Annual Report 2017

Annual Report **2017**

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Statement by the Chairmen

The economic environment during 2017 was positive in Andorra and around the world, with GDP increases reaching 2.5% in the Eurozone, 3.1% in Spain and 1.9% in France. In Andorra, according to Fitch Ratings' estimate for the first nine months, the increase stood at 2.1%. The 2018 forecast for the Eurozone suggests a rise of 2.3%. We have observed that corporate momentum is recovering and that new business opportunities are opening up, but the uncertainties remaining both in the political field and in the markets within and, above all, beyond our borders, with more volatility expected, invite caution and leave no room for complacency.

2017 was the year of the consolidation of MoraBanc's transformation.

The introduction of new banking regulations, the adoption of a global fiscal transparency framework and the continuation of an environment with artificially low interest rates have changed the rules of the game and how banking is done. At the same time, the violent upsurge of new technologies has shaken society and the economy, posing new challenges and creating new ways of interacting and communicating.

Within this context, 2017 was the year of the consolidation of MoraBanc's transformation.

Our goals were achieved and we increased our profits over the previous year.

MoraBanc began plotting its roadmap to transform the Bank to face the new economic, fiscal and technological realities, with sufficient time to develop a competitive and sustainable business model in the new environment.

2017 was important because we were able to observe that the changes made were already bearing fruit. Our goals were achieved and we increased our profits over the previous year. This was possible as a result of the implementation of the actions envisaged in the Strategic Plan while maintaining the essence of our customer service and the strength of the institution.

Our way of banking is a prudent one, based on solvency and liquidity ratios which are the highest in the market, in compliance with Basel III.

We are a 100% family-owned Andorran bank and we are proud of our prudent way of banking, based on high ethical principles and solid solvency and liquidity ratios (the highest in the Andorran financial market), and on strict compliance with the requirements and recommendations of Basel III, the industry's benchmark. These characteristics and our vocation for customer service cannot change, as they form part of our way of doing things. But we have transformed the Bank to become more competitive, more digital, stronger and, ultimately, a better version of ourselves.

As a result of our strong corporate governance, with a professional and independent Board of Directors and a highly focused, competent and demanding management team, we have succeeded in accelerating certain changes, such as the restructuring of the teams, the internalisation of new demands and regulations, ongoing digital innovation and a culture of change. We are a more efficient and streamlined bank, closer to our customers. We are a bank which is growing again and creating hope. We are a team which is optimistic about meeting the challenges the future holds.

We have transformed the Bank to become more competitive, more digital and stronger.

The significant investments we have made and the transformation we have implemented, including new value propositions for our customers, have led to MoraBanc's commercial banking and digital banking receiving several international awards from prestigious journals such as International Banker and World Finance. This recognition should be mentioned together with the most important yardstick, namely the satisfaction of our customers and the increasing use they make of the new channels.

We are a bank which is growing again and creating hope.

We have an exciting future ahead of us. We maintain our commitment to Andorra and we want to grow in a sustained manner. The strength of the balance sheet and our solvency give us freedom and independence when addressing the goals suited to our ambitions. We want to grow in Andorra and beyond our borders, with subsidiaries and new opportunities of interest to the institution and our customers.

Our solvency gives us freedom and independence when addressing the goals suited to our ambitions.

We have entered a new era. The environment has changed, as has MoraBanc, and we are in a position to look ahead with optimism. The 2017 results you will find in this report are better than those we hoped for at the beginning of the year. The return to profit growth confirms the success of our transformation strategy.

With the finest team of professionals, we will continue to strive for innovation and to maintain the capacity to anticipate and adapt as necessary to remain the best bank for our customers.

Jordi Mora Magriñà
Chairman of Mora Banc Grup, SA

Oscar Aristot Borràs
Chairman of Mora Banc, SAU

Letter from the Chief Executive Officer

The most noteworthy elements of the results for the 2017 financial year included in this report are the 3.6% increase in net profit, totalling 23.5 million euros on a comparable basis, and the high level of solvency (18.9% according to the Basel III CET1 ratio, or 27.0% under Andorran regulations), in keeping with our unchanging intention to be the most solid bank in the market.

In keeping with our unwavering intention to be the most solid bank in the market

These satisfactory figures sum up a year of which the entire MoraBanc team is particularly proud. They represent the culmination of two particularly intense years of far-reaching transformation for the Bank, in accordance with the Strategic Plan approved in early 2016, and the return to profit growth. This transformation includes the adoption of European accounting standards (IFRS, or International Financial Reporting Standards), allowing the comparability of data around Europe, as well as greater transparency.

These satisfactory figures represent the culmination of two intense years leading to the far-reaching transformation of the Bank in accordance with the Strategic Plan

In view of the changes in the environment, especially the AEOI (Automatic Exchange of Information), but also new rules affecting the sector in the international and domestic spheres, we were well aware that we had to use our solidity and solvency to adapt to them as quickly as possible and to return to sustained growth as soon as we could. Our customers have been at the centre of all the decisions and changes made during the transformation process. Beyond cost optimisation and capital efficiency , we have invested in innovation and the Bank's digitisation in order to provide the best service. In addition, we have designed a commercial proposal more suited to the needs of different customers, redesigning our product and service portfolios.

We also knew that it was essential to our customers for us to maintain MoraBanc's solidity throughout the process. In addition to the solvency ratio mentioned above, there are other figures which reflect the institution's careful and prudent management. For example, we maintain a low default ratio, standing at 3.9% (5.3% adjusted for foreclosures), and the coverage ratio is at 86.4%. Another reflection of this resolve is the high liquidity ratio with which we manage the institution, with a 60.7% regulatory ratio (under Andorran legislation). Our liquidity management is not only restricted to complying with Andorran regulations, as we also apply the standards and best practices of the industry, such as the LCR and NSFR ratios of Basel III, which we far exceed. The figures in MoraBanc's Annual Report are comparable to the best standards of European banking.

Our customers have been at the centre of all the decisions and changes made during the transformation process

Now that our digital banking has become well-established, we are devoting our efforts and investment to continuous improvement so as to remain leaders in the sector. Our commitment to this new technological platform has earned us the acknowledgement of World Finance, the prestigious financial publication, with awards for Best Digital Bank and Best Mobile Banking App, Andorra. But our path towards innovation and technology does not end here. We are working with different fintechs to reach our customers more effectively. Far from regarding the digital revolution as a threat, we are actively joining it to improve our global banking service.

The figures in MoraBanc's annual report are comparable to the best standards of European banking

We know that finance is the driving force behind personal and business projects which move society forward. In this regard, in 2017 we maintained and even increased our undertaking to be a point of support for individuals and companies by means of the granting of loans and credits. Loans to individuals increased by 10% in 2017.

Our customer service vocation earned us the award for Best Commercial Bank, Andorra in 2017, presented by International Banker, the specialised financial journal based in London. It is an important milestone for MoraBanc to receive an important award from abroad, demonstrating that Andorra gets things done and that it is a market to be taken account of.

We are actively joining the digital revolution to improve our global banking service

With the impact of the AEOI behind us, which led to a slight decrease in total customer funds totalling 2.1% in Andorra in 2017, and with the transformation of the Bank completed, we can look towards the future with optimism and confidence. We are fully focused on growth in both Andorra, in response to our commitment and determination to be the best bank for our customers, and in the international activities of Mora Wealth Management.

Placing our customers at the centre of our growth strategy means that it is essential for our growth to be based on the solidity and solvency of the balance sheet, with our ethical principles and integrity as the foundations of our activities, a great capacity for innovation and a strong social commitment to guarantee a sustainable future.

Loans to individuals increased by 10% in 2017

The path we have taken validates the institution's initiatives with respect to society and the environment, but we want to do more, and we want to do so to the very highest standards. For this reason, for the third year, we are submitting the Annual Report in accordance with the criteria of the GRI (Global Reporting Initiative) while, this year, we have added the SDGs (Sustainable Development Goals) of the United Nations in order to take another step towards a world which puts an end to poverty, protects the planet and ensures prosperity for all.

With regard to 2017, I would like to highlight an emblematic project for us, namely the opening to the public as a museum. of Casa Vicens, Gaudí's first home. It represents the fulfilment of a shared dream, a project conceived in Andorra with an international impact, thanks to the excellent work of the team which completed it, based on respect, professionalism, humility and a vision of permanence and sustainability.

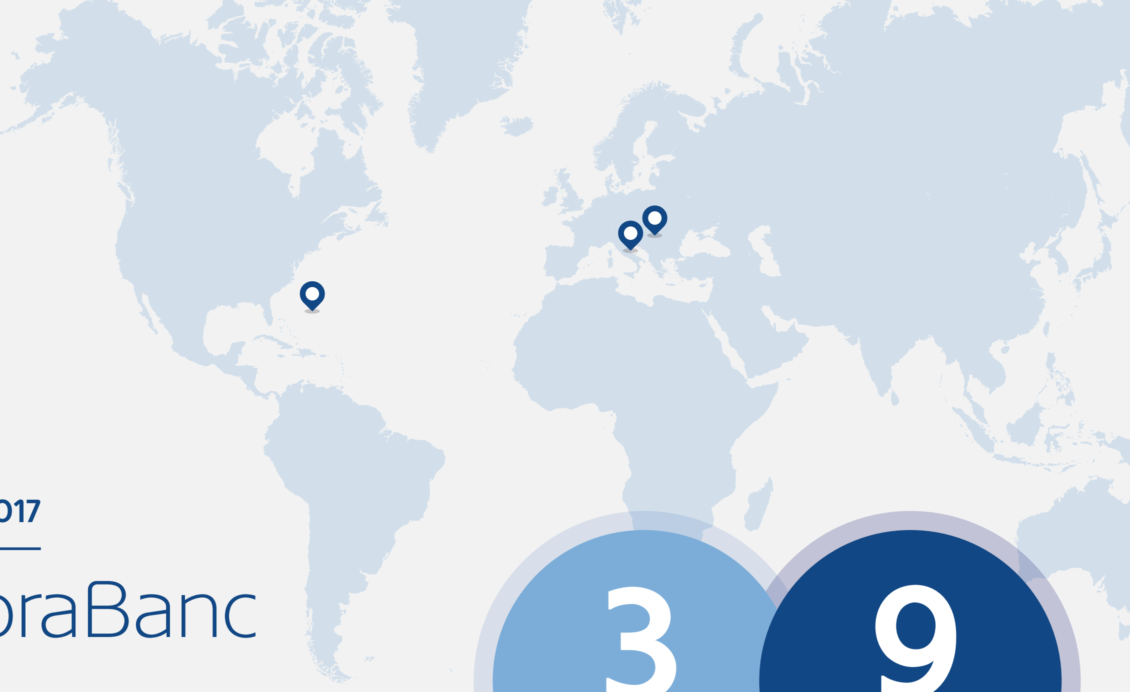
We are starting out on a new phase in 2018. Let's look ahead with a clear objective: to consolidate the path towards growth. We will do so while maintaining the essence of MoraBanc's values, with the DNA of a family bank which has been with us for more than 65 years and prudence and solvency as essential foundations for our management, in order to meet the expectations of our customers.

Behind the numbers in this report lie the great efforts made to build the MoraBanc of today, adapted to the current times, sustainable and transparent and with the necessary strength to face the future with enthusiasm, with our customers always in our thoughts. We have the team, the roadmap and the perseverance to achieve it.

Pedro González Grau
CEO of the MoraBanc Group

We submit the Annual Report in accordance with the criteria of the GRI (Global Reporting Initiative) while, this year, we have added the SDGs (Sustainable Development Goals) of the United Nations

Let's look ahead with a clear objective: to consolidate the path towards growth.



SUMMARY OF 2017

The MoraBanc Group

3 countries (Andorra, Switzerland, USA)

9 locations in Andorra

Activity

41.1 % in the NPS satisfaction index

10,927 followers on social media

Company

3.1 % of profit in initiatives for the community

€141,132 raised with Solidarity Cards

Digital transformation*

+34 % of digital customers (Single monthly users of online banking)

45 % of mobile customers (accesses to online banking with mobile devices)

+90 % of use of electronic banking

+36 % of transfers of money by online banking

*source: Google Analytics, SAS

The team

336 people

42.3 % of women in the workforce

55.1 annual training hours per employee

Environment

–7.6 % of toner consumption

–2.6 % of energy consumption

909.7 t CO_2eq of emissions

Profit growth
millions of euros

23.5
result of the Bank

+3.6 %
increase in profit

Profitability

8.4 %
ROE (EU 7.1%)

Business figures
Data in thousands of euros

6,542,161
customer funds

2,577,695
Total assets

949,726
Loans and accounts receivable - customers (credit to customers)

+10 %
increase in loans to individuals

Strength of the balance sheet

Broad liquidity

60.7 %
INAFregulations

Capital solidity

18.9 %
Basel III CET1 ratio

27.0 %
INAF regulations

FITCH rating

BBB-
Stable outlook

Credit quality

3.9 %
default ratio

86.4 %
coverage ratio

Sustainability at MoraBanc 01

Sustainable and responsible

MoraBanc is committed to sustainability and to the inhabitants of the country and we therefore continue to strive to contribute to the sustainable development of Andorra. Our business model integrates policies, actions and practices to achieve a **sustainable organisation**, acting in the present to influence the construction of a better future.

The management of our activity is based on our **relationship with our stakeholders**, which is essential for understanding their expectations and interests, which frame many of the decisions and actions the organisation takes.

In this regard, for the purpose of performing a transparency exercise for our stakeholders, MoraBanc **draws up this annual integrated Report** to provide information on the relationship between, firstly, our strategy, governance and financial performance and, secondly, the social, economic and environmental context within which the Bank operates.

STRATEGY ALIGNED WITH THE EXPECTATIONS OF THE STAKEHOLDERS

For the third year in a row, this Report complies with the international standard of G4, the *Sustainability Reporting Guidelines* published by the Global Reporting Initiative , an international benchmark in non-financial accountability. The 2017 integrated report has been drawn up upon the basis of the Core 'in accordance' option and covers calendar 2017.

Pursuant to the principles for determining the content of a report in accordance with the GRI G4 Guidelines, **a materiality (relevance) analysis** was performed in 2015 to determine the sustainability aspects and issues relevant to the organisation. Key people from the Bank and representatives of our stakeholder groups were directly involved in the drawing up of the materiality analysis.

The results obtained as a result of the materiality analysis helped us to perform internal work on initiatives to improve sustainability, aimed at both the human team and the external stakeholders. In short, it means working on a **sustainability strategy aligned** with what the stakeholders regard as necessary and the Bank's business strategy.

WE WORK TOWARDS THE SUSTAINABLE DEVELOPMENT GOALS

Similarly, with the desire to continue moving forward, we wanted to incorporate the **Sustainable Development Goals (SDGs)** into this integrated report, as a starting point to tailor our activity to the great economic, social and environmental challenges we face on a global scale.

To do so, we performed the exercise of relating the activities the organisation carries out with the SDGs affecting us and which we contribute to achieving.

MoraBanc and the Sustainable Development Goals

Customers

Our lifeblood. Theobjective is their satisfaction.

—

8. Decent work and sustainable economic growth

—

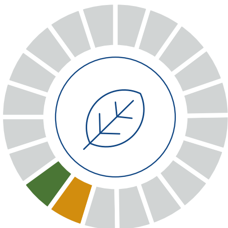
12. Responsible consumption

—

13. Fight against climate change

—

16. Peace and justice



Environment

The environment around us which we must respect. We act to tackle climate change and reduce our environmental impact.

—

12. Responsible consumption

—

13. Fight against climate change

Human team

Who make up MoraBanc and the key to our success. We strive to offer them the best conditions, so that they feel part of the project.

—

3. Good health

—

4. Quality education

—

5. Gender equality

—

8. Decent work and sustainable economic growth

—

10. Reduction of inequality

—

13. Fight against climate change

—

16. Peace and justice

Community

The country we work for. We contribute to adding value to their well-being and development.

—

1. Eradication of poverty

—

2. Fight against hunger

—

4. Quality education

—

8. Decent work and sustainable economic growth

—

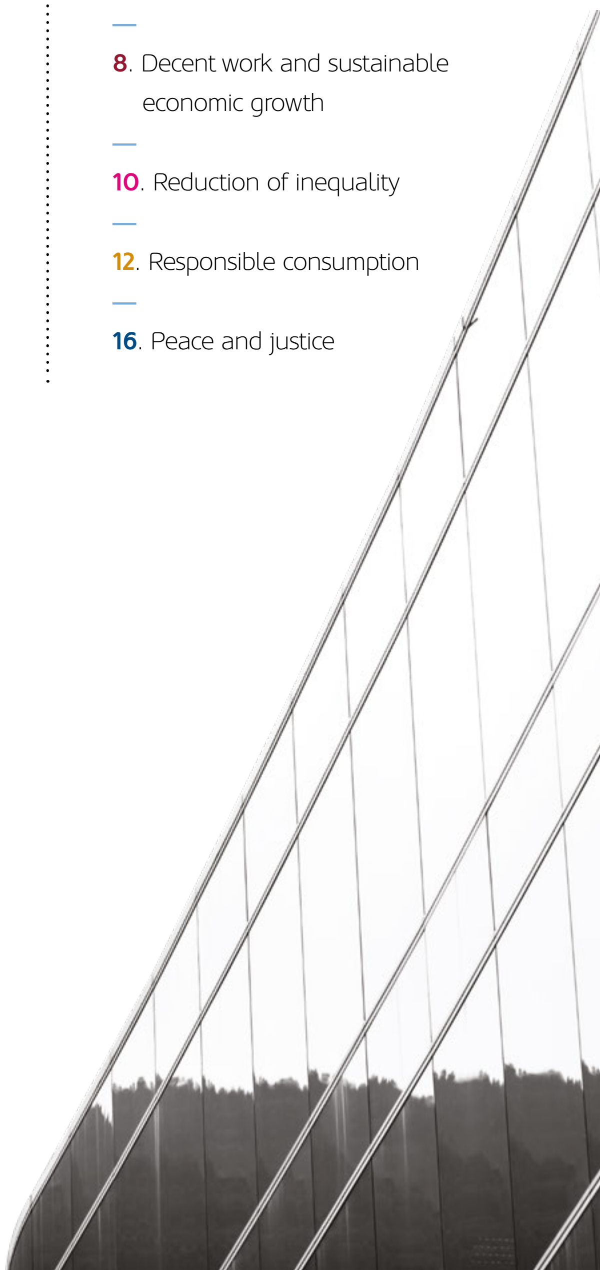
10. Reduction of inequality

—

12. Responsible consumption

—

16. Peace and justice



Below appear the main initiatives related to the Sustainable Development Goals within the framework of the main pillars upon which our strategy is based: customers, human team, community and the environment.

1 FI DE LA POBRESA
2 FAM ZERO

1. Eradication of poverty
End poverty in all its forms everywhere.

2. Fight against hunger
End hunger and starvation, achieve food security, improve nutrition and promote sustainable agriculture.

- Solidarity Card: raising money to support humanitarian organisations.
- Collection of food for the Càritas Andorra Food Bank.
- Vivand Solidari Campaign to raise funds for Càritas Andorra and the La Gavernera Children's Reception Centre.
- 3.1% of MoraBanc's profits assigned to initiatives for the community.

3 SALUT I BENESTAR

3. Good health
Guarantee healthy lives and promote well-being at all ages.

- Organisation and sponsorship of sporting activities in Andorra (skiing, basketball, mountaineering, etc.) to promote sport.
- Partnership with the Women's Race to fight against breast cancer.
- A safe and healthy working environment for the human team, identifying risks and providing training.
- Subsidising sporting activities for staff and discounts on health products and services.

4 EDUCACIÓ DE QUALITAT

4. Quality education
Guarantee inclusive education for all and promote life-long, high-quality and equitable learning opportunities.

- Conference cycles to contribute to financial literacy.
- Training Plan and training paths for employees.
- Assistance to staff for university studies, language courses, doctorates, etc.
- Scholarships and grants for the education of the children of staff.
- Work placements for student training.
- Organisation of the MoraBanc Music and Dance Season in Andorra la Vella.
- Sponsorship of the Cirque du Soleil shows.

5. Gender equality

Achieve gender equality by means of the empowerment of adult and young women.

- New policy to define and classify positions.
- Measures to improve work-life balance.

8. Decent work and economic growth

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

- Promotion of the creation of startups by means of mentoring programmes and access to financing through the LAB Impact Andorra programme run by the Ship2B Foundation.
- Development of family business initiatives and promotion of generational succession by means of the Andorran Family Business Cycle and Forum.
- Increase in credit investment in Andorra, enhancing and facilitating access to banking, financial and insurance services for all.
- Development of sustainable tourism, promoting sporting and cultural activities in the country.
- Promotion of stable employment (a high percentage of permanent contracts).
- Promotion of access to work for young people.
- Stimulation of internal promotion, participation and dialogue.

10. Reduction of inequality

Reduce inequality within and among countries.

- Social action, humanitarian aid and cooperation for development in the form of partnerships with institutions via the Solidarity Card.

12. Responsible consumption
Guarantee sustainable consumption and production patterns.

13. Fight against climate change:
Urgently fight climate change and its effects.

- An environmental management system implemented.
- Promotion of responsible consumption with the "Eco-Cotxe" Loan.
- Improvement of digital banking, a service which encourages sustainability.
- Actions to publicise good environmental practices among employees.
- Environmental and social commitment in the supply chain.
- Promotion of video conferences and calls to reduce journeys.
- Calculation of our carbon footprint.
- Reduction of the consumption of electricity and materials (paper, toner, plastic, etc.).
- Analysis of the environmental risks in financing operations.

16. Peace and justice
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

- Application of the best corporate governance practices.
- Conformity with the best practices issued by the EU in terms of transparency and ethics.
- Conformity with the Basel Committee guidelines and other voluntary practices.
- Corporate Integrity Management Committee.
- Control and Communication Body.
- Application of MoraBanc Group's Code of Conduct and the Stock Market's Code of Conduct.
- Application of the General Policy on Conflicts of Interest.
- The fight against corruption and the prevention of money laundering and financing of terrorism.
- Team training on ethical matters.

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Value creation for our stakeholders

MoraBanc's dialogue with its stakeholders is one of the most important tools for implementing socially responsible management. For this reason, we strive to establish strong bonds of trust and to create sustainable value by means of flexible and participatory dialogue based on a responsible management model, as well as on honesty, transparency, ethical standards and relevant and reliable disclosure of information.

MoraBanc generates trust-based relationships with its stakeholders

STAKEHOLDER GROUP	DESCRIPTION	CHANNELS OF COMMUNICATION AND DIALOGUE
Customers	Our customers are our lifeblood and their satisfaction is our chief objective. We provide high-quality products, constantly seeking excellence in the service we provide.	The main communication channels are face-to-face, email, telephone, social media, digital newsletters, our blog, electronic banking, satisfaction surveys, etc. We use them to advertise products and services and provide corporate and cultural information, etc.
Employees	They are the key element of our success, thanks to their commitment and dedication. We strive to offer them a stable workplace in the best possible conditions.	We publish a monthly internal magazine involving the employees, we hold team meetings, we conduct internal climate and culture surveys; we have face-to-face and email contact, etc. We share information on a wide range of topics, such as employment issues, sales drives, changes in employment law and environmental awareness.
Suppliers	They provide us with products and services to carry on business. We establish relationships with them based on transparency and mutual respect, in order to guarantee the quality and availability of the products and services we provide.	The main communication channels are face-to-face meetings, telephone and email. We basically share commercial information on products and services, information security and sustainability issues.
Cultural, sporting and social institutions	These are institutions which form part of our environment and sphere of influence. For this reason we strive to contribute to their development.	We relate to each other in face-to-face meetings, by phone or by email, with the purpose of sharing information on the projects we undertake together.
Media	These are the channels which bring us closer to society by reporting what we do.	We share information of current interest by means of press releases, press conferences, telephone calls and meetings.
Institutions	These are the political representatives of the population of the country.	Relationship maintained through face-to-face meetings.

Suppliers, key elements in the value chain

We manage the value chain because we understand that our impact on sustainability extends all the way down it. For this reason, we ensure that they make our values their own and strictly comply with social, environmental and quality regulations and standards.

The Department of Service Purchasing, in order to optimise overall expenditure, centrally manages the purchasing process so as to achieve consistency between the different areas, the selected suppliers and the services we provide. It has a supplier management database to cover the entire procurement process (registration, selection, competition, preventive audit and legal review) and serves to manage the co-ordination of all the areas involved in procurement. The database and modification to our policies and processes enable us to manage all the suppliers on a single platform, selecting them through informed decision-making, improving the quality of the services they provide, reducing their cost and exercising greater control over the entire procurement process and the execution of the service or project.

Reflecting our business, we distinguish between two categories of suppliers: on the one hand, those who provide financial, audit and consultancy services and, on the other, suppliers of materials, maintenance and other goods.

SERVICE SUPPLIERS

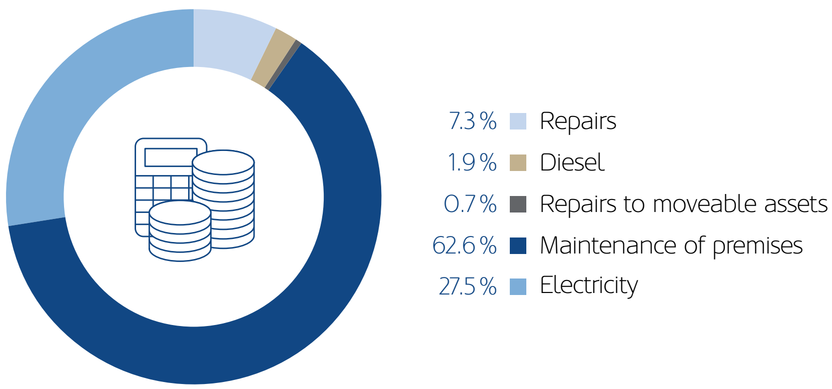
Our main suppliers are those providing audit and consultancy services. The services depend on the requirements of each business unit (regulatory compliance, analysis of the Group's situation for the implementation of controls or tools (software, IT), training, implementation of people management plans, etc.).

In our commitment to sustainability we prioritise companies that operate with a responsible attitude towards society and the environment. For this reason, we incorporate environmental and social criteria into the supplier selection processes, in accordance with MoraBanc's values and policies.

SUPPLIERS OF MATERIALS, MAINTENANCE AND OTHER GOODS

These providers participate in the maintenance of MoraBanc's infrastructure. In the case of the facilities in Andorra, the expenditure is distributed among a total of 70 suppliers, mostly Andorran.

Costs by types of customers



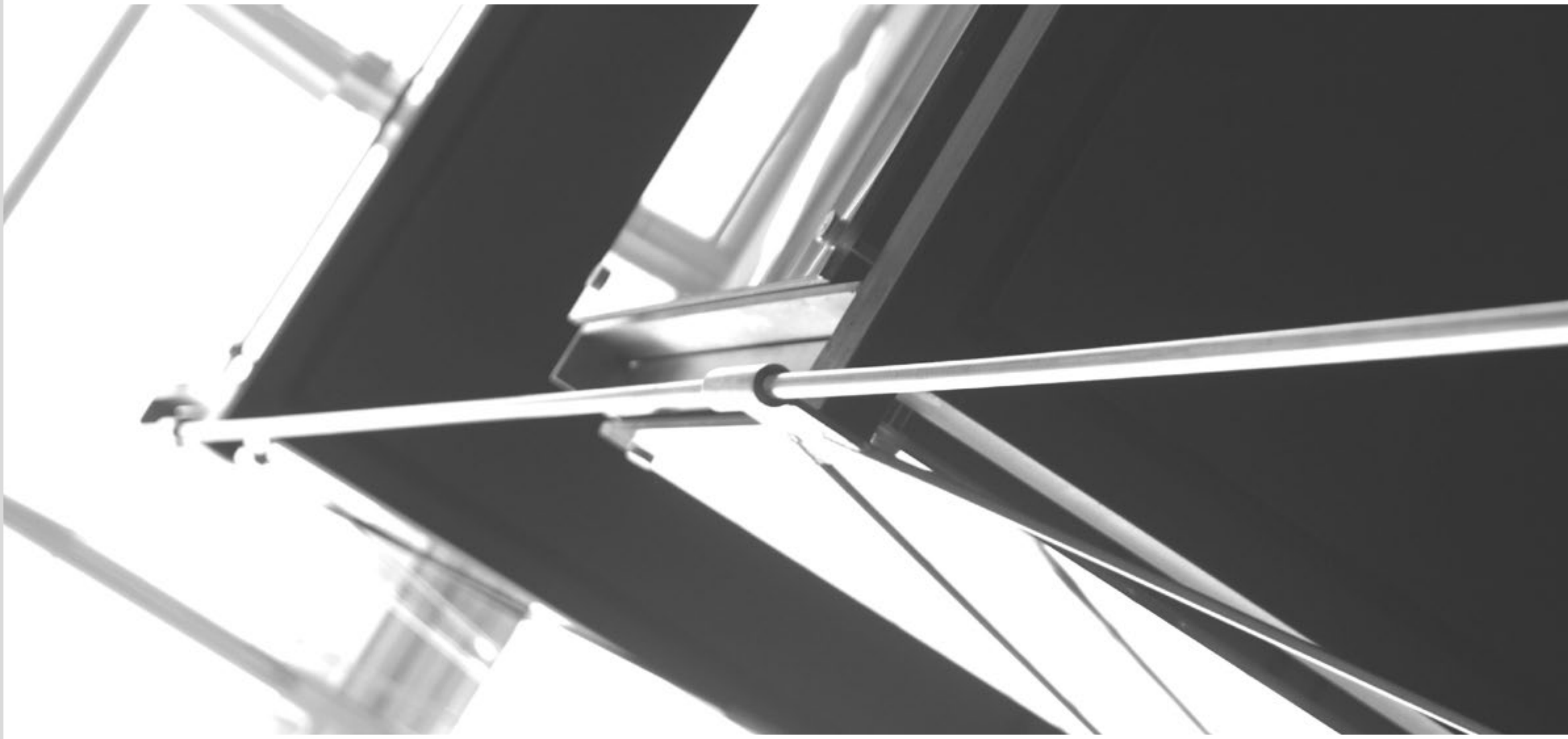
In addition, in accordance with our commitment to social responsibility, we prioritise companies governed by sustainability criteria. For this reason we require ISO 14001 certification or written documentation on the environmental practices they incorporate into their business.

MoraBanc requires ISO 14001 certification from suppliers

In particular, we give preference to suppliers who comply with strict environmental criteria and implement good management of the waste they generate.

Although the subsidiaries have their own suppliers which are not centralised, they are encouraged to use local suppliers in all cases.

MoraBanc, a bank for you 02



Find out more about the MoraBanc Group

The creation of value is our chief objective. We want to generate a **positive long-term impact** for all our stakeholders. We strive to meet the needs of our customers and to offer them products and services of the highest quality.

Founded in 1952, we retain the values of a family business and we maintain 100 % family and Andorran ownership, in the hands of the Mora family. Our model of corporate governance is based on our commitment to the sustainable development of business in Andorra and of its citizens, as well as the implementation of new strategies to address future challenges.

MoraBanc is an institution:

With a vision of continuity

Our decisions, based on the satisfaction of our customers, have a long-term vision and aim to maintain and enhance our relationships with them.

With an international vocation

We are a financial group with a clear global vocation. Geographical diversification provides us with great business opportunities. For this reason, ten years ago we decided to expand our presence outside the borders of Andorra.

Established, trustworthy and close

As a result of prudent and responsible management of the Bank's solvency and solidity and our experience in the sector, we have positioned ourselves as a trustworthy bank, committed to our customers and with high-quality products and services.

That pursues innovation as a basis for progress

We are characterised by our innovative spirit. We have the resolve to become a pioneering bank suited to our customers' new habits. We want to position ourselves as a benchmark in customer-oriented innovation.

That strives for excellence with commitment and effort

Our work is governed by discretion, transparency, quality and customer focus. This is reflected in our mindset of hard work, commitment and dedication to improving the services we provide.

MISSION, VISION AND VALUES

MISSION

MoraBanc's mission is to meet the needs of its customers and to satisfy their expectations, organised so as to create value, with quality as a distinctive competitive feature.

VISION

To be the best bank for our customers

—

To be the best company for our employees

—

To have the best technology at the service of people

—

To be the benchmark

PRINCIPLES AND VALUES

Principles

Our customers as the main focus of action

—

Respect for people

—

PEVO: all our actions must be based on planning, execution, verification and optimisation

—

Social engagement

—

Excellence

Values

Ethics and professional integrity

—

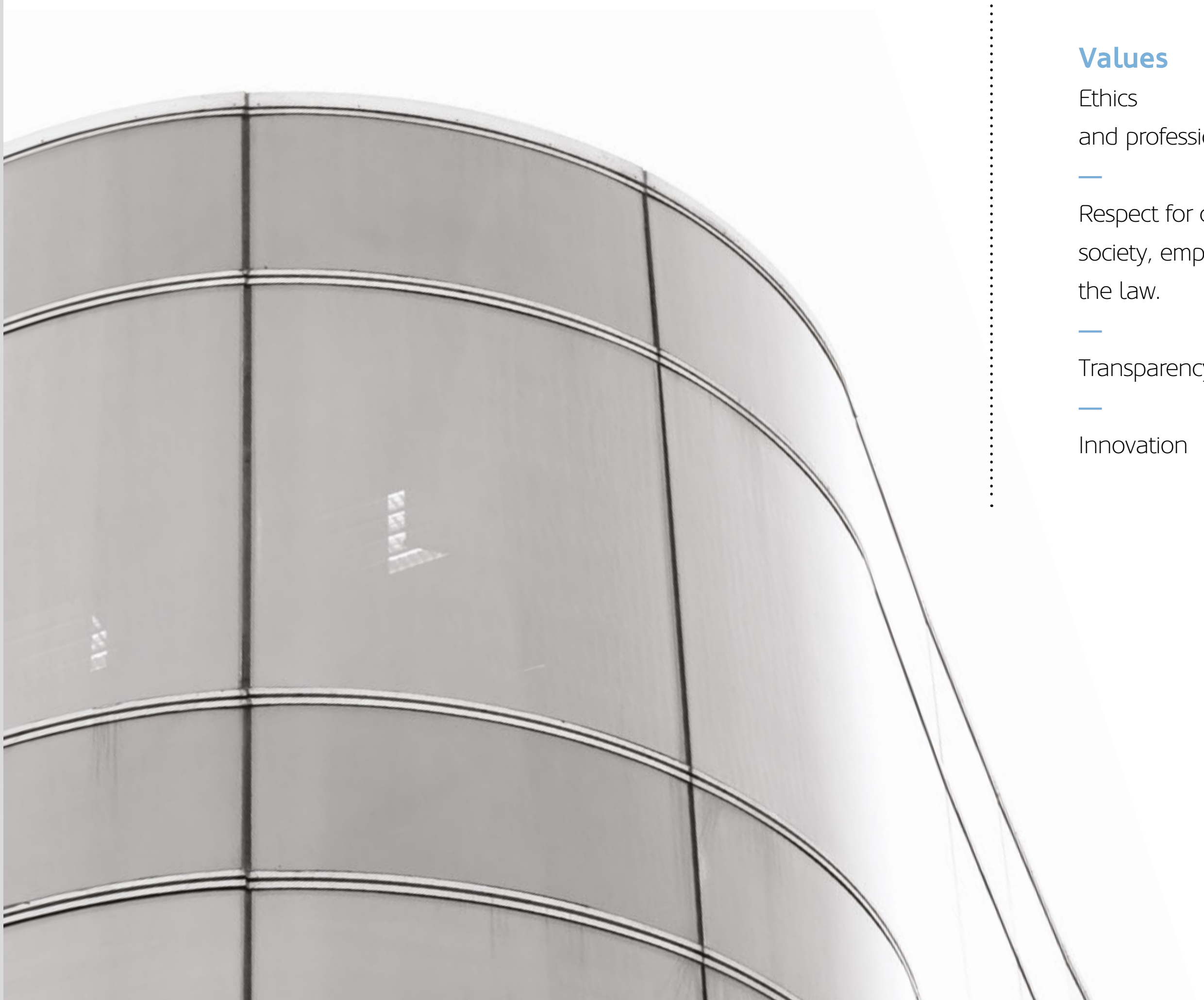
Respect for customers, society, employees and the law.

—

Transparency

—

Innovation



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Countries in which we operate

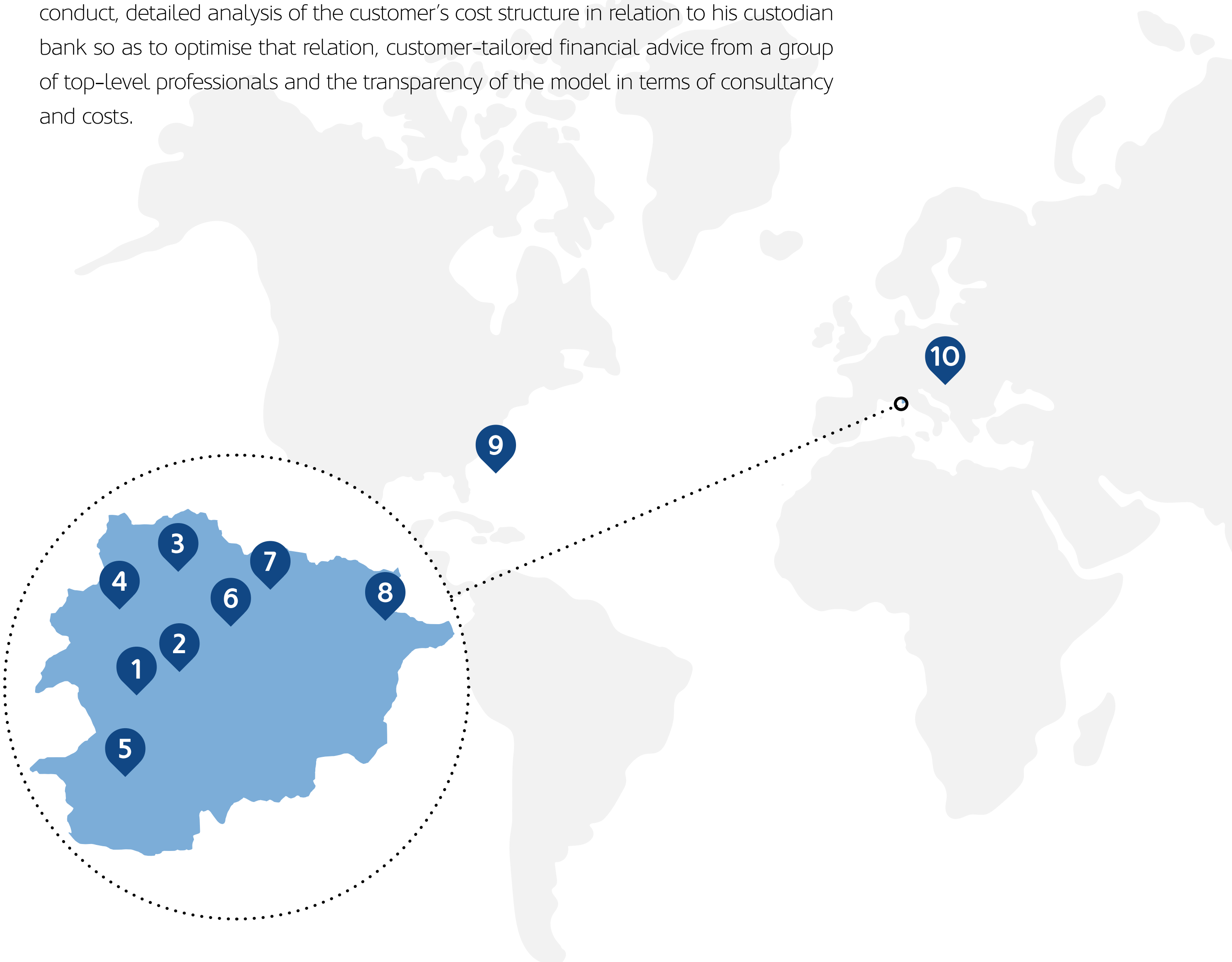
MoraBanc's head offices are located in Andorra la Vella. In addition, we have branches throughout the country in order to offer high-quality customer service.

In accordance with our international vocation, we have also operated in the international market since 2008. We have two asset managers, subsidiaries of Mora Wealth Management, which operate in Zurich (Switzerland) and Miami (USA).

Our international vocation generates new business opportunities for us

In Miami we carry on a Mora WM Securities business, with a broker-dealer engaged in intermediation in the sale and purchase of securities on behalf of third parties. In Luxembourg we manage investment funds in Amura Funds SICAV.

Mora Wealth Management Miami i Zuric, MoraBanc's wealth manager, is based on a multi-custodian model with an independent advice as a mandatory standard of conduct, detailed analysis of the customer's cost structure in relation to his custodian bank so as to optimise that relation, customer-tailored financial advice from a group of top-level professionals and the transparency of the model in terms of consultancy and costs.



1.A | Andorra la Vella

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2.B | Escaldes-Engordany

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3 | Ordino

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6 | Encamp

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7 | Canillo

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8 | Pas de la Casa

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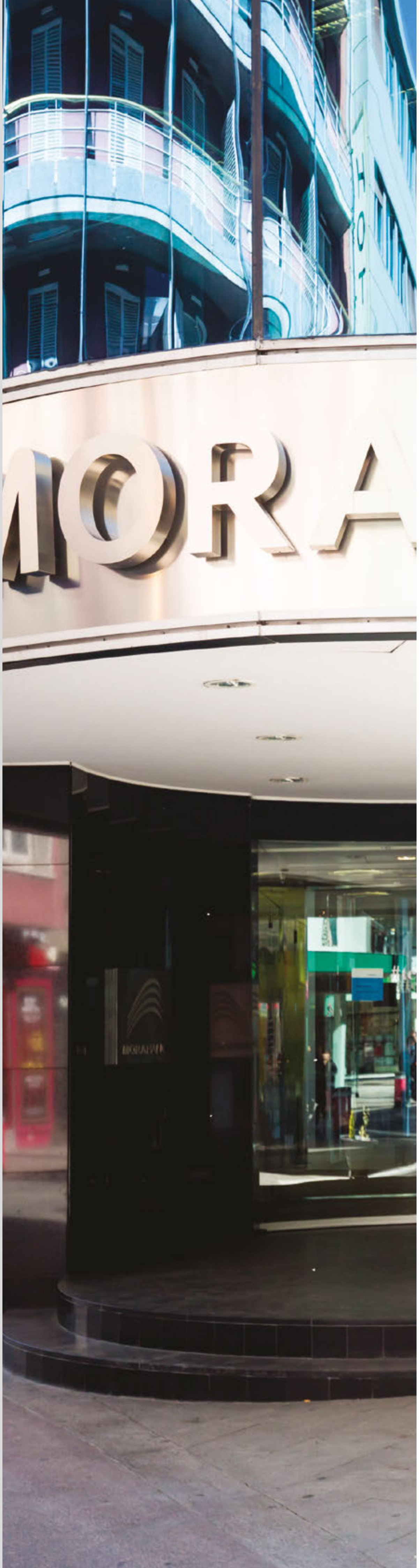

NATIONAL INSTITUTIONS WE FORM PART OF

Association of Andorran Banks: Andorran Banking (AB)

This is an association founded in 1960 whose corporate purpose is to represent the collective interests of credit establishments, particularly with regard to government and regulatory bodies, informing its members and the general public, studying matters of common interest, on its own initiative or at the request of the Government of Andorra, writing and proposing appropriate recommendations to promote the exercise of the banking profession and cooperation between different credit establishments, as well as the creation, organisation and management of services of common interest. AB represents the interests of all its members and, at the same time, guarantees good banking practices and the collective image. MoraBanc has formed part of AB since its creation.

EFA (Andorran Family Business for Total Quality Management)

This private and non-profit association brings together companies and corporate groups whose common denominator is the fact that they are owned by a family or family group. Generally speaking, the aim is to promote a culture of business and, in particular, to foster the continuity of family businesses and, in due course, the integration of subsequent generations. It also seeks to promote the implementation of total quality management systems, based on the European model of business excellence created by the European Foundation for Quality Management. The EFA promotes family business initiatives, supports entrepreneurs and provides technical and training support for the associated groups to develop a planning strategy and generational succession. In addition, the EFA has been a member of European Family Business since 2016. MoraBanc has formed part of the EFA since it was created in 2002.

CEA (Andorran Business Confederation)

Created in 2004 and well-established as a body representing the collective interests of Andorran business , it performs an active role in dialogue among Andorran business , institutions and Andorran society in general. Its chief objectives are the integration, promotion, communication and growth both of local subsidiaries and individual companies, devoting its efforts to the promotion of the country in the economic and tourism-related fields. Similarly, the CEA seeks to facilitate the promotion of new business ideas and stands behind young entrepreneurs to support the future of Andorran business. MoraBanc has participated in the CEA as a member of the AB.

Chamber of Commerce, Industry and Services of Andorra (CCIS)

The CCIS is a public institution with a private base, created by law in 1993 for the economic promotion and defence of the general interests of Andorran companies, from which it draws its members. The CCIS seeks to improve the activity of our companies in different fields. On the one hand, it carries out actions of common interest to contribute to the promotion, defence and support of general economic and business activity. It also exercises the public-administrative powers attributed to it by law. Finally, it provides services which can be used by companies as independent entities. MoraBanc has formed part of the CCIS since it was created.

JEF (Andorran Institute of Legal, Economic and Financial Studies)

This academic institution based in the Principality of Andorra, created in 2007, promotes knowledge in its fields of expertise. The main purpose of this non-profit foundation is to organise activities geared to training, research and dissemination in the legal, economic and financial spheres, with particular emphasis on international activities related to Europe, of interest to the Principality of Andorra. It is a joint foundation of the Government of Andorra, the Chamber of Commerce, Tourism and Services of the Principality of Andorra, the Association of Andorran Banks and the University of Andorra, all members of the Board. MoraBanc, as a member of AB, has formed part of it since its creation.

CFECI (Franco-Spanish Chamber of Commerce and Industry of Barcelona)

A private institution created in 1894 with the purpose of contributing to the development of trade relations between France and Spain, supporting private and public initiatives and organising a wide range of corporate activities. It provides opportunities to help entrepreneurs to develop a network of contacts and provides commercial assistance for French companies who wish to set up in Spain and for Spanish companies who wish to set up in France. MoraBanc has formed part of the CFECI since 2013.

Corporate governance

MoraBanc is a family-owned and independent bank with **professionalised management and governance.** The Board of Directors and its committees comply with the European Union's regulations on transparency and ethics, the guidelines of the Basel Committee and international practice in the field of good corporate governance of the financial institutions that we wish to be counted among.

MoraBanc seeks to adapt to the new regulations of the European Union

Members of the management team on the Executive Committee.
From left to right: Mike Manfred Saur, Anna Escoriza, Sara Álvarez, Lluís Alsina,
Pedro González, Gisela Villagordo, Rubén Aísa, Amparo M. Nieto and José Ignacio Amilburu.

BOARD OF DIRECTORS OF MORA BANC GRUP, SA

Jordi Mora Magriñà	Chairman	Shareholder Director
Pedro González Grau	Managing Director	Director
Oscar Aristot Borràs	Board Member	Shareholder Director
Lluís Àlvarez Mora	Board Member	Shareholder Director
Francesc Xavier Maymó Gatell	Board Member	Shareholder Director
Miguel Antonio Pérez Carnicero	Board Member	Independent
Agustín Berasaluce Astarloa	Board Member	Independent
José María Gefaell Chamochín	Board Member	Independent
Marc Vilallonga Puy	Non-Board Member Secretary	

BOARD OF DIRECTORS OF MORA BANC, SAU

Oscar Aristot Borràs	Chairman	Shareholder Director
Pedro González Grau	Managing Director	Director
Mora Fills, SA (represented by Jordi Mora Magriñà)	Board Member	Shareholder Director
Lluís Àlvarez Mora	Board Member	Shareholder Director
Francesc Xavier Maymó Gatell	Board Member	Shareholder Director
Miguel Antonio Pérez Carnicero	Board Member	Independent
Marc Vilallonga Puy	Non-Board Member Secretary	

MANAGEMENT TEAM

Pedro González Grau	Managing Director
Lluís Alsina Álvarez	Managing Director Business and Operations
M. Teresa Arauz Regue	Assistant Managing Director Internal Audit
Fernando López Cereijo	Assistant Managing Director Institutional Relations
Gisela Villagordo Escolà	Assistant Managing Director Andorran Business
Sara Álvarez Cazorla	Deputy Managing Director Financial Area
José Ignacio Amilburu Pérez	Deputy Managing Director Risks Area
Rubén Aísa García	Deputy Managing Director General Counsel
Anna Escoriza Martínez	Deputy Managing Director Private Banking and Investment Management
Mike Manfred Saur	Deputy Managing Director Operations
Amparo M. Nieto Linares	Deputy Managing Director Regulatory Compliance

ETHICS AND GOOD GOVERNANCE

The **fundamental pillars** upon which MoraBanc's activities and business are based are **ethics** and **integrity**. Beyond what we are bound to comply with as a matter of regulation, we are committed to transparency, professional ethics and respect for society and our customers, shareholders and employees.

The **Group's Code of Conduct and the Stock Market's Code of Conduct** are the standards by means of which we transfer these pillars to all the levels of the organisation. The two Codes define our values and corporate culture and the responsibility to conduct our business in accordance with standards designed to prevent any unfair, monopolistic or restrictive practices.

The Regulatory Compliance Department is responsible for drawing up the Codes of Conduct and adapting them as necessary. In addition, the Group's Board of Directors is the body responsible for approving them.

The **understanding** and **implementation** of the Codes of Conduct, as well as other applicable regulations, is ensured by our **control structures**. All the professionals who make up MoraBanc, in all the countries in which the institution operates, are obliged to comply with them. For this reason, when they join the organisation, they receive **training on the Codes of Conduct** and our internal procedures for the prevention of money laundering and financing of terrorism.

The **fight against corruption** and the **prevention of money laundering** and financing of terrorism are two permanent and all-pervading goals throughout the MoraBanc Group. In this regard, we should highlight the publication of Law 14/2017 of 22 June on the prevention of and the fight against the laundering of money or securities and the financing of terrorism. According to the preamble to the Law, these issues have become a national priority, leading to the adoption of legislative initiatives in recent years and a review of the prevention and repression system, in order to achieve the most effective framework for the fight against these practices. In **compliance with current legislation,** we have an **internal control structure** and mechanisms for the reporting of any suspicious action.

Our Code of Ethics defines the standards to prevent unfair competitive practices

Moreover, MoraBanc has defined and developed **internal communication channels** to inform the institution's senior management of potential ethically questionable conduct, practices or proposals of activity, with features making them liable to be regarded as instances of money laundering or the financing of terrorism. In such a case, the appropriate bodies undertake analysis and supervision.

We also have mechanisms enabling us to prevent, detect and investigate potential cases of corruption and fraud. In this regard, we have defined a corporate governance system which guarantees the **prevention of conflicts of interest** by means of the **General Policy on Conflicts of Interest.**

This document establishes the bases for the procedures to be followed in matters of prevention and management of conflicts and defines the handling of conflicts of interest which may affect shareholders, members of the Board of Directors, employees or directors of MoraBanc with regard to customers, suppliers or society in general.

MoraBanc's Corporate Integrity Management Committee and the Internal Control and Communication Body are the two management and control bodies responsible for these issues:

- **The Corporate Integrity Management Committee** is responsible, among other things, for promoting the adoption of measures enabling us to resolve ethically questionable actions, settle situations in which the Group's interests clash with those of the customers, draw up and circulate interpretative notes, propose potential changes in the content of the Code in order to adapt it to developments in the Group's activities and business, the environment in which they are conducted and the best practices of the financial industry, and to establish communication with the supervisory authorities.

- **The main tasks of the Internal Control and Communication Body** are to analyse, control and report to the supervisory authorities any information related to operations or events which may be related to money laundering or the financing of terrorism, in addition to establishing the policies and procedures necessary to identify, prevent and hinder the undertaking of transactions related to such activities. This body has total independence in the exercise of its duties. Its composition is established in accordance with functional integration criteria and its decisions are binding for the entire MoraBanc Group.

In a complementary manner, we have another control area, Risks, which ensures that the defined risk profile is kept within established limits. Similarly, it incorporates the corrective and mitigating policies necessary to maintain the risk levels in accordance with the objectives defined in the Group's strategy.

Finally, to ensure compliance with the institution's corporate good governance system as a third line of defence, Internal Audit is the control body which supervises the suitability and effectiveness of the internal control system, formulates conclusions and recommendations in this regard and checks on their implementation.

We have internal communication channels to detect unethical or questionable conduct and actions which may be regarded as money laundering or the financing of terrorism

COMPLIANCE WITH SECTORAL REGULATIONS IN MATTERS OF TRANSPARENCY

As a financial institution committed to responsible management, MoraBanc also complies with the various regulatory requirements governing the financial sector. The 2016 financial year constituted a special challenge with adaptation to the new **common standard of the OECD (Organization for Economic Cooperation and Development)** on the communication and preventive audit standards related to information on financial accounts. This is the Common Reporting Standard (CRS) which establishes the AEOI (Automatic Exchange of Information) to prevent tax evasion.

Law 19/2016 of 30 November on the automatic exchange of information on fiscal matters, which entered into force on 1 January 2017, regulates this particular exchange procedure, affected persons and the information to be exchanged with the corresponding countries[1].

In relation to the AEOI **(automatic exchange of information**) on fiscal matters, the main regulatory provisions consist of Law 19/2016 as mentioned and the two laws which complement it, Law 29/2017, which increased the number of jurisdictions with which Andorra exchanges information from 29 to 41 as of 1 January 2017, and Law 30/2017, which increased them to 73 as of 1 January 2018. Automatic exchange is regulated in accordance with the CRS/OECD standard.

We are committed to transparency and responsible management and we comply with regulatory requirements in the sector

Finally, during 2017, legislation included, on the one hand, the necessary changes in relation to exchanges of information on fiscal matters by prior request and, on the other, the introduction of spontaneous exchanges of information under Law 10/2017 of 25 May on exchanges of information by prior request and exchanges of spontaneous information on fiscal matters.

We also abide by the IFRS (International Financial Reporting Standards) to complement the exercise of responsibility in matters of transparency and to promote access to information.

1. Currently 73 jurisdictions.

Our customers, our purpose 03

Our business: products and services

Our relationship with our customers and their satisfaction is at the centre of our strategy. Our main concern is to advise our customers in all the financial aspects of their lives. This is why we strive to identify their needs and expectations, in order to adapt our processes, products and services on a continuous basis, within a new business model based on transparency, innovation and efficiency.

MoraBanc provides its customers with services related to commercial banking, private banking, *wealth management*, asset management, investment funds and insurance. In 2017 the volume of transactions totalled 7,333,106 thousand euros.[2]

MoraBanc advises its customers in all the financial aspects of their lives

COMMERCIAL BANKING

Commercial Banking focuses on banking for individuals and banking for businesses, companies and professionals. In 2016 we placed emphasis on domestic banking in order to provide a better service for our customers.

PRODUCTS

Banking for individuals

Accounts and cards
Savings
Investment products
Receipt and execution of orders
Discretionary and individualised portfolio management
Loans
Mortgages
Insurance
Digital MoraBanc

Business banking

Personalised service
International business
Investment products
Receipt and execution of orders
Discretionary and individualised portfolio management
Treasury and investments
Credit cards
Digital MoraBanc

In 2017 we continued with this philosophy, responding to their needs within a context of ongoing transformation.

At MoraBanc we have a culture focused on our customers, as they are the key to success. We continuously explore new links to bring us closer to them and to enable us to design suitable proposals for them. For this reason we adapt our value proposition to different customer segments.

2. These figures relate to customer funds and credit investments.

We develop commercial segmentation in accordance with the needs of each group, taking into account age and behavioural habits. We address each group via various communication channels (letters, emails, SMS, etc.). Our commitment to new technologies enables us to enhance our relationship with our customers and to establish a closer dialogue.

PRIVATE BANKING AND WEALTH MANAGEMENT

All MoraBanc's private banking activities are managed by expert staff in order to offer excellent service.

Private banking

MoraBanc's private banking adopts a management model revolving round the client and based on close relationships of mutual trust. Our task is to identify and analyse the clients' personal goals, in order to propose and design solutions to meet their needs. To fulfil this purpose, we provide them with the services of highly-qualified professionals with extensive experience.

Products and services

- Open architecture with a wide range of investment funds offered by both MoraBanc and third parties
- Discretionary and individualised portfolio management
- Receipt and execution of orders
- Innovation in structured products
- Health and life insurance and Unit Linked products
- Credit cards
- Range of loans and mortgages
- Preferential services
- Digital MoraBanc
- Online Broker

Mora Wealth Management

Mora Wealth Management provides highly sophisticated added value in the management of client assets. It is an independent management services firm offering integral investment solutions to private clients, *family offices* and institutional customers through multiple custodian banks in different international jurisdictions.

In order to offer services of the highest quality, we have specialised managers and a large professional team geared towards support and advice in finding the best solutions for the profiles of each of our clients in matters related to the management of their assets.

Products

- Open architecture
- Choice of custodian bank
- Asset structuring
- Discretionary and individualised portfolio management
- Receipt and execution of orders
- Discretionary and individualised portfolio management
- Monitoring and information

MORABANC ASSET MANAGEMENT

MoraBanc Asset Management is the unit responsible for all the discretionary management activity on behalf of third parties, which includes the management of mandates tailored to the customers of domestic banking, **private banking** and *wealth management*, with a diverse and competitive offer of investment funds.

The principles guiding our decisions are **prudence, diversification and transparency**. The MoraBanc Asset Management universe focuses chiefly on governmental and corporate income, as well as variable income and currencies in the European and North American areas and emerging markets.

Products

- Investment funds
- Management services and SICAV
- Communication

MORABANC ASSEGURANCES

MoraBanc Assegurances is MoraBanc's insurance company. It seeks to offer all types of insurance in the areas of life, accidents and health policies complementary to life policies. In addition to life insurance, the institution offers savings and welfare products such as pension and retirement plans. It also provides customers with Unit Linked products, which may be MoraBanc Unit Linked Funds, MoraBanc Unit Linked Portfolios or MoraBanc Unit Linked Assets, depending on the assets to which they are linked.

We strive for excellence in banking practice

At MoraBanc we listen to our customers and seek to respond to their needs by means of solutions allowing the establishment of long-term trust-based relationships. We have a **commitment** to meeting **high quality levels** in the provision of services in order to increase customer satisfaction.

With the aim of successfully addressing our challenges and improving the quality of our services, we have an **Internal Recognition Plan**, which enables us to strive for constant improvement, thanks to the motivation of all the professionals who make up the organisation. This is why we present quality awards to the best central service department and the best branch, as well as four individual prizes decided by senior management.

The Internal Recognition Plan allows us to promote continuous improvement thanks to the recognition of our team

Our professionals are a key element for our progress. Their knowledge and dedication create a point of difference enabling us to improve our daily activity and achieve maximum excellence. All our professionals have the chance to provide their input, using the **MoraBanc Ideas** platform in relation to any area or activity. The Ideas Committee is responsible for evaluating these contributions on a monthly basis. All the ideas approved in accordance with the Bank's business and sustainability strategy are implemented within the organisation. With the aim of promoting participation, they are also included in the Professional Recognition Plan.

Moreover, the effective centralisation of the **sales back office** into a single place was consolidated in 2017. This has led to the **streamlining of administrative process in the commercial banking area** and has given **more time** to the managers to offer better customer service.

Finally, we would like to highlight that we believe in **banking products** which have a **vision of sustainability**. For this reason, we have products which allow us to create synergies with our customers and contribute directly to sustainable development.

Statement by the Chairmen
Letter from the Chief Executive Officer
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Extension of our positive impact
GRI table of contents

In keeping with the "Engega Plan" of the Government of Andorra, which seeks to encourage the use of cars, motorcycles, commercial vehicles powered by non-polluting fuels or electricity and plug-in hybrids, MoraBanc markets products and services which promote practices respectful to the environment, such as the **"Eco-Cotxe" Loan.** This is a very low-interest loan for customers who purchase an electric vehicle or plug-in hybrid which is less than three years old.

During 2017 we focused our efforts on promoting this loan and making it easier to buy new, less polluting, vehicles.

We strive to achieve a more sustainable fleet of vehicles, facilitating the purchase of less polluting vehicles

Geared towards satisfaction

In order to **assess** customer satisfaction over the degree to which the services and products we offer adapt to their needs and expectations and to identify suggestions, complaints and improvement opportunities, we apply the NPS **(Net Promoter Score)** method.

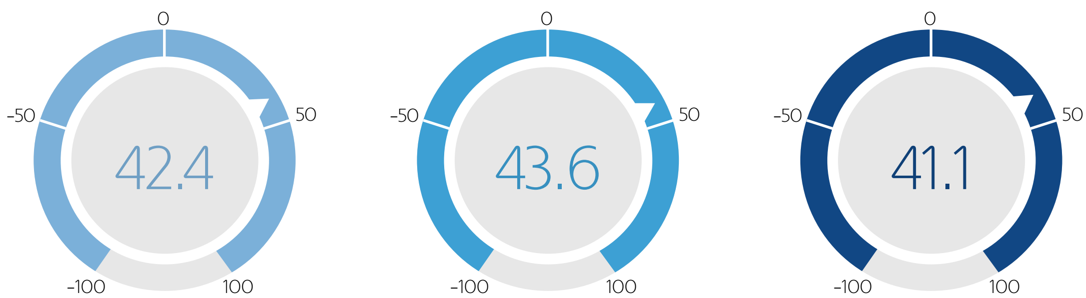
The result of the satisfaction survey was 41.1%

This system provides a highly defined and accurate view of the level of customer satisfaction, which, at the end of the day, can be reduced to a single question: "To what extent would you recommend MoraBanc to your relatives, friends and colleagues?" The survey, conducted by phone or email or on a tablet, enables us to almost immediately access the general and customer-segmented results. This immediacy gives us the opportunity to react quickly to manage customers' requirements more efficiently.

We are also interested in getting to know more about our customers' opinions about the services we provide. For this reason, in a complementary manner, the survey also asks about the **main reasons for satisfaction and dissatisfaction**, as well as proposals to improve the provision of the service.

During the year we conducted **3,835 surveys** among customers from Andorra. Therefore, since 2013, we have conducted a total of 20,753 customer surveys, producing a great deal of information. In addition, the Quality area and the sales areas manage each response on an individual basis. This is the strength of the method. The score, which rose until 2016, is an index which helps us to improve day by day. In 2017 it declined, which can be explained, on the one hand, by a change in the method and, on the other, by the reorganisation of the teams. The goal for 2018 is to recover the score's positive trend.

MORABANC NPS OVERALL MARK



NPS 2015
Total surveys responses: 5,770

NPS 2016
Total surveys responses: 4,024

NPS 2017
Total surveys responses: 3,835

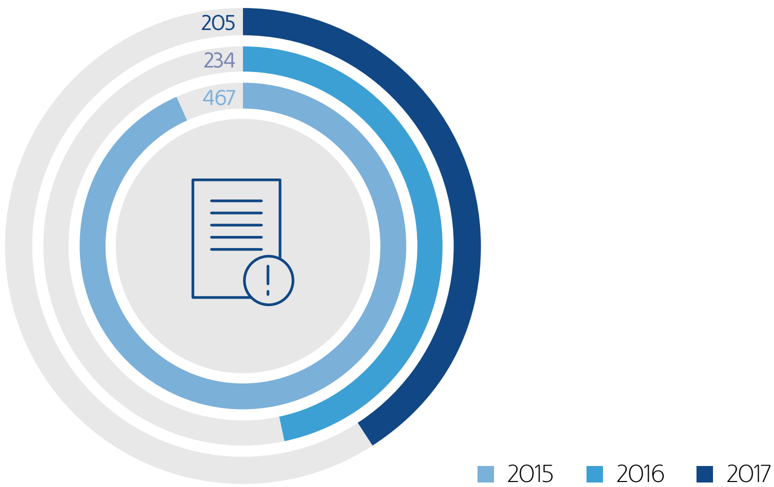
Customer claims and manager actions

The claim management model seeks to **improve customer service** with unified criteria permitting a clear and transparent resolution with a streamlined and efficient response. We have a database of claims and internal protocols which can be accessed by all employees. Claims are forwarded to the Quality area, which channels them and sends them to the corresponding department, in accordance with established procedures. The management of each department tracks them on, at least, a monthly basis.

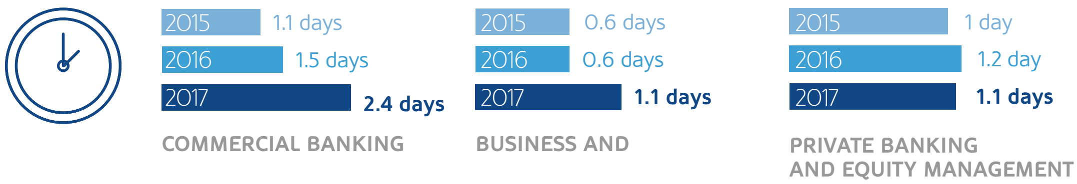
This allows them to identify the causes of dissatisfaction, the inconveniences met by customers , and, as a final result, the appropriate solutions in each case.

The number of claims fell by 56.10 % relative to 2015

NUMBER OF CLAIMS



AVERAGE RESPONSE TIME



CONTINGENCY AND BUSINESS CONTINUITY PLAN

In 2006, our interest in ensuring the highest quality led us to draw up a **Contingency and Business Continuity Plan**, defining the protocols to be followed to mitigate the effects of potential catastrophes, disasters or other crisis situations which may entail a total or partial interruption of business.

In this sense, the mechanisms to mitigate the above effects were developed in accordance with our priorities:

- To ensure the physical safety of people, both employees and customers. Mechanisms: occupational hazard prevention policies and the *Manual on health and safety in the workplace.*
- Recover information systems. Mechanisms: Information System Security Policy, System Contingency Plan.
- Guarantee service to the customers and the execution of transactions. Mechanisms: Activity or Business Continuity Plan.

The Business Continuity Committee is responsible for updating, improving and implementing the Contingency and Continuity Plan. In this regard, it is also responsible for providing the corresponding training, and for activating the Plan if necessary. It should be noted that there are other policies, manuals and protocols to complement its contents.

Client protection, a key element

4 EDUCACIÓ DE QUALITAT

In accordance with applicable regulatory requirements, in particular with regard to provisions regarding investor protection, MoraBanc has established **procedures and rules of conduct** to ensure that, at all times, it acts with **impartiality and professionalism, taking into account the interests of its clients**.

In this regard, Law 8/2013 of 9 May on the organisational requirements and operating conditions of institutions operating in the financial system, investor protection, market abuse and financial guarantee agreements incorporates the provisions of Law 14/2010 regarding investor protection, in keeping with the provisions of the European Markets in Financial Instruments Directive (MiFID). The main objective is to increase customer protection in relation to institutions which provide financial services by means of mandatory standards of conduct.

Given that not all customers have the same degree of knowledge and financial experience, in accordance with current regulations, the institution has a method for classifying customers' investment profiles, allowing the allocation of products based on customers' investor profiles to protect both the customer and the institution. The classification stems from the customer's level of complexity (knowledge and experience), the investment objective (risk level the customer wants to assume) and their financial situation (liquidity requirements).

MoraBanc adopts measures to protect the interests of its customers

In order to comply with this requirement, we apply the following policies:

- **Execution Policy and Order Management.** This establishes the reasonable measures to be taken to obtain the best possible results in the transactions we manage on behalf of our customers.
- **Asset Protection Policy.** The purpose of the Policy is to protect customers' rights of ownership in financial instruments in the event of the insolvency of the institution and to prevent the use of these financial instruments on the Bank's own account.

Moreover, we have a **Privacy Policy** in accordance with Law 15/2003 of 18 December on the protection of personal data. Ensuring confidentiality and protecting customer data is an imperative shared by all MoraBanc's professionals. For this reason we have implemented a system of measures and procedures designed to respect the fundamental principles governing this area. For example, the access management system has as its key principle that only employees who have a need to process data for customers will be able to access their information.

To ensure compliance with these standards, MoraBanc has a **Data Protection Officer**, who communicates on an ongoing basis with the country's Data Protection Agency and keeps it informed of the databases managed by MoraBanc and of any incident related to them. To carry out these duties, clauses relating to the transfer or processing of customer data are incorporated in all our contracts. As a control measure, the Legal and Information Security Department always verifies the existence of the specific permission of each customer before proceeding to the analysis, processing, management or transfer of data. This Department also takes part in all initial evaluations and in the subsequent reviews of any internal data processing or processing carried out by third parties.

Our implementation of internal measures and the requirement for third parties to comply with measures in relation to data protection complies with ISO 27000.

FINANCIAL LITERACY

During 2017 we continued the cycle of Àgora conferences, following the high attendances achieved in recent years. By means of this initiative we present new developments in the financial markets to specific groups interested in these issues.

They are economic seminars in small groups, at which the attendees can interact more directly with our experts. During 2017 we also held sessions for English-speaking customers.

We continue to bring bridge the gap between financial culture and society by means of the Àgora conference cycle

The topics covered by Àgora were the following:

- *Winter is coming.* Geopolitical risk, sudden currency movements, central banks which try to change course and favourable corporate and macroeconomic outturns. How should we invest in this context? Participants: David Azcona, CEO and Investment Director, Aleksandra Tomala, CFA (Research & Strategy), Xavier Torres, CEFA (RV Strategy) and Miquel Soca, CEFA (RF Strategy).
- *What if 2018 were the new 1998?* Participants: Aleksandra Tomala, CFA (Research & Strategy); Gerard Garcia, CEFA (Equity Strategy), Miquel Soca, CEFA (Fixed Income Strategy) and Tomàs V. Garcia-Purriños, CFA (FX and Commodities).
- *Europe it's your turn!* Participants: David Azcona, CEO and Investment Director, Aleksandra Tomala, CFA (Research & Strategy), Xavier Torres, CEFA (RV Strategy) and Miquel Soca, CEFA (RF Strategy).

In keeping with this approach, the MoraBanc team of experts once again published the *Market and Strategies* monthly reports and Research Focus notes on the institution's website, setting out their vision of the economic situation, the behaviour of financial markets and other relevant circumstances with an economic impact. These are publications on topical subjects, intended to increase public interest, help people to make investment decisions and generally improve financial literacy.

In addition, our experts appear in the media to explain the most important economic and financial issues, in a manner which is clear and understandable for the public:

- We have two scheduled slots on the *Ara* i *Aquí* programme on RNA (Andorran National Radio), in which our experts talk about financial markets and the economy in general.
- We participate in a weekly section on Cadena Ser Andorra on the *Ser Empresaris* programme ('Be in Business'), discussing economic issues in an informative way.
- Each day we publish an article in the *Diari d'Andorra* called "Actu-alitat econòmica" ('Economic news'), explaining what happened the day before in the markets and the economy and what is expected to happen during the day.
- We also frequently take part in the *Tiempo Real* programme with the Spanish Gestiona Ràdio chain and the *Expansión* newspaper, with accurate commentary on current economic and financial topics to address people's concerns.
- We also participate in Spanish and international websites and spe-cialised publications.

With an even more educational and more domesitc nature, the **MoraBanc blog** has an area devoted to knowledge and current affairs. In a clear and simple manner, the articles explain matters related to the every-day economy and banking and financial news, as well as other issues of general interest. The blog is a modern and enjoyable way of generating content for the public, improving general financial education and helping the financial decision-making of the general public.

Open and transparent dialogue

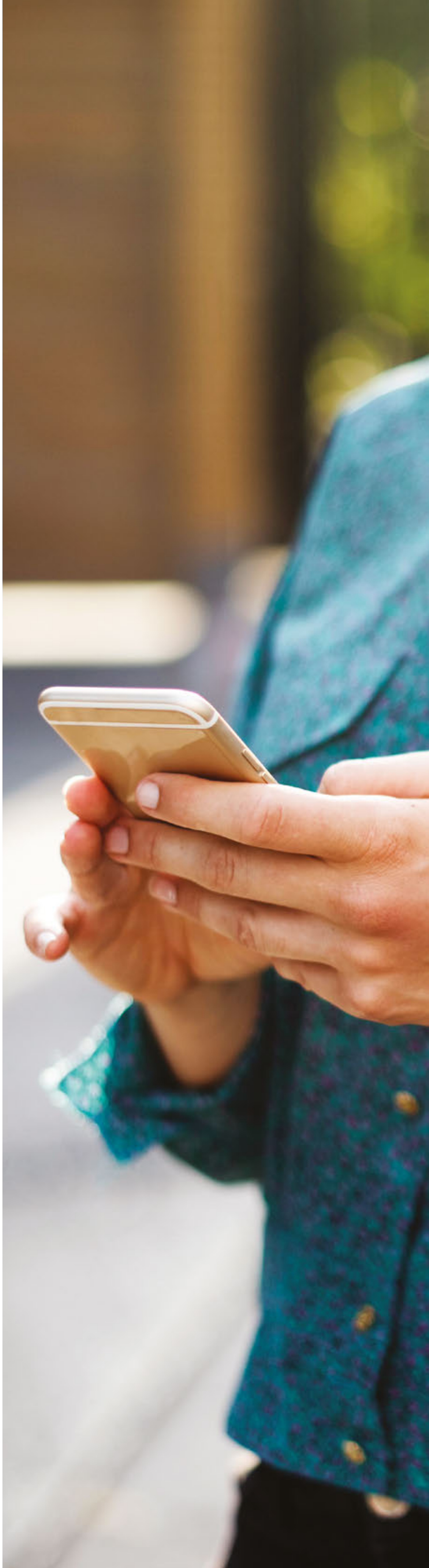
MoraBanc wants to maintain the trust of its customers. For this reason, we work each day to **nurture our relationships** with both current customers and potential future customers. Our priorities include emphasising our closeness to customers and building a stable relationship as the basis for a sustainable business.

We believe that building a stable bond with the customer begins by providing clear, accurate and detailed information on the institution's products and services, enabling the customer to make the best decisions. In this regard, it is our social responsibility to introduce financial concepts to our customers, ensuring they understand them and helping to improve our communication and dialogue with them.

We provide several channels of communication with customers:

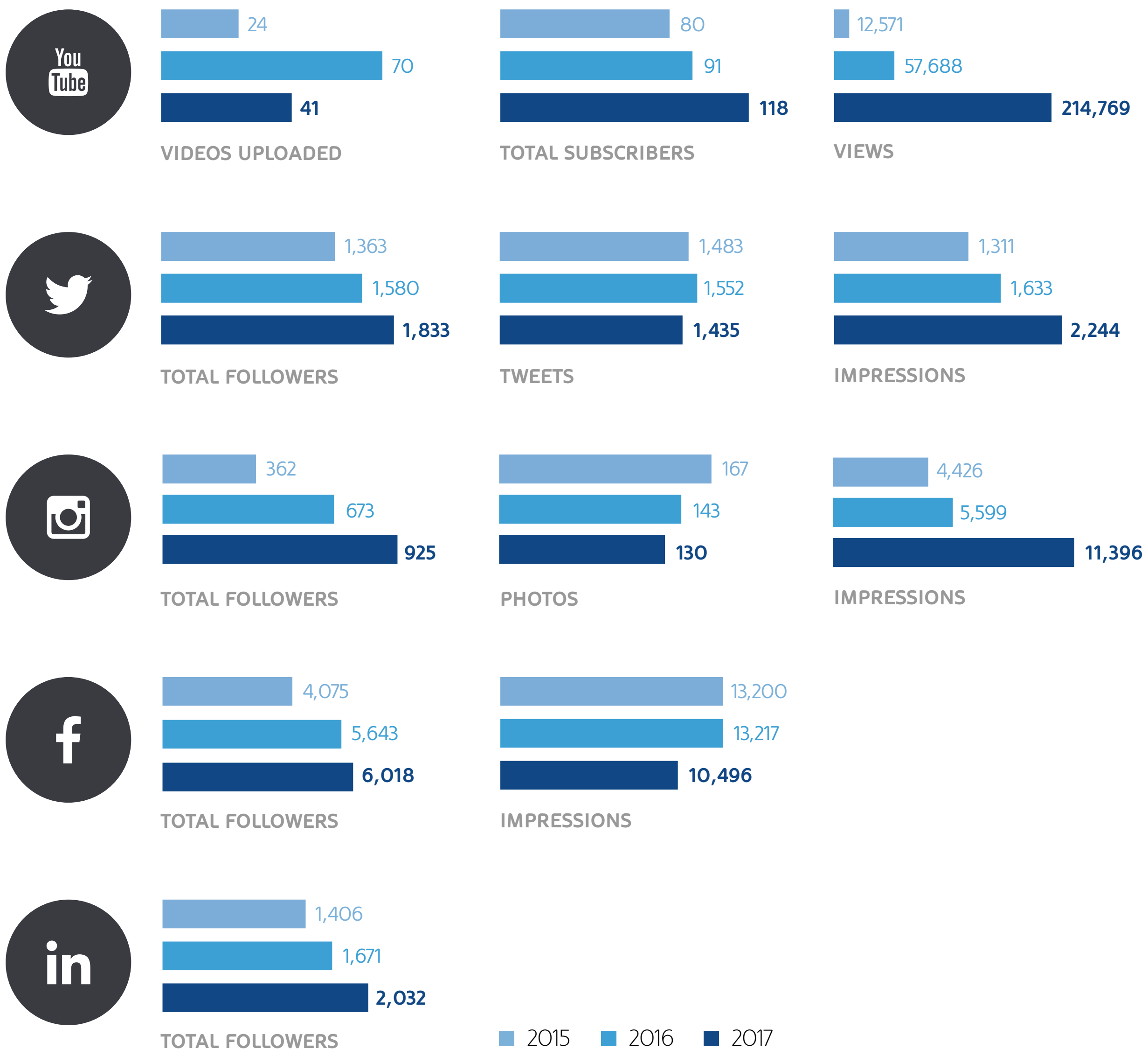
- Personal service throughout the MoraBanc branch network.
- Telephone contact via the Telebanc service, email messages and letters.
- The intuitive www.morabanc.ad, with a great deal of information on the Group's products and services.
- Our email newsletter for customers, with information on developments on the blog, new products, the activities we organise, useful information, etc.
- MoraBanc Online and the app for mobile devices.
- Social media.

We provide customers with multiple channels to enhance our relationship with them



SOCIAL MEDIA

We focus on social media as a point of contact with our customers, in a world in which consumers are increasingly connected. Through our social media presence we establish a more sustained relationship, as we inform them of matters of interest related to the services we offer, the banking sector and the activities we sponsor and organise.



Innovation for a better service

Innovation is a fundamental pillar within our Strategy. We regard creativity, leadership, flexibility and initiative as elements for progress and the generation of a positive impact on the institution and society.

So we have continued to develop our commercial model, offering greater proximity and availability as a result of our digitisation, without losing personal and direct contact with our customers. This digitisation is the result of customers' new needs in terms of both process efficiency and interaction.

All these efforts were rewarded. In 2017, ***International Banker*** magazine presented MoraBanc with the award for the **Best Commercial Bank, Andorra**. The jury praised MoraBanc's **transformation plan** to adapt quickly and efficiently to the new domestic and international banking environment.

MoraBanc received the award for Best Commercial Bank, Andorra, adjudicated by *International Banker* magazine

DIGITAL MORABANC

We want to become an innovative benchmark in banking to maximise our customers' experience, in a more simple, intuitive and secure manner. In order to adapt to our customers' new habits and needs, at the end of 2016 we brought forward a new concept of banking: **Digital MoraBanc**.

MoraBanc's **digitisation process** has been focused on ensuring that our customers have a satisfactory experience, providing them with information and offering them value-added products and services. Similarly, we have implemented our new contactless card service for all customers, facilitating and streamlining card payments at the till.

In 2017, we also introduced **improvements in our app and electronic banking** to increase the possibilities this new product provides. We should highlight the launch of our **new investment platform**, which, together with the Online Broker, a virtual portfolio simulator, and advanced search engines for movements and contents, make our banking platform the most comprehensive and advanced in the country.

Proof of our success was the increase in the number of accesses to electronic banking (90%), as well as the 23% rise in visits to the public website. With regard to transactions, transfers of money through the electronic bank went up by 36%.

In a highly competitive environment such as the digital market, we are proud of the **two awards** that MoraBanc' digital bank received from one of the pioneering publications in the field of finance, ***World Finance***: Best App and Best Digital Banking,Andorra, thanks to **the qualitative improvement MoraBanc has undergone in the digital field**.

We received two awards from *World Finance* magazine for the transformation of MoraBanc in the digital field

MORABANC

Financial Statements 04

Audit report

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 2017, the consolidated income statement, consolidated statement of comprehensive income, total statement of changes in the consolidated net equity and consolidated cash flows 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 2017, 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.

Emphasis of Matter

We draw attention to Note 2 to the accompanying consolidated financial statements, which indicates that these consolidated financial statements for 2017 are the first that the Group has prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs), and concurrently adopted by Andorra (Andorran IFRSs). Consequently, the information relating to 2016, which is presented in the accompanying consolidated financial statements for 2017 solely for comparison purposes, differs from the information contained in the consolidated financial statements for 2016, which were prepared in accordance with the accounting principles and rules in force at the time as approved by the Annual General Meeting held on 28 April 2017. Note 48 to the accompanying consolidated financial statements for 2017 describes the main effects of the use of the aforementioned accounting rules on the consolidated statements of financial position as at 1 January and 31 December 2016, on consolidated equity at 1 January and 31 December 2016 and on the Group's consolidated results for 2016. Our opinion is not modified in respect of this matter.

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.

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.

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.

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

28 March 2018

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 2017 and 2016 and 1 January 2016, in thousands of euros

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

Translation of consolidated financial statements originally issued in Catalan and prepared in accordance with the International Financial Reporting Standards (see Note 49). In the event of a discrepancy, the Catalan language version prevails.

In thousands of euros

ASSETS	Note	31/12/2017	31/12/2016 (*)	01/01/2016 (*)
Cash, cash balance in central banks and other demand deposits	**9**	**19,104**	**43,005**	**27,282**
Financial assets held for trading	**7, 10**	**194,835**	**223,441**	**154,380**
Equity instruments		30,632	26,656	59,325
Debt securities		147,360	184,568	88,151
Derivatives		16,843	12,217	6,904
Financial assets designated at fair value with changes in results	**7, 11**	**357,145**	**356,757**	**564,553**
Equity instruments		299,559	315,351	479,539
Debt securities		57,586	41,406	85,014
Available-for-sale financial assets	**7, 12**	**419,793**	**335,107**	**434,001**
Equity instruments		67,524	73,230	144,979
Debt securities		352,269	261,877	289,022
Loans and accounts receivable	**7, 13**	**1,360,329**	**1,502,145**	**1,759,359**
Debt securities		165,791	107,373	89,423
Loans and advances		1,194,538	1,394,772	1,669,936
Credit institutions		244,812	397,486	671,271
Customer		949,726	997,286	998,665
Held-to-maturity financial assets	**7, 14**	**66,408**	**31,601**	**28,399**
Hedging derivatives	**7, 15**	**753**	**43**	–
Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging	**15**	**12**	–	–
Investments in subsidiaries, joint ventures and associates	**4,16**	**31**	**50**	**48**
Assets covered by insurance and reinsurance contracts	**22**	**35,961**	**38,021**	**38,269**
Tangible assets and property investments	**17**	**83,120**	**80,540**	**109,757**
Fixed assets		55,981	58,376	79,874
Property investments		27,139	22,164	29,883
Intangible assets	**18**	**10,550**	**10,587**	**8,149**
Other intangible assets		10,550	10,587	8,149
Tax assets	**41**	**6,936**	**7,031**	**5,167**
Current tax assets		798	1,278	700
Deferred tax assets		6,138	5,753	4,467
Other assets	**19**	**7,565**	**14,165**	**35,663**
Non-current assets and disposable groups of items held for sale	**20**	**15,153**	**18,589**	**24,227**
TOTAL ASSETS		**2,577,695**	**2,661,082**	**3,189,254**

(*) Submitted solely and exclusively for comparative purposes

The attached Notes 1 to 49 form an integral part of the consolidated statement of financial position as of 31 December 2017,

Consolidated statements of financial position

As of 31 December 2017 and 2016 and 1 January 2016, in thousands of euros

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

Translation of consolidated financial statements originally issued in Catalan and prepared in accordance with the International Financial Reporting Standards (see Note 49). In the event of a discrepancy, the Catalan language version prevails.

In thousands of euros

LIABILITIES	Note	31/12/2017	31/12/2016 (*)	01/01/2016 (*)
Financial liabilities held for trading	**10**	**16,167**	**18,479**	**5,471**
Derivatives		16,167	18,479	5,471
Financial liabilities designated at fair value with changes in results	**11**	**405,870**	**461,982**	**813,274**
Other financial liabilities		405,870	461,982	813,274
Financial liabilities at amortised cost	**21**	**1,739,956**	**1,767,667**	**1,948,102**
Deposits of central banks and credit institutions		20,767	15,298	52,240
INAF (Andorran National Institute of Finance)		21,276	19,851	16,394
Customer deposits		1,651,084	1,680,241	1,827,249
Debt securities issued		34,795	37,314	52,216
Other financial liabilities		12,034	14,963	3
Hedging derivatives	**15**	**3,148**	**4,663**	**6,340**
Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging	**15**	**779**	**-**	**-**
Liabilities covered by insurance and reinsurance contracts	**22**	**86,094**	**83,158**	**78,748**
Provisions	**23**	**26,004**	**24,941**	**17,998**
Pensions and other post-employment defined benefit obligations		16,211	18,489	8,887
Other long-term employee remuneration		1,355	1,172	1,098
Procedural issues and litigation for pending taxes		4,184	1,498	-
Commitments and guarantees granted		10	-	-
Other provisions		4,244	3,782	8,013
Tax liabilities	**41**	**5,360**	**5,294**	**1,617**
Current tax liabilities		4,020	4,369	684
Deferred tax liabilities		1,340	925	933
Other liabilities	**19**	**17,067**	**24,203**	**34,865**
TOTAL LIABILITIES		**2,300,445**	**2,390,387**	**2,906,415**

(*) Submitted solely and exclusively for comparative purposes

The attached Notes 1 to 49 form an integral part of the consolidated statement of financial position as of 31 December 2017,

Consolidated statements of financial position

As of 31 December 2017 and 2016 and 1 January 2016, in thousands of euros

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

Translation of consolidated financial statements originally issued in Catalan and prepared in accordance with the International Financial Reporting Standards (see Note 49). In the event of a discrepancy, the Catalan language version prevails.

In thousands of euros

NET EQUITY	Note	31/12/2017	31/12/2016 (*)	01/01/2016 (*)
Capital	**25**	**42,407**	**42,407**	**42,407**
Other accumulated global results	**15, 26**	**2,806**	**7,207**	**21,246**
Items which can be reclassified in results		2,806	7,207	21,246
Hedging derivatives. Cash flow hedges (effective part)		867	906	863
Available-for-sale financial assets		1,939	6,301	20,383
Accumulated profits	**25**	**145,608**	**148,469**	**180,976**
Other reserves	**25**	**75,841**	**63,721**	**63,214**
Reserves or losses accumulated from investments in subsidiaries, joint ventures and associates		-	-	-
Others		75,841	63,721	63,214
Result attributable to the owners of the controlling company		**23,517**	**22,695**	**-**
(-) Interim dividend	**5**	**(12,925)**	**(13,800)**	**(25,000)**
Minority interests (non-controlling interests)		**(4)**	**(4)**	**(4)**
Other items	**27**	(4)	(4)	(4)
TOTAL NET EQUITY		**277,250**	**270,695**	**282,839**
TOTAL NET EQUITY AND LIABILITIES		**2,577,695**	**2,661,082**	**3,189,254**

(*) Submitted solely and exclusively for comparative purposes

The attached Notes 1 to 49 form an integral part of the consolidated statement of financial position as of 31 December 2017,

Consolidated income statements

Financial years ending on 31 December 2017 and 2016, in thousands of euros

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

Translation of consolidated financial statements originally issued in Catalan and prepared in accordance with the International Financial Reporting Standards (see Note 49). In the event of a discrepancy, the Catalan language version prevails.

In thousands of euros

CONSOLIDATED INCOME STATEMENTS	Note	2017	2016 (*)
Interest income	**33**	26,938	27,215
Interest expenses	**33**	(5,858)	(8,020)
Dividend income		166	1,171
INTEREST MARGIN		**21,246**	**20,366**
Commission income	**34**	65,182	77,664
Commission expenses	**34**	(10,382)	(8,569)
Results of institutions valued by the equity method	**36**	(99)	9
Results of financial operations	**35**	10,837	27,463
For financial instruments not valued at their fair value with changes in results, net		9,279	22,154
For financial assets and liabilities held for trading, net		204	2,086
Profits or losses resulting from hedge accounting, net		(153)	-
Exchange differences (profit or loss), net		1,507	2,284
Profits or losses due to derecognition of non-financial assets, net		-	939
Results of assets and liabilities covered by insurance and reinsurance contracts	**37,A**	2,433	4,017
Other operating income	**37,B**	606	2,442
Other operating expenses	**37,B**	(1,013)	(2,187)
GROSS MARGIN		**88,810**	**121,205**
Administrative costs		(51,797)	(66,560)
Personnel costs	**38**	(30,158)	(35,877)
Other administrative costs	**39**	(21,639)	(30,683)
Amortisation	**17, 18**	(8,010)	(7,561)
Provisions or reversal of provisions	**23**	(2,256)	(11,984)
Impairment of the value or reversal of the impairment of the value of financial assets not valued at their fair value with changes in results	**40**	(1,814)	(8,278)
Available for sale		(17)	-
Loans and receivables		(1,732)	(8,278)
Held-to-maturity financial assets		(65)	-
OPERATING RESULT		**24,933**	**26,822**
Profits or losses from non-current assets on sale not classified as discontinued operations	**20**	90	(2,197)
RESULT BEFORE TAXES		**25,023**	**24,625**
Corporation tax	**41**	(1,506)	(1,930)
RESULTS FOR THE FINANCIAL YEAR FROM ONGOING OPERATIONS		**23,517**	**22,695**
RESULT OF THE FINANCIAL YEAR		**23,517**	**22,695**
ATTRIBUTABLE TO THE OWNERS OF THE CONTROLLING COMPANY		**23,517**	**22,695**
ATTRIBUTABLE TO THE MINORITY INTERESTS		-	-

(*) Submitted solely and exclusively for comparative purposes

The attached Notes 1 to 49 form an integral part of the consolidated statement of income for the financial year ending on 31 December 2017,

Statement of changes in the consolidated net equity (I)

Financial years ending on 31 December 2017 and 2016, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

Translation of consolidated financial statements originally issued in Catalan and prepared in accordance with the International Financial Reporting Standards (see Note 49). In the event of a discrepancy, the Catalan language version prevails.

In thousands of euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2017	2016 (*)
RESULT FOR THE PERIOD	23,517	22,695
Other global results	**(4,401)**	**(14,039)**
Items which can be reclassified in results	**(4,121)**	**(13,318)**
Cash flow hedges	**(39)**	**43**
Profits (losses) by valuation	(39)	43
Available-for-sale financial assets	**(4,082)**	**(13,361)**
Profits (losses) by valuation	2,293	11,864
Amounts transferred to profit or loss	(6,375)	(25,225)
Income tax related to items which can be reclassified in profit or loss	**(280)**	**(721)**
GLOBAL RESULT FOR THE PERIOD	19,116	8,656
Attributable to the owners of the controlling company	19,116	8,656
Attributable to the minority interests	-	-

(*) Submitted solely and exclusively for comparative purposes

The attached Notes 1 to 49 form an integral part of the consolidated statement of comprehensive income for the financial year ending on 31 December 2017,

Statement of changes in the consolidated net equity (II)

Financial years ending on 31 December 2017 and 2016, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

Translation of consolidated financial statements originally issued in Catalan and prepared in accordance with the International Financial Reporting Standards (see Note 49). In the event of a discrepancy, the Catalan language version prevails.

In thousands of euros

								Minority interests		
TOTAL STATEMENT OF CHANGES IN THE CONSOLIDATED NET EQUITY	**Capital**	**Other accumulated global results**	**Accumulated profits**	**Other reserves**	**Profit or loss attributable to the owners of the controlling company**	**(-) Interim dividends**	**(-) Complementary dividends**	**Other accumulated global results**	**Other items**	**Total**
Balance as of 1 January 2016 (*)								–	**(4)**	**282,839**
Distribution of the 2015 result	–	–	(25,507)	507	–	25,000	–	–	–	–
Dividends	–	–	(7,000)	–	–	(13,800)	–	–	–	–
Other increases or decreases in the net equity	–	–	–	–	–	–	–	–	–	(20,800)
Total global result of the financial year	–	(14,039)	–	–	22,695	–	–	–	–	8,656
Balance as of 31 December 2016 (*)	**42,407**	**7,207**	**148,469**	**63,721**	**22,695**	**(13,800)**	–	–	**(4)**	**270,695**
Distribution of the 2016 result	–	–	8,895	–	(22,695)	13,800	–	–	–	–
Dividends	–	–	–	–	–	(12,925)	–	–	–	(12,925)
Other increases or decreases in the net equity	–	–	(11,756)	12,120	–	–	–	–	–	364
Total global result of the financial year	–	(4,401)	–	–	23,517	–	–	–	–	19,116
Balance as of 31 December 2017	**42,407**	**2,806**	**145,608**	**75,841**	**23,517**	**(12,925)**	–	–	**(4)**	**277,250**

(*) Submitted solely and exclusively for comparative purposes

The attached Notes 1 to 49 form an integral part of the changes in the consolidated net equity of the financial year ending on 31 December 2017,

Consolidated cash flows statement

Financial years ending on 31 December 2017 and 2016, in thousands of euros

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

Translation of consolidated financial statements originally issued in Catalan and prepared in accordance with the International Financial Reporting Standards (see Note 49). In the event of a discrepancy, the Catalan language version prevails.

In thousands of euros	2017	2016 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	(153,813)	(196,956)
Result of the financial year	**23,517**	**22,694**
Adjustments to obtain the cash flows from the operating activities	**528**	**3,950**
Amortisation	8,010	7,561
Other adjustments	(7,482)	(3,611)
Net (increase)/decrease in the operating assets	**(81,119)**	**300,343**
Financial assets held for trading	28,606	(69,061)
Financial assets at fair value with changes in income statements	3,385	204,023
Available-for-sale financial assets	(75,338)	(10,151)
Loans and receivables	(45,936)	165,576
Other operating assets	8,164	9,956
Net (increase)/decrease in the operating liabilities	**(96,739)**	**(523,943)**
Financial liabilities held for trading	(2,312)	13,008
Financial liabilities at fair value with changes in income statements	(54,667)	545,139
Financial liabilities at amortised cost	(28,965)	(165,380)
Other operating liabilities	(10,491)	(915,227)
Collections/payments for corporation tax	(304)	(1,483)
B) CASH FLOWS FROM INVESTMENT ACTIVITIES	(42,101)	154,220
Payments:	**(45,424)**	**127,997**
Tangible assets	(5,425)	24,105
Intangible assets	(5,127)	(6,533)
Held-to-maturity investments	(34,872)	110,425
Collections:	**3,323**	**26,223**
Investments in joint ventures and associates	(202)	21,136
Non-current assets and liabilities which have been classified as held for sale	3,525	5,087
C) CASH FLOWS FROM FINANCING ACTIVITIES	(15,444)	(24,927)
Payments:	**(15,444)**	**(24,927)**
Dividends (Note 5)	(12,925)	(13,800)
Acquisition of equity instruments	(2,519)	(11,127)
D) EFFECT OF THE VARIATIONS IN EXCHANGE RATES	1,507	2,283
E) NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS (A+B+C+D)	(209,851)	(65,380)
F) CASH AND EQUIVALENTS AT THE START OF THE PERIOD	416,899	482,279
G) CASH AND EQUIVALENTS AT THE END OF THE PERIOD (E+F)	207,048	416,899
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD		
Cash	18,894	42,795
Balances equivalent to cash in central banks	210	210
Other financial assets	187,944	373,894
TOTAL CASH AND EQUIVALENTS AT THE END OF THE PERIOD	207,048	416,899

(*) Submitted solely and exclusively for comparative purposes

The attached Notes 1 to 49 form an integral part of the consolidated Cash Flow Statement for the financial year ending on 31 December 2017,

Notes to the consolidated financial statements

Financial year ending on 31 December 2017

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

Translation of consolidated financial statements originally issued in Catalan and prepared in accordance with the International Financial Reporting Standards (see Note 49). In the event of a discrepancy, the Catalan language version prevails.

1. INTRODUCTION

Mora Banc Grup, SA (hereinafter, the Bank or the Institution) and Mora Banc, SAU (hereinafter, the Banks) are Andorran companies with their 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 (see Note 4). Similarly, the Group provides the investment and auxiliary services permitted to banking institutions, as stipulated in Articles 5 and 6 of Law 13/2010 of 13 May on the legal system of financial investment institutions and managing companies of collective investment undertakings, 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 MoraBanc Group and its subsidiary companies corresponding to 2017 were formulated by the Board of Directors at its meeting held on 27 March 2018, These consolidated financial statements are awaiting 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 2016 were approved by the General Meeting of Shareholders held on 28 April 2017,

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), an authority of the Andorran financial system which performs its functions independently of the General Administration and forms an integral part of the Andorran Banking Association (hereinafter, ABA).

2. BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) Declaration of compliance

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter, the IFRS) adopted by the INAF by means of the Decree published on 28 December 2016 approving the accounting framework applicable to institutions operating within the Andorran financial system and collective investment undertakings under Andorran law, in accordance with the International Financial Reporting Standards approved by the European Union (IFRS-EU), which have now been adopted by Andorra (IFRS-Andorra).

These are the first consolidated financial statements prepared in accordance with the IFRS and, therefore, IFRS 1 (First-time Adoption of International Financial Reporting Standards) has been applied.

An explanation of how the transition to the IFRS has affected the Group's consolidated financial statements is provided in Note 48,

The Group's consolidated financial statements corresponding to 2017 have been formulated by the Bank's directors in accordance with the provisions of the International Financial Reporting Standards, 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 Group's equity and financial situation as of 31 December 2017, the results of its operations, the changes in its net equity and the consolidated cash flows which occurred in 2017,

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 to the consolidated financial statements contain additional information to that submitted in the consolidated statement of financial position, the consolidated statement of income, 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.

b) New standards and interpretations issued currently in force

As of the end of 2017, the most significant standards and interpretations which have entered into force were the following:

Standards and interpretations	Title	Application obligatory for financial years already underway, starting from:
Amendment IAS 7	Cash flow statement	1 January 2017
Amendment IAS 12	Recognition of assets for deferred taxes for unrealised losses	1 January 2017

Amendment IAS 7 "Cash flow statement"

In January 2016 the IASB amended IAS 7 to require institutions to provide information enabling users of the financial statements to assess the changes in the liabilities resulting from financing activities, including those resulting from cash flows and those not entailing cash flows. For this reason, it may be necessary to provide information on (i) changes resulting from cash flows for financing, (ii) changes resulting from obtaining or losing control of subsidiaries or other businesses, (iii) the effect of variations in foreign currency exchange rates, (iv) changes in fair value and (v) other changes.

Amendment IAS 12 "Recognition of assets for deferred taxes for unrealised losses"

By means of these amendments, the IASB clarifies, among other aspects, the following:

- Deductions below the cost in the carrying amount of a fixed-rate debt instrument measured at fair value by means of which the tax base is recognised at cost will result in a deductible temporary difference. This applies regardless of whether the holder of the debt instrument expects to recover the carrying amount of the debt instrument for sale or use, in other words, continuing to retain it, or whether the issuer is likely to pay all the contractual cash flows. Normally, the payment of the principal in full does not increase or decrease the fiscal gain submitted for tax purposes, because the tax base is equal to the inflow of economic benefits.

- When an institution evaluates whether the taxable profits against which a deductible temporary difference can be used will be available, it considers whether the tax legislation restricts the sources of the taxable profits against which deductions can be made at the time of the reversal of this deductible temporary difference. If the tax legislation does not impose said restrictions, an institution will evaluate a deductible temporary difference in combination with all the others. However, if the tax legislation restricts the use of losses being deducted against income of a specific type, a deductible temporary difference will only be evaluated in combination with those of the appropriate type.

- An estimate of the likely future taxable profit could include the recovery of some of the assets of an institution for an amount greater than their carrying amount, if there is sufficient evidence of what the institution is likely to obtain. For example, when an asset is measured at fair value, the institution will consider whether there is sufficient evidence to conclude that it is likely to recover the asset for more than its carrying amount. This could occur, for example, when an institution expects to maintain a debt instrument at a fixed rate and collect the contractual cash flows.

- This regulatory change has not had a significant impact on the Group.

c) Comparison of the information

The consolidated financial statements corresponding to the year ending on 31 December 2017 are the first to have been drawn up in accordance with the IFRS, resulting in changes in the accounting policies, appraisal criteria and the submission of the consolidated financial statements with respect to the accounting regulatory framework in force at the time of formulating the 2016 consolidated financial statements.

The figures corresponding to the 2016 financial year are submitted solely and exclusively for comparative purposes and do not coincide with those formulated on 22 March 2017 by the Board of Directors of Mora Banc Grup, SA, as they have been restated with the new regulations. Note 48 explains the main effects of the adaptation to the IFRS.

d) 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:

- 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 (Notes 16 and 37)
- The useful life and impairment losses concerning the tangible and intangible assets (Notes 3,n, 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.

e) 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.

f) Error correction

In the drawing up of the 2017 consolidated financial statements, no error has been detected leading to the restatement of the amounts included in the 2016 consolidated financial statements.

g) 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.

I.Public debt

In compliance with this coefficient, the Group, as of 31 December 2017, underwrote €62,166 thousand 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 0,25%, with a rate schedule established upon its issue.

The amount underwritten by the Group for this issue is recorded under the heading "Loans and receivables - Debt securities" of the attached consolidated statement of financial position (see Note 13).

II.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 2017 and 2016, accounted for the respective amounts of €690 thousand and €835 thousand and are recorded under the heading "Loans and accounts receivable - Loans and advances" of the attached consolidated statement of financial position.

III.Guarantee reserves

Deposit guarantee fund

The General Council of the Principality of Andorra, at its session on 2 February 2011, approved the Law to create a deposit guarantee system for banking institutions, obliging banking institutions authorised to operate in the Andorran financial system to maintain investments in liquid and safe assets to offset an unavailable reserve, related to 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 €24,124 thousand as of 31 December 2017, 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 are easily realisable and deemed appropriate by the INAF at any time, in accordance with the requirements established in the above-mentioned law (see Notes 25 and 44,a).

IV.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 thousand to which the Group contributed €5,154 thousand (see Note 44). In 2015 the Bank constituted an unavailable reserve for all the above contribution charged to voluntary reserves. The provision for the amount pending payment was recorded on 1 January 2016, In the same year, an initial payment of €515 thousand was made and the second payment was made in 2016 for the amount of €4,639 thousand, charged to the provision maintained in the liabilities in the statement of financial position.

In accordance with the same Law, the Group recorded the expenditure corresponding to the ordinary contributions in 2017 under the heading "Other operating expenses" of the attached consolidated statements of income, for the amount of €503 thousand (Note 37,b)..

V.Deposits with the INAF

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'Assets, SAU held minimum equity reserves for the amount of €210 thousand as of 31 December 2017 and 2016 (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 APPLIED

In the drawing up of the Group's consolidated financial statements corresponding to 2017, 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):

a) 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 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 assets and liabilities, by means of the application of the exchange rate at the end of the year.
- The income and expenditure, applying the average exchange rates for the year.
- The net equity, at 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 "Exchange differences (profit or loss), net" of the consolidated statement of income.

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.

b) 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, statute 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.

- And, 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 interests)" of the consolidated financial statement. The results of the year are submitted in the section titled "Results of the financial year - attributable to minority interests" in the consolidated statement of income.

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 non-linked institutions. 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, jointly-controlled 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 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 2017, the Group maintained its holding in Serveis i Mitjans de Pagament XXI, SA 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 2017 and 2016 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 statement of income 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.

c) 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.

Classifications of financial assets for valuation purposes

The financial assets 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 assets 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 assets are included for the purposes of their valuation in one of the following portfolios:

- **Financial assets held for trading (at fair value with changes in profit or loss):** financial assets acquired in order to benefit from the short-term variations their prices undergo or with the differences between their purchase and sale prices and financial derivatives which are not regarded as accounting hedges.

- **Financial assets designated at fair value with changes in results:** financial assets which do not form part of the trading portfolio are included in this portfolio 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 assets 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. Financial assets may only be included in this portfolio on the date of their acquisition or creation.

- **Available-for-sale financial assets:** Debt securities not classified as held-to-maturity investments, loans and accounts receivable and other financial assets at fair value with changes in results, and equity instruments issued by institutions different from subsidiaries, associates or jointly-controlled entities, provided that they have not been regarded as a trading portfolio or as other financial assets at fair value with changes in results.

- **Loans and accounts receivable:** these include the investment from typical credit activity, such as the effective amounts prepared and pending amortisation for customers in the form of loans or deposits lent to other institutions, whatever their legal instrumentation, and non-listed debt securities, as well as debts incurred by purchasers of goods or users of services provided by the Group which form part of the Group's business.

  In general terms, it is the Group's intention to maintain the loans and credits which are granted until their final maturity, which is why they are submitted in the consolidated statement of financial position at their amortised cost, which includes the corrections to be introduced to reflect the estimated losses during their recovery.

- **Held-to-maturity investments:** debt securities which have a precise maturity date and give rise to payments on the date and for fixed or determinable amounts upon which there is an intention and demonstrated capacity to hold them until maturity.

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:

- **Cash, cash balances in central banks and other demand deposits:** cash balances and debtor balances with immediate availability originating in deposits held at the INAF and other central banks.

- **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.
    - Customers: 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 statement of income 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.

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

- **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).

- **Financial liabilities designated at fair value with changes in 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 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.

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: deposits of any nature, including credits received and monetary market transactions received from the INAF or other central banks.
    - Deposits of credit institutions: deposits of any nature, including credits received and monetary market transactions on behalf of credit institutions.
    - Customer 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 statement of income 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.

d) Valuation and recording of results of financial assets and liabilities

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 with changes in results, 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 for loans and accounts receivable, held-to-maturity investments and equity instruments whose fair value cannot be determined in a sufficiently objective manner (as well as financial derivatives they have these equity instruments as an underlying asset and are settled by issuance thereof) are valued at their fair value without deducting any transaction cost for 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 results 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 assets included in the sections titled "Loans and accounts receivable" and "Held-to-maturity investments" 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 statement of income 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.
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.

Equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives with these instruments as the underlying asset and which are settled by issuance thereof are held at the acquisition cost corrected as applicable, due to any impairment losses they may have undergone.

Valuation of the financial liabilities

Financial liabilities are generally valued at their amortised cost, as defined above, except those included in the sections titled "Financial liabilities held for trading" and "Financial liabilities designated at fair value with changes in results" and the financial liabilities designated as hedged items in fair value hedges (or as hedging instruments), which are valued at their 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 year. For the following 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 operation, the current market value (CMV), 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 results generated by these financial instruments, are fair.

Recording of results

As a general rule, variations in the carrying value of the financial assets and liabilities are recorded with a balancing entry in the consolidated statement of income, distinguishing between those which have their origin in the accrual of interests 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 result of financial operations, and are classified in accordance with the corresponding portfolio of the consolidated statement of income.

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

- Available-for-sale financial assets are temporarily recorded under the equity heading titled "Other accumulated global results - Items which can be reclassified in results - Available-for-sale financial assets", 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 (profit or loss), net" of the consolidated income statement.

- Loans charged or paid under the heading titled "Other accumulated global results - Items which can be reclassified in results" remain part of the Group's consolidated net equity until any impairment or decline in the consolidated statement of financial position occurs.

- Unrealised valuation gains from available-for-sale assets classified as "Non-current assets and disposable groups of items classified as held for sale" to form part of a disposable group or a discontinued operation are recorded with a balancing entry under the heading entitled "Other accumulated global results - Items which can be reclassified in results" of the consolidated net equity.

Hedging activities

The Group can use financial derivatives for the following purposes:

- to provide these instruments to customers 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 MoraBanc 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.

- To effectively eliminate any inherent risk to the hedged item or position throughout the whole envisaged hedging period, which means that:

    - 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).

    - 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 statement of income.

- 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 statement of income, 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 statement of income 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 accumulated global results - Items which can be reclassified in results - 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 statement of income, 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 accumulated global results - Items which can be reclassified in results - 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 statement of income, under the section titled "Results of financial operations - 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 results, 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 economic characteristics and risks inherent in the implicit derivative are not closely related to those corresponding to the host 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 with changes in profit or loss (in other words, a derivative found implicit in a financial asset or liability measured at fair value with changes in the profit or loss for the period will not be separated).

e) 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:

    - 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 with changes in 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.

f) 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 2017 and 2016, the Bank presented in its consolidated statement of financial position the net value of the subordinate liabilities issued, discounting the value of the issues repurchased from customers.

g) Impairment of the value of the financial assets

Definition

A financial asset is regarded as impaired (and, consequently, its carrying value is corrected to reflect the effect of its impairment) when there is objective evidence that events have occurred leading to the following:

- In the case of debt instruments (credits and debt securities), a negative impact on the future cash flows calculated at the time the transaction is formalised.

- In the case of equity instruments, when their carrying value cannot be fully recovered.

As a general criterion, the correction of the carrying value of the financial instruments due to their impairment is charged to the consolidated statement of income for the period in which this impairment is manifested and the recoveries of the previously recorded impairment losses, if there are any, are recognised in the consolidated statement of income for the period in which the impairment ceases to exist or is reduced.

In the event that an asset is regarded as impaired, the accrual of its interests is discontinued and, as applicable, the collections received are applied to the recognition of the accrued interests and any excess which may exist to reduce the capital pending amortisation.

Debt instruments valued at their amortised cost

Depending on the risk of insolvency attributable to the customer or the transaction, they are classified in one of the following categories:

- Normal risk: it includes the instruments that do not meet the requirements to classify them in other categories.

- Doubtful risk:
    - *Due to the customer's default:* includes 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, with more than 90 days of age, unless it is appropriate to classify them as bad loans.

    - The refinancing or restructuring of operations which are not up-to-date with their payments does not interrupt their default, nor does it result in their reclassification in the normal risk category, unless there is reasonable certainty that the customer can make the payment in accordance with the new envisaged schedule, or that they can provide new effective guarantees.

Similarly, operations which arise from what is known as the carry-over effect are classified as doubtful for reasons of default. This effect is applied to a borrower when operations with overdue amounts more than 90 days of age exceed 20% of the amounts pending collection.

Operations in which, as a result of the collection of part of the overdue amounts, the reasons leading to their classification as a doubtful risk disappear and the holder does not have overdue amounts exceeding 90 days on the reclassification date are reclassified as normal risks.

Secured guarantees for money deposits, listed equity instruments and debt securities issued by issuers of acknowledged solvency are regarded as effective guarantees, as well as mortgage guarantees on housing, offices and completed multi-purpose premises and rustic properties, having deducted, as appropriate, the prior charges, and personal guarantees, such as endorsements, deposits or incorporations of new owners, entailing the direct and joint responsibility of the new guarantors, with the latter persons or institutions being those who will guarantee sufficiently proven solvency for the purpose of ensuring the total reimbursement of the operation within the agreed periods.

- *For reasons other than the customer's default:* including debt instruments, overdue or otherwise, in which, without the circumstances to classify them in the categories of bad or doubtful loans due to the customer's default, there exist reasonable doubts about their total reimbursement, principal and interest, in the terms contractually agreed upon.

As a general criterion, only the expenses legally claimable and the expenses of lawyers and solicitors are activated and, therefore, they increase the amount of the debt.

- Bad loan risk: in this category, debt instruments, overdue or otherwise, whose recovery is remote are classified in this category and they are derecognised in the assets, 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.

  Unless there is proof to the contrary, all the debts are included in this category, except for amounts covered by sufficient effective guarantees, when the borrowers suffer a marked and irrecoverable impairment of their solvency, when the settlement phase of the insolvency proceedings has been declared or when more than six years have gone by for mortgage-backed operations and three years for operations with a personal guarantee of their classification as doubtful loans due to their default.

In accordance with IAS 39, objective evidence of impairment (hereinafter, OEI) is any event or credit item which occurs on the date of the presentation of the financial information (or earlier) and negatively affects the cash flows expected from a financial instrument. The OEI of an asset includes observable data on the following aspects:

- Significant financial difficulties of the issuer or counterparty.

- Breaches of the contractual clauses, such as defaults (as defined by the Bank) or continued delays in the payment of the interest or principal.

- Refinancing due to the poor credit conditions of the counterparty.

- Likelihood of going into administration or another type of reorganisation or settlement.

- Disappearance of the active market of a financial asset due to financial difficulties. Notwithstanding the above, the same event resulting from the non-listing of the financial instruments does not constitute objective evidence of impairment in itself.

- Observable data indicating a reduction in future flows following the initial recognition, such as:

    - Adverse changes in the state of the counterparty's payments demonstrated, for example, by means of credit card provisions at their limit.

    - National or local economic conditions correlated with defaults (unemployment, falls in property prices, etc.).

- A reduction in the rating or fair value of assets valued at amortised cost below their cost or amortised cost does not necessarily constitute objective evidence of impairment but rather an indication of impairment. When this occurs, the Group proceeds to perform an analysis in order to assess the existence or otherwise of impairment.

In order to determine the impairment losses, the Group performs monitoring of the debtors, as indicated below:

- Individually: significant debt instruments whose balance exceeds the threshold set by the Group and entails a doubtful risk. The individualised analysis takes into account the amounts owed by the borrower and the guarantees provided, as well as the borrower's financial information to identify their financial position.

- Collectively: in all other cases. The Group groups together the instruments which have similar credit risk characteristics and are indicative of the debtors' ability to pay all the amounts, principal and interest, in accordance with the contractual conditions. The credit risk characteristics which are taken into account to group together the assets are, among others, the type of instrument, the debtor's activity sector, the geographical area of activity, the type of guarantee, the age of the overdue amounts and any other factor relevant to the calculation of the future cash flows. This category includes risks with individuals, individual entrepreneurs and non-characterised retail banking companies.

With regard to impairment losses caused by the materialisation of the borrower's insolvency risk (credit risk), a debt instrument undergoes impairment due to insolvency when there is evidence of a worsening of the borrower's payment capacity, or it has been demonstrated by his default or for other reasons.

The Group has policies, methods and procedures for hedging its credit risk, due both to insolvency attributable to the counterparties and country risk. These policies, methods and procedures are applied to the granting, study and documentation of the debt instruments, risks and contingent commitments, as well as to the identification of their impairment and the calculation of the amounts necessary to cover their credit risk.

The Group's internal models determine the impairment losses on the debt instruments not valued at their fair value with changes in the consolidated statement of income, as well as the contingent risks, taking into account the historical experience of impairment and any other circumstances known at the moment of the assessment. For these purposes, losses due to the impairment of credit are losses incurred on the date of the drawing up of the consolidated statement of income, calculated using statistical procedures.

The Group has a method for calculating the impairment based on *exposure at default* (EAD), *probability of default* (PD) and the measure of severity, *loss given default* (LGD).

The amount of the impairment losses undergone by these instruments coincides with the difference between their respective carrying values and the current values of their expected future cash flows. The following are taken into account in the calculation of the future cash flows of the debt instruments:

- The total of the amounts expected to be obtained during the remaining life of the instrument, and even, if applicable, those which may have their origin in its guarantees (after deducting the costs necessary for its award and later sale). In the analysis of the fair value of the guarantees associated with credit risk transactions, the Group has defined a model for applying adjustments to the value of the guarantees (haircuts), in accordance with the following parameters:

    - The historical average losses obtained by the Group in the disposals of awarded assets.

    - The evolution of the prices calculated until the sale of these assets and the costs of their sale.

    - The necessary corrective factor associated with the evolution of the (HPI) housing price index in the country where it is located.

The calculation of the impairment loss takes into account:

- the possibility of collecting the accrued, overdue and uncollected interest,

- the different types of risk to which each instrument is subjected and

- the circumstances in which the collections are likely to occur.

These cash flows are subsequently updated at the effective interest rate of the instrument (if its contractual rate is fixed) or at the effective contractual interest rate as at the date of the update (when it is variable).

Debt or equity instruments classified as available for sale

The impairment loss is equivalent to the positive difference between their acquisition cost (net of any amortisation of the principal, in the case of debt instruments) and their recoverable value, after deducting any impairment losses previously recognised in the consolidated statement of income.

When, on the date of the valuation of these instruments, there exists objective evidence that these differences originate in permanent impairment, they cease to be submitted under the heading

"Other accumulated global results - Items which can be reclassified in results - Available-for-sale financial assets" of the net equity, all the accumulated amount until then being reclassified in the consolidated statement of income.

If all or part of the impairment losses are subsequently recovered, their amount is recognised, in the case of debt instruments, in the consolidated statement of income for the period in which the recovery occurs (or under the net equity heading in "Items which can be reclassified in results - Available-for-sale financial assets" in the case of equity instruments).

Equity instruments valued at cost

The impairment losses are equivalent to the difference between the carrying value and the current value of the expected future cash flows, updated at the market return rate for similar securities.

The impairment losses are recorded in the consolidated statement of income for the period in which they arise, directly reducing the cost of the instrument. These losses may only be subsequently recovered when the amount of the impairment loss decreases, provided that this decrease can be objectively related to an event subsequent to the recognition of the deterioration, without, in any case, the above-mentioned recovery giving rise to a carrying value that exceeds the cost of the instrument.

h) Temporary acquisition (transfer) of assets

Purchases (sales) of financial instruments with the commitment of their non-optional retrocession 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 "Loans and accounts receivable - Loans and advances" 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.

i) 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 statement of income at the moment the rights to receive them are created by the institutions.

Commissions

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

- Income and expenses related to financial assets and liabilities valued at fair value with changes in 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 results throughout the expected life of the financial instrument.

These commissions form part of the effective rate of the financial instruments. However, when a debt instrument is considered impaired, the recognition of the interest accrued in the consolidated statement of income is discontinued.

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.

j) 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, property assets and other non-current assets received by the consolidated institutions for the total or partial satisfaction of their debtors' payment obligations to them are regarded as non-current held-for-sale assets, unless the consolidated institutions have decided to make continued use of these assets. 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.

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.

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), as:

- The effective need for the sale of non-current assets held for sale in the short term.
- Award and maintenance costs.
- Average time they remain in the statement of financial position.
- Corrective factor based on the historical sale prices of assets and the appraisal value.

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 statement of income. 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 statement of income up to an amount equal to that of the previously recognised impairment losses.

k) 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 statement of income, with the impairment of said assets.

The section titled "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 results of the insurance companies for their insurance activity are recorded in accordance with their nature in the corresponding sections of the consolidated statement of income.

In accordance with the widespread accounting practices used in the insurance sector, the consolidated insurance institutions apply the amounts of the premiums they issue to results and charge the cost of the claims they are faced with when their final settlement occurs to their income statements. 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 statement of income. 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.

l) Tangible assets

It 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. 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 statement of income 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 statements of consolidated income 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 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.
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,b). 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.

m) Accounting of leasing operations

Financial leasing

Financial leasing operations are regarded as those in which all the risks and advantages corresponding to the asset covered by the lease are substantially transferred to the lessee.

The Group, on the date of the presentation of the consolidated financial statements, has not established any financial leasing operations.

Operating leases

In operating leasing operations, ownership of the leased asset and, substantially, all the risks and advantages corresponding to the asset, remain with the lessor.

When the Group acts as the lessor, the cost of acquisition of the leased assets is submitted under the heading "Tangible assets" of the consolidated statement of financial position. These assets are amortised in accordance with the policies adopted for similar material assets and the income resulting from the leasing contracts is recognised in the consolidated statement of income in a linear manner, in the section titled "Other operating income".

When the Group acts as the lessee, the leasing expenses, including any incentives granted, if applicable, by the lessor, are linearly charged to the consolidated statement of income, in the section titled "Other general administrative costs".

n) 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 consolidated 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.

Goodwill

The positive differences between the cost of the holdings in the equity of the consolidated institutions with respect to the corresponding theoretical accounting values acquired, adjusted on the date of the first consolidation, are recognised as follows:

- If they are attributable to specific equity elements of the acquired companies, increasing the value of the assets (or reducing that of the liabilities) whose fair values are higher (lower) than the net accounting values with which they appear in the statements of financial position of the acquired institutions.

- If they can be assigned to specific intangible assets, expressly recognising them in the consolidated statements of financial position, provided that their fair value within 12 months of the acquisition date can be reliably determined.

- The remaining differences are recorded as goodwill, which is assigned to one or more cash-generating units (these are the smallest identifiable group of assets which, as a result of their ongoing operation, generate cash flows on behalf of the Group, regardless of those from other assets or groups of assets). The cash-generating units represent the Group's geographical and/or business segments.

Therefore, goodwill (which is only recorded when acquired against payment) constitutes advance payments made by the institution acquiring the future economic profits resulting from the assets of the acquired institution which are not individually and separately identifiable and recognisable.

Goodwill is recorded, if there is any, under the heading "Intangible assets - Goodwill" of the consolidated statement of financial position and is not amortised in any case.

On the occasion of each accounting closure or when there are indications of impairment, it is necessary to calculate whether there has been any impairment reducing the recoverable value to an amount lower than the recorded net cost and, if so, it is reorganised.

Impairment losses related to goodwill are not subsequently reversed.

The Group has not established any goodwill on the date of presentation of the consolidated financial statements.

Other intangible assets
This item includes the amount of the identifiable intangible assets, among others, acquired customer 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 charges to the consolidated statements of income for the amortisation of these assets are recorded in the section titled "Amortisation" of the consolidated statement of income.

In both cases, the Group recognises in accounting terms any loss which may have occurred in the registered value of these assets arising from their impairment by using the heading titled "Profits or losses from non-current assets on sale not classified as discontinued operations" as a balancing entry in the consolidated statement of income. 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.

o) Other assets

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

p) Other liabilities

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

q) 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 statement of income, 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.

r) 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 qualified as equity instruments are not recorded in the consolidated statement of financial position; the considerations received or issued in exchange for these instruments are directly added or deducted from the consolidated net equity, including the coupons associated with preferential shares contingently convertible into ordinary shares.

s) 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 statement of income.

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.

t) Managed assets 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 statement of income.

u) Post-employment remuneration

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 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 costs" of the consolidated statement of income. The outstanding amounts to be contributed at the end of each 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 the nature of a party linked to 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 statement of income 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 year by the employees) is recognised in the section titled "Personnel costs" of the consolidated statement of income.

- 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 statement of income.

- Any profit or loss stemming from a settlement of the scheme is recorded in the section titled "Commitments and guarantees granted" in the consolidated statement of income.

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

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 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.

v) Other long-term remuneration

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

w) 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.

x) 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 of business reorganisation operations, whose purpose, among other aims, 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 Banc, SAU, Mora Gestió d'Actius, SAU and Mora Assegurances, SAU.

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

The expenses for corporate tax for the 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 statement of income.

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 corporation tax relating to the fiscal profit for the 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 statement of income, 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 result or the accounting result. 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 statement of income as part of the consolidated profit corresponding to the minority shareholders.

The most significant data used in the consolidation process relating to subsidiary institution and associates consolidated as of 31 December 2017 and 2016 are listed below:

2017 financial year

In thousands of euros

					Data of the investee			
Company	**Registered Address**	**Activity**	**Percentage of Holding (*)**	**Net value in Books (**)**	**Assets 31/12/2017**	**Liabilities 31/12/2017**	**Equity 31/12/2017**	**Result 31/12/2017**
Consolidated by global integration:								
Mora Banc, SAU	Andorra	Banking	100%	1,680	1,109,019	1,012,095	96,924	7,997
Mora Gestió d'Actius, SAU	Andorra	Investment fund management	100%	2,101	7,680	791	6,889	577
Mora Assegurances, SAU	Andorra	Insurance	100%	6,503	510,659	496,498	14,161	2,575
Mora Wealth Management AG	Switzerland	Equity management	100%	853	2,424	1,530	894	(1,335)
Mora WM Holdings USA, LLC	United States	Equity	100%	9,093	13,897	833	13,064	-
Mora Wealth Management LLC	United States	Equity management	99,99%	-	1,408	1,140	268	250
Mora WM Securities, LLC	United States	Security brokering	100%	-	2,791	166	2,625	372
BIBM Preferents Ltd.	Cayman Islands	Financial	100%	1	60,317	60,316	1	-
Mora Asset Management, SA	Luxembourg	Equity management	100%	-	4	4	-	19
Amura Capital Turquoise, SARL	Luxembourg	Investment company	100%	43	28,841	30,018	(1,177)	(601)
SICAV Amura (Onix)	Andorra	Investment company	100%	16,541	19,371	8	19,363	(46)
SICAV Amura (Emerald)	Andorra	Investment company	100%	14,050	16,034	8	16,026	(9)
Casa Vicens-Gaudí S.A.	Spain	Property	100%	-	26,945	12,632	14,312	(103)
SICAV Rocanegra	Andorra	Investment company	100%	994	2,634	103	2,531	-
SICAV Burna	Andorra	Investment company	100%	1,651	1,697	94	1,603	-
SCI Mora Investors Bienfaisance	Andorra	Investment company	100%	-	412	-	412	-
Other holdings	Andorra	Investment company	51%	5,542	5,542	-	5,542	-
Consolidated by equity method:								
Serveis i Mitjans de Pagament XXI, SA	Andorra	Payment methods	20%	31	3,028	2,867	161	(480)
Total				**59,083**	**1,812,703**	**1,619,103**	**193,599**	**9,216**

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

2016 financial year

In thousands of euros

					Dades de l'entitat participada			
Company	Registered Address	Activity	Percentage of Holding (*)	Net value in Books (**)	Assets 31/12/2017	Liabilities 31/12/2017	Equity 31/12/2017	Result 31/12/2017
Consolidated by global integration:								
Mora Banc, SAU	Andorra	Banking	100%	1,680	1,029,905	935,816	94,089	11,704
Mora Gestió d'Actius, SAU	Andorra	Investment fund management	100%	2,101	7,037	525	6,512	355
Mora Assegurances, SAU	Andorra	Insurance	100%	6,503	562,636	550,010	12,626	3,633
Mora Wealth Management AG	Switzerland	Equity management	100%	1,638	2,563	2,994	(431)	(2,980)
Mora WM Holdings USA, LLC	United States	Equity	100%	11,183	15,483	622	14,861	-
Mora Wealth Management LLC	United States	Equity management	99,89%	-	1,364	1,320	44	(396)
Mora WM Securities, LLC	United States	Security brokering	100%	-	2,833	248	2,585	764
BIBM Preferents Ltd.	Cayman Islands	Financial	100%	1	60,162	60,161	1	-
Mora Asset Management, SA	Luxembourg	Equity management	100%	1,978	571	601	(30)	(2,008)
Amura Capital Turquoise, SARL	Luxembourg	Investment company	100%	43	29,313	29,924	(610)	(678)
SICAV Amura (Onix)	Andorra	Investment company	100%	16,541	19,414	5	19,409	(787)
SICAV Amura (Emerald)	Andorra	Investment company	100%	8,050	10,040	5	10,035	(9)
Casa Vicens-Gaudí S.A.	Spain	Property	100%	-	21,613	3,098	18,515	-
SICAV Rocanegra	Andorra	Investment company	100%	994	2,691	160	2,531	-
Other holdings	Andorra	Investment company	51%	5,573	5,573	-	5,573	-
Consolidated by equity method:								
Serveis i Mitjans de Pagament XXI, SA	Andorra	Payment methods	20%	50	3,386	3,145	241	28
Total				**56,335**	**1,774,584**	**1,588,634**	**185,951**	**9,626**

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

Mora Banc, SAU is an Andorran company 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.

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 2017, the Company managed collective investment undertakings and SICAVs with equity totalling €1,207 billion.

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.

Mora Wealth 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.

Mora WM Holdings USA, LLC is a company domiciled in the United States which acts as the head of the other North American companies: Mora Wealth Management LLC, acquired on 9 July 2009, whose corporate purpose is equity management and financial consultancy, and Mora WM 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).

Mora Asset Management, SA is a company domiciled in Luxembourg and established in 2014, whose corporate purpose is the management of third-party assets.

Amura Capital Turquoise, SARL 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 created 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 created on 1 August 2014, whose corporate purpose is to obtain positive long-term profitability by investing in projects of the real economy.

Vicens-Gaudi SOCIMI, 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 Rocanegra is a company domiciled in Andorra, created on 22 April 2013, whose corporate purpose is to obtain positive returns by investing in property assets.

SICAV Burna is a company domiciled in Andorra, created 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.

The main changes in the scope of consolidation during 2017 were the following:

- During the 2017 financial year the Group discontinued its activity in Luxembourg by means of Mora Asset Management, SA, a company established in 2014 and currently undergoing liquidation.

In addition, the following significant changes were made in the equity of the subsidiaries:

- During the 2017 financial year, in accordance with the authorisation of the INAF dated 29 November 2017, the Group increased the equity capital of its subsidiary company Mora Wealth Management, AG, by means of a direct contribution to its equity totalling CHF 3,000 thousand (3 million Swiss Francs), with the purpose of providing the company with sufficient resources to continue carrying out its activity.

- In December 2017, in accordance with the minutes of the Shareholders' General Meeting of Serveis de Mitjans de pagament XXI, SA, held on 30 November 2017, the Group increased the equity capital of the above company for the amount of €80 thousand, with the purpose of maintaining a suitable balance of the company's assets.

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

a) Proposal for the distribution of the result

The proposed distribution of the profits corresponding to the 2017 financial year of Mora Banc Grup, SA, the parent company of the MoraBanc Group, to be submitted by the Board of Directors to the General Meeting of Shareholders for approval, is as follows:

In thousands of euros

	2017
Result of the financial year	**18,644**
Dividends	**12,925**
Interim	12,925
Reserves	**5,719**
FGD reserves	431
Voluntary reserves	5,288
Total distribution proposal	**18,644**

On 29 December 2017, in accordance with the agreement reached by the Board of Directors of Mora Banc Grup, SA on 20 December 2017, an interim dividend corresponding to the profit for the year was distributed, amounting to €12,925 thousand.

In accordance with the current regulations, the assignment of the amount of €431 thousand, corresponding to the provision to the guarantee reserves of the deposit guarantee system for banking institutions, to unavailable reserves was approved (see Note 44).

b) 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 2017, 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 MoraBanc Group attributable to the controlling company, corresponding to the 2017 and 2016 financial years:

In thousands of euros	2017	2016
Numerator of the profit per share (In thousands of euros)	**23,517**	**22,695**
Profit attributed to the controlling Bank	23,517	22,695
Denominator of the profit per share (In 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)	**3,333**	**3,216**
Diluted profit per share in ongoing activities (euros per share)	**3,333**	**3,216**

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 risk factors.

6.1.1 Corporate risk culture

Risk management constitutes a fundamental aspect of the MoraBanc Group's strategy. This is why 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 Group's management 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 Group's management, 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.
- The existence of policies for each of the risks defining the general functioning of the activities, whose purpose is to control and manage the risks at a corporate level.

- Procedures, methodologies and tools to articulate the policies and measure the risks.

- The existence of tolerance limits for the main risks, a reference with which the Institution's Board of Directors determines the risk typology and thresholds it is willing to accept in the achievement of the Group's strategic and profitability goals.

6.1.2 Structure of governance and organisation

The MoraBanc 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.

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 Committee must be external and independent, and an independent Secretary may also be appointed. In the absence of the latter appointment, the Secretary of the Board shall fulfil the role or, if this is not possible, one of the Deputy Secretaries of the Board, if there are any.

It meets at least once a month (except August) and its main functions are as follows:

- To advise the Board of Directors on the Group's overall current and future risk appetite and its strategy in this area, informing it of the risk tolerance limits, assisting it in the monitoring of the application of the above strategy, ensuring that the Group's actions are in keeping with the previously determined risk tolerance level and performing the monitoring of the degree of adaptation of the assumed risks to 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, non-compliance, operational, reputational and structural, among others) faced by the Group, with the financial and economic risks including contingent liabilities and others not contained in the statement of financial position.

    · 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 Banks' 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 customers, economic sectors of activity, geographical areas and types of risk.

- To examine the Group's risk information and control processes, as well as the information systems and indicators.

- 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 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. This information will be used by the Board, as appropriate, to evaluate the Committee and its members. In addition, when the Committee deems it appropriate, it will make proposals for improvement to the Board.

Audit and Compliance Committee

With regard to risk management and control, the Audit and Compliance Committee has the following 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, to preserve its independence in the exercise of its functions.
- To serve as a communication channel between the Board of Directors and the external auditors, to evaluate the results of each audit and the management team's replies to their recommendations and to intervene in the event of discrepancies in relation to accounting principles and criteria in the preparation of the financial statements.
- To validate the annual Internal Audit and Regulatory Compliance plans, the degree of implementation of these plans and the degree of implementation of any recommendations which may be issued.
- To review the Group's consolidated financial statements and report, prior to the meeting of the Board of Directors, on the financial information the Group should regularly make available to the markets and the supervisory bodies.
- To supervise compliance with the Internal Rules on Conduct and Ethics, to monitor and ensure compliance with and respect for the Law and, in general, the rules of corporate governance.
- To ensure compliance with the applicable national and international regulations in matters related to money laundering and the financing of terrorism, conduct in the securities markets, and data protection, as well as attending to any requirements for information and action made by official bodies competent in this matter in time and form.

Business Strategy and Monitoring Committee

The Business Strategy and Monitoring Committee's functions include the following:

- Ensuring and performing regular monitoring of the budget execution planned by the Board of Directors.
- Making recommendations and suggestions to the Board of Directors to improve the profitability of the Group's business.
- Advising the Board of Directors on strategies and business alternatives, as well as corporate operations.

- Formulating and proposing strategies and lines of business to the Board of Directors.
- Supervising and regularly monitoring the implementation and execution of the strategic plan agreed on by the Board of Directors.
- Announcing any relevant detail related to the Group's risk management to the Risk Committee.
- Complying with the risk thresholds and limits established by the Board of Directors.
- Executing all its tasks while taking the Group's risk strategy into account.
- Reporting any risks it may detect in the normal exercise of its functions.
- Being in direct contact with the Risk Committee in order to maintain effective control over the risks assumed by the business areas.

Appointments and Remuneration Committee

Its main functions are defined below:

- 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 Shareholders' General Meeting, as well as proposals for the re-election or dismissal of these directors by the Shareholders' General Meeting.
- 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 Managing Director's proposals for the appointment or dismissal of senior executives.
- 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 supervise and control the smooth running of the Group'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 ensure that MoraBanc'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.

- To ensure observance of the remuneration policy for Directors and Senior Managers and to report on the basic conditions established in the contracts entered into with the above and the fulfilment thereof.

6.1.4 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 MoraBanc Group has a Corporate Risk Map for the identification, measurement, monitoring, control and reporting of risks.

The main risks to which the Group 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 Group by its customers or counterparties, caused by changes in the debtor's ability or intention to pay.

- **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 group of inter-connected borrowers.

- **Leverage risk**: this is a risk stemming from excessive leverage by the Group, 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.

- **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.

- **Reputational risk**: this is defined as risk associated with a negative perception of the financial institution (well-founded or otherwise) among customers, 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.

- **Liquidity risk**: this stems from the possibility that the Group 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 Group'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 Group's operations at risk. To mitigate the solvency risk, the Group 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.

- **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 Group, 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 Group 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 Group employees, stemming from an adverse variation in interest rates related to the actuarial calculations of the regular contributions the Group 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 Group after mitigating or eliminating all the identified risks linked to the Group'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 INAF, 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.

Specifically, the guidelines of the EBA "*Guidelines on internal governance under Directive 2013/36/EU*", which complement the different provisions on internal governance included in this Directive, the "*Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)*", *and* the guidelines issued by the INAF in Communiqué 250/17 "*Risks which must be considered in the risk management policies of institutions operating in the financial system*" have all been taken into account.

The purpose of these guidelines 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. 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

MoraBanc'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. In addition, the first line of defence in its back-office must establish the primary controls, the monitoring of risks and metrics and the detection and reporting of deviations from the established objectives, so that they include the management of the risks resulting from the products, activities, processes and systems of the Group Institution in the Business and Support Areas.

Second line of defence

Risk Management and Control Framework

In keeping with the applicable regulations, the MoraBanc Group has a risk control framework enabling it to measure, manage and control all its risks, in order to minimise exposure to them and maximize 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 MoraBanc'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 a 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 keeping with the established principles, the Regulatory Compliance Area bases its activity upon the development and implementation of a compliance programme incorporating policies and procedures, dissemination and training in compliance matters and the identification, assessment and mitigation of potential 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 customers, 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 MoraBanc Group. From its position of independence, it provides assurance to the Board of Directors and the Senior Management.

The department is made up of 6 auditors and is hierarchically dependent on the Audit and Compliance Committee, the delegate body of the Board of Directors, to which it reports.

A statute defines its functions, dependence, governing and methodological principles, organisation and relational framework. The statute 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 customer 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 MoraBanc 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 maintained by the Group as of 31 December 2017 and 2016 are concentrated in the headings titled "Financial assets held for trading", "Financial assets at fair value with changes in profit or loss", "Available-for-sale financial assets", "Loans and accounts receivable and Held-to-maturity financial assets" of the assets of the accompanying consolidated statements of financial position.

In order to reduce the credit risk associated with operations with other institutions, the Group pursues a conservative policy with regard to the assessment and diversification of the counterparties and exposure limits, demanding, among other requirements, a minimum qualification in the reports of the rating agencies, the levels of the senior Credit Default Swaps (CDS) and the issuer's country risk. The 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 2017 and 2016 is submitted below:

In thousands of euros

	31/12/2017	31/12/2016
Financial assets held for trading	**164,203**	**196,785**
Debt securities	147,360	184,568
Derivatives	16,843	12,217
Financial assets at fair value with changes in profit or loss	**57,586**	**41,406**
Debt securities	57,586	41,406
Available-for-sale financial assets	**352,269**	**261,877**
Debt securities	352,269	261,877
Loans and accounts receivable	**1,360,329**	**1,502,145**
Debt securities	165,791	107,373
Loans and advances	1,194,538	1,394,772
Credit institutions	244,812	397,486
Customer	949,726	997,286
Held-to-maturity investments	**66,408**	**31,601**
Debt securities	66,408	31,601
Derivatives - Hedge accounting	**753**	**43**
Commitments and guarantees granted (see Note 29)	**313,980**	**269,719**
Loan commitments granted	238,996	198,736
Financial guarantees granted	74,984	70,983
Exposure to credit risk	**2,315,528**	**2,303,576**

6.2.2 Life cycle of the credit risk

The whole 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 and profitability and, possibly, 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 customers. 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 customer. They study the operations upon the basis of the customer'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

During the admission process, the Group monitors and controls compliance with the regulatory limits established by the INAF in *Legislative Decree of 12/02/2014, approving the consolidated text of the Law on the regulation of the solvency and liquidity criteria of financial institutions* (20% of computable equity).

During the 2017 financial year there were no non-compliances with regard to the defined thresholds.

6.2.2.3 Risk classification

The principles governing the classification of the transactions in terms of their credit risk into normal, special surveillance, overdue, doubtful and bad loans are outlined below.

- Normal risk: normal transactions are the remaining transactions which are not included in any of the other classifications.

- Normal risk under special surveillance: these are normal transactions under special surveillance when initial refinancing is involved, as well as transactions which are subjectively classified in this category.

- Overdue risk: overdue risk transactions are those involving non-payments or contractual non-compliance over fewer than 90 days.

- Doubtful risk due to the holder's default: doubtful transactions are those due to the holder's default involving non-payments or contractual non-compliance over more than 90 days.

- Doubtful risk for reasons other than the holder's default: these are doubtful transactions for reasons other than the holder's default when second refinancing is involved or due to the carryover effect, as well as transactions which are subjectively classified in this category.

- Bad loan risk: these are bad transactions involving non-payments or contractual non-compliance above a period of 2 years in transactions without a mortgage guarantee and 6 years in transactions with a mortgage guarantee. However, the risk analyst may regard it as a bad loan even if the above conditions are not met, whenever considering that the outstanding balance of the transaction is irrecoverable.

Below we show the Group's exposure to credit risk by risk category in the 2017 and 2016 financial years:

In thousands of euros

	Loans and advances to customers		Loans and advances to credit institutions		Debt securities		Commitments and guarantees granted	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial assets held for trading and calculated at fair value with changes in results								
Normal	–	–	–	–	204,946	225,974	–	–
Gross carrying value	–	–	–	–	**204,946**	**225,974**	–	–
Net carrying value	–	–	–	–	**204,946**	**225,974**	–	–
Loans and accounts receivable								
Individually impaired:								
Normal	8,637	1,042	–	–	–	–	–	–
Doubtful due to default	31,425	31,557	–	–	–	–	–	–
Gross carrying value	**40,062**	**32,599**	–	–	–	–	–	–
Provision for impairment (-)	(28,863)	(28,034)	–	–	–	–	–	–
Net carrying value	**11,199**	**4,565**	–	–	–	–	–	–
Collectively impaired:								
Normal	881,751	934,258	245,043	398,016	165,969	107,421	–	–
Normal under special surveillance	46,518	49,577	–	–	–	–	–	–
Overdue	7,092	4,781	–	–	–	–	–	–
Doubtful due to default	6,337	9,418	–	–	–	–	–	–
Gross carrying value	**941,698**	**998,034**	**245,043**	**398,016**	**165,969**	**107,421**	–	–
Provision for impairment (-)	(3,171)	(5,314)	(231)	(530)	(179)	(48)	–	–
Net carrying value	**938,528**	**992,721**	**244,812**	**397,486**	**165,790**	**107,373**	–	–
Available-for-sale financial assets								
Normal	–	–	–	–	352,269	261,877	–	–
Gross carrying value	–	–	–	–	**352,269**	**261,877**	–	–
Net carrying value	–	–	–	–	**352,269**	**261,877**	–	–
Held-to-maturity investments								
Normal	–	–	–	–	66,505	31,601	–	–
Gross carrying value	–	–	–	–	**66,505**	**31,601**	–	–
Provision for impairment (-)	–	–	–	–	(97)	–	–	–
Net carrying value	–	–	–	–	**66,408**	**31,601**	–	–
Loan commitments granted								
Normal	–	–	–	–	–	–	238,996	198,736
Gross carrying value	–	–	–	–	–	–	**238,996**	**198,736**
Net carrying value	–	–	–	–	–	–	**238,996**	**198,736**
Financial guarantees granted								
Normal	–	–	–	–	–	–	75,568	71,496
Gross carrying value	–	–	–	–	–	–	**75,568**	**71,496**
Provision for impairment (-)	–	–	–	–	–	–	(584)	(513)
Net carrying value	–	–	–	–	–	–	**74,984**	**70,983**

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Below appear greater details of the Group's bad loans, non-impaired and impaired financial assets in the 2017 and 2016 financial years:

In thousands of euros

	Loans and advances to customers		Loans and advances to credit institutions		Securities of debt		Derivatives		Commitments and guarantees granted		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Neither overdue nor individually impaired												
From AAA to AA-	-	-	1,675	71,092	63,205	116,680	-	-	-	-	64,880	187,772
From A+ to BBB	-	-	172,776	205,398	390,723	321,536	-	-	-	-	563,499	526,934
BBB-	-	-	64,117	83,694	163,763	128,749	-	-	-	-	227,880	212,443
From BB+ to B+	-	-	52	590	28,393	2,557	-	-	-	-	28,445	3,147
Without classification	936,830	983,662	6,423	37,242	143,606	57,351	17,596	12,260	314,564	270,232	1,419,019	1,360,747
Gross carrying value	**936,830**	**983,662**	**245,043**	**398,016**	**789,690**	**626,873**	**17,596**	**12,260**	**314,564**	**270,232**	**2,303,723**	**2,291,043**
Collective impairment due to losses incurred but not reported (IBNR)	(3,982)	(4,828)	(231)	(530)	(276)	(48)	-	-	(584)	(513)	(5,073)	(5,919)
Net carrying value	**932,848**	**978,834**	**244,812**	**397,486**	**789,414**	**626,825**	**17,596**	**12,260**	**313,980**	**269,719**	**2,298,650**	**2,285,124**
Overdue but not impaired												
<= 30 days	4,675	3,779	-	-	-	-	-	-	-	-	4,675	3,779
<= 60 days	1,959	548	-	-	-	-	-	-	-	-	1,959	548
<= 90 days	534	1,666	-	-	-	-	-	-	-	-	534	1,666
> 90 days	-	4	-	-	-	-	-	-	-	-	-	4
Gross carrying value	**7,168**	**5,997**	-	-	-	-	-	-	-	-	**7,168**	**5,997**
Collective impairment due to losses incurred but not reported (IBNR)	(292)	(308)	-	-	-	-	-	-	-	-	(292)	(308)
Net carrying value	**6,876**	**5,689**	-	-	-	-	-	-	-	-	**6,876**	**5,689**
Impaired												
<= 30 days	216	2,234	-	-	-	-	-	-	-	-	216	2,234
<= 60 days	215	88	-	-	-	-	-	-	-	-	215	88
<= 90 days	12	9	-	-	-	-	-	-	-	-	12	9
> 90 days	37,319	38,644	-	-	-	-	-	-	-	-	37,319	38,644
Gross carrying value	**37,762**	**40,975**	-	-	-	-	-	-	-	-	**37,762**	**40,975**
Provision for impairment, calculated individually (-)	(26,140)	(24,588)	-	-	-	-	-	-	-	-	(26,140)	(24,588)
Provision for impairment, calculated collectively (-)	(1,620)	(3,624)	-	-	-	-	-	-	-	-	(1,620)	(3,624)
Net carrying value	**10,002**	**12,763**	-	-	-	-	-	-	-	-	**10,002**	**12,763**
Total exposure to credit risk	**949,726**	**997,286**	**244,812**	**397,486**	**789,414**	**626,825**	**17,596**	**12,260**	**313,980**	**269,719**	**2,315,528**	**2,303,576**
Accumulated Bad Loans	36,163	33,840	-	-	-	-	-	-	-	-	36,163	33,840
Total exposure to credit risk with bad loans	**985,889**	**1,031,126**	**244,812**	**397,486**	**789,414**	**626,825**	**17,596**	**12,260**	**313,980**	**269,719**	**2,351,691**	**2,337,416**

Impaired loans and debt instruments

The impaired loans and instruments correspond to customer loans and debt instruments (different from those classified at fair value with changes in results) for which the Group determines that it is unlikely to collect all the capital and interest in accordance with the contractual terms of the loan or debt instrument.

Loans and debt instruments in arrears but not impaired

The loans and debt instruments in arrears but not impaired, different from those recognised at fair value with changes in results, are those in which the contractual interest or capital payments are in arrears, but the Group believes that the impairment is not in accordance with the level of guarantees available and/or the stage of collection of the sums owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are those which have been restructured due to the impairment of the borrower's final position for which the Group has made concessions it would not otherwise consider. Once the loan has been restructured, it continues in this category, regardless of its satisfactory performance following the restructuring.

Impairment provisions

The Group calculates the impairment provisions in two different ways:

a) On an individual basis, analysing transactions above a minimum threshold established by applying a provision based on the estimated recoverability of the operation and the guarantees provided. In the event that these transactions are not regarded as impaired, the provision for collective analysis is applied.

b) Collectively, when, depending on the borrower and the guarantees of the transaction, a previously stipulated specific provision is applied, based on the historical studies of the Group's credit portfolio.

Below appears a summary of the movements of the loans and advances in the 2017 and 2016 financial years:

In thousands of euros

	Current Risk as of 31/12/2016	Increase in Current Risk in 2017	Decrease in Current Risk in 2017	Decrease in current risk transferred to bad loans	Current Risk as of 31/12/2017
Current risk assets in arrears, estimated individually	**31,557**	**2,316**	**(2,448)**	-	**31,425**
Non-financial corporations	23,267	2,316	(192)	-	25,391
Individuals	8,290	-	(2,256)	-	6,034
Current risk assets in arrears, estimated collectively	**9,418**	**334**	**(786)**	**(2,629)**	**6,337**
Non-financial corporations	3,244	249	(786)	(531)	2,176
Individuals	6,174	85	-	(2,098)	4,161
Healthy current risk assets	**989,658**	**353,273**	**(398,933)**	-	**943,997**
Loans and advances to customers	989,658	353,273	(398,933)	-	943,997
Total	**1,030,633**	**355,923**	**(402,169)**	**(2,629)**	**981,760**

In thousands of euros

	Current risk as of 31/12/2015	Increase in current risk in 2016	Decrease in current risk in 2016	Decrease in current risk transferred to bad loans	Current risk as of 31/12/2016
Current risk assets in arrears, estimated individually	**39,417**	**4,888**		**(12,747)**	**31,557**
Non-financial corporations	33,339	2,675		(12,747)	23,267
Individuals	6,078	2,212	–	–	8,290
Current risk assets in arrears, estimated collectively	**10,389**	**528**	**(1,499)**	**-**	**9,418**
Non-financial corporations	2,716	528	–	–	3,244
Individuals	7,673	–	(1,499)	–	6,174
Healthy current risk assets	**986,612**	**3,046**		–	**989,658**
Loans and advances to customers	986,612	3,046		–	989,658
Total	**1,036,418**	**8,462**	**(1,499)**	**(12,747)**	**1,030,633**

Below appears a summary of the movements of losses due to impairment of loans and advances to customers throughout the 2017 and 2016 financial years:

In thousands of euros

	Impairment as of 31/12/2016	Increase in impairment in 2017	Decrease in impairment in 2017	Decrease in impairment due to transfers to bad loans	Impairment as of 31/12/2017
Impairment of assets in arrears, estimated individually	**24,588**	**2,516**	**(965)**	–	**26,139**
Non-financial corporations	18,870	2,429	(84)	–	21,215
Individuals	5,718	87	(881)	–	4,924
Impairment of assets in arrears, estimated collectively	**3,624**	**1,242**	**(616)**	**(2,629)**	**1,621**
Non-financial corporations	814	215	(231)	(531)	267
Individuals	2,810	1,027	(385)	(2,098)	1,354
Impairment of sound assets	**5,136**	**9,444**	**(10,306)**	–	**4,274**
Collective analysis	1,690	871	(1,011)	–	1,550
Individual analysis	3,446	8,573	(9,295)	–	2,724
Total	**33,348**	**13,202**	**(11,887)**	**(2,629)**	**32,034**

In thousands of euros

	Impairment as of 31/12/2015	Increase in impairment in 2016	Decrease in impairment in 2016	Decrease in impairment due to transfers to bad loans	Impairment as of 31/12/2016
Impairment of assets in arrears, individually	**29,421**	**7,914**	**-**	**(12,747)**	**24,588**
Non-financial corporations	25,596	6,021	-	(12,747)	18,870
Individuals	3,825	1,893	-	-	5,718
Impairment of assets in arrears, estimated collectively	**3,727**	**131**	**(234)**	**-**	**3,624**
Non-financial corporations	683	131	-	-	814
Individuals	3,044	-	(234)	-	2,810
Impairment of sound assets	**4,604**	**5,916**	**(5,384)**	-	**5,136**
Collective analysis	1,690	-	-	-	1,690
Individual analysis	2,914	5,916	(5,384)	-	3,446
Total	**37,752**	**13,961**	**(5,618)**	**(12,747)**	**33,348**

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 real guarantees. Personal guarantees which reinforce the capacity of repayment of the transaction:
    - Guarantees of natural persons.
    - Guarantees of legal entities.
    - 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 appears a breakdown of the balance recorded under the heading "Loans and advances – Customers", based on the real guarantees of the Group's financial assets upon the closure of the 2017 and 2016 financial years:

In thousands of euros

	Loans and advances to customers		Value of the real guarantees					
			Money guarantees, securities and other financial guarantees (*)		Mortgage guarantee		Without any real guarantee	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Neither overdue nor impaired								
Gross carrying value	**936,830**	983,662	**217,210**	241,766	**453,660**	467,595	**265,960**	274,301
Impairment due to losses incurred but not reported (IBNR)	(3,982)	(4,828)	(267)	(516)	(696)	(714)	(3,019)	(3,598)
Net carrying values of guarantees and provisions	**932,848**	978,834	**216,943**	241,250	**452,964**	466,881	**262,941**	270,703
Overdue but not impaired								
Gross carrying value	**7,168**	5,997	**2,001**	351	**666**	515	**4,501**	5,131
Impairment due to losses incurred but not reported (IBNR)	(292)	(308)	(5)	-	(119)	(17)	(168)	(291)
Net carrying values of guarantees and impairment	**6,876**	5,689	**1,996**	351	**547**	498	**4,333**	4,840
Impaired								
Gross carrying value	**37,762**	40,975	**235**	-	**32,941**	37,781	**4,586**	3,194
Provision for impairment, calculated individually	(26,140)	(24,588)	-	-	(21,979)	(22,484)	(4,161)	(2,104)
Provision for impairment, calculated collectively	(1,620)	(3,624)	(2)	-	(1,226)	(2,561)	(392)	(1,063)
Net carrying value	**10,002**	12,763	**233**	-	**9,736**	12,736	**33**	27
Total exposure to credit risk	949,726	997,286	219,172	241,600	463,247	480,196	267,307	275,488

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

Below appears a breakdown of the credit quality of the debt securities admitted as effective guarantees for the 2017 and 2016 financial years:

In thousands of euros

	Securities of debt		Including those at fair value against the statement of income		Including those at fair value against another comprehensive result		Including those at amortised cost	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Public debt and central banks								
AAA	42,928	49,786	-	568	41,870	48,145	1,058	1,073
From AA+ to AA-	5,663	25,686	5,480	25,499	-	-	183	187
From A- a A+	4,346	3,672	-	-	-	-	4,346	3,672
BBB+ or lower	328,491	374,862	26,306	69,528	173,467	191,908	128,718	113,426
Not available	10,271	9,841	7,280	9,841	2,991	-	-	-
Gross carrying value	**391,699**	**463,847**	**39,066**	**105,436**	**218,328**	**240,053**	**134,305**	**118,358**
Provision for credit risk	(55)	(48)	-	-	-	-	(55)	(48)
Net carrying value of provisions	**391,644**	**463,799**	**39,066**	**105,436**	**218,328**	**240,053**	**134,250**	**118,310**
Credit institutions								
AAA	3,523	8,172	2,496	-	-	6,129	1,027	2,043
From AA+ to AA-	7,273	28,907	1,689	26,312	3,013	-	2,571	2,595
From A- a A+	15,598	18,829	14,575	14,781	-	3,017	1,023	1,031
BBB+ or lower	60,724	20,501	20,258	7,245	37,394	9,972	3,072	3,284
Not available	39,701	14,676	25,076	14,676	14,625	-	-	-
Gross carrying value	**126,819**	**91,085**	**64,094**	**63,014**	**55,032**	**19,118**	**7,693**	**8,953**
Provision for credit risk	-	-	-	-	-	-	-	-
Net carrying value of provisions	**126,819**	**91,085**	**64,094**	**63,014**	**55,032**	**19,118**	**7,693**	**8,953**
Other companies								
AAA	-	-	-	-	-	-	-	-
From AA+ to AA-	3,820	3,343	3,188	3,343	-	-	632	-
From A- a A+	22,554	11,056	2,497	10,182	14,100	-	5,957	874
BBB+ or lower	151,246	26,036	58,292	20,065	52,463	1,076	40,491	4,895
Not available	93,552	31,506	37,809	23,934	12,346	1,630	43,397	5,942
Gross carrying value	**271,172**	**71,941**	**101,786**	**57,524**	**78,909**	**2,706**	**90,477**	**11,711**
Provision for Credit Risk	(221)	-	-	-	-	-	(221)	-
Net carrying value of Provisions	**270,951**	**71,941**	**101,786**	**57,524**	**78,909**	**2,706**	**90,256**	**11,711**
Total exposure to credit risk	**789,414**	**626,825**	**204,946**	**225,974**	**352,269**	**261,877**	**232,199**	**138,974**

6.2.2.5 Monitoring of the credit risk

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

6.2.2.6 Recoveries

This unit is responsible for ensuring the recovery of the debt of customers in arrears, together with the Business Area and the Legal Service.

6.2.2.7 Refinancing and restructuring of transactions

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 customer 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 customer'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 6 months, 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 kept in the loan 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 2017 and 2016:

31/12/2017 — In thousands of euros

	Number of transactions	Gross carrying value	Distribution of guarantees			Impairment of the accumulated value
			Property guarantee	Other real guarantees	Without guarantees	
Non-financial companies, individual companies (non-financial business activity and individuals)	15	46,542	39,533	-	7,009	900
Including: financing for construction and property development (including land)	*2*	*8,647*	*8,647*	-	-	*124*
Remaining housing and others	*13*	*37,895*	*30,886*	-	*7,009*	*776*
Total	**15**	**46,542**	**39,533**	**-**	**7,009**	**900**

31/12/2016 — In thousands of euros

	Number of transactions	Gross carrying value	Distribution of guarantees			Impairment of the accumulated value
			Property guarantee	Other real guarantees	Without guarantees	
Non-financial companies, individual companies (non-financial business activity and individuals)	14	49,576	40,924	-	8,653	837
Including: financing for construction and property development (including land)	*2*	*9,248*	*9,248*	-	-	*64*
Remaining housing and others	*12*	*40,328*	*31,676*	-	*8,653*	*773*
Total	**14**	**49,576**	**40,924**	**-**	**8,653**	**837**

6.2.3 Risk concentration

Below appear the respective risk concentrations by sector and geographical area for loans and advances to customers as of 31 December 2017 and 2016:

In thousands of euros

	Loans, advances to customers		Overdue not impaired		Including those impaired		Provision for credit risk (-)	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
M.I. Government	**45,865**	61,764	**-**	45	**-**	-	**(46)**	(100)
Common	**22,190**	25,593	**-**	-	**-**	-	**(24)**	(47)
Others public sectors	**6,006**	6,581	**-**	-	**-**	-	**(6)**	(12)
Financial	**25,864**	24,126	**308**	175	**5**	-	**(29)**	(31)
Non-financial companies	**428,397**	454,035	**648**	2,564	**26,138**	25,497	**(24,595)**	(23,479)
Primary	4,494	1,671	1	1	-	-	(66)	(25)
Tourist	48,194	56,811	38	1,189	9	11	(71)	(215)
Property	147,373	146,419	143	348	15,720	15,399	(13,978)	(13,666)
Construction	29,473	23,310	161	127	6,093	6,169	(4,469)	(4,285)
Commercial	54,640	59,703	188	309	253	1,636	(942)	(1,582)
Other secondary	17,284	11,752	32	124	4,033	2,033	(4,232)	(2,174)
Other tertiary	126,939	154,369	85	466	30	249	(837)	(1,532)
Individuals	**453,438**	458,535	**6,212**	3,213	**11,619**	15,478	**(7,334)**	(9,679)
Total gross exposure to credit risk	**981,760**	**1,030,634**	**7,168**	**5,997**	**37,762**	**40,975**	**(32,034)**	**(33,348)**
Andorra	**712,023**	749,029	**5,269**	3,199	**30,715**	35,256	**(24,585)**	(27,133)
Spain	**217,048**	187,318	**711**	2,277	**5,457**	3,828	**(5,864)**	(3,951)
Others	**52,689**	94,287	**1,188**	521	**1,590**	1,891	**(1,585)**	(2,264)
Total gross exposure to credit risk	**981,760**	**1,030,634**	**7,168**	**5,997**	**37,762**	**40,975**	**(32,034)**	**(33,348)**

Similarly, below appear the respective risk concentrations by sector and geographical area for debt securities as of 31 December 2017 and 2016:

In thousands of euros

	Securities of debt		Of which overdue not impaired		Including those impaired		Provision for credit risk	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Public Sector	391,699	463,847	-	-	-	-	(55)	(48)
Credit Institutions	126,819	91,085	-	-	-	-	-	-
Other Companies	271,172	71,941	-	-	-	-	(221)	-
Total exposure to credit risk	**789,690**	**626,873**	**-**	**-**	**-**	**-**	**(276)**	**(48)**
Andorra	134,797	115,242	-	-	-	-	(58)	(48)
Spain	363,670	333,241	-	-	-	-	(97)	-
Others	291,223	178,390	-	-	-	-	(121)	-
Total exposure to credit risk	**789,690**	**626,873**	**-**	**-**	**-**	**-**	**(276)**	**(48)**

Below appear the respective risk concentrations by sector and geographical area for loans and advances to credit institutions as of 31 December 2017 and 2016:

In thousands of euros

	Loans and advances to credit institutions		Overdue not impaired		Of which impaired		Provision for credit risk	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Andorra	2,821	3,243	-	-	-	-	(3)	(103)
Spain	118,869	174,993	-	-	-	-	(118)	(359)
Others	123,353	219,780	-	-	-	-	(110)	(68)
Gross carrying value	**245,043**	**398,016**	-	-	-	-	**(231)**	**(530)**

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

MoraBanc manages the liquidity with the aim of maintaining, at all times, liquidity levels enabling it to easily meet its payment commitments on a timely basis, without damaging its investment activity due to a lack of loanable funds while remaining, at all times, within the risk tolerance levels established by the Group.

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, performs the management of the liquidity and financing, in accordance with the policies established by the Board of Directors, at the request of the Risks Department, which independently performs the measurement and control of 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 MoraBanc 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 risk tolerance levels established by the Group, to enable it to easily meet the payment commitments in a timely manner without damaging the investment activity due to a 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 customer deposits), Highly liquid assets / Total customer 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.

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 2017 and 2016, 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 2017							
Financial assets (inputs)							
Cash, cash balances in central banks and other demand deposits	19,104	-	-	-	-	-	19,104
Loans and advances	247,502	157,012	72,719	144,008	325,966	247,331	1,194,538
Credit institutions	187,946	56,866	-	-	-	-	244,812
Customer	59,556	100,146	72,719	144,008	325,966	247,331	949,726
Debt securities	-	58,944	54,021	76,144	308,475	291,830	789,414
Book value	**266,606**	**215,956**	**126,740**	**220,152**	**634,441**	**539,161**	**2,003,056**
Financial liabilities (outputs)							
Deposits of central banks	2,139	17,965	-	1,172	-	-	21,276
Deposits of credit institutions	12,677	8,090	-	-	-	-	20,767
Customer deposits	1,321,519	96,949	63,136	107,706	59,775	1,999	1,651,084
Subordinated liabilities	-	-	-	-	-	34,795	34,795
Book value	**1,336,334**	**123,004**	**63,136**	**108,878**	**59,775**	**36,795**	**1,727,922**
Asset less liability difference	**(1,069,728)**	**92,952**	**63,604**	**111,273**	**574,666**	**502,366**	**275,133**

In thousands of euros

	Demand	Up to 3 months	3-6 months	6-12 months	1-5 ears	More than 5 years	Total
31 December 2016							
Financial assets (inputs)							
Cash, cash balances in central banks and other demand deposits	43,005	-	-	-	-	-	43,005
Loans and advances	430,047	113,322	75,504	140,302	365,183	270,414	1,394,772
Credit institutions	373,782	23,704	-	-	-	-	397,486
Customer	56,265	89,618	75,504	140,302	365,183	270,414	997,286
Debt securities	-	137,225	56,349	63,847	197,849	171,555	626,825
Book value	**473,052**	**250,547**	**131,853**	**204,149**	**553,032**	**451,969**	**2,064,602**
Financial liabilities (outputs)							
Deposits of central banks	18,679	-	-	1,172	-	-	19,851
Deposits of credit institutions	6,498	8,800	-	-	-	-	15,298
Customer deposits	1,264,950	109,872	133,575	128,420	42,572	852	1,680,241
Subordinated liabilities	-	-	-	-	-	37,314	37,314
Book value	**1,290,127**	**118,672**	**133,575**	**129,592**	**42,572**	**38,166**	**1,752,704**
Asset less liability difference	**(817,075)**	**131,875**	**(1,722)**	**74,557**	**510,460**	**412,803**	**311,898**

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 customers' 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.

This ratio was still not mandatory in Andorra in 2017, as it was not required by the supervisor, but the Group calculated it internally, in accordance with the European standards published by the EBA.

The Bank's LCR ratio was permanent and stable throughout 2017, standing well above 100%, which, according to the Institution's Directors, 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 2017 and 2016:

In thousands of euros

	31/12/2017		31/12/2016	
	Market value	**Weighted value**	**Market value**	**Weighted value**
Assets Level 1	271,319	271,319	384,389	384,389
Assets Level 2A	9,166	8,274	12,240	11,118
Assets Level 2B	98,521	49,260	44,999	22,500
Total High-Quality Liquid Assets	**379,006**	**328,853**	**441,628**	**418,007**

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

With regard to the Law regulating the solvency and liquidity criteria of financial institutions currently in force in Andorra, the Group maintained a liquidity ratio of 60,68% as at 31 December 2017, above the established minimum of 40%.

NSFR (Net Stable Funding Ratio)

As in the case of the LCR, 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.

MoraBanc benefits from the substantial weight of customer 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. This ratio stood at above 100% in 2017,

This ratio was still not mandatory in Andorra in 2017, as it was not required by the supervisor, but the Group calculated it internally, in accordance with the European standards published by the EBA.

In summary, the management and liquidity model enable MoraBanc 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 maintained 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 Administration of market risk

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 Boards of Directors of the Banks are 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.

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 Test**: 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 statement of income in a multi-variant simulation of the risk factors which make up the portfolio:

As at 31 December 2017		As at 31 December 2016	
Scenario	**% Variation Market Value**	**Scenario**	**% Variation Market Value**
Base Scenario	100,00%	Base Scenario	100,00%
Zero Coupon + 100 bps	98,99%	Zero Coupon + 100 bps	99,27%
Spot FX - 5%	100,00%	Spot FX - 5%	100,05%
Spread Curve + 50 bps	99,78%	Spread Curve + 50 bps	99,95%
Equity - 10%	99,66%	Equity - 10%	99,65%
Volatilities + 10%	99,98%	Volatilities + 10%	99,99%
Total	**98,42%**	**Total**	**98,91%**

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 -10% in the consolidated statement of income 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:

In thousands of euros

2017	VaR at 99% 1 day Time Period				Expected Shortfall 99%
	As at 31 December	Average	Maximum	Minimum	As at 31 December
Exchange Rate VaR	1	10	5	2	1
Interest Rate VaR	72	81	153	22	99
Credit VaR	62	77	114	59	69
Variable Income VaR	50	78	158	41	74
Diversification Effect	(74)	(113)	(197)	(57)	(120)
VaR Total	**111**	**133**	**233**	**67**	**123**

In thousands of euros

2016	VaR at 99% 1 day Time Period				Expected Shortfall 99%
	As at 31 December	Average	Maximum	Minimum	As at 31 December
Exchange Rate VaR	30	39	4	25	37
Interest Rate VaR	49	67	26	27	54
Credit VaR	38	46	79	21	51
Variable Income VaR	33	77	232	25	39
Diversification Effect	(81)	(115)	(23)	(56)	(94)
VaR Total	**69**	**114**	**318**	**42**	**87**

As can be seen, the average amounts of the variable income and interest rate risks are the most significant, but are not far from the credit risk impact.

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.

Below appear the results released for the ex-post validation or backtesting for the 2017 and 2016 periods.

Backtesting on the historical VaR

Year	No. Remarks	VaR surpluses (1 tail)	% Compliance (1 tail)	VaR surpluses (2 tails)	% Compliance (2 tails)
2017	248	1	99,60%	1	99,60%
2016	241	2	99,20%	5	97,90%

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.

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 2017 and 2016, with regard to the sensitive masses of the consolidated statement of financial position of the MoraBanc 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 2017						
Loans and advances	723,971	153,227	224,818	22,635	10,332	1,134,983
Credit institutions	244,812	–	–	–	–	244,812
Customer	479,159	153,227	224,818	22,635	10,332	890,171
Debt securities	66,301	29,044	47,034	239,326	260,349	642,054
Total Assets	**790,272**	**182,271**	**271,852**	**261,961**	**270,681**	**1,777,037**
Deposits of central banks	20,104	–	1,172	–	–	21,276
Deposits of credit institutions	20,767	–	–	–	–	20,767
Customer deposits	1,473,540	55,129	102,433	17,983	1,999	1,651,084
Subordinated liabilities	–	–	34,795	–	–	34,795
Total Liabilities	**1,514,411**	**55,129**	**138,400**	**17,983**	**1,999**	**1,727,922**
Derivative effects hedges interest rate risk	62,439	163,842	2,459	(25,223)	(203,517)	-
Total Net	**(661,700)**	**290,984**	**135,911**	**218,755**	**65,165**	**49,115**

In thousands of euros

	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 December 2016						
Loans and advances	964,446	115,804	203,709	26,888	27,660	1,338,507
Credit institutions	397,486	–	–	–	–	397,486
Customer	566,960	115,804	203,709	26,888	27,660	941,021
Debt securities	82,624	18,930	16,579	148,521	175,603	442,257
Total Assets	**1,047,070**	**134,734**	**220,288**	**175,409**	**203,263**	**1,780,764**
Deposits of central banks	18,679	–	1,172	–	–	19,851
Deposits of credit institutions	15,298	–	–	–	–	15,298
Customer deposits	1,414,114	154,893	106,732	3,650	852	1,680,241
Subordinated liabilities	–	–	37,314	–	–	37,314
Total Liabilities	**1,448,091**	**154,893**	**145,218**	**3,650**	**852**	**1,752,704**
Derivative effects hedges interest rate risk	119,434	68,617	(1,960)	(57,207)	(128,884)	
Total Net	**(281,587)**	**48,458**	**73,110**	**114,552**	**73,527**	**28,060**

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 customers 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 whether they abide by and meet the risk tolerance levels established by the Institution.

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.

During 2017 the average sensitivity of the Economic Value lay within the following range: [+3,16%; -3,06%], 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 MoraBanc 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 2017 and 2016 as follows:

In thousands of euros

	EUR	USD	Others divises
31/12/2017			
Assets			
Cash, cash balances in central banks and other demand deposits	18,200	533	371
Financial assets held for trading	120,963	64,184	9,688
Financial assets designated at fair value with changes in profit or loss	357,145	-	-
Available-for-sale financial assets	332,325	59,361	28,107
Loans and accounts receivable	1,216,719	110,829	32,781
Held-to-maturity investments	66,408	-	-
Derivatives - Hedge accounting	692	61	-
Changes in the FV of the elements hedged by a portfolio with interest rate risk hedging	12	-	-
Remaining assets	146,226	13,090	-
Total Assets	**2,258,690**	**248,058**	**70,947**
Liabilities and net Equity			
Financial liabilities held for trading	13,950	1,947	270
Financial liabilities designated at fair value with changes in results	405,870	-	-
Financial liabilities at amortised cost	1,429,016	246,111	64,829
Deposits of central banks	8,997	12,275	4
Deposits of credit institutions	20,745	22	-
Customer deposits	1,352,445	233,814	64,825
Debt securities	34,795	-	-
Other financial liabilities	12,034	-	-
Derivatives - Hedge accounting	3,148	-	-
Remaining liabilities	406,706	-	5,848
Total Liabilities and net Equity	**2,258,690**	**248,058**	**70,947**

In thousands of euros

	EUR	USD	Others divises
31/12/2017			
Assets			
Cash, cash balances in central banks and other demand deposits	41,079	1,452	474
Financial assets held for trading	85,528	137,857	56
Financial assets designated at fair value with changes in profit or loss	356,757	-	-
Available-for-sale financial assets	251,485	83,622	-
Loans and accounts receivable	1,400,366	58,099	43,680
Held-to-maturity investments	31,601	-	-
Derivatives - Accounting of hedges	40	3	-
Changes in the FV of the elements hedged by a portfolio with interest rate risk hedging	-	-	-
Remaining assets	93,222	52,040	23,721
Total Assets	**2,260,078**	**333,073**	**67,931**
Liabilities and net Equity			
Financial liabilities held for trading	11,772	1,655	5,052
Financial liabilities at fair value with changes in profit or loss	461,982	-	-
Financial liabilities at amortised cost	1,388,300	319,038	60,328
Deposits of central banks	6,020	13,831	-
Deposits of credit institutions	14,801	420	77
Customer deposits	1,315,538	304,467	60,236
Debt securities	37,314	-	-
Other financial liabilities	14,627	321	15
Derivatives - Accounting of hedges	4,652	11	-
Remaining liabilities	393,372	12,369	2,551
Total Liabilities and net Equity	**2,260,078**	**333,073**	**67,931**

It can be observed that a large part of the consolidated statement of financial position is represented in the euro. 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 framework 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 framework to ensure that it brings value to the Group.
- To integrate the operational risk management into the overall risk management.
- To comply with the best practices and the current regulations in this matter.
- To promote the culture of operational risk management throughout the Group.
- To establish the 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 the identification of the risks inherent in the Group's activities, based on a mapping of the processes whereby the existing controls are identified and the exposure to the risk is quantified, mitigation of the main operational risks identified, based on the implementation of action plans in partnership with the areas involved, regular assessments of the operational risk by means of monitoring the risk indicators and the drawing up of regular reports on the exposure to operational risk, sent to Senior Management and the different 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 customers, counterparts, 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 Group has a Reputational Risk Committee made up of the members of the Executive Committee, and it meets on a monthly basis with the aim of monitoring any risks which, if they materialise, 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 shortcoming.

The Compliance structure constitutes one of the pillars upon which the Institution reinforces the Board's 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 keeping with the established principles, the Regulatory Compliance Area bases its activity upon the development and implementation of a compliance programme incorporating policies and procedures, dissemination and training in compliance matters and the identification, assessment and mitigation of potential risks, including those which affect the following issues:

- Ethical codes (of the Group and the markets)
- Protection for the investor
- Treatment of conflicts of interest and market abuse
- Anti-money laundering and prevention of 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 relevant.

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 in reference to the confidentiality, integrity and availability of the information. The available resources guarantee this compliance at any time of the year on a 24/7 basis, in accordance with the security regulations most often accepted by the market, such as the set of ISO 27000 standards. This standard enables the Group to respond to any external or internal, normative and regulatory requirements, with regard to any type of technological 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,d.).

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 2017 and 2016, these instruments were chiefly made up of loans and advances and some financial instruments classified in the portfolio of “Available-for-sale financial assets”, as well as financial liabilities at amortised cost in the consolidated statement of financial position.

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 2017 and 2016, as well as their corresponding carrying value:

	31/12/2017		31/12/2016	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Financial assets held for trading	**194,835**	**194,835**	**223,441**	**223,441**
Derivatives	16,843	16,843	12,217	12,217
Equity instruments	30,632	30,632	26,656	26,656
Debt securities	147,360	147,360	184,568	184,568
Financial assets designated at fair value with changes in profit or loss	**357,145**	**357,145**	**356,757**	**356,757**
Equity instruments	299,559	299,559	315,351	315,351
Debt securities	57,586	57,586	41,406	41,406
Available-for-sale financial assets	**419,793**	**419,793**	**335,107**	**335,107**
Equity instruments	67,524	67,524	73,230	73,230
Debt securities	352,269	352,269	261,877	261,877
Loans and accounts receivable	**1,360,329**	**1,364,219**	**1,502,145**	**1,508,973**
Debt securities	165,791	165,723	107,373	107,757
Loans and advances	1,194,538	1,198,496	1,394,772	1,401,216
Credit institutions	244,812	244,812	397,486	397,486
Customer	949,726	953,684	997,286	1,003,730
Held-to-maturity financial assets	**66,408**	**66,469**	**31,601**	**33,072**
Debt securities	66,408	66,469	31,601	33,072
Hedging derivatives	**753**	**753**	**43**	**43**
Total Assets	**2,399,263**	**2,403,214**	**2,449,094**	**2,457,393**

In thousands of euros

	31/12/2017		31/12/2016	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Liabilities				
Financial liabilities held for trading	**16,167**	**16,167**	**18,479**	**18,479**
Derivatives	16,167	16,167	18,479	18,479
Financial liabilities designated at fair value with changes in results	**405,870**	**405,870**	**461,982**	**461,982**
Financial liabilities at amortised cost	**1,739,956**	**1,739,956**	**1,767,667**	**1,767,667**
Hedging derivatives	**3,148**	**3,148**	**4,663**	**4,663**
Total Liabilities	**2,165,141**	**2, 165,141**	**2,252,791**	**2,252,791**

Whose fair value is classified by the levels as of 31 December 2017 and 2016:

In thousands of euros

	31/12/2017			31/12/2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets						
Financial assets held for trading	**194,684**	**151**	**-**	**218,514**	**4,927**	**-**
Derivatives	16,843	-	-	12,217	-	-
Equity instruments	30,481	151	-	21,740	4,916	-
Debt securities	147,360	-	-	184,557	11	-
Financial assets designated at FV with changes in profit or loss	**357,145**	**-**	**-**	**356,757**	**-**	**-**
Equity instruments	299,559	-	-	315,351	-	-
Debt securities	57,586	-	-	41,406	-	-
Available-for-sale financial assets	**348,814**	**17,999**	**52,980**	**260,247**	**20,702**	**54,158**
Equity instruments	-	14,544	52,980	-	19,072	54,158
Debt securities	348,814	3,455	-	260,247	1,630	-
Loans and receivables	**24,196**	**141,527**	**1,198,496**	**20,532**	**87,225**	**1,401,216**
Debt securities	24,196	141,527	-	20,532	87,225	-
Loans and advances	-	-	1,198,496	-	-	1,401,216
Credit institutions	-	-	244,812	-	-	397,486
Customer	-	-	953,684	-	-	1,003,730
Held-to-maturity financial assets	**66,469**	**-**	**-**	**33,072**	**-**	**-**
Debt securities	66,469	-	-	33,072	-	-
Hedging derivatives	**753**	**-**	**-**	**43**	**-**	**-**
Total Assets	**992,061**	**159,677**	**1,251,476**	**889,165**	**112,854**	**1,455,374**

In thousands of euros

	31/12/2017			31/12/2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Liabilities						
Financial liabilities held for trading	**16,167**	**-**	**-**	**18,479**	**-**	**-**
Derivatives	16,167	-	-	18,479	-	-
Financial liabilities designated at FV with changes in profit or loss	**405,870**	-	-	**461,982**	-	-
Financial liabilities at amortised cost	-	-	**1,739,956**	-	-	**1,767,667**
Hedging derivatives	**3,148**	**-**	**-**	**4,663**	**-**	**-**
Total Liabilities	**425,185**	-	**1,739,956**	**485,124**	-	**1,767,667**

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.

When available, 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 default probabilities.

The fair value of the deposits of credit institutions and customers 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. OPERATIVE SEGMENTS

a) Segmentation bases

The objective of the information by business segments is the control, monitoring and internal management of the activity and results of the MoraBanc Group and is built in accordance with the different business lines established in keeping with the Group's structure and organisation. The Board of Directors of the parent Institution is the highest body in the making of the operational decisions of each business.

In order to define the business segments, 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 MoraBanc Group has three segments it must report 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 one 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 segments the Group must report are listed below:

Banking activity

This is the Group's main activity; it includes 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 customers (individuals, companies and institutions). It also incorporates the management of liquidity and income from financing other businesses. We distinguish between:

Company, corporate and institutional banking: includes loans, deposits, security accounts and other transactions and balances with customers.

Private and retail banking: includes loans, deposits, security accounts and other transactions and balances with customers in the consumer sector.

Private Banking: consists of the professional and individualised management of customers' assets in order to meet their investment, financial and fiscal needs.

Insurance activity

This segment includes the activity of the Group's insurance company, Mora Assegurances, SAU, with retail products distributed to the same customer base through the MoraBanc branch network.

Asset and holding management

This segment includes the asset management activity, as well as the management of the Group's Collective Investment Undertakings, an activity performed by Mora Gestió d'Assetss, SA

b) Information on the reportable segments and balancing of the information

Below appear the Group's results for 2017 and 2016 by business segments:

In thousands of euros

	Banking activity		Insurance activity		Asset and holding management	
	2017	2016	2017	2016	2017	2016
Interest margin	21,953	20,383	-	-	(707)	(17)
Gross margin	77,732	107,870	2,402	4,017	8,676	9,318
Result of the operating activities	23,445	27,638	2,402	4,017	(914)	(4,833)
Result before taxes from continuous activities	21,748	22,547	2,402	4,017	873	(1,939)
Profit before tax attributed to the Group	**21,748**	**22,547**	**2,402**	**4,017**	**873**	**(1,939)**
Corporate tax	(1,617)	(1,509)	173	(385)	(62)	(36)
Result of the financial year	**20,131**	**21,038**	**2,575**	**3,632**	**811**	**(1,975)**

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 INAF 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 INAF 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 2017 and 2016 is as follows:

In thousands of euros

	31/12/2017	31/12/2016
Cash	18,894	42,795
Cash balances in central banks	210	210
Total	**19,104**	**43,005**

As of 31 December 2017 and 2016, the Group maintained other financial assets equivalent to cash chiefly made up of deposits in financial institutions classified under the heading "Loans and advances – Credit institutions" for the respective amounts of €187,944 thousand and €373,894 thousand.

10. TRADING PORTFOLIO

The list of financial assets and liabilities held for trading as of 31 December 2017 and 2016 was as follows:

In thousands of euros

	31/12/2017		31/12/2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Equity instruments	30,632	–	26,656	–
Debt securities	147,360	–	184,568	–
Trading derivatives	16,843	16,167	12,217	18,479
Total	**194,835**	**16,167**	**223,441**	**18,479**

The list of assets different from the financial derivatives of the trading portfolio as of 31 December 2017 and 2016 was as follows:

In thousands of euros

	31/12/2017	31/12/2016
Equity instruments	**30,632**	**26,656**
Listed instruments	30,632	26,656
Debt securities	**147,360**	**184,568**
Andorran public debt	32,083	99,116
Foreign public debt	39,877	50,614
Issues of financial institutions	75,400	34,838
Total non-derivative assets	**177,992**	**211,224**

Below appears the list of derived financial assets and liabilities as of 31 December 2017 and 2016:

In thousands of euros

	31/12/2017		31/12/2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rates	9,334	7,878	11,041	12,703
Currencies	1,263	911	765	711
Credit	4	235	14	247
Equity Instruments	6,242	7,143	397	4,818
Total derived assets	**16,843**	**16,167**	**12,217**	**18,479**

As of 31 December 2017 and 2016 the Group did not have short security positions.

11. FINANCIAL ASSETS AND LIABILITIES DESIGNED AT FAIR VALUE WITH CHANGES IN PROFIT OR LOSS

In accordance with the provisions of the standard, financial assets and liabilities other than those classified as held for trading may be designated by the Group as of the initial recognition at fair value with changes in results, in the event that any of the following circumstances arise:

- They eliminate or significantly reduce any inconsistency in the measurement or recognition (sometimes called "accounting asymmetry") which would otherwise arise when using different criteria to measure assets and liabilities or to recognise profits with different bases;
- the exercise of a group of financial assets, financial liabilities or both is managed and assessed in keeping with the criterion of fair value, in accordance with an investment or risk management strategy; and
- they are hybrid contracts whereby an institution is allowed to designate the entire contract at fair value with changes in 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 2017 and 2016:

In thousands of euros

Assets	31/12/2017	31/12/2016
Equity instruments	**299,559**	**315,351**
Linked to insurance products in which the policyholder assumes the risk ("Unit-Linked")	299,559	315,351
Debt securities and other financial assets	**57,586**	**41,406**
Linked to insurance products in which the policyholder assumes the risk ("Unit-Linked")	57,586	41,406
Total Assets	**357,145**	**356,757**
Liabilities		
Other financial liabilities	**405,870**	**461,982**
Life insurance in which the policyholder assumes the risk	405,870	461,982
Total Liabilities	**405,870**	**461,982**

Financial assets at fair value with changes in 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 called Unit-Linked and are marketed through Mora Assegurances, SAU.

Financial liabilities at fair value with changes in 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 Unit-Linked life insurance products.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Composition of the balance

The breakdown of the balance of this section of the consolidated statement of financial position as of 31 December 2017 and 2016, based on the nature of the transactions, was as follows:

In thousands of euros

	Fair value	Fair value
	31/12/2017	31/12/2016
Equity instruments	**67,524**	**73,230**
Shares of non-listed companies	67,541	73,198
Ajustaments per valoració	-	32
Impairment losses (Note 40)	(17)	-
Sub-total	67,524	73,230
Debt securities	**352,269**	**261,877**
Foreign public debt	216,528	234,254
Issued by financial institutions	55,624	18,572
Other issues	78,178	2,781
Adjustments for valuation	1,939	6,270
Subtotal	352,269	261,877
Total	**419,793**	**335,107**

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

As of 31 December 2017, no financial instruments classified under different headings from the heading in which they were classified at the initial moment were held.

13. LOANS AND ACCOUNTS RECEIVABLE

The list of loans and receivables as of 31 December 2017 and 2016 of the consolidated statements of financial position, considering the valuation adjustments, was as follows:

In thousands of euros

	31/12/2017	31/12/2016
Debt securities	**165,744**	**107,421**
Loans and advances	**1,223,463**	**1,424,477**
Credit institutions	245,045	398,007
Customer	978,418	1,026,469
Adjustments for valuation	**(28,878)**	**(29,753)**
Impairment losses	(32,445)	(33,927)
Accrued interests and commissions	3,567	4,174
Total	**1,360,329**	**1,502,145**

a) Debt securities and loans and advances to credit institutions

The list of debt securities and loans and advances as of 31 December 2017 and 2016 of the consolidated statements of financial position, considering the valuation adjustments, was as follows:

In thousands of euros

	31/12/2017	31/12/2016
Debt securities	**165,744**	**107,421**
Andorran public debt	122,347	107,421
Other issues	43,397	-
Loans and advances to credit institutions	**245,045**	**398,008**
Term deposits	23,401	23,592
Temporary acquisition of assets	33,700	-
Others	187,944	374,416
Adjustments for valuation	**(185)**	**(570)**
Impairment losses	(410)	(579)
Accrued interests and commissions	225	9
Net carrying value	**410,604**	**504,859**

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 2017 and 2016 financial years:

In thousands of euros

	2017	2016
Balance at the beginning of the year	**579**	**646**
Plus:	**958**	**434**
Provisions to the fund	958	434
Less:	**(1,127)**	**(501)**
Applications of the fund	(1,127)	(501)
Balance at the end of the year	**410**	**579**

b) Loans and advances to customers

The list of loans and advances to customers in the consolidated statements of financial position as of 31 December 2017 and 2016, considering the valuation adjustments, was as follows:

In thousands of euros

	31/12/2017	31/12/2016
Loans and advances to customers (gross)	**981,760**	**1,030,634**
Debtors with money guarantees and securities	219,446	242,116
Mortgages for first-home acquisitions	144,120	127,713
Other mortgages	343,149	378,261
Without any real guarantee	275,045	282,544
Provisions for impairment	**(32,034)**	**(33,348)**
Total	**949,726**	**997,286**

Below are the changes which occurred in the balance of the provisions covering impairment losses from loans and advances to customers in the 2017 and 2016 financial years:

Specific hedging:

In thousands of euros

	2017	2016
Balance at the beginning of the year	**33,348**	**37,752**
Plus:	**13,202**	**13,961**
Provisions to the fund	13,202	13,961
Less:	**(14,516)**	**(18,365)**
Applications of the fund	(2,629)	(12,747)
Recoveries of the fund	(11,887)	(5,618)
Balance at the end of the year	**32,034**	**33,348**

14. HELD-TO-MATURITY FINANCIAL ASSETS

The breakdown of the balance of this section of the consolidated statements of financial position, as of 31 December 2017 and 2016, based on the nature of the transactions, was as follows:

In thousands of euros

	31/12/2017	31/12/2016
Debt securities	**64,653**	**30,825**
Andorran public debt	–	–
Foreign public debt	11,602	10,787
Issues of financial institutions	15,416	12,749
Other issues	37,635	7,289
Adjustments for valuation	**1,755**	**776**
Accrued interests and commissions	1,852	776
Impairment adjustments	(97)	–
Total	**66,408**	**31,601**

The heading is chiefly made up of debt issued by the public administrations of OECD countries and the banking institutions of these countries.

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.

a) Hedging derivatives

Below appears the list of hedging derivatives of the interest rate risk held by the Group as of 31 December 2017 and 2016 in the consolidated statements of financial position:

In thousands of euros

			31/12/2017
	Assets	**Liabilities**	**Nominals**
Fair value accounting micro-hedges			
Interest rate risk	753	3,148	251,011

In thousands of euros

			31/12/2016
	Assets	**Liabilities**	**Nominals**
Fair value accounting micro-hedges			
Interest rate risk	43	4,663	279,900

As of the closure of the 2017 and 2016 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 2017 financial year the Group determined that hedges are effective by means of the realisation of an effectiveness test on them.

b) Items hedged

The MoraBanc 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 2017 and 2016, the variations in the fair value of the hedged positions were:

	In thousands of euros	
		31/12/2017
	Assets	**Liabilities and Net Equity**
Changes in the fair value of the elements of a portfolio with interest rate risk hedging	12	1,066

c) 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 SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Under the heading "Investments in subsidiaries, joint ventures and associates – Associated institutions" for the years ending on 31 December 2017 and 2016, the MoraBanc Group had a 20% holding in Societat Serveis i Mitjans de Pagament XXI, SA (see Note 4).

The main data of Societat Serveis i Mitjans de Pagament XXI, SA for the years ending on 31 December 2017 and 2016 were as follows:

In thousands of euros

	% holding	Carrying value	Capital	Reserves	Result of the financial year	Interim dividend	Total equity
31/12/2017	20%	31	60	581	(480)	–	161
31/12/2016	20%	50	60	153	28	–	241

As of 31 December 2017, 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 2017, there were no contingent liabilities in relation to investments in subsidiaries, joint ventures or associates.

During the 2017 and 2016 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:

a) Fixed assets

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.

In the particular case of the Edificio Milenium building and its facilities, the Bank's head office where the central services are located, the Group has decided to proceed to its revaluation at its fair value on the date of transition, in accordance with the provisions of IFRS 1 (see Note 48).

b) 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.

As of 31 December 2017, the Group's property investments were chiefly made up of Casa Vicens, a building located in the city of Barcelona, the work of architect Antoni Gaudí. The property on the date of the accounting closure was in use (see Note 45).

At the end of the year, the total value of the property investments amounted to €27,139 thousand, and work was performed for the amount of €4,975 thousand (€3,475 thousand in 2016). The Bank has estimated the fair value of this property using the flow discount method, in which the main hypotheses have been:

- Growth rate (g) of 1%
- Discount rate of 6%

In accordance with this valuation, there were no impairment losses.

As of 31 December 2017, the Institution did not have fully amortised property investment elements.

Financial leasing

The Group did not have finance leasing transactions established as of 31 December 2017 or 2016,

Operating leases

The Group acts as a lessor of certain properties registered at acquisition cost in the “tangible assets” heading of the attached consolidated statement of financial position. These assets are amortised in accordance with the policies adopted for similar material assets and the income resulting from the leasing contracts, which on no account is significant, is recognised in the consolidated statement of income in a linear manner, in the section titled “Other operating income”.

Similarly, as the lessor, the Group does not have significant commitments to purchase fixed-asset elements.

The movement of the fixed asset accounts and property investments in the 2017 and 2016 financial years was as follows:

Own use

In thousands of euros

	Lands and buildings	Works in progress	Furniture and facilities	Hardware	Others	Total
Cost						
Balance on 1 January 2017	**57,468**	**22,164**	**31,061**	**16,534**	**389**	**127,616**
Recognitions	-	4,975	318	481	-	5,774
Derecognitions	-	-	(458)	(110)	-	(568)
Exchange rate differences	-	-	(87)	(51)	-	(138)
Balance on 31 December 2017	**57,468**	**27,139**	**30,834**	**16,854**	**389**	**132,684**
Accumulated amortisation						
Balance on 1 January 2017	**(8,063)**	**-**	**(23,230)**	**(15,443)**	**(340)**	**(47,076)**
Recognitions	(604)	-	(1,492)	(732)	(21)	(2,849)
Derecognitions	-	-	154	105	-	259
Exchange rate differences	-	-	54	48	-	102
Balance on 31 December 2017	**(8,667)**	**-**	**(24,514)**	**(16,022)**	**(361)**	**(49,564)**
Carrying value on 1 January 2017		**22,164**	**7,831**	**1,091**	**49**	**80,540**
Carrying value on 31 December 2017	**48,801**	**27,139**	**6,320**	**832**	**28**	**83,120**

Own use

In thousands of euros

	Lands and buildings	Works in progress	Furniture and facilities	Hardware	Others	Total
Cost						
Balance on 1 January 2016	87,352	18,689	31,788	16,109	389	154,327
Recognitions	–	3,475	427	523	–	4,425
Derecognitions	(29,884)	–	(1,182)	(117)	–	(31,183)
Transfers	–	–	–	5	–	5
Exchange rate differences	–	–	28	14	–	42
Balance on 31 December 2016	57,468	22,164	31,061	16,534	389	127,616
Accumulated amortisation						
Balance on 1 January 2016	(7,574)	-	(22,017)	(14,674)	(306)	(44,571)
Recognitions	(489)	–	(1,953)	(878)	(34)	(3,354)
Derecognitions		–	764	123	–	887
Exchange rate differences	–	–	(24)	(14)	–	(38)
Balance on 31 December 2016	(8,063)	-	(23,230)	(15,443)	(340)	(47,076)
Carrying value on 1 January 2016	79,778	18,689	9,771	1,435	83	109,757
Carrying value on 31 December 2016	49,405	22,164	7,831	1,091	51	80,540

18. INTANGIBLE ASSETS

The list of movements of the intangible assets as of 31 December 2017 and 2016 was as follows:

In thousands of euros

	Computer applications	Others	Total
Cost			
Balance on 1 January 2017	**95,259**	**552**	**95,811**
Acquisitions	5,890	5	5,894
Derecognitions	(2,063)	-	(2,063)
Exchange rate differences	(7)	-	(7)
Balance as of 31 December 2017	**99,079**	**557**	**99,635**
Accumulated amortisation			
Balance on 1 January 2017	**(84,690)**	**(534)**	**(85,224)**
Recognitions	(5,444)	(10)	(5,454)
Derecognitions	1,587	-	1,587
Exchange rate differences	6	-	6
Balance as of 31 December 2017	**(88,542)**	**(544)**	**(89,085)**
Carrying value on 1 January 2017	**10,569**	**18**	**10,587**
Carrying value on 31 December 2017	**10,537**	**13**	**10,550**

In thousands of euros

	Computer applications	Others	Total
Cost			
Balance on 1 January 2016	**87,776**	**818**	**88,594**
Acquisitions	7,492	45	7,537
Derecognitions	(5)	(311)	(316)
Transfers	(5)	-	(5)
Differences between change and others	1	-	1
Balance on 31 December 2016	**95,259**	**552**	**95,811**
Accumulated amortisation			
Balance on 1 January 2016	**(80,076)**	**(369)**	**(80,445)**
Acquisitions	(4,619)	(267)	(4,886)
Derecognitions	5	102	107
Balance on 31 December 2016	**(84,690)**	**(534)**	**(85,224)**
Carrying value on 1 January 2016	**7,700**	**449**	**8,149**
Carrying value on 31 December 2016	**10,569**	**18**	**10,587**

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	
	31/12/2017	31/12/2016
Periodificacions	4,152	4,087
Others Assets	3,413	10,078
Total resta d'Assets	**7,565**	**14,165**
Periodificacions	13,531	13,470
Others	3,536	10,733
Total remaining liabilities	**17,067**	**24,203**

The balances accounted for in the remaining assets correspond to expenses paid in advance by the Bank 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

a) 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 2017 and 2016 were as follows:

	In thousands of euros	
	31/12/2017	31/12/2016
Fixed assets	**53,507**	**61,256**
From awards	44,687	52,436
Others	8,820	8,820
Gross carrying value	**53,507**	**61,256**
Value corrections	(38,354)	(42,667)
Net carrying value	**15,153**	**18,589**

This section of the consolidated statement of financial position chiefly includes the assets from acquisitions and awards in the process of the regularisation of credit transactions which are not incorporated as assets for own use, property investments or stocks, and the assets initially classified as property investments, once the decision has been made to proceed with their sale.

b) Movements

The movements which took place in 2017 and 2016 in the balance of this section of the statement of financial position are shown below:

In thousands of euros	Total
Cost	
Balance on 1 January 2017	**61,256**
Recognitions	282
Derecognitions	(8,031)
Balance as of 31 December 2017	**53,507**
Impairment losses	
Balance on 1 January 2017	**(42,667)**
Recognitions	(343)
Derecognitions	4,656
Balance as of 31 December 2017	**(38,354)**
Carrying value on 1 January 2017	**18,589**
Carrying value on 31 December 2017	**15,153**

In thousands of euros	Total
Cost	
Balance on 1 January 2016	**64,742**
Recognitions	304
Derecognitions	(3,790)
Balance as of 31 December 2016	**61,256**
Impairment losses	
Balance as of 1 January 2016	**(40,515)**
Recognitions	(2,495)
Derecognitions	343
Balance as of 31 December 2016	**(42,667)**
Carrying value on 1 January 2016	**24,227**
Carrying value on 31 December 2016	**18,589**

During the 2017 financial year, there were sales of assets awarded, registered at a cost value of €8,031 thousand, with an associated impairment of €4,398 thousand, which generated a net positive result of €433 thousand recorded in the attached consolidated statement of income.

In the 2017 financial year, only an asset awarded for a net carrying value of €282 thousand was incorporated into the consolidated statement of financial position.

The estimated value of the realisation of these assets at the closure of the year was greater than their net carrying value.

c) Information regarding assets awarded

Breakdown by typology of asset

Below appears the distribution of the assets from awards and credit recoveries as of 31 December 2017 and 2016, depending on the nature of the asset, taking into account their impairment fund.

In thousands of euros

	31/12/2017		31/12/2016	
	%	**import**	**%**	**import**
Assets for residential use	12%	1,879	28%	5,266
Asset for industrial or commercial use	7%	1,080	7%	1,221
Undeveloped land	81%	12,194	65%	12,102
Total	**100%**	**15,153**	**100%**	**18,589**

21. FINANCIAL LIABILITIES AT AMORTISED COST

a) 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 2017 and 2016 was as follows:

In thousands of euros

	31/12/2017	31/12/2016
Deposits	**1,693,127**	**1,715,390**
Credit institutions	20,767	15,298
INAF (Andorran National Institute of Finance)	21,276	19,851
Customer	1,651,084	1,680,241
Debt securities issued	**34,795**	**37,314**
Other financial liabilities	**12,034**	**14,963**
Total	**1,739,956**	**1,767,667**

b) INAF deposits

The composition of the INAF deposits as of 31 December 2017 and 2016 was as follows:

In thousands of euros

	31/12/2017	31/12/2016
Demand	2,139	18,679
Term deposits	19,137	1,172
Total deposits in Central Banks (INAF)	**21,276**	**19,851**

c) Deposits of credit institutions

The list of deposits of credit institutions as of 31 December 2017 and 2016 was as follows:

	In thousands of euros	
	31/12/2017	31/12/2016
Demand	12,678	6,498
Term deposits	8,089	8,800
Total deposits of credit institutions	**20,767**	**15,298**

d) Customer deposits

The list of customer deposits as of 31 December 2017 and 2016, based on the currency and the period until maturity, was as follows:

	In thousands of euros	
	31/12/2017	31/12/2016
By currency:	**1,651,084**	**1,680,241**
In euros	1,353,757	1,317,532
In currency	297,327	362,709
Deposits by type:	**1,651,084**	**1,680,241**
Demand	1,318,969	1,291,477
Term deposits	332,115	388,764
Total customer deposits	**1,651,084**	**1,680,241**

e) Debt securities issued

The list of debt securities as of 31 December 2017 and 2016 was as follows:

	In thousands of euros	
	31/12/2017	31/12/2016
Issues of subordinated debt	34,795	37,314
Total debt securities issued	**34,795**	**37,314**

On 28 July 2006, BIBM Preferentes, Ltd performed an issue of preferential shares, with no voting rights, for an amount of €60,000 thousand. These preferential shares have a perpetual nature, but the issuer is entitled to amortise them in advance each year, with the INAF's prior agreement. Their remuneration (dividend) is a fixed annual 5% throughout the first three years of the issue and, subsequently, variable on an annual basis, in accordance with the CMS (Constant Maturity Swap) rate at 10 years plus 30 basis points, 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 2017 the Group acquired preferential holdings of the issue performed by BIBM Preferentes, Ltd for the amount of €6,947 thousand and they were sold for the amount of €4,428 thousand, 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 €34,795 thousand as of 31 December 2017,

f) Other financial liabilities

The list of other financial assets as of 31 December 2017 and 2016 was as follows:

	In thousands of euros	
	31/12/2017	31/12/2016
Obligations payable	7,424	9,876
Guarantees received	3,872	4,938
Special accounts	144	112
Other items	594	37
Total	**12,034**	**14,963**

The balances recorded in this section as of 31 December 2017 chiefly correspond to guarantees for future customer transactions amounting to €3,831 thousand, cheques payable in the amount of €2,430 thousand and orders to pay customers for the amount of €2,247 thousand.

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 2017 was as follows:

	In thousands of euros	
	31/12/2017	31/12/2016
Provisions for non-consumed premiums	725	726
Provisions for life insurance	33,215	34,364
Provision for services	255	835
Receivables for insurance and reinsurance operations	1,766	2,096
Total assets	**35,961**	**38,021**

	In thousands of euros	
	31/12/2017	31/12/2016
Provisions for non-consumed premiums	2,363	2,225
Provisions for life insurance	82,239	80,163
Deposits received for transferred reinsurance	994	955
Debts for reinsurance operations	350	-
Ongoing operations	148	(185)
Total liabilities	**86,094**	**83,158**

23. PROVISIONS

a) 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	
	31/12/2017	31/12/2016
Pensions and other post-employment defined benefit obligations	16,211	18,489
Other long-term employee remuneration	1,355	1,172
Procedural issues and litigation for pending taxes	4,184	1,498
Commitments and guarantees granted	10	-
Other provisions	4,244	3,782
Total	**26,004**	**24,941**

Below appears a brief description of the nature of the obligations contracted, as well as the movements which occurred during the 2017 and 2016 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,u, the Group finances defined contribution plans for retired employees. All the current defined benefit plans correspond to retired personnel, closed to new hires.

In addition, during the 2016 and 2017 financial years, the provisions necessary for the hedging of the total salary and social commitments of a group of employees were established, charged to results, which, by virtue of meeting certain characteristics, joined the early retirement process carried out by the Group under an incentive programme.

Other remuneration for long-term employees

The Group has established a system of long-term remuneration which is updated on an annual basis, based on an internal remuneration system whose beneficiaries are active, retired and early retired people.

Procedural issues and litigation for pending taxes

It corresponds to the funds the Group assigns to cover risks associated with losses that may arise from claims of third parties in the management process (see Note 3,q).

Provisions for commitments and guarantees granted

This provision corresponds to the commissions for the formalisation of guarantees that the Group accounts for in the consolidated statement of income, using the calculation of the effective interest rate of the associated transaction (see Note 3,q).

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,q).

The balance basically includes provisions established to cover risks arising from the operations of the financial distribution and intermediation Group.

b) Changes in provisions

The changes in provisions for pensions and obligations of post-employment benefits and similar during the 2017 and 2016 financial years were as follows:

In thousands of euros

	2017	2016
Balance at the beginning of the year	**18,489**	**8,887**
Plus:	**329**	**10,660**
Provision to the fund charged to personnel expenses	12	12
Extraordinary provision	214	10,510
Return on assets related to the fund charged to the financial margin	103	138
Less:	**(2,607)**	**(1,058)**
Recoveries of the fund	(342)	-
Applications of the fund	(2,265)	(1,058)
Balance at the end of the year	**16,211**	**18,489**

During 2016 and 2017 the balance of the long-term remuneration of employees had the following movement:

In thousands of euros

	2017	2016
Balance at the beginning of the year	**1,172**	**1,098**
Plus:	**183**	**74**
Provision to the fund	183	74
Less:	**-**	**-**
Recoveries of the fund	-	-
Balance at the end of the year	**1,355**	**1,172**

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 2017 and 2016:

In thousands of euros

	2017	2016
Balance at the beginning of the year	**1,498**	**-**
Plus:	**2,740**	**1,498**
Provision to the fund	2,740	1,498
Less:	**(54)**	**-**
Recoveries of the fund	(54)	-
Balance at the end of the year	**4,184**	**1,498**

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 2017 and 2016:

	In thousands of euros	
	2017	2016
Balance at the beginning of the year	**-**	-
Plus:	**10**	-
Provisions to the fund	10	-
Balance at the end of the year	**10**	-

The outflow of economic resources is predicted 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 2017 and 2016 was as follows:

	In thousands of euros	
	2017	2016
Balance at the beginning of the year	**3,782**	**8,013**
Plus:	**1,559**	**1,037**
Provisions to the fund	1,559	1,037
Less:	**(1,097)**	**(5,268)**
Recoveries of the fund	(586)	-
Applications of the fund	(511)	(5,268)
Balance at the end of the year	**4,244**	**3,782**

Given the nature of these provisions, the calendar of outflows of economic resources is uncertain.

24. POST-EMPLOYMENT REMUNERATION AND OTHER COMMITMENTS WITH EMPLOYEES

a) Composition of the balance

As of 31 December 2017 and 2016, 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

	2017	2016
Obligations for defined benefit pensions	**6,443**	**7,030**
Commitments caused	6,443	7,030
Obligations for early retirements and others	**9,768**	**11,459**
Other long-term remuneration	**1,355**	**1,172**
Total	**17,566**	**19,661**

b) Defined benefit plans

Movement of the provisions for defined benefit commitments

The movements which occurred in 2017 and 2016 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 on 1 January 2016	**7,015**	**1,872**	**8,887**
Total impacts in the income statement	**368**	**9,992**	**10,360**
Cost of current services	230	9,992	10,222
Net interest income	138	–	138
Total impacts on equity	**161**	**127**	**288**
Actuarial losses/(profits)	161	127	288
Other impacts	**(514)**	**(532)**	**(1,046)**
Benefits paid	(514)	(544)	(1,058)
Other movements	–	12	12
Balance as of 31 December 2016	**7,030**	**11,459**	**18,489**
Total impacts in the income statement	**(89)**	**64**	**(25)**
Cost of current services	150	64	214
Costs for past services	(342)	–	(342)
Net interest income	103	–	103
Other impacts	**(498)**	**(1,755)**	**(2,253)**
Benefits paid	(498)	(1,767)	(2,265)
Other movements	–	12	12
Balance as of 31 December 2017	**6,443**	**9,768**	**16,211**

c) Details of actuarial hypotheses

Below appear the main actuarial hypotheses used in the valuation of the commitments as of 31 December 2017 and 2016:

In thousands of euros

	2017	2016
Financial hypotheses		
Types of discount	corporate bondcurve AA (in €)	corporate bondcurve AA (in €)
Nominal rate of update	0,5-1,25%	0,5-1,5%
Increase CPI	1%	1%
CASS salary increase	1%	1%
Demographic hypotheses		
Mortality tables	PERM-2000P (H) and PERF-200 (D)	PERM-2000P (H) and PERF-200 (D)
Disability tables	70% absolute disability (IASS-90)	70% absolute disability (IASS-90)
Retirement age	65	65

d) 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 2016 and 2017 financial years:

In thousands of euros

Current Actuarial Value at 31,12,2017	Beneficiaries caused	Early retired people
VAA central scenario	**6,443**	**9,604**

		Beneficiaries caused				Early retired people			
Variation of hypothesis	**Variació**	**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% Basic Points**	(616)	(9,56%)	734	11,40%	(251)	(2,61%)	264	2,74%
Types of discount	**50% Basic Points**	(321)	(4,99%)	351	5,44%	(127)	(1,32%)	130	1,35%
Variation in Inflation	**50% Basic Points**	394	6,11%	(363)	(5,63%)	-	-	-	-
Mortality Rate	**1 year**	220	3,41%	(215)	(3,34%)	(2,078)	21,64%	2,071	21,56%

In thousands of euros

Current Actuarial Value at 31,12,2016	Beneficiaries caused	Early retired people
VAA central scenario	**7,030**	**11,307**

Variation of hypothesis	Variation	Beneficiaries caused				Early retired people			
		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% Basic Points**	(748)	(10,64%)	770	10,96%	(357)	(3,16%)	377	3,34%
Types of discount	**50% Basic Points**	(419)	(5,96%)	336	4,87%	(181)	(1,60%)	186	1,64%
Variation in Inflation	**50% Basic Points**	321	4,56%	(314)	(4,46%)	-	-	-	-
Mortality Rate	**1 year**	167	2,38%	(281)	(4,00%)	(190)	(1,68%)	188	1,67%

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.

e) 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 the employees to modify and transform this internal pension fund, replacing it with a pension scheme with a defined contribution model, implemented and managed by means of a collective insurance policy subscribed by Mora Banc Grup, SA on behalf of the Group with Mora Assegurances, SAU, which transferred the policy to AXA Vida, S.A. as reinsurance. Practically all the employees accepted the above-mentioned transformation.

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,b).

During the 2017 and 2016 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 statements of income.

As a result of the outsourcing process, payments for the amount of €498 thousand (€514 thousand in the financial year 2016) were made in 2017.

f) Obligations to staff with early retirement

In 2016 the Bank 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.

The charge for this item has been recorded under "Allocation to provisions" in the attached consolidated statement of income (see Note 3,q), together with the updates of all the salary and social commitments acquired in previous years for similar processes.

During 2017 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 statement of income (see Note 3,q).

In addition, in the 2017 financial year payments for this concept were made for the amount of €1,767 thousand (€544 thousand to 2016).

25. CAPITAL AND RESERVES

a) 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 thousand shares, each with a nominal value of €6,01, fully subscribed and paid, belonging to an Andorran family group.

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, similarly, there are restrictions on the free transferability of the shares.

There are no current capital increases in the Bank. Similarly, there is no other type of bond which confers rights similar to those previously mentioned.

b) Nature and purpose of the reserves

Composition of the reserves

The composition of the reserves as of 31 December 2017 and 2016 was:

		Milers d'euros
	31/12/17	31/12/16
Accumulated profits	**145,608**	**148,469**
Legal reserve	16,214	16,214
Guarantee reserves	24,334	23,254
Voluntary reserves	105,060	109,001
Other reserves	**75,841**	**63,721**
Reservations for the first application	(23,621)	(23,621)
Reserves of consolidated companies by the full consolidation method	99,344	87,313
Reserves of companies made up of the equity method	118	29
Total	**221,449**	**212,190**

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 of the positive result in each year for the constitution of the legal reserve, until it reaches an amount equal to twenty per cent of the share capital. As of 31 December 2017, 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 the session of 2 February 2011, approved Law 1/2011 on the creation of a deposit guarantee system for banking institutions in order to guarantee the return of funds in cash and securities deposited in the banking institutions which are members of this system and by means of which, in relation to the banking institutions, all the regulatory provisions of the guarantee deposit system are repealed.

In compliance with these laws, the Group has constituted a reserve in guarantee of its operational obligations totalling €24,124 thousand (see Note 2,g).

In addition, the guarantee reserves include €210 thousand of the company Grup 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,g).

The legal reserve and reserves in guarantee held by Mora Banc, SAU and Mora Gestió d'Actius, SAU are submitted separately under the respective headings "Legal reserve" and "Reserves in guarantee" to show their restricted nature.

Voluntary reserves

Voluntary reserves are freely available to the Bank's shareholders.

Reservations for the first application

The first application reserves record the effect of the necessary adjustments resulting from the transition between the accounting criteria in force at the time of formulating the 2016 consolidated financial statements and the IFRS criteria at the time of the first application (see Note 2a).

Reserves of consolidated companies by the full consolidation method

The consolidation reserves come from the integrated companies by means of the full consolidation method (see Note 4) and include the conversion differences.

Reserves of companies consolidated by the equity method of the holding

They correspond to consolidation reserves from the integrated Company 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
	2017	2016
Integrated globally (*):		
Mora Banc, SAU	95,608	94,588
Mora Gestió d'Actius, SAU	3,781	3,776
Mora Assegurances, SAU	3,916	283
Mora Wealth Management AG	(333)	(6,139)
Mora Wealth Management SA (Uruguay)	-	(56)
Mora Wealth Management LLC	(3,315)	(3,974)
Mora WM Securities, LLC	(201)	(971)
Amura Capital Turquoise, SA	60	25
SICAV Amura (Onix)	-	(103)
SICAV Amura (Emerald)	(29)	(20)
SICAV Rocanegra	(96)	(96)
SICAV Burna	(48)	-
Integrated by the equity method:		
Serveis i Mitjans de Pagament XXI, SA	118	29
Total consolidation Reserves	**99,461**	**87,342**

(*) 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 ACCUMULATED GLOBAL RESULTS

The statements of comprehensive income for the 2017 and 2016 financial years display the movements which occurred in this section of the consolidated statement of financial position throughout these years, as summarised below

In thousands of euros

Items which can be reclassified in results	Balance on 01/01/2017	Imports transferred to the income statement	Imports transferred to reserves	Balance on 31/12/2017
Hedging derivatives	906	-	(39)	867
Available-for-sale financial assets	6,301	(6,375)	2,013	1,939
Total	**7,207**	**(6,375)**	**1,974**	**2,806**

In thousands of euros

Items which can be reclassified in results	Balance on 01/01/2016	Imports transferred to the income statement	Imports transferred to reserves	Balance on 31/12/2016
Hedging derivatives	863	-	43	906
Available-for-sale financial assets	20,383	(25,225)	11,143	6,301
Total	**21,246**	**(25,225)**	**11,186**	**7,207**

27. MINORITY INTERESTS

The minority interests and profit/loss for the year come solely from the subsidiary Mora Wealth Management, LLC, which presented the following balances as of 31 December 2017 and 2016:

In thousands of euros

	31/12/2017	31/12/2016
Minority Reserves	(4)	(4)
Total	**(4)**	**(4)**

28. OWN RESOURCES AND CAPITAL MANAGEMENT

a) Own resources

As of 31 December 2017 and 2016, own resources were calculated in accordance with the current regulations in force, regulating the level of minimum 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.

In this regard, the General Council of the Principality of Andorra, at its session on 29 February 1996, approved the Law regulating the solvency and liquidity criteria of financial institutions.

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%.

The solvency ratios, determined in accordance with this law, stood at 26,98% as of 31 December 2017,

b) 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 MoraBanc, 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 for the 2015-2018 period 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 which optimises 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 2017 and 2016 was as follows:

In thousands of euros	31/12/2017	31/12/2016
Commitments and guarantees granted	**314,564**	**270,232**
Loan commitments granted	238,996	198,736
Guarantees awarded	74,536	71,094
Documentary credits	1,032	402
Adjustments for valuation	**(584)**	**(513)**
Impairment losses	(584)	(513)
Total	**313,980**	**269,719**

The Group is committed to providing funds to customers 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 materialized, 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 2017 and 2016 there were no significant assets owned by the Group affecting obligations of third parties.

31. PURCHASE AND SALE COMMITMENTS

As of 31 December 2017 and 2016, the Group had no financial assets sold with the commitment of their subsequent purchase.

32. BUSINESS VOLUME

The MoraBanc 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 2017 and 2016 was as follows:

In thousands of euros

	31/12/2017	31/12/2016
Loans and accounts receivable of customers	**949,726**	**997,286**
Customer deposits in cash	**1,651,084**	**1,680,241**
Financial instruments safeguarded	**3,076,456**	**3,026,316**
Those managed by the Group	3,076,456	3,026,316
Discretionary portfolios	421,072	501,028
Collective Investment Undertakings	989,667	897,165
Other individual customers	1,665,717	1,628,123
Resources of customers outside the statement of financial position not safeguarded	**1,655,841**	**1,796,414**
Managed by the Group	1,655,841	1,796,414
Discretionary portfolios	1,655,841	1,796,414
Total	**7,333,107**	**7,500,257**

33. NET INCOME DUE TO INTERESTS

This section of the consolidated statement of income 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 2017 and 2016 financial years was as follows:

In thousands of euros

	2017	2016
Interest income		
Available-for-sale financial assets	2,913	1,393
Loans and accounts receivable	22,829	25,822
Held-to-maturity investments	2	-
Derivatives - Hedge accounting, interest rate risk	1,194	-
Total interest income	**26,938**	**27,215**
Interest expenses		
Financial liabilities at amortised cost	(5,702)	(6,610)
Derivatives - Hedge accounting, interest rate risk	-	(1,410)
Other liabilities	(156)	-
Total interest expenses	**(5,858)**	**(8,020)**
Net result from interests	**21,080**	**19,195**

34. NET INCOME FOR COMMISSIONS

The most significant income and expenses recorded as commissions in the attached statements of income for the years ending on 31 December 2017 and 2016 as functions of the nature of the non-financial service which gave rise to them were as follows:

In thousands of euros

	2017	2016
Commission income		
Security services	50,847	56,015
Commissions for credit transactions and customer maintenance	9,611	11,379
Other commissions for services provided	4,724	10,270
Total income from commissions	**65,182**	**77,664**
Commission expenses		
Commissions accrued for services received	(10,382)	(8,569)
Total commission expenses	**(10,382)**	**(8,569)**
Net income from commissions	**54,800**	**69,095**

35. RESULTS FROM FINANCIAL OPERATIONS

The breakdown of the balance in this section of the consolidated statements of income accrued during 2017 and 2016 is as follows:

In thousands of euros

	2017	2016
Profits or losses due to derecognition of unrealised financial assets and liabilities at fair value with changes in results, net	9,279	22,154
Profits or losses from financial assets and liabilities held for trading, net	204	2,086
Profits or losses resulting from hedge accounting, net	(153)	-
Exchange differences (profit or loss), net	1,507	2,284
Profits or losses due to derecognition of non-financial assets, net	-	939
Total result for financial operations	**10,837**	**27,463**

The result of the financial operations in 2016 chiefly includes the extraordinary profit generated by the sale of a Group shareholding in a listed institution.

36. THE RESULT OF THE INVESTEES BY THE EQUITY METHOD

a) Results of investees integrated by the equity method

The result of the investee integrated by the equity method is as follows:

In thousands of euros

	2017	2016
Serveis i Mitjans de Pagament XXI, SA	(99)	9
Total result of the investees by the equity method	**(99)**	**9**

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:

a) Results of assets and liabilities covered by insurance and reinsurance contracts

The balance recorded under this heading corresponds entirely to the income from the Group’s insurance activity, respectively amounting to €2,433 thousand and €4,017 thousand in 2017 and 2016.

b) Other operating income and expenses

The breakdown of the balance for this section of the attached consolidated statement of income for the 2017 and 2016 financial years is as follows:

In thousands of euros	2017	2016
Other operating income	**606**	**2,442**
Rental of fixed assets	211	164
Others	395	2,278
Other operating expenses	**(1,013)**	**(2,187)**
Expenses for the maintenance of the assets awarded	(105)	(86)
Reversals for security operations	(343)	(1,219)
Contributions to the FAREB	(503)	(571)
Others	(62)	(311)
Total other operating income and expenses	**(407)**	**255**

During 2017 and 2016 the "Other operating income" heading mainly included income for the rental of fixed assets corresponding to the Bank's branch network and other properties where companies of the MoraBanc Group Bank conduct their activity; in addition, for other expenses, it chiefly includes the contributions to the FAREB and reversals for security operations.

38. PERSONNEL COSTS

The list of the personnel expenses for the years ending on 31 December 2017 and 2016 was as follows:

In thousands of euros	2017	2016
Wages and salaries	24,562	29,067
Social Security	3,464	3,681
Contributions to defined contribution pension funds	449	793
Provisions to defined benefit pension plans	150	230
Provisions to early retirement funds	64	–
Other personnel expenses	1,469	2,106
Total personnel expenses	**30,158**	**35,877**

The item "Other personnel expenses" includes, among other items, training, study aid, compensation and other short-term benefits.

Below appear the details of the average workforce by professional category and gender throughout 2017 and 2016:

	No. employees	
Average workforce	2017	2016
Directors	22	21
Middle management	72	80
Administrative staff	94	96
Technicians/administrators	125	128
Total average workforce	**313**	**325**

39. OTHER ADMINISTRATIVE EXPENSES

The breakdown of the balance of this section of the consolidated statements of income accrued during 2017 and 2016 is as follows:

	In thousands of euros	
	2017	2016
Administrative and operational expenses	11,455	17,387
Taxes	1,658	1,666
Technical and technological services and information systems	7,776	8,284
Other expenses	750	3,346
Total other administrative expenses	**21,639**	**30,683**

40. IMPAIRMENT OF THE VALUE OR REVERSAL OF THE IMPAIRMENT OF THE VALUE OF FINANCIAL ASSETS NOT VALUED AT THEIR FAIR VALUE WITH CHANGES IN RESULTS

The breakdown of this section of the attached statements of income corresponding to the 2017 and 2016 financial years is shown in the following table:

	In thousands of euros	
	2017	2016
Loans and accounts receivable	**(1,732)**	**(8,278)**
Loans and items for customers	(1,900)	(8,343)
Credit institutions	299	48
Debt securities	(131)	17
Held-to-maturity financial assets	**(65)**	-
Debt securities	(65)	-
Available-for-sale financial assets	**(17)**	-
Equity instruments	(17)	-
Total impairment	**(1,814)**	**(8,278)**

41. CORPORATE TAX

a) Impact recognised in the income statement

The amount reflected in Group's consolidated statement of income corresponding to the years ending on 31 December 2017 and 2016 was as follows:

In thousands of euros

	2017	2016
Profit for the year attributable to the Group before taxes (*)	29,121	37,000
Permanent differences	(1,665)	(5,705)
Tax base	**27,456**	**31,295**
Tax rate	10%	10%
Tax fee	**2,746**	**3,130**
Deductions and allowances	(1,608)	(1,775)
Settlement fee	**1,138**	**1,355**
Payments on account	-	(884)
Differential fee	**1,138**	**471**

*This result corresponds to the sum of the individual accounting results 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 2017 and 2016:

In thousands of euros

	2017	2016
Elimination of dual taxation for participation in profits	(6,200)	(11,350)
Provisions and losses for insolvencies of Group companies	1,871	(6,548)
Provisions for liabilities and pension funds	1,451	10,660
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	776	776
Elimination of dual internal and international taxation	369	673
Donations and liberalities	56	84
Others	12	-
Total permanent differences	**(1,665)**	**(5,705)**

The list of the deductions and allowances applied as of 31 December 2017 and 2016 was as follows:

In thousands of euros

	2017	2016
New investments in Andorra in fixed assets related to the activity	(459)	(324)
Elimination of international dual taxation	(369)	(673)
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	(775)	(775)
Creation of jobs in Andorra	(5)	(3)
Total deductions and allowances	**(1,608)**	**(1,775)**

b) Amount recognised in another accumulated comprehensive result

Regardless of the taxes on companies recorded in the consolidated statement of income, the Group reflected in its consolidated net equity the following amounts for the following items during 2017 and 2016:

In thousands of euros

	2017			2016		
	Before of Income	**Profit (expense) tax**	**Net of Income**	**Before of Income**	**Profit (expense) tax**	**Net of Income**
Items which may be reclassified in results	**2,806**	**(281)**	**2,525**	**7,207**	**(721)**	**6,486**
Available-for-sale financial assets	1,939	(194)	1,745	6,301	(630)	5,671
Cash flow hedges	867	(87)	780	906	(91)	815
Total	**2,806**	**(281)**	**2,525**	**7,207**	**(721)**	**6,486**

c) Balancing of effective tax rate

Below appears the balancing between the corporate tax expenditure accounted for in the consolidated statements of income for 2017 and 2016 and the profit before taxes of the said exercises applying the tax rate in force in Andorra:

In thousands of euros

	2017		2016	
	Effective rate	**Amount**	**Effective rate**	**Amount**
Profit before taxes		**29,121**		**37,000**
Corporate tax with the local tax rate	10%	2,912	10%	3,700
Effect of the tax rates abroad		37		67
Non-deductible expenses		417		497
Non-taxable income		(620)		(1,135)
Deductions and allowances		(1,608)		(1,776)
Other effects		368		577
Total tax expenditure		**1,506**		**1,930**

d) Composition of deferred tax assets and liabilities

in accordance with the current tax regulations, in 2017 and 2016 there were certain temporary differences to be taken into account when calculating the corresponding corporate tax expenditure.

The balance as of 31 December 2017 and 2016 for deferred tax assets and liabilities was as follows:

In thousands of euros

	31/12/2017		31/12/2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Tangible and intangible assets	3,557	921	3,557	921
Available-for-sale financial assets	-	215	-	-
Hedging of fair value	-	4	-	4
Insolvencies	867	-	867	-
Due to change in fair value	604	-	604	-
Others	1,110	200	725	-
Net assets (liabilities)	**6,138**	**1,340**	**5,753**	**925**

in accordance with the information available as of 31 December 2017, including the historical profit levels and the projections of results 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.

e) Movement of deferred tax assets and liabilities

Similarly, the origins and movements of deferred tax assets/liabilities recorded in the statement of financial position as of 31 December 2017 and 2016 were as follows:

In thousands of euros

	Balance on 01/01/2017	**Recognised in Results**	**Recognised in others Results comprehensive**	**Balance on 31/12/2017**
Tangible and intangible assets	2,636	-	-	2,636
Available-for-sale financial assets	-	-	(215)	(215)
Hedging of fair value	(4)	-	-	(4)
Insolvencies	867	-	-	867
Due to change in fair value	604	-	-	604
Others	725	185	-	910
Total	**4,828**	**185**	**(215)**	**4,798**

In thousands of euros

	Saldo a 01/01/2016	Reconeguts en resultats	Saldo a 31/12/2016
Tangible and intangible assets	2,210	426	2,636
Insolvencies	–	(4)	(4)
Tax losses to be compensated in the future	427	440	867
Due to change in fair value	678	(74)	604
Others	219	506	725
Total	**3,534**	**1,294**	**4,828**

42. RELATED PARTIES

Below appear the most significant balances held as of 31 December 2017 and 2016 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 statement of income are also listed as a result of the transactions carried out:

In thousands of euros

	2017			
	Shareholders	Subsidiary and associate institutions	Administrators and senior management	Other related parties
Assets				
Loans and advances	19,235	–	1,073	101,063
Credit institutions	–	–	–	68,642
Customer	19,235	–	1,073	32,421
Investments in subsidiaries, joint ventures and associates	–	143	–	–
Liabilities				
Deposits	48,346	224	5,498	16,354
Deposits from credit institutions	48,346	224	5,498	16,354
Customer deposits	–	34,795	–	–
Order accounts				
Commitments from loans granted	15,855	75	–	4,818
Financial guarantees granted	1,249	20	10	434
Losses and Profits				
Net income due to interests	181	–	12	817
Net income for commissions	682	–	68	72
Administrative costs	–	(898)	(3,310)	–

In thousands of euros

	2016			
	Shareholders	Associate institutions	Administrators and senior management	Other related parties
Assets				
Loans and advances	31,161	–	1,264	234,391
Credit institutions	-	–	–	199,044
Customer	31,161	–	1,264	35,347
Investments in subsidiaries, joint ventures and associates	-	43	–	–
Liabilities				
Deposits	34,964	153	4,149	8,334
Deposits from credit institutions	34,964	153	4,149	8,334
Customer deposits	-	37,315	–	–
Order accounts				
Commitments from loans granted	16,557	–	–	7,122
Financial guarantees granted	190	–	–	214
Losses and Profits				
Net income due to interests	97	–	7	931
Net income for commissions	586	–	53	88
Administrative costs	-	(979)	(2,867)	–

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 persons, 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 2017, with regard to key personnel and management, these did not receive remuneration corresponding to the following items:

- Short-term and post-employment benefits,
- End-of-contract benefits,
- Share-based payments,
- Other long-term benefits

As of 31 December 2017 and 2016 there was no evidence of impairment of the value of the financial assets or the guarantees and contingent commitments held with related parties.

43. LEASE COMMITMENTS

The list of the different operating lease commitments the Group respectively had on 31 December 2017 and 2016 was as follows:

In thousands of euros		
	2017	2016
Up to 1 year	1,146	1,299
Between 1 and 5 years	2,694	4,141
More than 5 years	1,031	1,306
Total	**4,871**	**6,746**

The Group grants certain property leases with the option of renewal on the expiry of the contract. The amount received for these leases is not significant.

44. ADDITIONAL INFORMATION

a) Compliance with the standards

Law regulating the solvency and liquidity criteria of financial institutions

The General Council of the Principality of Andorra, at its session on 29 February 1996, approved the Law regulating the solvency and liquidity criteria of financial institutions.

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%.

The Group's solvency and liquidity ratios, determined in accordance with this law, were 26,98% and 60,68% as of 31 December 2017.

The Law regulating the solvency and liquidity criteria of financial entities also limits the concentration of risks on behalf of the same beneficiary to 20% of the Group's equity. Moreover, the above-mentioned law establishes that the accumulation of risks individually exceeding 5% of the own funds cannot exceed the limit of 400% of the above-mentioned own funds. Similarly, the risk maintained with members of the Board of Directors cannot exceed 15% of the equity. The above-mentioned risks are weighted in accordance with the provisions of said law.

In 2017 and 2016, the maximum risk concentrations for a single beneficiary respectively totalled 10,29% and 19,53% of the Group's equity. The loans or other transactions entailing risk for a single beneficiary exceeding 5% of the equity did not exceed an aggregate accumulation of risks of 27,35% and 68,13% during 2017 and 2016 financial years, respectively.

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).

The MoraBanc Group had, as of 31 December 2017, a CET 1 (fully loaded) equity ratio under this new regulatory environment of 18,88%, reflecting a comfortable situation with regard to the regulatory minimums expected to be demanded.

In addition, the Group has calculated its leverage under the above-mentioned international regulations. The results reflect a 9,35% leverage ratio for the Group over its ordinary level 1 capital (CET 1), above the regulatory minimum of 3%.

Law on international criminal cooperation and the fight against money laundering arising from international crime and against the financing of terrorism

The General Council, at its session on 22 June 2017, approved Law 14/2017 of 22 June on the prevention and fight against money laundering and the financing of terrorism.

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.

Within this context, the Principality of Andorra regularly submits itself to evaluations by the Council of Europe, carried out by the Committee of experts for the evaluation of measures to combat money laundering and the financing of terrorism (Moneyval), evaluations for which a suitable and effective implementation of the international standards in the matter is fundamental, embodied in the new recommendations of the Financial Action Group (FATF).

In addition, by virtue of the Monetary Agreement signed between the Principality and the European Union, Andorra has undertaken to implement, among other things, in its legal system, Directive (EU) 2015/849 of the Parliament and of the Council of 20 May 2015, related to 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 of the Council of 20 May 2015, relative to the information accompanying transfers of funds.

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 entities and the basic administrative system of the operating entities of the financial system.

It also contains the requirements for investor protection, giving continuity to what was previously envisaged in Law 14/2010, including the principles established in Community Directive 2004/39/EEC of the European Parliament and of the Council of 21 April 2004, known as MiFID (Markets in Financial Instruments Directive).

The Group has established a series of control and communication procedures in order to comply with these organisational requirements.

Agreement between the Principality of Andorra and the European Community regarding the establishment of measures equivalent to those stipulated in Council Directive 2003/48/EC on taxation of savings income in the form of payment of interest and the protocol modifying the above-mentioned Agreement
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.

In 2017 the Group 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 for the creation of the deposit guarantee system

The General Council of the Principality of Andorra, at its session on 2 February 2011, approved the Law on the creation of a deposit guarantee system for banking institutions, seeking to guarantee to the beneficiaries the repayment of the amount of their cash deposits covered, with a maximum limit per beneficiary of €100 thousand, and the deposits of the securities covered, also with a maximum limit per beneficiary of €100 thousand and independent of the former.

This law obliges banks authorised to operate in the Andorran financial system to maintain investments in liquid and safe assets as a counterparty of an unavailable reserve, affected by compliance with the guarantees covered by the guarantee system. The maximum amount of the guarantee reserves for all the members of the system was €94,1 million at the initial moment and a system of annual contributions was set up to reach the maximum of 1,5% of the calculation base established in the above-mentioned law, which also operates as the maximum coverage limit of the guarantee system for all the beneficiaries. In any case, the joint and absolute limit of €200 million cannot be exceeded.

The amount of the guarantee reserves set up by the Group as of 31 December 2017 was €24,124 thousand. The Group has invested an amount equal to the guaranteed reserves in fixed-income securities - Public debt of the OECD countries and the Principality of Andorra and other assets of immediate disposition or of a period not exceeding one month, which can be easily settled, and that the INAF deems appropriate at any time, in accordance with the requirements established by said law.

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 July 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 subject activity. This limitation came into effect on 1 July 2014.

In 2017 the Group fulfilled all the obligations resulting from the application of said law, practising the corresponding 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. 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 Banc, SAU, Mora Gestió d'Actius, SAU and Mora Assegurances, SAU.

During 2017 the Group fulfilled all the fiscal obligations resulting from said law, settling the payment on account for 2017 and the Corporate Tax for 2016.

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 perform deductions and generally applies a 10% 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 2017 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. On 6 May 2015, Legislative Decree of 29 April 2015 on the publication of the consolidated text of Law 5/2014 of 24 April on personal income tax was published in the Official Gazette of the Principality of Andorra, 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 of business reorganisation operations, whose purpose, among other aims, was to introduce amendments to Law 5/2014 of 24 April on personal income tax.

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 National Institute of Finance

At its session on 23 May 2013, the General Council approved Law 10/2013 on the INAF, repealing Law 14/2003 on the creation of the INAF.

The purpose of this law is to provide the INAF with the necessary means to achieve its objectives, while extending them, taking into account the global nature of the INAF's scope of action within the context of the international expansion of the Andorran financial system, the evolution of the international financial markets and the commitments acquired by Andorra with the signing of the Monetary Agreement with the European Union.

By virtue of Law 16/2016 of 20 October on the amendment of Law 10/2013 of the INAF, some of the limitations regarding the nationality of the members of the Board of Directors and Management of the INAF were eliminated to assist people with the professional experience and suitable technical competencies in assuming these responsibilities.

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 Entities (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.

b) 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 results. For this reason, specific breakdowns regarding information on environmental issues are not included in this report on the consolidated financial statements.

45. SOCIAL WORK

Each year, Mora Banc Grup, SA (hereinafter, MoraBanc) draws up a sustainability report in order to inform all the stakeholders about the activity of the institution. Information is prepared related to MoraBanc's economic, social and environmental development over the last year.

In accordance with our commitment to promote transparency, we draw up the annual report in accordance with the G4 Guide by the Global Reporting Initiative (GRI), the main international reference for the drawing up of reports on corporate responsibility. The chief objective of the GRI is to promote and standardise the publication of the environmental, social and economic performance of organisations. MoraBanc's materiality analysis identifies the most relevant aspects of the sustainability of our organisation, on which we provide information in our report. These aspects divide our report into five broad areas:

- The presentation of the institution, which includes information on our values and policies, the organisational structure and the territorial implementation.
- MoraBanc's products and services, with detailed explanations of the mechanisms ensuring the quality, excellence and protection of the customers, as well as the channels for our relationship with the latter.
- The economic development of the institution.
- The human team, with information on the profile of the workforce, the management and training policies for our people, the social benefits for our employees and the measures to reconcile family and working life.
- And, finally, the most significant actions and data in matters of our contribution to society and the environment.

In 2017 we took another step by incorporating the United Nations Sustainable Development Goals (SDGs). The SDGs are a set of global objectives approved by the United Nations in 2015 with the purpose of establishing a framework to eradicate poverty, protecting the planet and ensuring prosperity for everyone over the next 15 years. In this regard, MoraBanc is involved in this development, analysing all the actions we have carried out in 2017 and their linkage to one or more of the 17 SDGs.

MoraBanc's vision of being a company at the service of the country and committed to its inhabitants is reflected in the fulfilment of our aim to contribute to the sustainable development of Andorra. In an effort to become one of the benchmarks of corporate social responsibility within the Andorran banking sector, we aim to become involved in the economic, cultural, social and environmental spheres of the country, integrating sustainability into the core of our business model. In this regard, we integrate social responsibility policies and practices into the main areas of the institution: products and services, work practices, transparency and community investment.

In 2017, MoraBanc invested 3,1% of its profits in initiatives on behalf of the community, including the Andorra La Vella Music and Dance Season, sponsorship of MoraBanc Andorra, the national basketball team which plays in the ACB League in Spain, and other initiatives such as actions on behalf of the environment, a programme for entrepreneurship with an impact and the "solidarity card", which raised more than €100 thousand in 2017 among all the Andorran institutions included in the Programme, working on improving the situation of people.

In addition, MoraBanc completed the refurbishment of Antoni Gaudí's first home, known as Casa Vicens, in the Gràcia neighbourhood of Barcelona, turning it into a museum in November 2017, It has been a project to recover a unique piece of heritage, enabling us to display the prelude to Gaudí's work to the general public, with a museological concept to showcase his essence as an architect.

46. SUBSEQUENT EVENTS

On 21 March 2018, the INAF issued Communiqué 251/18 by means of which it authorised Andorran banking institutions to adopt, in advance in 2018, the following international standards on financial information approved by the European Union on 1 January 2018:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from contracts with customers"

In this regard, in accordance with the INAF's authorisation, the Group intends to apply the above-mentioned regulations from 1 January 2018 onwards.normes des de l'1 de gener de 2018.

47. 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 INAF, are as follows:

Standards and interpretations	Titol	Application obligatory for financial years already begun, starting from:
IFRS 9	Revenue from contracts with customers	1 January 2018
IFRS 15	Classification and measurement of transactions with share-based payments	1 January 2018
Modifications IFRS 2	Adaptation IFRS 9 Financial instruments with IFRS 4 Insurance contracts	1 January 2018
Modifications IFRS 4	Transfer of investment property	1 January 2018
Modifications IAS 40	Transactions in foreign currencies and advance consideration	1 January 2018
Interpretation IFRIC 22	Transaccions en moneda estrangera i contraprestacions anticipades	1 January 2018
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
IFRS 17	Insurance contracts	1 January 2021
Modification IFRS 10 and IAS 28	Sale or contribution of assets between investor and company	To be determined by the IASB

In July 2014 the IASB issued the definitive version of IFRS 9 Financial Instruments. IFRS 9 entered into force for the annual periods beginning on 1 January 2018, and its early adoption was permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017 the IASB issued early payment characteristics with negative compensation (amendments to IFRS 9). The amendments are effective for the annual periods beginning on or after 1 January 2019 and their early adoption was permitted.

IFRS 9 contains a new approach to the classification and measurement of financial assets, reflecting the business model whereby the assets and characteristics of the cash flows are administered. Three main categories for the classification of financial assets are included: amortised cost, fair value with changes in another comprehensive result and fair value with changes in results, thus eliminating the existing IAS 39 categories of held-to-maturity, loans and accounts receivable and available-for-sale.

A financial asset is measured at amortised cost if it meets the following two conditions and is not designated as a fair value with changes in results:

- it is carried out within a business model whose purpose is to hold assets to obtain of contractual cash flows; and

- its contractual terms give rise to certain dates for the cash flows which are solely payments of principal and interest on the principal amount (SPPI).

A financial asset is measured at fair value with changes in another comprehensive result only if it meets the following two conditions and is not designated as a fair value with changes in results:

- it is carried out within a business model whose purpose is achieved by means of the obtaining of contractual cash flows and the sale of financial assets; i

- its contractual terms give rise to certain dates for cash flows which are solely payments of principal and interest on the principal amount. In the initial recognition of a capital investment which is not held for trading, the Group can irrevocably choose to submit the subsequent changes in the fair value in another comprehensive result. This choice is made instrument by instrument and not in aggregate form.

All the financial assets not classified as measured at amortised cost or at fair value with changes in another comprehensive result as outlined above are measured at fair value with changes in results. In addition, in the initial recognition, the Group may irrevocably designate a financial asset which otherwise meets the requirements to be measured at amortised cost or at fair value with changes in another comprehensive result as a fair value with changes in results if, by doing so, it eliminates or significantly reduces an accounting asymmetry which would otherwise arise.

A financial asset is classified in one of these categories in the initial recognition.

In accordance with IFRS 9, derivatives implicit in contracts in which the host is a financial asset within the scope of IFRS 9 are not separated. In this case, the hybrid financial instrument as a whole is assessed for its classification.

Evaluation of the business model
The Group will carry out an evaluation of the objective of the business model in which a financial asset is held in terms of the portfolio, as this reflects the way in which the business is managed and information is provided to the Group's directors. The information which will be considered includes:

- the policies and objectives established for the portfolio and the operation of these policies in practice, including whether the strategy of the administration focuses on earning income from contractual interests, maintaining a particular interest rate profile, equating the duration of the financial assets with the duration of the liabilities financing these assets or performing cash flows by means of the sale of assets;

- how the evolution of the portfolio is evaluated and reported to the Group's administration;

- the risks affecting the performance of the business model (and the financial assets which are held within this business model) and how these risks are managed;

- how the managers are compensated; for example, whether the compensation is based on the fair value of the administered assets or the contractual cash flows collected; and

- the frequency, volume and timing of the sales in previous periods, the reasons for such sales and the expectations with regard to future sales activity. However, the information on the sales activity is not considered in isolation, but as part of an aggregate evaluation of how the Group's stated objective to administer the financial assets and how the cash flows take place is achieved.

The financial assets held for trading and those which are administered and whose return is evaluated on a fair value basis will be measured at FVTPL so they are not withheld to collect contractual cash flows or to sell financial assets.

Evaluation of whether the contractual cash flows are solely capital and interest payments
For the purpose of this evaluation, the "principal" is defined as the fair value of the financial asset in the initial recognition and the "interest" is defined as the consideration for the temporary value of the money, the credit risk associated with the outstanding principal in a particular period and other basic risks and costs of the loan (such as liquidity risk and administrative costs), as well as a profit margin.

When assessing whether the contractual cash flows are solely capital and interest payments, the Group will consider the contractual terms of the instrument. This will include evaluating whether the financial asset contains a contract term which could change the calendar or the amount of the contractual cash flows in such a way that it does not meet this condition. When making the evaluation, the Group will consider, among other aspects:

- contingent events which would change the amount and timing of the cash flows;
- leverage characteristics;
- conditions for early payment and extension of the maturity;
- terms which limit the Group's right to resort to the cash flows of specified assets, such as asset non-recourse agreements;
- characteristics which modify the consideration of the temporary value of the money, such as regular readjustments of interest rates; and
- other contractual features which may change the amount and timing of the contractual cash flows.

Impact assessment
The Group's directors are analysing the impact IFRS 9 will have on the Group's consolidated financial statements and as at the date of the formulation of these consolidated financial statements they are not in a position to provide reliable quantitative impacts.

II. Impairment – Financial assets, loan commitments and financial guarantee contracts
IFRS 9 replaces the "incurred loss" model in IAS 39 with a prospective "expected credit loss" model (hereinafter, ECL). This will require a considered judgement of how the changes in the economic factors affect the ECLs, which will be determined upon the base of a weighted probability.

The new impairment model is applicable to the following financial instruments which are not measured at fair value with changes in results:

- debt instruments;

- accounts receivable for leases; and

- Loan commitments and financial guarantee contracts issued (the impairment was previously measured in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets").

In accordance with IFRS 9, impairment losses on investments in equity instruments are not recognised.

IFRS 9 requires that a provision for losses of an amount equal to a 12-month ECL or a lifetime ECL be recognised. Lifetime ECLs are ECLs resulting from all the potential pre-determined events during the expected life of a financial instrument, while 12-month ECLs are the portion of ECLs resulting from pre-determined events possible within 12 months of the submission date.

Measurement of the ECL
The ECLs are weighted estimates of the probability of credit losses and are measured as follows:

- *financial assets which do not have credit impairment on the date of submission:* the current value of all the cash insufficiencies. In other words, the cash insufficiency is the difference between the cash flows owed to an institution in accordance with the contract and the cash flows the institution expects to receive;

- *financial assets with credit impairment on the submission date:* the difference between the gross carrying value and the current value of the estimated future cash flows;

- *unfunded lending commitments:* the contractual cash flows owed to the institution if the holder of the loan commitment has the loan and the cash flows the institution expects to receive if it has the loan; and

- *Financial guarantee contracts:* the current value of the expected payments to reimburse the holder for at least the amounts the Group expects to recover.

Financial assets with credit impairment are defined by IFRS 9 in a similar manner to financial assets impaired in accordance with IAS 39.

Impact assessment
The most significant impact on the Group's annual accounts as a result of the implementation of IFRS 9 is expected to result from the new impairment requirements. The impairment losses will increase and will be more volatile for the financial instruments, within the scope of the impairment model in accordance with IFRS 9.

The Group's directors are analysing the impact IFRS 9 will have on the Group's consolidated financial statements and as at the date of the formulation of these consolidated financial statements they are not in a position to provide reliable quantitative impacts.

iii. Classification – Financial liabilities

IFRS 9 largely retains the requirements existing in IAS 39 for the classification of financial liabilities.

However, in accordance with IAS 39, all the changes in the fair value of the financial liabilities designated as a fair value with changes in results are recognised in results, while, in accordance with IFRS 9, these changes in the fair value will generally be submitted in the following way:

- the amount of the change in the fair value attributable to changes in the credit risk of liabilities will be submitted in another comprehensive result; and

- the remaining amount of the change in the fair value will be submitted in the profit or loss.

The Group has not designated debt securities issued as a fair value with changes in profit or loss, as a result of which this modification will not have an impact on the Group's consolidated accounts.

IV. Derecognition and amendment of the contract

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantial modifications.

However, it contains a specific accounting guide when the modification of a financial instrument not measured at fair value with changes in results does not result in its derecognition. In accordance with IFRS 9, the Group will recalculate the gross carrying value of the financial asset (or the amortised cost of the financial liability) by discounting the contractual cash flows modified at the original effective interest rate and recognising any resulting adjustment as a modification profit or loss in results. In accordance with IAS 39, the Group does not recognise any profit or loss in the profit or loss of the modifications of unstressed financial liabilities and financial assets not leading to their derecognition.

The Group expects a negligible impact in the adoption of these new requirements.

V. Hedge accounting

When initially applying IFRS 9, the Group may choose the accounting policy of continuing to apply the hedge accounting requirements of IAS 39 instead of the requirements of section 6 of IFRS 9.

The Group has decided to continue applying IAS 39, However, the Group will provide an expanded breakdown of the hedge accounting introduced by the amendments to IFRS 7 "Financial instruments: information to be disclosed" because the choice of the accounting policy does not provide an exemption from these new breakdown requirements.

VI. Breakdowns

IFRS 9 will require extensions of the information to be broken down, particularly on hedge accounting, credit risk and ECL.

VII. Impact on the capital planning

The main impact on the Group's regulatory capital of the implementation of IFRS 9 will arise from the new impairment requirements. The group directors are analysing the impact IFRS 9 will have on the regulatory capital.

VIII. Transition

The changes in the accounting policies resulting from the adoption of the IFRS are generally applied retrospectively, except as outlined below.

- The Group will take advantage of the exemption allowing it to not restate comparative information from previous periods regarding classification and measurement changes (including impairment).

- The differences in the carrying values of the financial assets and liabilities resulting from the adoption of IFRS 9 will generally be recognised in the accumulated reserves and profits as of 1 January 2018.

The following assessments must be made upon the basis of the events and circumstances as of the date of the initial application.

- The determination of the business model in which a financial asset is held.

- The designation and revocation of previous designations of certain financial assets and financial liabilities measured at fair value with changes in results.

- The designation of certain investments in equity instruments not held for trading at fair value with changes in the comprehensive result.

- If a debt investment guarantee has a credit risk as of 1 January 2018, the Group will determine that the credit risk for the asset has not increased significantly since the initial recognition.

IFRS 15 "Revenue from contracts with customers"

This standard replaces the current IAS 11 "Contracts under construction" and IAS 18 "Ordinary revenue", as well as current interpretations of revenue (IFRIC 13 "Customer loyalty programmes", IFRIC 15 "Agreements for property construction", IFRIC 18 "Transfers of assets from customers" and SIC 31 "Ordinary revenue - Swaps of advertising services"). The new IFRS 15 model is much more restrictive and regulation-based, in such a way that the application of the new requirements may lead to changes in the income profile. Under IFRS 15, the central model of income recognition is structured by means of the following five steps: identifying the contract with the customer, identifying the separate contract obligations, determining the transaction price, distributing the transaction price between the identified obligations and accounting for the income when the obligations are met.

IFRS 16 "Leases"

This standard replaces the current IAS 17 "Leases", as well as the current interpretations of leases (IFRIC 4 "Determination of whether an agreement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluation of the essence of transactions which adopt the legal form of a lease").

IFRS 16 establishes the principles for the recognition, measurement, presentation and details of the leases. The purpose of this standard is to ensure that the lessees and lessors provide relevant information in such way that they represent these transactions in a faithful manner. The IFRS 16 proposal for the lessee is that of a single model, whereby all the leases are recorded in the statement of financial position, with an impact similar to the financial current leases (amortisation of the right of use and financial expenses for the amortised cost of the liabilities). However the proposal for the lessor is to continue with the dual model, similar to the current IAS 17.

Modification IFRS 4 "Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
As of September 2016, the IASB issued this amendment to address the concerns arising from the different dates of validity of IFRS 9 and the forthcoming standard on insurance contracts, introducing:

a) an optional approach to the overlapping, enabling institutions which issue contracts within the scope of IFRS 4 to reclassify, in the result for the period and the other income and expenses recognised in the period, an amount equal to the difference between the amount submitted in the result for the period for financial assets designated by applying IFRS 9 and the amount which would have been submitted in the result for the period for these assets if the insurer had applied IAS 39.

b) an optional temporary exemption from IFRS 9 for institutions whose activities are predominantly connected to insurance.

Modification IFRS 2 "Classification and Measurement of Transactions with share-based payments"
There are situations in which a share-based payment settled in cash is modified, cancelling it and replacing it with a new share-based payment settled with equity instruments and, on the date of the replacement, the fair value of the replacement incentives is different from the value recognised for the original incentives. Prior to the issue of the modification, there was diversity in the way in which institutions accounted for these modifications.

By means of these modifications the IASB requires a transaction with share-based payments settled with equity instruments to be recognised in equity insofar as the goods or services have been received on the date of the modification. This measurement will be carried out by means of a reference to the fair value of the date of modification of the equity instruments granted.

The liabilities of the share-based payment originally settled in cash are derecognised on the modification date, as they are regarded as settled when the institution grants the share-based payment settled with equity instruments replacing the cash. This is because, on the modification date, the institution is no longer required to transfer cash (or other assets) to the counterparty. Any difference between the carrying amount of the liabilities derecognised in the books and the amount of the equity recognised on the date of the modification will be immediately acknowledged in the result for the period.

Unrealised losses from debt instruments measured at fair value at the tax cost will give rise to a deductible temporary difference, regardless of whether the holder of the debt instrument expects to recover the carrying amount of the debt instrument through sale or use.

The carrying value of an asset will not limit the calculation of the future possibilities of taxable profits.

The estimates of future tax benefits exclude the tax deductions from the reversal of deductible temporary differences.

Modification of IAS 40: "Investment Properties"

The modification, which will be applied prospectively, clarifies the principles for the realisation of transfers to or from investment property when, and only when, there is a change in its use, and this change entails an analysis of whether the property complies with the definition of investment property. The change in the use must be demonstrated.

IFRIC 22: "Foreign Currency Transactions and Advance Consideration"

This interpretation provides an explanatory guide to the exchange rate to be used in transactions involving an advance consideration (paid or received) in a foreign currency.

IFRIC 23 "Uncertainty over income tax treatments"

An institution must consider whether the competent authority is likely to accept each of the tax treatments or groups of tax treatments it uses or intends to use in the submission of its 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.

IFRS 17 "Insurance contracts"

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts in the field of the standard. The purpose of IFRS 17 is to ensure that an institution provides relevant information which faithfully represents these contracts. This information provides a basis for users of the annual accounts to assess the effect insurance contracts have on the financial position of the institution, the financial performance and the cash flows.

Modification to IFRS 10 and IAS 28 "Sale or contribution of assets between an investor and its associate or joint venture"

Issued in September 2014 - and without a defined mandatory application date - it establishes that a profit or loss will be recognised for the total amount when the transaction involves a business (whether the latter is structured in a subsidiary institution or not). When the transaction involves assets which do not constitute a business, even if these assets are structured as a subsidiary, only a partial profit or loss will be recognised.

The Group is currently analysing the potential impacts resulting from these new standards and interpretations.

48. FIRST APPLICATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has prepared these first financial statements corresponding to the period ending on 31 December 2017 in accordance with the International Financial Reporting Standards and also submits, solely and exclusively for comparative purposes, the information in question as of 31 December 2016, but also the information corresponding to the period of the financial year ending on the above-mentioned date. In the preparation of these annual accounts, the statement of financial position as of 1 January 2016 was regarded as the opening statement of financial position, as this is the date for the transition to the new accounting regulations.

Below appear, as required by IFRS 1, the main adjustments performed by the Group when restating the consolidated financial statements prepared in accordance with the local regulations as of 1 January 2016 and 31 December 2016, in accordance with the applicable regulations:

Accounting estimates:
The accounting estimates carried out by the Group on 1 January 2016 and 31 December 2016 are consistent with those carried out on the same data in accordance with the local regulations (without regard to the corresponding adjustments to the differences corresponding to the application of different accounting principles), as it is not necessary to make estimates, in accordance with the local regulations.

The estimates made by the Group in the submission in accordance with the International Financial Reporting Standards refer to the information available in each one in which the estimates were made.

Conciliation of balances between the different regulatory frameworks
Below appear the financial statements in accordance with the structure and classification established in the IFRS-EU regulations, distributed in the following columns:

- The "Previous accounting criteria" column corresponds to the balance audited on 31/12/2015, formulated in accordance with the valuation criteria and principles of the General Accounting Plan of the Andorran Financial System (hereinafter, PGCA from its initials in Catalan).

- The "Adjustments" column includes the impacts corresponding to the difference in the scope and consolidation method between the IFRS-EU and the PGCA. Note 3 in this report explains the principles of consolidation, accounting policies and valuation criteria applied with the change in the accounting regulation.

- In the "Reclassifications" column the breakdowns included in the INAF's Accounting Plan of the Financial System are not consistent with those required by the international regulations (IFRS-EU). For this reason, a reclassification of the headings has been performed to obtain an initial balance with the structure and classifications established in the international regulations. These movements are included in the "Reclassifications" column of the consolidated statement of position displayed below.

The effects of the adoption of the International Financial Reporting Standards on the statements of financial position for the year ending on 31 December 2016 are as follows:

In thousands of euros

Statement of financial position	As of 1 January 2016 (date of first application)				As of 31 December 2016			
ASSETS	**Previous accounting criteria**	**Adjustments**	**Reclassifications**	**Opening IFRS balances**	**Previous accounting criteria**	**Adjustments**	**Reclassifications**	**IFRS Balances**
Cash, cash balances in central banks and other demand deposits	-	-	27,282	27,282	-	-	43,005	43,005
Cash and balances with Central Banks in the OECD	25,465	-	(25,465)	-	41,720	-	(41,720)	-
INAF (Andorran National Institute of Finance)	210	-	(210)	-	210	-	(210)	-
Financial assets held for trading	-	5,907	148,473	154,380	-	5,781	217,660	223,441
Financial assets designated at fair value with changes in profit or loss	-	-	564,553	564,553	-	-	356,757	356,757
Available-for-sale financial assets	-	6,840	427,161	434,001	-	13,914	321,193	335,107
Loans and accounts receivable	-	(6,278)	1,765,638	1,759,359	-	(8,926)	1,511,071	1,502,145
Held-to-maturity investments	-		28,399	28,399	-	-	31,601	31,601
Derivatives - Accounting of hedges	-		-	-	-	-	43	43
Financial Intermediaries	681,093		(681,093)	-	397,969	-	(397,969)	-
Credit Investments	1,021,877		(1,021,877)	-	1,004,513	-	(1,004,513)	-
Security Portfolio	695,703		(695,703)	-	662,257	-	(662,257)	-
Intangible assets and amortisable expenses	19,383		(19,383)	-	17,222	-	(17,222)	-
Material assets	105,041		(105,041)	-	98,323	-	(98,323)	-
Investments in subsidiaries, joint ventures and associates	-		48	48	-	-	57	57
Assets Covered by Insurance and Reinsurance Contracts	-		38,269	38,269	-	-	38,021	38,021
Tangible assets	-	9,333	100,425	109,757	-	-	80,540	80,540
Intangible assets	-	(11,612)	19,761	8,149	-	(16,556)	27,143	10,587
Tax assets	-	4,979	188	5,167	-	5,862	1,168	7,030
Accrual accounts	16,691		(16,691)	-	17,388	-	(17,388)	-
Other assets	18,402	(445)	17,706	35,663	14,341	1,172	(1,355)	14,158
Non-current assets and disposable groups of elements classified as held for sale		(28,985)	53,212	24,227	-	(30,631)	49,220	18,589
TOTAL ASSETS	**2,583,865**	**(20,262)**	**625,651**	**3,189,254**	**2,253,943**	**(29,384)**	**436,523**	**2,661,081**

In thousands of euros

Statement of financial position	As of 1 January 2016 (date of first application)				As of 31 December 2016			
LIABILITIES	**Previous accounting criteria**	**Adjust-ments**	**Reclassifi-cations**	**Opening IFRS ba-lances**	**Previous accounting criteria**	**Adjust-ments**	**Reclassifi-cations**	**IFRS balances**
INAF (Andorran National Institute of Finance)	16,394	-	(16,394)	-	19,851	-	(19,851)	-
Creditors	2,145,843	-	(2,145,843)	-	1,821,684	-	(1,821,684)	-
Debts represented by bonds	-	-	-	-	-	-	-	-
Financial liabilities held for trading	-	5,471	-	5,471	-	5,471	13,008	18,479
Financial liabilities designated at fair value with changes in results	-	-	813,274	813,274	-	-	461,982	461,982
Subordinated liabilities	52,216	-	-	52,216	41,088	-	(3,774)	37,314
Financial liabilities at amortised cost	-	5,026	1,890,860	1,895,886	-	5,026	1,725,327	1,730,353
Derivatives - Accounting of hedges	-	6,340	-	6,340	-	6,340	(1,677)	4,663
Liabilities covered by insurance and reinsurance contracts	-	-	78,748	78,748	-	-	83,158	83,158
Provisions/Provision fund for risks and charges	12,265	1,098	(13,363)	-	23,769	1,098	(24,867)	-
Fund for general risks	12,470	(12,470)	-	-	-	(12,470)	12,470	-
Provisions		4,635	13,363	17,998		600	24,341	24,941
Tax liabilities	-	1,387	230	1,617	-	1,588	3,706	5,294
Accrual accounts	16,634	-	(16,634)	-	18,694	-	(18,694)	-
Other liabilities	19,290	(5,835)	(13,455)	-	22,827	(1,701)	(21,126)	-
Liabilities included in disposable groups of elements classified as held for sale	-	-	34,865	34,865	-	-	24,203	24,203
TOTAL LIABILITIES	**2,275,112**	**5,653**	**625,651**	**2,906,415**	**1,947,913**	**5,951**	**436,523**	**2,390,387**

The balancing of the Net Equity as of 31 December 2016 and 1 January 2016 is shown below:

		In thousands of euros
	As of 1 January 2016 (date of first application)	As of 31 December 2016
Net Equity in accordance with the previous accounting criteria	**308,753**	**306,030**
Change in the method of calculating the credit investment provisions	(4,584)	(7,428)
Change in the treatment of the transactional expenses directly related to financial instruments	(2,492)	(2,338)
Adjustment in the valuation of the derivatives	(5,877)	(5,589)
Classification and valuation of the securities portfolio	(897)	5,967
Adjustment in the valuation of foreclosed assets	(28,986)	(30,631)
Valuation at fair value of the fixed assets and their facilities	9,333	9,209
Adjustment to the carrying value of the intangible assets	(1,633)	(3,535)
Adjustment of the goodwill and differences arising from first equity consolidation	(4,222)	(4,222)
Adjustment for commitments to employees	(1,098)	(1,173)
Fund for general risks and provisions	8,468	(600)
Consolidation adjustments	2,753	1,099
Other non-material adjustments	(272)	(370)
Fiscal impact of the previous adjustments	3,592	4,275
Total net impact of the adjustments on the net equity	**(25,914)**	**(35,336)**
Net equity in accordance with the IFRS	**282,839**	**270,694**

The effects of the adoption of the International Financial Reporting Standards on the statement of income for the year ending on 31 December 2016 is shown below:

Statement of income — **In thousands of euros**

As of 31 December 2016	**Previous accounting criteria**	**Adjustments**	**Reclassifications**	**Opening IFRS balances**
Interest income	-	-	27,215	27,215
Interests and assimilated returns	28,108	-	(28,108)	-
(Interest expenses)	-	-	(8,020)	(8,020)
(Interests and assimilable charges)	(5,080)	-	5,080	-
Equity returns on variable income	1,412		(1,412)	-
Dividend income	-	-	1,171	1,171
Net commissions for services	71,183	-	(71,183)	-
Income from commissions	-	-	77,664	77,664
(Commission expenses)	-	-	(8,569)	(8,569)
Results of financial operations	7,322	-	(7,322)	-
Other ordinary results	157	-	(157)	-
Profits or losses on derecognition of non-valued financial assets and liabilities at fair value with changes in results, net	-	19,380	2,774	22,154
Profits or losses from financial assets and liabilities held for trading, net	-	67	2,473	2,540
Exchange differences (profit or loss), net	-	-	2,284	2,284
Profits or losses on derecognition of non-financial assets, net	-	329	619	948
Other operating income	-	-	2,442	2,442
(Other operating expenses)	-	-	(2,187)	(2,187)
Profits or losses of assets and liabilities after taxes for insurance and reinsurance contracts	-	-	4,017	4,017
TOTAL OPERATING RESULT, NET	**103,102**	**19,776**	**(1,219)**	**121,659**
(Personnel costs)	(35,504)	(99)	35,603	-
(General expenses)	(28,820)	-	28,820	-
(Amortisations of assets net of recoveries)	(7,867)	-	7,867	-
(Administrative costs)	-	(2,830)	(63,729)	(66,559)
(Amortisation)	-	(124)	(7,438)	(7,561)
Provisions for amortisation of assets net of recoveries	(561)	-	561	-
(Provisions or reversal of provisions)	-	(12,544)	560	(11,984)
(Asset impairment losses)	-	(2,844)	(5,434)	(8,278)
OPERATING MARGIN	**30,350**	**1,334**	**(4,408)**	**27,276**
(Provisions for insolvencies net of recoveries)	(5,102)	-	5,102	-
(Provisions for risks and charges net of recoveries)	(12,020)	-	12,020	-
(Provisions to the fund for general risks)	12,470	-	(12,470)	-
Extraordinary results	(761)	-	761	-
(Impairment of the value or reversal of the impairment of the value of investments in subsidiaries, joint ventures and associates)	-	-	(454)	(454)
(Impairment of the value or reversal of the impairment of the value of non-financial assets)	-	(1,646)	-	(1,646)
Profits or losses from non-current assets and disposable groups of elements classified as held for sale are not admissible as discontinued activities.	-	-	(551)	(551)
PROFITS OR LOSSES BEFORE TAXES FROM CONTINUING OPERATIONS	**24,937**	**(311)**	**-**	**24,625**
Corporation tax	(1,931)	-	**-**	(1,931)
PROFITS OR LOSSES AFTER TAXES FROM CONTINUING OPERATIONS	**23,006**	**(311)**	**-**	**22,695**
PROFITS OR LOSSES IN THE FINANCIAL YEAR	**23,006**	**(311)**	**-**	**22,695**
Attributable to minority interests (non-controlling interests)	-	-	-	-
Attributable to the owners of the controlling company	**23,006**	**(311)**	**-**	**22,695**

Below appears a balancing of the result for the 2016 financial year after taxes, between the International Financial Reporting Standards and the accounting principles generally accepted in Andorra for all the operational components of the Andorran financial system. Given that the previous regulations did not recognise the comprehensive statement of income, the balancing is performed only for the result of the year.

In thousands of euros

As of 31 December 2016	After taxes
Result in accordance with the previous GAAP	**23,006**
Adjustment in the valuation of foreclosed assets	(1,646)
Adjustment to the carrying value of the intangible assets	(1,901)
Adjustment in the valuation of the derivatives	288
Adjustment for commitments to employees	(74)
Change in the method of calculating the credit investment provisions	(2,844)
Change in the treatment of the transactional expenses directly related to financial instruments	154
Classification and valuation of the securities portfolio	(209)
General expenses	(699)
Valuation of the value of the fixed assets and their facilities	(124)
Consolidation adjustments	6,744
Total adjustments to the result	**(311)**
Result in accordance with the IFRS	**22,695**
Other comprehensive income	**(14,039)**
Overall result of the year under IFRS	**8,656**

Given that the items of cash flows from operating activities, investment activities and financing activities were not included in the previous accounting criteria, in the original statement and application of funds, it is not possible to show what the impact the adoption of the IFRS has been on them.

49. EXPLANATION ADDED FOR THE TRANSLATION INTO ENGLISH

These consolidated financial statements are presented in accordance with the International Financial Reporting Standard. Certain accounting practices applied by the Group that conform with the International Financial Reporting Standards may not conform with generally accepted accounting principles in other countries.

The team, the key to success 05

Commitments to people

Our **employees are a key factor** in the success of our business. We want the human team to feel committed to our mission, to incorporate MoraBanc's values into their daily work for the organisation and to grow with us in both personal and professional terms.

We have developed a new Strategic Plan for our human team

Morabanc's Human Resources Department works constantly to harmonise, in the short, mid and long terms, the needs of the Company with the development opportunities of the people working for it, and it does so with policies and initiatives focused on three main lines of action:

- It takes part in decision-making regarding people management, together with the management team and the people in charge of specific areas.
- It provides technical solutions for all areas in the selection, evaluation, training, development and support of the team.
- It remains close to all the employees to ensure their professional development, acknowledge their contributions, show appreciation for their commitment and work together for their personal well-being.

In order to continue to push forward the ' professional growth and satisfaction of our staff, we have a Strategic Plan based on four basic objectives:

- To improve the staff's work-life balance.
- To encourage reward and fairness in the remuneration system.
- To incorporate innovation into the management of talent.
- To implement the Knowledge Management Plan.

4 AIMS

WORK-LIFE BALANCE	REWARD AND FAIRNESS	KNOWLEDGE AND DEVELOPMENT	TALENT MANAGEMENT

We believe that two-way communication is an essential element in improving the smooth running of the organisation. For this reason we encourage the active participation of all the people who make up MoraBanc. We establish communication channels enabling all the employees to make their voices heard so that their views can lead to tangible changes. In this sense, we promote various initiatives:

- **Follow-up of newly appointed personnel**. To see how they are fitting in, the Human Resources Department interviews new employees between 60 and 90 days after they start work.
- **Objective-based performance evaluation**. All employees have an annual interview with their line managers to discuss their current performance, analyse the goals achieved, set individual goals for the following year and work on their internal profile, professional development and training plan. This interview is designed to be an open and sincere conversation between the two parties.
- **Development interviews**. This initiative is aimed at identifying the suitability of each employee's position and the scope for promotion or change for them. The Human Resources Department holds a development interview with each member of staff at least once every two years where issues such as expectations, teamwork, changes, training, leadership, etc. are addressed.

The team

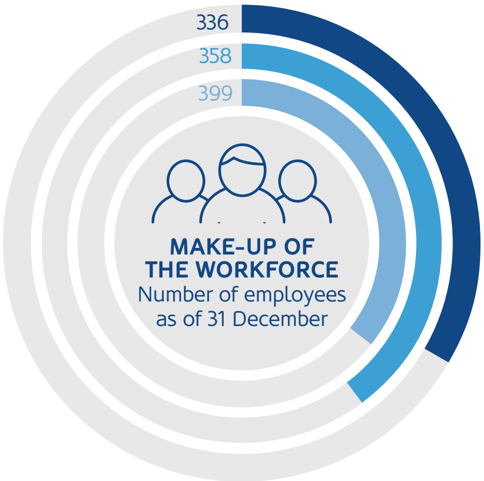
The MoraBanc Group workforce is made up of **336 people**, almost 89.3 % of whom work in Andorra. In addition, we are committed to stability of employment, which is reflected by the high percentage of people with permanent contracts, 95.6 % in the case of women and 97.9 % for men.

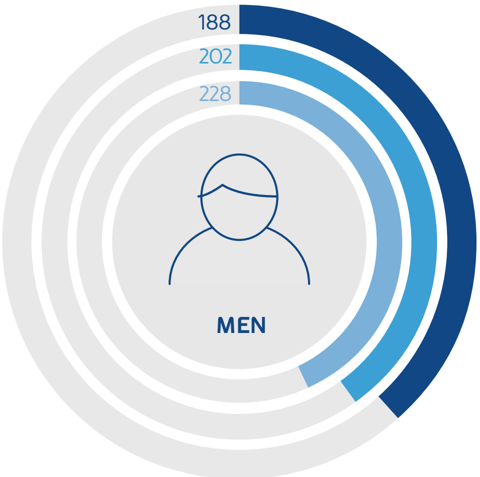
The Human Resources Department, in order to promote equal opportunities, strives to appoint the most suitable person to each job. In this sense, MoraBanc prioritises internal promotion when it comes to vacancies, in order to provide opportunities for growth for employees, either directly or through internal selection processes open to the entire workforce.

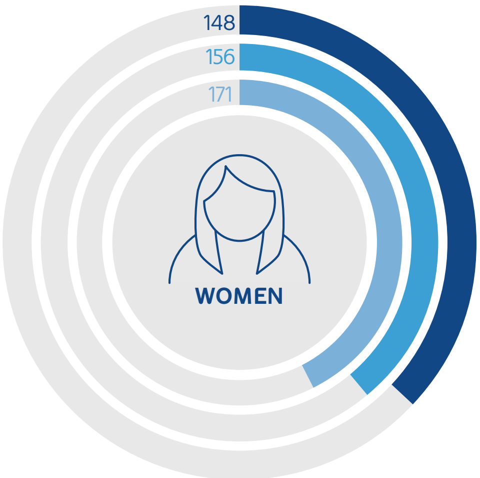
Commitment to internal promotion

In order to encourage and motivate the development of the commercial banking teams, which account for 20% of the workforce, we follow a policy of prioritising internal recruitment for the positions of branch manager and deputy branch manager, the two senior posts positions in a branch. Vacancies are filled by internal promotions and external appointments are used to cover commercial manager positions.

We have a highly qualified human team which is thoroughly involved in all our projects, providing personalised and focused attention to achieve the best results for the business



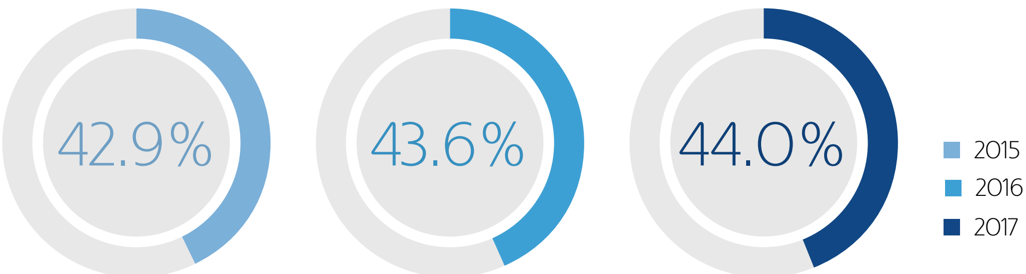




NEW HIRES	2017
By age	
Under 30 years of age	12
Between 30 and 50 years of age	28
Above 50 years of age	1
By gender	
Men	28
Women	13
By region	
Andorra	31
Miami	6
Switzerland	4

TURNOVER	2017
By age	
Under 30 years of age	2.4 %
Between 30 and 50 years of age	0.9 %
Above 50 years of age	10.4 %
By gender	
Men	4.2 %
Women	1.5 %
By region	
Andorra	6.0 %
Miami	0.0 %
Switzerland	6.6 %

PERCENTAGE OF WOMEN IN THE WORKFORCE



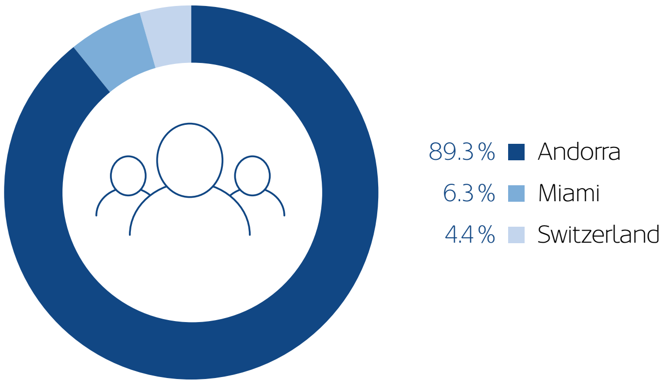
DISTRIBUTION OF THE WORKFORCE BY AGE (2017)	Non-resident foreigners.	Percentage
Under 30 years of age	36	10.7 %
Between 30 and 50 years of age	229	68.2 %
Above 50 years of age	71	21.1 %

DISTRIBUTION OF THE WORKFORCE BY WORK CATEGORY AND GENDER (2017)	Non-resident foreigners.	Percentage of women by category
Administrative positions	134	59.0 %
Technical positions	101	42.6 %
Positions of responsibility	77	23.4 %
Directors and senior management	24	33.3 %

DISTRIBUTION OF THE WORKFORCE BY TYPE OF CONTRACT AND GENDER	2015	2016	2017
Temporary	**6**	**7**	**10**
Men	2	2	4
Women	4	5	6
Permanent	**393**	**351**	**326**
Men	226	200	184
Women	167	151	142

97 % of our employees have permanent contracts

DISTRIBUTION OF THE WORKFORCE BY COUNTRY 2017



PAY EQUALITY

We continue **to strive to achieve pay equality.** One example of this commitment is the analysis of internal equality by professional group and external equality with reference to the Andorran and Spanish banking sector, initiated in 2015. In 2017, as a result of this process, we developed and published a new remuneration policy, by means of which we define and classify positions.

This **new remuneration policy** is in keeping with the dedication and responsibility of the institution's employees and establishes the principles and essential elements of our remuneration system in accordance with our business strategy, corporate objectives, values and the long-term interests of the institution.

We have a new remuneration policy which ensures pay equality

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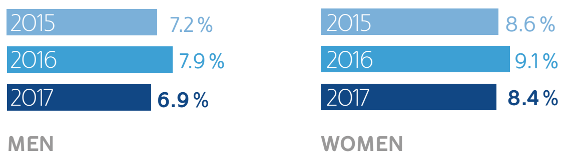
A safe and healthy place

MoraBanc's commitment to health and safety is one of the principles which govern our corporate thinking. This requirement demands continuous compliance in order to guarantee the well-being of the whole human team. Our internal management complies with Law 34/2008 of 18 December on occupational health and safety, which establishes the obligations and standards the company and employees must observe in this area.

An external provider analyses each post and identifies and **evaluates the risks**. The result of this examination is a job catalogue, which includes for each position the description, the number of workers and the analysis of the risks involved (including an assessment of the causes, the corrective measures and the preventive measures), as well as a **risk management manual**, both available to staff. In this regard, we facilitate and provide specific training in the area of health and safety to the whole workforce and offer employees the possibility of undergoing medical check-ups if they so wish.

In 2017 **there was one case of a work-related accident and no injuries, harm or occupational illnesses** among the MoraBanc workforce. The lost days rate was 0%.

ABSENTEEISM *



* The data only refer to Andorra.

Career training and growth

We promote personal growth and career development opportunities for employees by means of development programmes and plans, training pathways, career plans and internal mobility. We thus contribute to the continuous improvement of the abilities, skills and competencies of our employees.

Through the training at MoraBanc's, we ensure that the skills of all our people in different positions are improved and we satisfy the requirements which apply to the sector, the quality and safety objectives of the organisation and applicable legal requirements. To improve the fit between our staff's talents and the Company's objectives, a **Knowledge Management Plan** has been created to allow us to extend the qualifications of our employees and enhance our competitiveness.

The new Knowledge Management Plan improves professional and personal growth

In addition, MoraBanc employees have a **Continuous Learning Plan** and online training activities as supplements to their academic and professional education on the following topics:

- Skills training
- Languages
- Computers and management systems
- Financial training
- Management skills
- Internal processes
- Efficiency

On the other hand, the **MoraBanc Training Plan** chiefly focuses on financial training:

- **Regulated education (university studies, doctorates, master's degrees and postgraduate courses)**
  - We grant scholarships to employees for university studies related to their work to cover 100 % of the cost of enrolment and textbooks.
  - We offer scholarships worth €2,000 to employees who wish to study for doctorates.
  - In the case of master's degrees, we offer discretionary grants, depending on the degree and its relationship to the employee's work . We have awarded grants for 26 master's degrees.
  - We bear 100% of the cost of postgraduate courses organised and taught by the University of Andorra in partnership with Pompeu Fabra University. There are 25 people who have studied Banking Management, 3 who have studied Andorran Taxation and 2 who have completed a course in Andorran Law.

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- **Financial certifications**
  These recognise technical knowledge, its practical application and the capacity to make it available to internal clients and customers. MoraBanc helps workers to obtain financial certifications (EFA, CEFA, CAIA and CFA). 100 people, 29.8% of the staff, currently have one of these financial certifications.

Pathways designed for employees in the business areas

These focus on enhancing skills and specific knowledge for different business areas of the organisation:

- Commercial Banking. In 2017 training in this area focused on improving customer satisfaction, loyalty and commercial techniques.
- Private Banking. We have continued to promote training for financial certifications.
- Asset Management. We have provided training on new trends in investment management and promoted attendance at Asset Management debates and forums.

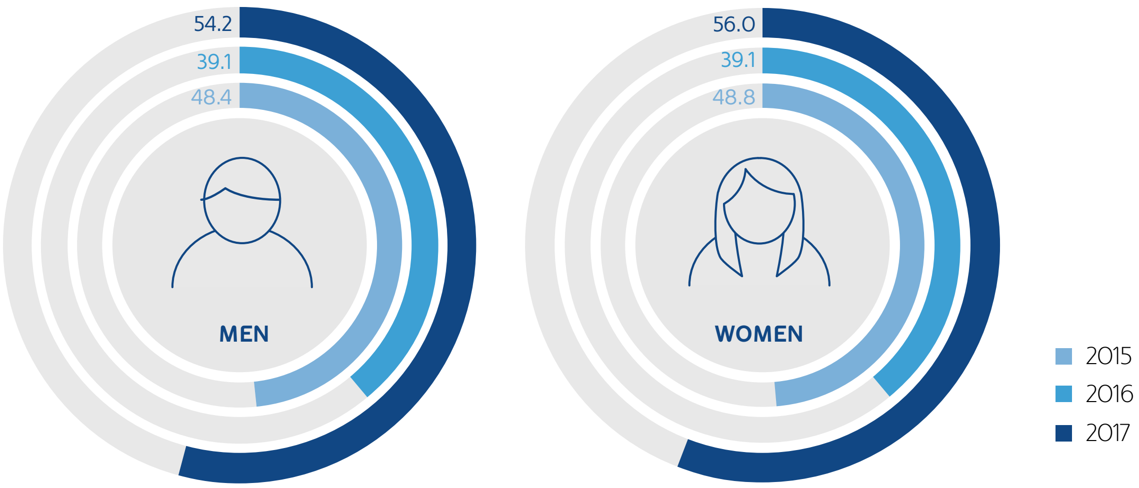
Pathways for employees in general

These seek to develop the general skills of our employees.

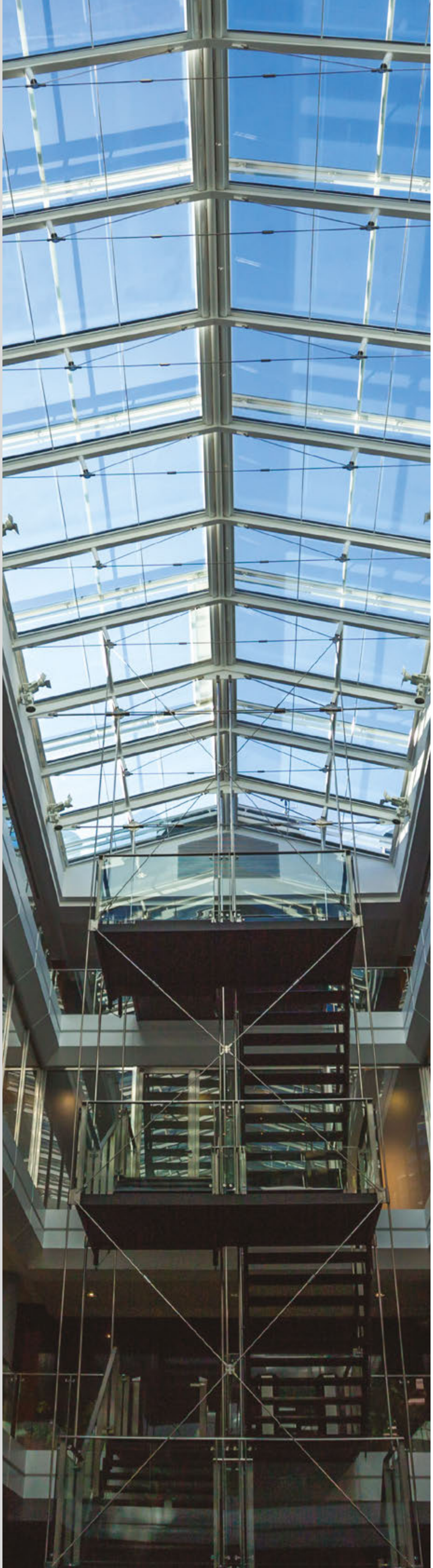
- MoraBanc leadership model
- Professional competencies and skills

The series of training activities which make up these pathways is designed for our staff to develop their knowledge and skills in parallel, to progress in their area or specialisation and to perform satisfactorily.

AVERAGE TRAINING HOURS*
(hours/person)



* The data only refer to Andorra.



The effectiveness of, and satisfaction of our employees with, the training is evaluated through student feedback and performance interviews, based on the objective and results management system. The purpose is to determine the level of benefit, the fulfilment of the objectives and expectations and the extent of coverage of training needs.

In addition, we have conducted thorough research to develop **new methods** enabling us to improve the key skills of the **institution's talent**. This talent management initiative seeks to produce a team of competent, committed and motivated professionals who will be able to develop the strategy of the organisation.

For more than a decade we have been committed to young talent, providing students with the opportunity to enrich their professional experience and consolidate their knowledge by means of scholarships and work placements during the summer. In order for the students to take full advantage of their placements, the Human Resources Department interviews all the students and places them in the positions that best fit their profiles. This initiative enables us to identify and retain talent among successive generations of students. Over the last six years, six students have joined the permanent workforce and continue to pursue their careers with us. Similarly, two more people have joined the workforce on temporary contracts.

In 2017 we focused on innovation to retain talent

Extension of our positive impact **06**

We contribute value to society

Thinking of a **better world** forms part of MoraBanc's commitment to sustainability. We are aware that our business could often be part of the solution to some of the problems facing society. For this reason, we have devised a strategy which contributes to the **development of Andorran society**.

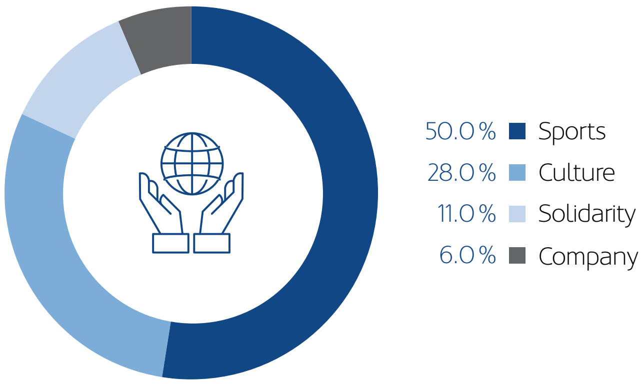
This engagement is reflected in several initiatives of a social nature which help us to create and preserve links with the country and its people.

We adopt socially responsible practices which generate value for the community and the Company. The action plan focuses on four main areas: **society**, **culture**, **sports** and **solidarity**, which are aligned with our values.

This year we allocated 3.1%[3] of the institution's profits. In this sense, we have given continuity of support to the initiatives taken in earlier years.

We allocated 3.1% of our profits to community initiatives

DISTRIBUTION OF INITIATIVES FOR THE BENEFIT OF THE COMMUNITY 2017



3 This figure does not include the investment in the refurbishment of Casa Vicens.

SOCIETY

In 2017 we conducted the following initiatives to contribute to society in Andorra:

- We supported social entrepreneurship with a programme for entrepreneurs, LAB Impact Andorra, together with the Ship2B Foundation. We selected projects with a social impact on Andorra or linked to Andorra. Four projects were chosen from those put forward, which receive advice and consultancy from Ship2B and specialised mentors. In addition, one of them has reached the final round to join the acceleration programme in Barcelona with Ship2B. This year we selected the Andorra Market Place project, an online shopping platform to promote proximity trade.
- We have continued to support programmes for the commercial sector, with special initiatives on days with high numbers of visitors and solidarity actions, such as the campaign to raise funds for our Solidarity Card with Vivand.
- We provided MoraBanc premises such as our conference room to community associations and groups in Andorra. Similarly, we have supported the outreach activities of different entities, such as professional associations, patient support groups for various diseases , training centres and skiing clubs.

We contributed to social entrepreneurship in Andorra with the support of projects forming part of Ship2B's LAB Impact Andorra programme

Opening of Casa Vicens as a museum

After more than 130 years, Casa Vicens is no longer a private family home owned by the Herrero family and has become a **world heritage site** open to the public. Although it was the first commission Antoni Gaudí i Cornet received once his education was complete, the building still reflects his unique personality and exceptional ground-breaking genius.

Casa Vicens' interest lies in the building's value from a dual perspective: from an architectural point of view, but also in terms of ornamentation, because in it we can sense the architect's later creative development, the forerunner of other contemporary strands of the European avant-garde movement in the late 19th century. The building was declared an artistic-historical monument by the Spanish State in 1969 and a UNESCO World Heritage Site in 2005.

In 2014 **MoraBanc** acquired the **property**, located in Carrer de les Carolines in the Gràcia neighbourhood of Barcelona, with the purpose of embarking on a **restoration project** enabling everyone to enjoy Casa Vicens. It was an ambitious plan involving the restoration of the 1,200 m^2 of the four floors of the house and the garden.

Finally, in 2017, after almost three years, Casa Vicens opened its doors as a **living cultural and artistic museum**.

Through this project we wanted to showcase the **values of private and family banking, as well as our social and cultural commitment**.

MORABANC

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CULTURE

Our contribution to the cultural life of Andorra was embodied, among others , in the following initiatives:

- The organisation and sponsorship of the **MoraBanc Music and Dance Season in Andorra la Vella**, which, without any doubt, remains our leading contribution in the cultural sphere. For more than 20 years we have supported this event which, year after year, offers high-quality music and dance. This year MoraBanc's contribution accounted for 50 % of the budget.
  The 23rd season ended with a total attendance of 3,404 people, almost 4 % higher than the previous year. The average rating of the event was 5.5 out of 5.
  The list of events this year included top-class performers such as *Forever Tango*, with an audience of 842 people, followed by Cecilia Bartoli with 811 and Bad Boys of Dance with 662. The Canadian Rufus Wainwright attracted 593 people and Frenchman Alexandre Tharaud 496.
- We continued to offer our internet ticket sale system free of charge to Andorran cultural institutions and associations which put on and organise cultural events.
- We were the main sponsors of the Cirque du Soleil shows in Andorra in July. We supported this project promoted by Andorra Turisme, which is a key tourist attraction in the summer.

The 23rd MoraBanc Music and Dance Season in Andorra la Vella closed with an audience of 3,404 and an excellent approval rating

MoraBanc, the main sponsor in Andorra of *Stelar*, the Cirque du Soleil show

SPORT

We are committed to sport to improve people's quality of life:

- We maintain our **commitment to snow**. MoraBanc is one of the main economic and social driving forces of Andorra, making a highly valuable contribution to the cohesion of society. We currently support the Pas de la Casa - Grau Roig Skiing Club, the national snowboarding team of the Andorran Skiing Federation, the Andorran Mountaineering Federation (with the sponsorship of the national mountain race team in summer and alpine skiing in winter) and to the Grandvalira ski resort.
- **We continue to support** our basketball team, **MoraBanc Andorra**, which has been playing in the ACB league for the past three years. We also support youth sport by sponsoring the MoraBanc Andorra Junior team. In addition, we have a card for our customers, Visa MoraBanc Basketball, with benefits and exclusive services for fans of the team.
- Once again, we supported the Andorran Women's Race. In this way, we worked with the Andorran Women's Association, offering them our support for their cause: the fight against breast cancer. Nearly 1,000 people participated in 2017.

MoraBanc's sponsorship activity is marked by its passion for the mountains and talent of Andorra

SOLIDARITY

In 2010, MoraBanc created the **Solidarity Card,** an initiative aimed at contributing to social justice and promoting the solidarity of its customers. Once again, we continued to promote the Solidarity Card, which makes us extremely proud of our customers, given that, with their ongoing and increasing participation, they show awareness of social and humanitarian issues. All our customers can participate by means of the conversion of their cards into Solidarity Cards. The amount of **each purchase** made by a customer is rounded up to the next tenth of a euro or euro, and the difference becomes **a donation**. But the contribution is not only from our customers, as MoraBanc contributes the same amount again, doubling it.

The Andorran Women's Association joins the Solidarity Card programme

The recipients of the donations are Andorran institutions whose purposes are social action, humanitarian aid and development cooperation, both in our own country and in the international sphere.

The Solidarity Card began with five NGOs and during the year we reached the figure of 17 institutions, with the incorporation of the ADA (Andorran Women's Association), whose objective is to fight for women's rights.

PARTNERSHIPS AS A RESULT OF MORABANC'S SOLIDARITY CARD

As a result of this initiative, pioneering in the country, **in 2017** we raised **€141,132**, which we allocated to 17 NGOs. Half of this amount represents the contributions of our customers and the other half MoraBanc's own contribution.

EUROS RAISED

2015	€ 141,838
2016	€ 153,826
2017	€ 141,132

MoraBanc's aim is for solidarity to be a value which permeates the organisation from within. For this reason we promote voluntary activities and encourage our human team to participate in them. In 2017 we participated in several campaigns:

- We participated in the Toy Collection Campaign on behalf of Càritas, organized by Òscar Royo, a journalist for Andorran National Radio.
- Once again our employees worked together on the internal campaign to collect food on behalf of Càritas.

MoraBanc employees participated in the campaign to collect food for Càritas Andorrana

Statement by the Chairmen
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We care for the environment

We are committed to the preservation of the environment and our natural surroundings, of undeniable value for Andorra, and to the fight against climate change. Our commitments are reflected in our environmental policy:

- To strictly comply with current legislation on environmental matters.
- To prevent contamination resulting from our business, setting objectives that enable us to ensure continuous improvement and sustainable development, in both our consumption of natural resources and the generation of waste and emissions.
- To cooperate with the public bodies and special interest groups to disseminate these principles across Andorran society as a whole.
- To maintain an open culture in matters of the environment and to circulate our policy among employees, customers and any other interested parties.

At MoraBanc we are playing an important role in the transition towards a low carbon economy

In our concern to achieve a solid environmental performance to minimise the environmental impact of our business, we have had, since 2000, an **environmental management system** which incorporates the requirements of applicable legislation and other voluntary requirements we have adopted. This management system covers MoraBanc's whole business, products and services which may have an effect on the environment at any of our facilities.

We intend to continue with the initiatives we have conducted for several years in environmental matters. We have set ourselves the following objectives for 2018:

- To reduce paper consumption by monitoring the use of recycled and organic paper as opposed to white paper, among others, conducting initiatives to make customers aware of the benefits of these measures and providing them with relevant online information.
- To reduce energy consumption by means of awareness-raising initiatives aimed at our employees.
- To establish environmental requirements for suppliers whose activities may have an effect on the environment.

The environmental data published in this report refer to our facilities in Andorra and, in some cases, they include data for Switzerland and Miami.

CONSUMPTION OF MATERIALS

Toner consumption has been reduced by almost 8 %

The main materials we use to carry on business are paper, toner and plastic for bank cards. 100% of the paper used in the offices of the different departments is recycled.

As a result of the introduction of digital banking and the replacement of postal correspondence with other forms of communication, we are reducing paper consumption.

MATERIALS		CONSUMPTION			UNIT
		2015	2016	**2017**	
Paper consumption	Own	19,388	23,476	24,317	kg
	Advertising	11,107	6,483	8,148	kg
Toner consumption		1,113	886	819	units
Consumption of plastic for bank cards		15,586	8,346	28,912	units

In 2016 we carried out a detailed study of the grammage of the paper we use for correspondence with customers. As a result of this study, we reached the conclusion that the grammage is the minimum required for the nature of the Bank's correspondence. Our efforts during the year and in 2018 will therefore focus on digital campaigns.

In relation to our other main consumable, namely toners, we have carried out closer monitoring of consumption, taking into account the number of printers which exist in each department and office. This action resulted in a reduction of almost 8 % in terms of toner consumption at MoraBanc.

ENERGY CONSUMPTION

Energy consumption is one of the priority environmental aspects for our environmental management. We strive to improve the energy efficiency of our facilities and offices with two goals: to tackle climate change and to achieve a safe, sustainable and competitive energy supply.

We reduced energy consumption by 2.6 %

The main energy sources we use at MoraBanc are, firstly, the electricity and diesel consumed in the branches and, secondly, the fuels used for travel.

Only three of the centres use diesel as a fuel for their air conditioning. The other centres use only electricity as an energy source.

Overall, MoraBanc's energy consumption fell by 2.6 % over the previous year.

MORABANC

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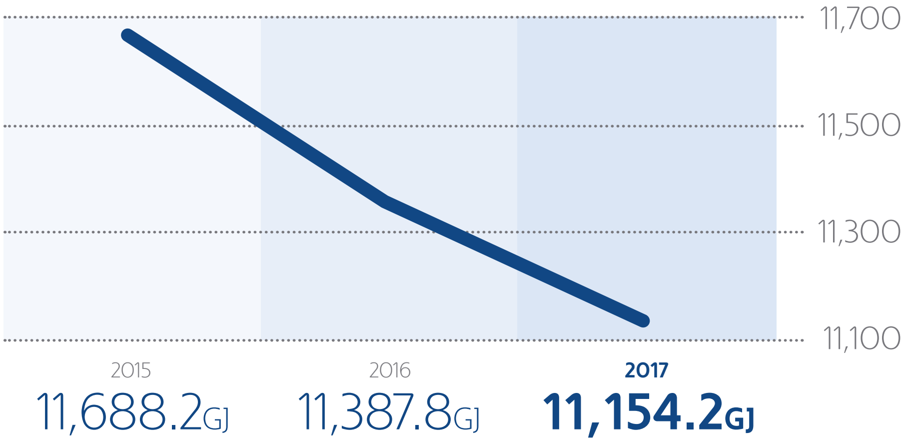
	Consumption of diesel in branches**	Consumption of electricity in branches**	Consumption of the website and electronic banking***
2017*	**1,752 GJ**	**9,395.93 GJ**	**6.3 GJ**
2016	1,968.6 GJ	9,413.2 GJ	6.3 GJ
2015	1,642.4 GJ	10,039.5 GJ	6.3 GJ

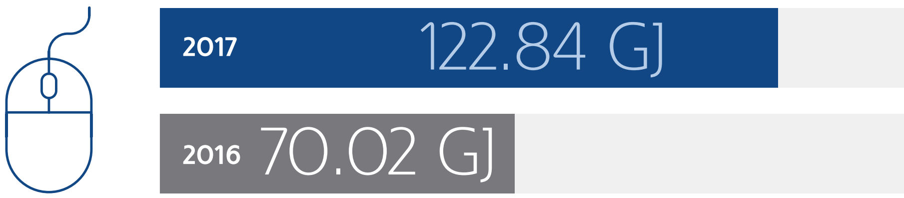
*The data do not take into account cashpoints and hoardings owned by MoraBanc, as we do not have this information.
**To obtain the consumption associated with the Miami office, an estimate has been made on the basis of the surface area and the number of workers in the building.
***This consumption takes into account the operation of the web server and of electronic banking (24 hours, 365 days a year).

DEVELOPMENTS IN TOTAL ENERGY CONSUMPTION (in GJ)



For the calculation of energy consumption, we estimate the electricity consumption associated with the distribution from the server to the users, as well as the consumption of the users' computers, taking into account the number of visits to the website and electronic banking (in 2017 the figure was 1,268,503).

CONSUMPTION BY USERS OF THE WEBSITE AND ELECTRONIC BANKING



EMISSIONS

In 2017 we continued with the strategy to combat climate change we began in 2009, calculating our annual carbon footprint.

We calculated our GHG (greenhouse gas) emissions in accordance with ISO 14064:1-2012 , the Greenhouse Gas Protocol, the Corporate Accounting and Reporting Standard developed by the World Business Council for Sustainable Development.

In 2017, our carbon footprint linked to the activity of the branches in Andorra stood at 909.65 tonnes of CO_2.

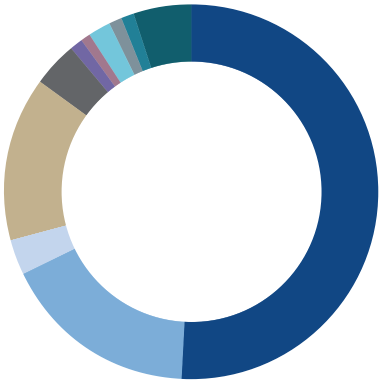
CARBON FOOTPRINT OF MORABANC'S ACTIVITY IN ANDORRA IN 2017

FIELD	SOURCES OF EMISSIONS	t CO_2
Scope 1	Diesel consumption in branches	10.75
	Petrol consumption of the **MoraBanc** fleet of vehicles	14.40
	Diesel consumption of the **MoraBanc** buildings (offices)	124.70
	Cooling gases	153.89
	Total Scope 1 emissions	**303.74**
Scope 2	Electricity consumption	461.97
	Consumption of the website and electronic banking	0.31
	Total Scope 2 emissions	**462.28**
Scope 3	Own paper consumption	45.75
	Paper consumption for advertising materials	13.06
	Toner consumption	10.81
	Bank card consumption	0.41
	Fuel consumption of the **MoraBanc** courier service	20.92
	Fuel consumption of vehicles owned by **MoraBanc** personnel	7.60
	Consumption by users of the website and electronic banking	6.04
	Plane journeys by **MoraBanc** personnel	33.96
	Train journeys by **MoraBanc** personnel	2.14
	Bus journeys by **MoraBanc** personnel	0.59
	Overnight stays	0
	Paper waste sent to landfill	0
	Paper waste sent for recycling	1.19
	Water treatment	1.18
	Total Scope 3 emissions	**143.64**
	TOTAL EMISSIONS	**909.65**

The graphic representation of the distribution of the carbon footprint for the different sources under consideration in 2017 is displayed below. As can be observed, emissions linked to electricity consumption (51%), cooling gases (17%) and diesel consumption in branches (14%) account for 81.41% of the emissions of the Bank.

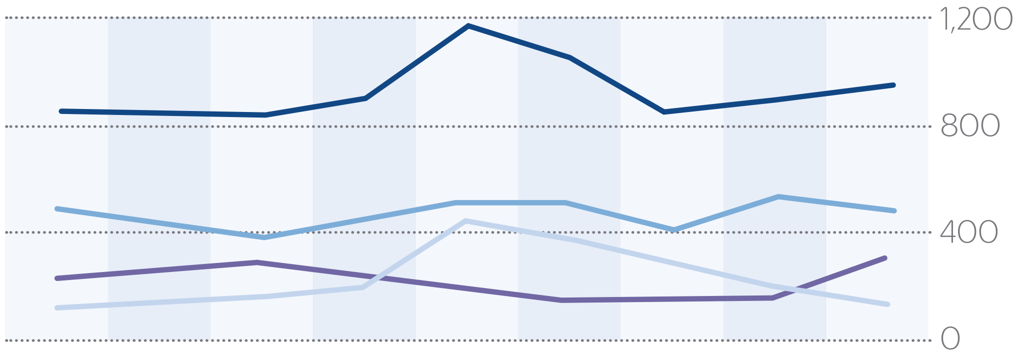
To a lesser degree, emissions associated with paper consumption (5%), corporate plane, train and bus journeys (4%), fuel consumption of the fleet of vehicles (3%) and the MoraBanc courier service (2%) also contribute. The other categories account for 4.46% of the institution's total emissions.

EMISSIONS OF GHG IN ANDORRA (% t CO_2) per operational limit (2017)



- 51 % Electricity consumption
- 17 % Cooling gas (R-407C and 410C)
- 3 % Vehicle fleet consumption (petrol and diesel)
- 14 % Diesel consumption in branches
- 4 % Corporate journeys (by plane, train and bus)
- 1 % Consumption by users of the website and electronic banking
- 1 % Fuel consumption by MoraBanc personnel vehicles
- 2 % Fuel consumption by MoraBanc's courier service
- 1 % Consumption of *laserjet toners*
- 1 % Paper consumption for advertising materials
- 5 % Own paper consumption

DEVELOPMENTS IN GHG EMISSIONS AT MORABANC (t CO_2 eq)



2009	2010	2011	2012	2013	2014	2015	2016	2017	
243.3	252.8	285.1	237.2	197.2	153.4	147.4	163.7	303.7	Scope 1
488.5	417.9	378.6	456.2	522.4	503.6	418.1	527.4	462.3	Scope 2
120.5	152.2	166.1	200.9	438.3	376.3	278.9	203.8	143.6	Scope 3
843.2	822.8	289.8	894.2	1,158.0	1033.3	844.4	894.9	909.7	**Total**

In 2017 the GHG emissions of MoraBanc Andorra underwent an increase of 66.44 t CO_2eq in comparison with 2009, a figure which represents 8% more emissions. This increase was due to slight rises in the fuel consumption of the company's vehicle fleet, toner consumption, corporate journeys, electronic banking user consumption and consumption resulting from paper waste management. In 2017, emissions resulting from cooling gases, not included in previous years, were introduced into the calculation of the footprint. However, the emissions have fluctuated over the years. In 2013, for example, there was an emission peak linked to the consumption of electrical energy (Scope 2) and corporate journeys (Scope 3).

With regard to 2016, emissions increased by 14.8 t CO_2eq, in other words, 2%. This increase was chiefly due to the consumption of cooling gases included in the 2017 calculation, which accounted for 154 t CO_2eq, as well as the 14% increase in the consumption of the fleet (Scope 1). Scope 2, which includes the emissions resulting from electrical energy consumption, decreased by 12%. When calculating the emissions related to electrical energy, the origin of the electricity was taken into account, which, in the case of Andorra, comes from Andorra, France and Spain.

Scope 3, in keeping with the tendency in 2016, fell by 60 t CO_2eq. Emissions associated with corporate journeys by plane and train respectively decreased by 69% and 14%, as the former fell by 13% and the latter by 32%. The emissions associated with air journeys were calculated by means of the carbon emission calculator of the ICAO (International Civil Aviation Organization), which calculates the kilometres travelled by each passenger and the associated emissions in terms of kg CO_2/km, taking into account the cabin class (*premium* or *economy*). In addition, the emissions resulting from train and bus journeys were calculated on the basis of the emission factors in the *Practical Guide for the Calculation of Greenhouse Gas Emissions* (GHG, March 2017 version).

In the 2016-2017 period, emissions resulting from the management of waste paper going for recycling (37%) and the courier service (7%) also fell. However, emissions associated with purchases of goods and services (water, paper, other paper for advertising material, toners and cards), corporate journeys in personal vehicles and by bus and web user and electronic banking consumption all rose.

The table below shows the data relating to GHG emissions taking into account MoraBanc's business:

MORABANC ANDORRA	t CO_2/m^2	t CO_2/worker	t CO_2/thousand €
2009	0.048	2.285	0.000128
2010	0.047	2.194	0.000127
2011	0.048	2.064	0.000136
2012	0.051	2.213	0.000140
2013	0.066	2.712	0.000175
2014	0.059	2.282	0.000144
2015	0.048	1.789	0.000119
2016	0.051	2.271	0.000135
2017	0.052	3.032	0.000143

% variation 2009-2017	7.73 %	32.69 %	11.68 %
% variation 2016-2017	1.65 %	9.44 %	5.56 %

The relative indicators related to the carbon footprint of MoraBanc Andorra refer to emissions associated with the surface area, workforce and invoicing during the 2009-2017 period. During this period, surface area emissions rose by 7.73 %, personnel emissions by 32.69 % and invoicing emissions by 11.68 %.

In addition, the developments in our emissions in the period 2016-2017 were characterised by a slight increase in surface area emissions totalling 0.001 t CO_2eq/m_2 (1.65 %), a rise in worker-related emissions of 0.262 t CO_2eq (9.44 %) and an upturn in invoiced emissions of 0.000008 t CO_2eq/thousand euros (5.56 %).

It is worth mentioning that a mistake detected in the calculation of emissions on the basis of invoices in 2009-2015, due to confusion between the invoiced units used in the calculation (t $CO2_2$eq/thousand euros), was corrected. The results in the table above are therefore displayed in corrected form.

We want to continue working on reducing emissions resulting from our business and, therefore, we propose new goals in 2018, including:

- Continuing with the substitution of corporate journeys by telephone calls and video conferences, proposed in 2017 too, with very encouraging results.
- Disseminating good environmental practices among employees.
- Applying improvements enabling energy savings and good energy practices in buildings (offices) to attempt to reduce consumption of electrical energy and diesel consumption in offices.

Information in the Report and materiality

The purpose of this Report is to offer a true picture of the economic, social, environmental and corporate performance of MoraBanc. It therefore responds to our determination to create an environment of trust with our stakeholders through free access to relevant information related to policies and actions in the area of social responsibility.

This is the third year in which we have drawn up our report in accordance with the recommendations of the GRI (Global Reporting Initiative), the *Sustainability Reporting Guidelines* (version G4), including the Core 'in accordance' option without external verification. This Report covers the period 1 January to 31 December 2017, as we report on a calendar year basis.

The Report covers the companies which appear in the consolidated financial statements of the organisation, as listed in the “Economic management” section.

Any queries which may arise in relation to this report, may be emailed to comunicacio@morabanc.ad .

MATERIALITY ANALYSIS

Before drawing up the 2017 report, we reviewed the results of the materiality analysis we conducted in 2015. We reviewed the aspects regarded as material in 2015, in order to confirm that the contents defined earlier still offered a reasonable picture of the impact and performance of MoraBanc in terms of sustainability.

Given that MoraBanc's sustainability context did not change in 2017, we regard the results of our earlier materiality analysis to be valid and applicable. This analysis allowed us to identify the sustainability issues relevant to the institution as contained in this Report and which have been used to work on MoraBanc's sustainability strategy over the last three years.
Below we explain the process followed to perform the materiality analysis:

- **Identification of potentially relevant aspects**. This was carried out on the basis of the analysis in the GRI G4 *Guidelines* and the sectoral supplement for financial services, drawn up by the same organisation.

- **Prioritisation**. The material aspects were selected on the basis of a dual analysis, both internal and external. This enabled us to identify the degree of importance of the identified issues for both MoraBanc and our stakeholders:

    - **Internal environment, relevance for MoraBanc**. For the internal prioritisation a questionnaire was sent to the members of MoraBanc's management team (executive committee, central service management and branch management). The directors assessed the degree of importance of the identified aspects, taking into account the positive and negative impacts on the environmental, social and economic sustainability of the institution, as well as their consistency with MoraBanc's vision and its positioning.

    - **External environment, relevance for our stakeholders**. A session was organised for the external prioritisation of the identified material aspects, attended by representatives of MoraBanc's different stakeholders. The aim of the session was to define the sustainability aspects considered to be the most relevant, depending on the relationship of each stakeholder group with MoraBanc.

On the basis of the results of that session, the data from the two analyses were compared in order to generate a matrix to determine the material aspects to be included in our sustainability report and MoraBanc's sustainability strategy. All the aspects with an average or high degree of importance, both internally and externally, were regarded as material.

- **Validation**. The results obtained and the materiality matrix were analysed by the management of MoraBanc, which assessed their consistency with the institution's sustainable development. Following this assessment, the results were validated and, in addition, the following topics were included as material aspects:

- National institutions we form part of
- Financial literacy
- Customer service
- Inclusion of social and environmental aspects in the strategy
- Materials
- Energy

The purpose is to ensure that the materiality reflects a correct and balanced picture of the most relevant issues for sustainable and responsible development in MoraBanc's economic, environmental, social and good governance areas.

MORABANC MATERIALITY MATRIX 2017

Relevance for the stakeholders	Internal relevance: Leave	Internal relevance: Average	Internal relevance: High
High	General Evaluation of the suppliers in the area of human rights Bonds and partnerships with national institutions Financial literacy Customer service Inclusion of social and environmental aspects in the strategy	Non-discrimination Local communities	Economic development Employment Diversity and equal opportunities Equal pay for men and women Fight against corruption Ethical and responsible behaviour Prevention of money laundering and financing of terrorism Quality and excellence in banking practice
Average	Work placements Transport Environmental evaluation of suppliers Evaluation of suppliers' working practices Investment Public policy Product catalogue Regulatory compliance Audit Risk management Internationalisation	Emissions Products and services Training and education Unfair competitive practices Customer health and safety Transparency of information to the markets and customers	Company-employee relations Occupational health and safety Work-life balance Regulatory compliance Labelling of products and services Customer privacy Innovation in products and services
Leave	Water Environmental claim mechanisms Claim mechanisms regarding working practices Safety practices Evaluation Shareholder activism Diversification of the business	Presence in the market Indirect economic consequences Materials Energy Tipping and waste Freedom of association and collective agreements	Regulatory compliance

Economy
Environment
Working practices
Human rights
Society
Product responsibility
Corporate governance
Business strategy

GRI table of contents

This Report has been drawn up in accordance with the criteria contained in the *Sustainability Reporting Guidelines* (version G4) in the Core 'in accordance' option.

BASICS GENERAL CONTENTS

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VERIFICATION
Strategy and analysis				
G4-1	Statement by the head of the organization	4-8		
Profile of the organization				
G4-3	Name of the organization	Mora Banc Grup, SA		
G4-4	Main brands, products and services	38-40		
G4-5	Location of its head offices	Its head offices are located at Av. Meritxell, 96, Andorra la Vella.		
G4-6	Number of countries in which the organization operates	10, 26-27		
G4-7	Nature and legal form of the property system	24		
G4-8	Markets served	26-27 In all the countries in which we operate we provide commercial banking products and services (to individuals and companies), private banking, *wealth management*, asset management, investment funds and insurance.		
G4-9	Size of the organisation	54-212 MoraBanc's workforce is made up of 336 people. Turnover in 2017 stood at €7,491,887 (customer funds and credit investments).		
G4-10	Total number of employees	10, 216-218		
G4-11	Percentage of employees covered by collective agreements	MoraBanc does not have any collective agreements, given that Andorran law stipulate that the workers should initiate the above, which has not occurred until now.		
G4-12	Supply chain	20-21 A high percentage of contracts with service providers are made with companies operating outside Andorra, mainly in Spain and France, depending on the specific nature of the services.	We do not provide information on the names, locations and monetary values of payments to suppliers, as this is confidential information.	
G4-13	Significant changes during the period covered by the report	There were no significant changes.		
G4-14	Implementation of the precautionary principle	14, 18, 234		
G4-15	Support for external initiatives	MoraBanc did not subscribe to or adopt charters, principles or any other external initiatives of an economic, environmental or social nature.		

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VERIFICATION
G4-16	Associations and organisations to which the institution belongs	28-29		
Material aspects and coverage				
G4-17	Institutions which appear in the report	The information submitted corresponds to the companies which appear in the consolidated financial statements. If the scope does not coincide in some cases, this is specified in the corresponding section of the report.		
G4-18	Definition of the content of the report and coverage of each aspect	241-243		
G4-19	Material aspects	241-243		
G4-20	Coverage of each material aspect within the organization	See table COVERAGE AND LIMIT below		
G4-21	Limit of each material aspect outside the organization	See table COVERAGE AND LIMIT below		

COVERAGE AND LIMIT

	Internal				External		
	Commercial banking	Private banking and wealth *management*	Asset management	Insurance	Customers	Suppliers	Institutions
ECONOMY							
Economic development							
ENVIRONMENT							
Emissions							
Products and services							
Materials							
Energy							
SOCIAL: WORKING PRACTICES AND DECENT WORK							
Training and education							
Employment							
Diversity and equality							
Equal pay for men and women							
Company-employee relations							

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VERIFICATION
G4-22	Reformulation of the information in previous reports and the reasons	The data on paper consumption are updated in comparison with those published in 2017 because they were erroneous. Paper consumption stood at 23,476 kg in 2016. As a consequence of this change, the carbon footprint data related to paper consumption are also updated.		
G4-23	Significant change in the scope and coverage of each aspect with regard to previous reports	This is the third report that we publish in accordance with the GRI G4 *Guidelines* on the basis of the results of the materiality analysis conducted in 2015.		
Participation of stakeholders				
G4-24	Stakeholders linked to the organisation	15		
G4-25	Basis for the identification of stakeholders	15, 241-243		
G4-26	Participation of stakeholders	15, 49-50, 241-243		

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VERIFICATION
G4-27	Key issues and problems which have arisen as a result of the participation of stakeholders and the response of the organisation	241-243		
Profile of the report				
G4-28	Period covered by the report	2017		
G4-29	Date of the last report	2016		
G4-30	Cycle of submission of reports	Annual.		
G4-31	Contact point for queries regarding the content of the report	241		
G4-32	"Core 'in accordance' option under the *Guidelines* chosen by the organisation and the GRI index	244		
G4-33	Policy and practices with respect to the external verification of the report	The report has not been verified externally.		
G4-34	Governance structure of the organization	30-32		
Ethics and integrity				
G4-56	Values, principles and codes of conduct, etc. of the organisation	25, 33-34 The codes of conduct of the Group and the stock market are available to employees in Catalan and English.		
ECONOMY				
Economic performance				
G4-DMA	Management approach	4-8, 14-15, 54-212		
G4-EC1	Direct economic value generated and distributed	The table below, drawn up upon the basis of the Group's profit and loss account, displays the distribution of the economic value generated, distributed and held by MoraBanc in 2017.		

	Thousands of euros
	2017
ECONOMIC VALUE GENERATED	**89,913.00**
Interest margin	21,246
Net commissions for services	54,800
Result of financial operations	10,837
Other income	3,030
ECONOMIC VALUE DISTRIBUTED	**54,316.00**
General expenses	22,652
Personnel costs	30,158
Public bodies	1,506
ECONOMIC VALUE RETAINED	**35,597.00**
Amortisations	8,010
Provisions	4,070
Reserves and dividends	23,517

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VERIFICATION
ENVIRONMENT				
Materials				
G4-DMA	Management approach	14-15, 18, 234-235		
G4-EN1	Materials used	235		
Energy				
G4-DMA	Management approach	235-236		
G4-EN3	Internal energy consumption	236 The sources for calculating the conversion factors are the OCCC (Catalan Office for Climate Change) and the IDAE (Institute for Energy Diversification and Savings). The estimate made by the Miami office was made by using data provided by the US Energy Information Administration.		
Emissions				
G4-DMA	Management approach	14-15, 18, 236-240		
G4-EN15	Direct emissions of greenhouse gases (Scope 1)	237-238		
G4-EN16	Indirect emissions of greenhouse gases (Scope 2)	237-238		
G4-EN17	Other indirect emissions of greenhouse gases (Scope 3)	237-238		
G4-EN18	Intensity of greenhouse gas emissions	239-240		
Products and services				
G4-DMA	Management approach	14-15,18, 41		
G4-EN27	Mitigation of the environmental impacts of products	MoraBanc provides products and services which promote the protection of the environment. However, due to its characteristics, it is impossible to quantify the mitigation of the environmental impact achieved.		
SOCIETY				
Working practices and decent work				
Employment				
G4-DMA	Management approach	14-15, 17, 214-219		
G4-LA1	Recruitment rate and average turnover	217		
Relations between workers and management				
G4-DMA	Management approach	14-15, 214-215		
G4-LA4	Minimum period of notice of significant changes	MoraBanc does not have a collective agreement nor any agreement for the representation of its employees, given that Andorran law stipulates that the workers should initiate the above, which has not occurred until now. In this regard, no notice periods have been determined. However, we attempt to inform our employees of significant operational changes well in advance. The communication channels between the workers and the organisation are explained in the 'Human Team '.section.		
Health and safety at work				
G4-DMA	Management approach	14-16, 220		
G4-LA6	Type and rate of injuries, occupational illnesses, days lost, absenteeism and the number of work-related fatalities	220		

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VERIFICATION
Training and education				
G4-DMA	Management approach	14-16, 221		
G4-LA9	Average training hours per year per employee	10, 221		
Diversity and equal opportunities				
G4-DMA	Management approach	14-15, 17, 214-219		
G4-LA12	Composition of the corporate governance bodies and the workforce	10, 30 There are no people belonging to minority groups in the workforce. The data on the gender and age of the members of the Board of Directors (as of February 2017) were as follows: • Mora Banc Grup, SA: 8 board members, all men and of the following ages: 65, 52, 41, 63, 51, 60, 55 and 55. • Mora Banc, SAU: 6 board members, all men and of the following ages: 65, 52, 41, 63, 51 and 60.		
Equal pay for men and women				
G4-DMA	Management approach	MoraBanc is working on equal pay and analysing the issues necessary to comply with requirements.		
G4-LA13	Relationship between the basic salary and the pay of women and men		This is confidential information.	
HUMAN RIGHTS				
Non-discrimination				
G4-DMA	Management approach	MoraBanc establishes relations with stakeholders in accordance with the principle of non-discrimination, as reflected in our Code of Ethics.		
G4-HR3	Incidents of discrimination and corrective measures adopted	We have never registered any case of discrimination.		

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VERIFICATION
SOCIETY				
Local communities				
G4-DMA	Management approach	14-15, 17, 226		
G4-SO1	Development programmes and impact assessments with the participation of the local community	17, 226-233		
Fight against corruption				
G4-DMA	Management approach	14-15, 30-35		
G4-SO5	Confirmed incidents of corruption and measures	There was no confirmed case of corruption at MoraBanc in 2017.		
Unfair competitive practices				
G4-DMA	Management approach	14-15, 30-35		
G4-SO7	Actions due to causes related to monopolistic practices and practices against free competition	During 2017 there were no claims related to cases of unfair competition or breaches of the legislation on practices against freedom of competition and monopolies.		
Regulatory compliance				
G4-DMA	Management approach	30-35		
G4-SO8	Non-economic fines and penalties due to breaches of the laws	In 2017 we did not detect any cases of breaches of legislation or regulations, nor did we receive fines or penalties in this regard.		
PRODUCT RESPONSIBILITY				
Customer health and safety				
G4-DMA	Management approach	43-47		
G4-PR1	Products and services whose impact on the health and safety of customers has been evaluated	In accordance with our activity, commercial disclosure is performed by taking into account ethical issues in the sale of private banking financial products.		
Labelling of products and services				
G4-DMA	Management approach	41-45, 49-50		
G4-PR5	Results of the customer satisfaction surveys	43		
Customer privacy				
G4-DMA	Management approach	Privacy is a key factor when it comes to defining the relationship with our customers. We have internal protocols which monitor compliance with applicable legislation in the area of data protection.		
G4-PR8	Claims in relation to respect for privacy and leaking of customers' personal data	During 2017 we did not record any legal claim regarding breaches of customer privacy.		

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VERIFICATION
Specific assumptions				
No GRI	Ethical and responsible behaviour	14-15, 25, 30-35		
No GRI	Prevention of money laundering and fraud	14-15, 25, 30-35		
No GRI	Transparency of information to the markets and customers	14-15, 46-50		
No GRI	Quality and excellence in banking practice	41-42, 51		
No GRI	Innovation in products and services	51		
No GRI	Work-life balance	214-215		
No GRI	Inclusion of social and environmental aspects within the corporate strategy	14-18		
No GRI	Customer service	43-45, 49-50		

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This Report has been drawn up in accordance with

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Sustainability Reporting Guidelines,

with the Core 'in accordance' option.

It relates to the period between 1

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