is derecognised in the consolidated statement of financial position, simultaneously recognising any right or obligation retained or created as a result of the transfer.
- If the risks and benefits associated with the transferred financial asset are substantially retained – as in the cases of sales of financial assets with a repurchase agreement for a fixed price or for the sale price plus interest, security loan contracts in which the borrower is obliged to return the same or similar assets and other similar cases – the transferred financial asset is not derecognised in the consolidated statement of financial position and continues to be valued by means of the same criteria used before the transfer. In contrast, the following are recognised in the accounting: els mateixos criteris utilitzats abans de la transferència. Per contra, es reconeixen comptablement:
  - A financial liability associated for an amount equal to that of the consideration received, which is subsequently valued at its amortised cost, unless it meets the requirements to be classified as other liabilities at fair value through profit or loss.
  - Both the income of the transferred (but not derecognised) financial asset and the expenses of the new financial liability, without offsetting them.
- If the risks and benefits associated with the transferred financial asset are not transferred or substantially retained, a distinction is made between the following:
  - If the transferring institution does not retain control of the transferred financial asset, it is derecognised in the consolidated statement of financial position and any right or obligation retained or created as a result of the transfer is recognised.

- If the transferring institution retains control of the transferred financial asset, it continues to recognise it in the consolidated statement of financial position for an amount equal to its exposure to the changes in value it may undergo and recognises a financial liability associated with the transferred financial asset. The net amount of the transferred asset and associated liabilities will be the amortised cost of the rights and obligations retained, if the transferred asset is measured at its amortised cost, or the fair value of the rights and obligations retained, if the asset transferred is measured at its fair value.

In accordance with the above, financial assets are only derecognised in the statement of financial position when the rights to the cash flows they generate mature or when the risks and benefits implicit in them have been substantially transferred to third parties. Similarly, financial liabilities are only removed from the statement of financial position when the obligations they generate mature or when they are acquired with the intention of cancelling them or replacing them again.

3.6. Offsetting of financial instruments

Financial assets and liabilities are subject to offsetting, in other words, to presentation in the consolidated statement of financial position for their net amount, only when the Group has both the legally required right to offset the amounts recognised in the above-mentioned instruments and the intention to settle the net amount, or to realise the asset and proceed to the payment of the liabilities simultaneously.

As of 31 December 2019 and 2018, the Group presented in its consolidated statement of financial position the net value of the subordinate liabilities issued, discounting the value of the issues repurchased from clients.

3.7. Value impairment and classification of financial assets by credit risk

Accounting classification depending on insolvency credit risk

The Group has established criteria that allow it to identify financial assets that have a significant increase in risk or objective evidence of impairment and classify them according to their credit risk.

Classification category definitions

Credit exposures, as well as off-balance sheet exposures, are classified according to their credit risk in the following stages:

- **Stage 1:** loans that do not meet the requirements for classification into other categories.

- **Stage 2:** loans that do not meet the criteria to be individually classified as stage 3 or bad loans, present significant increases in credit risk from initial recognition. This category includes those loans that have amounts overdue for more than 30 days, or those loans that have unpaid balances owing for more than 30 days on three occasions in the same financial year, which must remain in this classification, being able to be removed from this stage when, during this period, they have attended without incident to the corresponding quotas.

Loans that have been classified as doubtful and subsequently return to their defaulted position, will remain in this classification for a minimum of 3 months, as well as any refinanced loan classified as stage 2, will remain in this classification for a minimum of 2 years. After these deadlines, these loans may be classified in another stage, provided that all stipulated quotas have been met in a timely manner in said period.

- Stage 3: includes debt instruments, overdue or otherwise, in which, without the circumstances to classify them in the category of bad loan risk, there are reasonable doubts about their total repayment (principal and interest) by the holder, as well as off-balance sheet exposures whose payment the Group is likely to have to pay and its recovery is considered doubtful.

- Due to the holder's default: including the total amount of the debt instruments, whatever their holder and guarantee, which have any overdue amount for the principal, interests or expenses contractually agreed upon, more than 90 days old, unless it is appropriate to classify them as bad loans.
- The refinancing or restructuring of loans which are not up-to-date with their payments does not interrupt their default, nor does it result in their reclassification as stage 1, unless there is reasonable certainty that the client can make the payment in accordance with the new envisaged schedule, or that they can provide new effective guarantees. In any case, loans in which more than one refinancing or restructuring has been applied due to the borrower's difficulties in meeting the instalments, are considered stage 3 by the Group.
- However, loans that arise from the so-called drag effect are classified as stage 3 for reasons of default. This effect is applied to a borrower when loans with amounts overdue for more than 90 days exceed 20% of the amounts pending collection.
- Loans are reclassified as stage 1 when, as a result of the collection of part of the amounts overdue, the causes that led to their classification as doubtful risk disappear, and the holder has no amounts overdue more than 90 days after the date of reclassification, previously in some cases it is possible for these loans to be temporarily classified as stage 2.
- For reasons other than the holder's default: including debt instruments, overdue or otherwise, in which, without the circumstances to classify them in the categories of bad loans or stage 3 due to the client's default, there exist reasonable doubts about their total reimbursement, principal and interest, in the terms contractually agreed upon.
- Bad loan risk: in this category, debt instruments, overdue or otherwise, whose recovery is remote are classified in this category and assets are derecognised, without detriment to the actions which may be carried out to attempt to ensure their payment until their rights have been definitively terminated, by prescription, write-offs or other causes.

  Except for proof to the contrary, all debts are included in this category, except for amounts covered with sufficient effective guarantees, when the borrowers suffer a noticeable and irrecoverable impairment to their solvency or when the liquidation phase of the creditors' settlement has been declared.

Significant increase in risk

The significant increase in risk is considered to be present when the client's risk is increased at some point relative to when the risky loan was granted.

To analyse if there is a significant increase in risk, the Group has an alert system for both legal and natural persons.

Some situations of significant increase in risk could be, for example:

- Adverse changes in financial position, such as a significant increase in debt levels, significant drops in turnover or a significant narrowing of operating margins.
- Adverse changes in the economy or market indicators such as a significant fall in share price or a decrease in the price of debt issues. In the case of sovereign debt issues, the price differentials with respect to the German reference bond (risk premium) are also analysed.
- Actual or expected significant decrease in the internal credit rating of the loan or the holder or a decrease in the behavioural score attributed to the internal monitoring of the credit risk.
- For loans with a real guarantee, worsening of the relationship between its amount and the value of the guarantee, due to an unfavourable evolution of the value of the guarantee, or the maintenance or increase of the amount pending amortisation due of the payment terms set.
- Significant increase in credit risk or evidence of impairment of other loans to the same holder, or in related entities of the holder's risk group.
- Probability of the borrower going into bankruptcy: In cases where there is a high probability that the borrower could go into bankruptcy or restructuring, the solvency of the issuers or debtors is significantly affected, which can lead to a loss event depending on the impact on future flows to be perceived.
- The disappearance of an active market for financial assets due to financial difficulties: the suspension of financial assets issued by the obligor or issuer can mean a compromised financial-economic situation and therefore a low capacity to meet their obligations.

Objective Evidence of Impairment

A financial asset or credit exposure is considered impaired when there is objective evidence that an event has occurred or the combined effect of multiple events that results in the following:

- In the case of debt instruments, including credits and debt securities, a negative impact on the future cash flows calculated at the time the transaction is formalised, due to the materialisation of a credit risk.
- In the case of off-balance sheet exposures that carry a credit risk, the expected cash flows will be less than the contractual cash flows, in the case of disposition of the commitment or the payments expected to be made, in the case of financial guarantees granted.
- In the case of investments in associate and joint ventures, their carrying value will not be recoverable.

Loan classification criteria

The Group applies a variety of criteria to classify the borrowers and the loans into different categories according to their credit risk. Amongst these, are:

- Automatic criteria;
- Specific criteria for refinancing; and
- Criteria based on indicators.

In order to allow a first identification of the significant increase in risk or weaknesses and the impairment of loans, the Group establishes a series of indicators, based on the days of non-payment, on refinancing and restructuring indicators, and in indicators of bankruptcy status and significant increase in risk, among others, differentiating between significant and non-significant borrowers.

Loans classified as stage 3 are reclassified to stages 1 or 2 when, as a result of total or partial collection of the unpaid risks in the case of loans classified as stage 3 due to default, or for having exceeded the recovery period in the case of loans classified in stage 3 for reasons other than default, the causes that once motivated their classification in stage 3 disappear, unless there are other reasons that recommend their maintenance in this category.

Individual classification

The Group has established a threshold in terms of exposure to consider borrowers as significant, based on levels based on the Exposure at Default parameter (EAD). Similarly, exposures of borrowers corresponding to the main risk groups, as well as those of borrowers that are not associated with a homogeneous group of risk, are considered individually, as a result of which their classification and hedging cannot be estimated collectively.

For significant borrowers, a system of indicators is established that allows the identification of a significant increase in risk, weaknesses or signs of impairment. The trigger system covers signs of impairment or weakness by defining:

- Specific indicators that indicate a significant increase in risk;
- Specific indicators that indicate signs of impairment;
- Indicators that allow the identification of the increase in risk and signs of impairment, according to different pre-alert thresholds.

A team of expert risk analysts analyses the borrowers with activated indicators to conclude whether there is a significant increase in risk or objective evidence of impairment and, in the case of evidence of impairment, whether this event or causal events of the loss have an impact on the estimated future cash flows of the financial asset or its group.

The system of indicators of significant borrowers is automated and takes into account the specifics of differentiated segments of the loan portfolio. The following are the aspects that the indicator system seeks to identify:

- Significant financial difficulties of the issuer or obligor, indicative of a significant increase in risk or an event of impairment, insofar as, due to their significant nature, they limit the capacity of the issuer or obligor to meet their financial obligations normally.

  In this sense, in order to identify a significant increase in risk or event of impairment, both variables that indicate a worsening or a bad economic and financial situation must be considered as variables that are potential causes of or predictors of this impairment.

Debt instruments and off-balance sheet exposures

Impairment losses on debt instruments and other off-balance sheet credit exposures are recognised as an expense in the consolidated income statement for the year in which the impairment is estimated and the reversals of previously recognised losses, if any, are recognised in the consolidated income statement for the year in which the impairment disappears or decreases.

The calculation of the impairment of financial assets is calculated based on the type of instrument and other circumstances that may affect them, taking into account the effective guarantees received. For debt instruments measured at amortised cost, the Group recognises both allowance accounts, when provisions for insolvencies to cover impairment losses, as well as direct write-offs against assets, when recovery is estimated to be remote. For debt instruments at fair value through other comprehensive income, impairment losses are recognised in the consolidated statement of comprehensive income with a balancing entry in the “Financial assets at fair value through other comprehensive income” statement in the consolidated statement of financial position. Impairment loss hedges on off-balance sheet exposures are recognised in the liabilities statement of consolidated statement of financial position as a provision.

In order to determine impairment losses, the Group monitors individual debtors, at least for all those that are significant, and collectively, for financial asset groups with risk characteristics similar credit measures indicative of the debtors’ ability to pay the outstanding amounts. When a particular instrument cannot be included in any group of assets with similar risk characteristics, it is analysed solely on an individual basis to determine if it is impaired and, if applicable, to estimate the impairment loss.

The Group has policies, methods and procedures in place to estimate the losses it may incur as a result of the credit risks it has, both due to the insolvency attributable to the counterparties as well as country risk. These policies, methods and procedures are applied to the granting, study and formalisation of the debt instruments and off-balance sheet exposures, as well as to the identification of their impairment and, as appropriate, the calculation of the amounts necessary to cover their expected losses.

Determination of hedges

The Group applies the criteria described above for calculation of the hedging of losses due to credit risk. The amount of the hedges due to impairment loss is calculated based on whether or not a significant increase in credit risk has occurred since the initial recognition of the transaction, and whether or not a breach event occurred. Thus, the hedging of losses due to impairment of loans is equal to:

- Credit losses expected in twelve months, when the risk of a default event has not increased significantly since initial recognition (assets classified as stage 1).

- Credit losses expected in the life of the loan, when the risk of a default event has increased significantly since initial recognition (assets classified as stage 2).

- Expected credit losses when a default event occurred in the loan (assets classified as stage 3).

The following sections describe the different methodologies applied by the group in determining the hedges for losses due to impairment:

Individualised estimates of hedges

The following are subject to individualised estimation:

- Hedging of the loans classified in stages 2 and 3 of the individually significant borrowers.
- If applicable, the loans or borrowers whose characteristics do not allow a collective calculation of impairment.
- Hedges of loans identified as without appreciable risk classified in stage 3.

The Group has developed a methodology for estimating these hedges, calculating the difference between the gross carrying amount of the transaction and the present value of the estimated expected cash flows, discounted using the effective interest rate. This takes into account the effective guarantees received.

There are three methods for calculating recoverable value at individually assessed assets:

- Cash flow discounting approach: Debtors for which it is estimated that they are able to generate future cash flows with the development of their own business, allowing, through the development of the company's economic and financial structure, the refund of part or all of the debt contracted. It involves the estimation of cash flows obtained by the borrower in the development of their business.
- Real collateral recovery approach: Debtors unable to generate cash flows through the development of their own business, being forced to liquidate assets to pay their debts. It involves estimating cash flows on the basis of collateral execution. In order to estimate the value of real estate collateral for the purposes of calculating hedges, the Group applies discounts on appraisals which aim to reflect the deviation observed in the Andorran market in expert assessments and market prices. The Group contrasts the applied haircuts based on the information extracted from the history of foreclosed property sales. In estimating the hedging of individually significant loans of stages 2 and 3, the Group applies a correction factor (upward) to these haircuts in order to obtain the effect of increasing risk and immediacy of the potential award process.
- Mixed approach: Debtors that are estimated to be capable of generating future cash flows and also have extra-functional assets. Such cash flows may be supplemented by potential sales of non-functional assets, to the extent that they are not required for the purpose of carrying out their activity and, consequently, for the generation of said future cash flows.

Collective estimates of the hedges

When calculating the loss due to collective impairment, the Bank takes into account all the credit exposures and uses the hedging methods and percentages established by the AFA in the Supervisory Guide related to the application of IFRS 9 (hereinafter, the Guide), based on data and statistical models that add up the average behaviour of the banking sector entities in Andorra.

Thus, the AFA, based on its experience as a supervisor of the Andorran financial system and taking into account the information available to the banking institutions in relation to historical data on defaults, the credit losses on the banking institutions and, based on an estimate of the future evolution of the main macroeconomic variables, it has estimated coverage rates as an alternative solution for operations classified as normal, normal with significant increase in risk and doubtful loans, which are detailed in said Guide.

Similarly, it should be considered that the hedging percentages as an alternative solution, as established in the Guide, represent a reliable estimate of the expected losses of all the banking entities in the loans awarded to economic agents of the Principality of Andorra.

The Group performs an exercise of contrasting figures each year to ensure that these alternative solutions reflect the creditworthiness of its loan portfolio and therefore guarantee an adequate accounting provision.

Classification and hedging for credit risk due to country risk

Country risk is considered to be the risk that counterparties resident in a particular country have due to circumstances other than the usual commercial risk (sovereign risk, transfer risk or risks arising from international financial activity). The group classifies transactions with third parties into different groups based on the economic evolution of the countries, their political situation, regulatory and institutional framework, and their capacity and experience of payments.

Off-balance sheet debt instruments or exposures with final liabilities resident in countries that have difficulty in coping with their debt service, considering doubtful the possibility of their recovery, are classified in stage 3, unless they have to be classified as bad loan risks.

3.8. Temporary acquisition (transfer) of assets

Purchases (sales) of financial instruments with the commitment of their non-optional recoil at a given price (repurchase agreements or repos) are recorded in the consolidated statement of financial position as financing granted (received) in accordance with the nature of the corresponding debtor (creditor), under the headings "Financial liabilities at amortised cost" of the assets of the consolidated statement of financial position (Financial liabilities at amortised cost - Deposits" in the case of liabilities).

The difference between the purchase and sale prices is recorded as financial interests throughout the life of the contract.

3.9. Recognition of income

The most significant criteria used by the Group for the recognition of its income and expenses are summarised below:

Interest income and expenses

The income and expenses for interests and items comparable to them are, in general, recognised in accounting terms on an accrual basis by applying the effective interest rate method.

Dividends

Dividends of other companies are recognised as income in the consolidated income statement at the moment the rights to receive them are created by the institutions.

Commissions

Income and expenses for commissions are recognised in the consolidated income statement with different criteria, in accordance with their nature and accounting classification:

- Income and expenses related to financial assets and liabilities valued at fair value through profit or loss are recognised at the time of their collection/payment.
- Income and expenses arising from transactions or services extended over time are recognised during the lifetime of these transactions or services.
- Income and expenses arising from transactions or services not extended over time are recognised when the act causing them occurs.

The financial commissions (basically, the opening and study commissions) which arise during the formalisation of financial instruments considered in the calculation of the effective interest rate (EIR) are accrued/deferred and recorded in profit or loss throughout the expected life of the financial instrument.

These commissions form part of the effective rate of the financial instruments.

Non-financial income and expenses

Non-financial income and expenses are recognised in accordance with the accrual criteria.

Deferred collections and payments

Collections and payments deferred over time are recognised in accounting terms on an accrual basis for the amount resulting from financially updating the expected cash flows at market rates.

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

The heading "Non-current assets and disposable groups of items classified as held for sale" includes the carrying value of the individual items or those integrated into a set (disposal group) or which form part of a business unit intended to be disposed (discontinued operations), the sale of which is highly likely to occur, under the conditions in which these assets are currently available, within a specified period of one year from the date to which the consolidated statement of financial position refers. Therefore, the recovery of the carrying value of these items (which may be of a financial and non-financial nature) will foreseeably occur at the price obtained in their disposal.

Specifically, real estate assets or other non-current assets received for the satisfaction of total or partial payment obligations against them by the debtors are considered non-current assets held for sale, unless it has been decided to make continued use of these assets or their sale is not highly probable in the short term. In this regard, in order for them to be taken into account in the initial recognition of these assets, the Group obtains, at the moment of the award, the fair value of the corresponding asset by means of requesting valuations from external rating agencies and applies a "haircut" if applicable. Likewise, in the case of an asset initially classified as "Non-current assets and disposable groups of held-for-sale items" for more than 3 years without being sold, the Group classifies it under the heading "Tangible assets - Property investments" of the asset (see Note 3.12).

Symmetrically, the heading titled "Liabilities included in disposable groups of items classified as held-for-sale" includes the creditor balances resulting from the assets or disposal groups and the discontinued operations.

Non-current held-for-sale assets are valued, initially and subsequently, for the lower amount between their fair value less the costs of sale and their carrying amount on the assignation date. Non-current held-for-sale assets are not amortised while remaining in this category. The valuations of these assets are periodically updated.

In the case of property assets awarded, their value is determined upon the basis of the latest assessment available on the date of the consolidated statement of financial position, taking into account the application of discounts on appraisal values (haircuts), equal to those applied to collateral in credit risk operations.

Losses due to the impairment of an asset or disposal group, owing to reductions in their carrying value to their fair value (less the sales costs) are recognised under the heading "Profits or losses from non-current assets on sale not classified as discontinued operations" in the consolidated income statement. The profits of a non-current asset on sale after subsequent increases in the fair value (less the sales costs) increase their carrying amount and are recognised in the consolidated income statement up to an amount equal to that of the previously recognised impairment losses.

3.11. Assets from reinsurance and liabilities from insurance contracts

Insurance contracts entail the transfer of a determined and quantifiable risk in exchange for a regular or single premium. The effects on the Group's cash flows will result from a deviation from the expected payments, the insufficiency of the established premium, or both.

The section titled "Assets used for insurance and reinsurance contracts" includes the amounts the consolidated institutions have the right to receive originating in their reinsurance contracts with third parties and, more specifically, the share of the reinsurance in the technical provisions established by the consolidated insurance institutions.

On an annual basis, at least, it is analysed whether these assets are impaired (if there is objective evidence resulting from an event occurring after the initial recognition of this asset, in which case the Group may not receive the contractually established amounts and this non-received amount can be reliably quantified); in this case, the corresponding loss is recorded in the consolidated income statement, with the impairment of said assets.

The section entitled "Liabilities used for insurance and reinsurance contracts" includes the technical provisions recorded by consolidated institutions to cover claims arising from insurance contracts which remain in force at the end of the year.

The profit or loss of the insurance companies for their insurance activity are recorded in accordance with their nature in the corresponding sections of the consolidated income statement.

In accordance with the generalised accounting practices used in the insurance sector, the consolidated insurance institutions apply to profit or loss the amounts of the premiums they issue and charge the cost of the claims they are faced with when their final settlement is made. At the end of each year, these accounting practices oblige insurance companies to accrue/defer both the amounts paid into their income statements and those not accrued on this date and the incurred costs not charged to the income statements.

At the end of each financial year, at least, it is verified whether the valuation of the liabilities from insurance contracts recognised in the consolidated statement of financial position is appropriate, calculating the difference between the following amounts:

- The current calculations of future cash flows as a result of the insurance contracts of the consolidated institutions. These calculations include all the contractual and related cash flows, such as claim processing costs; and
- the value recognised in the consolidated statements of financial position of their liabilities from insurance contracts, net of any deferred acquisition expense or related intangible asset, such as the amount paid for the acquisition, in the event of a purchase by the institution, of the economic rights resulting from a set of policies in its portfolio on behalf of a mediator.

If a positive amount is obtained in this calculation, this deficiency is charged to the consolidated income statement. In cases in which unrealised profits or losses concerning the assets of the Group's insurance companies affect the measurements of the liabilities from insurance contracts and/or deferred acquisition costs associated with them, and/or associated intangible assets, these capital gains or impairments are directly recognised in the consolidated equity. The corresponding adjustment to the liabilities from insurance contracts (or deferred acquisition costs or intangible assets) is recognised in the same way in the consolidated equity.

3.12. Tangible assets

Including the amount of the property, land, furniture, vehicles, computer equipment and other facilities owned by the consolidated institutions or acquired under the leasing scheme. The assets are classified in accordance with their purpose in:

Tangible fixed assets for own use

Tangible fixed assets for own use (which includes, among other things, material assets received by the consolidated institutions for the total or partial settlement of financial assets constituting payment entitlements against third parties of which continued and own use is expected to be made, as well as those which are acquired under the leasing system) are submitted at their acquisition cost, less the corresponding accumulated amortisation and, if applicable, the estimated losses resulting from comparing the net value of each item with its corresponding recoverable amount.

The amortisation is calculated by applying the linear method to the cost of the acquisition of the assets, less their residual value, in the understanding that the land on which the buildings and other constructions stand has an indefinite life and is therefore not subject to amortisation.

The annual provisions for the amortisation of tangible assets are made with a balancing entry in the consolidated income statement and are basically equivalent to the amortisation percentages determined in accordance with the estimated years of useful life, on average, of the different items:

Fixed assets	Amortisation percentage (annual)
Property	2%
Machines, furniture and facilities	10%-33%
Vehicles	20%
Computer equipment	33%

On the occasion of each accounting closure, the consolidated institutions analyse whether there are indications that the net value of the elements of their material assets exceed their corresponding recoverable amount. When, as a result of this analysis, it is demonstrated that impairment exists, the carrying value of the asset in question is reduced to its recoverable amount and the future charges are adapted as amortisation in proportion to their adjusted carrying value and their new remaining useful life, in the event that it is necessary to perform a new calculation thereof.

Similarly, when there are indications that the value of a material asset has been recovered, the consolidated institutions record the reversal of the impairment loss recorded in previous periods and adjust the future charges by way of their amortisation accordingly. On no account may the reversal of the loss through the impairment of an asset result in an increase in the carrying value above that which would have occurred if impairment losses had not been recognised in previous years.

The estimated useful life of the elements of the material fixed assets are regularly checked in order to detect significant changes in them which, if there are any, are adjusted by means of the corresponding correction of the charge to the consolidated income statements in future years of their amortisation charge, by virtue of the new useful lives.

The expenses for the conservation and maintenance of the material assets are charged to the profit/loss of the financial year in which they occur, as they do not increase the useful life of the assets.

Property investments

The heading titled “Property investments” includes the net values of the lands, buildings and other constructions maintained, either to operate them in a rental system or to obtain a capital gain from their sale as a result of the increases in their respective market prices which occur in the future. Also, this property is recognised as foreclosed property, despite not being rented and the Group’s desire to sell such real estate, have been more than 3 years since its award and the Group expects to recover its carrying value through its sale.

The criteria applied for the recognition of the cost of acquisition of the property investments for their amortisation, the calculation of their respective useful lives and the recording of their potential impairment losses coincide with those outlined in relation to the material assets.

The Group, as established in IAS 40, uses the fair value model to record the assets regarded as property investments. In the event that there are property investments under construction, the Group has used the fair value model, as it considers that this can be measured reliably (Note 17.2). In the event that it is not possible to measure the fair value reliably, these assets should be recorded at their cost until it is possible to reliably determine the fair value and the construction is completed.

3.13. Leases

With regards to leases, the Group recognizes in its asset a right of use that represents its right to use the leased asset, which is recognised under the heading “Tangible assets - fixed assets” and “Tangible assets - Real estate investments” in the statement of financial position and a liability for leases that represents the obligation to make the payment of the lease, which is recognised under the heading “Financial liabilities at amortised cost - Other financial liabilities” in the consolidated statement of financial position. For the purposes of the statement of consolidated income, the amortisation of the right of use shall be recorded under the heading “Amortisation” and the financial cost associated with the liability for leases under the heading “Interest expenses”.

3.14. Intangible assets

These are identifiable non-monetary assets (liable to be separated from other assets) without any physical appearance, arising as a result of a legal business or developed by the Group's institutions. Only assets whose cost can be reliably calculated and by means of which the consolidated institutions consider it likely to obtain future economic profits are recognised in accounting terms.

The intangible assets are initially recognised for their acquisition or production cost and subsequently valued at their cost, less, as appropriate, their corresponding accumulated amortisation and any impairment losses they have undergone.

Other intangible assets

This item includes the amount of the identifiable intangible assets, among others, acquired client lists and computer programs.

They may have an indefinite useful life (when, based on the analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period during which they are expected to generate net cash flows on behalf of the consolidated institutions) or a defined useful life (in other cases).

Intangible assets with an indefinite useful life are not amortised, although, on the occasion of each accounting closure or whenever there are indications of impairment, the consolidated institutions review their respective remaining useful lives in order to ensure that they continue be indefinite or, otherwise, proceed accordingly.

Intangible assets with a defined useful life are amortised in accordance with the latter, applying criteria similar to those adopted for the amortisation of tangible assets. The amortisation rates determined based on the years of estimated final life, by computer programs are between 10% and 20%, as an average of the different elements.

In both cases, the Group recognises accounting for any loss that may have occurred in the recorded value of these assets from their impairment, using the balancing entry "Net impairment of non-financial assets (net) - intangible assets" in the consolidated income statement. The criteria for the recognition of losses due to the impairment of these assets and, as applicable, the recoveries of the losses due to impairment recorded in previous years are similar to those applied to the tangible assets.

3.15. Other assets

All the assets not classified in the previous categories are included in this section.

3.16. Provisions and contingent liabilities (assets)

At the moment of formulating the statement of financial position, the Group distinguishes between:

- Provisions: creditor balances which cover obligations present as at the date of the consolidated statement of financial position arising as a result of past events resulting in equity losses for the consolidated institutions, regarded as likely in terms of their occurrence, specific as to their nature but indeterminate in terms of their amount and/or moment of cancellation.
- Contingent liabilities: potential obligations arising as a result of past events, the materialisation of which is conditional to the occurrence of one or more future events, independent of the will of the consolidated institutions. They include the current obligations of the consolidated institutions whose cancellation is unlikely to result in a decrease in resources incorporating economic benefits.
- Contingent assets: potential assets arising as a result of past events whose existence is conditional, and it must be confirmed when events beyond the control of the Group occur or otherwise. Contingent assets are not recognised in the consolidated statement of financial income or in the consolidated income statement, although they are reported in the notes in the financial statements, whenever an increase in resources incorporating economic benefits for this reason is likely.

The Group's consolidated statement of financial position includes all the significant provisions with respect to which it is calculated that the likelihood of the obligation being met is greater than otherwise. In accordance with the accounting regulations, the contingent liabilities must not be recorded in the consolidated statements of financial position and must be reported.

The provisions (which are quantified by taking into account the best available information on the consequences of the event to which they are related and recalculated on the occasion of each accounting closure) are used to meet the specific obligations for which they are originally recognised, and they are totally or partially reversed when these obligations cease to exist or decrease.

The assets are classified in accordance with the obligations covered in:

- Provisions for pensions and similar obligations and other long-term employee remuneration; these include the amount of all the provisions established to cover post-employment and long-term remuneration, including the commitments made with early retired personnel and similar obligations.
- Provisions for taxes, other legal contingencies and other provisions: these include the amount of the provisions established for the coverage of contingencies of a fiscal and legal nature, litigation and the remaining provisions established by the consolidated institutions. Among other provisions, this item includes restructuring and environmental actions, if applicable.
- Provisions for contingent risks and commitments: these include the amount of the provisions established for the coverage of contingent risks, regarded as operations in which the institution guarantees the obligations of a third party arising as a result of granted financial guarantees or other types of contracts, and contingent commitments, regarded as irrevocable commitments which may give rise to the recognition of financial assets.
- Remaining provisions: other provisions which are not included in the other categories are recorded here.

3.17. Other liabilities

All the liabilities not classified in the previous categories are included in this section.

3.18. Equity instruments

Equity instruments are regarded as those which meet the following conditions:

- They do not include any kind of obligation for the issuing institution which entails: (i) issuing cash or any other financial asset to a third party or (ii) exchanging financial assets or liabilities with third parties in potentially unfavourable conditions for the institution.
- If they could be, or will be, settled with the equity instruments of the issuing institution: (i) when it is a non-derivative financial instrument which will not entail an obligation to issue a variable number of its equity instruments or (ii) when it is a derivative, provided it is settled for a fixed amount of cash, or another financial asset, in exchange for a fixed number of its equity instruments.

Business conducted with equity instruments, including their issuance and amortisation, are directly recorded in the consolidated net equity.

Changes in the value of instruments classified as equity instruments are not recognised in the consolidated statement of financial position; consideration received or given in exchange for such instruments is directly added to or deducted from equity.

In the consolidated statement of financial position attached at the end of the 2019 financial year, the institution did not have any equity instruments.

3.19. Financial guarantees

Financial guarantees are regarded as contracts whereby an institution undertakes to pay specific amounts on behalf of a third party in the event of the latter not doing so, regardless of the way in which the obligation is implemented: a bond, financial guarantee, insurance contract or credit derivative.

At the moment of their initial registration, the Group accounts for the financial guarantees provided in the liabilities of the consolidated statement of financial position at their fair value, which, in general terms, is equivalent to the current value of the commissions and returns to be received for these contracts throughout their duration, the balancing entry being the amount of the commissions and assimilated returns collected at the beginning of the operations and a credit to the assets of the consolidated statement of financial position for the current value of the commissions and returns pending payment.

The financial guarantees, irrespective of their owner, implementation or other circumstances, are regularly analysed in order to determine the credit risk to which they are exposed and, if necessary, to calculate the need to establish a provision for them, which is determined by the application of criteria similar to those established to quantify the impairment losses undergone by debt instruments valued at their amortised cost, as explained above.

The provisions constituted for these transactions are accounted for under the heading "Provisions - Commitments and guarantees granted" in the liabilities of the consolidated statement of financial position. The allocation and recovery of these provisions is recorded with a balancing entry under the heading "Provisions or reversal of provisions - Commitments and guarantees granted" in the consolidated income statement.

In the event that it is necessary to establish a specific provision for financial guarantees, the corresponding commissions pending accrual recorded under the heading "Financial liabilities at amortised cost - Other financial liabilities" of the liabilities of the consolidated statement of financial position are reclassified in the corresponding provision.

3.20. Assets under management and investment and pension funds managed by the Group

The assets, investment funds and pension funds managed by consolidated companies owned by third parties are not included in the consolidated statement of financial position. The commissions generated by this activity are recognised in the section titled "Commission income" in the consolidated income statement.

3.21. Post-employment benefits

Post-employment commitments maintained by the Group with its employees are regarded as defined contribution commitments, when contributions of a predetermined nature are made to a separate institution, without there being a legal or effective obligation to make additional contributions if the separate institution cannot attend to the employee remuneration related to the services provided in the current and previous financial years. Post-employment commitments which do not meet the above conditions are regarded as defined benefit commitments.

Defined contribution schemes

The contributions made for this purpose in each financial year are recorded in the section titled "Personnel expenses" of the consolidated income statement. The outstanding amounts to be contributed at the end of each financial year are recorded, at their current value, under the heading "Provisions" of the liabilities of the consolidated statement of financial position.

Defined benefit schemes

The Group records, under the heading "Provisions or reversal of provisions" of the liabilities of the consolidated statement of financial position, the current value of the defined benefit post-employment commitments, net of the fair value of the scheme's assets.

- Scheme assets are regarded as those with which the obligations are directly settled and meet the following conditions: They are not the property of the consolidated institutions, but of a legally separate third party, without having the nature of a related party of the Group.
- They are only available to pay for or finance post-employment remuneration and cannot return to the consolidated institutions, except when the assets remaining in this scheme are sufficient to fulfil all the obligations of the scheme or institution related to the benefits of current or past employees or to reimburse the employee benefits already paid by the Group.

Post-employment remuneration is recognised in the following manner:

The cost of the services is recognised in the consolidated income statement and includes the following components:

- The cost of the services for the current period (regarded as the increase in the current value of the obligations arising as a result of the services provided during the financial year by the employees) is recognised in the section titled "Personnel expenses" of the consolidated income statement.

- The cost of past services, originating in amendments made to existing post-employment remuneration or the introduction of new benefits and including the cost of reductions, is recognised in the section titled "Commitments and guarantees granted" of the consolidated income statement.
- Any profit or loss stemming from a settlement of the scheme is recorded in the section titled "Commitments and guarantees granted" in the consolidated income statement.

The net interest on the net liabilities (assets) of defined benefit commitments (understood as the change during the financial year in the net liabilities (assets) for defined benefits arising over the course of time) is recognised under the heading "Interest income" of the consolidated income statement.

The revaluation of the net liabilities (assets) for defined benefits is recognised in the net equity section titled "Valuation adjustments" and includes:

- The actuarial losses and profits generated during the financial year originating in the differences between prior actuarial hypotheses and the reality and the changes in the actuarial hypotheses used.
- The return on the assets related to the scheme, excluding the amounts included in the net interest on the liabilities (assets) for defined benefits.
- Any change in the effects of the limit of the asset, excluding the amounts included in the net interest on the liabilities (assets) for defined benefits.

3.22. Other long-term remuneration

In this section the Group records the other long-term remuneration of employees, excluding that mentioned above (see Note 23).

3.23. Severance payments

Severance payments are recorded when a formal and detailed scheme is available to identify the basic amendments to be made, provided that this scheme is already being executed, a public announcement of its main features has been made or objective facts regarding its execution have been set out.

3.24. Corporate tax

In accordance with Law 95/2010 of 29 December on corporate tax, Law 17/2011 of 1 December, on the amendment of Law 95/2010 and the Regulation on the application of Law 95/2010 on corporate tax, the creation of a corporate tax is institutionalised. On 6 May 2015, the legislative Decree of 29 April 2015 on the publication of the consolidated text of Law 95/2010, of 29 December, on corporate tax was published in the Official Gazette of the Principality of Andorra (BOPA), in which all the amendments made were included. Similarly, on 20 October 2017, the General Council approved Law 17/2017, of 20 October, on the tax system for business reorganisation operations, whose purpose, among other things, was to introduce certain amendments to Law 95/2010, of 29 December, on corporate tax.

The standard rate of the corporate tax for taxable subjects, as determined by Law 95/2010, is 10%.

Article 25 of Law 95/2010 regulates the special fiscal consolidation system. In this regard, Mora Banc Grup, SA is the participating institution of the tax-paying Group, the investee institutions being Mora Gestió d'Actius, SAU and Mora Assegurances, SAU.

The expenses for Andorran corporate tax and taxes of a similar nature applicable to foreign consolidated institutions are recognised in the consolidated income statement, except when they are the result of a transaction whose profit or loss is directly recorded in the consolidated net equity. In this case, their corresponding tax effect is recorded in net equity.

The expenses for corporate tax in the financial year are calculated by means of the sum of the current tax resulting from the application of the corresponding rate to the taxable income for the year (after applying the fiscally eligible deductions and allowances) and the variations in the assets and liabilities for deferred taxes recognised in the consolidated income statement.

Assets and liabilities for deferred taxes include temporary differences identified as those amounts expected to be payable or recoverable for the differences between the carrying value of the equity elements and their corresponding tax bases, as well as negative tax bases pending offsetting and the credits for tax deductions not fiscally applied. These amounts are recorded by applying to the corresponding temporary difference the tax rate at which they are expected to be recovered or settled.

The heading titled "Tax assets" includes the amount of all the assets of a fiscal nature, distinguishing between current (amounts to be recovered for taxes over the coming twelve months) and deferred taxes (encompassing the amounts of the taxes to be recovered in future years, including derivatives of negative tax bases or credits for tax deductions or allowances pending offsetting).

The heading titled "Tax liabilities" includes the amount of all the liabilities of a fiscal nature, except tax provisions, which can be broken down into current taxes (including the amount to be paid for corporate tax relating to the fiscal profit for the financial year and other taxes over the coming twelve months) and deferred taxes (including the amount of the corporate tax to be paid in future years).

Liabilities for deferred taxes, in cases of taxable temporary differences associated with investments in subsidiary institutions, associates or holdings in joint ventures, are recognised in the consolidated income statement, except when the Group is able to control the moment of the reversal of the temporary difference and, moreover, it is unlikely to be reversed in the foreseeable future.

As for assets for deferred taxes identified as temporary differences, they are only recognised in the event that the Group is considered likely to have sufficient taxable profits in the future for which it is able to make them effective and they do not originate in the initial recognition (except in a business combination) of other assets and liabilities in an operation not affecting either the fiscal profit/loss or the accounting profit/loss. Other assets for deferred taxes (negative tax bases and deductions pending compensation) are only recognised in the event that the Group is considered likely to have sufficient taxable profit in the future against which it will be able to make them effective.

The income or expenses directly recorded in the consolidated net equity are accounted for as temporary differences.

The deferred taxes, both assets and liabilities, are regularly checked in order to verify whether it is necessary to make amendments to them in accordance with the results of the analyses performed.

4 SCOPE OF CONSOLIDATION

The consolidation process has applied the full consolidation method for all the subsidiary institutions and the equity procedure for the associated institutions.

All the significant balances and transactions between the consolidated companies have been eliminated during the consolidation process.

In the case of subsidiary institutions consolidated by means of the full consolidation method and not fully owned by the Group, the minority interests belonging to other investors are included in the statement of financial position to reflect the rights of the minority shareholders over the total net assets. In addition, the minority interests are submitted in the consolidated income statement as part of the consolidated profit corresponding to the minority shareholders.

The significant changes in the scope of consolidation during the 2019 financial year were the following:

During the 2019 financial year, the improper merger by absorption of Mora Banc, SAU (absorbed company) by Mora Banc Grup, SA (absorbing company) was performed. The individual statements of the two entities have been added line by line, effective 1 January 2019, in compliance with the Group's current accounting policies at the date of the merger. Accounts of a similar nature have been added within the assets, liabilities, equity, income and expenses. The aforementioned merger has led to a reclassification of reserves (see Note 25).

- During the 2019 financial year, the company Mora Banc Grup, SA acquired a qualified stake of 25% of Societat Financera Pyrénées, SAU.
- During the 2019 financial year, the corporate name of the following Group companies has been changed:
  - The company Mora Wealth Management, AG changed its corporate name to Boreal Capital Management, AG.
  - The company Mora Wealth Management, LLC changed its corporate name to Boreal Capital Management, LLC.
  - The company Mora WM Securities, LLC changed its corporate name to Boreal Capital Securities, LLC.
  - The company Mora WM Holdings USA, LLC changed its corporate name to Boreal Capital Holdings USA, LLC.
- During the 2019 financial year, in accordance with the authorisation of the AFA dated 17 December 2019, the Group increased the equity capital of its subsidiary company Boreal Capital Management, AG, by means of a direct contribution to its equity totalling €1,965,000, with the purpose of providing the company with sufficient resources to continue carrying out its activity.

The most significant data used in the consolidation process relating to subsidiary institution and associates consolidated as of 31 December 2019 and 2018 are listed below:

2019 FINANCIAL YEAR

Thousands of euros

Company	Registered Address	Activity	Percentage of holding (*)	Net value in carrying value (**)	Data of the investee Assets 31/12/2019	Liabilities 31/12/2019	Equity 31/12/2019	Profit/loss 31/12/2019
Consolidated by global integration:								
Mora Gestió d'Actius, SAU	Andorra	Investment fund management	100.00%	2,101	7,925	893	7,032	1,064
Mora Assegurances, SAU	Andorra	Insurance	100.00%	6,503	460,804	447,448	13,356	1,721
Boreal Capital Management. AG	Switzerland	Equity management	100.00%	2,881	3,778	2,276	1,502	(839)
Boreal Capital Holdings USA. LLC	United States	Equity	100.00%	9,743	17,168	941	16,227	-
Boreal Capital Management. LLC	United States	Equity management	99.99%	-	3,970	4,656	(686)	(651)
Boreal Capital Securities. LLC	United States	Security brokering	100.00%	-	2,988	513	2,475	1,149
BIBM Preferents Ud.	Cayman Islands	Financial	100.00%	1	60,089	60,088	1	-
Amura Capital Turquoise. SLU	Andorra	Investment company	100.00%	43	31,011	34,547	(3,536)	(1,028)
SICAV Amura (Onix)	Andorra	Investment company	100.00%	19,299	19,321	34	19,287	(11)
SICAV Amura (Emerald)	Andorra	Investment company	100.00%	15,016	14,971	8	14,963	(10)
Casa Vicens-Gaudí SA	Spain	Property	100.00%	11,732	27,291	1,705	25,586	(305)
Sicav Burna	Andorra	Investment company	100.00%	1,651	3,120	48	3,072	-
SCI Mora Investors Bienfaisance	Andorra	Investment company	100.00%	-	330	22	308	-
Altres participacions	Andorra	Investment company	51.00%	2,968	3,332	263	3,069	-
Consolidated by equity method:								
Serveis i Mitjans de Pagament XXI, SA	Andorra	Payment methods	20.00%	12	2,012	1,839	173	117
Societat Financera Pyrénées, SAU	Andorra	Financial	25.00%	4,500	27,900	21,618	6,282	1,673
				76,450				

(*) Direct or indirect percentage holding
(**) Balance corresponding to the individual statement of financial position of Mora Banc Grup, SA

2018 FINANCIAL YEAR

Thousands of euros

Company	Registered Address	Activity	Data of the investee						
			Percentage of holding (*)	Net value in carrying value (**)	Assets 31/12/2018	Liabilities 31/12/2018	Equity 31/12/2018	Profit/loss 31/12/2018
Consolidated by global integration:								
Mora Banc, SAU	Andorra	Banking	100.00%	1,680	1,200,312	1,110,803	89,510	9,141
Mora Gestió d'Actius, SAU	Andorra	Investment fund management	100.00%	2,101	7,605	588	7,017	888
Mora Assegurances, SAU	Andorra	Insurance	100.00%	6,503	461,978	450,051	11,927	2,769
Mora Wealth Management AG	Switzerland	Equity management	100.00%	888	2,552	2,165	387	(532)
Mora WM Holdings USA, LLC	United States	Equity	100.00%	9,549	16,770	867	15,903	-
Mora Wealth Management LLC	United States	Equity management	99.99%	-	3,991	4,027	(36)	-308
Mora WM Securities, LLC	United States	Security brokering	100.00%	-	1,894	155	1,739	1,134
BIBM Preferents Ud.	Cayman Islands	Financial	100.00%	1	60,310	60,309	1	-
Amura Capital Turquoise, SARL	Luxembourg	Investment company	100.00%	43	29,662	31,698	(2,036)	(892)
SICAV Amura (Onix)	Andorra	Investment company	100.00%	17,298	19,334	36	19,298	-64
SICAV Amura (Emerald)	Andorra	Investment company	100.00%	12,165	14,982	8	14,974	(1,053)
Casa Vicens-Gaudí SA	Spain	Property	100.00%	11,732	27,239	1,348	25,891	(621)
Sicav Burna	Andorra	Investment company	100.00%	1,651	3,087	14	3,072	1,456
SCI Mora Investors	Andorra	Investment company	100.00%	-	388	5,668	(5,280)	-
Altres participacions	Andorra	Investment company	51%	3,060	3,491	5	3,486	-
Consolidades per posada en equivalència:								
Serveis i Mitjans de Pagament XXI, SA	Andorra	Payment methods	20.00%	12	2,561	2,406	155	(150)
				66,683				

(*) Direct or indirect percentage holding
(**) Balance corresponding to the individual statement of financial position of Mora Banc Grup, SA

Mora Gestió d'Actius, SAU is an Andorran company established on 27 November 1997, whose purpose is the activities envisaged by the Law as those corresponding to companies managing collective investment undertakings. In addition, it may conduct discretionary and individualised portfolio management activities, consultancy in matters of investment and the administration and safekeeping of the holdings of investment bodies. As of 31 December 2019, the Company managed collective investment undertakings and SICAVs with equity totalling €999,470,000.

Mora Assegurances, SAU is an Andorran company established on 27 January 1992 whose corporate purpose is the carrying out of all kinds of insurance, reinsurance and risk hedging activities in the branches of life, accidents, damages, illness and civil liability, with the exception of the provision of services.

Boreal Capital Management, AG is a company domiciled in Switzerland and created on 25 September 2008, whose corporate purpose is the management of assets and financial consultancy.

Boreal Capital Holdings USA, LLC is a company domiciled in the United States which acts as the head of the other North American companies: Boreal Capital Management, LLC, acquired on 9 July 2009, whose corporate purpose is equity management and financial consultancy, and Boreal Capital Securities, LLC, which was established in 2011 as a limited liability company and received a broker dealer licence in May 2012.

BIBM Preferents, Ltd is a company domiciled in the Cayman Islands, established in 2006 with the aim of issuing preferential shares (see Note 21.5).

Amura Capital Turquoise, SLU is a company governed by the laws of Luxembourg, domiciled in Luxembourg and established on 8 April 2014, whose corporate purpose is the possession of holdings and financial assets.

SICAV Amura ONIX is a company domiciled in Andorra and established on 1 August 2014, whose corporate purpose is to obtain positive long-term profitability by means of the acquisition of Company shares.

SICAV Amura Emerald is a company domiciled in Andorra and established on 1 August 2014, whose corporate purpose is to obtain positive long-term profitability by investing in projects of the real economy.

Casa Vicens-Gaudi SA is a public limited company governed by Spanish law, domiciled in Barcelona and established on 25 September 2013, whose corporate purpose is the acquisition and promotion of property assets and the use thereof for cultural purposes.

SICAV Burna is a company domiciled in Andorra, established on 16 August 2016, whose corporate purpose is to obtain a positive return higher than that of the monetary market.

SCI Mora Investors is a civil property company governed by French law, domiciled in Paris and established on 17 September 2013, whose corporate purpose is the acquisition, management and marketing of property assets.

Serveis i Mitjans de Pagament XXI, SA is a company domiciled in Andorra and established on 17 August 2012, whose corporate purpose is the provision of services linked to the use of credit and debit cards and other means of payment, especially by means of the leasing, assignment and maintenance of technical equipment.

Societat Financera Pyrénées, SAU is a company domiciled in Andorra, formed on 12 October 1992, and whose corporate purpose is the business of financing sales of term sales, including the conclusion of financial leases and leasing, management deferred payment purchases, purchase and management of invoice collections, and similar activities.

Significant restrictions

The Group has no significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to maintain certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other proportions.

5 SHAREHOLDER REMUNERATION

5.1 Proposal for the distribution of the profit/loss

In the face of the extraordinary economic, financial, social and regulatory situation caused by the spread of COVID-19, the Board of Directors of Mora Banc Grup, SA, parent company of the MoraBanc Group, has proposed to the General Meeting of Shareholders to allocate all results from the 2019 financial year of the Company, which amounts to €25,149,000, to voluntary reserves until the situation is normalised.

Once the economic situation has stabilised and the impact of this exceptional situation has been assessed, the Board of Directors will re-analyse the shareholders' remuneration policy and, where appropriate, distribute an extraordinary dividend in the second half of 2020.

On 2 May 2019, in accordance with the agreement reached by the Board of Directors of Mora Banc Grup, SA, on 30 April 2019, a dividend was distributed for the 2018 financial year for an amount of €7,206,000, corresponding to €1.02 per share. And the rest of the results from the 2018 financial year for €16,814,000 was paid to voluntary reserves.

5.2 Profit assigned per share

The basic profit per share is determined as the quotient between the consolidated net result attributable to the controlling institution in the period and the weighted average number of outstanding shares during this period, excluding the average number of shares held throughout said period.

In order to calculate the diluted profit per share, both the amount of the result attributable to the ordinary shareholders and the weighted average of the outstanding shares, net of the treasury shares, are adjusted for all the purposes of dilution inherent in the potential ordinary shares (options on shares, warrants and debt which is not necessarily convertible). As of 31 December 2019, there were no commitments with employees based on shares.

Below appears the calculation of the basic and diluted profit per share, taking into account the consolidated profit of the Mora Banc Group attributable to the controlling company, corresponding to the 2019 and 2018 financial years:

Thousands of euros	2019	2018
Numerator of the profit per share (thousands of euros)	**25,136**	**24,057**
Profit attributed to the controlling Bank	25,136	24,057
Denominator of the profit per share (thousands of euros)	**7,056**	**7,056**
Average weighted number of outstanding shares	7,056	7,056
Basic profit per share in ongoing activities (euros per share)	**3.562**	**3.409**
Diluted profit per share in ongoing activities (euros per share)	**3.562**	**3.409**

6 RISKS

6.1 Introduction and overview

Proper risk management is essential for the business of credit institutions which conduct their activity in an increasingly complex environment with more and more risk factors.

6.1.1 Corporate risk culture

Risk management constitutes a fundamental aspect of the Mora Banc Group's strategy. For this reason, a corporate culture has been developed in an integrated manner to involve the entire Group, instilling risk management in all areas of the Institution and leading all the participants in the Group's activities to assume responsibility for it.

The Board of Directors has overall responsibility for the approval and supervision of the implementation of the strategic objectives, risk control framework and corporate culture. Under the direction and supervision of the Board of Directors, the Senior Management runs the Group's activity in a manner in keeping with the business strategy, risk tolerance limits, remuneration and other approved policies.

- The fundamental elements governing the Group's risk management system and establishing the criteria designed to maintain the risk profile within the risk tolerance levels are based on the structure of the control environment, in accordance with the three lines of defence model.
- Existence of management policies established by the Board of Directors for each of the relevant risks that define the general operation of the activities, which aim to control and manage the risks at a corporate level.
- Procedures, methodologies and tools to articulate the policies and measure the risks.
- Risk Appetite Framework document (hereinafter the RAF). For each of the risks, an optimum level, limit and alert are established, including protocols in case they are exceeded. Based on these levels, the Institution's Board of Directors determines the type and risk thresholds that it is prepared to accept, in pursuit of the Group's strategic and profitability goals.

6.1.2 Structure of governance and organisation

The Mora Banc Group organises the risk management by means of a structure of Committees and Commissions to ensure the control of all risks regarded as significant. Each of these bodies has policies specifying the scope of their functions, their composition and the organisational and operational requirements.

Similarly, in accordance with the best practices and in keeping with the recommendations of the European Central Bank (hereinafter, the ECB), the European Banking Authority (hereinafter, the EBA) and the Basel regulatory framework, the Group's internal governance model is based on focusing on three lines of defence, the first constituted by the Business Area, the second by the Risks Area and Regulatory Compliance Area and the third by the Internal Audit Area.

The organisational structure for risks is clearly defined, facilitating its governance and the performance of its functions within the Group.

6.1.3 Corporate governance

The governing bodies are the General Meeting of Shareholders and the Board of Directors. Within its powers, the Board determines and monitors the business model and strategy, establishes the Corporate Risk Map, defines the level of Risk tolerance and is responsible for the internal governance policies and risk management and control, supervising the organisation for its implementation and monitoring.

Board of Directors

The Board of Directors ensures the implementation, maintenance and supervision of a suitable internal control system and develops the internal organisation requirements, as well as the policies, procedures and control mechanisms the Group must have.

In addition, the Board of Directors is responsible for approving the risk control framework, ensuring that it is in keeping with the Group's business and risk strategy, as well as its proper adaptation to the definition of the established tolerance limits. These limits are approved annually through the RAF (Risk Appetite Framework), which establishes a series of thresholds (optimal, alert and limit) for the main material risks to which the Group is exposed.

The Board of Directors has appointed a number of committees, made up of members of the Board itself, including those indicated in the following sub-sections:

Risk Committee

The Risk Committee is made up of members of the Board of Directors with the appropriate knowledge, skills and experience to fully understand and control the Bank's risk strategy and risk appetite. The number of members of the Risk Committee is determined by the Board of Directors, with a minimum of 3 and a maximum of 6 members. At least one third of these members must be external or independent directors. The chairman of the commission must be externally independent.

This Commission meets at least ten times a year or as often as is necessary to fulfil its functions, which are as follows:

- To advise the Board of Directors on the current and future global risk propensity of the Group and its strategy in this area, to report on the risk appetite framework; assist in monitoring the implementation of this strategy; ensure that the Group's actions are consistent with the previously decided level of risk tolerance; and monitor the degree of adequacy of the risks assumed in the established profile. Similarly, it assists the Board with the equity and liquidity strategy.
- To propose the Group's risk policy to the Board, identifying, in particular:
  - The different types of risk (credit, market, liquidity, default, operational, reputational, structural, among others) faced by the Group, including between financial and economic the contingent liabilities and others off the balance sheet.
  - The information and internal control systems which will be used to control and manage the above-mentioned risks.
  - The setting of the risk level deemed acceptable by the Group.
  - The measures envisaged to mitigate the impact of the identified risks, in the event that they materialise.
  - To regularly review the Bank's portfolio.
- To determine, together with the Board of Directors, the nature, amount, format and frequency of the information on risks to be received by the Board of Directors and to establish that which the Committee should receive.

- To regularly review exposures and concentrations with the main clients, economic sectors of activity, geographical areas and types of risk.
- To examine the Group's information and risk control processes, as well as the information systems and indicators to be allowed: to know the exposure of the risk in the Group, to evaluate if it is in line with the profile decided by the Group; know the suitability of the structure and functionality of risk management throughout the Group; have sufficient information for accurate knowledge of risk exposure for decision-making; the proper functioning of policies and procedures that mitigate operational risks.
- To indirectly oversee the risk of regulatory breach, which the Audit and Regulatory Compliance Committee directly oversees.
- To inform about new products and services or of significant changes in existing ones, with the aim of determining: the risks faced by the Group with their issuance and marketing in the markets, as well as the changes significant in existing ones; internal information and control systems for the management and control of these risks; corrective measures to limit the impact of the identified risks, should they materialise; the proper means and channels for their marketing in order to minimise reputational and bad marketing risks.
- To ensure the sufficiency, suitability and effectiveness of the functioning of the area responsible for the Group's risk management.
- To supervise and ensure that the Institution's strategic goals, structure, risk strategy and risk policy, as well as other policies and their disclosure, are implemented consistently.
- To supervise and monitor the implementation and maintenance of policies to identify, manage and mitigate both real and potential conflicts of interest.
- To review a number of potential scenarios, including stress scenarios, in order to evaluate how the Group's risk profile reacts to adverse external or internal events.

This Committee informs and reports to the Board of Directors on the Group's functioning, highlighting the main incidents, if there are any, related to its functions.

Audit and Regulatory Compliance Committee

This Committee is made up of a minimum of 3 and a maximum of 7 members, non-executive directors, one of them acting as Chairman. Most of its members and the Chairman are independent advisers.

With regard to risk management and control, the Audit and Regulatory Compliance Committee exercises the following relevant non-executive functions:

- To assist the Board of Directors in supervising both the financial statements and the exercise of the control and compliance function;
- To inform the General Meeting of Shareholders of the issues raised in matters lying within the Committee's purview;
- To submit to the Board of Directors proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the contractual conditions and the scope of their professional mandate, and to regularly request information from them on the audit plan and its execution. In addition, it preserves its independence in the exercise of its functions;
- It serves as a communication channel between the Board of Directors and external auditors, evaluates the results of each audit and the responses of the management team to its recommendations, and intervenes in case of discrepancies between them and the latter regarding the criteria applicable in the preparation of the consolidated financial statements, as well as examining the circumstances, if any, that may have led the auditor to resign;

- Supervising the internal audit and regulatory compliance services, checking the adequacy, sufficiency and completeness, and proposing the selection, appointment and replacement of those responsible; and verify that senior management take into account the conclusions and recommendations of their reports. In particular, the Audit and Regulatory Compliance Committee is responsible for validating the annual Internal Audit and regulatory compliance plans, the degree of implementation of said plans and the degree of implementation of the recommendations that may be issued;
- Supervising the work of the auditors on the process of preparation and presentation of the required financial information, as well as the regulatory reports to be issued, and the effectiveness of the Group's internal control systems, including fiscal ones; as well as discussing with the Auditor the significant weaknesses of the internal control system that, if applicable, are detected in the course of the audit;
- Establishing the appropriate relationships with the account auditor to receive information on matters that may jeopardise independence, for consideration by the Audit and Regulatory Compliance Committee, and any other related to the audit development process of accounts, as well as any other communications provided for in current legislation and audit rules. Annually issuing, prior to the issuance of the Audit Report, a report expressing an opinion on the independence of the account auditor;
- Overseeing compliance with the audit contract;
- Reviewing the Group's accounts and informing, beforehand, the Board of Directors on the financial information that the Group must periodically make public in the markets and its supervisory bodies and, in general, ensure compliance with the legal requirements in this subject and for the correct application of generally accepted accounting principles, as well as informing proposals of modification of accounting principles and criteria suggested by management, to guarantee the integrity of accounting and financial information systems, including financial and operational control, and compliance in this regard with applicable law;
- Supervising compliance with the regulations regarding Related Transactions and informing the Board of Directors of these transactions in advance. In particular, ensuring that the information on these transactions is communicated to the market, in compliance with current regulations, and informing on transactions that involve or may involve conflicts of interest;
- Supervising compliance with the internal rules on conduct and ethics, monitors and ensures compliance with and respect for the Law and, in general, the rules of corporate governance;
- Monitoring compliance with applicable national and international regulations in matters related to money laundering and terrorist financing, market behaviour in securities, data protection, as well as the requirements of information and action that the competent official bodies and regulators in these matters will be answered in a timely manner;
- Ensuring that the internal codes of ethics and conduct, applicable to the Group's employees, comply with the regulatory and regulatory requirements, and that they are appropriate for the entities of the entire group;
- Ensuring, in particular, compliance with the provisions contained in the directors' charter of Mora Banc Grup, SA;
- Considering the suggestions made by the Chairman of the Board of Directors, members of the Board, directors and shareholders of the Company, and establish and supervise a mechanism that allows employees of the Company, or the group to which it belongs, confidentially and, if appropriate, anonymously, communicate any irregularities of potential importance, especially financial and accounting, which they notice within the company;

- Receiving information and, where appropriate, issuing a report on the disciplinary measures to be imposed on the senior management of the Company;
- With regard to risk management and control, the Audit and Regulatory Compliance Committee has the following functions:
- Checking incidents detected in risk audits and ensuring that all of them have an action plan to be resolved;
- Reviewing risk audits and make sure they are carried out with the utmost diligence;
- Monitoring the action plans drawn up for each incident until their resolution is resolved;
- Reporting to the Board on all relevant issues identified in the risk audits;
- Coordinating its actions with the Risk Committee;
- Informing the Risk Committee of all relevant issues that may be of interest to it;
- Ensuring the proper application of risk policies;
- Reviewing the most important risk reports and checking that the information they are based on is accurate and of the highest quality.
- Overseeing the internal and external communication channels, making sure that no practices are carried out that go against the ethical values required by the Institution;
- Checking the upholding of the culture and values of Mora Banc by all members of the institution;
- Ensuring the development of a responsible and trustworthy business. In addition, the Audit and Regulatory Compliance Committee monitors the integration and maintenance of the culture and values;
- Identifying potential sources of reputational risk;
- Monitoring reputational risk;
- Establishing measures to prevent the Institution's exposure to excessive reputational risk;
- Overseeing the Institution's Policies, ensuring that clients are provided with responsible treatment, including the measurement of their confidence and satisfaction;
- Overseeing the Institution's Policies regarding the responsible treatment of employees and their implementation, including diversity and inclusion criteria, and the Institution's codes of responsibility;
- Establishing and controlling the Institution's complaints channel, making sure that it is easily accessible to all employees and to the clients or third parties involved, ensuring the confidentiality and transparency in the use thereof;
- Reviewing the Code of Conduct and adapting it to the Institution's needs in accordance with the evolution of its business and based on best practices in the sector;
- Proposing disciplinary action in case of non-compliance with the Code of Conduct;
- Establishing variable remuneration criteria based on the degree of compliance with the Institution's Code of Conduct;
- Overseeing the transparency of the Institution's management bodies and ensuring that its management is based on the principles of prudence and clarity.

Appointments and Remuneration Committee

This Committee is made up of a minimum of 3 and a maximum of 5 members and always with the predominance of independent or external directors. Its Chairman is appointed from among the external and independent Members who are part of this Committee.

The Appointments and Remuneration Committee will mainly have the following responsibilities:

- To analyse and propose to the Board of Directors the assessment of the competences, knowledge and experience required of the members of the Board of Directors and the senior management personnel;
- To submit to the Board of Directors proposals for appointments of independent and external directors for their designation by co-opting or for their submission to the decision of the General Meeting of Shareholders, as well as proposals for the re-election or dismissal of these directors by the General Meeting of Shareholders;
- To report the proposals for appointments and, as appropriate, the dismissal of the Secretary and deputy secretaries for their submission to the approval of the Board of Directors;
- To assess the profiles of the persons most suitable for forming part of the different committees, in accordance with their knowledge, skills and experience, and to submit the corresponding proposals to the Board;
- To Inform the Board of Directors of the proposals of the Chief Executive Officer or appointment of senior executives, and making such proposals directly in the case of Senior Directors who, due to their control or support functions in the Board or its commissions, the Commission considers should take this initiative, as well as, proposing, if it deems appropriate, basic conditions in the contracts of senior executives, which are beyond the remuneration aspects, and informing them when they have been established;
- To examine and organise, in collaboration with the Chairman of the Board of Directors, their succession as well as that of the chief executive of the Company, and, where appropriate, proposing to the Board of Directors so that this succession occurs in an orderly and planned;
- To regularly assess, at least once a year, the structure, size, composition and actions of the Board of Directors and its Committees, its Chairman, the Managing Director and the Secretary, making recommendations to the latter with regard to potential changes.
- To assess, with the regularity required by the regulations, the suitability of the different members of the Board of Directors and the latter as a whole, and to inform the Board of Directors accordingly;
- To consider the suggestions made by the Chairman, members of the Board, directors or shareholders of the Company;
- To supervise and control the smooth running of the Company's corporate governance system, making the proposals it deems necessary to improve it, as applicable;
- To control the independence of the external and independent directors;
- To supervise the Company's actions with regard to issues of corporate social responsibility and to submit to the Board any proposals it deems appropriate in this matter;
- To assess the balance between knowledge, capacity, diversity and experience on the Board of Directors and to prepare a description of the functions and skills necessary for a specific appointment, calculating the amount of time required to fulfil the role;

- To prepare the decisions regarding the remuneration and, in particular, inform and propose to the Board of Directors the remuneration policy, the system and the amount of the annual remuneration of the directors and senior executives, as well as the individual remuneration of the executive directors and the Chief Executive Officer or the Managing Director and the other conditions of the contracts, especially of an economic nature, without prejudice to the powers of the Appointments Committee which refers to conditions that proposed and that are not related to the remuneration aspect;
- To ensure observance of the remuneration policy for board members and senior managers and to report on the basic conditions established in the contracts entered into with the above and the fulfilment thereof;
- To consider the suggestions made by the Chairman, members of the Board, directors or shareholders of the Company;
- To ensure that Mora Banc's risk function has the necessary resources to perform its tasks in time and form with the utmost diligence and in compliance with the highest quality standards.

Executive Committee for Business

This Committee is made up of a minimum of 3 and a maximum of 8 members. The Committee appoints its Chairman from among its members.

The Executive Committee will mainly have the following responsibilities:

- Making recommendations and suggestions to the Board of Directors to improve the profitability of the Company's business.
- Regularly monitoring the evolution and results of the different units, areas and services of the Bank's business, and ensuring that it favours its evolution within the parameters defined by the Board itself and within the budget framework.
- Tracking the evolution of the main balance sheets and financial indicators.
- Advising the Board of Directors on budget matters, validating the annual budget, and monitoring and regularly monitoring the execution of the budget for the current financial year that has been approved by the Board of Directors.
- Facilitating the Board of Directors' knowledge of the business and the evolution of the Bank and the sector.
- Reviewing and approving relevant, but not strategic, out-of-budget investment proposals, delegated by the Board of Directors.

Innovation, Technology and Information Security Committee

The Innovation, Technology and Information Security Committee is made up of a minimum of three 3 members who are appointed from among the members by the Board of Directors, who will also nominate its Chairman. For these purposes, the Board of Directors will consider the knowledge and experience in technology, information systems and cybersecurity. The Innovation and Technology Committee has the following functions:

In the field of infrastructure and technological developments:

- Study and report on technology plans and actions and assist the Board in evaluating the quality and strategic adequacy of the technological service. By way of example, but not limited to: infrastructure, architecture, information systems and application development and integration; investments in computer equipment and technological transformation, service quality improvement programmes and measurement procedures; and relevant technology projects.

In the field of technological strategy and innovation:

- Study and report on innovation plans and actions, and assist the Board in assessing the capacities and conditions for innovation at Group level, as well as identifying the main threats. By way of example, but not limited to: the adoption of new business models, technologies, systems and platforms, associations, business relations and investments, and relevant innovation projects.
- Be informed, as appropriate, of technological trends that may affect the Group's strategic plans, including monitoring of general trends in the sector.

In the field of information security and cybersecurity:

- Assist the Board in the knowledge and understanding of risks, regulation and compliance in the supervision of the Group's main risks and technological and security infrastructure, including information security and cybersecurity risks.
- Study and report on contingency plans for business continuity regarding technology and technology infrastructure issues.
- The Committee is informed of the relevant events that have taken place in the field of information security and cybersecurity, understanding those that, in isolation or as a whole, can significantly impact or damage the Group's equity, results or reputation. In all cases, these events will be notified, when known, to the Chairman of the Committee.

6.1.4 Risk control and management

The Mora Banc Group develops the Risk Appetite Framework (RAF), which is a fundamental element in the management and control of risks. This management tool describes, for each risk category, in both qualitative and quantitative terms, the level that the Group wants to achieve in order to achieve its business objectives. In this regard, it allows the Board of Directors to:

- Formalise the Group's risk tolerance statement.
- Formalise the risk monitoring and surveillance mechanism, in order to ensure compliance with the RAF.
- Strengthen the Group's risk culture.

The RAF is considered key in risk management because it establishes a complete vision of the Group's target levels, alert, limit and risk capacity, comparing them with its risk profile. These thresholds are calibrated based on the traffic light approach methodology established by the EBA. This methodology takes into account:

- **Risk capacity:** the maximum level of risk the Group can assume, taking into account the current level of resources, without affecting its capital and liquidity needs.
- **Risk Tolerance/Objectives:** level and type of risk that the Institution is prepared to assume in the course of its activity, within its capacity, to fulfil its strategic and business objectives.
- **Early Warnings Indicators (EWI):** risk level with the aim of early detection if the risk profile is deteriorating and approaching the limit, signalling the need to raise a preventive action plan to avoid exceeding the tolerance level.
- **Risk limits:** The maximum level of risk that the Group considers acceptable and does not wish to exceed. Risk limits should be supported by predetermined protocols with guidelines for action in case the established thresholds are exceeded. These must be periodically reviewed to comply with the Group's risk tolerance level.

The RAF review and update process is performed on an annual basis.

The Institution monitors the risk indicators monthly in order to detect potential deviations in the different risk thresholds set by Mora Banc. The RAF management framework establishes protocols for the violation of thresholds, distinguishing between two lines of action depending on the threshold that has been exceeded (alert or limit).

Corporate risk map

The current environment for the development of the financial system and the transformation of the regulatory framework has highlighted the increasing relevance of the assessment of risks and their control environment.

The Bank has a Corporate Risk Map and a Risk Management Policy and Management Framework approved by the Board of Directors for the identification, measurement, monitoring, control and reporting of risks.

The main risks to which the Bank is exposed in the carrying out of its usual operations by virtue of being regarded as material are the following:

Credit and counterparty risk: this stems from the likelihood of incurring losses resulting from the total or partial non-compliance of the financial obligations entered into with the Bank by its clients or counterparties, caused by changes in the debtor's ability or intention to pay.

Market risk: this is defined as the possibility of losses in the value of a portfolio as a result of the unfavourable evolution of prices in the financial markets, affected by variations in interest rates, credit spreads, exchange rates and quotations of financial assets.

Operational risk: this is defined as the risk of losses resulting from shortcomings in internal processes, human resources or systems, as well as losses caused by external circumstances.

Liquidity risk: this stems from the possibility that the Bank cannot meet its payment commitments or that, in order to attend to them, it must resort to the obtaining of funds in unfavourable market conditions.

IRRBB risk: the IRRBB or "interest rate risk in the banking book" is the current or future risk for the Bank's equity or profits due to adverse fluctuations in interest rates affecting the positions of its investment portfolio.

Solvency risk: this is the risk generated by a possible lack of regulatory capital putting the Bank's operations at risk. To mitigate the solvency risk, the Bank establishes capital requirements weighting assets and items not included in the statement of financial position depending on the degree of risk, in accordance with the regulatory requirements for lack of capital.

Reputational risk: this is defined as risk associated with a negative perception of the financial institution (well-founded or otherwise) among clients, counterparties, shareholders, investors, debt ranges, market analysts and other relevant market participants (known as interest groups), adversely affecting the ability of the financial institution to maintain its existing commercial relationships or establish new ones or continue accessing sources of funding.

Concentration risk: this is defined as the possibility of material losses arising as a result of risk concentration in a certain borrower or a small Bank of inter-connected borrowers.

Leverage risk: this is a risk stemming from excessive leverage by the Bank, if the interest rate is higher than the interests of the investments in the leveraged amount, shifting from a profit scenario to a loss scenario.

Money laundering and financing of terrorism risk: this consists of a lack or absence of solid management of the money laundering and financing of terrorism risk, generating serious damage to the Bank, especially in matters of reputational, operational, compliance and concentration risks.

Strategic and business risk: this is defined as the risk of suffering material losses as a result of a lack of knowledge of the market in which Bank operates, which could threaten the viability and sustainability of its business model.

Business continuity risk: this is the risk of not having the necessary alarms and contingency plans to recover and restore interrupted critical functions within a reasonable time following an unwanted interruption or disaster.

Systemic risk: this is the risk of disruption in the financial system entailing serious damage to the financial system and the real economy, resulting from the occurrence of a series of correlated bankruptcies of financial institutions over a short period of time leading to a drastic reduction in liquidity and an increase in mistrust within the financial system as a whole.

Actuarial risk: this is the risk resulting from a significant increase in the payments necessary to cover defined benefit insurance products contracted for Bank employees, stemming from an adverse variation in interest rates related to the actuarial calculations of the regular contributions the Bank has undertaken.

Securitisation risk: this is defined as the possibility of material losses resulting from the fact that it is impossible to recover the value of a securitisation position. It can be generated due to the non-compliance of the counterparty or impairment of the instrument on the financial market.

Technological risk: this refers to potential losses for damages, interruptions, alterations or failures in the functioning or operation, resulting from the use of or dependence on equipment, applications, products or other technological resources.

Residual risk: this is the remaining risk for the Bank after mitigating or eliminating all the identified risks linked to the Bank's operations and the legal nature of the institution and its environment.

6.1.5 Internal control framework – Three lines of defence model

The Group's internal control framework provides a reasonable degree of security in the achievement of the Group's objectives.

In accordance with the best practices and in keeping with the recommendations of the ECB, EBA and AFA, the Group's internal governance model is based on the three lines of defence approach, abiding by the principle of proportionality, given the Group's size, activity and structure.

The purpose of these practices and recommendations is to provide transparent structures for financial institutions in order to facilitate their supervision and understanding of the decision-making processes of the different governing bodies. Similarly, they define the scope of action of the three lines of defence by means of the establishment of the organisation, functions, roles and responsibilities of the different governing bodies involved in the risk management and control.

It provides independent assurance of proper risk management and monitors and evaluates compliance with the Group's risk tolerance limits in a global manner, ensuring their alignment with the Group's current and expected risk profiles.

Thus, by means of the three lines of defence system, the Group guarantees that its operations are carried out in accordance with the applicable regulations, the internal policies and procedures established by the institution and taking into account the risk tolerance levels set by the Group through the RAF. Similarly, it offers an effective way of improving communication within the Group, chiefly in the risk control management, while establishing the essential functions and duties of each line and the differing relationships with each other. This model provides an approach to the operations which ensures effective risk management from the beginning of any exposure.

In this regard, the Group has an organisational structure allowing streamlined decision-making while ensuring direct and indirect coordination and participation between the different areas involved in the risk management and control, with an approach which is both bottom-up and top-down.

First line of defence – Business and Support Areas

Mora Banc's first line of defence is made up of the front-office business units and the risk-taking areas (hereinafter, the Areas), which have to consider the risk tolerance level declared by the Group in its decisions. Additionally, the first line of defence on the back-office side establishes the primary controls, monitoring of risk metrics, and detection and reporting of deviations from the goals set by the Group.

Second line of defence

Risk Management and Control Framework

Monitoring the Group's global and independent risks, while ensuring the adequacy of the risk management processes and control processes carried out by the 1st Line of Defence, without taking part in the business decision-making process.

In keeping with the applicable regulations, the Mora Banc Group has a risk control framework enabling it to measure, manage and control all its risks, in order to minimise exposure to them and maximise the profitability of its needs. The Group's risk management model is a key factor in the achievement of its strategic objectives.

The risk activity is governed by the following basic principles, which are aligned with Mora Banc's business strategy and model and take into account the recommendations of the supervisory bodies and regulators and the best practices in the market:

- A **risk culture** integrated into the whole organisation. This includes a series of attitudes, values, skills and guidelines for action to combat risks integrated into all the processes, including decision-making, change management and strategic and business planning. The risk control framework is intended to establish a corporate culture instilling risk management into all the areas of the Group, with all the participants in the Group's activities assuming responsibility for it.
- **Independence of the risk function**, covering all the risks and providing a suitable separation between the risk-generating units and those responsible for their control. It has sufficient authority and direct access to the management and governing bodies responsible for setting and monitoring the strategy and risk policies.
- The **comprehensive consideration of all the risks** as a goal for their suitable management and control. The ability to create a fully comprehensive vision of the assumed risks is regarded as essential, as is understanding the relationships between them and facilitating their joint assessment, without detriment to the differences in nature and degree of evolution and the real possibilities of management and control of each type of risk, adapting the organisation, processes, reports and tools to the characteristics of each of them.
- An **organisational and governance model** which assigns management and control officers to all the risks, preserving the principle of independence, with clear and coherent reporting mechanisms throughout the Group's perimeter.
- The decision-making is implemented by means of powers and functions for each risk management unit regarded as an effective instrument to facilitate a suitable analysis and different perspectives to be taken into account in the risk management.

The risk control framework is implemented in a series of policies, procedures and manuals used by the Group to identify, quantify, monitor and report, among other issues, the risks it assumes throughout the course of its economic activity.

In this regard, the second line of defence must be involved in the identification of current risks and future threats, as well as defining the control policies within the Group, supervising their proper implementation and providing training and advice for the first line. Essentially, one of its main roles is to monitor and question the control activity conducted by the first line of defence.

Regulatory compliance function

Moreover, in keeping with the best regulatory practices and in relation to the second line of defence, there is the Compliance function, which constitutes one of the pillars upon which the Group reinforces the Board's commitment to conduct all its activities and businesses in accordance with strict ethical precepts, facilitating a working environment in compliance with the current regulatory framework. In line with the principles established, the Regulatory Compliance Area's activity surrounds the development and implementation of a programme that incorporates: policies and procedures, dissemination and training in this area, and the identification, evaluation and mitigation of possible risks.

The Regulatory Compliance Area is the body which acts with functional independence and carries out the supervision, monitoring and verification of permanent and effective compliance with the legal and regulatory obligations of the ethical and behavioural standards, as well as the Group's internal policies to protect its clients, with the aim of reducing risks.

Third line of defence – Internal Audit

The purpose of the internal audit function is the objective and independent assessment of internal control systems and processes, compliance with external and internal regulations, risk management and the governance of the Mora Banc Group. From its position of independence, it provides assurance to the Board of Directors and the Senior Management.

The department is hierarchically dependent on the Audit and Compliance Committee, the delegated body of the Board of Directors, to which it reports.

A charter defines its functions, dependence, governing and methodological principles, organisation and relational framework. The charter is published on the database on internal regulations, available to the whole organisation.

Its tasks include continuous auditing, consisting of the regular monitoring of alerts previously defined by the department, whose purpose is to detect and minimise the risk of internal and external credit and operational fraud affecting the Group.

6.2 Credit risk

Credit risk is the risk of financial losses faced by the Group if a client or counterparty in a financial instrument does not meet its contractual obligations.

Proper risk management is essential for the business of credit institutions which conduct their activity in an increasingly complex environment with more risk factors.

Credit risk is the most significant in the consolidated statement of financial position of the Mora Banc Group and results from its banking and insurance commercial activity, treasury operations and long-term holdings of the equity of financial institutions and companies leading their sectors.

6.2.1 Exposure to credit risk

The main risks held by the Group as of 31 December 2019 and 2018 are concentrated in the headings "Financial assets held for trading", "Non-trading financial assets necessarily valued at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost", "assets covered by insurance and reinsurance contracts", "cash and cash equivalents" and "derivatives - hedge accounting" of the assets of accompanying consolidated statements of financial position.

To reduce the credit risk associated with operations with other entities, the Group follows a conservative policy with regard to the assessment and diversification of its exposure limits and counterparties. The Group, taking into account the rating of the rating agencies' reports, as well as the Credit Default Swaps (CDS) curve of the counterparty and its country, sets the limits for each of the counterparties. The subsequent risk control is performed by means of an integrated system in real time, in such a way that the available exposure limit with any counterparty per product and period can be identified at any time.

The Group's exposure to credit risk as of 31 December 2019 and 2018 is submitted below:

2019

In thousands of euros	Financial assets held for trading	Non-trading financial assets mandatorily measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives from hedge accounting	Total
Derivatives	32,007	–	–	–	2	32,009
Debt securities	42,060	89,935	606,672	233,787	–	972,454
Loans and advances	–	–	–	1,513,028	–	1,513,028
Central banks	–	–	–	–	–	–
Credit institutions	–	–	–	336,469	–	336,469
Clients	–	–	–	1,176,559	–	1,176,559
TOTAL	**74,067**	**89,935**	**606,672**	**1,746,815**	**2**	**2,517,491**

2018

In thousands of euros	Financial assets held for trading	Non-trading financial assets mandatorily measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives from hedge accounting	Total
Derivatives	30,242	–	–	–	191	30,433
Debt securities	13,729	82,522	577,903	241,276	–	915,430
Loans and advances	–	–	–	1,317.890	–	1,317,890
Central banks	–	–	–	–	–	–
Credit institutions	–	–	–	277,255	–	277,255
Clients	–	–	–	1,040,635	–	1,040,635
TOTAL	**43,971**	**82,522**	**577,903**	**1,559,166**	**191**	**2,263,753**

6.2.2 Credit risk life cycle

The full credit risk management cycle covers the entire duration of the transaction, including the feasibility analysis and the acceptance of the risk in accordance with established criteria, the monitoring of the solvency of the borrower and the profitability of the operation and, where applicable, the recovery of the impaired assets.

6.2.2.1 Risk acceptance

The Group has a unit exclusively devoted to the acceptance of credit risk with clients. It is responsible for the analysis of the risk operations exceeding the delegation established by the business areas and is responsible for conveying the importance of having well-documented files that reflect deep knowledge of the client. They study the operations upon the basis of the client's solvency and ability to return the debt.

Once this analysis has been performed and when it is demonstrated that the generation of resources is sufficient to meet the commitments made to the Group, it assesses whether the guarantees provided are suited to the risk of the operation. In the event that the transaction is not a delegation by this level, it transfers them to the corresponding level.

6.2.2.2 Limits to major risks

As part of the admission process, the Group monitors and controls compliance with the regulatory limits established by Law 35/2018 on solvency, liquidity and prudential supervision of banks and investment companies.

During the 2019 financial year there were no non-compliances with regard to the defined thresholds.

6.2.2.3 Risk classification

Below we show the Group's exposure to credit risk by risk category as of 31 December 2019 and 2018:

	Loans and advances to clients		Loans and advances to credit institutions		Debt securities		Commitments and guarantees granted	
In thousands of euros	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial assets held for trading and calculated at fair value through profit or loss	**-**	**-**	**-**	**-**	**131,995**	**96,251**	**-**	**-**
Financial assets at amortised cost								
Stage 1	1,101,589	954,548	336,534	277,329	233,935	241,451	-	-
Stage 2	61,031	78,455	-	-	-	-	-	-
Stage 3	39,091	40,041	-	-	-	-	-	-
Gross carrying value	**1,201,711**	**1,073,044**	**336,534**	**277,329**	**233,935**	**241,451**	**-**	**-**
Provisions for impairment	(25,152)	(32,410)	(65)	(73)	(148)	(175)	-	-
Net carrying value	**1,176,559**	**1,040,635**	**336,469**	**277,255**	**233,787**	**241,276**	**-**	**-**
Financial assets at fair value through other comprehensive income								
Stage 1	-	-	-	-	606,816	577,983	-	-
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
Gross carrying value	**-**	**-**	**-**	**-**	**606,816**	**577,983**	**-**	**-**
Provisions for impairment	-	-	-	-	(144)	(80)	-	-
Net carrying value	**-**	**-**	**-**	**-**	**606,672**	**577,903**	**-**	**-**
Loan commitments granted								
Stage 1	-	-	-	-	-	-	259,925	206,262
Stage 2	-	-	-	-	-	-	3,858	2,633
Stage 3 (subjective)	-	-	-	-	-	-	298	337
Gross carrying value	**-**	**-**	**-**	**-**	**-**	**-**	**264,081**	**209,232**
Provisions for impairment	-	-	-	-	-	-	(463)	(424)
Net carrying value	**-**	**-**	**-**	**-**	**-**	**-**	**263,618**	**208,808**
Financial guarantees granted								
Stage 1	-	-	-	-	-	-	102,499	80,884
Stage 2	-	-	-	-	-	-	416	9
Stage 3 (subjectiu)	-	-	-	-	-	-	570	596
Gross carrying value	**-**	**-**	**-**	**-**	**-**	**-**	**103,485**	**81,490**
Provisions for impairment	-	-	-	-	-	-	(578)	(478)
Net carrying value	**-**	**-**	**-**	**-**	**-**	**-**	**102,907**	**81,012**

Below is greater detail on the Group's bad loans, non-impaired and impaired financial assets as of 31 December 2019 and 2018:

	Loans and advances to clients		Loans and advances to credit institutions		Debt securities		Derivatives		Commitments and guarantees granted	
In thousands of euros	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
STAGE 1										
High Credit Quality (AAA;AA-)	-	-	59,475	29,384	111,662	175,498	219	-	-	-
Adequate Credit Quality (A+;BBB)	-	-	267,577	188,859	795,384	665,586	16,625	29,143	-	-
(BBB-)	-	-	543	54,994	18,209	66,758	14,884	849	-	-
(BB+;B+)	-	-	195	36	37,784	7,934	3	144	-	-
(B;CCC)	-	-	-	-	3,120	-	-	-	-	-
(D)	-	-	-	-	-	-	-	-	-	-
Other classification	1,101,589	954,548	8,744	4,056	6,587	-	278	297	362,423	287,147
Gross carrying value	**1,101,589**	**954,548**	**336,534**	**277,329**	**972,746**	**915,685**	**32,009**	**30,433**	**362,423**	**287,147**
Provisions for impairment	(2,264)	(1,967)	(65)	(74)	(292)	(255)	-	-	(837)	(677)
Net carrying value	**1,099,325**	**952,581**	**336,469**	**277,255**	**972,454**	**915,430**	**32,009**	**30,433**	**361,586**	**286,470**
STAGE 2										
see details of categories by days										
<= 30 days	54,604	74,929	-	-	-	-	-	-	4,192	2,642
<= 60 days	4,880	3,135	-	-	-	-	-	-	83	-
<= 90 days	1,547	391	-	-	-	-	-	-	-	-
> 90 days	-	-	-	-	-	-	-	-	-	-
Gross carrying value	**61,031**	**78,455**	**-**	**-**	**-**	**-**	**-**	**-**	**4,275**	**2,642**
Provisions for impairment	(8,403)	(10,597)	-	-	-	-	-	-	(161)	(172)
Net carrying value	**52,628**	**67,858**	**-**	**-**	**-**	**-**	**-**	**-**	**4,114**	**2,470**
STAGE 3										
see details of categories by days										
Doubtful operations for reasons other than default	9,590	14,015	-	-	-	-	-	-	868	933
> 90 days	29,501	26,026	-	-	-	-	-	-	-	-
Gross carrying value	**39,091**	**40,041**	**-**	**-**	**-**	**-**	**-**	**-**	**868**	**933**
Provisions for impairment	(14,485)	(19,846)	-	-	-	-	-	-	(43)	(53)
Net carrying value	**24,606**	**20,196**	**-**	**-**	**-**	**-**	**-**	**-**	**825**	**880**
TOTAL EXPOSURE TO CREDIT RISK	**1,176,559**	**1,040,635**	**336,469**	**277,255**	**972,454**	**915,430**	**32,009**	**30,433**	**366,525**	**289,819**
Accumulated Bad Loans	39,761	44,518	-	-	-	-	-	-	-	-
TOTAL EXPOSURE TO CREDIT RISK AND BAD LOANS	**1,216,088**	**1,085,153**	**336,469**	**277,255**	**972,454**	**915,430**	**32,009**	**30,433**	**366,525**	**289,819**

The following is a summary of the movements between stages of loans and advances to clients as of 31 December 2019 and 2018:

2019	**Movements between Stage 1 and Stage 2**		**Movements between Stage 2 and Stage 3**		**Movements between Stage 1 and Stage 3**	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 3 to Stage 2	From Stage 3 to Stage 1
Loans and advances	**7,024**	**2,644**	**11,699**	**320**	**792**	**9**

2018	**Movements between Stage 1 and Stage 2**		**Movements between Stage 2 and Stage 3**		**Movements between Stage 1 and Stage 3**	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 3 to Stage 2	From Stage 3 to Stage 1
Loans and advances	**43,341**	**66,972**	**8,433**	**-**	**819**	**2,045**

The following is a summary of the movement of impairment losses on loans and advances to clients as of 31 December 2019:

	Financial assets at amortised cost		
In thousands of euros	**Stage 1**	**Stage 2**	**Stage 3**
Balance as of 1 January 2019	**1,967**	**10,597**	**19,845**
Increases for origin and acquisition	1,175	1,261	1,497
Decrease due to account derecognition	(589)	(1,723)	(1,281)
Changes for credit risk variation	(289)	(1,732)	2,161
Other movements (bad loans)	-	-	(7,737)
Balance as of 31 December 2019	**2,264**	**8,403**	**14,485**

6.2.2.4 Mitigation of the credit risk (guarantees)

Credit risk mitigation is achieved (in many cases) by means of the provision of additional guarantees to that of the borrower. In addition, the Group specifies the criteria to determine the effectiveness of the guarantees and the methodology for their valuation and monitoring. The following classes of guarantees may be regarded as effective:

- Real guarantees:
  - Mortgage guarantees of property assets (flats, premises, etc.).
  - Bank guarantees.
  - Pledge guarantees:
    - i. Money deposits.
    - ii. Debt securities.
    - iii. Shares listed on stock markets.
    - iv. Other pledge guarantees.
- Other non-real guarantees. Personal guarantees which reinforce the capacity of repayment of the transaction:
  - Guarantees of natural persons.
  - Guarantees of legal persons.
  - Guarantees of Public Entities (Government or Common).
  - Other personal guarantees.
- Other types of guarantees:
  - Pledging of contracts which reinforce the capacity for repayment in the event of any incident.

Below is a breakdown of the balance recorded under the heading “Loans and advances - Clients”, based on the real guarantees of the Group’s financial assets of the group as of 31 December 2019 and 2018:

In thousands of euros	Financial assets at amortised cost to Clients		Real Guarantees: Money Guarantees, Securities and other financial guarantees (*)		Real Guarantees: Mortgage Guarantee		Without any Real Guarantee	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
STAGE 1								
Gross carrying value	**1,101,589**	**954,548**	**384,950**	**331,934**	**446,060**	**401,162**	**270.579**	**221,452**
Expected loss	(2,264)	(1,967)	(87)	(91)	(220)	(355)	(1,957)	(1,521)
V.C. Net of Guarantees and Provisions	**1,099,325**	**952,581**	**384,863**	**331,843**	**445,840**	**400,807**	**268,622**	**219,931**
STAGE 2								
Gross carrying value	**61,031**	**78,455**	**5,914**	**9,605**	**41,796**	**60,458**	**13,321**	**8,392**
Expected loss	(8,404)	(10,597)	(452)	(170)	(5,244)	(8,688)	(2,708)	(1,739)
V.C. Net of Guarantees and Provisions	**52,627**	**67,858**	**5,462**	**9,435**	**36,552**	**51,770**	**10,613**	**6,653**
STAGE 3								
Gross carrying value	**39,091**	**40,041**	**9**	**120**	**36,701**	**37,517**	**2,381**	**2,404**
Provisions for impairment	(14,484)	(19,846)	-	(2)	(12,372)	(17,932)	(2,112)	(1,912)
Net carrying value	**24,607**	**20,196**	**9**	**118**	**24,329**	**19,585**	**269**	**492**
TOTAL EXPOSURE TO CREDIT RISK	**1,176,559**	**1,040,635**	**390,334**	**341,395**	**506,721**	**472,161**	**279,504**	**227,076**

(*) Other Financial Guarantees include hedged transactions with bonds, financial guarantees, insurance contracts and credit derivatives.

Below is a breakdown of the credit quality of the debt securities as of 31 December 2019 and 2018:

	Debt securities		Fair value against profit/loss		Fair value through other comprehensive income		At amortised cost	
In thousands of euros	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
PUBLIC DEBT AND CENTRAL BANKS								
AAA	99,070	158,267	497	-	95,098	157,224	3,475	1,043
De AA+ a AA-	2,763	5,531	792	5,353	-	-	1,971	178
De A- a A+	241,036	213,380	108	1,266	240,928	208,624	-	3,490
BBB+ or lower	236,984	214,990	5,703	5,519	52,122	21,786	179,159	187,675
not available	-	-	-	-	-	-	-	-
Gross carrying value	**579,853**	**592,158**	**7,100**	**12,138**	**388,148**	**387,634**	**184,605**	**192,386**
Provision for Credit Risk	(211)	(162)	-	-	(83)	(16)	(128)	(146)
V.C. Net of Provisions	**579,642**	**591,996**	**7,100**	**12,138**	**388,065**	**387,618**	**184,477**	**192,240**
CREDIT INSTITUTIONS								
AAA	138	1,019	138	-	-	-	-	1,019
De AA+ a AA-	9,626	7,898	199	-	9,427	4,844	-	3,055
De A- a A+	176,015	56,243	69,368	4,453	82,556	47,753	24,091	4,038
BBB+ or lower	46,572	97,412	15,569	53,971	24,579	41,748	6,424	24,072
not available	6		6	-	-	-	-	-
Gross carrying value	**232,357**	**184,953**	**85,280**	**58,424**	**116,562**	**94,345**	**30,515**	**32,184**
Provision for Credit Risk	(28)	(38)	-	-	(20)	(22)	(8)	(16)
V.C. Net of Provisions	**232,329**	**184,915**	**85,280**	**58,424**	**116,542**	**94,323**	**30,507**	**32,168**
OTHER COMPANIES								
AAA	-	-	-	-	-	-	-	-
De AA+ a AA-	2,035	2,782	1,037	25	-	1,758	998	998
De A- a A+	31,952	15,698	2,779	-	26,115	11,092	3,058	4,606
BBB+ or lower	119,968	120,096	31,233	25,664	73,976	83,155	14.759	11,277
not available	6,581	-	4,566	-	2,015	-	-	-
Gross carrying value	**160,536**	**138,575**	**39,615**	**25,689**	**102,106**	**96,005**	**18,815**	**16,881**
Provision for Credit Risk	(53)	(56)	-	-	(41)	(43)	(12)	(13)
V.C. Net of Provisions	**160,483**	**138,519**	**39,615**	**25,689**	**102,065**	**95,962**	**18,803**	**16,868**
TOTAL EXPOSURE TO CREDIT RISK	**972,454**	**915,430**	**131,995**	**96,251**	**606.672**	**577.903**	**233,787**	**241,276**

6.2.2.5 Monitoring of credit risk

The Group has a unit responsible for monitoring non-payments, overdrafts and overdue payments, as well as for checking that the operation guarantees are sufficient. One of its main functions, together with the Business Area, is to anticipate and prevent clients from entering an irregular situation. Once the client is in an irregular situation or in default, the appropriate measures must be taken in cooperation with Risk Admission and the Legal Service.

6.2.2.6 Refinançament i reestructuració de les operacions

Within the field of refinancing and restructuring transactions, the aim is to identify or define the most appropriate option for the institution, enabling it to anticipate and maximise collection, regardless of the accounting treatment the transactions need to receive.

In this regard, the Group has defined two types of operations, taking into account the different situations in which a client may find him/herself at the time of the restructuring or refinancing:

- Transactions which originate in a doubtful situation: these transactions refer to customers who, due to a change in their economic circumstances, find it difficult to meet their contractual obligations, and it is therefore anticipated that they may undergo a potential reduction in their ability to pay. This contingency can be resolved by adapting the debt conditions to the client's new ability to pay.
- Transactions which originate in a doubtful situation due to having exceeded three months of age since the beginning of the first non-payment: as defined in the recovery or arrears management procedure, any transaction which has been renegotiated, regardless of whether the guarantees have improved, will remain classified within the risk category used prior to their renegotiation for a prudential period of no fewer than 1 year, until, in accordance with the assessment of the ability to pay and in compliance with the obligations, they can be classified in a lower risk category.

  Any restructured or refinanced transaction is duly documented and the analysis document is archived in the client's risk file. This document includes the debtor's ability to pay and the details of the new guarantees provided. Any problem detected in the fulfilment of the debtor's obligations will entail a change in the classification of the loan or credit in a higher risk category.

Below appears the information on refinancing and restructuring transactions as of 31 December 2019 and 2018:

31/12/2019 In thousands of euros

TOTAL	Number of transactions	Gross carrying value	Distribution of guarantees: Property guarantee	Distribution of guarantees: Other real guarantees	Distribution of guarantees: Without guarantees	Impairment of the accumulated value
Non-financial companies, individual companies (non-financial business activity and individuals)	38	29,622	25,286	64	4,272	(6,512)
Including: *financing for construction and property development (including land)*	1	1,449	1,449	-	-	(183)
Rest of other housing	37	28,173	23,837	64	4,272	(6,329)
TOTAL	**38**	**29,622**	**25,286**	**64**	**4,272**	**(6,512)**

31/12/2018 In thousands of euros

TOTAL	Number of transactions	Gross carrying value	Distribution of guarantees: Property guarantee	Distribution of guarantees: Other real guarantees	Distribution of guarantees: Without guarantees	Impairment of the accumulated value
Non-financial companies, individual companies (non-financial business activity and individuals)	34	49,885	40,678	2,138	7,068	(3,606)
Including: *financing for construction and property development (including land)*	1	2,002	2,002	-	-	(253)
Remaining housing and others	33	47,883	38,676	2,138	7,068	(3,353)
TOTAL	**34**	**49,885**	**40,678**	**2,138**	**7,068**	**(3,606)**

6.2.3 Risk concentration

Below appear the respective risk concentrations by sector and geographical area for loans and advances to clients as of 31 December 2019 and 2018:

	Loans, advances to clients		Of those at Stage 2		Of those at Stage 3		Provision for Credit Risk	
In thousands of euros	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
CONCENTRATION BY SECTOR								
M.I. Government	**32,769**	**29,204**	**-**	**-**	**-**	**-**	**(164)**	**(146)**
Common	**16,110**	**18,913**	**-**	**-**	**-**	**-**	**(81)**	**(95)**
Other public sectors	**4,457**	**8,159**	**-**	**-**	**-**	**-**	**(22)**	**(41)**
Financial	**71,068**	**53,436**	**351**	**23**	**4**	**7**	**(234)**	**(122)**
Non-financial companies	**565,329**	**480,086**	**49,322**	**61,668**	**28,984**	**29,676**	**(21,435)**	**(28,642)**
Primary	4,158	4,913	-	-	-	-	(52)	(47)
Tourist	70,333	61,122	4,327	4,433	2,145	2,737	(586)	(672)
Property	245,646	181,753	35,484	43,178	25,425	20,578	(18,018)	(21,179)
Construction	14,979	11,997	685	190	394	5,502	(356)	(4,026)
Commercial	66,648	60,653	5,752	10,585	767	788	(1,427)	(1,477)
Other secondary	31,684	16,229	-	4	219	41	(381)	(176)
Other tertiary	131,881	143,418	3,074	3,279	34	30	(615)	(1,065)
Individuals	**511,978**	**483,247**	**11,358**	**16,763**	**10,103**	**10,358**	**(3,216)**	**(3,365)**
TOTAL EXPOSURE TO CREDIT RISK	**1,201,711**	**1,073,044**	**61,031**	**78,455**	**39,091**	**40,041**	**(25,152)**	**(32,410)**
GEOGRAPHIC CONCENTRATION								
Andorra	**830,376**	**743,522**	**55,690**	**71,821**	**36,645**	**37,204**	**(21,925)**	**(29,436)**
Spain	**287,470**	**265,361**	**5,046**	**518**	**1,014**	**1,552**	**(2,089)**	**(958)**
Others	**83,865**	**64,161**	**295**	**6,116**	**1,432**	**1,285**	**(1,138)**	**(2,016)**
TOTAL EXPOSURE TO CREDIT RISK	**1,201,711**	**1,073,044**	**61,031**	**78,455**	**39,091**	**40,041**	**(25,152)**	**(32,410)**

Similarly, below appear the respective risk concentrations by sector and geographical area for debt securities as of 31 December 2019 and 2018:

	Debt securities		Of those at Stage 2		Of those at Stage 3		Provision for credit risk	
In thousands of euros	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
CONCENTRATION BY SECTOR								
Public Sector	579,852	595,704	-	-	-	-	(211)	(162)
Credit Institutions	232.357	172,177	-	-	-	-	(28)	(38)
Other Companies	160,537	147,805	-	-	-	-	(53)	(56)
TOTAL EXPOSURE TO CREDIT RISK	**972,746**	**915,685**	**-**	**-**	**-**	**-**	**(292)**	**(255)**
GEOGRAPHIC CONCENTRATION								
Andorra	126,304	135.415	-	-	-	-	(87)	(100)
Spain	429,111	380,342	-	-	-	-	(114)	(68)
Others	417,331	399,928	-	-	-	-	(91)	(87)
TOTAL EXPOSURE TO CREDIT RISK	**972,746**	**915,685**	**-**	**-**	**-**	**-**	**(292)**	**(255)**

Below appear the respective risk concentrations by sector and geographical area for loans and advances to credit institutions as of 31 December 2019 and 2018:

	Loans and advances credit institutions		Of those at Stage 2		Of those at Stage 3		Provision for credit risk	
In thousands of euros	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
GEOGRAPHIC CONCENTRATION								
Andorra	7,265	1,272	-	-	-	-	-	-
Spain	25,660	86,940	-	-	-	-	(1)	(30)
Others	303,609	189,116	-	-	-	-	(64)	(43)
GROSS CARRYING VALUE	**336,534**	**277,329**	**-**	**-**	**-**	**-**	**(65)**	**(73)**

6.3 Liquidity risk

Liquidity risk is the risk of the Group finding difficulties in complying with the obligations associated with financial liabilities settled by delivering cash or any other financial asset.

6.3.1 Liquidity risk management

Mora Banc manages liquidity with the aim of maintaining at all times levels of liquidity that allow paying attention to payment commitments in a timely manner and that will not be able to prejudice the investor's activity due to lack of loanable funds, staying at all times within the levels of risk tolerance set in the Risk Appetite Framework (RAF) of the Group and of the current regulatory requirements.

The Group's approach to administering the liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when they mature, both under normal conditions and in situations of liquidity tension, without incurring unexpected losses or putting the Group's security at risk. In addition, the above is based on guaranteeing the obtaining of financial resources at a reasonable cost to fulfil the investment plans established in the annual budget, as well as to cover potential liquidity imbalances resulting from the different levels of enforceability of the assets and liabilities in the consolidated statement of financial position.

The management of the Group's asset and liability maturity structure has enabled it to enjoy a privileged position, leading it to have a competitive advantage in conducting its activity in a more demanding environment in terms of liquidity requirements.

The decisions regarding all the structural risks, including the liquidity risk, are made by the institution's Assets and Liabilities Committee (COAP, from its initials in Catalan).

The Group, through the management unit of the statement of financial position, manages liquidity and financing, as well as the analysis of stress and the report to the COAP, in accordance with the policies set by the Board of Directors, at the proposal of the Risk Department, which independently measures and controls the liquidity risk.

For the insurance business, the management of the liquidity resulting from the commitments (liabilities) arising from insurance contracts, mainly for life and savings, marketed by the Mora Banc Group through Mora Assegurances, is performed by means of the actuarial financial estimate of the cash flows resulting from said contracts. Similarly, financial immunisation techniques are applied upon the basis of the estimated actuarial financial maturity, in other words, not necessarily the contractual maturity, and the financial assets affected.

6.3.2 The Group's liquidity strategy

In order to comply with the above principles, the following strategic liquidity management lines have been defined:

- Maintenance of liquidity levels within the levels of risk tolerance defined in the Group's RAF, which will allow them to meet payment obligations in a timely manner and which will not be able to prejudice the investor's activity due to lack of loanable funds.
- Management of the intraday liquidity risk.
- Short-term liquidity risk management by means of the LCR ratio.
- Management of the sources of financing and their long-term stability by means of the NSFR ratio.
- Liquid asset management.
- Management of collateralised assets.
- Rapid detection of a potential liquidity crisis situation.
- Minimisation of the negative effects of the beginning of a crisis situation on the liquidity position.
- Liquidity management focused on overcoming a potential liquidity crisis situation.
- Continuing to reduce the commercial gap.
- Follow-up of the provision of credit facilities.

6.3.3 Exposure to liquidity risk

For optimal management of the liquidity risk, the Group employs a series of indicators which provide advance notice of potential impairments in the quality of the liquid assets and potential tensions which could lead to a decrease in the sources of financing:

- Liquidity Coverage Ratio (LCR): this indicates whether there are enough high-quality liquid assets to deal with unexpected outcomes in the short term (30 days).
- Net Stable Funding Ratio (NSFR): this indicates whether there is sufficient and stable longer-term financing (1 year).
- Other ratios used: Loan to Depo (Credit investment / Total client deposits), Highly liquid assets / Total client deposits and Highly liquid assets / Total statement of financial position.

In addition, the Liquidity Gap is used to view the different maturities during the period of the consolidated statement of financial position.

The Group also closely monitors the intraday liquidity risk.

The use of these ratios, with the help of monitoring of the short and long-term liquidity, enables the Group to achieve better management of the liquid assets and sources of financing. It should be noted that, internally, the Group has tolerance levels, defined in the RAF, which are more demanding than those stipulated in a regulatory manner.

Potential situations of liquidity tensions can thus be detected in time, minimising the possible negative effects.

6.3.4 Analysis of the maturity of financial assets and liabilities

Details of the periods of the contractual maturities of the balances of the Group's financial assets and liabilities as of 31 December 2019 and 2018, within a scenario of normal market conditions in the context of the residual maturity of the transactions, are outlined below:

In thousands of euros	Demand	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 DECEMBER 2019							
Financial Assets (Inputs)							
Cash, cash balances in central banks and other demand deposits	17,763	-	-	-	-	-	**17,763**
Loans and advances	211,906	318,781	147,889	173,191	373,403	287,858	**1,513,028**
Credit Institutions	152,473	183,996	-	-	-	-	**336,469**
Clients	59,433	134,785	147,889	173,191	373,403	287,858	**1,176,559**
Debt securities	-	238,615	32,099	140,418	396,477	164,845	**972,454**
Carrying value	229,669	557,396	179,988	313,609	769,880	452,703	**2,503,245**
Financial Liabilities (Outputs)							
AFA	16,039	13,855	-	-	-	-	**29,894**
Deposits of credit institutions	13,887	13,839	-	-	-	-	**27,726**
Client Deposits	1,733,658	137,959	47,711	132,026	64,260	300	**2,115,914**
Debt securities	-	-	-	-	-	27,722	**27,722**
Carrying value	**1,763,584**	**165,653**	**47,711**	**132,026**	**64,260**	**28,022**	**2,201,256**
Difference in Asset less Liability	**(1,533,915)**	**391,743**	**132,277**	**181,583**	**705,620**	**424,681**	**301,989**

In thousands of euros	Demand	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 DECEMBER 2018							
Financial assets (inputs)							
Cash, cash balances in central banks and other demand deposits	17,648	-	-	-	-	-	**17,648**
Loans and advances	254,720	165,403	97,973	166,365	395,927	237,502	**1,317,890**
Credit institutions	202,787	74,468	-	-	-	-	**277,255**
Clients	51,933	90,935	97,973	166,365	395,927	237,502	**1,040,635**
Debt securities	-	302,763	34,107	65,104	314,323	199,133	**915,430**
Net carrying value	272,368	468,166	132,080	231,469	710,250	436,635	**2,250,968**
Financial liabilities (outputs)							
AFA	3,371	22,607	-	1,172	-	-	**27,150**
Deposits of credit institutions	22,619	25,667	-	-	-	-	**48,286**
Client deposits	1,415,194	111,488	55,757	171,702	88,388	-	**1,842,529**
Debt securities issued	-	-	-	-	-	34,158	**34,158**
Net carrying value	**1,441,184**	**159,762**	**55,757**	**172,874**	**88,388**	**34,158**	**1,952,123**
Difference in asset less liability	**(1,168,816)**	**308,404**	**76,323**	**58,595**	**621,862**	**402,475**	**298,843**

The above table shows the non-discounted cash flows of the Group's financial assets and liabilities based on their contractual maturities, without taking into account any scenario for the renewal of the assets and/or liabilities. In a financial institution which has a high level of retail financing, the average maturity of the assets is greater than that of the liabilities, such that a negative gap is generated in the short term. In addition, in the analysis of these tables, it is necessary to bear in mind that the clients' demand deposit accounts have a high degree of stability. Moreover, in the analysis of the current liquidity environment, it is necessary to take into account the influence on this calculation exercised by the maturities of transactions for the temporary transfer of assets and deposits obtained.

LCR Ratio (Liquidity Coverage Ratio)

As mentioned above, the ratio indicates whether the Group has sufficient high-quality liquid assets to meet its liquidity requirements for the next 30 days, within a scenario of stress encompassing a combined crisis of the financial system (with the reference of the global banking crisis in 2008, which led to a more demanding analysis of the liquidity risk). In both the numerator and the denominator of the ratio, weightings (haircuts) are applied to the different values, giving greater importance to the more liquid ones and penalising the others.

The ratio must be greater than or equal to 100%, to demonstrate that there are sufficient liquid assets to meet short-term unforeseen circumstances.

In recent years, the ratio has been calculated internally as defined in the European Regulation.

On 20 December 2018, Law 35/2018 on solvency, liquidity and prudential supervision of banking institutions and investment companies was passed, a law that is passed by the Andorran legal system Directive 2013/36/EU of the European Parliament and Council of 26 June 2013 on access to the activity of banking entities and the prudential supervision of banking entities and investment companies, as well as Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013 on the prudential requirements of banks and investment companies, in the area of solvency requirements, large exposures, liquidity, leverage and transparency in the market, regulating, defining and requiring, among other ratios, that of the LCR.

Law 35/2018 was published on 23 January 2019 in the Official Bulletin of the Principality of Andorra, coming into force the day after its publication. By Decree of 6 March 2019, the Government of Andorra approved the Regulation for the development of Law 35/2018, which regulates in detail the requirements for solvency, liquidity and prudential supervision of banking institutions and investment companies.

During 2019, the Ratio has been calculated as stipulated in the country's regulation. It is worth noting that the entire transitional provision, defined in Law 35/2018, with the requirement of having a liquidity coverage of 100% or more, is already being applied by the Group

The Bank's LCR ratio was permanent and stable throughout 2019, standing well above 100%, which is indicative of the fact that the Group has sufficient high-quality liquid assets to meet short-term unforeseen circumstances.

High-quality liquid assets are assets which can be easily sold to meet liquidity requirements. They must be listed in organised markets with a large volume of issues, substantial market depth, stable daily quotations and low volatilities.

Below appears the composition of the high-quality liquid assets used in the calculation of the Group's LCR ratio as of 31 December 2019 and 2018:

	31/12/2019		31/12/2018	
In thousands of euros	Market value	Weighted value	Market value	Weighted value
Assets Level 1	584,865	584,854	581,098	581,098
Level 2A Assets	-	-	-	-
Level 2B Assets	86,081	43,041	93,827	46,913
TOTAL HIGH-QUALITY LIQUID ASSETS	**670,946**	**627,895**	**674,925**	**628,011**

Mora Banc displays a comfortable liquidity position, in which its High-Quality Level Assets (HQLA) are very significant.

NSFR (Net Stable Funding Ratio)

As in the case of the CSR, this is a metric which came into being as a result of the global banking crisis in 2008 and indicates whether the Group has sufficient financing and whether it is stable in the longer term (1 year). It is characterised by:

- Applying weightings to simulate a stress scenario envisaging a combined crisis of the financial system.
- It gives greater importance to more stable sources of financing and more liquid assets while penalising the others.
- It must be greater than or equal to 100% to demonstrate that the financing is stable in the medium and long term.

Mora Banc benefits from the substantial weight of client deposits, which are more stable, with permanent liquidity requirements resulting from commercial activity financed by medium and long-term instruments and limited appeal in the short-term. The above enables it to retain a balanced liquidity structure with high levels in the NSFR ratio.

In recent years, the ratio has been calculated internally using the definitions published by major authorities internationally. (Bank for International Settlements and European Banking Authority)

With the publication of Law 35/2018 and its Development Regulations, discussed in the previous section, the NSFR Ratio in the Principality of Andorra has been defined and required by regulation.

During 2019, the ratio has always been above 100%. At the close of the 2019 financial year, the NSFR ratio was 131.7%

In summary, the management and liquidity model enable Mora Banc to anticipate the Group's fulfilment of the two metrics, well above the minimum (100%) required.

6.4 Market Risk

Market risk is the risk of potential adverse changes in market prices, such as interest rates, exchange rates, credit spreads and variable income prices, affecting the profitability or value of the financial instruments held by the Group.

The aim of the market risk management is to control exposures of portfolios subject to mark-to-market within reasonable parameters.

6.4.1 Market risk management

The Group has a market risk management unit, whose basic functions include measuring, controlling and monitoring the market risks and assessing the exposure and suitability for the assigned limits, as well as comparing, implementing and maintaining the computer tools used. The supervision of these functions is the duty of the Assets and Liabilities Committee (COAP), which is a body made up, among other people, of members of the Group's General Management. This body meets at least once a month and is responsible for analysing the positions which generate market risk, as well as the definition of the strategies to be followed by the Group. The Board of Directors of the Bank is regularly informed of the level of risk assumed and establish the absolute maximum limits of exposure to this risk.

6.4.2 Exposure to market risk – trading portfolios

The calculation of the potential losses in adverse market conditions is the key element in the measurement of the market risk, which is why the VaR (Value at Risk) methodology is used, in its mode of VaR by historical simulation. Additionally, the Institution also calculates the VaR using the Parametric and Monte Carlo methodology.

The VaR methodology measures the maximum loss in the value of a portfolio which may occur as a result of changes in the general conditions of the financial markets, these changes being reflected in four risk factors: interest rate risk, exchange rate risk, credit risk and price risk in terms of variable income and goods.

Implicitly, the correlation risk and volatility risk for positions with optionality are also calculated.

The VaR is the basic methodology for measuring and controlling the market risk of the positions of the portfolios subject to mark-to-market.

The time scale used by the Group to calculate the VaR is one day, as they are trading operations in highly liquid markets.

The market risk is measured by means of different VaR methodologies (historical, parametric and Monte Carlo) for all its trading portfolio. Historical VaR is the one used by the Group to establish its controls.

VaR by historical simulation has advantages as a risk measurement, as it is based on market movements which have taken place in the past and, therefore, avoids making assumptions regarding the behaviour of market factors, as well as their correlations. Historical VaR is calculated upon the basis of a window of 250 days of daily data, assuming uniform weights for all the observations. This calculation is performed twice a day.

The current model of market risk limits consists of a VaR limit and sub-limit scheme, as well as stop-loss orders for some of the trading activities.

Given that the VaR by historical simulation also has limitations, basically its high sensitivity to the data window used and the impossibility of capturing plausible events which have not taken place within the historical range used, the Group mitigates these limitations by complementing it with:

1. **Stress Tests:** estimates of the impact of extreme market movements on the positions maintained. The objective of performing stress tests, which may be regarded as a complementary tool to measuring the market risk by means of the VaR in a "normal" situation, is to identify the extent of the losses in "non-normal" or very low probability situations, with the aim of assessing the potential negative impacts on the value of the Group's portfolio.

Below appears the expected impact of the stress test on the consolidated income statement in a multi-variant simulation of the risk factors which make up the portfolio:

As of 31 December 2019

Scenario		% Variation Market Value
Base Scenario		100.00%
Zero Coupon	+ 100pb	98.66%
Spot FX	- 5%	99.85%
Spread Curve	+ 50pb	99.66%
Equity	- 10%	99.51%
Volatilities	+ 10%	100.01%
TOTAL		**99.98%**

A 31 de desembre 2018

Scenario		% Variation Market Value
Base Scenario		100.00%
Zero Coupon	+ 100pb	104.09%
Spot FX	- 5%	99.93%
Spread Curve	+ 50pb	100.97%
Equity	- 10%	93.57%
Volatilities	+ 10%	100.02%
TOTAL		**98.61%**

All the scenarios correspond to homogeneous shocks in all the categories mentioned. In other words, a 10% negative equity shock would represent a negative variation of -0.49% in the consolidated income statement with regard to the value of all the equities in the portfolio. The total corresponds to all the shocks applied simultaneously.

2. **Tail Risk:** in addition, as well as informing the VaR at 99% confidence with a one-day time period, the historical VaR methodology has incorporated the "VaR Shortfall" and "VaR Maximum" concepts, referring to the analysis of the magnitude of the losses in the critical region. In other words, it constitutes an analysis of the volume of the losses with very low probability (frequency lower than 1%). We can define them as follows:

   - VaR Shortfall: this represents the expected loss when the loss exceeds the VaR.
   - Maximum VaR: this represents the maximum loss, in other words, the worst-case scenario, corresponding to the worst scenario for the distribution.

Below are the average VaR amounts at 99% confidence for trading portfolio activity and the one-day time period attributable to the different risk factors:

2019	**VaR at 99% 1 day Time Period**				**Expected Shortfall 99%**
In thousands of euros	**As of 31 December 2019**	**Average**	**Maximum**	**Minimum**	**As of 31 December**
Exchange Rate VaR	16	13	83	2	20
Interest Rate VaR	62	44	101	5	73
Credit VaR	14	24	47	7	21
Variable Income VaR	38	72	126	31	40
Diversification Effect	(48)	(64)	(228)	1	(62)
TOTAL VAR	**82**	**89**	**129**	**46**	**92**

2018	**VaR at 99% 1 day Time Period**				**Expected Shortfall 99%**
In thousands of euros	**As of 31 December 2018**	**Average**	**Maximum**	**Minimum**	**As of 31 December**
Exchange Rate VaR	16	12	22	5	17
Interest Rate VaR	48	38	57	30	73
Credit VaR	28	59	126	25	32
Variable Income VaR	44	74	111	47	70
Diversification Effect	(60)	(82)	(102)	(56)	(105)
TOTAL VAR	**76**	**101**	**214**	**51**	**87**

Finally, a "backtesting" is performed on the results, constituting the key point in the analysis, as it provides validity for all the VaR calculations (ex-ante measurement) and permits conclusions on the over-valuation or under-valuation of the risk.

The ex-post or backtesting validation is based on a comparison between the regular results of the portfolio and the risk measurements provided by the established measurement system. The validity of a VaR model depends on the empirical reality of the results not contradicting those expected from the model. The model is regularly recalibrated under this premise.

6.4.3 Exposure to other market risks – Non-trading portfolios

6.4.3.1 Structural interest rate risk

The interest rate risk is defined as the variation in the Group's financial margin or equity associated with movements in the market interest rates.

The measurement of this risk incorporates calculations of the sensitivity of the one-year financial margin and the economic capital to parallel movements of +/- 100 and 200 basis points in the market curves of the main currencies of the consolidated statement of financial position.

The management of the interest rate risk of the structural positions of the consolidated statement of financial position is the responsibility of the Assets and Liabilities Committee (COAP), complying with the risk profile guidelines defined by the Board of Directors at the request of the Risks Area, which independently performs the measurement and control of the interest rate risk.

The Group's financial area is responsible for calculating, analysing, simulating and reporting the interest risk to the COAP on a monthly basis, following its validation by the risk department.

To obtain the data, different methodologies are followed: the static gap, the dynamic gap and the simulation of different scenarios. We thus obtain a broad spectrum of potential sensitivities to facilitate optimised management, in accordance with the risk tolerance level established by the Group's RAF.

With the static gap the masses of the consolidate statement of financial position are obtained on a specific date (at the end of the month), depending on the maturities and natural renewals of the existing flows. We thus obtain a clear picture of the exposure to interest rate variations of the consolidated statement of financial position.

The following tables show, by means of a static gap, the distribution of maturities and revisions of interest rates as of 31 December 2019 and 2018, with regard to the sensitive masses of the consolidated statement of financial position of the Mora Banc Group:

In thousands of euros	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 December 2019						
Loans and Advances	900,956	222,157	276,209	20,601	33,671	1,453,594
Credit Institutions	336,469	-	-	-	-	336,469
Clients	564,487	222,157	276,209	20,601	33,671	1,117,125
Debt securities	263,564	27,899	109,016	345,734	144,404	890,617
TOTAL ASSETS	**1,164,520**	**250,056**	**385,225**	**366,335**	**178,075**	**2,344,211**
Deposits of Central Banks	29,894	-	-	-	-	29,894
Deposits of credit institutions	27,726	-	-	-	-	27,726
Client Deposits	1,978,441	37,388	98,393	1,692	-	2,115,914
Subordinated Liabilities	-	-	27,722	-	-	27,722
TOTAL LIABILITIES	**2,036,061**	**37,388**	**126,115**	**1,692**	**-**	**2,201,256**
Derivative Effects Hedges Interest Rate Risk	88,942	46,686	9,864	(41,469)	(104,023)	-
TOTAL NET	**(782,599)**	**259,354**	**268,974**	**323,174**	**74,052**	**142,955**

In thousands of euros	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 de desembre de 2018						
Loans and Advances	776,049	165,057	267,809	30,968	26,074	1,265,957
Credit Institutions	277,255	-	-	-	-	277,255
Clients	498,794	165,057	267,809	30,968	26,074	988,702
Debt securities	314,856	34,107	65,104	310,027	177,607	901,701
TOTAL ASSETS	**1,090,905**	**199,164**	**332,913**	**340,995**	**203,681**	**2,167,658**
Deposits of Central Banks	25,978	-	1,172	-	-	27,150
Deposits of credit institutions	48,286	-	-	-	-	48,286
Client Deposits	1,644,245	45,928	130,969	21,386	-	1,842,529
Subordinated Liabilities	-	-	34,158	-	-	34,158
TOTAL LIABILITIES	**1,718.509**	**45,928**	**166,299**	**21,386**	**-**	**1,952,122**
Derivative Effects Hedges Interest Rate Risk	89,978	129,210	13,230	(58,558)	(173,860)	-
TOTAL NET	**(537,626)**	**282,446**	**179,844**	**261,051**	**29,821**	**215,536**

With the dynamic gap, different hypotheses are added to obtain a more accurate forecast of how the Group's financial margin will vary. In this way, the data are projected within a scenario regarded as likely, taking into account the envisaged movements of the different masses in the consolidated statement of financial position, in accordance with studies carried out based on a historical analysis of the behaviour of clients and the variations in the different masses of the Group over recent months.

In addition, the sensitivities are calculated by means of different simulations to obtain a broad spectrum of results. The data obtained will help to anticipate potential adverse situations and to manage them in time, if they arise.

Finally, a stress simulation is carried out on the data obtained in the likely scenario, with parallel movements of +/- 100 and 200 basis points. Once the data have been obtained, it is verified that they comply with the risk tolerance levels defined by the Institution within its RAF.

This simulation follows the global standard of good practices for monitoring interest risk used by the vast majority of institutions worldwide, in accordance with the recommendations of the BIS (Bank for International Settlements) and the supervisory bodies.

The sensitivities are obtained from the difference between the data obtained in the stress scenario and those of the likely scenario. Both the forecast of the financial margin and the calculation of its sensitivity are made within a period of 12 months. With the data obtained, it can be seen over a one-year period how they affect the extreme variations in the financial margin.

The economic value is another important metric to be taken into account when monitoring the interest rate risk. The value is calculated by discounting all the existing future flows in the consolidated statement of financial position. We thus obtain the Bank's current value, also known as the Institution's Economic Value or Current Equity Value. The variations in the curves of the interest rates will cause an impact on the Economic Value. This is why it is necessary to regularly monitor and calculate its sensitivity. Scenarios of parallel movements of +/- 100 basic points of the interest rate curves are used for the calculation of the sensitivity of the Economic

Value. The sensitivity of the Economic Value is equivalent to the difference between the stressed value and the Current Value of the likely scenario. The sensitivities show us how the variations in the interest rates affect the current value of the Institution. The simulations carried out tell us within what ranges our Economic Value may vary in adverse situations and with market tensions. The data obtained must always abide by the risk tolerance levels established by the Group with its RAF-

During 2019 the average sensitivity of the Economic Value lay within the following range: [+4.55%; -4.42%], lower than the current approved limit.

The sensitivity of the interest margin and the asset value are measures which complement each other and permit an overview of the structural risk, more focused on the short and mid terms in the former case and in the mid and long terms in the latter.

6.4.3.2 Structural exchange rate risk

The exchange rate risk represents exposure in the consolidated statement of financial position for movements in the exchange rates, which chiefly include any product with flows in a currency different from the euro or exchange rate derivatives.

In the consolidated statement of financial position Mora Banc maintains assets and liabilities in foreign currencies, primarily as a result of its commercial activity, as well as assets and liabilities in foreign currencies resulting from the management performed by the Group to mitigate the exchange rate risk.

The total amount of the consolidated statement of financial position in foreign currencies presented by the Group as of 31 December 2019 and 2018 as follows:

In thousands of euros	EUR	USD	Others
31 December 2019			
ASSETS			
Cash, cash balances in central banks and other demand deposits	16,685	619	459
Financial assets held for trading	59,687	32,959	549
Non-trading financial assets mandatorily measured at fair value through profit or loss	379,381	12	-
Financial assets at fair value through other comprehensive income	421,955	200,197	29,291
Financial assets at amortised cost	1,547,187	168,841	30,787
Derivatives - Hedge accounting	1	1	-
Changes in the FV of the elements hedged by a portfolio with interest rate risk hedging	2,168	-	-
Remaining assets	167,515	1,060	390
TOTAL ASSETS	**2,594,579**	**403,689**	**61,476**
LIABILITIES			
Financial liabilities held for trading	25,211	5,293	204
Financial liabilities at fair value through profit or loss	360,603	-	-
Financial liabilities at amortised cost	1,755,076	401,345	63,850
Deposits of central banks	16,034	13,855	5
Deposits of credit institutions	26,980	746	-
Client deposits	1,674,789	379,352	61,773
Debt securities	27,722	-	-
Other financial liabilities	9,551	7,392	2,072
Derivatives - Hedge accounting	10,546	115	-
Remaining Liabilities and net equity	443,143	(3,064)	(2,578)
TOTAL LIABILITIES AND NET EQUITY	**2,594,579**	**403,689**	**61,476**

In thousands of euros	EUR	USD	Other currencies
31 December 2018			
ASSETS			
Cash, cash balances in central banks and other demand deposits	16,589	664	395
Financial assets held for trading	56,230	7,457	(175)
Non-trading financial assets mandatorily measured at fair value through profit or loss	357,976	-	12
Financial assets at fair value through other comprehensive income	381,117	213,468	27,813
Financial assets at amortised cost	1,376,205	156,604	36,357
Derivatives - Hedge accounting	32	159	-
Changes in the FV of the elements hedged by a portfolio with interest rate risk hedging	559	-	-
Remaining Assets	164,705	(53)	1,048
TOTAL ASSETS	**2,353,413**	**378,299**	**55,450**
LIABILITIES AND NET EQUITY			
Financial liabilities held for trading	24,036	7,029	217
Financial liabilities designated at fair value through profit or loss	358,891	-	-
Financial liabilities at amortised cost	1,539,463	375,530	57,278
Deposits of central banks	13,875	13,271	4
Deposits of credit institutions	30,796	17,477	12
Client deposits	1,452,206	334,223	56,100
Debt securities	34,158	-	-
Other financial liabilities	8,429	10,559	1,161
Derivatives - Hedge accounting	6,698	1	(0)
Remaining liabilities	136,749	(3,032)	(2,285)
Equity	287,576	(1,229)	240
TOTAL LIABILITIES AND NET EQUITY	**2,353,413**	**378,299**	**55,450**

It can be observed that a large part of the consolidated statement of financial position is represented in euros. The remaining positions are usually in leading foreign currencies (US dollar, UK pound sterling, Japanese yen and Swiss franc).

For this reason, the Group's exchange rate risk is mitigated and is not very high.

6.5 Operational risk

The Group defines operational risk in accordance with the Basel guidelines, such as the risk of losses resulting from shortcomings in the internal processes, human resources and systems, as well as losses caused by external circumstances. It includes legal risk and excludes strategic and reputational risk.

The Group's main objectives in matters of operational risk management are:

- To establish a permanent management model in order to identify operational risk events and their categorisation, measure the current and future impacts, implement action plans for their mitigation and monitor the evolution of the exposure to this risk.
- To regularly review this management model to ensure that it brings value to the Group.
- To integrate the operational risk management into the overall risk management.
- To comply with current best practice and regulations in this area.
- To promote the culture of operational risk management throughout the Group.
- To establish the RAF's level of tolerance and submit it for the approval of the Board of Directors.

It is considered a risk inherent in any activity, which is why all the Group's areas, as the first line of defence, are also responsible for the identification of the risks lying within their scope of action, reporting to the operational risk unit any operational event which has been generated and collaborating in the mitigation action plans.

The different stages of the operational risk management model are:

- Identification of the risks inherent in the Group's activities through a mapping of the processes, in which the existing controls are identified and the risk exposure is quantified.
- The mitigation of the main operational risks identified, from the implementation of action plans in collaboration with the areas involved
- Periodic assessment of operational risk by monitoring risk indicators, and
- Preparation of periodic reports on exposure to operational risk, addressed to senior management and the various area managers.

  The Group has an operational risk database which contains the operational events of any activity the Group conducts. Their impact is measured and they are categorised in accordance with the parameters established by Basel. This tool is regarded as a key element in the process of identifying and quantifying this risk for the Group and provides useful management information for the management of the risk by the different Areas.

6.6. Other risks

6.6.1 Reputational risk

Reputational risk is regarded as that which results from a negative perception among clients, counterparties, shareholders, investors and regulators which may adversely affect the Institution's ability to maintain its existence or establish new business relationships.

Reputational risk may also affect the Institution's responsibilities, as market confidence and the Group's ability to conduct its business are closely related to its reputation.

The Regulatory Intervention and Control Committee, made up of members of senior management, which meets fortnightly to discuss, among other issues, those risks which, if materialised, could have a reputational impact on the Institution.

In addition, in order to measure the level of reputational risk to which the Group is subjected, an annual assessment of the main risk factors (endogenous and exogenous) to which the Institution is subjected is performed.

6.6.2 Country risk

Country risk is the probability of financial losses due to macroeconomic circumstances, social policies or natural disasters in a given country.

Country risk is a component of credit risk, which incorporates all cross-border loan transactions, due either to ordinary commercial circumstances or financial investments.

The country risk management principles abide by the criterion of maximum prudence, in such a way that this risk is present when it comes to determining the guarantees and prices of the transactions.

As of today, the Group operates mostly in countries which belong to the OECD. In any case, any position with a country which is not a member of the OECD will be considered with a reinforced criterion of credit quality analysis. Similarly, the price and conditions of the transaction must reflect the country risk, in accordance with the income statement under analysis.

However, the total exposure to country risk is low and highly diversified in individual terms (except for countries which belong to the OECD).

6.6.3 Compliance and conduct risk

The Board of Directors of the parent Institution defines the level of risk the Group is willing to assume and approves the corresponding risk management policies, regularly supervises their compliance and adopts the appropriate measures to remedy any shortcomings.

The Compliance structure constitutes one of the pillars upon which the Institution reinforces the Board of Directors' commitment to conduct all its activities and businesses in accordance with strict ethical precepts, facilitating a working environment in keeping with the current regulatory framework. In line with the principles established, the Compliance body articulates its activity around the development and implementation of a programme that incorporates the following: policies and procedures, dissemination and training in this area, and the identification, evaluation and mitigation of possible risks. In addition, it is an independent body that has the sufficient authority and the necessary technical and human resources to fulfil the advisory and monitoring mandate of compliance with current regulations. Principally the following are highlighted:

- Ethical codes (of the Group and the markets)
- Protection for the investor
- Treatment of conflicts of interest and market abuse
- Prevention of money laundering and financing of terrorism

6.6.4 Actuarial risk

Subscription or actuarial risk is that which results from the contracting of life and complementary life insurance services with regard to potential hedged claims and the processes resulting from the exercise of the insurance activity. Within the banking institution, risks resulting from significant increases in the payments necessary to satisfy defined benefit insurance products resulting from adverse variations in interest rates are listed as significant.

At an individual level, the Bank has a residual exposure to actuarial risk, as it only has old defined benefit exposures which are in "run-off" and fully provisioned. The financial and risk areas regularly review the current exposure in order to assess new provisions in the event of an increase in the risk arising from a variation in the interest rates used in the contribution calculation. In addition, an expert report is requested once a year in order to update the value of the contracted obligation.

With regard to the activity conducted by the Group insurer, the subscription or actuarial risk reflects the risk resulting from entering into insurance contracts. Bearing in mind the hedged claims and the processes followed in the exercise of the activity, they can be distinguished in accordance with the breakdown displayed below:

- **Mortality risk:** risk of a loss or an adverse modification in the value of insurance liabilities due to variations in the levels, trends and volatilities of mortality rates, provided that an increase in the mortality rate results in an increase in the value of the insurance liabilities.
- **Longevity risk:** risk of a loss or an adverse modification in the value of insurance liabilities due to variations in the levels, trends and volatilities of life expectancy.
- **Disability and morbidity risk:** risk of a loss or an adverse modification in the value of insurance liabilities due to variations in the levels, trends and volatilities of disability, illness and morbidity rates.
- **Fall risk:** risk of a loss or an adverse modification in the value of the expected future profits (reduction) or losses (increase) of commitments entered into by virtue of insurance policies taken out due to variations in the levels, trends and volatilities of policy discontinuity, cancellation, renewal and rescue fees.

• **Expenditure risk:** risk of a loss or an adverse modification in the value of the envisaged management expenses of commitments entered into by virtue of insurance policies taken out due to variations in the levels, trends and volatilities of expenses for the execution of insurance and reinsurance contracts.

The management of the actuarial risk cycle seeks long-term stable management determined by the management policies for this risk, which are, essentially, the following:

Subscription and establishment of reserves: each line of business (death, disability, accidents, medical expenses, sick leave, serious illness and others) identifies parameters for the acceptance of the risk, its management, measurement, pricing and valuation, as well as the constitution of the reserves required by the subscription process. The procedures for the subscription and constitution of the above-mentioned reserves are also identified.

Reinsurance: this identifies the level of risk transfer, in accordance with the risks insured in direct contracts, considered suitable for the company's business, as well as the typology of the risk and its functioning. The level of risk withholding in the Bank and its transfer to the reinsurers' chart is established in the reinsurance contracts in force in each financial year. It is understood, however, that, regardless of the level of reinsurance the Company has, the insurer is always contractually liable for the payment of all claims to direct insurance contract policyholders.

With respect to this activity, the Group has clear procedures to implement the reinsurance policy it has established:

- Specification of the types of reinsurance to be established and the conditions, terms and exposure added to each type of business.
- Establishment of limits with regard to the amounts and types of insurance: retention limits in surplus contracts, retention percentages in quota-share contracts, etc.
- Criteria established for the acquisition of hedging in optional reinsurance contracts.

The established limits are justified by the assessment of the risk profile and the cost of the reinsurance.

6.6.5 Technological risk

In relation to the technological risk, the Group has an Information Security Department, whose main function is to protect the information managed, used and stored in the internal systems. In this regard, in accordance with the Group's strategic plan, the department applies and monitors compliance with the policies defined and approved by the Board of Directors in reference to the confidentiality, integrity and availability of the information.

Additionally, during the 2018 financial year, this activity was reinforced by a Technical Security Office (OTS) focused on the professional services of Deloitte. From this OTS, Deloitte supports Mora Banc in relation to information security management aspects, acting as an advisor for a set of initiatives defined by the Bank, in order to increase the level maturity of Mora Banc in cybersecurity, through, among others, the contribution of methodology, procedures, frameworks and best practices.

With these resources, compliance with the most accepted security standards, such as the ISO 27000 family of standards, is guaranteed at any time of the year, on a 24/7 basis. This standard enables the Group to respond to any external or internal, normative and regulatory requirements, with regard to any type of information security risk.

7 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

The purpose of using valuation techniques to measure the fair value of financial instruments is to determine the price at which an asset can be exchanged between an experienced buyer and seller, or at which an obligation may be cancelled between an experienced debtor and creditor, when performing a free transaction. MoraBanc measures the fair value by using the fair value hierarchy (see Note 3.4.).

All the financial instruments are classified at levels in accordance with the methodology used to obtain their fair value; in this way, financial instruments at fair value determined by quotations published in active markets **(Level 1)** include public debt, private debt, derivatives traded in organised markets and equity instruments.

In cases in which quotations cannot be observed, the management makes its best estimate of the price the market would establish by means of the use of internal models. On most occasions, these internal models use data based on observable market parameters as significant inputs **(Level 2)**.

The Group has certain financial instruments whose fair value has been obtained using its own internal models with significant inputs not observable in market data **(Level 3).** At the end of 2019 and 2018 financial years, these instruments consisted mainly of loans and advances, some financial instruments classified in the portfolio at "Financial assets at fair value through other comprehensive income" as well as financial liabilities at amortised cost from the consolidated statement of financial position of the Group.

The valuation techniques used by the Group to measure the fair value of financial instruments include:

- Methods of the Present Net Value discounted with market curves.
- Black-Scholes model.
- Montecarlo.
- Other commonly accepted valuation methods.

The assumptions and inputs used in the valuation techniques include risk-free and reference interest rates, credit spreads and other premiums used to calculate discount rates, prices of goods and shares, currency exchange rates, prices of share indexes and shares and volatilities and correlations of expected prices.

The Group uses widely-acknowledged valuation models to determine the fair value of common and simple financial instruments, such as exchange rate and currency swaps, using only observable market data which do not require a high evaluation and estimate. The model's observable prices and inputs are generally available on the market for listed values of debt and capital, derivatives traded in organised markets and simple OTC derivatives, such as interest rate swaps. The availability of observable market prices and the model's inputs reduce the need for evaluations and estimates and also reduce the uncertainty associated with the measurement of the fair value. The availability of the prices and inputs observable on the market varies in accordance with the products and markets and is subject to changes based on specific events and general conditions in the financial markets. Below appears the fair value of the financial instruments as of 31 December 2019 and 2018, as well as their corresponding carrying value:

	31/12/2019		31/12/2018	
In thousands of euros	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Financial Assets held for trading	**93,195**	**93,195**	**63,512**	**63,512**
Derivatives	32,007	32,007	30,242	30,242
Equity instruments	19,128	19,128	19,541	19,541
Debt securities	42,060	42,060	13,729	13,729
Non-trading financial assets mandatorily measured at fair value through profit or loss	**379,393**	**379,393**	**357,988**	**357,988**
Equity instruments	289,458	289,458	275,466	275,466
Debt securities	89,935	89,935	82,522	82,522
Financial assets at fair value through other comprehensive income	**651,443**	**651,443**	**622,398**	**622,398**
Equity instruments	44,771	44,771	44,495	44,495
Debt securities	606,672	606,672	577,903	577,903
Financial assets at amortised cost	**1,746,815**	**1,759,942**	**1,559,166**	**1,562,673**
Debt securities	233,787	237,014	241,277	237,890
Loans and advances	1,513,028	1,522,928	1,317,890	1,324,783
Credit institutions	336,469	336,469	277,255	277,255
Clients	1,176,559	1,186,459	1,040,635	1,047,527
Hedging derivatives	**2**	**2**	**191**	**191**
TOTAL ASSETS	**2,870,848**	**2,883,975**	**2,603,255**	**2,606,762**

	31/12/2019		31/12/2018	
In thousands of euros	Carrying value	Fair value	Carrying value	Fair value
LIABILITIES				
Financial liabilities held for trading	**30,708**	**30,708**	**31,282**	**31,282**
Derivatives	30,708	30,708	31,282	31,282
Financial liabilities designated at fair value through profit or loss	**360,603**	**360,603**	**358,891**	**358,891**
Financial liabilities at amortised cost	**2,220,271**	**2,220,271**	**1,972,271**	**1,972,271**
Hedging derivatives	**10,661**	**10,661**	**6,699**	**6,699**
TOTAL LIABILITIES	**2,622,243**	**2,622,243**	**2,369,143**	**2,369,143**

Whose fair value is classified by the levels as of 31 December 2019 and 2018:

In thousands of euros	31/12/2019 Level 1	31/12/2019 Level 2	31/12/2019 Level 3	31/12/2018 Level 1	31/12/2018 Level 2	31/12/2018 Level 3
ASSETS						
Financial Assets held for Trading	**83,180**	**10,015**	**-**	**61,341**	**2,171**	**-**
Derivatives	32,007	-	-	30,242	-	-
Equity Instruments	19,128	-	-	17,370	2,171	-
Debt securities	32,045	10,015	-	13,729	-	-
Non-trading financial assets mandatorily measured at fair value through profit or loss	**336,808**	**20,026**	**22,559**	**320,151**	**15,111**	**22,726**
Equity Instruments	266,886	13	22,559	252,728	12	22,726
Debt securities	69,922	20,013	-	67,423	15,099	-
Financial assets at fair value through other comprehensive income	**606,672**	**12,707**	**32,064**	**577,903**	**13,655**	**30,840**
Equity Instruments	-	12,707	32,064	-	13,655	30,840
Debt securities	606,672	-	-	577,903		
Financial assets at amortised cost	**116,080**	**120,934**	**1.522,928**	**113,220**	**124,670**	**1,324,783**
Debt securities	116,080	120,934	-	113,220	124,670	-
Loans and advances	-	-	1,522,928	-	-	1,324,783
Credit institutions	-	-	336,469	-	-	277,255
Clients	-	-	1,186,459	-	-	1,047,528
Hedging derivatives	**2**	**-**	**-**	**191**	**-**	**-**
TOTAL ASSETS	**1,142,742**	**163,682**	**1,577,551**	**1,072,807**	**155,607**	**1,378,349**

In thousands of euros	31/12/2019 Level 1	31/12/2019 Level 2	31/12/2019 Level 3	31/12/2018 Level 1	31/12/2018 Level 2	31/12/2018 Level 3
LIABILITIES						
Financial Liabilities Held for Trading	**30,708**	**-**	**-**	**31,282**	**-**	**-**
Derivatives	30,708	-	-	31,282	-	-
Financial Liabilities designated at FV through profit or loss	**360,603**	**-**	**-**	**358,891**	-	-
Financial Liabilities at amortised cost	**-**	**-**	**2,220,271**	**-**	**-**	**1,972,271**
Hedging derivatives	**10,661**	**-**	**-**	**6,699**	**-**	**-**
TOTAL LIABILITIES	**401,972**	**-**	**2,220,271**	**396,872**	**-**	**1,972,271**

No significant capital gains or losses with respect to the Group's equity would arise from the consideration of the fair value of the transactions contracted, considering the accounting criteria applied and their maturities.

The fair value of the loans and advances is based on observable market transactions.

When the observable market transactions are not available, the fair value is calculated by using valuation models such as cash flow discount techniques. The inputs of the valuation techniques include expected credit losses throughout the life of the financial instrument, interest rates, early amortisation rates and market spreads, both at the start of the transaction and subsequently.

As for impaired loans with guarantees, their fair value is measured in accordance with the value of the underlying guarantee.

The model's inputs may include data from external brokers whose business activity is carried out in OTC markets and information obtained from other market participants, including any main and secondary transactions observed.

To improve the accuracy of the estimates of the valuations of retail loans and small business loans, homogeneous loans are grouped together in portfolios with similar characteristics, such as age, the LTV (loan to value) ratio, the quality of the guarantee, the type of borrower and product, the early amortisation and default rates and the probabilities of default.

The fair value of the deposits of credit institutions and clients is calculated by using cash flow discount techniques, using the discount rate of deposits with maturities and similar contractual conditions. The fair value of the demand deposits is the amount required on the reporting date.

8 BUSINESS AREAS

8.1 Business conditions

The objective of the information by business areas is the control, monitoring and internal management of the activity and results of the Mora Banc Group and is built in accordance with the different business lines established in keeping with the Group's structure and organisation.

In order to define the business areas, the inherent risks and management peculiarities of each of them are taken into account. Similarly, for the segregation by businesses of the activity and results, the basic business units for which accounting and management figures are available are used. The same general principles as those used in the Group's management information and criteria for the measurement, valuation and applied accounting principles equivalent to those used in the drawing up of the consolidated financial statements are applied, with no asymmetrical allocations available.

The Mora Banc Group has three areas it reports on, as described below, corresponding to Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different technologies and market strategies. For each of the strategic business units, the Board of Directors of the parent Institution reviews the internal administration reports on a monthly basis.

Each of the areas the Group must report on are listed below:

Banking activity

The Group's main activity; including the entire banking business (retail banking, company, corporate and institutional banking, treasury and markets and private banking) conducted basically in the territory of the Principality of Andorra through the network of offices and other complementary channels. It includes both the activity and the results generated by the Group's clients (individuals, companies and institutions). It also incorporates the management of liquidity and income from financing other businesses. We distinguish between:

Corporate, institutional and company banking: an area specialising in offering products and services to national companies and businesses, with the aim of facilitating their commercial activity and financing of their operations. Specialised treatment of public and private institutions is also included.

Retail banking: including the domestic client from the Andorran territory, mainly the operations of deposits, transfers, direct debits, savings and financing.

Private Banking: is the main activity of the Mora Banc Group, consists of a highly professional and global management of the client's assets, meeting all the investment, equity, financial and fiscal planning needs of individuals or family groups.

Insurance activity: this area includes the activity of the Group's insurance company, Mora Assegurances, SAU, with retail products distributed to the same client base through the Mora Banc branch network.

Asset and holding management: this area includes the asset management activity, as well as the management of the Group's Collective Investment Undertakings, an activity performed by Mora Gestió d'Actius, SA.

8.2 Information on the reportable areas and balancing of the information

The following are the Group's profit or loss for the 2019 and 2018 financial years by type of Group entities, which is comparable to the different business areas in which the Group operates:

	Profit/loss for the period	
In thousands of euros	2019	2018
Banking Activity	22,223	19,400
Insurance Activity	1,721	2,769
Asset and holding management	1,192	1,888
TOTAL	**25,136**	**24,057**

9 CASH, CASH BALANCE IN CENTRAL BANKS AND OTHER DEMAND DEPOSITS

The cash and cash balances in central banks are made up of immediately available cash balances and debtor balances originating from deposits held with the AFA for compliance with the mandatory minimum reserve coefficient, in guarantee of its operational obligations and in other central banks (see Note 2). The reserves held at the AFA do not currently accrue any kind of interest, while the other balances accrue a market interest rate.

The composition of the balance of cash and equivalents in the consolidated statement of financial position as of 31 December 2019 and 2018 is as follows:

In thousands of euros	31/12/2019	31/12/2018
Cash	17,553	17,438
Cash balances with central banks	210	210
TOTAL	**17,763**	**17,648**

As of 31 December 2019 and 2018, the Group maintains other cash equivalent financial assets that are comprised mainly of deposits in financial institutions classified under the heading "Financial assets at amortised cost – Credit institutions" for the amount of €152,516,000 and €202,786,000, respectively (see Note 14.1).

10 FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

El detall d'actius i passius financers mantinguts per negociar a 31 de desembre de 2019 i 2018 és el següent:

	31/12/2019		31/12/2018	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
Trading derivatives	32,007	30,708	30,242	31,282
Equity instruments	19,128	-	19,541	-
Debt securities	42,060	-	13,729	-
TOTAL	**93,195**	**30,708**	**63,512**	**31,282**

The list of assets different from the financial derivatives of the trading portfolio as of 31 December 2019 and 2018 was as follows:

In thousands of euros	31/12/2019	31/12/2018
Equity instruments	**19,128**	**19,541**
Listed instruments	19,128	19,541
Non-listed instruments	-	-
Debt securities	**42,060**	**13,729**
Andorran public debt	-	-
Foreign public debt	792	6,362
Issues of financial institutions	29,237	4,032
Other issues	12,031	3,335
TOTAL NON-DERIVATIVE ASSETS	**61,188**	**33,270**

Below appears the list of derivative financial assets and liabilities as of 31 December 2019 and 2018:

	31/12/2019		31/12/2018	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
Interest rates	15,379	13,822	9,891	8,562
Currencies	255	222	1,219	1,148
Credit	186	269	-	48
Equity Instruments	15,557	16,373	18,835	20,224
Others	630	22	297	1,300
TOTAL DERIVATIVE ASSETS	**32,007**	**30,708**	**30,242**	**31,282**

As of 31 December 2019 and 2018 the Group did not have short positions on securities.

11 FINANCIAL ASSETS AND LIABILITIES DESIGNED AT FAIR VALUE THROUGH PROFIT OR LOSS

In accordance with the provisions of the rule, financial assets or liabilities, other than those classified as held for trading and not necessarily measured at fair value through profit or loss, may be designated by the Group from initial recognition at fair value through profit or loss if doing so eliminates or significantly reduces any measurement or recognition inconsistency (sometimes called "accounting asymmetry") that would otherwise arise from using different criteria for measuring assets and liabilities, or for recognising gains and losses therein on different bases.

As of 31 December 2019 and 2018 the Group did not have any positions in this portfolio.

12 NON-TRADING FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Below appears a breakdown, by type of product, of the balances of this heading of the consolidated statement of financial position as of 31 December 2019 and 2018:

	31/12/2019		31/12/2018	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
Equity instruments	289,458	–	275,466	–
Debt securities	89,935	–	82,522	–
Others	–	360,603	–	358,891
TOTAL	**379,393**	**360,603**	**357,988**	**358,891**

The details of the assets and liabilities as of 31 December 2019 and 2018 are as follows:

In thousands of euros	31/12/2019	31/12/2018
ASSETS		
Equity instruments	**289,458**	**275,466**
Linked to insurance products in which the policyholder assumes the risk	266,885	252,728
Others	22,573	22,738
Debt securities	**89,935**	**82,522**
Linked to insurance products in which the policyholder assumes the risk	49,890	50,508
Other issues	40,045	32,014
TOTAL ASSETS	**379,393**	**357,988**
LIABILITIES		
Other financial liabilities	**360,603**	**358,891**
Life insurance in which the policyholder assumes the risk	360,603	358,891
TOTAL LIABILITIES	**360,603**	**358,891**

Non-trading financial assets held mandatorily measured at fair value through profit or loss linked to insurance products in which the policyholder assumes the risk

They correspond to investments related to life insurance product operations when the investment risk is assumed by the policyholder. These products are marketed through Mora Assegurances, SAU.

Financial liabilities at fair value through profit or loss linked to insurance products in which the policyholder assumes the risk

They relate exclusively to the mathematical provisions maintained by Mora Assegurances, SAU corresponding to life insurance products.

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The breakdown of the balance of this section of the consolidated statement of financial position as of 31 December 2019 and 2018, based on the nature of the transactions, was as follows:

In thousands of euros	Fair value 31/12/2019	Fair value 31/12/2018
Equity instruments	**44,771**	**44,495**
Shares of non-listed companies	44,474	44,923
Adjustments (gains or losses)	297	(428)
Impairment losses (Note 40)	-	-
SUB-TOTAL	**44,771**	**44,495**
Debt securities	**606,672**	**577,903**
Foreign public debt	387,039	389,258
Issued by financial institutions	115,426	81,852
Other issues	101,123	107,921
Valuation adjustments (latent gains or losses)	3,228	(1,047)
Impairment loss	(144)	(80)
SUB-TOTAL	**606,672**	**577,903**
TOTAL	**651,443**	**622,398**

The carrying amount recorded in the above table represents the exposure to credit risk of the Mora Banc Group in relation to the instruments included under this heading.

The following is the change in the balance of provisions that cover impairment losses on financial assets at fair value through other comprehensive income for the 2019 financial year:

In thousands of euros	2019
Balance at the beginning of the year	**82**
Plus:	
Provisions to the fund	121
Less:	
Applications of the fund	-
Recoveries of the fund	(59)
Balance at the end of the year	**144**

14 FINANCIAL ASSETS AT AMORTISED COST

The details of financial assets at amortised cost as of 31 December 2019 and 2018 in the consolidated financial position statements, taking into account the valuation adjustments, is as follows:

In thousands of euros	31/12/2019	31/12/2018
Debt securities	**232,494**	**240,750**
Loans and advances	**1,536,443**	**1,347,097**
Credit institutions	336,595	277,328
Clients	1,199,848	1,069,769
Adjustments for valuation	**(22,122)**	**(28,681)**
Impairment losses	(25,365)	(32,658)
Accrued interests and commissions	3,243	3,977
TOTAL	**1,746,815**	**1,559,166**

14.1 Debt securities and loans and advances to credit institutions

The list of debt securities and loans and advances as of 31 December 2019 and 2018 of the consolidated statements of financial position, considering the valuation adjustments, was as follows:

In thousands of euros	31/12/2019	31/12/2018
Debt securities	**232,494**	**240,750**
Andorran public debt	119,522	130,678
Foreign public debt	63,653	61,026
Issues of financial institutions	30,503	32.164
Other issues	18,816	16,883
Loans and advances to financial institutions	**336,595**	**277,328**
Demand deposit accounts	152,516	202,787
Term deposits	184,079	57,066
Temporary acquisition of assets	–	17,476
Adjustments for valuation	**540**	**453**
Impairment losses	(213)	(248)
Interest accrued	753	702
Hedging derivatives and others	–	–
Net carrying value	**569,629**	**518,532**

Below appears the movement which occurred in the balance of the provisions covering impairment losses from debt securities and loans and advances to credit institutions in the 2019 and 2018 financial years:

In thousands of euros	31/12/2019	31/12/2018
Balance at the beginning of the year	**248**	**379**
Plus:		
Provisions to the fund	283	376
Less:		
Applications of the fund	-	-
Recoveries of the fund	(318)	(507)
Balance at the end of the year	**213**	**248**

14.2 Loans and advances to clients

The list of loans and advances to clients in the consolidated statements of financial position as of 31 December 2019 and 2018, considering the valuation adjustments, was as follows:

In thousands of euros	31/12/2019	31/12/2018
Loans and advances to clients (gross)	**1,201,711**	**1,073,045**
Debtors with money guarantees and securi-ties	390,873	341,659
Mortgages	524,557	499,137
Public sector	53,336	56,276
Without any real guarantee	232,945	175,973
Provisions for impairment	**(25,152)**	**(32,410)**
TOTAL	**1,176,559**	**1,040,635**

Below are the changes which occurred in the balance of the provisions covering impairment losses from loans and advances to clients as of 31 December 2019 and 2018:

In thousands of euros	31/12/2019	31/12/2018
Balance at the beginning of the year	32,410	40,781
Plus:		
Provisions to the fund	5,280	14,013
Less:		
Applications of the fund	(7,737)	(7,865)
Recoveries of the fund	(4,801)	(13,882)
Transfers	-	(637)
Balance at the end of the year	**25,152**	**32,410**

15 HEDGING DERIVATIVES AND CHANGES IN THE FAIR VALUE OF ELEMENTS HEDGED BY A PORTFOLIO WITH INTEREST RATE RISK HEDGING

The Group uses interest rate swaps to hedge its exposure to changes in the fair value of its mortgage loans and fixed-rate debt instruments.

15.1 15.1 Hedging derivatives

Below appears the list of hedging derivatives of the interest rate risk held by the Group as of 31 December 2019 and 2018 in the consolidated statements of financial position:

In thousands of euros		31/12/2019	
	Actius	Passius	Nominal
Fair value accounting hedges			
Interest rate risk	2	10,661	156,768

In thousands of euros		31/12/2018	
	Actius	Passius	Nominal
Fair value accounting hedges			
Interest rate risk	191	6,699	258,667

As of the closure of the 2019 and 2018 financial years, all these derivatives correspond to non-organised markets.

The nominal amount of the formalised contracts does not correspond to the total risk assumed by the Group, as the net position of these financial instruments is determined by their composition and/or combination. The positions opened by the transactions indicated above do not pose a significant interest rate, exchange or market risk.

During the 2019 financial year the Group determined that hedges are effective by means of the realisation of an effectiveness test on them.

15.2 Items hedged

The Mora Banc Group performs fixed-rate micro-hedges of fair value.

The hedging is performed by means of the transformation of the fixed-rate financial instrument to a variable rate, the nature of the hedged risk being the interest rate. The hedging instruments used are mainly interest rate swaps which transform the fixed-rate hedged element into one with a variable rate.

As of 31 December 2019, the variations in the fair value of the hedged positions were:

In thousands of euros	31/12/2019	
	Actius	**Passius i Patrimoni Net**
Changes in the fair value of the elements of a portfolio with interest rate risk hedging	2,168	(4,913)

15.3 Other derivatives held for risk management

The Group uses other derivatives which are not designated to any accounting hedge to administer its exposure to currencies, interest rates and credit risk. The instruments used include interest rate swaps, cross currency swaps, term deposit contracts, futures, options and credit swaps.

16 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

Within the heading "Investments in subsidiaries, joint ventures and associates – Associated entities and joint ventures", for the year ended 31 December 2019, the Mora Banc Group has a 20% stake in the Company Services and Payment Methods XXI, SA, and a 25% stake in Financera Pyrénées, SAU (joint business). As of 31 December 2018, the Mora Banc Group owned 20% of Serveis i Mitjans de Pagament XXI, SA (associated institution) (see Note 4).

The main data of the companies, as of 31 December 2019 and 2018 are as follows:

31/12/2019 (In thousands of euros)	% holding	Carrying value	Capital	Reserves	Profit/loss for the period	Dividend	Total equity
Serveis i Mitjans de Pagament XXI, SA	20%	35	60	(4)	117	–	173
Societat Financera Pyrénées, SAU	25%	4,685	60	6,345	1,673	(1,796)	6,282

31/12/2018 (In thousands of euros)	% hold-ing	Carrying value	Capital	Reserves	Profit/loss for the period	Dividend	Total equity
Serveis i Mitjans de Pagament XXI, SA	20%	1	60	95	(150)	–	5

As of 31 December 2019, there was no agreement for financial support or any other type of contractual commitment involving the parent company or subsidiary institutions and the associated institutions not recognised in the consolidated financial statements.

As of 31 December 2019, there were no contingent liabilities in relation to investments in subsidiaries, joint ventures or associates.

During the 2019 and 2018 financial years there was no evidence of significant impairment in the Group's associate holdings.

17 TANGIBLE ASSETS AND PROPERTY INVESTMENTS

Includes the amount of the property, land, furniture, vehicles, computer equipment and other facilities owned by the consolidated institutions or acquired under the leasing scheme, if applicable.

The assets are classified in accordance with their purpose in:

17.1 Tangible fixed assets for own use

Tangible fixed assets for own use which are expected to be for permanent own use, are stated at acquisition cost, less the corresponding accumulated amortisation and, if applicable, the estimated losses that result from comparing the net value of each item with its corresponding recoverable amount.

Likewise, the rights to use the leased assets are amortised under this heading, which are amortised over the consolidated income statement.

17.2 Property investments

The heading "Property investments" includes the net values of land, buildings and other constructions kept in optimal conditions for their use as rental or to obtain a capital gain from their sale as a result of the increases which may occur in the future in their respective market prices. Likewise, the assets recognised for more than 3 years in the consolidated statement of financial position are recognized under "Tangible assets – Property investments" (see Note 3.12).

At the end of the financial year, the total value of the property investments amounted to €42,620,000, and work was performed for the amount of €129,000 (€952,000 in 2018).

During the 2019 financial year the Group has not reclassified significant amounts to real estate investments,

The Institution has estimated the fair value of its real estate investments using the discounted cash flow method or appraisals of independent experts, which are updated annually, based on their use as a cultural or real estate operation.

The main assumptions regarding cash flow discounting for the 2019 financial year were:

- 1.25% cash-flow increase rate
- 6% discount rate

Valuation of rights of use and liabilities associated with leases

As of 1 January 2019, IFRS 16 "Leases" came into force, which requires the lessee to recognise the assets and liabilities arising from the rights and obligations of the lease contracts. The main impacts are the recognition of a right of use asset and a liability for the obligations of future payments. The impact of the first application was €2,578,000.

The movement of the fixed asset accounts and property investments in the 2019 and 2018 financial years was as follows:

	Own use and property investments							
In thousands of euros	Land and building	Furniture and installations	Hardware	Others	Total	Property invest-ments	Leased property rights of use	Total
COST								
Balance as of 1 January 2019	**62.818**	**31.049**	**16.495**	**368**	**110.730**	**82.132**	**-**	**192.863**
Recognitions	-	298	666	83	1,047	129	2,578	**3,754**
Derecognitions	-	(1,900)	(745)	(36)	(2,681)	(432)	-	**(3,113)**
Sales	-	-	-	-	-	(2,179)	-	**(2,179)**
Transfers	-	-	-	-	-	156	-	**156**
Differences between change and others	-	-	-	-	-	-	-	**-**
Balance as of 31 December 2019	**62,818**	**29,447**	**16,416**	**415**	**109,096**	**79,806**	**2,578**	**191,481**
IMPAIRMENT AND ACCUMULATED AMORTISATION								
Balance as of 1 January 2019	**(9,107)**	**(25,900)**	**(15,847)**	**(297)**	**(51,151)**	**(38,473)**	**-**	**(89,624)**
Recognitions	(642)	(1,080)	(445)	(28)	(2,195)	(162)	(468)	**(2,825)**
Derecognitions	292	1,417	662	36	2,407	264	-	**2,671**
Sales	-	-	-	-	-	1,257	-	**1,257**
Transfers	-	-	-	-	-	(72)	-	**(72)**
Differences between change and others	-	6	6	-	12	-	-	**12**
Balance as of 31 December 2019	**(9,457)**	**(25,557)**	**(15.624)**	**(289)**	**(50,927)**	**(37,186)**	**(468)**	**(88,581)**
Carrying value as of 31 December 2019	**53,361**	**3,890**	**792**	**126**	**58,169**	**42,620**	**2,110**	**102,899**

In thousands of euros	Lands and buildings	Furniture and installations	Hardware	Others	Total	Property investments	Total
COST							
Balance as of 31 December 2017	**57,468**	**30,834**	**16,854**	**389**	**105,545**	**27,139**	**132,684**
Recognitions	7,459	428	353	73	8,313	952	**9,265**
Derecognitions	(155)	(202)	(702)	(93)	(1,152)	–	**(1,152)**
Sales	–	–	–	–	–	–	**-**
Transfers	(1,954)	–	–	–	(1,954)	54,041	**52,087**
Differences between change and others	–	(11)	(9)	–	(21)	–	**(21)**
Balance as of 31 December 2018	**62,818**	**31,049**	**16,495**	**368**	**110,731**	**82,132**	**192,863**
IMPAIRMENT AND ACCUMULATED AMORTISATION							
Balance as of 31 December 2017	**(8,667)**	**(24,514)**	**(16,022)**	**(361)**	**(49,564)**	**-**	**(49,564)**
Recognitions	(917)	(1,575)	(534)	(29)	(3,055)	(286)	**(3,341)**
Derecognitions	98	183	702	93	1,077	–	**1,077**
Sales	–	–	–	–	–	–	**-**
Transfers	379	–	–	–	379	(38,187)	**(37,808)**
Differences between change and others	–	6	7	–	13	–	**13**
Balance as of 31 December 2018	**(9,107)**	**(25,900)**	**(15,847)**	**(297)**	**(51,151)**	**(38,473)**	**(89,624)**
Carrying value as of 31 December 2018	**53,711**	**5,149**	**648**	**71**	**59,580**	**43,659**	**103,240**

18 INTANGIBLE ASSETS

The list of movements of the intangible assets as of 31 December 2019 and 2018 was as follows:

In thousands of euros	Computer applications	Others	Total
COST			
Balance as of 1 January 2019	**104,094**	**571**	**104,665**
Acquisitions	3,622	16	3,638
Derecognitions	(304)	-	(304)
Differences between change and others	-	-	-
Balance as of 31 December 2019	**107,412**	**587**	**107,999**
IMPAIRMENT AND ACCUMULATED AMORTISATION			
Balance as of 1 January 2019	**(90,942)**	**(550)**	**(91,492)**
Acquisitions	(3,010)	(7)	(3,017)
Derecognitions	15	-	15
Differences between change and others	-	-	-
Balance as of 31 December 2019	**(93,937)**	**(557)**	**(94,494)**
Carrying value as of 31 December 2019	**13,475**	**30**	**13,505**

In thousands of euros	Computer applications	Others	Total
COST			
Balance as of 31 December 2017	**99,079**	**557**	**99,635**
Acquisitions	5,117	14	5,131
Derecognitions	(101)	-	(101)
Differences between change and others	(1)	-	(1)
Balance as of 31 December 2018	**104,094**	**571**	**104,665**
ACCUMULATED AMORTISATION			
Balance as of 31 December 2017	**(88,542)**	**(544)**	**(89,085)**
Recognitions	(2,289)	(6)	(2,295)
Derecognitions	(112)	-	(112)
Differences between change and others	1	-	1
Balance as of 31 December 2018	**(90,942)**	**(550)**	**(91,492)**
Carrying value as of 31 December 2018	**13,152**	**21**	**13,173**

19 OTHER ASSETS AND LIABILITIES

All the assets and liabilities not classified in the previous categories are included in this section. The composition of the balance of these sections of the consolidated statements of financial position was as follows:

In thousands of euros	31/12/2019	31/12/2018
Accruals and deferrals	4,656	4,290
Other assets	269	251
TOTAL REMAINING ASSETS	**4,925**	**4,541**
Accruals and deferrals	16,209	14,583
Others	903	1,660
TOTAL REMAINING LIABILITIES	**17,112**	**16,243**

The balances accounted for in the remaining assets correspond to expenses paid in advance by the Group and its subsidiary companies, within their ordinary activity.

With regard to the balances recorded in the remaining liabilities, accrued expenses not paid for obligations with third parties and employees are included.

20 NON-CURRENT ASSETS AND DISPOSABLE GROUPS OF ELEMENTS CLASSIFIED AS HELD FOR SALE

20.1 Composition of the balance

The details of the balance of non-current assets and disposable groups of elements classified as held for sale as of 31 December 2019 and 2018 were as follows:

In thousands of euros	31/12/2019	31/12/2018
Property assets	**1,273**	**1,746**
From awards	1,273	1,746
Gross carrying value	**1,273**	**1,746**
Value corrections	(127)	(184)
Net carrying value	**1,146**	**1,562**

This section of the consolidated statement of financial position mainly includes the assets from acquisitions in the process of regularising lending transactions that are not incorporated as assets for personal use, real estate investment or inventories.

20.2 Movement

The movements which took place in 2019 and 2018 financial years in the balance of this section of the statement of financial position are shown below:

In thousands of euros	From credit transactions	Total
COST		
Balance as of 31 December 2018	**1,746**	**1,746**
Recognitions	100	100
Derecognitions	-	-
Sales	(418)	(418)
Transfers	(156)	(156)
Balance as of 31 December 2019	**1,272**	**1,272**
IMPAIRMENT LOSSES		
Balance as of 31 December 2018	**(184)**	**(184)**
Recognitions	(23)	(23)
Derecognitions	-	-
Sales	12	12
Transfers	69	69
Balance as of 31 December 2019	**(126)**	**(126)**
Carrying value as of 31 December 2019	**1,146**	**1,146**

In thousands of euros	From credit transactions	Total
COST		
Balance as of 31 December 2017	**53,507**	**53,507**
Recognitions	1,160	1,160
Derecognitions	(835)	(835)
Transfers	(52,086)	(52,086)
Balance as of 31 December 2018	**1,746**	**1,746**
IMPAIRMENT LOSSES		
Balance as of 31 December 2017	**(38,354)**	**(38,354)**
Recognitions	(11)	(11)
Derecognitions	383	383
Transfers	37,798	37,798
Balance as of 31 December 2018	**(184)**	**(184)**
Carrying value as of 31 December 2018	**1,562**	**1,562**

During the 2019 financial year, there were sales of assets awarded, registered at a cost value of €418,000, with an associated impairment of €12,000, which generated a net positive profit of €127,000 recorded in the attached consolidated income statement.

During the 2019 financial year, transfers from this category were made to real estate investments in the amount of €156,000 (€87,000 considering the impairment which was recorded for the assets mentioned above).

In the 2019 financial year, assets awarded for a net carrying value of €101,000 were incorporated into the consolidated statement of financial position.

20.3 Information relating to assets classified as held for sale

Breakdown by type of asset

Below appears the distribution of the assets from awards and credit recoveries as of 31 December 2019 and 2018, depending on the nature of the asset, taking into account their impairment fund.

	31/12/2019		31/12/2018	
In thousands of euros	%	amount	%	amount
Assets for residential use	69%	793	59%	921
Asset for industrial or commercial use	15%	174	30%	462
Undeveloped land	16%	179	11%	179
TOTAL	**100%**	**1,146**	**100%**	**1,562**

21 FINANCIAL LIABILITIES AT AMORTISED COST

21.1. Composition of the balance

The composition of the balance of these sections of the consolidated statements of financial position in accordance with the nature of the financial liability as of 31 December 2019 and 2018 was as follows:

In thousands of euros	31/12/2019	31/12/2018
Deposits	2,173,534	1,917,964
AFA	29,894	27.150
Credit institutions	27,726	48,286
Clients	2,115,914	1,842,528
Debt securities issued	27,722	34,158
Other financial liabilities	19,015	20,149
TOTAL	**2,220,271**	**1,972,271**

21.2 AFA deposits

The composition of the AFA deposits as of 31 December 2019 and 2018 was as follows:

In thousands of euros	31/12/2019	31/12/2018
Demand	16,039	3,371
Term deposits	13,855	23,779
TOTAL DEPOSITS IN CENTRAL BANKS (AFA)	**29,894**	**27,150**

21.3 Deposits of credit institutions

The list of deposits of credit institutions as of 31 December 2019 and 2018 was as follows:

In thousands of euros	31/12/2019	31/12/2018
Demand	13,887	22,619
Term deposits	13,839	25,667
TOTAL DEPOSITS OF CREDIT INSTITUTIONS	**27,726**	**48,286**

21.4 Client deposits

The list of client deposits as of 31 December 2019 and 2018, based on the currency and the period until maturity, was as follows:

In thousands of euros	31/12/2019	31/12/2018
By currency:	**2,115,914**	**1,842,529**
In euros	1,674,788	1,452,206
In currency	441,126	390,323
Deposits by type:	**2,115,914**	**1,842,529**
Demand	1,733,658	1,415,194
Term deposits	382,256	427,335
TOTAL CLIENT DEPOSITS	**2,115,914**	**1,842,529**

21.5 Debt securities issued

The list of debt securities as of 31 December 2019 and 2018 was as follows:

In thousands of euros	31/12/2019	31/12/2018
Issues of subordinated debt	27,722	34,158
TOTAL	**27,722**	**34,158**

On 28 July 2006, BIBM Preferentes, Ltd performed an issue of preferential shares, with no voting rights, for an amount of €60,000,000. These preferential shares have a perpetual nature, but the issuer is entitled to amortise them in advance each year, with the AFA's prior agreement. Remuneration is of a variable annual rate, according to the CMS (Constant Maturity Swap) rate at 10 years plus 30 basis points and with a maximum rate of 8% per annum.

Mora Banc Grup, SA owns the entire share capital of BIBM Preferentes, Ltd. In order to ensure the issue indicated above, Mora Banc Grup, SA has issued a subordinate and irrevocable guarantee on behalf of and for the benefit of the subscribers of the preferential shares.

In 2019 the Group acquired preferential holdings of the issue performed by BIBM Preferents, Ltd for the amount of €1,627,000 and they were sold for the amount of €7,918,000 and an interest movement of -€145,000, leading to the amount of the subordinated debt recorded under the heading "Financial liabilities at amortised cost - Debt securities issued" in the attached consolidated statement of financial position being reduced by the same net amount, registering a balance of €27,722,000 as of 31 December 2019.

21.6 Other financial liabilities

The list of other financial liabilities as of 31 December 2019 and 2018 was as follows:

In thousands of euros	31/12/2019	31/12/2018
Obligations payable	14,355	12,712
Guarantees received	2,719	4,498
Special accounts	423	250
Other items	1,518	2,689
TOTAL	**19,015**	**20,149**

The balances recorded in this section as of 31 December 2019 chiefly correspond to guarantees for future client transactions amounting to €2,644,000, cheques payable in the amount of €1,338,000 and orders to pay clients for the amount of €933,000. With respect to the balance of other items, it mainly corresponds to balances pending settlement with clients for securities transactions in the amount of €131,000 and other operations to be settled in the amount of €1,387,000.

22 ASSETS AND LIABILITIES COVERED BY INSURANCE AND REINSURANCE CONTRACTS

The breakdown of the balance of assets and liabilities covered by insurance and reinsurance contracts as of 31 December 2019 and 2018 was as follows:

In thousands of euros	31/12/2019	31/12/2018
Provisions for non-consumed premiums	940	832
Provisions or life insurance	33,870	33,359
Provision for services	235	179
Receivables for insurance and reinsurance operations	2,259	1,954
TOTAL ASSETS	**37,304**	**36,324**

In thousands of euros	31/12/2019	31/12/2018
Provisions for non-consumed premiums	2,865	2,627
Provisions or life insurance	79,467	82,480
Deposits received for transferred reinsurance	1,279	1,155
Debts for reinsurance operations	77	73
Ongoing operations	971	124
TOTAL LIABILITIES	**84,659**	**86,459**

23 PROVISIONS

23.1 Composition of the balance

The composition of the balance of this section of the attached consolidated statement of financial position, in accordance with the types of provisions originating it, is as follows:

In thousands of euros	31/12/2019	31/12/2018
Pensions and other post-employment defined benefit obliga-tions	15,378	17,787
Other remuneration for long-term employees	1,539	1,265
Procedural issues and litigation for pending taxes	2,116	2,136
Commitments and guarantees granted	1,041	901
Other provisions	4,134	3,096
TOTAL	**24,208**	**25,185**

Below appears a brief description of the nature of the obligations contracted, as well as the movements which occurred during the 2019 and 2018 financial years in the balances of the components of the headings of this section:

Pensions and other post-employment defined benefit obligations

As described in Note 3.21, the Group finances defined contribution plans for retired employees. All the current defined benefit plans correspond to retired personnel, closed to new hires.

The Group generates, and charges to profit or loss, the provisions necessary to cover all the salary and social obligations of a group of employees, which, when they meet certain characteristics, have taken early retirement carried out by the Group under an incentive programme established during the year. These commitments have been added to those already provided in previous years and all have been updated based on an actuarial study by an independent expert.

Other remuneration for long-term employees

The balance recorded in this fund corresponds to the long-term remuneration of employees and is updated annually, this is an internal remuneration system in which the active, pre-retired and retired employees are beneficiaries.

Procedural issues and litigation for pending taxes

Corresponds in full to the funds that the Group allocates to cover litigation in court proceedings for claims of third parties in the process of processing (see Note 3.17).

Provisions for commitments and guarantees granted

This fund corresponds to the impairment recorded during the 2019 and 2018 financial years, of the contingent commitments for credit operations amounting to €1,041,000 and €901,000, respectively.

Other provisions

This section records other provisions for which the Group considers that there is a present obligation for a past event and considers that there is a high probability that this will result in an outflow of economic resources. (See Note 3.17).

The balance includes, the provisions to be settled in the Andorran Deposit Guarantee Fund ("FAGADI") for €1,566,000, and the provisions constituted to cover risks arising from the Group's operation of financial distribution and intermediation.

23.2 Changes in provisions

The changes in provisions for pensions and obligations of post-employment benefits and similar during the 2019 and 2018 financial years were as follows:

In thousands of euros	2019	2018
Balance at the beginning of the year	**17,787**	**16,211**
Plus:	**544**	**4,543**
Provision to the fund charged to personnel expenses	-	-
Extraordinary provision charged to profit or loss	396	4,418
Return on assets affected by the fund (financial cost)	125	125
Other movements	23	-
Less:	**(2,953)**	**(2,967)**
Recoveries of the fund	-	(332)
Applications of the fund	(2,953)	(2,635)
Balance at the end of the year	**15,378**	**17,787**

During 2019 and 2018 the balance of the other long-term remuneration of employees had the following movement:

In thousands of euros	2019	2018
Balance at the beginning of the year	**1,265**	**1,355**
Plus:	**274**	**335**
Provision to the fund	238	335
Other movements	36	-
Less:	**-**	**(425)**
Recoveries of the fund	-	(425)
Balance at the end of the year	**1,539**	**1,265**

The outflow of economic resources from this provision is estimated to take place in accordance with a calendar individually established, based on the years spent by the employee within the Group.

Below appears the movement which occurred in the section titled “Procedural issues and litigation for pending taxes” of the liabilities of the attached consolidated statements of financial position in the 2019 and 2018 financial years:

In thousands of euros	2019	2018
Balance at the beginning of the year	**2,136**	**4,184**
Plus:	**-**	**1,499**
Provision to the fund	-	173
Other movements	-	1,326
Less:	**(20)**	**(3,547)**
Recoveries of the fund	-	(2,998)
Applications of the fund	(20)	(549)
Balance at the end of the year	**2,116**	**2,136**

The outflow of economic resources is uncertain and has been calculated upon the basis of likely events and is envisaged individually, based on each of the legal or fiscal contingencies.

Below appears the movement which occurred in the section titled “Commitments and Guarantees Granted” of the liabilities of the attached consolidated statements of financial position in 2019 and 2018:

In thousands of euros	2019	2018
Balance at the beginning of the year	**901**	**10**
Plus:	**162**	**891**
Provisions to the fund	162	254
Transfers	-	637
Less:	**(22)**	**-**
Applications	(22)	-
Balance at the end of the year	**1,041**	**901**

The outflow of economic resources is foreseen upon the basis on the average life of the associated transactions,

The movement of the section titled “Other provisions” in the liabilities of the attached consolidated statements of financial position in the 2019 and 2018 financial years was as follows:

In thousands of euros	2019	2018
Balance at the beginning of the year	**3,095**	**4,244**
Plus:	**2,083**	**805**
Provision to the fund	2,083	805
Less:	**(1,044)**	**(1,954)**
Recoveries of the fund	(340)	(487)
Applications of the fund	(589)	(984)
Transfers	(115)	(483)
Balance at the end of the year	**4,134**	**3,095**

Given the nature of these provisions, the calendar of outflows of economic resources is uncertain.

24 POST-EMPLOYMENT REMUNERATION AND OTHER COMMITMENTS WITH EMPLOYEES

24.1 Composition of the balance

As of 31 December 2019 and 2018, the details of the current value of the obligations assumed by the Bank in matters of post-employment remuneration, depending on the way in which the commitments were covered and at the fair value of the assets of the plan allocated to its hedging, was as follows:

In thousands of euros	31/12/2019	31/12/2018
Obligations for defined benefit pensions and other defined benefit obligations	5,972	6,016
Obligations for early retirements	9,406	11,608
Other long-term remuneration	1,539	1,428
TOTAL	**16,917**	**19,052**

24.2 Defined benefit plans

Movement of the provisions for defined benefit commitments

The movements which occurred in the 2019 and 2018 financial years in obligations for pension commitments and other similar obligations are shown below:

In thousands of euros	Obligations for defined benefit pensions	Obligations for early retirement and other similar obligations	Total
Balance as of 31 December 2017	**6,443**	**9,768**	**16,211**
Total impacts in the income statement	**28**	**4,183**	**4,211**
Costs for past services	(50)	4,136	4,086
Net interest income	78	47	125
Other impacts	**(455)**	**(2,180)**	**(2,635)**
Benefits paid	(455)	(2,180)	(2,635)
Balance as of 31 December 2018	**6,016**	**11,771**	**17,787**
Total impacts in the income statement	**392**	**128**	**520**
Costs for past services	319	76	395
Net interest income	73	52	125
Other impacts	**(436)**	**(2,493)**	**(2,929)**
Benefits paid	(436)	(2,493)	(2,929)
Balance as of 31 December 2019	**5,972**	**9,406**	**15,378**

24.3 Details of actuarial hypotheses

Below appear the main actuarial hypotheses used in the valuation of the commitments as of 31 December 2019 and 2018:

In thousands of euros	2019	2018
Financial hypotheses		
Types of discount	corporate bond curve AA (in €)	corporate bond curve AA (in €)
Nominal rate of update	0.5-0.5%	0.5-1.50%
Increase CPI	1%	1%
CASS salary increase	1%	1%
Demographic hypotheses		
Mortality tables	PERM-2000P (H) i PERF-2000P (D)	PERM-2000P (H) i PERF-2000P (D)
Disability tables	70% absolute disability (IASS-90)	70% absolute disability (IASS-90)
Retirement age	65	65

24.4 Analysis of the sensitivity of the main hypotheses

The variations of the main hypotheses can affect the calculation of the commitments. Below appears a table of sensitivities with the effect a variation would cause in the obligations in the main hypotheses for the 2019 and 2018 financial years:

Actuarial value on 31.12.2019

		Beneficiaries caused				People with early retirement			
VAA central scenario (thousands of euros):		5.972				9.219			
Variation of hypothesis	Variation	VAA variation in the event of an Increase	%	VAA variation in the event of a Decrease	%	VAA variation in the event of an Increase	%	VAA variation in the event of a Decrease	%
Types of discount	100% Basis Points	(573)	(9.59)	326	5.46	(242)	(2.62)	126	1.37
Types of discount	50% Basis Points	(299)	(5.00)	326	5.46	(123)	(1.33)	126	1.37
Variation in Inflation	50% Basis Points	-	-	-	-	-	-	-	-
Mortality Rate	1 year	(229)	(3.83)	231	3.87	(13)	(0.14)	11	0.12

Actuarial value on 31.12.2018

		Beneficiaries caused				People with early retirement			
VAA central scenario (thousands of euros):		6.016				9.219			
Variation of hypothesis	Variation	VAA variation in the event of an Increase	%	VAA variation in the event of a Decrease	%	VAA variation in the event of an Increase	%	VAA variation in the event of a Decrease	%
Types of discount	100% Basis Points	(552)	(9.17)	653	10.86	(338)	(2.91)	176	1.52
Types of discount	50% Basis Points	(287)	(4.77)	312	5.19	(171)	(1.47)	176	1.52
Variation in Inflation	50% Basis Points	-	-	-	-	-	-	-	-
Mortality Rate	1 year	(211)	(3.51)	212	3.52	(17)	(0.15)	15	0.13

The sensitivities have been determined on the date of the consolidated financial statements and correspond to the individual variation of each of the assumptions, maintaining the others constant, excluding potential combined effects.

24.5 Defined contribution plans

In 1977, the Group established a pension fund for employees whose purpose was to complement the benefits of the Andorran Social Security Fund.

In 2007, it was proposed to employees to modify and transform this internal pension fund, replacing it with a pension scheme with a defined contribution model, implemented and managed through a collective insurance policy signed by Mora Banc Grup, SA, on behalf of the Group, with the institution Mora Assegurances, SAU, which transferred the policy to AXA Vida, SA, under reinsurance. Virtually all the employees accepted this transformation.

As a result of the outsourcing process, payments for the amount of €436,000 (€455,000 in the 2018 financial year) were made in 2019.

In addition, for passive employees as well as for active ones who did not join the new pension system (without currently active employees), an internal pension fund is maintained (see Note 24.2).

During the 2019 and 2018 financial years, ordinary contributions to the internal pension fund were not made; in any case, they would be recorded under the heading "Administration expenses - Personnel expenses" and the part corresponding to the capitalisation of the internal funds maintained would be recorded under the heading "Interest Expenses - Other Liabilities" in the consolidated income statements..

24.6 Obligations to personnel with early retirement

The Bank has established, charging them to profit and loss, the necessary provisions for the hedging of all the salary and social commitments of a group of employees which, when meeting certain characteristics, was included in the early retirement process carried out by the Group under an incentive programme.

During the 2019 financial year no allowance has been recorded for this fund. If any, the charge for this item has been recognised under "Allowances for provisions" in the accompanying consolidated income statement (see Notes 3.21 and 23) together with the updating of all commitment in salaries and social benefits acquired in previous years by analogous processes.

During 2019 financial year, the Bank proceeded to update all the commitments in force for this item and recorded the variation in the provision of the heading titled "Allocations to provisions" in the attached consolidated income statement (see Notes 3.21 and 23).

In addition, in the 2019 financial year payments for this concept were made for the amount of €2,493,000 (€2,180,000 in 2018).

25 CAPITAL AND RESERVES

25.1 Share capital

The share capital appearing in these consolidated financial statements corresponds to that of Mora Banc Grup, SA, which is represented by 7,056,000 shares, each with a nominal value of €6.01, fully subscribed and paid.

The Bank does not have treasury stock either directly or indirectly through any of its subsidiaries.

The share capital of the Bank belongs to an Andorran family group and there are restrictions on the free transferability of the shares.

There are no current capital increases in the Bank. There is no other type of bond which confers rights similar to those previously mentioned.

25.2. Nature and purpose of the reserves

Composition of the reserves

The composition of the reserves as of 31 December 2019 and 2018 was:

In thousands of euros	2019	2018
Accumulated profits	**268,217**	**155,079**
Legal reserve (*)	10,202	16,214
Guarantee reserves	25,338	25,338
Voluntary reserves (*)	232,677	113,527
Other reserves	**(27,876)**	**68,275**
First application reserves	(31,707)	(31,707)
Reserves of consolidated companies by the full consolidation method (*)	3,814	99,963
Reserves of companies made up of the equity method	17	19
TOTAL	**240,341**	**223,354**

(*) almost all the variations from 2018 to 2019 are due to the merger by integration of Mora Banc, SAU with Mora Banc Grup and the distribution of the 2018 profit

Legal reserve

In accordance with Law 20/2007 of 18 October on joint stock companies and limited liability companies, these companies must deduct ten per cent (10%) of the positive result in each year for the constitution of the legal reserve, until it reaches an amount equal to twenty per cent (20%) of the share capital. As of 31 December 2019, the legal reserve was fully constituted. The legal reserves of the consolidated companies are included in this section.

Guarantee reserves

The General Council of the Principality of Andorra, at its session on 13 September 2018, approved Law 20/2018 regulating Andorra Deposit Guarantee Fund and the Andorran investment guarantee system.

Law 20/2018 entails the adaptation to the EU regulations of the current regime of the deposit and investment guarantee system for Andorran banking entities, regulated by Law 1/2011, of 2 February, on the creation of a guarantee system of deposits for banking entities and the Regulation on the organisation and operation of the Management Commission, approved by the Decree of 9 May 2012.

In compliance with these laws, the Group has constituted a reserve in guarantee of its operational obligations totalling €25,128,000 (see Note 2.7.3).

In addition, the guarantee reserves include €210,000 of the Group company Mora Gestió d'Actius, SAU, in accordance with the obligation to maintain minimum reserves of equity in guarantee of the operational obligations of non-banking institutions integrated into the financial system (see Note 2.7.3).

The legal reserve and reserves in guarantee held by Mora Gestió d'Actius, SAU are submitted separately under the respective headings "Legal reserve" and "Reserves in guarantee" to show the restricted nature.

Voluntary reserves

Voluntary reserves are freely available.

First application reserves

As of 31 December 2019, within the heading "Other reserves - First application reserves" of the consolidated financial position statement are recorded:

- The effect of the necessary adjustments recorded in 2017 arising from the transition between the accounting criteria in force until 31 December 2016 and the new international regulations applicable from 1 January 2017 (IFRS - EU).
- The effect of the necessary adjustments recorded on 1 January 2018 for the first application of IFRS 9 that entered into force in 2018.

Reserves of consolidated companies by the full consolidation method

The consolidation reserves come from those companies integrated through the global integration method (see Note 4)

During 2019 due to the merger of Mora Banc, SAU with Mora Banc Grup, SA (see Note 4), the voluntary reserves held by Mora Banc, SAU were reclassified to voluntary reserves in the consolidated position statement.

Reserves of companies consolidated by the equity method of the holding

They correspond to consolidation reserves from the integrated Companies using the equity method and include the conversion differences (see Note 4).

Composition of the consolidation reserves

Consolidation reserves

The consolidation reserves, including conversion differences, correspond to the following companies:

In thousands of euros	2019	2018
Integrated globally (*):		
Mora Banc, SAU	-	94,754
Mora Gestió d'Actius, SAU	4,286	4,158
Mora Assegurances, SAU	2,813	5,106
Boreal Capital Management, AG	(540)	30
Boreal Capital Holdings USA, LLC	3	3
Boreal Capital Management, LLC	(3,946)	(3,399)
Boreal Capital Securities, LLC	924	212
BIBM Preferents, Ltd.	-	-
Mora Asset Management, SA	-	-
Amura Capital Turquoise, SA	(1,961)	(1,031)
SICAV Amura (Onix)	(46)	(46)
SICAV Amura (Emerald)	(43)	(38)
Vicens - Gaudi SOCIMI SA	807	(7)
SICAV Rocanegra	-	-
SICAV Burna	1,421	(35)
Altres participacions	96	256
Integrated by the equity method:		
Serveis i Mitjans de Pagament XXI, SA	17	19
Societat Financera Pyrénées	-	-
TOTAL CONSOLIDATION RESERVES	**3,831**	**99,982**

(*) As established in IFRS 10, the Institution has considered in the consolidation process only the part of the investee considered separately over which it holds control, and over which it has rights to the profits; the rest would be classified as minority interests.

26 OTHER COMPREHENSIVE INCOME

The statements of comprehensive income for the 2019 and 2018 financial years display the movements which occurred in this section of the consolidated statement of financial position throughout these years, as summarised below:

Other comprehensive income	Balance on 01/01/2019	Imports transferred to the income statement	Imports transferred to reserves	Balance on 31/12/2019
Items which cannot be reclassified to profit or loss	**(385)**	**-**	**652**	**267**
Fair value changes in equity instruments valued at fair value through other comprehensive income	(385)	-	652	267
Items which can be reclassified to profit or loss	**(2,842)**	**(2,538)**	**4,097**	**(1,283)**
Cash flow hedges	926	-	23	949
Financial assets at fair value through other comprehensive income	(3,768)	(2,538)	4,074	(2,232)
TOTAL	**(3,227)**	**(2,538)**	**4,749**	**(1,016)**

Other comprehensive income	Balance on 31/12/2017	Imports transferred to the income statement	Imports transferred to reserves	Balance on 31/12/2018
Items which cannot be reclassified to profit or loss	**-**	**-**	**(385)**	**(385)**
Fair value changes in equity instruments valued at fair value through other comprehensive income	-	-	(385)	(385)
Items which can be reclassified to profit or loss	**2,806**	**(3,256)**	**(2,391)**	**(2,842)**
Cash flow hedges	867	-	59	926
Financial assets at fair value through other comprehensive income	1,939	(3,256)	(2,450)	(3,768)
TOTAL	**2,806**	**(3,256)**	**(2,776)**	**(3,227)**

27 MINORITY INTERESTSS

The minority interests and profit/loss for the year come solely from the subsidiary Boreal Capital Management, LLC, which presented the following balances as of 31 December 2019 and 2018:

In thousands of euros	2019	2018
Minority Reserves	(4)	(4)
TOTAL	**(4)**	**(4)**

28 OWN RESOURCES AND CAPITAL MANAGEMENT

28.1 Own resources

As of 31 December 2019 and 2018, own resources were calculated in accordance with the current regulations in force, regulating the minimum level of own resources which must be held by Andorran credit institutions, both individually and as a consolidated group, and the way in which these own resources must be determined; as well as the different processes of self-assessment of the capital which must be carried out. (see Note 43.1)

The Group has a CET 1 capital ratio of 26.03% and a fully loaded CET 1 ratio of 23.82% as of 31 December 2019.

28.2 Capital management

One of the Group's objectives is to maintain a comfortable capital adequacy to the risk profile assumed, to strengthen its position as one of the strongest institutions on the market.

To this effect, the Board of Directors determines the Group's risk and capital policy. For its part, the Management Committee carries out its management at the highest level, in accordance with the strategies established by the Board of Directors.

The business model of Mora Banc, with its risk profile, allows it to operate with high levels of capital, well above the regulatory minimums required.

One of the five strategic lines defined by the Group is the active management of the capital. The maintenance of a high level of solvency, endorsed by its risk profile, is one of the pillars of the financial strength of the institution. In addition, it is supported and complemented by active management of the capital in order to optimise its use.

The institution also applies a series of procedures for the identification and measurement of the risks, in such a way that, in addition to the minimum level of regulatory resources required, it maintains a sufficient reserve of internal capital suited to the management of all the risks, depending on the economic environment in which it operates and the strategic business plan. In other words, it carries out an assessment of the sufficiency of the internal capital, which is not only governed from a regulatory point of view but also suited to the management.

29 COMMITMENTS AND GUARANTEES GRANTED

The list of commitments and guarantees granted as of 31 December 2019 and 2018 was as follows:

In thousands of euros	2019	2018
Commitments granted	**367,566**	**290,721**
Loan commitments granted	264,081	209,232
Guarantees awarded	103,230	80,512
Documented credits	255	978
Financial guarantees granted and other commitments	**(1,041)**	**(902)**
Impairment losses	(1,041)	(902)
TOTAL	**366,525**	**289,819**

The Group is committed to providing funds to clients for available credit lines and other commitments, at the time it is requested to do so and subject to the fulfilment of certain conditions by the counterparties.

Similarly, in the case of financial guarantees, the Institution will only have to meet the amount of contingent risks if the guaranteed counterparty fails to fulfil its obligations at the time of the non-compliance.

In this regard, the Group calculates that a significant part of these amounts will come on their maturity without any obligation for the Group to pay being materialised, in such a way that the joint balance of these commitments cannot be considered as a real future need for financing or liquidity to be granted to third parties by the Group.

30 ASSETS AFFECTED BY OTHER OWN OBLIGATIONS AND THIRD PARTIES

As of 31 December 2019 and 2018 there were no significant assets owned by the Group affecting obligations of third parties.

31 PURCHASE AND SALE COMMITMENTS

As of 31 December 2019, the Group had no financial assets sold with the commitment of their subsequent purchase.

32 BUSINESS VOLUME

The Mora Banc Group is established in the Principality of Andorra and has two subsidiaries abroad, specifically in Zurich and Miami.

The list of the main variables reflected in the Group's business volume during 2019 and 2018 was as follows:

In thousands of euros	31/12/2019	31/12/2018
Loans and receivables of clients	**1,176,558**	**1,040,635**
Client deposits in cash	**2,115,914**	**1,842,529**
Financial instruments held	**3,013,085**	**2,791,232**
Those managed by the Group	3,013,085	2,791,232
Discretionary portfolios	488,797	376,925
Collective Investment Undertakings	889,827	836,658
Other individual clients	1,634,461	1,577,649
Off-balance sheet client resources not held	**2,385,190**	**1,905,946**
TOTAL	**8,690,747**	**7,580,342**

33 NET INCOME DUE TO INTERESTS

This section of the consolidated income statement includes the income and expenses for interest accrued during the year for financial assets and liabilities with either implicit or explicit return, which are obtained by applying the effective interest method, as well as product rectifications as a result of hedge accounting.

The list of the respective income and expenses from interests in the 2019 and 2018 financial years was as follows:

In thousands of euros	2019	2018
INTEREST INCOME AND SIMILAR RETURNS		
Financial assets at fair value through other comprehensive income	5,259	5,546
Financial assets at amortised cost	29,606	30,165
TOTAL INTEREST INCOME	**34,865**	**35,711**

In thousands of euros	2019	2018
INTEREST EXPENSES		
Financial liabilities at amortised cost	(5,756)	(7,763)
Derivatives – Hedge accounting, interest rate risk	(2,011)	(2,468)
Other liabilities	(190)	(125)
TOTAL INTEREST EXPENSES	**(7,957)**	**(10,356)**
NET INCOME FROM INTEREST	**26,908**	**25,355**

34 NET INCOME FROM COMMISSIONS

The most significant income and expenses recorded as commissions in the attached income statements for the years ending on 31 December 2019 and 2018 as functions of the nature of the non-financial service which gave rise to them were as follows:

In thousands of euros	2019	2018
COMMISSION INCOME		
Security services	53,406	50,541
Commissions for credit transactions and client maintenance	8,130	7,867
Other commissions for services provided	3,117	3,250
TOTAL INCOME FROM COMMISSIONS	**64,653**	**61,658**
COMMISSION EXPENSES		
Commissions accrued for services received (-)	(13,570)	(11,389)
TOTAL COMMISSION EXPENSES	**(13,570)**	**(11,389)**
NET INCOME FROM COMMISSIONS	**51,083**	**50,269**

35 PROFIT/LOSS FROM FINANCIAL TRANSACTIONS

The breakdown of the balance in this section of the consolidated income statements accrued during the 2019 and 2018 financial years is as follows:

In thousands of euros	2019	2018
Profits or losses on derecognition of financial assets and liabilities not valued at fair value through profit or loss, net	6,416	3,312
Profits or losses due to derecognition on account of financial assets and liabilities held for trading, net	1,695	722
Profits or losses on derecognition of account of non-trading financial assets and liabilities mandatorily valued at fair value through profit or loss, net	309	1,523
Profits or losses resulting from hedge accounting, net	(2,538)	1,082
Exchange differences [profit or loss], net	1,470	1,244
TOTAL PROFIT/LOSS FROM FINANCIAL TRANSACTIONS	**7,352**	**7,883**

36 THE PROFIT/LOSS OF THE INVESTEES INTEGRATED BY THE EQUITY METHOD

The profit/loss of the investee companies integrated by the equity method are as follows:

In thousands of euros	2019	2018
Serveis i Mitjans de Pagament XXI, SA	23	(30)
Societat Financera Pyrénées	186	-
TOTAL	**209**	**(30)**

37 OTHER OPERATING INCOME AND EXPENSES

The breakdown of the balance of the sections titled “Other operating income” and “Other operating expenses” of the consolidated income statements is:

In thousands of euros	2019	2018
Other operating income	**5,504**	**5,182**
Profit/loss from assets and liabilities covered by insurance contracts	3,377	3,284
Property, plant and equipment income (property operations)	2,047	1,714
Others	80	184
Other operating expenses	**(622)**	**(366)**
Various client charge-backs	(120)	(191)
Others	(502)	(175)
NET PROFIT/LOSS	**4,882**	**4,816**

During the 2019 and 2018 financial years, the income is collected under the heading “Other operating income”, mainly as a result of the Group’s insurance activity, the operation of real estate investments in the rental scheme or for cultural purposes. Other expenses mainly include charge-backs per share transaction.

38 PERSONNEL EXPENSES

The list of the personnel expenses for the years ending on 31 December 2019 and 2018 was as follows:

In thousands of euros	2019	2018
Wages and salaries	24,868	26,406
Social Security	3,385	3,739
Contributions to Defined Contribution Pension Funds	508	574
Other personnel expenses	1,447	1,537
TOTAL PERSONNEL EXPENSES	**30,208**	**32,256**

The amount corresponding to other staff costs mainly corresponds to medical insurance and training expenses for the Group's employees, the details of the average workforce for the 2019 and 2018 financial years are presented below.

	no. of employees	
Average workforce	**2019**	**2018**
Directors	26	27
Middle management	50	57
Technicians	167	123
Administrators	72	110
TOTAL	**315**	**317**

39 OTHER ADMINISTRATIVE EXPENSES

The breakdown of the balance of this section of the consolidated income statements accrued during the 2019 and 2018 financial years is as follows:

In thousands of euros	2019	2018
Administrative and operational expenses	12,852	13,645
Taxes	1,762	1,632
Technical and technological services and information systems	8,545	7,235
Other expenses	1,769	1,135
TOTAL OTHER EXPENSES	**24,928**	**23,647**

40 IMPAIRMENT OF THE VALUE OR REVERSAL OF THE IMPAIRMENT OF THE VALUE OF FINANCIAL ASSETS NOT VALUED AT THEIR FAIR VALUE THROUGH PROFIT OR LOSS

The balance of this section of the attached income statements corresponding to the 2019 and 2018 financial years is shown in the following table:

In thousands of euros	2019	2018
Financial assets at amortised cost	**(444)**	**(1)**
Loans and Items for Clients	(479)	(131)
Credit institutions	10	9
Debt securities	25	121
Financial assets at fair value through other comprehensive income	**(62)**	**239**
Equity instruments	-	-
Debt securities	(62)	239
Other financial instruments not valued at fair value through profit or loss	**-**	**-**
Equity instruments	-	-
Debt securities	-	-
TOTAL	**(506)**	**238**

41 CORPORATE TAX

41.1 Amount recognised in the income statement

The amount reflected in Group's consolidated income statement corresponding to the years ending on 31 December 2019 and 2018 was as follows:

In thousands of euros	2019	2018
Profit for the year attributable to the Group before taxes (*)	29,518	32,528
Permanent differences	239	214
Tax base	**29,757**	**32,742**
Tax rate	10%	10%
Tax fee	**2,976**	**3,274**
Deductions and allowances	(1,153)	(1,654)
Settlement fee	**1,823**	**1,620**
Payments on account	-	-
Differential fee	**1,823**	**1,620**

*This profit/loss corresponds to the sum of the individual accounting profit of the Group companies subject to the Corporate Tax Law in Andorra.

Below appears a breakdown of the permanent differences corresponding to items which are not for fiscal expenses or income corresponding to the years ending on 31 December 2019 and 2018:

In thousands of euros	2019	2018
Elimination of dual taxation for participation in profits	(1,365)	(7,760)
Provisions and losses for insolvencies of Group companies	49	391
Provisions for liabilities and pension funds	520	4,874
Impairment losses on unlisted holdings	-	1,579
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	756	784
Elimination of dual internal and international taxation	211	223
Donations and liberalities	57	60
Others	11	63
TOTAL PERMANENT DIFFERENCES	**239**	**214**

The list of the deductions and allowances applied as of 31 December 2019 and 2018 was as follows:

In thousands of euros	2019	2018
New investments in Andorra in fixed assets related to the activity	(186)	(647)
Elimination of international dual taxation	(211)	(223)
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	(756)	(784)
Creation of jobs in Andorra	-	-
TOTAL DEDUCTIONS AND ALLOWANCES	**(1,153)**	**(1,654)**

41.2 Amount recognised in other comprehensive income

Regardless of the taxes on companies recorded in the consolidated income statement, the Group reflected in its consolidated net equity the following amounts for the following items during 2019 and 2018:

	2019			2018		
In thousands of euros	**Before tax**	**Tax (expense) profit**	**Tax net**	**Before tax**	**Tax (expense) profit**	**Tax net**
Items which cannot be reclassified to results	**297**	**(30)**	**267**	**-**	**-**	**-**
Fair value changes in equity instruments valued at fair value through other comprehensive income	297	(30)	267	-	-	-
Items corresponding to other comprehensive income	**(1,425)**	**142**	**(1,283)**	**(3,585)**	**358**	**(3,227)**
Financial assets with changes in other comprehensive income	(2,480)	248	(2,232)	(4,614)	461	(4,153)
Cash flow hedges	1,055	(106)	949	1,029	(103)	926
TOTAL	**(1,128)**	**112**	**(1,016)**	**(3,585)**	**358**	**(3,227)**

41.3 Balancing of effective tax rate

Below appears the balancing between the corporate tax expenditure accounted for in the consolidated income statements for 2019 and 2018 and the profit before taxes of the said exercises applying the tax rate in force in Andorra:

	2019		2018	
In thousands of euros	Effective rate	Amount	Effective rate	Amount
Profit before taxes		**29,518**		**32,528**
Corporate tax with the local tax rate	10%	2,952	10%	3,253
Effect of the tax rates abroad		21		22
Non-deductible expenses		139		775
Non-taxable income		(137)		(776)
Deductions and allowances		(1,153)		(1,654)
Other effects		17		153
TOTAL TAX EXPENDITURE		**1,839**		**1,773**

41.4 Composition of deferred tax assets and liabilities

In accordance with the current tax regulations, in 2019 and 2018 there were certain temporary differences to be taken into account when calculating the corresponding corporate tax expenditure.

The balance as of 31 December 2019 and 2018 for deferred tax assets and liabilities was as follows:

	2019		2018	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
Tangible and intangible assets	1,192	8	1,090	8
Financial assets with changes in other compre-hensive income	218	-	461	-
Fair value hedging	-	-	-	-
Insolvencies	990	77	990	77
Tax losses to be compensated in the future	-	-	-	-
Due to change in fair value	5	2	5	2
Others	-	-	1,489	-
NET ASSETS (LIABILITIES)	**2,405**	**87**	**4,035**	**87**

In accordance with the information available as of 31 December 2019, including the historical profit levels and the projections of profits available to the Group for the coming years, it is considered that sufficient positive tax bases will be generated for the recovery of the aforementioned deferred tax assets when they are deductible in accordance with the tax legislation.

41.5 Movement of deferred tax assets and liabilities

Similarly, the origins and movements of deferred tax assets/liabilities recorded in the consolidated statement of financial position as of 31 December 2019 and 2018 were as follows:

(In thousands of euros)	Balance on 01/01/2019	Recognised in Profit/loss	Recognised in others Profit/loss comprehensive	Balance on 31/12/2019
Tangible and intangible assets	1,081	102	–	1,183
Financial assets at fair value through other comprehensive income	461	(461)	218	218
Fair value hedging	–	–	–	–
Insolvencies	914	–	–	914
Due to change in fair value	3	–	–	3
Others	1,489	(1,489)	–	–
TOTAL	**3,948**	**(1,848)**	**218**	**2,318**

(In thousands of euros)	Balance on 01/01/2018	Recognised in Profit/loss	Recognised in others Profit/loss comprehensive	Balance on 31/12/2018
Tangible and intangible assets	2,636	(1,555)	–	1,081
Financial assets at fair value through other com-prehensive income	(215)	215	461	461
Fair value hedging	(4)	4	–	–
Insolvencies	867	47	–	914
Due to change in fair value	604	(601)	–	3
Others	910	579	–	1,489
TOTAL	**4,798**	**(1,311)**	**461**	**3,948**

42 RELATED PARTIES

Below appear the most significant balances held as of 31 December 2019 and 2018 between the Bank and the associate companies (not eliminated in the consolidation process), as well as those maintained with Shareholders, Administrators, Senior Management and other related parties. The amounts recorded in the income statement are also listed as a result of the transactions carried out:

	2019			
In thousands of euros	**Shareholders**	**Subsidiary and associate institutions**	**Administrators and senior management**	**Other related parties**
Assets				
Loans and advances	8,866	17,061	1,478	49,720
Credit institutions	-	-	-	-
Clients	8,866	17,061	1,478	49,720
Investments in subsidiaries, joint ventures and associates	-	4,720	-	-
Liabilities				
Deposits	37,818	293	6,911	46,041
Deposits of credit institutions	-	-	-	-
Client deposits	37,818	293	6,911	46,041
Debt securities issued	-	27,722	-	-
Order accounts				
Loan commitments granted	1,298	-	267	25,200
Financial guarantees granted	20	39	1,007	4,376
Resources held	148,322	-	8,076	76,886
Profits and Losses				
Net income due to interests	263	201	11	953
Dividend income	-	-	-	-
Net income from commissions	710	1	60	553
Administrative costs	-	-	(3,249)	-

	2018			
In thousands of euros	Shareholders	Subsidiary and associate institutions	Administrators and senior management	Other related parties
Assets				
Loans and advances	11,967	-	1,462	94,438
Credit institutions	-	-	-	59,011
Clients	11,967	-	1,462	35,427
Investments in subsidiaries, joint ventures and associates	-	1	-	-
Liabilities				
Deposits	14,011	231	978	16,473
Deposits of credit institutions	-	-	-	-
Client deposits	14,011	231	978	16,473
Debt securities issued	-	34,158	-	-
Order accounts				
Loan commitments granted	3,303	-	-	21,574
Financial guarantees granted	40	20	11	4,420
Resources held	190,257	-	12,074	54,555
Profits and Losses				
Net income due to interests	299	-	14	628
Dividend income	-	-	-	-
Net income from commissions	867	-	63	648
Administrative costs	-	(375)	(3,790)	-

In accordance with the competences and rules of operation of the Board of Directors' Risk Committee, risk transactions with the members of the Board of Directors, as well as with the shareholders of the institution and related parties, must be authorised by the risk committee. In the event that these credit facilities exceed limits stipulated in accordance with the guarantee, they must be presented and approved by the Board of Directors of the Institution.

The risk committee must duly inform the Board of Directors of the transactions authorised by this body.

During 2019 and 2018 financial years, with regard to key personnel and management, these did not receive remuneration corresponding to the following items:

- Post-employment benefits,
- Share-based payments,
- Other long-term benefits

As of 31 December 2019 and 2018 there was no evidence of impairment of the value of the financial assets or the guarantees and contingent commitments held with related parties.

43 ADDITIONAL INFORMATION

43.1 Compliance with the standards

Law on solvency, liquidity and prudential supervision of banks and investment companies

By virtue of the Monetary Agreement signed between the Principality and the European Union, Andorra undertakes to implement in its legal system, among others, Directive 2013/36/EU of the European Parliament and Council of 26 June 2013, access to the activity of banking entities and the prudential supervision of banking entities and investment companies, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as well as Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013 on the prudential requirements of banking entities and investment companies, and amending Regulation (EU) 648/2012, as well as several delegated and implementing acts that develop in more detail certain aspects of this directive and regulation, the General Council, at a meeting on 20 December 2018, in order to adapt the Andorran legal system to regulatory changes which are imposed in the field of the European Union in this matter, approved Law 35/2018 on solvency, liquidity and prudential supervision of banks and investment companies.

This new law has led to a substantial change and a significant leap from the previous regulation, the Law governing the solvency and liquidity criteria of financial institutions of 29 February 1996, which has been in force until 23 January 2019 in the supervisory regime, the initial capital requirements, access to activity, corporate governance requirements and the sanctioning scheme, all with the aim of strengthening the resilience of the Andorran banking and financial sector in a better position in the face of economic crises as well as ensuring that banking institutions continue to fund economic activity and economic growth with adequate equity.

From a solvency perspective, this new regulatory framework highlights a differentiation between different capital elements in terms of their ability to absorb losses; more stringent requirements when considering equity instruments as equity items; a significant increase in the total amount of exposure to the various risks to which the entities are exposed (credit and counterparty risk, market risk, operational risk, liquidation risk and adjusting risk for the resulting credit valuation of OTC derivative instruments); a capital cushion regime; the self-assessment of risk by each institution with dialogue with the AFA, as well as the need to provide additional capital to cover risks not captured in the total amount of the exposure to the risk identified in the processes of review and supervisory evaluation; transparency in the market regarding the compliance of the solvency and liquidity requirements by the institutions and, finally, the obligations of the AFA to publish information in relation to financial regulation and supervision.

In relation to the calculation of the total amount of risk exposure, it is worth noting the greater sophistication of the regulations, which improves the credit and counterpart risk estimation mechanisms of the trading portfolio, as well as the position risk of the trading portfolio, interest rate risk, liquidation risk and commodity risk, although, except for the credit and counterpart risk of the trading portfolio, the latter were included in the calculation of the solvency ratio of 10% to be maintained by banks. This Law also introduces, as a new feature, the requirement to calculate additional capital requirements for operational risk and the credit valuation adjustment risk resulting from OTC derivative instruments.

From the perspective of liquidity, this Act represents a significant improvement in refining the calculation of the short-term liquidity ratio, in order to ensure that sufficient liquid assets, or the liquidity cushion, are sufficient to cover the entire liquidity outflows minus liquidity inflows, in situations of tension, for a period of 30 days, with the aim of ensuring that entities have sufficient liquidity cushions to deal with potential tensions in the markets as well as having a balance sheet structure that does not rest excessively on short-term financing.

By means of Decree of 6 March 2019, the Government of Andorra approved the Regulation for the development of Law 35/2018, which regulates in detail the requirements for solvency, liquidity and prudential supervision of banking institutions and investment companies. This Regulation also includes up to 33 transitional provisions that regulate the gradual application of solvency requirements within different schedules between 4 and 8 years, depending on the new requirement type, in order to facilitate a gradual adaptation of capital requirements with the same calendar as European financial institutions had when the European Directive and Regulation was approved in 2014.

This law obliges banking institutions to maintain a solvency ratio, based on the recommendations of the Basel Committee on Banking Regulation and Supervisory Practices, of at least 10%. It also requires maintaining a liquidity ratio of at least 40%.

With the publication and entry into force of Law 35/2018 on solvency, liquidity and prudential supervision of banking institutions and investment companies and their Development Regulations, at the beginning of 2019, the criteria used has been modified in previous years to report major exposures. The institution must report any exposure, of clients or groups of clients, greater than or equal to 10% of the allowable capital. The limit will be equal to the highest between 25% of the allowable capital and €150 million, provided that the sum of the values of the exposures to all clients related to one another, which are not entities, is less than 25% of the allowable capital. During the 2019 financial year, the Group did not exceed the limits established in this law.

Beyond the applicable regulations and with the purpose of measuring itself by the highest and most demanding international standards, the Group has estimated its equity ratios under the requirements established by the Basel Committee of Banking Supervision in 2010 (Basel III).

As of 31 December 2019, the Group has a CET 1 capital ratio of 26.03% and a CET 1 (fully loaded) ratio of 23.82%, which reflects a very comfortable situation with respect to the regulatory minimum requirements.

Additionally, the Group has calculated its leverage as established and defined in Law 35/2018 and its Development Regulations, discussed earlier under the aforementioned international regulations. The results reflect a 10.01% leverage ratio for the Group over its ordinary level 1 capital (CET 1), above the regulatory minimum of 3%.

Law on the prevention and fight against the laundering of money and monetary instruments and the financing of terrorism

At its sitting on 22 June 2017, the General Council passed Law 14/2017, of 22 June on the prevention and combating of money laundering and the financing of terrorism, which is implemented in Andorra, by virtue of the monetary agreement signed between the Principality and the European Union, Directive (EU) 2015/849 of the European Parliament and Council, of 20 May 2015, on the prevention of the use of the financial system for money laundering or the financing of terrorism, as well as Regulation (EU) 2015/847 of the European Parliament and Council, of 20 May 2015, on information accompanying fund transfers.

The implementation of the international standards for the prevention and combating of money laundering and against the financing of terrorism has become a national priority, leading to the adoption of legislative initiatives in recent years and the revision of the prevention and repression system in order to achieve the most effective framework for the fight against these criminal practices.

For its part, the Government of Andorra, in its session on 23 May 2018, has approved the Regulation for the application of Law 14/2017, whose main purpose is the development of the Law, in accordance with the regulatory qualifications contained in its article.

In this context, the Principality of Andorra is subject to periodic evaluations by the European Council, conducted by the Expert Committee on the Evaluation of Anti-Money Laundering and Counter Terrorism Financing Measures (Moneyval), evaluations for which an adequate and effective implementation of international standards in the field, materialised in the new recommendations of the Financial Action Group (FATF), and the Joint Committee composed of representatives of the Principality of Andorra and of the European Union within the framework of the Monetary Agreement signed between the Principality and the European Union on 30 June 2011.

On 28 November 2019, the General Council passed Law 21/2019, of modification of 14/2017, of 22 June, on prevention and fight against money laundering and financing of terrorism, in order to incorporate into the Andorran legal system the observations drawn up recently by the Moneyval Expert Committee and the Joint Committee to complete the implementation of the FATF recommendations and the transposition of Directive (EU) 2015/849.

Both the community provisions and the FATF recommendations establish suitable risk management as a backbone of the system for the prevention of money laundering and financing of terrorism, which means that they should be adequately detected, evaluated and understood, in order to apply mitigation measures which are appropriate and proportionate to the risks. The Group has established a series of procedures for internal control and communication, in order to prevent and hinder transactions involving money laundering and the financing of terrorism. In addition, specific staff training programmes have been carried out.

Law on the organisational requirements and operating conditions of the operating entities of the financial system, investor protection, market abuse and financial guarantee agreements.

The General Council of the Principality of Andorra, at its session of 9 May 2013, approved Law 8/2013, of 9 May, on the organisational requirements and operating conditions of the operating entities of the financial system, investor protection, market abuse and financial guarantee agreements, with the intention of maintaining a structurally and functionally sound financial system. This law incorporates the basic administrative system of the operating entities of the financial system which previously had been established in Law 14/2010, of 13 May, on the legal system of banking institutions and the basic administrative system of the operating entities of the financial system. It also contains the requirements for the protection of the investor, giving continuity to the provisions of Law 14/2010 which included the principles established in the EU Directive 2004/39 EEC, of the European Parliament and Council, of 21 April 2004 better-known as "Directive MiFID I".

Law 8/2013 has recently been modified twice.

The first, on 20 December 2018, through a final provision of Law 35/2018 on solvency, liquidity and prudential supervision of banks and investment companies, with the purpose of, on the one hand, adapting the Andorran legal system to the provisions contained in Directive 2013/36/EU, of 26 June 2013, regarding access to the activity of credit institutions and the prudential supervision of credit institutions and investment companies, in the organisation and activity of financial system operating entities in areas such as corporate governance, with specific responsibilities for senior management, the creation of delegated committees on the board of directors with the presence and dedication of independent directors, evaluation of the Board of Directors' suitability requirements, a specific system of incompatibilities for them and the development of remuneration policies further aligned with the risks of the entities, among others. On the other hand, changes are made to the organisational requirements and the operating conditions derived from Directive 2004/39 (MIFID I) and some specific aspects of the Directive that succeeded it, Directive 2014/65/EU of 15 May 2014 on financial instrument markets, known as MiFID II.

The second modification took place by means of Law 17/2019, of 15 February, of modification of Law 8/2013, with the purpose of making improvements in the blocks of classification to clients, duties of information to clients, incentives, evaluation of suitability and adequacy, management and execution of orders, conflicts of interest, protection of client assets, registries and markets

The Group has established a series of control and communication procedures in order to comply with these organisational requirements.

Law on payment services and electronic money

Law 8/2018, of 17 May, on payment services and electronic money incorporates Directive 2007/64/EC of the European Parliament and Council, of 13 November 2007, on services into Andorran legal system payment in the internal market, and Directive 2009/110/EC of the European Parliament and Council, of 16 September 2009, on access to the activity of electronic money entities and their exercise, as well as to the prudential supervision of these entities, in compliance with the commitments made under the Monetary Agreement signed between the Principality of Andorra and the European Union, to adapt the Andorran legal framework to the regulation of the European Union, between other matters, in its financial and banking legislation. Law 8/2008 aims to include payment and electronic money entities as new operating entities of the Andorran financial system, with its own legal system, and regulate the rights and obligations of suppliers and users in relationship with the provision and use of payment services and the issuance of electronic money, establishing a standardised protection framework for consumers.

In the last quarter of 2018, Law 27/2018, of 25 October, on the modification of Law 8/2018, of 17 May, on payment services and electronic money, was approved. With this modification, Directive 2015/2366 of the European Parliament and Council, of 25 November 2015, on payment services in the internal market, popularly known as PSD2, is incorporated for the purpose of facilitating and improving the security of the use of payment systems through the Internet, and strengthening the level of protection of the user against potential fraud and abuse, as well as promoting innovation in payment services through mobiles and the Internet, in order to create an environment conducive to speeding up payment operations, common rules regarding their operation, a sufficiently wide range of payment options for users, and even more effective rules for protection of users. Additionally, two new payment services are regulated: payment initiation services and account information services, and the establishment of a more protective regime for the rights of users of payment services in terms of security and transparency.

Law 8/2018 has also facilitated the operational application of payment instruments in euros within the single area of payment in euros, the so-called "Single Euro Payments Area" (SEPA), promoting the accession of the Principality of Andorra to SEPA, being a member of the geographical scope of SEPA schemes since 1 March 2019.

Automatic exchange of information in tax matters

The General Council of the Principality of Andorra, at its session on 21 February 2005, ratified the Agreement between the Principality of Andorra and the European Community regarding the establishment of measures equivalent to those provided for in Directive 2003/48/EC on taxation of savings income in the form of payment of interest. Similarly, at its session held on 13 June 2005, it approved Law 11/2005 on the application of the above-mentioned Agreement.

On 12 February 2016, the Government of Andorra signed the Protocol amending the above-mentioned Agreement between the European Community and the Principality of Andorra. The amendment of the Agreement entails the automatic exchange of information between the member states of the European Union and the Principality of Andorra with the application of the common standard of the Organization for Economic Co-operation and Development (OECD) of the norms of communication and due diligence relative to the information on financial accounts (Common Reporting Standard OECD-CRS).

On 30 November 2016, the General Council approved Law 19/2016 on the automatic exchange of information on fiscal matters, to apply the above-mentioned amending Protocol. This Law came into force on 1 January 2017 and repealed Law 11/2005 on the application of the Agreement between the Principality of Andorra and the European Community regarding the establishment of measures equivalent to those provided for in Council Directive 2003/48/EC on taxation of savings income in the form of payment of interest. On 30 November 2017, the General Council approved Law 29/2017 on the amendment of Law 19/2016 developing in the first section of the first final provision in order to incorporate the list of the states with which in 2018 it will automatically exchange information related to financial accounts, within the framework of the MCAA. The purpose of this law amending the law is to automatically exchange information for 2018 with 41 jurisdictions.

Also on 30 November 2017, the General Council approved Law 30/2017 of amendment of Law 19/2016 incorporating the list of the 32 states with which it will automatically exchange information regarding the financial statements in the framework of the MCCA in 2019. This law extends the list of jurisdictions with which Andorra will automatically exchange information regarding the financial statements in 2019 to 73 jurisdictions, incorporating member states of the G20, the OECD, the Global Forum and several international financial markets.

As from the 2017 financial year the Group has fulfilled the objectives of establishing and providing the mechanisms necessary to properly apply, as of 1 January 2017, the content established in Law 19/2016, in relation to the automatic exchange of information on fiscal matters.

Law on the Andorran Deposit Guarantee Fund and the Andorran Investment Guarantee System

In compliance with the Monetary Agreement signed between the Principality and the European Union, which requires the transposition of Directive 2014/49/EU, of 16 April 2014, on deposit guarantee systems and Directive 97/9/EC, of 3 March 1997, concerning investor compensation systems, both of the European Parliament and Council, the General Council of the Principality of Andorra, at its meeting of 13 September 2018, approved Law 20/2018, of 13 September regulating the Andorran Deposit Guarantee Fund and the Andorran Investment Guarantee System. Law 20/2018 entails the adaptation to the EU regulations of the current regime of the deposit and investment guarantee system for Andorran banking entities, regulated by Law 1/2011, of 2 February, on the creation of a guarantee system of deposits for banking entities and the Regulation on the organisation and operation of the Management Commission, approved by the Decree of 9 May 2012.

Law 20/2018 regulates the Andorran Deposit Guarantee Fund (FAGADI) as a deposit guarantee system in the terms established by Directive 2014/49/EU with an additional cushion of financial resources for FAGADI to immediately have access to more resources than those required by the Directive.

The main features of the deposit guarantee system are as follows:

- The coverage regime of €100,000 per depositor and per institution is maintained. And additional coverages are incorporated in exceptional cases that provide guarantees up to a limit of €300,000.

- FAGADI's resources must reach 0.8% of the guaranteed deposits with a deadline of 30 June 2024, through the annual contributions of the banking entities. Additionally, as of this date, banks must continue to make annual contributions to the Fund in order for this Fund to reach a level of 1.6% of financial resources within eight years from 2024 despite the maximum FAGADI coverage limit for all beneficiaries not being able to exceed €200 million.

Law 20/2018 maintains the Andorran Investment Guarantee System ("SAGI") as an ex post guarantee system in which the investment financial institutions, together with the banking entities, which have been participating so far, participate and the management companies of collective investment entities authorised to provide administration and custody of financial instruments.

The main regulatory features of the deposit guarantee system are as follows:

- The coverage scheme is kept at €100,000 per holder, above the level of coverage of €20,000 established in Directive 97/9/EC. This Law also establishes a total limit on the resources of the SAGI, which, for all beneficiaries, cannot exceed €50 million.

- The guarantee covers cases of impossible recovery of the securities by insolvency of the institution that provides the administration and custody of securities. Losses arising from fluctuations in the value of investments are not guaranteed.

- It maintains the SAGI resources target of 1.5% of the calculation base for investments regulated by Law 1/2011, with 30 June 2020 as the deadline to achieve this.

The amount of the guarantee reserves set up by the Group as of 31 December 2019 was €25,128,000.

Indirect general tax law

In accordance with Law 11/2012, of 21 June, subsequently amended by Law 29/2012, of 18 October, came into force on 1 January 2013, the indirect general tax, repealing the previous Law on indirect taxation on the provision of banking services and financial services. On 12 April 2017, Legislative Decree of 5 April 2017 on the publication of the consolidated text of Law 11/2012, of 21 June, on indirect general taxation was published in the Official Gazette of the Principality of Andorra, in which all the amendments included in the Law were included.

The indirect general taxes tax the economic capacity displayed whenever the final consumption of an asset or service is produced. The tax rate which applies to the provision of banking and financial services is an incremental rate of 9.5%.

Law 10/2014, of 3 June, on the amendment of Law 11/2012, of 21 June, on indirect general taxation, amended by Law 29/2012, of 18 October, and by Law 11/2013, of 23 May, introduces, in Article 21 "Additional Provision Five. Special system of the financial sector", a limitation of the right to deduct fees imposed on financial institutions for a maximum annual amount equal to 10% of the contributions made at the tax rate of 9.5%, with the limit of the tax imposed on its activity subject to said tax. This limitation came into effect on 1 July 2014.

In the 2019 financial year the Group fulfilled all the obligations resulting from the application of said law, presenting the corresponding monthly and annual settlements.

Law on corporate tax

In accordance with Law 95/2010 of 29 December on corporate tax, Law 17/2011 of 1 December, on the amendment of Law 95/2010 and the Regulation on the application of Law 95/2010 on corporate tax, the creation of a corporate tax is institutionalised. Similarly, on 20 October 2017, the General Council approved Law 17/2017, of 20 October, on the tax system for business reorganisation operations, whose purpose, among other things, was to introduce certain amendments to Law 95/2010, of 29 December, on corporate tax. On 8 August 2018, the Legislative Decree of 1 August 2018 was published in the BOPA of the consolidated text of Law 95/2010, of 29 December, on corporate tax where all the modifications contributed were included.

The standard rate of the corporate tax for taxable subjects, as determined by Law 95/2010, is 10%.

Article 25 of Law 95/2010 regulates the special fiscal consolidation system. In this sense, Mora Banc Grup, S.A. is the participating institution of the tax group. Following (i) the merger by absorption of Mora Banc Grup, SA (absorbing company) and Mora Banc, SAU (absorbed company), formalised on 16 September 2019 and (ii) the transfer of the registered office of the institution Amura Capital Turquoise, SLU from the Grand Duchy of Luxembourg to the Principality of Andorra, change effective on 30 May 2019.

During 2019 the Group fulfilled all the fiscal obligations resulting from said law, punctually settling the consolidated Corporate Tax for the 2018 financial year.

Income tax law for non-tax residents

The General Council of the Principality of Andorra, at its session on 29 December 2010, approved Law 94/2010 on income tax for non-residents, which taxes the income obtained in Andorra by persons and entities regarded by the law as non-residents for tax purposes. The Group is subject to the obligation to carry out withholdings and generally applies a 10% or 5% (canon) tax rate. This law has been applicable since 1 April 2011. On 1 December 2011, the General Council of the Principality of Andorra approved Law 18/2011 amending Law 94/2010, applicable since 1 January 2012. On 6 May 2015, Legislative Decree of 29 April 2015 on the publication of the consolidated text of Law 94/2010, of 29 December, on income tax for non-tax residents was published, in which all the amendments made were included.

During 2019 the Group fulfilled its fiscal obligations related to this tax, acting as withholder and payer to the tax agency of the income obtained by non-tax residents in the Principality of Andorra.

Law on personal income tax

In accordance with Law 5/2014, of 24 April, on personal income tax and the Regulation implementing the above-mentioned Law, the creation of personal income tax was institutionalised. Similarly, on 20 October 2017 the General Council approved Law 17/2017, of 20 October, on the tax system of business reorganisation operations, whose purpose, among other aims, was to introduce amendments to Law 5/2014, of 24 April, on personal income tax. On 8 August 2018, the Legislative Decree of 1 August 2018, was published in the BOPA, of the publication of the consolidated text and Law 5/2014, of 24 April, on the income tax for natural persons, where all the modifications made were included.

The general rate of the personal income tax for taxable subjects, as determined by the Law, is 10%. The Law distinguishes between the general base and the savings base, depending on the type of income subject to taxation.

Law of the Andorran Financial Authority (AFA)

At its session on 23 May 2013, the General Council approved Law 10/2013 on the Andorran National Institute of Finance (INAF), repealing Law 14/2003 on the creation of the INAF.

The purpose of this law is to provide the Andorran financial system's supervisory authority with the means necessary to achieve its objectives, while extending them, taking into account the overall scope of their activity in a context of international expansion of the Andorran financial system, the evolution of financial markets internationally, and the commitments made by Andorra with the signing of the Monetary Agreement with the European Union.

In May 2018, Law 12/2018, of 31 May, of modification of Law 10/2013, of 23 May, of the INAF was approved, the main purpose of which is to grant INAF the powers, the powers and instruments required to assume the functions of the Supervisory Authority on insurance and reinsurance and act as the effective insurance and reinsurance supervisor. Likewise, with Law 12/2018, the INAF becomes the Andorran Financial Authority (AFA).

Law 8/2015, of 2 April, on urgent measures to implement mechanisms for the restructuring and resolution of banking institutions

At the session of 2 April 2015, the General Council of the Principality of Andorra approved Law 8/2015 on urgent measures to implement mechanisms for the restructuring and resolution of banking institutions.

The wording and implementation of this law were inspired by the principles of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, establishing a framework for the restructuring and resolution of credit institutions and investment service companies.

This law was the Principality of Andorra's response to certain events which demonstrated that the financial system is closely inter-connected, in such a way that the crisis of one financial institution can quickly spread to other institutions and to the economy overall.

A large part of the administration of the system designed by the law is attributed to the State Agency for the Resolution of Banking Institutions (hereinafter AREB) as the competent authority in matters of resolution. In addition, in order to finance the measures agreed upon pursuant to this law, the FAREB (Andorran Fund for the Resolution of Banking Institutions) was created, an institution without legal status managed by the AREB.

43.2 Information on environmental issues

Given the Group's activity, there are no responsibilities, expenses, assets or provisions or contingencies of an environmental nature which might be significant in relation to the Group's equity, financial situation and profits. For this reason, specific breakdowns regarding information on environmental issues are not included in this report on the consolidated financial statements.

44 CREATION OF VALUE FOR OUR STAKEHOLDERS

Mora Banc Grup, SA prepares a sustainability report each year with the aim of communicating the activity of the institution to all stakeholders. Information is prepared related to Mora Banc's economic, social and environmental development over the last year.

The 2019 report has been prepared following the guidelines of the International Framework for Integrated Reporting <IR> the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, regulation and standard issuers, professional accountants and non-governmental organisations, united with the objective of developing corporate reporting towards value creation in communication. We also maintain the focus on the sustainability of the report, following the international standard for preparing sustainability reports set by the Global Reporting Initiative (GRI), a leading international organisation in non-financial reporting. In this regard, the 2019 integrated annual report has been prepared in accordance with GRI standards, as its essential compliance option.

With the integrated report, the institution presents the integrated and connected information of the strategy, vision, mission and values, with the financial profits and the impact on the stakeholders.

The following sections explain what stakeholders really value (based on the materiality matrix carried out) and how the institution responds:

- Quality, excellence in banking practices and client protection: Mora Banc acts in the best interests of the client, being at the centre of everything, offering the best product with transparency. Clients are becoming more and more demanding and banking competition is strong, but the institution's asset is the knowledge of the client as well as a recognised and solvent way of banking. According to the institution, it acts impartially, professionally and taking into account the client's interest with the policies of execution and management of orders, protection of assets, conflicts of interest or privacy. In 2019 Mora Banc was named Andorran Bank of the Year by The Banker publication of the Financial Times group.

- Guarantee economic development and generate employment: Mora Banc is a responsible company and has a long-term sustainability strategy in place to radiate economic growth with job creation, loans and credits, giving savers confidence and setting an example around them.

- Fighting against corruption and the financing of terrorism: Mora Banc has set up good practices in combating corruption and countering terrorism and its financing, in compliance with current regulations, with procedures and continuous surveillance.

- Equal pay for men and women, diversity and equal opportunity: The institution promotes practices that are attractive and competitive in attracting and retaining talent. To achieve this, four goals have been set in people management: experiences of the worker; compensation and balance; knowledge and development; and talent management. Mora Banc prioritises internal promotion, equality policies and training in a safe and healthy space.

- Ethical and responsible conduct: Mora Banc guarantees ethical and responsible conduct at all levels of the organisation so as to give greater confidence to clients. For the institution, a strong corporate culture is a competitive advantage in the market. Code of ethics, group conduct and stock market conduct, control and governance structures, code of conduct training, conflict prevention, corporate integrity management committee, and the internal control and communication body, among others, ensure a secure system to guarantee ethical and responsible conduct. Moreover, Mora Banc is committed to the United Nations' Sustainable Development Goals.

45 SUBSEQUENT EVENTS

The emergence of the Coronavirus COVID-19 in China in January 2020 and its recent global spread across a large number of countries has prompted the viral outbreak to be classified as a pandemic by the World Health Organization on March 11.

Given the complexity of the markets due to their globalization and the absence, for the moment, of effective medical treatment against the virus, the consequences for the operations of the Mora Banc company are uncertain and will depend largely on the evolution and extent of the pandemic in the coming months, as well as the capacity of reaction and adaptation of all the economic agents involved.

Therefore, at the date of preparation of these Annual Accounts, it is premature to make a detailed or quantified assessment of the possible impacts COVID-19 will have on Mora Banc due to the uncertainty about its consequences, in the short, medium and long term.

The Administrators and the Management of Mora Banc are constantly monitoring the evolution of the situation, in order to successfully deal with any possible impacts, both financial and non-financial.

46 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT IN FORCE

As of the date of the formulation of these consolidated annual accounts, the most significant standards and interpretations which have been issued without entering into force, either because their date of effectiveness is later than the date of the consolidated annual accounts or because they have still not been approved by the AFA, are as follows:

Approved for application in the EU and not Andorra

Standards and interpretations	Title	Application obligatory for financial years already underway, starting from:
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to IAS 1 and IAS 8	Definition of materiality	1 January 2020
Modification of refer-ences to the conceptual framework of IFRS	Modifications of references in the conceptual framework	1 January 2020

Not approved for application

Standards and in-terpretations	Title	Application obligatory for financial years already underway, starting from:
IFRS 17	Insurance contracts	1 January 2021
Modification of IFRS 3	Certification of the definition of business	1 January 2020
Modification of IAS 1	Presentation of financial statements: classification of liabilities as current or non-current	To de determined

It is not expected that any of these rules, modifications and interpretations will have a material effect on the financial statements of the Company

MORA BANC GROUP

Diligence raised by the Secretary of the Board of Directors of Mora Banc Grup, SA and of the other companies that make up the Mora Banc Group, Mr. Marc Vilallonga Puy, to state that the accompanying consolidated financial statements and the accompanying management report have been formulated with the favourable vote of all the members of the Board of Directors of Mora Banc Grup, SA, in their meeting held on Monday, 30 March 2020, with a view to its verification by the auditors and, later, approval by the General Meeting of Shareholders. This meeting was done via video-conference, in accordance with the content of Article 22 of the Law of exceptional and urgent measures for the emergency situation of health caused by the pandemic of SARS-CoV-2, in order to preserve people's health and prevent the spread of COVID 19, which is why the attached annual accounts do not have the signatures of the members of the Board of Directors of Mora Banc Grup, SA:

- Mr. Pedro González Grau
- Mr. Òscar Aristot Borràs
- Mr. Marc Mora Guerín, representing the member of the board, Mora Fills, SA.
- Mr. Francesc Xavier Maymó Gatell
- Mr. Joan Quera Font
- Mr. Miguel Antonio Pérez Carnicero
- Mr. Agustín Berasaluce Astarloa
- Mr. José Gefaell Chamochín

These consolidated financial statements are spread over 162 sheets, corresponding to the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in net equity and the consolidated statement of cash flows, all of which are spread over 7 sheets without numbering, and the notes to the consolidated financial statements spread over 155 sheets numbered from 1 to 155, both inclusive, signed by me as a sign of identification.

Andorra la Vella, 30 March, 2020.

Marc Vilallonga Puy
General Secretary and Secretary of the Board
Secretary of the Board of Directors of Mora Banc Grup, SA

ANNEX 1.
ANNUAL REPORT

Report for compliance with Article 90 of Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banks and investment companies.

This annex has been prepared in compliance with the provisions of Article 90 of Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banks and investment companies.
Mora Banc Grup, SA is an Andorran company, with registered offices in Andorra la Vella, Avinguda Meritxell no. 96, its corporate purpose is to carry out all kinds of operations permitted to the banking entities by the legislation in force at all times in the Principality of Andorra, and together with its subsidiaries, make up the MoraBanc Group.
Information on the name, nature of activities and geographical location of its subsidiaries is available in note 4 of the accompanying financial statements. This note details the companies and the jurisdiction where they are operating, including the name, geographical location and the nature of their activity for each of them. The Group basically carries out activities related to banking, management of collective investment bodies, insurance companies and investment services, in the Principality of Andorra and in Switzerland and the United States, although in these two jurisdictions, its activity is limited to providing investment services.
The following is the consolidated information for the 2019 financial year:

En milers d'euros	Volum de negoci	Nº de treballadors equivalents a temps complert	Resultat brut abans d'impostos	Impost sobre resultats
Andorra	79,740	276	27,694	(1,912)
Suïssa	3,830	10	(810)	(29)
Estats Units	6,464	24	498	-

For the purposes of this information, the gross margin of the consolidated income statement for December 2019 has been considered as turnover. The data for full-time equivalent employees were obtained from the workforce of the companies domiciled in each of the countries at the end of the 2019 financial year.

Additionally, the Group owns the Casa Vicens in Spain, the first house built by Gaudí, which has been restored and converted into a museum. Being at the beginning of its activities, in 2019 it had a turnover of €1,862,000, 5 employees and losses of €407,000.

As of 31 December 2019, the Group's return on assets, calculated as the quotient of the consolidated profit for the year and the total average annual assets, is 0.83%. The Group has a CET 1 capital ratio of 26.03% and a fully loaded CET 1 ratio of 23.82% as of 31 December 2019.

During the 2019 and 2018 financial years, the institution did not receive public subsidies or grants directed toward the financial sector aimed at promoting the development of banking activity.

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Principat d'Andorra

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MORABANC

REGISTRATION AFA: EB06/95