Consolidated Financial Statements for the 2018 financial year

Contents

Notes to the consolidated financial statements:

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 2018, the consolidated statement of income, consolidated statement of comprehensive income, total statement of changes in the consolidated net equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2018, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and concurrently adopted by Andorra (Andorran IFRSs).

Basis for Opinion

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

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

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

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

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

In preparing the consolidated financial statements, the directors of the Parent are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Parent either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

DELOITTE ANDORRA AUDITORS I ASSESSORS, S.L.

Francisco Ignacio Ambrós

12 April 2019

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 at 31 December 2018 and 2017, 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. In the event of a discrepancy, the Catalan language version prevails.

ASSETS

	Note	31/12/2018	31/12/2017(*)
Cash, cash balances in central banks and other demand deposits	**9**	**17,648**	**19,104**
Financial assets held for trading	**7, 10**	**63,512**	**194,835**
Derivatives		30,242	16,843
Equity instruments		19,541	30,632
Debt securities		13,729	147,360
Financial assets not held for trading, mandatorily calculated at fair value through profit or loss	**7, 12**	**357,988**	**357,145**
Equity instruments		275,466	299,559
Debt securities		82,522	57,586
Financial assets designated at fair value through profit or loss	**7, 11**	**-**	**-**
Equity instruments		-	-
Debt securities		-	-
Financial assets at fair value through other comprehensive income	**7, 13**	**622,398**	**419,793**
Equity instruments		44,495	67,524
Debt securities		577,903	352,269
Financial assets at amortised cost	**6, 7 and 14**	**1,559,166**	**1,426,737**
Debt securities		241,276	232,199
Loans and advances		1,317,890	1,194,538
Credit institutions		277,255	244,812
Clients		1,040,635	949,726
Derivatives - accounting of hedges	**7, 15**	**191**	**753**
Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging	**15**	**559**	**12**
Investments in joint ventures and associates	**4, 16**	**1**	**31**
Joint ventures		1	31
Assets covered by insurance and reinsurance contracts	**22**	**36,324**	**35,961**
Tangible assets	**17**	**103,240**	**83,120**
Fixed assets		59,581	55,981
Property investments		43,659	27,139
Intangible assets	**18**	**13,173**	**10,550**
Other intangible assets		13,173	10,550
Tax assets	**41**	**7,667**	**6,936**
Current tax assets		3,632	798
Deferred tax assets		4,035	6,138
Other assets	**19**	**4,541**	**7,565**
Non-current assets and disposable groups of items held for sale	**20**	**1,562**	**15,153**
TOTAL ASSETS		**2,787,970**	**2,577,695**

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

The attached Notes 1 to 48 form an integral part of the consolidated statement of financial position as at 31 December 2018.

Consolidated statements of financial position

As at 31 December 2018 and 2017, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

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LIABILITIES

	Note	31/12/2018	31/12/2017(*)
Financial liabilities held for trading	**10**	**31,282**	**16,167**
Derivatives		31,282	16,167
Financial liabilities designated at fair value through profit or loss	**12**	**358,891**	**405,870**
Other financial liabilities		358,891	405,870
Financial liabilities at amortised cost	**21**	**1,972,271**	**1,739,956**
Deposits		1,917,964	1,693,127
Deposits of central banks and credit institutions		48,286	20,767
AFA		27,150	21,276
Client deposits		1,842,528	1,651,084
Debt securities issued		34,158	34,795
Other financial liabilities		20,149	12,034
Derivatives - accounting of hedges	**15**	**6,699**	**3,148**
Changes in the fair value of the items covered by interest rate risk hedging	**15**	**782**	**779**
Liabilities covered by insurance and reinsurance contracts	**22**	**86,459**	**86,094**
Provisions	**23**	**25,185**	**26,004**
Pensions and other post-employment defined benefit obligations		17,787	16,211
Other remuneration for long-term employees		1,265	1,355
Procedural issues and litigation for pending taxes		2,136	4,184
Commitments and guarantees granted		901	10
Other provisions		3,096	4,244
Tax liabilities	**41**	**3,571**	**5,360**
Current tax liabilities		3,484	4,020
Deferred tax liabilities		87	1,340
Other liabilities	**19**	**16,243**	**17,067**
TOTAL LIABILITIES		**2,501,383**	**2,300,445**

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

The attached Notes 1 to 48 form an integral part of the consolidated statement of financial position as at 31 December 2018.

Consolidated statements of financial position

As at 31 December 2018 and 2017, 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. In the event of a discrepancy, the Catalan language version prevails.

NET EQUITY

	Note	31/12/2018	31/12/2017(*)
Capital	**25**	**42,407**	**42,407**
Other comprehensive income	**15,26**	**(3,227)**	**2,806**
Items which cannot be reclassified in results		(385)	-
Changes in the fair value of equity instruments valued at fair value through other comprehensive income		(385)	-
Items which can be reclassified in results		(2,842)	2,806
Cash flow hedges (effective part)		926	867
Financial assets at fair value through other comprehensive income		(3,768)	1,939
Accumulated profits	**25**	**155,079**	**145,608**
Other reserves	**25**	**68,275**	**75,841**
Result attributable to the owners of the controlling company		**24,057**	**23,517**
Interim dividend (-)	**5**	**-**	**(12,925)**
Minority interests (non-controlling interests)		**(4)**	**(4)**
Other items	27	(4)	(4)
TOTAL NET EQUITY		**286,587**	**277,250**
TOTAL NET EQUITY AND LIABILITIES		**2,787,970**	**2,577,695**

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

The attached Notes 1 to 48 form an integral part of the consolidated statement of financial position as at 31 December 2018.

Consolidated statements of income

As at 31 December 2018 and 2017, 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. In the event of a discrepancy, the Catalan language version prevails.

	Note	31/12/2018	31/12/2017(*)
Interest income	33	35,711	26,938
Interest expenses	33	(10,356)	(5,858)
Dividend income		623	166
Commission income	34	61,658	65,182
Commission expenses	34	(11,389)	(10,382)
Results of institutions valued by the equity method	**36**	**(30)**	**(99)**
Results of financial operations	**35**	**7,883**	**10,837**
For financial instruments not valued at fair value through profit or loss		3,312	9,279
For financial assets and liabilities held for trading		722	204
For other financial instruments at fair value through profit or loss		1,523	-
Profits or (-) losses resulting from hedge accounting, net		1,082	(153)
Change differences (net)		1,244	1,507
Other operating income	**37**	**5,182**	**3,039**
Other operating expenses	**37**	**(366)**	**(1,013)**
Net operating result		**88,916**	**88,810**
Administrative costs		(55,903)	(51,797)
Personnel expenses	38	(32,256)	(30,158)
Other general administrative expenses	39	(23,647)	(21,639)
Amortisation	17 and 18	(5,638)	(8,010)
Endowments to provisions (net)	23	(1,868)	(2,256)
Impairment of financial assets not recognised at fair value through profit or loss (net)	40	238	(1,814)
At fair value through other comprehensive income		239	(17)
At amortised cost		(1)	(1,797)
Impairment of non-financial assets (net)		(117)	-
Tangible assets		(117)	-
Profits or losses upon derecognition of non-financial assets and holdings, (net)		142	-
Profits or losses from non-current assets on sale not classified as discontinued operations	20	60	90
Result before taxes		**25,830**	**25,023**
Tax on profits earned	41	(1,773)	(1,506)
Result for the financial year from ongoing operations		**24,057**	**23,517**
Results of interrupted operations (net)		-	-
Result of the financial year		**24,057**	**23,517**
Attributable to the owners of the controlling company		**24,057**	**23,517**
Attributable to the minority interests		(-)	(-)

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

The attached Notes 1 to 48 form an integral part of the consolidated statement of income for the financial year ending on 31 December 2018.

Consolidated statements of changes in net equity (I)

As at 31 December 2018 and 2017, 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. In the event of a discrepancy, the Catalan language version prevails.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2.018	2.017(*)
RESULT FOR THE PERIOD	**24,057**	**23,517**
OTHER COMPREHENSIVE INCOME	**(6,032)**	**(4,401)**
Items that will not be reclassified in results	**(385)**	**-**
Changes in the fair value of equity instruments valued at fair value through other comprehensive income	**(428)**	**-**
Income tax related to items which cannot be reclassified in profit or loss	**43**	**-**
Items which may be reclassified in results	**(5,647)**	**(4,401)**
Cash flow hedges	**75**	**(39)**
Profits (losses) by valuation	75	(39)
Financial assets at fair value through other comprehensive income	**(6,362)**	**(4,082)**
Profits (losses) by valuation	(3,106)	2,293
Amounts transferred to the profit and loss account	(3,256)	(6,375)
Income tax related to items which can be reclassified in profit or loss	**640**	**(280)**
COMPREHENSIVE INCOME FOR THE PERIOD	**18,025**	**19,116**
Attributable to the owners of the controlling company	**18,025**	**19,116**
Attributable to the minority interests	**-**	**-**

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

The attached Notes 1 to 48 form an integral part of the consolidated statement of comprehensive income for the financial year ending on 31 December 2018.

Consolidated statements of changes in net equity (II)

As at 31 December 2018 and 2017, 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. In the event of a discrepancy, the Catalan language version prevails.

TOTAL STATEMENT OF CHANGES IN THE CONSOLIDATED NET EQUITY

							Minority interests		
	Capital	Other comprehensive income	Accumulated profits	Other reserves	Profit or loss attributable to the owners of the controlling company	(-) Interim dividends	Other comprehensive income	Other items	Total
Opening balance on 1 January 2017	**42,407**	**7,207**	**148,469**	**63,721**	**22,695**	**(13,800)**	**-**	**(4)**	**270,694**
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 comprehensive income for the financial year	-	(4,401)	-	-	23,517	-	-	-	19,116
Balance as at 31 December 2017	**42,407**	**2,806**	**145,608**	**75,841**	**23,517**	**(12,925)**	**-**	**(4)**	**277,250**
Effects of the changes in the accounting policies (*)	-	-	-	(8,087)	-	-	-	-	(8,087)
Opening balance as at 1 January 2018	**42,407**	**2,806**	**145,608**	**67,754**	**23,517**	**(12,925)**	**-**	**(4)**	**269,163**
Distribution of the 2017 result	-	-	6,327	4,266	(23,517)	12,925	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Other increases or decreases in the net equity	-	-	3,144	(3,745)	-	-	-	-	(600)
Total comprehensive income for the financial year	-	(6,032)	-	-	24,057	-	-	-	18,025
Balance as at 31 December 2018	**42,407**	**(3,227)**	**155,079**	**68,275**	**24,057**	**-**	**-**	**(4)**	**286,587**

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

The attached Notes 1 to 48 form an integral part of the changes in the consolidated net equity of the financial year ending on 31 December 2018.

Consolidated cash flow statement

As at 31 December 2018 and 2017, in thousands of euros

MORA BANC GRUP, SA
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THE MORABANC GROUP

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

	2018	2017(*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**26,941**	**(188,685)**
Result of the financial year	**24,057**	**23,517**
Adjustments to obtain the cash flows from the operating activities	**3,371**	**528**
Amortisation	5,638	8,010
Other adjustments	(2,267)	(7,482)
Net (increase)/decrease in the operating assets	**(184,762)**	**(115,991)**
Financial assets held for trading	131,323	28,606
Financial assets at fair value through profit or loss	(842)	3,385
Financial assets with changes in other comprehensive inc	(199,109)	(75,338)
Financial assets at amortised cost	(117,628)	(80,808)
Other operating assets	1,494	8,164
Net (increase)/decrease in the operating liabilities	**184,275**	**(96,739)**
Financial liabilities held for trading	15,115	(2,312)
Financial liabilities at fair value through profit or loss s	(46,979)	(54,667)
Financial liabilities at amortised cost	232,953	(28,965)
Other operating liabilities	(16,814)	(10,491)
Collections/payments for corporate tax	-	(304)
B) CASH FLOWS FROM INVESTMENT ACTIVITIES	**(14,162)**	**(7,229)**
Payments:	**(14,729)**	**(10,553)**
Tangible assets	(9,811)	(5,425)
Intangible assets	(4,918)	(5,127)
Collections:	**567**	**3,323**
Investments in joint ventures and associates	-	(202)
Non-current assets and liabilities that have been classified with changes in other comprehensive income	567	3,525
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(637)**	**(15,444)**
Payments:	**(637)**	**(15,444)**
Dividends (Note 5)	-	(12,925)
Acquisition of equity instruments	(637)	(2,519)
D) EFFECT OF THE VARIATIONS IN EXCHANGE RATES	**1,244**	**1,507**
E) NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS (A+B+C+D)	**13,386**	**(209,851)**
F) CASH AND EQUIVALENTS AT THE START OF THE PERIOD	**207,048**	**416,899**
G) CASH AND EQUIVALENTS AT THE END OF THE PERIOD (E+F)	**220,434**	**207,048**
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD		
Cash	17,438	18,894
Balances equivalent to cash in central banks	210	210
Other financial assets	202,786	187,944
TOTAL CASH AND EQUIVALENTS AT THE END OF THE PERIOD	**220,434**	**207,048**

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

The attached Notes 1 to 48 form an integral part of the consolidated Cash Flow Statement for the financial year ending on 31 December 2018.

Notes to the consolidated financial statements

Financial year ending on 31 December 2018

MORA BANC GRUP, SA
AND COMPANIES COMPRISING
THE MORABANC GROUP

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 2018 have been formulated by the Board of Directors. These consolidated financial statements are awaiting approval by the Shareholders' General Meeting. 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 2017 were approved by the Shareholders' General Meeting held on 24 April 2018.

As an integral part of the Andorran financial system, the Group is subject to the supervision of the Andorran Financial Authority (hereinafter, the AFA), 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

2.1. Declaration of compliance

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter, IFRS) adopted by the AFA by means of the Decree published on 28 December 2016, modified by the Decree published on 19 December 2018, approving the accounting framework applicable to institutions operating within the Andorran financial system and collective investment undertakings under Andorran law, in accordance with the IFRS approved by the European Union (IFRS-EU), which have been adopted by Andorra (IFRS-Andorra).

The Group's consolidated financial statements corresponding to 2018 have been formulated by the Bank's directors in accordance with the IFRS-EU adopted by Andorra (IFRS-Andorra), applying the principles of consolidation, accounting policies and appraisal criteria outlined in Note 3, in such a way that they reflect a true image of the equity and operations, the changes in its net equity and the consolidated cash flows which occurred in 2018.

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

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

2.2. New standards and interpretations issued currently in forces

As at year-end 2018, the most significant standards and interpretations which have entered into force were the following:

Standards and interpretations	Title	Application obligatory for financial years already begun, starting from:
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Income from contracts with clients	1 January 2018
Clarifications of IFRS 15	Income from contracts with clients	1 January 2018
Modifications IFRS 2	Classification and measurement of transactions with share-based payments	1 January 2018
Modifications IFRS 4	Adaptation IFRS 9 Financial instruments with IFRS 4 Insurance contracts	1 January 2018
Modification of IAS 12	Recognition of assets for deferred taxes owing to unrealised losses	1 January 2018
Modification of IAS 7	Disclosures	1 January 2018
Modifications IAS 40	Transfer of investment property	1 January 2018
Annual improvements to the IFRS	Annual improvements 2014-2016 cycle	1 January 2018
Interpretation IFRIC 22	Transactions in foreign currencies and advance consideration	1 January 2018

IFRS 9: Financial instruments

This standard entered into force on 1 January 2018, establishing the requirements for the recognition, classification and measurement of the financial assets and liabilities (excluding the part related to macro-hedges). The date of its first application was 1 January 2018, when it replaced International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39), which was applicable until 31 December 2017.

There are significant differences with the current standard in relation to aspects such as the classification and valuation of financial assets and liabilities, the impairment of financial assets and accounting hedges.

The impact of the adoption of IFRS 9 is significant, which is why the provisions of IAS 8 Accounting Policies, changes in the accounting estimates and errors and the transitional provisions for the application of the standard have been considered.

Note 48 of this report lists the main quantitative impacts of the first application of IFRS 9 on 1 January 2018.

IFRS 15: Income from contracts with clients

This standard replaces IAS 11 “Contracts under construction” and IAS 18 “Ordinary income”, as well as the current interpretations of income (IFRIC 13 “Client loyalty programmes”, IFRIC 15 “Agreements for property construction”, IFRIC 18 “Transfers of assets from clients” and SIC 31 “Ordinary income- 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 client, identifying the separate contract obligations, determining the transaction cost, distributing the transaction price between the identified obligations and accounting for the income when the obligations are met.

The adoption of IFRS 15, as well as the clarifications thereof, did not have a significant impact or entail a change in the temporary profile of the recognition of the income.

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 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 by means of 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.

The adoption of Modification IFRS 2 did not have a significant impact on the Group.

Modification IFRS 4:
Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In 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 related to insurance.

The adoption of Modification IFRS 4 did not have a significant impact.

Modifications IAS 12: Recognition of deferred fiscal assets owing to unrealised losses

The amendments made to IAS 12 clarify the requirements for the recognition of deferred tax assets owing to unrealised losses. The aspects that are clarified are as follows:

- An unrealised loss in a debt instrument measured at fair value will give rise to a deductible temporary difference, regardless of whether the holder expects to recover the carrying amount by means of its sale or maintenance until its maturity.

- The institution must evaluate the use of a deductible temporary difference in combination with other deductible temporary differences. When the tax laws restrict the use of tax losses, the institution will have to assess its use in relation to other temporary differences of the appropriate kind.

- The estimation of the future tax benefits may include profits derived from the recovery of assets for an amount greater than their carrying amount, provided that there is sufficient evidence that this is the amount for which the asset is likely to be recovered.

- The estimates of the future tax benefits exclude the tax deductions from the reversal of deductible temporary differences.

The adoption of the Modification of IAS 12 did not have a significant impact.

Modifications IAS 7: Disclosures

New breakdowns of information related to the changes in the liabilities from the financing activities are introduced so that the users of the financial statements can evaluate the changes in these liabilities: changes in the financing cash flows; changes derived from obtaining or losing control of subsidiaries or other businesses; the effect of changes in the exchange rates; changes in the fair value; and other changes.

The liabilities from financing activities are liabilities for which the cash flows were, or for which the future cash flows will be, classified in the cash flow statement as cash flows from the financing activities. In addition, the breakdown requirements also apply to the changes in the financial assets if the cash flows of the financial assets were, or if the future cash flows will be, included in the cash flows of the financing activities.

The adoption of the Modification of IAS 7 did not have a significant impact.

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.

The adoption of the Modification of IAS 40 did not have a significant impact.

Annual improvements to the IFRS: 2014 - 2016 cycle

The annual project for improvements to the 2014-2016 IFRS introduces minor modifications and clarifications of IFRS 1 - First-time adoption of the IFRS and IAS 28 - Investments in Associates and Joint Ventures, which will be applied to the financial years starting on 1 January 2018, although their early application for modifications of IAS 28 is permitted.

The adoption of the annual improvements to the IFRS: 2014 - 2016 cycle did not have a significant impact.

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.

The adoption of the IFRIC 22 did not have a significant impact.

Note 47 includes the standards issued by the IASB that are not valid as at 31 December 2018.

2.3. Comparison of the information

The figures corresponding to 2017 are submitted solely and exclusively for comparative purposes.

Due to the impossibility of retroactively applying the impact of the accounting policy of IFRS 9, the Group has accepted the provisions set forth in IAS 8.40 in order not to re-express the opening statement of financial position on 1 January 2018 applying the classification and measurement criteria of IFRS 9 and, instead, recognising the impact derived from the entry into force of this standard on the consolidated net equity on 1 January 2018. The effects of the first application of IFRS 9 are listed in Note 48.

Consequently, the figures for the 2017 financial year are classified under criteria established in IFRS 9, although the appraisal criteria of IFRS 9 were not applied as at 31 December 2017.

2.4. Responsibility for the information and estimates made

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

Applicable only to 2018 owing to the entry into force of IFRS 9:

- Classification and measurement of financial instruments, with regard to the analysis of the business model and the characteristics of the contractual flows (Note 6).
- Establishment of criteria for determining whether the credit risk of a financial asset has increased significantly and the methodology used to measure the expected loss (Note 6).

Applicable to 2017 and 2018:

- The fair value of certain financial assets and liabilities (Note 7)
- Losses due to the impairment of certain financial assets and the fair value of the guarantees associated thereto (Notes 12, 13 and 14)
- The valuation of the holdings in associate companies (Notes 4 and 16)
- The determination of the profit/loss of the holdings in associate companies (Note 16)
- The useful life and impairment losses concerning the tangible and intangible assets (Notes 3.12, 3.14,17 and 18)
- The actuarial assumptions used in the calculation of the liabilities for insurance contracts and post-employment commitments (Note 24)
- The valuation of the provisions necessary for the hedging of occupational, legal, fiscal and other contingencies (Note 23)
- The expenditure on corporate tax determined by means of the tax rate expected at the end of the year and the activation of the tax credits and their recoverability (Note 41)

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

2.5. Functional and submission currency

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

2.6. Error correction

In the drawing up of the 2018 consolidated financial statements, no error has been detected leading to the restatement of the amounts included in the 2017 consolidated financial statements.

2.7. Obligatory investments

Obligatory investment coefficient

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

2.7.1. Public debt

In compliance with this coefficient, the Group, as at 31 December 2018, underwrote €62,166,000 in Public Debt of the Principality of Andorra, issued on 15 March 2017. This debt matures on 30 March 2022 and earns interest at a rate of 0.25%, with a rate schedule established upon its issue.

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

2.7.2. Privileged financing programmes

Loans granted by the Group within the framework of qualified programmes of national and social interest approved by the Government of Andorra, designed for the privileged financing of housing, newly-created companies and businesses, innovation, reconversion, entrepreneurial projects and housing restoration are also computable as public funds. Loans granted by the Group for these items, as at 31 December 2018 and 2017, accounted for the respective amounts of €599,000 and €690,000 and are recorded under the heading "Financial assets at amortised cost - Loans and advances" of the attached consolidated statement of financial position.

2.7.3. Guarantee reserves

Deposit guarantee fund

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

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

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

- The system of covering €100,000 per depositor and per entity is maintained. And additional coverages are incorporated in exceptional cases that provide guarantees up to a limit of €300,000.

- The resources of the FAGADI must amount to 0.8% of the guaranteed deposits with the deadline of 30 June 2024 by means of the annual contributions of the banking entities. In addition, from that date onwards, the banking institutions will continue to make annual contributions to the Fund so that said Fund achieves a level of financial resources totalling 1.6% within a period of eight years from 2024 onwards, although the FAGADI's maximum hedging limit for all the beneficiaries may not exceed €200 million.

Law 20/2018 maintains the Andorran Investment Guarantee System ("SAGI") as an ex-post guarantee system involving, together with the banking institutions that already participate, financial investment institutions and management companies of collective investment bodies authorised to provide administration and safeguarding services for financial instruments.

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

The amount of the guarantee reserve relating to the Deposit Guarantee Fund established by the Group totalled €25,128,000 as at 31 December 2018. The Group has invested an amount equivalent to the guarantee reserves in fixed-income securities - Public Debt of the OECD countries and the Principality of Andorra and other assets immediately available or with a maturity not exceeding one month, which can be easily settled, and that the AFA deems appropriate at any time, in accordance with the requirements established in the above-mentioned law (see Notes 25 and 44.1).

In accordance with the same law, provision has been made for the amount of €640,000, which is recorded under the heading "Provisions - Other provisions". This annual provision corresponds to the ordinary contributions that are effectively required to constitute the ex-ante part of the FAGADI, with the deadline of 30 June 2024.

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

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

As established in the first additional provision of Law 8/2015, Andorran banking institutions made an extraordinary initial joint contribution to the FAREB for an amount of €30,000,000, to which the Group contributed €5,154,000 (see Note 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 €515,000 was made and the second payment was made in 2016 for the amount of €4,639,000, 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 2018 under the heading "Endowments to provisions (net)" of the attached consolidated statements of income for the amount of €530,000 (Note 23). This expenditure was settled in 2018.

2.7.5. Deposits with the AFA

Non-banking institutions forming part of the financial system are obliged to maintain minimum equity reserves to guarantee their operational obligations. Therefore, among its permanent resources, Mora Gestió d'Actius, SAU held minimum equity reserves for the amount of €210,000 as at 31 December 2018 and 2017 (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 2018, the following principles, accounting policies and appraisal criteria have been applied, in accordance with the provisions of the IFRS-EU which have been adopted by Andorra (IFRS-Andorra):

3.1. Transactions in foreign currencies

Criteria for the conversion of foreign currency balances

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

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

Transactions in foreign currencies performed by consolidated institutions whose functional currency is the euro are initially recorded in the corresponding currency. The monetary balances in the foreign currency are subsequently converted into the functional currency, using the exchange rate at the end of the 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 other than 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 "Results of financial operations - Exchange differences (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.

3.2. Principles of consolidation

Subsidiary institutions

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

- It has the power to manage its relevant activities, in other words, those which significantly affect its performance, by means of a legal provision, 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 at 31 December 2018, 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 2018 and 2017 the Group did not participate in any 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.

3.3. Definitions and classification of financial instruments

Definitions

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

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

A derivative is a financial instrument or other 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 instruments.

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

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

Registration and classification of financial assets for valuation purposes

Generally speaking, all the financial instruments are initially recorded at their fair value, which, unless otherwise stated, is the transaction cost. In the case of financial instruments that are not recorded at their fair value through profit or loss, the fair value amount is adjusted by adding or deducting the transaction costs directly attributable to their acquisition or issuance.

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

The variations in the value of the financial instruments originating in the accrual of interest and similar items are recorded in the consolidated statement of income. Dividends received from other companies are recorded in the consolidated statement of income for the year in which the right to receive them is created.

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

The variations in the valuations that occur following the initial registration owing to causes other than those mentioned above are treated in accordance with the classification of the financial assets and liabilities for the purposes of their valuation, which is generally performed upon the basis of the following aspects:

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

Business model

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

The business models established by the Group are listed below:

- **Contractual cash flows Held to Collect (HTC):** under this model, the financial assets are managed in order to collect their contractual cash flows. However, transfers prior to the maturity of the assets are allowed under certain circumstances. Sales that may be consistent with the model of holding the assets to collect contractual cash flows include the least frequent or least insignificant ones, those of assets close to maturity, those motivated by an increase in the credit risk and those performed to manage the concentration risk.
- **Held to Sell (HTS):** under this model, the financial assets originate or are acquired with the aim of realising them in the short term.
- **Combination of the two above-mentioned business models (HTC&S):** this business model involves the realisation of sales, as these are essential for the business model but are more frequent and of greater value than in the model of holding the assets to collect contractual cash flows.

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

Generally speaking, in accordance with IFRS 9, changes in the business model do not occur very frequently. The financial liabilities may not be reclassified in another portfolio. Reclassifications between business models were not performed in 2018.

Characteristics of the contractual cash flows of the financial assets

A financial asset must be classified at the initial moment in one of the following two categories:

- Assets for which the contractual conditions give rise to cash flows consisting solely of payments of principal and interest on the principal outstanding amount.
- Other financial assets.

For the purposes of this classification, the principal of a financial asset is its fair value at the moment of its initial recognition, which may change over the life of the financial asset (if there are repayments of principal, for example). Similarly, interest is regarded as the sum total of the consideration for the temporary value of the money, the financing and structure costs and the credit risk associated with the principal amount pending collection during a specific period, plus a profit margin.

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

The financial assets are classified for the purposes of their valuation in the following portfolios, in accordance with the aspects outlined above:

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

This category includes credit investment, deposits lent to other entities, whatever their legal instrumentation, and debt securities that fulfil the two above-mentioned conditions, as well as debts incurred by purchasers of goods or users of services that form part of the Group's business.

- **Financial assets at fair value through other comprehensive income.** This category includes the financial assets that fulfil the following two conditions:
  - They are managed under a business model in which the objective combines the collection of their contractual cash flows and their sale, and;
  - In the case of debt securities, the contractual conditions give rise to cash flows on specified dates which are only payments of principal and interest on the main outstanding amount.

Similarly, the Group may irrevocably choose, at the moment of the initial recognition, to include in the portfolio of financial assets at fair value through other comprehensive income the investments in equity instruments that are not to be classified as held for trading and which would otherwise be classified as financial assets obligatorily valued at fair value through profit or loss. This option is exercised instrument by instrument and at the moment of the initial recognition.

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

When a debt instrument at fair value through other comprehensive income is derecognised from the statement of financial position, the amount for the change in value recorded under the heading titled "Other comprehensive income" of the consolidated net equity is reclassified in the consolidated statement of income. However, when an equity instrument at fair value through other comprehensive income is derecognised from the statement of financial position, this amount is not reclassified in the consolidated statement of income but to a reserve item.

- **Financial assets obligatorily at fair value through profit or loss.** A financial asset is obligatorily classified in the financial assets portfolio at fair value through profit or loss, provided that it is not necessary to classify it in one of the portfolios outlined above owing to the Group's business model for its management or the characteristics of the contractual cash flows.

Similarly, this portfolio is sub-divided into:

- Financial assets held for trading. The financial assets held for trading are those that have been acquired with the aim of realising them in the short term or those that form part of a portfolio of jointly identified and managed financial instruments for which recent actions have been performed to obtain short-term profits. Derivative instruments that do not comply with the definition of a financial guarantee contract and have not been designated as accounting hedge instruments are also regarded as financial assets held for trading.
- Financial assets not held for trading obligatorily valued at fair value through profit or loss. Other financial assets obligatorily valued at fair value through profit or loss are classified in this portfolio.

Classification of the financial assets for presentation purposes

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

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

- **Changes in the fair value of the items covered by a portfolio with interest rate risk hedging:** amounts paid to the consolidated 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.

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

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

- **Financial liabilities at fair value:**

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

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

Classification of the financial liabilities for presentation purposes

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

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

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

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

  - Deposits of central banks and credit institutions: deposits of any nature, including credits and monetary market operations received from other central banks and credit institutions.

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

  - Client deposits: includes the remaining deposits.

- **Other financial liabilities:** includes the amount of the obligations to be paid with the nature of financial liabilities not included in other items and liabilities for financial guarantee contracts, unless they have been classified as doubtful.

- **Debt securities issued:** amount of the financing received which, for the purposes of credit ranking, is positioned behind the common creditors. Similarly, it includes the amount of financial instruments issued by the Group which, having the legal nature of equity, do not meet the requirements to qualify as net equity, such as certain preferential shares issued.

- **Derivatives – Hedge accounting:** includes the fair value of the derivatives designated as hedging instruments in accounting hedges.

- **Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging:** amounts charged to the consolidated 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.

3.4. 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 cost. For instruments not valued at their fair value through profit or loss, the latter is adjusted to the transaction costs.

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

Valuation of the financial assets

The financial assets, except those classified as "Financial assets at amortised cost", 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 financial position 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 cost.

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.

Changes in fair value. Just like the results derived from the sale of these instruments, they are directly recorded in the consolidated statement of income.

The assets included in the section titled "Financial assets at amortised cost" are valued at their amortised cost, using the effective interest rate method to determine them. 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.

In addition, the amortised cost has to be lowered in the event of any reduction in the value owing to impairment directly recognised as a decrease in the amount of the asset or by means of a corrective calculation or item to compensate its value.

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

Valuation of the financial liabilities

The financial liabilities are generally valued at their amortised cost, as defined above, except those valued at their fair value that may be included in:

- "Financial liabilities held for trading"
- "Financial liabilities designated at fair value through profit or loss" and;
- The financial liabilities designated as items covered by fair value hedges (or as hedging instruments) that are valued at their fair value.

Valuation techniques

The 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 also traded in organised markets.

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 interest and similar purposes (which are recorded in the section titled "Interest income") and those corresponding to variations in value. The latter are recorded, for their net amount, in the corresponding section of the 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:

- The debt securities at fair value through other comprehensive income are temporarily recorded under the equity heading "Other comprehensive income - Items that can be reclassified in results - Financial assets at fair value through other comprehensive income", unless they come from exchange differences. In the case of exchange rate differences originating in monetary financial assets, they are recognised in the section titled "Exchange rate differences (net)" of the consolidated statement of income.
- Equity instruments at fair value through other comprehensive income are temporarily recorded under the equity heading titled "Other comprehensive income - Items that cannot be reclassified in results - Changes in fair value of equity instruments valued at fair value through other comprehensive income", unless they come from exchange differences. In the case of exchange rate differences originating in monetary financial assets, they are recognised in the section titled "Exchange rate differences (net)" of the consolidated statement of income.
- Items charged or paid under the heading titled "Other comprehensive income - Items which can be reclassified in results" corresponding to debt securities remain part of the Group's consolidated net equity until any impairment or decline in the consolidated statement of financial position occurs, the moment at which the impact is recorded against the consolidated statement of income. In the case of debt instruments, any result originating in the loss of assets is collected from or paid under the heading "result of financial operations - For financial instruments not valued at fair value through profit or loss" of the consolidated statement of financial position.
- Unrealised valuation gains or losses from 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 titled "Other comprehensive income - 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 clients who request them in their risk management,
- to use them in the risk management of the positions of the Group institutions and their assets and liabilities (hedging derivatives), and
- to take advantage of any alterations these derivatives (trading derivatives) undergo in their fair value.

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

The 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:
  1) At the moment of procuring the hedging, it is expected that, under normal conditions, the latter will act with a high degree of efficiency, within the established limits of effectiveness of hedging in accordance with the current regulations (with a minimum of 85% and a maximum of 125% in relation to the hedging ratio).
  2) There exists sufficient evidence that the hedging is really effective throughout the life of the hedged item or position (retrospective efficiency).
- When it is suitably documented that the procurement of the financial derivative takes place specifically to serve as hedging of certain balances or transactions and the way in which it is intended to achieve and measure this hedging is demonstrated, provided that this form is in keeping with the risk management performed by the Group.

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

- In fair value hedging, the differences arising in both the hedging elements and the hedged items (in terms of the type of risk hedged) are directly recognised in the consolidated 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 comprehensive income – 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 comprehensive income – 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 hybrid contract is not a financial asset within the scope of IFRS 9
- The economic characteristics and the risks inherent in the implicit derivative are not closely related to those corresponding to the initial contract;
- a separate instrument with the same conditions as the implicit derivative would comply with the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value through profit or loss (in other words, a derivative found implicit in a financial asset or liability measured at fair value through profit or loss for the period will not be separated).

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

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

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

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

3.6. Offsetting of financial instruments

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

As at 31 December 2018 and 2017, 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 clients.

3.7. Impairment of the value and classification of the financial assets due to credit risk

Accounting classification based on the credit risk owing to insolvency

The Group has established criteria to identify the financial assets that represent a significant increase in risk or objective evidence of impairment and to classify them in accordance with their credit risk.

Definition of the classification categories

The credit exposures, as well as the off-balance sheet exposures, are classified in accordance with their credit risk in the following stages:

- Stage 1: operations that do not meet the requirements to be classified in other categories.

- Stage 2: operations that, without fulfilling the criteria to be classified individually as Stage 3 or failed, represent significant increases in the credit risk upon the initial recognition. This category includes operations involving amounts overdue for more than 30 days and operations that have involved unpaid balances aged over 30 days on three occasions in the same year, which must remain in this classification; they may be excluded from this stage when, during this period, the corresponding fees are paid without any incidents.

Operations that have been classified as doubtful and subsequently cover their unpaid position will remain in this classification for a minimum of three months, while any refinanced operation classified in Stage 2 will remain in this classification for a minimum of two years. Following these periods, said operations may be classified in another stage, provided that the stipulated fees have been promptly paid in the above-mentioned period.

- Stage 3: includes debt instruments, overdue or otherwise, regarding which, without the circumstances to classify them in the category of bankruptcy risk, there are reasonable doubts concerning their full repayment (principal and interest) by the owner, as well as off-balance sheet exposures, payment of which the Group is likely to have to make and whose recovery is regarded as doubtful.

- Due to the holder'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 transactions which are not up-to-date with their payments does not interrupt their default, nor does it result in their reclassification in Stage 1, unless there is reasonable certainty that the client can make the payment in accordance with the new envisaged schedule or that they can provide new effective guarantees. In any case, operations in which more than one refinancing or restructuring process has been applied due to the borrower's difficulties in paying the fees are regarded as Stage 3 by the Group.

However, operations which arise from what is known as the carry-over effect are classified as Stage 3 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 Stage 1; previously, in some cases, these operations may be temporarily classified in Stage 2.

- For reasons other than the client's default: including debt instruments, overdue or otherwise, in which, without the circumstances to classify them in the categories of bad loans or Stage 3 due to the client's default, there exist reasonable doubts about their total repayment, principal and interest, in the terms contractually agreed upon.
- Bad loan risk: debt instruments, overdue or otherwise, whose recovery is regarded as 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.

  In the absence of proof to the contrary, all the debits are included in this category, except for the amounts covered by sufficient effective guarantees, when the borrowers undergo a marked and irrecoverable impairment in their solvency or when the liquidation phase of the insolvency proceedings has been declared.

Significant increase in Risk

A significant increase in risk is considered to exist when the client's risk increases at some point in relation to when the risk operation is granted.

In order to analyse whether there is a significant increase in the risk, the Group has a system of alerts for both legal and natural persons:

Some situations of significant risk increase include, for example:

- Adverse changes in the financial position, such as a significant increase in debt levels, significant falls in the turnover or a significant narrowing of the operating margins.
- Adverse changes in the economy or market indicators, such as a significant fall in the price of shares the or a decrease in the price of the debt issuances. In the case of sovereign debt issues, the differentials in the price with respect to the German bond (risk premium) are also analysed.
- A real or expected significant reduction in the internal credit rating of the operation or the owner or a decrease in the behaviour rating attributed to the internal monitoring of the credit risk.
- For operations with a real guarantee, a worsening of the relationship between the amount and the value of the guarantee, due to an unfavourable evolution of the value of the guarantee, or to the maintenance or increase of the amount pending amortisation owing to the payment conditions set.

- A significant increase in the credit risk or evidence of impairment of the owner's other operations or in related entities of the owner's risk group.
- Likelihood that the borrower initiates insolvency proceedings: in cases in which there is a high likelihood of the borrower going bankrupt or undergoing restructuring and the solvency of the issuers or obligors being ostensibly affected, which may result in a loss, depending on the impact on the future flows to be received.
- The disappearance of an active market for the financial assets due to financial difficulties: the suspension of financial assets issued by the obligor or issuer may mean a compromised financial-economic situation and, therefore, a low capacity to meet its obligations.

Objective Evidence of Impairment

A financial asset or credit exposure is regarded as impaired when there is objective evidence that an event or the combined effect of various events has occurred, resulting in:

- In the case of debt instruments, including credits and debt securities, a negative impact on the future cash flows calculated at the time the transaction is formalised, owing to the materialisation of a credit risk.
- In the case of off-balance sheet exposures that entail credit risk, when the expected cash flows are lower than the contractual cash flows, in the case of the disposal of the commitment, or the payments that are expected to be made, in the case of any financial guarantees granted.
- In the case of investments in joint ventures and associates, they cannot recover their carrying amount.

Criteria for classification of operations

The group applies a variety of criteria to classify the borrowers and operations in the different categories in accordance with their credit risk. These include:

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

In order to allow an initial identification of the significant increase in risk or the weaknesses and the deterioration of the operations, the Group establishes a series of indicators, based on the days of default, refinancing and restructuring indicators and indicators of a bankruptcy and a significant increase in risk, among others, differentiating between significant and non-significant creditors.

The operations classified in Stage 3 are reclassified in Stage 1 or 2 when, as a result of the total or partial payment of the unpaid risks in the case of operations classified in Stage 3 for reasons of default or due to the end of the period of care in the case of operations classified in Stage 3 for reasons other than default, the causes that originally led to their classification in Stage 3 disappear, unless there are other reasons to maintain them in this category.

Individual classification

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

For significant borrowers a system of indicators is established to allow identification of the significant increase in risk, weaknesses or indications of impairment. The trigger system covers the indications of impairment or weaknesses by defining:

- Specific indicators that indicate a significant increase in risk;
- Specific indicators that indicate signs of impairment;
- Indicators that identify the increase in risk and indications of impairment, depending on different pre-alert thresholds.

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

The system of indicators for the significant borrowers is automated and envisages the specificities of segments of differentiated behaviour of the credit portfolio. The aspects that the indicator system identifies are listed below:

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

In this regard, in order to identify a significant increase in risk or an impairment event, it is necessary to consider both variables indicative of a deterioration or a poor economic-financial situation and variables that are potential causes or which anticipate this deterioration.

Debt instruments and off-balance sheet exposures

Losses due to the impairment of debt instruments and other off-balance sheet credit exposures are recorded as an expense in the consolidated statement of income for the year in which the impairment is estimated and the recoveries of previously recorded losses, as appropriate, are also recognised in the consolidated statement of income for the year in which the impairment disappears or is reduced.

The calculation of the impairment of the financial assets is performed in accordance with the type of instrument and other circumstances that may affect them, once the effective guarantees received have been taken into account. For debt instruments valued at amortised cost, the Group recognises both corrective calculations, when provisions are constituted for insolvencies to cover impairment losses, and direct write-offs against assets, when it is considered that their recovery is remote. For debt instruments at fair value through other comprehensive income, the impairment losses are recognised in the consolidated statement of income with a balancing entry under the heading titled "Financial assets at fair value through other comprehensive income" of the consolidated statement of financial position. The losses due to impairment in the off-balance sheet exposures are recorded in the liabilities of the consolidated statement of financial position as a provision.

In order to determine the impairment losses, the Group performs monitoring of the individual debtors, at least all those who are significant, and the collective debtors, namely groups of financial assets that display similar risk features indicating the debtors' ability to pay the outstanding amounts. When a specific instrument cannot be included in a group of assets with similar risk characteristics, it is analysed exclusively on an individual basis to determine whether it is impaired and, if applicable, to estimate the impairment loss.

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

Determination of hedge

The Group applies the criteria described above for the calculation of the hedging of losses due to credit risk. The amount of the losses due to impairment is calculated upon the basis of whether or not a significant increase in the credit risk has occurred since the initial recognition of the operation and whether a breach has occurred or not. The hedging of losses due to the impairment of operations is equal to:

- Credit losses expected in twelve months, when the risk of non-compliance in the operation has not increased significantly since its initial recognition (assets classified in Stage 1).
- Credit losses expected in twelve months, when the risk of non-compliance in the operation has increased significantly since its initial recognition (assets classified in Stage 2).
- Expected credit losses, when there has been non-compliance in the operation (assets classified in Stage 3).

The following sections outline the different methodologies applied by the group for the determination of the hedging of losses due to impairment:

Individualised estimates of the hedges

The following are subject to individualised estimates:

- Hedging of the operations classified in Stages 2 and 3 of the individually significant borrowers.
- If applicable, operations or borrowers whose characteristics do not permit a collective calculation of impairment.
- The hedging of the operations identified as without significant risk classified in Stage 3.

The Group has developed a methodology for estimating these hedges, calculating the difference between the gross carrying amount of the operation and the updated value of the estimated cash flows expected to be charged, discounted using the effective interest rate. To do so, the effective guarantees received are taken into account.

Three methods are established to calculate the recoverable current value in assets evaluated on an individual basis:

- Cash flow discount approach: Debtors for whom a capacity is estimate to generate future cash flows through the course of the business itself, permitting, by means of the course of the company's economic and financial activity and structure, the return of part or all of the debt incurred. This entails an estimate of the cash flows obtained by the borrower in the course of its business.
- Real guarantee recovery approach: debtors without the capacity to generate cash flows through the course of their business who are obliged to liquidate assets to make the payments of their debts. This entails an estimate of the cash flows based on the execution of guarantees. To estimate the value of the property guarantees for the purpose of the hedging calculations, the Group applies discounts to the valuations that seek to reflect the deviation observed in the Andorran market in the valuations performed by experts and the market prices. The Group contrasts the haircuts applied based on the information extracted from the history of the property sales awarded. In estimating the hedging of individually significant operations in Stages 2 and 3, the Group applies an (upward) correction factor to these haircuts in order to reflect the effect of the increase in the risk and the immediacy of the potential award process.
- Mixed approach: debtors for whom a capacity to generate future cash flows is estimated and, additionally, to have extra-functional assets. The above-mentioned flows may be supplemented by potential sales of non-functional equity assets, insofar as they are not necessary for the course of their activity and, consequently, for the generation of the above-mentioned future cash flows.

Collective estimates of the hedges

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

Thus, the AFA, based on its experience as the supervisor of the Andorran financial system and taking into account the information available to the banking entities regarding the historical data on defaults, the credit losses of banking entities and an estimate of the future evolution of the main macroeconomic variables, has estimated hedging percentages as an alternative solution for the operations classified as normal, normal with a significant increase in risk and doubtful, as listed in said Guide.

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

The Group annually performs a contrast exercise to ensure that said alternative solutions reflect the creditworthiness of its credit portfolio and, therefore, guarantee a suitable accounting provision.

Classification and hedging for credit risk owing to country risk

The risk that exists in counterparties resident in a given country due to circumstances other than normal commercial risk (sovereign risk, transfer risk or risks derived from international financial activity) is considered for country risk. The Group classifies the operations carried out with third parties in different groups, based on the economic evolution of the countries, their political situation, their regulatory and institutional framework and their capacity and experience of payments.

Debt instruments or off-balance sheet exposures with final obligors residing in countries with long-term difficulties in servicing their debt, considering the possibility of recovery doubtful, are classified in Stage 3, unless they are classified as bankruptcy risks.

3.8. 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 "Financial assets at amortised cost" of the assets of the consolidated statement of financial position ("Financial liabilities at amortised cost - Deposits" in the case of liabilities).

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

3.9. Recognition of income

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

Interest income and expenses

The income and expenses for interest and items comparable to it 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 through profit or loss are recognised at the time of their collection/payment.
- Income and expenses arising from transactions or services extended over time are recognised during the lifetime of these transactions or services.
- Income and expenses arising from transactions or services not extended over time are recognised when the act causing them occurs.

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

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

Non-financial income and expenses

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

Deferred collections and payments

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

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

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

Specifically, 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 or their sale is not highly probable in the short term. In this regard, in order for them to be taken into account in the initial recognition of these assets, the Group obtains, at the moment of the award, the fair value of the corresponding asset by means of requesting valuations from external rating agencies and applies a haircut if applicable. Similarly, in the event that an asset initially classified under "Non-current assets and disposable groups of items held for sale" accumulates more than three years without being sold, the Group classifies it under the heading "Tangible assets – Property investments" of the asset (see Note 3.12).

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

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

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

Losses due to the impairment of an asset or disposal group, owing to reductions in their carrying value to their fair value (less the sales costs) are recognised under the heading "Profits or losses from non-current assets on sale not classified as discontinued operations" in the consolidated 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.

3.11. Assets from reinsurance and liabilities from insurance contracts

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

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

On an annual basis, at least, it is analysed whether these assets are impaired (if there is objective evidence resulting from an event occurring after the initial recognition of this asset, in which case the Group may not receive the contractually established amounts and this non-received amount can be reliably quantified); in this case, the corresponding loss is recorded in the consolidated 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 valuation gains or impairments are directly recognised in the consolidated equity. The corresponding adjustment to the liabilities from insurance contracts (or deferred acquisition costs or intangible assets) is recognised in the same way in the consolidated equity.

3.12. Tangible assets

It includes the amount of the property, land, furniture, vehicles, computer equipment and other facilities owned by the consolidated institutions or acquired under the financial 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 financial 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 valuation gain from their sale as a result of the increases in their respective market prices which occur in the future. In addition, properties for which, despite not being leased and it being the Group's intention to sell said properties, more than three years have gone by since their awards are recorded under this heading.

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

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

3.13. 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". (see Note 47)

3.14. Intangible assets

These are identifiable non-monetary assets (liable to be separated from other assets) without any physical appearance, arising as a result of a legal business or developed by the 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.

Other intangible assets

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

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

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

Intangible assets with a defined useful life are amortised in accordance with the latter, applying criteria similar to those adopted for the amortisation of tangible assets.

As for assets with a defined useful life classified in this category, the entity carried out an exercise to re-estimate their useful life in 2018 by means of an internal analysis based on the entity's experience history. As a result of this re-estimation, the computer programs generically increased their useful life from 3 to 5 years, with the exception of the Group's banking core, which is amortised over 10 years. This re-estimation of the useful lives had an impact (calculated with prospective effects) on the income statement totalling €3,307,000. 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 recorded value of these assets arising from their impairment by using the heading titled "Net impairment of non-financial assets (net) – intangible assets" 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.

3.15. Remaining assets

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

3.16. Provisions and contingent liabilities (assets)

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

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

3.17. Remaining liabilities

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

3.18. Equity instruments

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

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

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

Changes in the value of the instruments classified 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.

The entity did not have any capital instruments of its own in the attached consolidated statement of financial position at the end of 2018.

3.19. Financial guarantees

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

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

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

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

3.20. 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.

3.21. 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 expenses" 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 expenses" 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.

3.22. Other long-term remuneration

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

3.23. Severance payments

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

3.24. Corporate tax

In accordance with Law 95/2010 of 29 December on corporate tax, Law 17/2011 of 1 December on the amendment of Law 95/2010 and the Regulation on the application of Law 95/2010 on corporate tax, the creation of a corporate tax is institutionalised. On 6 May 2015, the legislative Decree of 29 April 2015 on the publication of the consolidated text of Law 95/2010 of 29 December on corporate tax was published in the Official Gazette of the Principality of Andorra (BOPA), in which all the amendments made were included. Similarly, on 20 October 2017, the General Council approved Law 17/2017 of 20 October on the tax system 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 corporate 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 “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 “Tax liabilities” includes the amount of all the liabilities of a fiscal nature, except tax provisions, which can be broken down into current taxes (including the amount to be paid for corporate tax relating to the fiscal gain 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 fiscal gains in the future against which it will be able to make them effective and that 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 fiscal gains 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 at 31 December 2018 and 2017 are listed below:

2018 financial year

Company	Registered Address	Activity	Percentage of Holding (*)	Net value in Books (**)	Assets 31/12/2018	Liabilities 31/12/2018	Equity 31/12/2018	Result 31/12/2018
			Thousands of euros – Data of the investee					
Consolidated by global integration:								
Mora Banc, SAU	Andorra	Banking	100,00%	1,680	1,200,312	1,110,803	89,510	9,141
Mora Gestió d'Actius, SAU	Andorra	Investment fund management	100,00%	2,101	7,605	588	7,017	888
Mora Assegurances, SAU	Andorra	Insurance	100,00%	6,503	461,978	450,051	11,927	2,769
Mora Wealth Management AG	Switzerland	Equity management	100,00%	888	2,552	2,165	387	(532)
Mora WM Holdings USA, LLC	United States	Equity	100,00%	9,549	16,770	867	15,903	-
Mora Wealth Management LLC	United States	Equity management	99,99%	-	3,991	4,027	(36)	(308)
Mora WM Securities, LLC	United States	Security brokering	100,00%	-	1,894	155	1,739	1,134
BIBM Preferents Ud.	Cayman Islands	Financial	100,00%	1	60,310	60,309	1	-
Amura Capital Turquoise, SARL	Luxembourg	Investment company	100,00%	43	29,662	31,698	(2,036)	(892)
SICAV Amura (Onix)	Andorra	Investment company	100,00%	17,298	19,334	36	19,298	(64)
SICAV Amura (Emerald)	Andorra	Investment company	100,00%	12,165	14,982	8	14,974	(1,053)
Casa Vicens-Gaudí S.A.	Spain	Property	100,00%	11,732	27,239	1,348	25,891	(621)
Sicav Burna	Andorra	Investment company	100,00%	1,651	3,087	14	3,072	1,456
SCI Mora Investors	Andorra	Investment company	100,00%	-	388	5,668	(5,280)	-
Other holdings	Andorra	Investment company	51%	3,060	3,491	5	3,486	-
Consolidated by equity method:								
Serveis i Mitjans de Pagament XXI, SA	Andorra	Payment methods	20,00%	12	2,561	2,406	155	(150)
				66,683	**1,856,156**	**1,670,148**	**186,008**	**11,768**

(*) Direct or indirect percentage holding

(**) Balance corresponding to the individual statement of financial position of Mora Banc Grup, SA

2017 financial year

Company	Registered Address	Activity	Percentage of Holding (*)	Net value in Books (**)	Assets 31/12/2018	Liabilities 31/12/2018	Equity 31/12/2018	Result 31/12/2018
			Thousands of euros					
			Data of the investee					
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	20.00%	31	3,028	2,867	161	(480)
				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

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 at 31 December 2018 the Company managed collective investment undertakings and SICAVs with equity totalling €1. 109 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).

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.

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

SICAV Burna is a company domiciled in Andorra, 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 2018 were the following:

- During 2018 the Rocanegra and Mora Asset Management, SA SICAVs exited the consolidation perimeter, as their activity was discontinued upon the termination of their corporate purpose.

- In 2018, in the section of other holdings, the entity also sold one of the SICAVs incorporated into this group for the amount of €2,482,000.

Significant restrictions

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

5. Shareholder remuneration

5.1 Proposal for the distribution of the profits

The proposed distribution of the profits corresponding to the 2018 financial year of Mora Banc Grup, SA, the parent company of the MoraBanc Group, to be submitted by the Board of Directors to the Shareholders' General Meeting for approval, is as follows:

In thousands of euros

	2018	2017
Result of the financial year	**24,020**	**18,644**
Dividends	**7,206**	**12,925**
Reserves	**16,814**	**5,719**
FGD reserves	-	431
Voluntary reserves	16,814	5,288
Total distribution proposal	**24,020**	**18,644**

5.2 Profit assigned per share

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

In order to calculate the diluted profit per share, both the amount of the result attributable to the ordinary shareholders and the weighted average of the outstanding shares, net of the treasury shares, are adjusted for all the purposes of dilution inherent in the potential ordinary shares (options on shares, warrants and debt which is not necessarily convertible). As at 31 December 2018, 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 2018 and 2017 financial years:

In thousands of euros

	2018	2017
Numerator of the profit per share (thousands of euros)	**24,057**	**23,517**
Profit attributed to the controlling Bank	24,057	23,517
Denominator of the profit per share (thousands of euros)	**7,056**	**7,056**
Average weighted number of outstanding shares	7,056	7,056
Basic profit per share in ongoing activities (euros per share)	**3,409**	**3,333**
Diluted profit per share in ongoing activities (euros per share)	**3,409**	**3,333**

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 management policies established by the Board of Directors for each of the relevant 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.
- Existence of tolerance levels set by the Board of Directors for the main risks. Optimal, limit and alert levels are established, including protocols, for each of the risks in the event that they are exceeded. On the basis of these levels, the Entity'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 Shareholders' General Meeting 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 and tolerance levels, ensuring that they are in keeping with the Group's business and risk strategy, as well as its proper adaptation to the definition of the established tolerance limits. These limits are approved each year by means of the RAF (Risk Appetite Framework), which establishes a series of thresholds (optimal, alert and limit) for the chief material risks to which the Group is exposed.

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

Risk Committee

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

This Committee meets at least ten times a year or with the regularity required for the fulfilment of its functions, which 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, etc.) faced by the Group, with the financial and economic risks including the contingent liabilities and others not contained on the balance sheet.
  - The information and internal control systems which will be used to control and manage the above-mentioned risks.
  - The setting of the risk level deemed acceptable by the Group.
  - The measures envisaged to mitigate the impact of the identified risks, in the event that they materialise.
  - To regularly review the Bank's portfolio.
- To determine, together with the Board of Directors, the nature, amount, format and frequency of the information on risks to be received by the Board of Directors and to establish that which the Committee should receive.
- To regularly review exposures and concentrations with the main clients, economic sectors of activity, geographical areas and types of risk.
- To examine the Group's information and risk control processes, as well as the information systems and indicators that should allow it: to identify the risk exposure within the Group, in order to assess whether it is in keeping with the profile decided by the Group; to identify the suitability of the structure and functionality of the risk management for the whole Group; to obtain sufficient information for accurate knowledge of the exposure to risk for decision-making; to ensure the proper functioning of the policies and procedures to mitigate the operational risks.
- To indirectly supervise the regulatory non-compliance risks, directly overseen by the Audit and Regulatory Compliance Committee.
- To provide information on the new products and services or significant changes in the existing ones, in order to determine the risks facing the Group with the issuance of the latter and their commercialisation in the markets, as well as significant changes to the already existing ones; the information and internal control systems for the management and control of said risks; the corrective measures to limit the impact of the identified risks, should they materialise; the means and channels suitable for their commercialisation, with the aim of minimizing the risks involving reputation and defective commercialisation.
- To ensure the sufficiency, suitability and effectiveness of the functioning of the area responsible for the Group's risk management.

- To supervise and ensure that the Institution's strategic goals, structure, risk strategy and risk policy, as well as other policies and their disclosure, are implemented consistently.
- To supervise and control the implementation and maintenance of the policies in order to identify, manage and mitigate both real and potential conflicts of interest.
- To review a number of potential scenarios, including stress scenarios, in order to evaluate how the Group's risk profile reacts to adverse external or internal events.

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

This Committee is made up of a minimum of 3 and a maximum of 7 members (non-executive directors), one of them acting as Chairman. The majority of its members and the Chairman are independent directors. The Committee appoints a Secretary who may or may not be a member thereof; the position may not be held by an executive director.

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

- To assist the Board of Directors in supervising both the financial statements and the exercise of the control and compliance function.
- To inform the Shareholders' General Meeting 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;
- It serves 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 between the former and the latter in relation to the applicable principles and criteria in the preparation of the consolidated financial statements, as well as examine the circumstances that would, if appropriate, have led to the resignation of the auditor;
- It supervises the internal audit and regulatory compliance services by checking their adequacy, sufficiency and integrity and proposing the selection, designation and replacement of the managers; and it verifies that the senior management takes into account the conclusions and recommendations of its reports. In particular, the Audit and Regulatory Compliance Committee is responsible for validating the annual Internal Audit and Regulatory Compliance plan, the degree of implementation of said plan and the degree of implementation of any recommendations which may be issued.
- It supervises the work carried out by the auditors on the process of drawing up and presenting the mandatory financial information, as well as the regulatory reports to be issued, and the effectiveness of the Group's internal control systems, including the fiscal systems; besides discussing the significant weaknesses of the

internal control system which, if applicable, are detected in the conducting of the audit with the accounts auditor;

- It establishes the appropriate relationship with the accounts auditor for receiving information on issues that may endanger the independence, so that they may be examined by the Audit and Regulatory Compliance Committee, and any other related to the account audit development process, as well as any other correspondence envisaged in the current legislation and audit standards. Each year it shall issue, prior to the issuance of the auditors' report, a report in which an opinion on the independence of the account auditor will be expressed;
- It supervises compliance with the audit contract;
- It revises the Group's accounts and supplies the Board of Directors with prior information on the financial information that Gruphagi has to periodically make available to the markets and its supervisory bodies and, in general, to ensure compliance with the legal requirements in this matter and for the correct application of the generally accepted accounting principles, as well as providing information on proposals for the modification of accounting principles and criteria suggested by the management to ensure the integrity of the accounting and financial information systems, including the financial and operational control, and compliance with the latter in accordance with the applicable legislation;
- It oversees compliance with the regulations with respect to Linked Transactions and provides prior information the Board of Directors on these operations. In particular, it will ensure that the information on these operations is disclosed to the market, in compliance with the current legislation, and it will provide information on transactions that involve or could involve conflicts of interest;
- 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.
- It monitors 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, besides attending to any requirements for information and action made by official bodies and regulators competent in this matter in the suitable time and form.
- It ensures that the internal and ethical codes of conduct applicable to the Group's personnel comply with the regulatory and legislative requirements and that they are appropriate to the respective entities throughout the Group;
- In particular, it oversees compliance with the provisions contained in the statute of the director of Mora Banc Grup, SA;
- It considers the suggestions made to it by the Chairman of the Board of Directors, the members of the Board and the directors and shareholders of the Company and establishes and supervises a mechanism that allows the employees of the Company, or the group to which they belong, in a confidential and, if deemed appropriate, anonymous manner, to report any irregularities of potential importance, especially those related to financial and accounting, that they notice within the company;
- It receives information and, as appropriate, issues a report on the disciplinary measures that a member of the senior management of the Company intends to impose;

- With regard to risk management and control, the Audit and Regulatory Compliance Committee has the following functions:
  - It checks the incidents detected in the risk audits and ensures that all of them have an action plan for their resolution;
  - It reviews the risk audits and verifies that they are carried out with the utmost diligence;
  - It monitors the action plans prepared for each incident until they are resolved;
  - It informs the Board of all the relevant issues detected in the risk audits;
  - It coordinates its actions with the Risk Committee;
  - It informs the Risk Committee of any relevant issues that may be of interest;
  - It oversees the proper application of the risk policies;
  - It checks the most important risk reports and verifies that the information upon which they are based is accurate and of the highest quality.
- It supervises the internal and external communication channels by checking that practices that go against the ethical values demanded by the Entity are not carried out;
- It checks the monitoring of the culture and values of MoraBanc by all the members of the entity;
- It oversees the development of a responsible and trustworthy business. In addition, the Audit and Regulatory Compliance Committee monitors the integration and maintenance of this culture and these values;
- It identifies potential sources of reputational risk;
- It monitors the reputational risk;
- It establishes measures to prevent the Bank's exposure to excessive reputational risk;
- It supervises the Institution's policies by checking that the clients are treated responsibly, including the measurement of their level of trust and satisfaction;
- It supervises the Entity's policies related to the responsible treatment of employees and their implementation, including diversity and inclusion criteria, and the Entity's responsibility codes;
- It establishes and controls the Institution's complaints channel, ascertaining that it is easily accessible to all the employees and the clients or third parties involved, ensuring confidentiality and transparency in the use thereof;
- It reviews the Code of Conduct and adapts it to the needs of the Entity in accordance with the evolution of the business and based on the best practices within the sector;
- Proposes disciplinary measures in the event of a breach of the Code of Conduct.
- Sets the criteria for variable remuneration depending on the degree of compliance with the Institution's Code of Conduct.
- Ensures transparency of the Institution's management bodies guarantees management under the principles of discretion and clarity.

Executive Committee for Business

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

The main responsibilities of the Executive Committee are as follows:

- To make any type of recommendations and suggestions to the Board of Directors in order to improve the profitability of the Company's business.
- To supervise and regularly monitor the evolution of the results of the various business units, departments and services of the Bank and ensure their favourable evolution within the defined parameters set by the Board and within the budget framework.
- To monitor the evolution of the main balance sheet items and financial indicators.
- To advise the Board of Directors on budgetary issues, validating the annual budget, and ensuring regularly monitoring the implementation of the budget for the current financial year, which has been approved by the Board of Directors.
- To provide the Board of Directors with knowledge of the Bank's business and its evolution and regarding the sector.
- To review and approve, where necessary, significant but not strategic investment proposals, outside of the budget, delegated by the Board of Directors.

Appointments and Remuneration Committee

This committee is made up of a minimum of 3 and a maximum of 5 members, and always with a prevalence given to independent or external members. Its chairman is appointed from among external or independent Members who form part of this Committee.

The main responsibilities of the Appointments and Remuneration Committee are as follows:

- 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 report to the Board of Directors the proposals of the Executive Director or the Managing Director for the appointment or removal of senior managers, being able to execute decisions directly with regards to Senior Managers, which, due to their control or support duties to the Board or its committees, the Committee considers that it must take this initiative, and therefore propose, if deemed appropriate, basic conditions in the Senior

Managers' contracts, beyond aspects concerning remuneration, and inform the Board once they have been established.

- In collaboration with the Chairman of the Board of Directors, to examine and organise their succession as well as that of the Chief Executive of the Company and, if necessary, prepare proposals to the Board of Directors so that this succession can occur and orderly planned way.
- 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 Executive Director or Managing Director and the Secretary, making recommendations to the latter with regard to potential changes.
- To assess, with the regularity required by the regulations, the suitability of the different members of the Board of Directors and the latter as a whole, and to inform the Board of Directors accordingly.
- To consider the suggestions made by the Chairman and members of the Board, the directors or Company Shareholders.
- To supervise and control the smooth running of the Company's corporate governance system, making the proposals it deems necessary to improve it, as applicable.
- To control the independence of the external and independent Directors.
- To supervise the Company's actions with regard to issues of corporate social responsibility and to submit to the Board any proposals it deems appropriate in this matter.
- To assess the balance between knowledge, capacity, diversity and experience on the Board of Directors and to prepare a description of the functions and skills necessary for a specific appointment, calculating the amount of time required to fulfil the role.
- To prepare the decisions relating to remuneration and, in particular, to inform and propose to the Board of Directors the remuneration policy, the system and amount of annual remuneration of the directors and senior executives, as well as members of the board and the Executive Director or Managing Director and other condition related to their contracts, particularly economic ones and without prejudice the duties of the Appointments Committee with regards to the conditions they may have proposed and beyond the matter of remuneration.
- To ensure observance of the remuneration policy for Directors and Senior Executives and to report on the basic conditions established in the contracts entered into with the above and the fulfilment thereof.
- To consider the suggestions made by the Chairman and members of the Board, the directors or Company Shareholders.
- 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.

Innovation, Technology and Information Security Committee

The Innovation, Technology and Information Security Committee made up of a minimum of 3 members who are appointed from among the Board of Directors, who will also appoint its Chairman. To this end, the Board of Directors consider the knowledge and experience on the subject of technology, information system and cyber security. The duties of the Innovation and Technology Committee are as follows:

In the field of infrastructure and technological developments:

- To study and report to the Board regarding plans and actions relating to technology in the assessment of the quality and strategic suitability of the technological service. By way of example, and without limitation: infrastructure, architecture, information systems and development and integration of applications; investment in IT equipment and technological transformation, programmes to improve the quality of services and measurement procedures; relevant technological projects.

In the field of technology strategy and innovation:

- To study and report to the Board regarding any plans and actions relating to innovation in the assessment of the capabilities and conditions for innovation across the Group as well as about the identification of the main threats. By way of example, and without limitation: the adoption of new business models, technology, systems and platforms, associations, commercial relationships and investments, and significant projects relating to innovation.
- To be informed, as appropriate, about the technological trends which may affect the strategic plans of the Group, including monitoring general trends in the sector.

In the field of information security and cyber security:

- To assist the Board, providing knowledge and an understanding of the risks, regulations and compliance in the monitoring of the main risks and technological infrastructures and the security of the Group, including risks to information security and cyber security.
- To study and report on the contingency plans for ensuring business continuity with regards to technology issues and technological infrastructures.
- The Committee is informed of the relevant events that may have occurred regards to information security and cyber security, considering those which, individually or jointly, may have an impact or cause significant damage to the equity, results or reputation of the Group. In all cases, these events shall be communicated to the Committee Chairman as soon they become aware of them.

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, a Management Framework and Risk Management Policies approved by the Board of Directors 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 clients or counterparties, caused by changes in the debtor's ability or intention to pay.
- **Market risk:** this is defined as the possibility of losses in the value of a portfolio as a result of the unfavourable evolution of prices in the financial markets, affected by variations in interest rates, credit spreads, exchange rates and quotations of financial assets.

- **Operational risk:** this is defined as the risk of losses resulting from shortcomings in internal processes, human resources or systems, as well as losses caused by external circumstances.
- **Liquidity risk:** this stems from the possibility that the 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.
- **Reputational risk:** this is defined as risk associated with a negative perception of the financial institution (well-founded or otherwise) among clients, counterparties, shareholders, investors, debt ranges, market analysts and other relevant market participants (known as stakeholders), adversely affecting the ability of the financial institution to maintain its existing commercial relationships or establish new ones or continue accessing sources of funding.
- **Concentration risk:** this is defined as the possibility of material losses arising as a result of risk concentration in a certain borrower or a small 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 interest from the investments in the leveraged amount, shifting from a profit scenario to a loss scenario.
- **Money laundering and financing of terrorism risk:** this consists of a lack or absence of solid management of the money laundering and financing of terrorism risk, generating serious damage to the 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 AFA, the Group's internal governance model is based on the three lines of defence approach, abiding by the principle of proportionality, given the Group's size, activity and structure.

The purpose of these 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. Additionally, the first line of defence in its back-office, sets primary controls, monitors risk metrics and detects and reports deviations from the objectives set by the Group.

Second line of defence

Risk Management and Control Framework

It controls and carries out global and independent monitoring, while ensuring the appropriateness of the control of the risk management and control processes carried out by the first line of defence, without taking part in the decision-making for the business.

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 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 clients, with the aim of reducing risks.

Third line of defence – Internal Audit

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

The department is hierarchically dependent on the Audit and Regulatory 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 client or counterparty in a financial instrument does not meet its contractual obligations.

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

Credit risk is the most significant in the consolidated statement of financial position of the 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 held by the Group at 31 December 2018 and 2017 are concentrated under the heading "Financial assets held for trading", "Financial assets not designated for trading, mandatorily valued at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost", "Assets covered by insurance and reinsurance contracts", "Cash and cash equivalents" and "Derivatives - Hedge accounting" of assets from the attached consolidated statement of the financial position.

In order to reduce the credit risk associated with transactions with other institutions, the Group follows a conservative policy with regard to the assessment and diversification of the counterparties and exposure limits. The Group takes into account the rating given by the rating agencies as well as the counterparty's Credit Default Swap (CDS) curve and that of its country, thereby setting limits for each counterparty. The subsequent risk control is performed by means of an integrated system in real time, in such a way that the available exposure limit with any counterparty per product and period can be identified at any time.

The Group's exposure to credit risk as at 31 December 2018 and 2017 is submitted below:

2018

In thousands of euros

	Financial assets held for trading	Financial assets not held for trading, mandatorily calculated at fair value through profit or loss	Financial assets designated at fair value through other comprehensive income	Financial assets at amortised cost	Cash and cash equivalents	Derivatives - accounting of hedges	Total
Cash	-	-	-	-	17,648	-	17,648
Derivatives	30,242	-	-	-	-	191	30,433
Debt securities	13,729	82,522	577,903	241,276	-	-	915,430
Loans and advance payments	-	-	-	1,317,890	-	-	1,317,890
Central banks	-	-	-	-	-	-	-
Credit Institutions	-	-	-	277,255	-	-	277,255
Clients	-	-	-	1,040,635	-	-	1,040,635
Total	**43,971**	**82,522**	**577,903**	**1,559,166**	**17,648**	**191**	**2,281,401**

2017

In thousands of euros

	Financial assets held for trading	Financial assets not held for trading, mandatorily calculated at fair value through profit or loss	Financial assets designated at fair value through other comprehensive income	Financial assets at amortised cost	Cash and cash equivalents	Derivatives - accounting of hedges	Total
Cash	-	-	-	-	19,104	-	19,104
Derivatives	16,843	-	-	-	-	753	17,596
Debt securities	147,360	57,586	352,269	232,199	-	-	789,414
Loans and advance payments	-	-	-	1,194,538	-	-	1,194,538
Central banks	-	-	-	-	-	-	-
Credit Institutions	-	-	-	244,812	-	-	244,812
Clients	-	-	-	949,726	-	-	949,726
Total	**164,203**	**57,586**	**352,269**	**1,426,737**	**19,104**	**753**	**2,020,652**

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 of the creditor and profitability of the transaction 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 clients. It is responsible for the analysis of the risk operations exceeding the delegation established by the business areas and is responsible for conveying the importance of having well-documented files that reflect deep knowledge of the client. They study the operations upon the basis of the client's solvency and ability to return the debt.

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

6.2.2.2 Limits to major risks

During the admission process, the Group monitors and controls compliance with the regulatory limits established by the AFA 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 2018 financial year there were no non-compliances with regard to the defined thresholds.

6.2.2.3 Risk classification

The Group's exposure to credit risk by risk category as at 31 December 2018 and 1 January 2018 is presented below:

In thousands of euros

	Loans and advances to clients		Loans and advances to credit institutions		Debt securities		Commitments and guarantees granted	
	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)
Financial assets held for trading and not designated for trading, valued at fair value through profit or loss	**-**	**-**	**-**	**-**	**96,251**	**207,939**	**-**	**-**
Financial assets at amortised cost								
Stage 1	954,548	846,083	277,329	245,043	241,451	232,476	-	-
Stage 2	78,455	96,828	-	-	-	-	-	-
Stage 3	40,041	38,848	-	-	-	-	-	-
Gross carrying value	**1,073,044**	**981,759**	**277,329**	**245,043**	**241,451**	**232,476**	**-**	**-**
Provision for impairment	(32,410)	(40,781)	(73)	(83)	(175)	(296)	-	-
Net carrying value	**1,040,635**	**940,978**	**277,255**	**244,960**	**241,276**	**232,180**	**-**	**-**
Financial assets at fair value through other comprehensive income								
Stage 1	-	-	-	-	577,983	349,352	-	-
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
Gross carrying value	**-**	**-**	**-**	**-**	**577,983**	**349,352**	**-**	**-**
Provisions for impairment	-	-	-	-	(80)	(321)	-	-
Net carrying value	**-**	**-**	**-**	**-**	**577,903**	**349,031**	**-**	**-**
Loan commitments granted								
Stage 1	-	-	-	-	-	-	206,262	238,279
Stage 2	-	-	-	-	-	-	2,633	706
Stage 3 (subjetive)	-	-	-	-	-	-	337	10
Gross carrying value	**-**	**-**	**-**	**-**	**-**	**-**	**209,232**	**238,996**
Provisions for impairment	-	-	-	-	-	-	(424)	(341)
Net carrying value	**-**	**-**	**-**	**-**	**-**	**-**	**208,808**	**238,655**
Financial guarantees granted								
Stage 1	-	-	-	-	-	-	80,884	75,060
Stage 2	-	-	-	-	-	-	9	-
Stage 3 (subjetive)	-	-	-	-	-	-	596	509
Gross carrying value	**-**	**-**	**-**	**-**	**-**	**-**	**81,490**	**75,568**
Provisions for impairment	-	-	-	-	-	-	(478)	(414)
Net carrying value	**-**	**-**	**-**	**-**	**-**	**-**	**81,012**	**75,154**

(*) Includes the impact from the first application of IFRS 9

A more detailed account is provided of the Group's non-impaired and impaired financial assets and bad loans as at 31 December 2018 and 1 January 2018 is presented below:

In thousands of euros

	Loans and advances to clients		Loans and advances to credit institutions		Securities of debt		Derivatives		Commitments and Guarantees Granted	
	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)
Stage 1										
High Credit Quality (AAA; AA-)	-	-	29,384	1,675	175,498	63,205	-	-	-	-
Sufficient Credit Quality (A+;BBB)	-	-	188,859	172,776	665,586	390,723	29,143	-	-	-
To be monitored (BBB-)	-	-	54,994	64,117	66,758	163,763	849	-	-	-
Substandard (BB +;B+)	-	-	36	52	7,934	28,393	144	-	-	-
Low (B;CCC)	-	-	-	-	-	-	-	-	-	-
Impaired (D)	-	-	-	-	-	-	-	-	-	-
Other classification	954,548	846,083	4,056	6,423	-	143,683	297	17,596	287,147	313,339
Gross carrying value	**954,548**	**846,083**	**277,329**	**245,043**	**915,685**	**789,767**	**30,433**	**17,596**	**287,147**	**313,339**
Provisions for impairment	(1,967)	(2,351)	(73)	(83)	(255)	(617)	-	-	(677)	(572)
Net carrying value	**952,581**	**843,732**	**277,255**	**244,960**	**915,430**	**789,150**	**30,433**	**17,596**	**286,470**	**312,766**
Stage 2 see details of categories by days										
<= 30 days	74,929	96,353	-	-	-	-	-	-	2,642	706
<= 60 days	3,135	42	-	-	-	-	-	-	-	-
<= 90 days	391	433	-	-	-	-	-	-	-	-
> 90 days	-	-	-	-	-	-	-	-	-	-
Gross carrying value	**78,455**	**96,828**	**-**	**-**	**-**	**-**	**-**	**-**	**2,642**	**706**
Provisions for impairment	(10,597)	(11,165)	-	-	-	-	-	-	(172)	(175)
Net carrying value	**67,858**	**85,663**	**-**	**-**	**-**	**-**	**-**	**-**	**2,470**	**531**
Stage 3 see details of categories by days										
Doubtful transactions for reasons other than defaults	14,015	1,537	-	-	-	-	-	-	933	519
> 90 days	26,026	37,311	-	-	-	-	-	-	-	-
Gross carrying value	**40,041**	**38,848**	**-**	**-**	**-**	**-**	**-**	**-**	**933**	**519**
Provisions for impairment	(19,846)	(27,265)	-	-	-	-	-	-	(53)	(8)
Net carrying value	**20,196**	**11,583**	**-**	**-**	**-**	**-**	**-**	**-**	**880**	**511**
Total exposure to credit risk	**1,040,635**	**940,978**	**277,255**	**244,960**	**915,430**	**789,150**	**30,433**	**17,596**	**289,819**	**313,809**
Accumulated Bad Loans	44,518	36,163	-	-	-	-	-	-	-	-
Total exposure to credit risk with bad loans	**1,085,153**	**977,141**	**277,255**	**244,960**	**915,430**	**789,150**	**30,433**	**17,596**	**289,819**	**313,809**

(*) Includes the impact from the first application of IFRS 9

A summary of the movements of the loans and advances as at 31 December 2018 is presented below:

Thousands of euros

	Financial assets at amortised cost		
	Stage 1	Stage 2	Stage 3
Balance as at 1 January 2018	**846,083**	**96,828**	**38,848**
Increases at origination	234,833	-	-
Changes in the variation of the credit risk	4,624	(10,355)	13,375
Other movements	(130,992)	(8,018)	(12,182)
Balance as at 31 December 2018	**954,548**	**78,455**	**40,041**

A summary of the movements of losses due to impairment of loans and advances to clients as at 31 December 2018 is presented below:

Thousands of euros

	Financial assets at amortised cost		
	Stage 1	Stage 2	Stage 3
Balance as at 1 January 2018	**2,351**	**11,165**	**27,265**
Increases at origination	461	-	-
Changes in the variation of the credit risk	15	(108)	1,026
Other movements	(860)	(460)	(8,445)
Balance as at 31 December 2018	**1,967**	**10,597**	**19,846**

The increases at origination mainly correspond to new transactions granted during the financial year, whereas in the “Other movements” line is mainly comprised of the decreases for the usual amortisation of loans and advances to clients.

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 endorsements.
  - Secured guarantees:
    1. Money deposits.
    2. Debt securities.
    3. Shares listed on stock markets.
    4. Other secured guarantees.
- Other real guarantees. Personal guarantees which reinforce the capacity of repayment of the transaction:
  - Endorsement of natural persons.
  - Endorsement of legal entities.
  - Endorsement 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.

A breakdown of the balance recorded under the heading "Loans and advances - Clients", based on the real guarantees of the Group's financial assets as at 31 December 2018 and at 1 January 2018 is presented below:

In thousands of euros

	Financial assets at amortised cost to Clients		Money Guar., Securities and other fin. guar. (**)		Real guarantees Mortgage Guar		Without any real guarantee	
	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)
Stage 1								
Gross carrying value	**954,548**	**846,083**	**331,934**	**217,821**	**401,162**	**373,894**	**221,452**	**254,368**
Expected loss	(1,967)	(2,351)	(91)	(302)	(355)	(366)	(1,521)	(1,683)
C.V. Net of Guarantees and Provisions	**952,581**	**843,732**	**331,843**	**217,519**	**400,807**	**373,528**	**219,931**	**252,685**
Stage 2								
Gross carrying value	**78,455**	**96,828**	**9,605**	**1,390**	**60,458**	**79,314**	**8,392**	**16,124**
Expected loss	(10,597)	(11,165)	(170)	(23)	(8,688)	(9,997)	(1,739)	(1,145)
C.V. Net of Guarantees and Provisions	**67,858**	**85,663**	**9,435**	**1,367**	**51,770**	**69,317**	**6,653**	**14,979**
Stage 3								
Gross carrying value	**40,041**	**38,848**	**120**	**235**	**37,517**	**34,060**	**2,404**	**4,553**
Provisions for impairment	(19,846)	(27,265)	(2)	(38)	(17,932)	(22,717)	(1,912)	(4,510)
Net carrying value	**20,196**	**11,583**	**118**	**197**	**19,585**	**11,343**	**492**	**43**
Total exposure to credit risk	**1,040,635**	**940,978**	**341,395**	**219,083**	**472,161**	**454,188**	**227,076**	**267,707**

(*) Includes the impact from the first application of IFRS 9

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

A breakdown of the credit quality of the debt securities as at 31 December 2018 and 1 January 2018 is presented below:

In thousands of euros

	Debt securities		Fair value against P&L		Fair value through other comprehensive income		At amortised cost	
	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)
Public debt and central banks								
AAA	158,267	42,928	-	-	157,224	41,870	1,043	1,058
From AA+ to AA-	5,531	5,663	5,353	5,480	-	-	178	183
From A- to A+	213,380	4,346	1,266	-	208,624	-	3,490	4,346
BBB+ or lower	214,990	328,491	5,519	26,306	21,786	173,467	187,675	128,718
Not available	-	10,271	-	7,280	-	2,991	-	-
Gross carrying value	**592,158**	**391,699**	**12,138**	**39,066**	**387,634**	**218,328**	**192,386**	**134,305**
Provision for Credit Risk	(162)	(368)	-	-	(16)	(254)	(146)	(114)
C.V. Net of provisions	**591,966**	**391,331**	**12,138**	**39,066**	**387,618**	**218,074**	**192,240**	**134,191**
Credit institutions								
AAA	1,019	3,523	-	2,496	-	-	1,019	1,027
From AA+ to AA-	7,898	7,273	-	1,689	4,844	3,013	3,055	2,571
From A- to A+	56,243	15,598	4,453	14,575	47,753	-	4,038	1,023
BBB+ or lower	97,412	60,724	53,971	20,258	41,748	37,394	24,072	3,072
Not available	-	39,701	-	25,076	-	14,625	-	-
Gross carrying value	**184,953**	**126,819**	**58,424**	**64,094**	**94,345**	**55,032**	**32,184**	**7,693**
Provision for Credit Risk	(38)	(33)	-	-	(22)	(18)	(16)	(15)
C.V. Net of provisions	**184,915**	**126,786**	**58,424**	**64,094**	**94,323**	**55,014**	**32,168**	**7,678**
Other Companies								
AAA	-	-	-	-	-	-	-	-
From AA+ to AA-	2,782	3,820	25	3,188	1,758	-	998	632
From A- to A+	15,698	22,554	-	2,497	11,092	14,100	4,606	5,957
BBB+ or lower	120,096	151,246	25,664	58,292	83,155	52,463	11,277	40,491
Not available	-	93,629	-	40,802	-	9,429	-	43,398
Gross carrying value	**138,575**	**271,249**	**25,689**	**104,779**	**96,005**	**75,943**	**16,881**	**90,478**
Provision for Credit Risk	(56)	(216)	-	-	(43)	(49)	(13)	(167)
C.V. Net of provisions	**138,519**	**271,033**	**25,689**	**104,779**	**95,962**	**75,943**	**16,868**	**90,311**
Total exposure to credit risk	**915,430**	**789,150**	**96,251**	**207,939**	**577,903**	**349,031**	**241,276**	**232,180**

(*) Includes the impact from the first application of IFRS 9

6.2.2.5 Monitoring of the credit risk

The Group has a unit responsible for the monitoring of non-payments, overdrafts and overdue payments, as well as for checking that the guarantees sufficiently cover the transactions. One of its main functions, together with the Business Area, is to anticipate and prevent clients from entering an irregular situation. Once the client is in an irregular 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 clients 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 client may find him/herself at the time of the restructuring or refinancing:

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

Any restructured or refinanced transaction is duly documented and the analysis document is 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 at 31 December 2018 and 2017:

31/12/2018 (In thousands of euros)

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

31/12/2017 (In thousands of euros)

TOTAL	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)**

6.2.3 Risk concentration

Below appear the respective risk concentrations by sector and geographical area for loans and advances to clients as at 31 December 2018 and 1 January 2018:

In thousands of euros

	Loans, advances granted to Clients		Those at Stage 2		Those at Stage 3		Provision for Credit Risk	
	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)
Concentration by Sector								
M.I. Government	**29,204**	**45,865**	**-**	**-**	**-**	**-**	**(146)**	**(229)**
Common	**18,913**	**22,190**	**-**	**-**	**-**	**-**	**(95)**	**(111)**
Other public sectors	**8,159**	**6,006**	**-**	**-**	**-**	**-**	**(41)**	**(32)**
Financial	**53,436**	**25,864**	**23**	**57**	**7**	**5**	**(122)**	**(51)**
Non-financial companies	**480,086**	**428,397**	**61,668**	**74,684**	**29,676**	**26,105**	**(28,642)**	**(33,045)**
Primary	4,913	4,494	-	-		-	(47)	(36)
Tourist	61,122	48,194	4,433	7,449	2,737	9	(672)	(737)
Property	181,753	147,373	43,178	54,460	20,578	15,720	(21,179)	(21,575)
Construction	11,997	29,473	190	1,146	5,502	6,091	(4,026)	(4,275)
Commercial Bank	60,653	54,640	10,585	6,091	788	231	(1,477)	(1,224)
Other secondary	16,229	17,284	4	6	41	4,033	(176)	(4,135)
Other tertiary	143,418	126,939	3,279	5,532	30	21	(1,065)	(1,063)
Individuals	**483,247**	**453,437**	**16,763**	**22,087**	**10,358**	**12,738**	**(3,365)**	**(7,313)**
Total exposure to credit risk	**1,073,044**	**981,759**	**78,455**	**96,828**	**40,041**	**38,848**	**(32,410)**	**(40,781)**
Geographical concentration								
Andorra	**743,522**	**712,022**	**71,821**	**87,314**	**37,204**	**31,804**	**(29,436)**	**(33,255)**
Spain	**265,361**	**217,048**	**518**	**3,594**	**1,552**	**5,454**	**(958)**	**(5,347)**
Others	**64,161**	**52,689**	**6,116**	**5,921**	**1,285**	**1,590**	**(2,016)**	**(2,179)**
Total exposure to credit risk	**1,073,044**	**981,759**	**78,455**	**96,828**	**40,041**	**38,848**	**(32,410)**	**(40,781)**

(*) Includes the impact from the first application of IFRS 9

Similarly, below appear the respective risk concentrations by sector and geographical area for debt securities as at 31 December 2018 and 1 January 2018:

In thousands of euros

	Securities of debt		Those at Stage 2		Those at Stage 3		Provision for Credit Risk	
	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)
Concentration by Sector								
Public Sector	**595,704**	**391,699**	-	-	-	-	**(162)**	**(381)**
Credit Institutions	**172,177**	**126,819**	-	-	-	-	**(38)**	**(33)**
Other Companies	**147,805**	**271,249**	-	-	-	-	**(56)**	**(203)**
Total exposure to credit risk	**915,685**	**789,767**	-	-	-	-	**(255)**	**(617)**
Geographical concentration								
Andorra	**135,415**	**134,797**	-	-	-	-	**(100)**	**(113)**
Spain	**380,342**	**363,670**	-	-	-	-	**(68)**	**(238)**
Others	**399,928**	**291,300**	-	-	-	-	**(87)**	**(267)**
Total exposure to credit risk	**915,685**	**789,767**	-	-	-	-	**(255)**	**(617)**

(*) Includes the impact from the first application of IFRS 9

Below appear the respective risk concentrations by sector and geographical area for loans and advances to credit institutions as at 31 December 2018 and 1 January 2018:

In thousands of euros

	Loans and Advance payments to credit institutions		Those at Stage 2		Those at Stage 3		Provision for Credit Risk	
	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)	31/12/2018	01/01/2018(*)
Geographical concentration								
Andorra	1,272	2,821	-	-	-	-	-	(2)
Spain	86,940	118,869	-	-	-	-	(30)	(35)
Others	189,116	123,353	-	-	-	-	(43)	(46)
Book value	**277,329**	**245,043**	-	-	-	-	**(73)**	**(83)**

(*) Includes the impact from the first application of IFRS 9

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 presenting the statement of financial position, undertakes the management of the liquidity and financing, as well as the stress analysis and report to the COAP 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 client deposits), Highly liquid assets / Total client deposits and Highly liquid assets / Total statement of financial position.

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

The Group also closely monitors the intraday liquidity risk.

The use of these ratios, with the help of monitoring of the short and long-term liquidity, enables the Group to achieve better management of the liquid assets and sources of financing.

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 at 31 December 2018 and 2017, 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 2018							
Financial assets (inputs)							
Cash, cash balances in central banks and other demand deposits	17,648	-	-	-	-	-	17,648
Loans and advances	254,720	165,403	97,973	166,365	395,927	237,502	1,317,890
Credit institutions	202,787	74,468	-	-	-	-	277,255
Clients	51,933	90,935	97,973	166,365	395,927	237,502	1,040,635
Debt securities	-	302,763	34,107	65,104	314,323	199,133	915,430
Net carrying value	**272,368**	**468,166**	**132,080**	**231,469**	**710,250**	**436,635**	**2,250,968**
Financial liabilities (outputs)							
AFA	3,371	22,607	-	1,172	-	-	27,150
Deposits of credit institutions	22,619	25,667	-	-	-	-	48,286
Client deposits	1,415,194	111,488	55,757	171,702	88,388	-	1,842,529
Debt securities issued	-	-	-	-	-	34,158	34,158
Net carrying value	**1,441,184**	**159,762**	**55,757**	**172,874**	**88,388**	**34,158**	**1,952,123**
Asset less liability difference	**(1,168,816)**	**308,404**	**76,323**	**58,595**	**621,862**	**402,475**	**298,843**

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
Clients	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)							
AFA	2,139	17,965	-	1,172	-	-	21,276
Deposits of credit institutions	12,677	8,090	-	-	-	-	20,767
Client deposits	1,321,519	96,949	63,136	107,706	59,775	1,999	1,651,084
Debt securities issued	-	-	-	-	-	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**

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

LCR Ratio (Liquidity Coverage Ratio)

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

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

At the closure of the 2018 financial year the LCR ratio was 561% with the average of the same year being 371%.

The Bank's LCR ratio was permanent and stable throughout 2018, 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 at 31 December 2018 and 2017:

In thousands of euros

	31/12/2018		31/12/2017	
	Market value	Weighted value	Market value	Weighted value
Assets Level 1	581,098	581,098	271,319	271,319
Assets Level 2A	-	-	9,166	8,274
Assets Level 2B	93,827	46,913	98,521	49,260
Total High-Quality Liquid Assets	**674,925**	**628,011**	**379,006**	**328,853**

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 65.73% as at 31 December 2018, above the established minimum of 40%.

NSFR (Net Stable Funding Ratio)

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

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

MoraBanc benefits from the substantial weight of client deposits, which are more stable, with permanent liquidity requirements resulting from commercial activity financed by medium and long-term instruments and limited appeal in the short-term. The above enables it to retain a balanced liquidity structure with high levels in the NSFR ratio. This ratio stood at above 100% in 2018.

This ratio was still not mandatory in Andorra in 2018, as it was not required by the supervisor, but the Group calculated it internally, in accordance with the European standards published by the EBA.

At the closure of the 2018 financial year the NSFR ratio was 132% with the average of the same year being 131%.

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 Market risk management

The Group has a market risk management unit, whose basic functions include measuring, controlling and monitoring the market risks and assessing the exposure and suitability for the assigned limits, as well as comparing, implementing and maintaining the computer tools used. The supervision of these functions is the duty of the Assets and Liabilities Committee (COAP), which is a body made up, among other people, of members of the Group's General Management. This body meets at least once a month and is responsible for analysing the positions which generate market risk, as well as the definition of the strategies to be followed by the Group. The 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. Additionally, the Institution also calculates the VaR using the Parametric and Monte Carlo methodologies.

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

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

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

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

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

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

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

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

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

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

As at 31 December 2018		As at 31 December 2017	
Scenario	% Variation Market Value	Scenario	% Variation Market Value
Base Scenario	100,00%	Base Scenario	100.00%
Zero Coupon + 100 bps	104.09%	Zero Coupon + 100 bps	98.99%
Spot FX - 5%	99.93%	Spot FX - 5%	100.00%
Spread Curve + 50 bps	100.97%	Spread Curve + 50 bps	99.78%
Equity - 10%	93.57%	Equity - 10%	99.66%
Volatilities + 10%	100.02%	Volatilities + 10%	99.98%
Total	**98.61%**	**Total**	**98.42%**

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 -6.43% 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

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

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)
Total VaR	**111**	**133**	**233**	**67**	**123**

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

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

6.4.3 Exposure to other market risks - Non-trading portfolios

6.4.3.1 Structural interest rate risk

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

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

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

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

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

With the static gap the masses of the consolidated 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 at 31 December 2018 and 2017, 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 2018						
Loans and advances	776,049	165,057	267,809	30,968	26,074	1,265,957
Credit institutions	277,255	-	-	-	-	277,255
Clients	498,794	165,057	267,809	30,968	26,074	988,702
Debt securities	314,856	34,107	65,104	310,027	177,607	901,701
Total Assets	**1,090,905**	**199,164**	**332,913**	**340,995**	**203,681**	**2,167,658**
Deposits of central banks	25,978	-	1,172	-	-	27,150
Deposits of credit institutions	48,286	-	-	-	-	48,286
Client deposits	1,644,245	45,928	130,969	21,386	-	1,842,528
Subordinated liabilities	-	-	34,158	-	-	34,158
Total Liabilities	**1,718,509**	**45,928**	**166,299**	**21,386**	**-**	**1,952,122**
Derivative effects hedges interest rate risk	89,978	129,210	13,230	(58,558)	(173,860)	-
Total Net	**(537,626)**	**282,446**	**179,844**	**261,051**	**29,821**	**215,536**

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
Clients	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
Client 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**

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

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

Finally, a stress simulation is carried out on the data obtained in the likely scenario, with parallel movements of +/- 100 and 200 basis points. Once the data have been obtained, it is verified 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 2018 the average sensitivity of the Economic Value lay within the following range: [+3.27%; -3.19%], 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 at 31 December 2018 and 2017 as follows:

In thousands of euros

	EUR	USD	Other currencies
31 December 2018			
Assets			
Cash, cash balances in central banks and other demand deposits	16,589	664	395
Financial assets held for trading	56,230	7,457	(175)
Financial assets not held for trading, mandatorily calculated at fair value through profit or loss	357,976	-	12
Financial assets at fair value through other comprehensive income	381,117	213,468	27,813
Financial assets at amortised cost	1,376,205	156,604	26,357
Derivatives - Accounting of hedges	32	159	-
Changes in the FV of the elements hedged by a portfolio with interest rate risk hedging	559	-	-
Remaining assets	164,705	(53)	1,048
Total Assets	**2,353,413**	**378,299**	**55,450**
Liabilities and Net Equity			
Financial liabilities held for trading	24,036	7,029	217
Financial liabilities designated at fair value through profit or loss	358,891	-	-
Financial liabilities at amortised cost	1,539,463	375,530	57,278
Deposits of central banks	13,875	13,271	4
Deposits of credit institutions	30,796	17,477	12
Client deposits	1,452,206	334,223	56,100
Debt securities	34,158	-	-
Other financial liabilities	8,429	10,559	1,161
Derivatives - Hedge accounting	6,698	1	-
Remaining liabilities	136,749	(3,032)	(2,285)
Equity	287,576	(1,229)	240
Total Liabilities and Net Equity	**2,353,413**	**378,299**	**55,450**

In thousands of euros

	EUR	USD	Other currencies
31 December 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 not held for trading, mandatorily calculated at fair value through profit or loss	357,145	-	-
Financial assets at fair value through other comprehensive income	332,325	59,361	28,107
Financial assets at amortised cost	1,283,127	110,829	32,781
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 through profit or loss	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	-
Client deposits	1,352,445	233,814	64,825
Debt securities	34,795	-	-
Other financial liabilities	12,034	-	-
Derivatives - Hedge accounting	3,148	-	-
Equity	277,250	-	(1,457)
Remaining liabilities	129,456	-	7,315
Total Liabilities and Net Equity	**2,258,690**	**248,058**	**70,947**

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 clients, 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 Regulatory Committee for Intervention and Control, made up of the members of the Senior Management, and which meets on a fortnightly basis dealing with among other subjects, any risks which, if they materialise, could have an impact on the reputation of 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 commitment by the Board of Directors to conduct all its activities and businesses in accordance with strict ethical precepts, facilitating a working environment in keeping with the current regulatory framework. In line with this, the Compliance body has sufficient authority and the necessary technical resources to fulfil the mandate to assess and monitor compliance with the regulations; which mainly consist of:

- Ethical codes (of the Group and the markets)
- Protection for the investor

- Treatment of conflicts of interest and market abuse
- Prevention of money laundering and financing of terroris

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 of Directors in reference to the confidentiality, integrity and availability of the information.

Additionally, during the 2018 financial year, this activity has been reinforced with the activity of a Security Technical Office (STO), mainly through the professional services provided by Deloitte. From this STO, Deloitte provides support to MoraBanc in relation to information security management, exercising an advisory role for a number of initiatives defined by the Bank, with the purpose of increasing MoraBanc's level of maturity with regards to cyber security by, among other aspects, providing the methodology, procedures, frameworks and best practices.

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

7. Fair value of the financial instruments

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

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

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

The Group has certain financial instruments whose fair value has been obtained using its own internal models with significant inputs not observable in market data (**Level 3**). At the closure of the 2018 and 2017 financial years, these instruments were made up of mainly loans and advances and some financial instruments classified in the portfolio of "Financial assets fair value through other comprehensive income", as well as financial liabilities at amortised cost in the Group's 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 observable prices and inputs in the market varies according to the products and markets and is prone to changes based on both specific events and general conditions of the financial markets. The fair value of the financial instruments, as well as their corresponding book value as at 31 December 2018 and 2017 are presented below:

In thousands of euros

	31/12/2018		31/12/2017	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Financial assets held for trading	**63,512**	**63,512**	**194,835**	**194,835**
Derivatives	30,242	30,242	16,843	16,843
Equity instruments	19,541	19,541	30,632	30,632
Debt securities	13,729	13,729	147,360	147,360
Financial assets designated at fair value through profit or loss	**357,988**	**357,988**	**357,145**	**357,145**
Equity instruments	275,466	275,466	299,559	299,559
Debt securities	82,522	82,522	57,586	57,586
Financial assets at fair value through other comprehensive income	**622,398**	**622,398**	**419,793**	**419,793**
Equity instruments	44,495	44,495	67,524	67,524
Debt securities	577,903	577,903	352,269	352,269
Financial assets at amortised cost	**1,559,166**	**1,562,673**	**1,426,737**	**1,430,688**
Debt securities	241,277	237,890	232,199	232,191
Loans and advances	1,317,890	1,324,783	1,194,538	1,198,496
Credit institutions	277,255	277,255	244,812	244,812
Clients	1,040,635	1,047,528	949,726	953,684
Hedging derivatives	**191**	**191**	**753**	**753**

In thousands of euros

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Liabilities				
Financial liabilities held for trading	**31,282**	**31,282**	**16,167**	**16,167**
Derivatives	31,282	31,282	16,167	16,167
Financial liabilities designated at fair value through profit or loss	**358,891**	**358,891**	**405,870**	**405,870**
Financial liabilities at amortised cost	**1,972,271**	**1,972,271**	**1,739,956**	**1,739,956**
Hedging derivatives	**6,699**	**6,699**	**3,148**	**3,148**

Whose fair value is classified by the levels as at 31 December 2018 and 2017:

In thousands of euros

	31/12/2018			31/12/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Financial assets held for trading	**61,341**	**2,171**	**-**	**194,684**	**151**	**-**
Derivatives	30,242	-	-	16,843	-	-
Equity instruments	17,370	2,171	-	30,481	151	-
Debt securities	13,729	-	-	147,360	-	-
Financial assets designated at fair value through profit or loss	**320,151**	**15,111**	**22,726**	**357,145**	**-**	**-**
Equity instruments	252,728	12	22,726	299,559	-	-
Debt securities	67,423	15,099	-	57,586	-	-
Financial assets at fair value through other comprehensive income	**577,903**	**13,655**	**30,840**	**348,814**	**17,999**	**52,980**
Equity instruments	-	13,655	30,840	-	14,544	52,980
Debt securities	577,903	-	-	348,814	3,455	-
Financial assets at amortised cost	**113,220**	**124,670**	**1,324,783**	**90,665**	**141,527**	**1,198,496**
Debt securities	113,220	124,670	-	90,665	141,527	-
Loans and advances	-	-	1,324,783	-	-	1,198,496
Credit institutions	-	-	277,255	-	-	244,812
Clients	-	-	1,047,528	-	-	953,684
Hedging derivatives	**191**	**-**	**-**	**753**	**-**	**-**

In thousands of euros

	31/12/2018			31/12/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Liabilities						
Financial liabilities held for trading	**31,282**	**-**	**-**	**16,167**	**-**	**-**
Derivatives	31,282	-	-	16,167	-	-
Financial liabilities designated at fair value through profit or loss	**358,891**	**-**	**-**	**405,870**	**-**	**-**
Financial liabilities at amortised cost	**-**	**-**	**1,972,271**	**-**	**-**	**1,739,956**
Hedging derivatives	**6,699**	**-**	**-**	**3,148**	**-**	**-**

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

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

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

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

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

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

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

8. Business Areas

8.1 Business 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.

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, appraisal 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 areas the Group must report on 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 capital markets and private banking) conducted in the territory of the Principality of Andorra through the network of offices and other complementary channels. It includes both the activity and the results generated by the Group's clients (individuals, companies and institutions). It also incorporates the management of liquidity and income from financing other businesses. We distinguish between:

Business, corporate and institutional banking: the area specialised in offering products and services to companies and national businesses, with the objective of facilitating their commercial activity and financing their operations. This also includes specialist treatment for public and private institutions.

Individual and retail banking: this includes national clients within the Andorran territory, who perform mainly deposits, transfers, direct debits, saving and financing transactions.

Private Banking: This is the main activity of the MoraBanc Group, consisting in a highly professional and global management of the clients' assets, satisfying the investment, estate planning, financial and fiscal requirements of the clients or family groups.

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

Management of assets and shares: this area includes the asset management activity, as well as the management of the Group's Collective Investment Bodies, an activity performed by Mora Gestió d'Actius, SA.

8.2 Information on the reportable areas and reconciliation of the information

Below appear the Group's results for 2018 and 2017 by business segments:

In thousands of euros

	Result of the financial year	
	2018	2017
Banking activity	19,400	20,131
Insurance activity	2,769	2,575
Asset and holding management	1,888	812
TOTAL	**24,057**	**23,517**

9. Cash, cash balance in central banks and other demand deposits

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

The composition of the balance of cash and equivalents in the consolidated statement of financial position as at 31 December 2018 and 2017 is as follows:

In thousands of euros

	31/12/2018	31/12/2017
Cash	17,438	18,894
Others	210	210
Total	**17,648**	**19,104**

As at 31 December 2018 and 2017, 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 €202,786,000 and €187,944,000.

10. Financial assets and liabilities held for trading

The list of financial assets and liabilities held for trading as at 31 December 2018 and 2017 was as follows:

In thousands of euros

	31/12/2018		31/12/2017	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	30,242	31,282	16,843	16,167
Equity instruments	19,541	-	30,632	-
Debt securities	13,729	-	147,360	-
Total	**63,512**	**31,282**	**194,835**	**16,167**

The list of assets different from the financial derivatives of the trading portfolio as at 31 December 2018 and 2017 was as follows:

In thousands of euros

	31/12/2018	31/12/2017
Equity instruments	**19,541**	**30,632**
Listed instruments	19,541	30,632
Non-listed instruments	-	-
Debt securities	**13,729**	**147,360**
Andorran public debt	-	-
Foreign public debt	6,362	32,083
Issues of financial institutions	4,032	39,877
Other issues	3,335	75,400
Total non-derivative assets	**33,270**	**177,992**

Below appears the list of derived financial assets and liabilities as at 31 December 2018 and 2017:

In thousands of euros

	31/12/2018		31/12/2017	
	Assets	Liabilities	Assets	Liabilities
Interest rates	9,891	8,562	9,334	7,878
Currencies	1,219	1,148	1,263	911
Credit	-	48	4	235
Equity Instruments	18,835	20,224	6,242	7,143
Others	297	1,300	-	-
Total derived assets	**30,242**	**31,282**	**16,843**	**16,167**

As at 31 December 2018 and 2017 the Group did not have any short positions on securities.

11. Financial assets and liabilities designed at fair value through profit or loss

In accordance with that established the regulations, financial assets or liabilities which are not classified as held for trading or mandatorily valued at a fair value through profit and loss may be designated by the Group from their initial recognition at fair value changes result if by doing so they eliminate or significantly reduce any inconsistencies in the measurement or recognition (sometimes called "accounting asymmetry"), which would otherwise arise when using various criteria to measure assets and liabilities, or to recognise their profits and losses on various bases.

As at 31 December 2018 and 2017 the Group did not have any portfolio positions.

12. Financial assets not held for trading, mandatorily calculated at fair value through profit or loss

Below appears a breakdown, by type of product, of the balances of this heading of the consolidated statement of financial position as at 31 December 2018 and 2017:

In thousands of euros

	31/12/2018		31/12/2017	
	Assets	Liabilities	Assets	Liabilities
Equity instruments	275,466	–	299,559	–
Debt securities	82,522	–	57,586	–
Others	–	358,891	–	405,870
TOTAL	**357,988**	**358,891**	**357,145**	**405,870**

The list of the assets and liabilities as at 31 December 2018 and 2017 is as follows:

In thousands of euros

	31/12/2018	31/12/2017
Assets		
Equity instruments	**275,466**	**299,559**
Linked to insurance products in which the policyholder assumes the risk	252,728	299,559
Others	22,738	–
Debt securities	**82,522**	**57,586**
Linked to insurance products in which the policyholder assumes the risk	50,508	57,586
Other issues	32,014	–
Total Assets	**357,988**	**357,145**
Liabilities		
Other financial liabilities	**358,891**	**405,870**
Life insurance in which the policyholder assumes the risk	358,891	405,870
Total Liabilities	**358,891**	**405,870**

Financial assets not held for fair trading, mandatorily calculated at fair value through profit or loss linked to insurance products in which the policyholder assumes the risk

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

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

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

13. Financial assets at fair value through other comprehensive income

Composition of the balance

The breakdown of the balance of this section of the consolidated statement of financial position as at 31 December 2018 and 2017, based on the nature of the transactions, was as follows:

In thousands of euros

	Fair value 31/12/2018	Fair value 31/12/2017
Equity instruments	**44,495**	**67,524**
Shares of non-listed companies	44,923	67,541
Adjustments (underestimated or unrealised valuation gains)	(428)	-
Impairment losses (Note 40)	-	(17)
Sub-total	**44,495**	**67,524**
Debt securities	**577,903**	**352,269**
Foreign public debt	389,258	216,528
Issued by financial institutions	81,852	55,624
Other issues	107,921	78,178
Valuation adjustments (underestimated or unrealised valuation gains)	(1,047)	1,939
Impairment loss	(80)	-
Sub-total	**577,903**	**352,269**
Total	**622,398**	**419,793**

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.

Below are the changes which have occurred in the balance of the provisions covering impairment losses of financial assets at fair value through other comprehensive income from the 2018 financial year:

In thousands of euros

	2018
Balance at the beginning of the year (*)	321
Plus:	
Provisions to the fund	243
Less:	
Applications of the fund	
Recoveries of the fund	(485)
Balance at the end of the year	**80**

(*) Includes the impact from the first application of IFRS 9

14. Financial assets at amortised cost

The list of financial assets at amortised cost as at 31 December 2018 and 2017 in the consolidated statements of financial position, considering the valuation adjustments, is as follows:

In thousands of euros

	31/12/2018	31/12/2017
Debt securities	**240,750**	**230,397**
Loans and advances	**1,347,097**	**1,223,463**
Credit institutions	277,329	245,045
Clients	1,069,769	978,418
Adjustments for valuation	**(28,681)**	**(27,123)**
Impairment losses	(32,658)	(32,542)
Accrued interest	3,977	5,419
Total	**1,559,166**	**1,426,737**

14.1 Debt securities and loans and advances to credit institutions

The list of debt securities and loans and advances as at 31 December 2018 and 2017 of the consolidated statements of financial position, considering the valuation adjustments, was as follows:

In thousands of euros

	31/12/2018	31/12/2017
Debt securities	**240,750**	**230,397**
Andorran public debt	130,678	122,347
Foreign public debt	61,026	11,602
Issues of financial institutions	32,164	15,416
Other issues	16,883	81,032
Loans and advances to financial institutions	**277,329**	**245,044**
Deposit accounts	202,787	187,943
Term deposits	57,066	23,401
Temporary acquisition of assets	17,476	33,700
Adjustments for valuation	**453**	**1,570**
Impairment losses	(248)	(507)
Accrued interest	702	2,077
Hedging derivatives and others	-	-
Net carrying value	**518,532**	**477,011**

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 2018 and 2017 financial years:

In thousands of euros

	31/12/2018(*)	31/12/2017
Balance at the beginning of the year (*)	**379**	**579**
Plus:		
Provisions to the fund	376	1,057
Less:		
Applications of the fund	-	-
Recoveries of the fund	(507)	(1,128)
Balance at the end of the year	**248**	**507**

(*) Includes the impact from the first application of IFRS 9

14.2 Loans and advances to clients

The list of loans and advances to clients in the consolidated statements of financial position as at 31 December 2018 and 2017, considering the valuation adjustments, was as follows:

In thousands of euros

	2018	2017
Loans and advances to clients (gross)	**1,073,045**	**981,761**
Debtors with money guarantees and securities	341,659	219,446
Mortgages	499,137	487,270
Public Sector	56,276	74,061
Without any real guarantee	175,973	200,984
Provisions for impairment	**(32,410)**	**(32,035)**
Total	**1,040,635**	**949,726**

Below are the changes which occurred in the balance of the provisions covering impairment losses from loans and advances to clients in the 2018 financial year and as at 1 January 2018:

In thousands of euros

	2018	2017
Balance at the beginning of the year (*)	40,781	33,348
Plus:		
Provisions to the fund	14,013	13,202
Less:		
Applications of the fund	(7,865)	(2,629)
Recoveries of the fund	(13,882)	(11,887)
Transfers	(637)	-
Balance at the end of the year	**32,410**	**32,034**

(*) Includes the impact from the first application of IFRS 9

15. Hedging derivatives and changes in the fair value of elements hedged by a portfolio with interest rate risk hedging

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

15.1 Hedging derivatives

Below appears the list of hedging derivatives of the interest rate risk held by the Group as at 31 December 2018 and 2017 in the consolidated statements of financial position:

In thousands of euros

	31/12/2018		
	Activos	Pasivos	Nominal
Fair value hedge accounting			
Interest rate risk	191	6,699	258,667

	31/12/2017		
	Activos	Pasivos	Nominal
Fair value hedge accounting			
Interest rate risk	753	3,148	251,011

As of the closure of the 2018 and 2017 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 2018 financial year the Group determined that hedges are effective by means of the realisation of an effectiveness test on them.

15.2 Hedged items

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 at 31 December 2018, the variations in the fair value of the hedged positions were:

In thousands of euros

	31/12/2018	
	Assets	Liabilities and Net Equity
Changes in the fair value of the elements of a portfolio with interest rate risk hedging	559	(2,358)

15.3 Other derivatives held for risk management

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

16. Investments in joint ventures and associates

Under the heading "Investments in joint ventures and associates – Joint ventures" for the financial years ending on 31 December 2018 and 2017, the MoraBanc Group had a 20% holding in the Company: 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 2018 and 2017 were as follows:

In thousands of euros

	% shareholding	Carrying value	Capital	Reserves	Result of the financial year	Interim dividend	Total equity
31/12/2018	20%	1	60	95	(150)	-	5
31/12/2017	20%	31	60	581	(480)	-	161

As at 31 December 2018, there were no agreements 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 at 31 December 2018, there were no contingent liabilities in relation to investments in subsidiaries, joint ventures or associates.

During the 2018 and 2017 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 financial leasing scheme, if applicable.

The assets are classified in accordance with their purpose in:

17.1 Tangible fixed assets for own use

Tangible fixed assets for own use (for which continued and own use is expected to be made, as well as those which are acquired under the financial 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.

17.2 Property investments

The heading "Property investments" includes the net values of land, buildings and other constructions kept in optimal conditions for their use as rental or to obtain a valuation gain from their sale as a result of the increases which could occur in the future in their respective market prices. Similarly, the allocated assets which have been listed in the consolidated statements of financial position for more than 3 years are also recorded under the heading "Tangible assets - Investment property" (see Note 3.12).

At the end of the year, the total value of the property investments amounted to €43,659,000, and the amount of €952,000 has also been registered (€4,975,000 in 2017).

In accordance with its accounting policy, during the 2018 financial year the Group has reclassified assets previously classified as held for trading under the property investment heading (see Note 3.12) of an amount of €14,288,000 without causing any impact on the equity.

The Institution has estimated the fair value of its property investments using the discounted cash flows method or based on the valuation from independent experts, updating them annually, according to their cultural or property use.

The discounted cash flow of the main assumptions made in the 2018 financial year have been as follows:

- Increase in cash flow rate from 2.2%
- Discount rate of 7%

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

Financial leasing

The Group did not have any finance leasing operations established as at 31 December 2018 or 2017.

Operating leases

The Group acts as a lessor of certain properties registered at fair value under the tangible assets heading of the attached consolidated statement of financial position (see Note 3.12).

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

The movement of the fixed asset accounts and property investments in the 2018 and 2017 financial years was as follows:

In thousands of euros

	Own use and property investments						
	Lands and buildings	Furniture and facilities	Hardware	Others	Total	Property investments	Total
Cost							
Balance as at 31 December 2017	**57,468**	**30,834**	**16,854**	**389**	**105,545**	**27,139**	**132,684**
Recognitions	7,459	428	353	73	8,313	952	**9,265**
Derecognitions	(155)	(202)	(702)	(93)	(1,152)	-	**(1,152)**
Sales	-	-	-	-	-	-	**-**
Transfers	(1,954)	-	-	-	(1,954)	54,041	**52,087**
Exchange and other differences	-	(11)	(10)	-	(21)	-	**(21)**
Balance as at 31 December 2018	**62,818**	**31,049**	**16,495**	**368**	**110,731**	**82,132**	**192,863**
Accumulated amortisation and impairment							
Balance as at 31 December 2017	**(8,667)**	**(24,514)**	**(16,022)**	**(361)**	**(49,564)**	**-**	**(49,564)**
Recognitions	(917)	(1,575)	(534)	(29)	(3,026)	(286)	**(3,341)**
Derecognitions	98	184	702	93	1,077	-	**1,077**
Sales	-	-	-	-	-	-	**-**
Transfers	379	-	-	-	379	(38,187)	**(37,808)**
Exchange and other differences	-	6	7	-	13	-	**13**
Balance as at 31 December 2018	**(9,107)**	**(25,899)**	**(15,847)**	**(297)**	**(51,150)**	**(38,473)**	**(89,624)**
Carrying value as at 31 December 2017	**48,801**	**6,320**	**832**	**28**	**55,981**	**27,139**	**83,120**
Carrying value as at 31 December 2018	**53,711**	**5,149**	**648**	**71**	**59,581**	**43,659**	**103,240**

In thousands of euros

	Own use and property investments						
	Lands and buildings	Furniture and facilities	Hardware	Others	Total	Property investments	Total
Cost							
Balance as at 31 December 2016	**57,468**	**31,061**	**16,534**	**389**	**105,452**	**22,164**	**127,616**
Recognitions	-	318	481	-	799	4,975	5,774
Derecognitions	-	(458)	(110)	-	(568)	-	(568)
Exchange and other differences	-	(87)	(51)	-	(138)	-	(138)
Balance as at 31 December 2017	**57,468**	**30,834**	**16,854**	**389**	**105,545**	**27,139**	**132,684**
Accumulated amortisation and impairment							
Balance as at 31 December 2016	**(8,063)**	**(23,230)**	**(15,443)**	**(340)**	**(47,076)**	**-**	**(47,076)**
Recognitions	(604)	(1,492)	(732)	(21)	(2,849)	-	(2,849)
Derecognitions	-	154	105	-	259	-	259
Exchange and other differences	-	54	48	-	102	-	102
Balance as at 31 December 2017	**(8,667)**	**(24,514)**	**(16,022)**	**(361)**	**(49,564)**	**-**	**(49,564)**
Carrying value as at 31 December 2016	**49,405**	**7,831**	**1,091**	**49**	**58,376**	**22,164**	**80,540**
Carrying value as at 31 December 2017	**48,801**	**6,320**	**832**	**28**	**55,981**	**27,139**	**83,120**

18. Intangible assets

The list of movements of the intangible assets as at 31 December 2018 and 2017 was as follows:

In thousands of euros

	Computer applications	Others	Total
Cost			
Balance as at 31 December 2017	**99,079**	**557**	**99,635**
Acquisitions	5,117	14	5,131
Derecognitions	(101)	-	(101)
Exchange and other differences	(1)	-	(1)
Balance as at 31 December 2018	**104,094**	**571**	**104,665**
Accumulated amortisation			
Balance as at 31 December 2017	**(88,542)**	**(544)**	**(89,085)**
Recognitions	(2,289)	(6)	(2,295)
Derecognitions	(112)	-	(112)
Exchange and other differences	1	-	1
Balance as at 31 December 2018	**(90,942)**	**(550)**	**(91,492)**
Carrying value as at 31 December 2017	**10,537**	**13**	**10,550**
Carrying value as at 31 December 2018	**13,152**	**21**	**13,173**

In thousands of euros

	Computer applications	Others	Total
Cost			
Balance as at 31 December 2016	**95,259**	**552**	**95,811**
Acquisitions	5,890	5	5,894
Derecognitions	(2,063)	-	(2,063)
Exchange and other differences	(7)	-	(7)
Balance as at 31 December 2017	**99,079**	**557**	**99,635**
Accumulated amortisation			
Balance as at 31 December 2016	**(84,690)**	**(534)**	**(85,224)**
Recognitions	(5,444)	(10)	(5,454)
Derecognitions	1,587	-	1,587
Exchange and other differences	6	-	6
Balance as at 31 December 2017	**(88,542)**	**(544)**	**(89,085)**
Carrying value as at 31 December 2016	**10,569**	**18**	**10,587**
Carrying value as at 31 December 2017	**10,537**	**13**	**10,550**

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

	31/12/2018	31/12/2017
Accruals and deferrals	4,290	4,152
Other assets	251	3,413
Total remaining assets	**4,541**	**7,565**
Accruals and deferrals	14,583	13,531
Others	1,660	3,536
Total remaining liabilities	**16,243**	**17,067**

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

20.1 Composition of the balance

The details of the balance of non-current assets and disposable groups of elements classified as held for sale as at 31 December 2018 and 2017 were as follows:

In thousands of euros

	31/12/2018	31/12/2017
Fixed assets	**1,746**	**53,507**
From awards	1,746	44,687
Others	-	8,820
Gross carrying value	**1,746**	**53,507**
Value corrections	(184)	(38,354)
Net carrying value	**1,562**	**15,153**

This section of the consolidated statement of financial position mainly 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.

20.2 Movements

The movements which took place in 2018 and 2017 in the balance of this section of the statement of financial position are shown below:

In thousands of euros

	From credit transactions	Others	Total
Cost			
Balance as at 31 December 2017	**53,507**	**-**	**53,507**
Recognitions	1,160	-	1,160
Derecognitions	(835)	-	(835)
Transfers	(52,086)	-	(52,086)
Balance as at 31 December 2018	**1,746**	**-**	**1,746**
Impairment losses			
Balance as at 31 December 2017	**(38,354)**	**-**	**(38,354)**
Recognitions	(11)	-	(11)
Derecognitions	383	-	383
Transfers	37,798	-	37,798
Balance as at 31 December 2018	**(184)**	**-**	**(184)**
Carrying value as at 31 December 2017	**15,153**	**-**	**15,153**
Carrying value as at 31 December 2018	**1,562**	**-**	**1,562**

In thousands of euros

	From credit transactions	Others	Total
Cost			
Balance as at 31 December 2016	**61,256**	**-**	**61,256**
Recognitions	282	-	282
Derecognitions	(8,031)	-	(8,031)
Balance as at 31 December 2017	**53,507**	**-**	**53,507**
Impairment losses			
Balance as at 31 December 2016	**(42,667)**	**-**	**(42,667)**
Recognitions	(343)	-	(343)
Derecognitions	4,656	-	4,656
Balance as at 31 December 2017	**(38,354)**	**-**	**(38,354)**
Carrying value as at 31 December 2016	**18,589**	**-**	**18,589**
Carrying value as at 31 December 2017	**15,153**	**-**	**15,153**

During the 2018 financial year, there were sales of assets awarded, registered at a cost value of €835,000, with an associated impairment of €379,000, which generated a net positive result of €71,000 recorded in the attached consolidated statement of income.

During the 2018 financial year, transfers have been made from this category to that of property investments for an amount of €52,086,000 (€14,288,000 considering the impairment, which had been previously registered in the aforementioned assets).

In the 2018 financial year, assets awarded with a net carrying value of €1,149,000 were incorporated into the consolidated statement of financial position.

20.3 Information on assets classified as held for trading

Breakdown by typology of asset

Below appears the distribution of the assets from awards and credit recoveries as at 31 December 2018 and 2017, depending on the nature of the asset, taking into account their impairment fund.

In thousands of euros

	31/12/2018		31/12/2017	
	%	amount	%	amount
Assets for residential use	59%	921	12%	1,879
Asset for industrial or commercial use	30%	462	7%	1,080
Undeveloped land	11%	179	81%	12,194
Total	**100%**	**1,562**	**100%**	**15,153**

21. Financial liabilities at amortised cost

21.1. Composition of the balance

The composition of the balance of these sections of the consolidated statements of financial position in accordance with the nature of the financial liability as at 31 December 2018 and 2017 was as follows:

In thousands of euros

	31/12/2018	31/12/2017
Deposits	**1,917,964**	**1,693,127**
AFA	27,150	21,276
Credit institutions	48,286	20,767
Clients	1,842,528	1,651,084
Debt securities issued	**34,158**	**34,795**
Other financial liabilities	**20,149**	**12,034**
Total	**1,972,271**	**1,739,956**

21.2 AFA deposits

The composition of the AFA deposits as at 31 December 2018 and 2017 was as follows:

In thousands of euros

	31/12/2018	31/12/2017
Demand	3,371	2,139
Term deposits	23,779	19,137
Total deposits in Central Banks (AFA)	**27,150**	**21,276**

21.3 Deposits of credit institutions

The list of deposits of credit institutions as at 31 December 2018 and 2017 was as follows:

In thousands of euros

	31/12/2018	31/12/2017
Demand	22,619	12,678
Term deposits	25,667	8,089
Total deposits of credit institutions	**48,286**	**20,767**

21.4 Client deposits

The list of client deposits as at 31 December 2018 and 2017, based on the currency and the period until maturity, was as follows:

In thousands of euros

	31/12/2018	31/12/2017
By currency:	**1,842,529**	**1,651,084**
In euros	1,452,206	1,353,757
In currency	390,323	297,327
Deposits by type:	**1,842,529**	**1,651,084**
Demand	1,415,194	1,318,969
Term deposits	427,335	332,115
Total client deposits	**1,842,529**	**1,651,084**

21.5 Debt securities issued

The list of debt securities as at 31 December 2018 and 2017 was as follows:

In thousands of euros

	31/12/2018	31/12/2017
Issues of subordinated debt	34,158	34,795
Total	**34,158**	**34,795**

AOn 28 July 2006, BIBM Preferentes, Ltd performed an issue of preferential shares, with no voting rights, for an amount of €60,000,000. These preferential shares have a perpetual nature, but the issuer is entitled to amortise them in advance each year, with the AFA's prior agreement. Their remuneration is a variable rate on an annual basis, in accordance with the CMS (Constant Maturity Swap) rate at 10 years plus 30 basic 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 2018 the Group sold preferential shares of the issue performed by BIBM Preferents, Ltd for the amount of €2,209,000 and they were acquired for the amount of €2,846,000, leading to the amount of the subordinated debt recorded under the heading "Financial liabilities at amortised cost – Debt securities issued" in the attached consolidated statement of financial position being reduced by the same net amount, registering a balance of €34,158,000 as at 31 December 2018.

21.6 Other financial liabilities

The list of other financial liabilities as at 31 December 2018 and 2017 was as follows:

In thousands of euros

	31/12/2018	31/12/2017
Obligations payable	12,712	7,424
Guarantees received	4,498	3,872
Clearing houses	-	-
Collection accounts	-	-
Special accounts	250	144
Other items	2,689	594
Total	**20,149**	**12,034**

The balances recorded in this section as at 31 December 2018 mainly correspond to guarantees for future client transactions amounting to €4,471,000, cheques payable for the amount of €1,411,000 and orders to pay clients for the amount of €3,804,000. With regards to the balance of other items corresponding mainly to balances pending payment to clients for the transactions involving securities for an amount of €1,135,000 and other regulated transactions for the amount of €1,271,000.

22. Assets and liabilities covered by insurance and reinsurance contracts

El desglose del saldo de activos y pasivos amparados por contratos de seguro y reaseguro a 31 de diciembre de 2018 y 2017 es el siguiente:

In thousands of euros

	31/12/2018	31/12/2017
Provisions for non-consumed premiums	832	725
Provisions or life insurance	33,359	33,215
Provision for services	179	255
Receivables for insurance and reinsurance operations	1,954	1,766
Total Assets	**36,324**	**35,961**

In thousands of euros

	31/12/2018	31/12/2017
Provisions for non-consumed premiums	2,627	2,363
Provisions or life insurance	82,480	82,239
Deposits received for transferred reinsurance	1,155	994
Debts for reinsurance operations	73	350
Ongoing operations	124	148
Total Liabilities	**86,459**	**86,094**

23. Provisions

23.1 Composition of the balance

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

In thousands of euros

	31/12/2018	31/12/2017
Pensions and other post-employment defined benefit obligations	17,787	16,211
Other remuneration for long-term employees	1,265	1,355
Procedural issues and litigation for pending taxes	2,136	4,184
Commitments and guarantees granted	901	10
Other provisions	3,096	4,244
Total	**25,185**	**26,004**

Below appears a brief description of the nature of the obligations contracted, as well as the movements which occurred during the 2018 and 2017 financial years in the balances of the components of the headings of this section:

Pensions and other post-employment defined benefit obligations

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

During the 2018 financial year, the necessary provisions for the hedging of all the salary and social commitments of a group of employees have been established who, in meeting certain characteristics, have been included in the early retirement process carried out by the Group under an incentive programme, charging them to profit and loss. These commitments have been added to those already provided for in previous financial years and have been updated based on an actuarial study by an independent expert.

Other remuneration for long-term employees

The registered balance in this fund corresponds to the long-term remuneration of employees which is updated on an annual basis, it is based on an internal remuneration system whose beneficiaries are active employees as well as those who have retired and taken early retirement.

Procedural issues and litigation for pending taxes

This corresponds entirely to the fund which the Group allocates to cover court litigation processes for third-party claims which are currently being processed (see Note 3.17).

Provisions for commitments and guarantees granted

This fund corresponds to the impairment of commitments and contingencies for credit transactions amounting to €901,000.

Other provisions

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

This balance includes provisions pending payment to the Andorran Deposit Guarantee Fund (FAGADI in its Catalan initials) for the amount of €640,000 and the provisions constituted to cover derivative risks from the Group's operation in distribution and financial intermediation.

23.2 Changes in provisions

The changes in provisions for pensions and obligations of post-employment benefits and similar during the 2018 and 2017 financial years were as follows:

In thousands of euros

	2.018	2.017
Balance at the beginning of the year	**16,211**	**18,489**
Plus:	**4,543**	**329**
Provision to the fund charged to personnel expenses	-	12
Extraordinary provision	4,418	214
Return on assets related to the fund charged to the financial margin	125	103
Less:	**(2,967)**	**(2,607)**
Recoveries of the fund	(332)	(342)
Applications of the fund	(2,635)	(2,265)
Balance at the end of the year	**17,787**	**16,211**

During 2017 and 2018 the balance of the long-term remuneration of employees had the following movement:

In thousands of euros

	2.018	2.017
Balance at the beginning of the year	**1,355**	**1,172**
Plus:	**335**	**183**
Provision to the fund	335	183
Less:	**(425)**	**-**
Recoveries of the fund	(425)	-
Balance at the end of the year	**1,265**	**1,355**

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 2018 and 2017:

In thousands of euros

	2.018	2.017
Balance at the beginning of the year	**4,184**	**1,498**
Plus:	**1,499**	**2,740**
Provision to the fund	173	2,740
Transfers	1,326	-
Less:	**(3,547)**	**(54)**
Recoveries of the fund	(2,998)	(54)
Applications of the fund	(549)	-
Balance at the end of the year	**2,136**	**4,184**

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 2018 and 2017:

In thousands of euros

	2.018	2.017
Balance at the beginning of the year	**10**	**-**
Plus:	**891**	**10**
Provisions to the fund	254	10
Transfers	637	-
Balance at the end of the year	**901**	**10**

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

The movement of the section titled "Other provisions" in the liabilities of the attached consolidated statements of financial position in 2018 and 2017 was as follows:

In thousands of euros

	2.018	2.017
Balance at the beginning of the year	**4,244**	**3,782**
Plus:	**805**	**1,559**
Provision to the fund	805	1,559
Less:	**(1,954)**	**(1,097)**
Recoveries of the fund	(487)	(586)
Applications of the fund	(984)	(511)
Transfers	(483)	-
Balance at the end of the year	**3,095**	**4,244**

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

24. Post-employment remuneration and other commitments with employees

24.1 Composition of the balance

As at 31 December 2018 and 2017, the details of the current value of the obligations assumed by the Bank in matters of post-employment remuneration, depending on the way in which the commitments were covered and at the fair value of the assets of the plan allocated to its hedging, was as follows:

In thousands of euros

	31/12/2018	31/12/2017
Obligations for defined benefit pensions	**6,016**	**6,443**
Commitments caused	6,016	6,443
Obligations for early retirements	**11,608**	**9,768**
Other long-term remuneration	**1,428**	**1,355**
Total	**19,052**	**17,566**

24.2 Defined benefit schemes

Movement of the provisions for defined benefit commitments

The movements which occurred in 2018 and 2017 in obligations for pension commitments and other similar obligations are shown below:

In thousands of euros

	Obligations for defined benefit pensions	Obligations for early retirement and other similar obligations	Total
Balance as at 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 at 31 December 2017	**6,443**	**9,768**	**16,211**
Total impacts in the income statement	**28**	**4,183**	**4,211**
Cost of current services	-	-	-
Costs for past services	(50)	4,136	4,086
Net interest income	78	47	125
Other impacts	**(455)**	**(2,180)**	**(2,635)**
Benefits paid	(455)	(2,180)	(2,635)
Other movements	-	-	-
Balance as at 31 December 2018	**6,016**	**11,711**	**17,787**

24.3 Details of actuarial hypotheses

Below appear the main actuarial hypotheses used in the valuation of the commitments as at 31 December 2018 and 2017:

In thousands of euros

	2018	2017
Financial hypotheses		
Types of discount	corporate bondcurve AA (in €)	corporate bondcurve AA (in €)
Nominal rate of update	0.5-1.50%	0.5-1.25%
Increase CPI	1%	1%
CASS salary increase	1%	1%
Demographic hypotheses		
Mortality tables	PERM-2000P (H) and PERF-2000P (D)	PERM-2000P (H) and PERF-2000P (D)
Disability tables	70% absolute disability (IASS-90)	70% absolute disability (IASS-90)
Retirement age	65	65

24.4 Analysis of the sensitivity of the main hypotheses

The variations of the main hypotheses can affect the calculation of the commitments. Below appears a table of sensitivities with the effect a variation would cause in the obligations in the main hypotheses for the 2017 and 2018 financial years:

VAA central scenario (thousands of euros):

CURRENT ACTUARIAL VALUE AT 31.12.2018		
	Beneficiaries caused	Early retired people
	6,016	**11,608**

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**	(552)	(9.17)	653	10.86	(338)	(2.91)	176	1.52
Types of discount	**50% Basic Points**	(287)	(4.77)	312	5.19	(171)	(1.47)	176	1.52
Variation in Inflation	**50% Basic Points**	-	-	-	-	-	-	-	-
Mortality Rate	**1 year**	(211)	(3.51)	212	3.52	(17)	(0.15)	15	0.13

VAA central scenario (thousands of euros):

CURRENT ACTUARIAL VALUE AT 31.12.2017		
	Beneficiaries caused	Early retired people
	6,443	**9,604**

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**	(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

The sensitivities have been determined on the date of the consolidated financial statements and correspond to the individual variation of each of the assumptions, maintaining the others constant, excluding potential combined effects.

24.5 Defined contribution plans

In 1977, the Group established a pension fund for employees whose purpose was to complement the benefits of the Andorran Social Security Fund.

In 2007, it was proposed to 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.

As a result of the outsourcing process, payments for the amount of €455,000 (€498,000 in the financial year 2017) were made in 2018.

In addition, for passive employees as well as for active ones who did not join the new pension system (without currently active employees), an internal pension fund is maintained (see Note 24.2).

During the 2018 and 2017 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.

24.6 Obligations to staff who have taken early retirement

In 2016 the Bank established, charging them to profit and loss, the necessary provisions for covering 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. Similarly, in 2017 and 2018 the Group has continued this early retirement scheme under the said incentive programme with similar characteristics as the previous ones.

The charge for this item has been recorded under "Allocation to provisions" in the attached consolidated statement of income (see Note 3.21.q 23), together with the updates of all the salary and social commitments acquired in previous years for similar processes.

During 2018 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 3.21. q 23).

In addition, in the 2018 financial year payments for this concept were made for the amount of €2,180,000 (€1,767,000 to 2017).

25. Capital and reserves

25.1 Share capital

The share capital appearing in these consolidated financial statements corresponds to that of Mora Banc Grup, SA, which is represented by 7,056,000 shares, each with a nominal value of €6.01, fully subscribed and paid for.

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 with 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.

25.2. Nature and purpose of the reserves

Composition of the reserves

The composition of the reserves as at 31 December 2018 and 2017 was:

In thousands of euros

	31/12/2018	31/12/2017
Accumulated profits	**155,079**	**145,608**
Legal reserve	16,214	16,214
Guarantee reserves (see Note 2.7.3)	25,338	24,334
Voluntary reserves	113,527	105,060
Other reserves	**68,275**	**75,841**
Reservations for the first application	(31,707)	(23,621)
Reserves of consolidated companies by the full consolidation method	99,963	99,344
Reserves of companies made up of the equity method	19	118
Total	**223,354**	**221,449**

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 at 31 December 2018, the legal reserve was fully constituted. The legal reserves of the consolidated companies are included in this section.

Guarantee reserves

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

Law 20/2018 involves the adaptation of the current EU regulations on the deposit and investment guarantee system for Andorran banking institutions, regulated by Law 1/2011 of 2 February, on the creation of a deposit guarantee system for banking institutions and the regulation of the organisation and functioning of the Management Committee, approved by the Decree of 9 May 2012.

In compliance with these laws, the Group has constituted a reserve in guarantee of its operational obligations totalling €25,128,000 (see Note 2.7).

In addition, the guarantee reserves include €210,000 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 2.7).

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.

First application reserves

At 31 December 2018, under the heading "Other reserves – First application reserves" of the consolidated statement of the financial position, the following details are recognised:

- The effect of the necessary adjustments recognised in the 2017 financial year resulting from the transition from the accounting criteria in force until 31 December 2016 and the new international regulation to be applied from 1 January 2017 (IFRS - EU).
- The effect of the necessary adjustments recognised as at 1 January 2018 the first application of IFRS 9 which entered into force in 2018.

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

	2018	2017
Integrated globally (*):		
Mora Banc, SAU	94,754	95,608
Mora Gestió d'Actius, SAU	4,158	3,781
Mora Assegurances, SAU	5,106	3,916
Mora Wealth Management AG	30	(333)
Mora Wealth Management USA. LLC	3	-
Mora Wealth Management LLC	(3,399)	(3,315)
Mora WM Securities, LLC	212	(201)
Amura Capital Turquoise, SA	(1,031)	60
SICAV Amura (Onix)	(46)	-
SICAV Amura (Emerald)	(38)	(29)
Vicens – Gaudi SOCIMI SA	(7)	-
SICAV Rocanegra	-	(96)
SICAV Burna	(35)	(48)
Other holdings	256	-
Integrated by the equity method:		
Serveis i Mitjans de Pagament XXI, SA	19	118
Total consolidation Reserves	**99,982**	**99,461**

(*) As established in IFRS 10, the Institution has considered in the consolidation process only the part of the investee considered separately over which it holds control, and over which it has rights to the profits; the rest would be classified as minority interests.

26. Other comprehensive income

The statements of comprehensive income for the 2018 and 2017 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

Other comprehensive income	Balance on 31/12/2017	Imports transferred to the income statement	Imports transferred to reserves	Balance on 31/12/2018
Items which cannot be reclassified in results	**-**	**-**	**(385)**	**(385)**
Changes in the fair value of equity instruments valued at fair value through other comprehensive income	-	-	(385)	(385)
Items which can be reclassified to profit or loss	**2,806**	**(3,256)**	**(2,391)**	**(2,842)**
Cash flow hedges	867	-	59	926
Financial assets valued at fair value through other comprehensive income	1,939	(3,256)	(2,450)	(3,768)
Total	**2,806**	**(3,256)**	**(2,776)**	**(3,227)**

In thousands of euros

Other comprehensive income	Balance on 01/01/2017	Imports transferred to the income statement	Imports transferred to reserves	Balance on 31/12/2017
Items which can be reclassified to profit or loss	**7,207**	**(6,375)**	**1,974**	**2,806**
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**

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 at 31 December 2018 and 2017:

In thousands of euros

	2018	2017
Minority Reserves	(4)	(4)
Total	**(4)**	**(4)**

28. Own resources and capital management

28.1 Own resources

As at 31 December 2018 and 2017, 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 26.28% as at 31 December 2018.

As at 31 December 2018, the Group has a CET 1 equity ratio of 24.67% and a CET 1 (fully loaded) ratio of 21.51%.

28.2 Capital management

One of the Group's objectives is to maintain a comfortable capital adequacy to the risk profile assumed, to strengthen its position as one of the strongest institutions on the market.

To this effect, the Board of Directors determines the Group's risk and capital policy. For its part, the Management Committee carries out its management at the highest level, in accordance with the strategies established by the Board of Directors.

The business model of 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 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 at 31 December 2018 and 2017 was as follows:

In thousands of euros

	2018	2017
Commitments and guarantees granted	**290,721**	**314,564**
Loan commitments granted	209,232	238,996
Endorsements awarded	80,512	74,536
Documentary credits	978	1,032
Adjustments for valuation	**(902)**	**(584)**
Impairment losses	(902)	(584)
Total	**289,819**	**313,980**

The Group is committed to providing funds to clients for available credit lines and other commitments, at the time it is requested to do so and subject to the fulfilment of certain conditions by the counterparties.

Similarly, in the case of financial guarantees, the Institution will only have to meet the amount of contingent risks if the guaranteed counterparty fails to fulfil its obligations at the time of the non-compliance.

In this regard, the Group calculates that a significant part of these amounts will come on their maturity without any obligation for the Group to pay being materialised, in such a way that the joint balance of these commitments cannot be considered as a real future need for financing or liquidity to be granted to third parties by the Group.

30. Assets affected by other own obligations and third parties

As at 31 December 2018 and 2017 there were no significant assets owned by the Group affecting obligations of third parties.

31. Purchase and sale commitments

As at 31 December 2018, 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 2018 and 2017 was as follows:

In thousands of euros

	2018	2017
Loans and accounts receivable of clients	**1,040,635**	**949,726**
Client deposits in cash	**1,842,529**	**1,651,084**
Financial instruments safeguarded	**2,791,232**	**3,076,456**
Those managed by the Group	2,791,232	3,076,456
Discretionary portfolios	376,925	421,072
Collective Investment Undertakings	836,658	989,667
Other individual clients	1,577,649	1,665,717
Resources of clients outside the statement of financial position not safeguarded	**1,905,946**	**1,655,841**
Managed by the Group	1,905,946	1,655,841
Discretionary portfolios	1,905,946	1,655,841
Total	**7,580,342**	**7,333,107**

33. Net income due to interest

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 interest in the 2018 and 2017 financial years was as follows:

In thousands of euros

	2018	2017
Interest income		
Financial assets at fair value through other comprehensive income	5,546	2,913
Loans and accounts receivable	30,165	22,831
Derivatives - Hedge accounting, interest rate risk	-	1,194
Total interest income	**35,711**	**26,938**
Interest expenses		
Financial liabilities at amortised cost	(7,763)	(5,702)
Derivatives - Hedge accounting, interest rate risk	(2,468)	-
Other liabilities	(125)	(156)
Total interest expenses	**(10,356)**	**(5,858)**
Net result from income	**25,355**	**21,080**

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 2018 and 2017 as functions of the nature of the non-financial service which gave rise to them were as follows:

In thousands of euros

	2018	2017
Commission income		
Security services	50,541	50,847
Commissions for credit transactions and client maintenance	7,867	9,611
Other commissions for services provided	3,250	4,724
Total income from commissions	**61,658**	**65,182**
Commission expenses		
Commissions accrued for services received	(11,389)	(10,382)
Total commission expenses	**(11,389)**	**(10,382)**
Net income from commissions	**50,269**	**54,800**

35. Result of financial operations

The breakdown of the balance in this section of the consolidated statements of income accrued during 2018 and 2017 is as follows:

In thousands of euros

	2018	2017
Profits or losses due to derecognition of unrealised financial assets and liabilities at fair value through profit or loss, net	3,312	9,279
Profits or losses from financial assets and liabilities held for trading, net	722	204
Profits or losses on the derecognition of non-valued financial assets and liabilities at fair value through profit or loss, net	1,523	-
Profits or losses resulting from hedge accounting, net	1,082	(153)
Exchange differences (profit or loss), net	1,244	1,507
Total result for financial operations	**7,883**	**10,837**

36. The result of the investees by the equity method

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

In thousands of euros

	2018	2017
Serveis i Mitjans de Pagament XXI, SA	(30)	(99)
Total	**(30)**	**(99)**

37. Other operating income and expenses

The breakdown of the balance of the sections titled “Other operating income” and “Other operating expenses” of the consolidated income statements is:

In thousands of euros

	2018	2017
Other operating income	**5,182**	**3,039**
Results of assets and liabilities covered by insurance contracts	3,284	2,433
Use of property	1,714	211
Others	184	395
Other operating expenses	**(366)**	**(1,013)**
Expenses for the maintenance of the assets awarded	-	(105)
Reversals for security operations	(191)	(343)
Contributions to the FAREB	-	(503)
Others	(175)	(62)
Total other operating income and expenses	**4,816**	**2,026**

During the 2018 and 2017 financial years, included under the heading “Other operating income” the main income with regards to the Group’s insurance activity, the use of property investments rental cultural purposes; and additionally, under “other expenses” mainly including the reversal of security operations.

38. Personnel expenses

The list of the personnel expenses for the years ending on 31 December 2018 and 2017 was as follows:

In thousands of euros

	2018	2017
Wages and salaries	26,406	24,562
Social Security	3,739	3,464
Contributions to defined contribution pension funds	574	449
Provisions to defined benefit pension plans	-	150
Other personnel expenses	1,537	1,533
Total personnel expenses	**32,256**	**30,158**

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

The figure for the 2018 wages and salaries includes non-recurrent items such as compensation.

Below are the details of the average workforce for the 2018 and 2017 financial years.

	No. of employees	
Average workforce	2018	2017
Directors	26	24
Middle management	57	77
Technicians	120	101
Administrative staff	110	134
Total average workforce	**313**	**336**

39. Other administrative expenses

The breakdown of the balance of this section of the consolidated statements of income accrued during 2018 and 2017 is as follows:

In thousands of euros

	2018	2017
Administrative and operational expenses	13,645	11,455
Taxes	1,632	1,658
Technical and technological services and information systems	7,235	7,776
Other expenses	1,135	750
Total other administrative expenses	**23,647**	**21,639**

40. Impairment of the value or reversal of the impairment of the value of financial assets not valued at their fair value through profit or loss

The balance of this section of the attached statements of income corresponding to the 2018 and 2017 financial years is shown in the following table:

In thousands of euros

	2018	2017
Financial assets at amortised cost	**(1)**	**(1,797)**
Loans and items for clients	(131)	(1,900)
Credit institutions	9	299
Debt securities	121	(196)
Financial assets at fair value through other comprehensive income	**239**	**(17)**
Equity instruments	-	(17)
Debt securities	239	-
Other financial instruments not valued at their fair value through profit or loss	**-**	**-**
Equity instruments	-	-
Debt securities	-	-
Total	**238**	**(1,814)**

41. Corporate tax

41.1 Impact recognised in the income statement

The amount reflected in Group's consolidated statement of income corresponding to the years ending on 31 December 2018 and 2017 was as follows:

In thousands of euros

	2018	2017
Profit for the year attributable to the Group before taxes (*)	32,528	29,121
Permanent differences	214	(1,665)
Tax base	**32,742**	**27,456**
Tax rate	10%	10%
Tax fee	**3,274**	**2,746**
Deductions and allowances	(1,654)	(1,608)
Settlement fee	**1,620**	**1,138**
Payments on account	-	-
Differential fee	**1,620**	**1,138**

*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 2018 and 2017:

In thousands of euros

	2018	2017
Elimination of dual taxation for participation in profits	(7,760)	(6,200)
Provisions and losses for insolvencies of Group companies	391	1,871
Provisions for liabilities and pension funds	4,874	1,451
Losses for impairment of unlisted shares	1,579	-
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	784	776
Elimination of dual internal and international taxation	223	369
Donations and liberalities	60	56
Others	63	12
Total permanent differences	**214**	**(1,665)**

The list of the deductions and allowances applied as at 31 December 2018 and 2017 was as follows:

In thousands of euros

	2018	2017
New investments in Andorra in fixed assets related to the activity	(647)	(459)
Elimination of international dual taxation	(223)	(369)
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	(784)	(775)
Creation of jobs in Andorra	-	(5)
Total deductions and allowances	**(1,654)**	**(1,608)**

41.2 Amount recognised in other comprehensive income

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 2018 and 2017:

In thousands of euros

	2018			2017		
	Before tax	Tax benefit (expense)	After tax	Before tax	Tax benefit (expense)	After tax
Items corresponding to other comprehensive income	**(3,585)**	**358**	**(3,227)**	**2,806**	**(281)**	**2,525**
Financial assets with changes in other comprehensive income	(4,614)	461	(4,153)	1,939	(194)	1,745
Cash flow hedges	1,029	(103)	926	867	(87)	780
Total	**(3,585)**	**358**	**(3,227)**	**2,806**	**(281)**	**2,525**

41.3 Balancing of effective tax rate

Below appears the balancing between the corporate tax expenditure accounted for in the consolidated statements of income for 2018 and 2017 and the profit before taxes of the said exercises applying the tax rate in force in Andorra:

In thousands of euros

	2018		2017	
	Effective rate	Amount	Effective rate	Amount
Result before taxes		**32,528**		**29,121**
Corporate tax with the local tax rate	10%	3,253	10%	2,912
Effect of the tax rates abroad		22		37
Non-deductible expenses		775		417
Non-taxable income		(776)		(620)
Deductions and allowances		(1,654)		(1,608)
Other effects		153		368
Total tax expenditure		**1,773**		**1,506**

41.4 Composition of deferred tax assets and liabilities

In accordance with the current tax regulations, in 2018 and 2017 there were certain temporary differences to be taken into account when calculating the corresponding corporate tax expenditure.

The balance as at 31 December 2018 and 2017 for deferred tax assets and liabilities was as follows:

In thousands of euros

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Tangible and intangible assets	1,090	8	3,557	921
Financial assets with changes in other comprehensive income	461	-	-	215
Hedging of fair value	-	-	-	4
Insolvencies	990	77	867	-
Tax losses to be compensated in the future	-	-	-	-
Due to change in fair value	5	2	604	-
Others	1,489	-	1,110	200
Net assets (liabilities)	**4,035**	**87**	**6,138**	**1,340**

In accordance with the information available as at 31 December 2018, 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.

41.5 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 at 31 December 2018 and 2017 were as follows:

In thousands of euros

	Balance on 01/01/2018	Recognised in Results	Recognised in others Results comprehensive	Balance on 31/12/2018
Tangible and intangible assets	2,636	(1,555)	-	1,081
Financial assets at fair value through other comprehensive income	(215)	215	461	461
Hedging of fair value	(4)	4	-	-
Insolvencies	867	47	-	914
Due to change in fair value	604	(601)	-	3
Others	910	579	-	1,489
Total	**4,798**	**(1,311)**	**461**	**3,948**

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
Tax losses to be compensated in the future	-	-	-	-
Due to change in fair value	604	-	-	604
Others	725	185	-	910
Total	**4,828**	**185**	**(215)**	**4,798**

42. Related parties

Below appear the most significant balances held as at 31 December 2018 and 2017 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

	2018			
	Shareholders	Subsidiary and associate institutions	Administrators and senior management	Other related parties
Assets				
Loans and advances	11,967	-	1,462	94,438
Credit institutions	-	-	-	59,011
Clients	11,967	-	1,462	35,427
Investments in subsidiaries, joint ventures and associates	-	1	-	-
Liabilities				
Deposits	14,011	231	978	16,473
Deposits of credit institutions	-	-	-	-
Client deposits	14,011	231	978	16,473
Debt securities issued	-	34,158	-	-
Order accounts				
Commitments from loans granted	3,303	-	-	21,574
Financial guarantees granted	40	20	11	4,420
Resources held	190,257	-	12,074	54,555
Losses and Profits				
Net income due to interest	299	-	14	628
Dividend income	-	-	-	-
Net income for commissions	867	-	63	648
Administrative costs	-	(375)	(3,790)	-

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
Clients	19,235	-	1,073	32,421
Investments in subsidiaries, joint ventures and associates	-	31	-	-
Liabilities				
Deposits	48,346	224	5,498	16,354
Deposits of credit institutions	-	-	-	-
Client deposits	48,346	224	5,498	16,354
Debt securities issued	-	34,795	-	-
Order accounts				
Commitments from loans granted	15,855	75	-	4,818
Financial guarantees granted	1,249	20	10	434
Resources held	206,833	-	8,717	112,481
Losses and Profits				
Net income due to interest	181	-	12	817
Dividend income	-	-	-	-
Net income for commissions	682	-	68	72
Administrative costs	-	(898)	(3,310)	-

In accordance with the responsibilities and operating procedures 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 2018, with regard to key personnel and management, these did not receive remuneration corresponding to the following items:

- Post-employment benefits,
- Share-based payments,
- Other long-term benefits

As at 31 December 2018 and 2017 there was no evidence of impairment of the value of the financial assets or the endorsements 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 2018 and 2017 was as follows:

In thousands of euros

	2018	2017
Up to 1 year	1,557	1,146
Between 1 and 5 years	3,561	2,694
More than 5 years	2,569	1,031
Total	**7,687**	**4,871**

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

44.1 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 26.28% and 65.73% as at 31 December 2018.

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 2018 and 2017, the maximum risk concentrations for a single beneficiary respectively totalled 11.23% and 10.29% 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 73.31% and 27.35% during 2018 and 2017 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).

As 31 December 2018, the Group has a CET 1 equity ratio of 24.67% and a CET 1 (fully loaded) ratio of 21.51%, reflecting a very 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 10.36% leverage ratio for the Group over its ordinary level 1 capital (CET 1), above the regulatory minimum of 3%.

Finally, it should be noted that, in accordance with Monetary Agreement signed between the Principality and European Union, Andorra has undertaken to apply to its legal system, among others, Directive 2013/36/EC of the European Parliament and of the Council of 26 June 2013 on the access to the activity by banking institutions and investment companies. It therefore modifies Directive 2002/87/CE and repeals Directives 2006/48/CE and 2006/49/CE, as well as Regulation (EU) 575/2013 of the Parliament and of the Council of 26 June 2013 on the prudential supervision of banking institutions and investment companies, thereby modifying Regulation (EU) 648/2012, as well as various delegated and implementing actions in which certain aspects of this directive and regulation are developed in more depth. Therefore, in order to adapt the Andorran legal system to the regulatory changes imposed by the scope of the European Union on this matter, the General Council, in its session on 20 December 2018, approved the new solvency, liquidation and prudential supervision of banking institutions and investment companies law. At the date of closing of the 2018 financial year, this new law was yet to be published in the Official Bulletin of the Principality of Andorra to enter into force at the end of the financial year. On 23 January 2019 published in the Official Bulletin of the Principality of Andorra.

This new law will mean a significant leap in comparison with the Law regulating solvency and liquidity criteria for financial institutions of 29 February 1996. Among the main differences from the perspective of solvency, the differentiation of the various capital elements according to their capacity to absorb losses are noteworthy including: more stringent requirements when considering the equity instruments as own funds; a significant increase in the total amount of the institutions' exposure to various risks (credit and counterparty risk, market risk, operational risk, liquidation risk and credit valuation adjustment risk resulting from over-the-counter derivative instruments); capital buffer regime; the self-assessment of risks for each institution in dialogue with the Andorran Financial Authority (AFA), as well as the need to equip themselves with additional capital to cover risks not captured in the total exposure to the risk identified supervisory review and assessment process; transparency in the market on compliance with the requirements for solvency and liquidity of the institutions and finally the obligation to publish information required by the AFA in relation to financial supervision and regulation. It is not expected that the Institution's levels of capital shall be affected compared to the current situation.

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.

As regards the Government of Andorra, at its meeting on 23 May 2018, approved the Regulation implementing Law 14/2017 which aims to develop the Law, in accordance with the authorised regulations contained in its articles.

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 appropriate 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, assessed and understood, in order to apply mitigation measures which are appropriate and proportionate to the risks. The Group has established a series of control and communication procedures in order to prevent and deter money laundering operations 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 institutions working in the financial system, the protection of the investor, market abuse and financial guarantee agreements.

The General Council of the Principality of Andorra, at its session held on 9 May 2013, approved Law 8/2013 of 9 May, on the organisational requirements and operating conditions of the institutions working in the financial system, the protection of the investor, market abuse and financial guarantee agreements, with the aim of maintaining a structurally and functionally solid financial system. This law incorporates the basic administrative regime of banking institutions which to date had been set forth in Law 14/2010 of 13 May, of the legislation of the basic administrative regime of banking institutions working in the financial system. Similarly, it contains the requirements for the protection of investors giving continuity to that provided for to date through Law 14/2010, which included the principles set forth in the EU Directive 2004/39 EC, of the European Parliament and of the Council of 21 April 2004 more commonly known as the "MiFID I Directive".

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

Finally, it should be noted that the General Council in its meeting on 20 December 2018, with the approval of the new law on solvency, liquidation and prudential supervision of banking institutions and investment companies, has modified Law 8/2013 of 9 May, on organisational requirements and the operating conditions of institutions working in the financial system, the protection of the investor, market abuse and financial guarantees. At the date of the closure of the 2018 financial year, this new law was yet to be published in the Official Bulletin of the Principality of Andorra regarding its entering into force.

By means of these modifications, the Andorran legal system will be adapted to the provisions contained in Directive 2013/36 /EU, of the European Parliament and of the Council of 26 June 2013, relating to access to the activity of the credit institutions and the prudential supervision of credit institutions and investment companies, which therefore modifies Directive 2002/87/EC and the repealing Directives 2006/48/EC and 2006/49/EC. These laws modify some very relevant aspects of the organisation and the activities of institutions working in the financial system in areas such as corporate governance, with specific obligations for senior management, the creation of committees delegated by the Board of Directors with the presence and dedication of independent board members, an assessment of the suitability requirements of the Board of Directors, a specific regime regarding incompatibilities for the said members and the development of remuneration policies which are better aligned with the institutions' risks, among other aspects, which is considered an important advancement with regards to corporate governance, promoting more effective and optimised management practices in the development of financial activities.

With this modification there are also changes which will be incorporated on the issue of the organisational requirements and operating conditions resulting from Directive 2004/39 of 21 April 2004, on markets in financial instrument and the implementing provisions, more commonly known as the "MiFID I Directive", as well as certain aspects of its succeeding Directive, that being Directive 2014/65/UE, of the European Parliament and of the Council of 15 May 2014, regarding markets in financial instruments, which amends Directive 2002/92/EC and Directive 2011/61/EU, known as the "MiFID II Directive".

Law on the payment services and electronic money

In accordance with the Monetary Agreement, Andorra pledged to implement, among others, the following directives into its legal system: Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007, relating to payment services in the internal market; as well as Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009, on the taking up, pursuit and prudential supervision of the business of electronic money institutions. With the purpose of complying with the aforementioned commitments, the General Council of the Principality of Andorra, in its session held on 17 May 2018, approved Law 8/2018, of the 17 May, on payment services and electronic money and the electronic money institutions as new operating institutions forming part of the Andorran financial system, with their own legal system, and to regulate the rights and obligations of suppliers and users in relation to the provision and use of payment institutions and issuing electronic money. In addition to establishing a framework for the uniform protection for consumers, this law facilitates the operational application of payment instruments in euros in the "Single Euro Payment Area" (SEPA).

Similarly, through a modification of the Annex to the Monetary Agreement, Andorra pledged to implement in its legal system, Directive 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market as well as the repealing Directive 2007/64/EC, whose main objectives are to facilitate and improve security in the use of Internet payment systems, introducing two new payment services (the initiation and payments and account information services) as well as establishing a more protective regime of the rights of the users of payment services with regards to the subject of security and transparency.

Taking into account that set forth in Directive 2015/2366 is a review of the legal framework previously created in Directive 2007/64, the General Council of the Principality of Andorra, in its session held on 25 October 2018, approved the Law 27/2018, of 25 October which amends Law 8/2018 on payment services and electronic money, with the purpose of including the changes introduced by Directive 2015/2366 into the Andorran legal system.

Automatic exchange of information on tax matters

The General Council of the Principality of Andorra, at its session on 21 February 2005, ratified the Agreement between the Principality of Andorra and the European Community regarding the establishment of measures equivalent to those provided for in Directive 2003/48/EC on taxation of savings income in the form of payment of interest. Similarly, at its session held on 13 June 2005, it approved Law 11/2005 on the application of the above-mentioned Agreement.

On 12 February 2016, the Government of Andorra signed the Protocol amending the above-mentioned Agreement between the European Community and the Principality of Andorra. The amendment of the Agreement entails the automatic exchange of information between the member states of the European Union and the Principality of Andorra with the application of the common standard of the Organization for Economic Co-operation and Development (OECD) of the norms of communication and due diligence relative to the information on financial accounts (Common Reporting Standard OECD-CRS).

On 30 November 2016, the General Council approved Law 19/2016 on the automatic exchange of information on fiscal matters, to apply the above-mentioned amending Protocol. This Law came into force on 1 January 2017 and repeals Law 11/2005, in the application of the Agreement between the Principality of Andorra and the European Union with regards to the establishment of measures equivalent to those provided for in Directive 2003/48/EC of the Council on the subject of the taxation of savings income through interest payments. On 30 November 2017, the General Council approved Law 29/2017 which amended Law 19/2016 developing the first section of the last provision in order to incorporate the list of states with whom, within the Multilateral Competent Authority Agreement (MCAA) framework, information relating to financial accounts will be automatically exchanged in 2018. 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.

Since the 2018 financial year, the Group has been fulfilling the objectives of establishing and providing the necessary mechanisms to properly apply, as at 1 January 2017 and during the 2018 financial year, the content established in Law 19/2016, in relation to the automatic exchange of information on fiscal matters.

The law on Andorran deposit guarantee funds and of the Andorran investment guarantee system

Pursuant to the Monetary Agreement signed between the Principality and the European Union, which requires the transposition of Directive 2014/49/EU, of 16 April 2014 on deposit guarantee schemes, and Directive 97/9/EC, of 3 March 1997 on investor compensation schemes, both issued by the European Parliament and Council; the General Council of the Principality of Andorra, in its session held on 13 September 2018, approved Law 20/2018, of 13 September, regulating the Andorran Deposit Guarantee Fund and the Andorran investment guarantee system. Law 20/2018 entails the adaptation of the EU regulations currently in force for the deposit guarantee and investment system of Andorran banking institutions, regulated by Law 1/2011, of 2 February, on the creation of a deposit guarantee system for banking institutions and the Regulation of the organisation and functioning of the Management Committee, approved by the Decree issued on 9 May 2012.

Law 20/2018 regulating the Andorran Deposit Guarantee Fund (FAGADI in its Catalan initials) as a deposit guarantee system in the terms established in Directive 2014/49/EU and with an additional financial resource buffer for which FAGADI make further resources available than those required by the said Directive.

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

- The system of covering €100,000 per depositor and per entity is maintained. And additional coverages are incorporated in exceptional cases that provide guarantees up to a limit of €300,000.

- The resources of the FAGADI must amount to 0.8% of the guaranteed deposits with the deadline of 30 June 2024 by means of the annual contributions of the banking entities. In addition, from that date onwards, banking institutions will continue making annual contributions to the Fund so that the said Fund reaches a level of 1.6% of the financial resources in a period of twenty years from 2024, although FAGADI's maximum coverage limit for the group of beneficiaries cannot exceed €200 million.

Law 20/2018 maintains that the Andorran Investment Guarantee System (SAGI in its Catalan initials) as an ex post guarantee scheme in which, along with the banking institutions which have been participants up until now, financial investment institutions and management companies of collective investment bodies which are authorised to provide administrative and safekeeping of financial instruments, will also participate.

The main features of the investment guarantee scheme are the following:

- The coverage by the scheme of €100,000 per holder is maintained, higher than the coverage of €20,000 set forth in Directive 97/9/EC. This law also establishes a total limit of the SAGI resources that, for the group of beneficiaries as whole, cannot exceed €50 million.

- The guarantee covers situations which it is impossible to recover the values lost through the solvency of the institution which provides the service of the administration and safekeeping of the values. Losses resulting from the fluctuation in the value of investments are not guaranteed.

- The objective of the SAGI resources of 1.5% of the calculation based of the investments regulated by Law 1/2011, with 30 June 2020 being the deadline to achieve it, is maintained.

The amount of the guarantee reserves set up by the Group as at 31 December 2018 is €24,124,000.

Indirect general tax law

In accordance with Law 11/2012 of 21 June, subsequently amended by Law 29/2012 of 18 October, came into force on 1 January 2013, the indirect general tax, repealing the previous Law on indirect taxation on the provision of banking services and financial services. On 12 April 2017, Legislative Decree of 5 April 2017 on the publication of the consolidated text of Law 11/2012 of 21 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.

During the 2018 financial year the Group fulfilled all the obligations resulting from the application of the said law, presenting the corresponding monthly and annual settlements.

Law on corporate tax

In accordance with Law 95/2010 of 29 December on corporate tax, Law 17/2011 of 1 December on the amendment of Law 95/2010 and the Regulation on the application of Law 95/2010 on corporate tax, the creation of a corporate tax is institutionalised. Similarly, on 20 October 2017, the General Council approved Law 17/2017 of 20 October on the tax system for business reorganisation operations, whose purpose, among other things, was to introduce certain amendments to Law 95/2010 of 29 December on corporate tax. On 8 August 2018 the legislative Decree of 1 August 2018 published in the Official Bulletin of the Principality of Andorra (BOPA in its Catalan initials), regarding the consolidated text of Law 95/2010 of 29 December, on corporate tax which included all of the amendments made.

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, with the investee institutions being Mora Banc, SAU, Mora Gestió d'Actius, SAU and Mora Assegurances, SAU.

During 2018 the Group fulfilled all the tax obligations resulting from the said law, settling the payment for the Corporate Tax for 2017.

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% or 5% tax rate (Levy). 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 2018 the Group fulfilled its fiscal obligations related to this tax, acting as withholder and payer to the tax agency of the income obtained by non-tax residents in the Principality of Andorra.

Law on personal income tax

In accordance with Law 5/2014 of 24 April on personal income tax and the Regulation implementing the above-mentioned Law, the creation of personal income tax was institutionalised. Similarly, on 20 October 2017 the General Council approved Law 17/2017 of 20 October on the tax system of business reorganisation operations, whose purpose, among other aims, was to introduce amendments to Law 5/2014 of 24 April on personal income tax. On 8 August 2018 the Legislative Decree of 1 August 2018 published in the Official Bulletin of the Principality of Andorra (BOPA in its Catalan initials), regarding the consolidated text of Law 5/2014 of 24 December, on corporate tax which included all of the amendments made.

The general rate of the personal income tax for taxable subjects, as determined by the Law, is 10%. The Law distinguishes between the general base and the savings base, depending on the type of income subject to taxation.

Law of the Andorran Financial Authority

At its session on 23 May 2013, the General Council approved Law 10/2013 on the Andorran National Institute of Finance (INAF in its Catalan initials), repealing Law 14/2003 with the creation of the AFA.

The purpose of this law is to provide the Andorran financial system's supervisory authority with the necessary means to achieve its objectives, while extending them, taking into account the global nature of its 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.

In May of 2018, approval was obtained for Law 12/2018 of 31 May, of the amendment to Law 10/2013 of 23 May, by the INAF, with the main purpose of giving the INAF authorisation, the necessary powers and instruments to take on the duties of the Supervisory Authority with regards insurance and reinsurance and the exercising of effective supervision on the subject of insurance and reinsurance.

Similarly, as a result of Law 12/2018, the INAF was transformed and renamed as the Andorran Financial Authority (AFA).

Law 8/2015 of 2 April on urgent measures to implement mechanisms for the restructuring and resolution of banking institutions

At the session of 2 April 2015, the General Council of the Principality of Andorra approved Law 8/2015 on urgent measures to implement mechanisms for the restructuring and resolution of banking institutions.

The wording and implementation of this law were inspired by the principles of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, establishing a framework for the restructuring and resolution of credit institutions and investment service companies.

This law was the Principality of Andorra's response to certain events which demonstrated that the financial system is closely inter-connected, in such a way that the crisis of one financial institution can quickly spread to other institutions and to the economy overall.

A large part of the administration of the system designed by the law is attributed to the State Agency for the Resolution of Banking Institutions (hereinafter AREB) as the competent authority in matters of resolution. In addition, in order to finance the measures agreed upon pursuant to this law, the FAREB (Andorran Fund for the Resolution of Banking Institutions) was created, an institution without legal status managed by the AREB.

44.2 Information on environmental issues

Given the Group's activity, there are no responsibilities, expenses, assets or provisions or contingencies of an environmental nature which might be significant in relation to the Group's equity, financial situation and results. For this reason, specific breakdowns regarding information on environmental issues are not included in this report on the consolidated financial statements

45. Value creation for the stakeholders

Each year Mora Banc Grup, SA prepares a sustainability report which aims to inform the stakeholders of the institution's activity. Information is prepared related to MoraBanc's economic, social and environmental development over the last year.

The 2018 report has been prepared for the first time following the guidelines of the International Framework for Integrated Reporting <IR> the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, regulation and standard issuance, professional accountants and non-governmental organisations, united with the objective of developing corporate reporting towards value creation in communication. It also highlights the sustainability of the report, following the international standard for preparing sustainability reports set by the Global Reporting Initiative (GRI), a leading international organisation in non-financial reporting. In this regard, the 2018 integrated annual report has been prepared according to the GRI standards, to which conformity is essential, and this year the adaptation to the new version of the GRI has been carried out in comparison with last year's annual report (GRI G4).

With the integrated report, the institution has gone a step further by presenting integrated information relating to strategy, vision, mission and values, along with the financial results and the impact on the stakeholders.

The following sections explain what the stakeholders really value (based on the materiality matrix undertaken) and how the institution responds to their requirements:

- Quality, excellence in banking practices and client protection: MoraBanc acts in the best interests of the client, being the Institution's main focus, offering them the best product in a transparent way. Clients are becoming increasingly more demanding and there is strong competition in the banking sector, however to the Institution's credit, it has knowledge of both the client and also how to provide a recognised and solvent way of banking. According to the Institution, it acts with impartiality, professionalism and takes into account the client's interests through its execution and management of orders, asset protection, conflicts of interest and privacy policies. In 2018 MoraBanc has been named Andorran Bank of the Year by "The Banker", a publication by the Financial Times group.

- It guarantees economic development and the creation of employment: MoraBanc is a responsible company and has a strong, long-term sustainability strategy in order to radiate economic growth, the granting of loans and credits, thereby giving confidence to savers and is an example in the banking field.
- It fights against corruption and the financing of terrorism: MoraBanc has implemented best practices to combat corruption and fight against terrorism and its financing, complying with the regulations in force through procedures and continuous monitoring.
- Equal pay for men and women, diversity and equal opportunities: the Institution encourages practices aimed at being attractive and competitive in order to attract and retain talent. To achieve this, four objectives have been set in the matter of people management: worker experience, compensation and balance, knowledge and development and talent management. MoraBanc prioritises internal promotion, equality policies and training in a safe and healthy environment.
- Ethical and responsible conduct: MoraBanc guarantees ethical and responsible conduct at all levels of the organisation so as to give greater confidence to clients. For the Institution, a strong corporate culture is a competitive advantage in the market. The Group's ethical codes of conduct and that of the stock market, the control and governance structures, training on the codes of conduct, the prevention of conflicts of interest, the corporate integrity management committee and the internal control and communication body, among others, all ensure a secure system to guarantee ethical and responsible conduct. Additionally, MoraBanc has integrated its commitment to the United Nations Sustainable Development Goals.

46. Subsequent events

Since 31 December 2018, there have been no subsequent noteworthy events.

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 AFA, are as follows:

Standards and interpretations	Title	Mandatory application for financial years already underway, starting from:
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Modifications IAS 28	Long-term interests in associates and joint ventures	1 January 2019
Modifications to IFRS 9	Prepayment features with negative compensation	1 January 2019
Annual improvements to the IFRS	2015 - 2017 Cycle	1 January 2019
Modifications to IAS 19	Plan amendment, curtailment or settlement	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

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.

The Group has assessed the signed contracts with the purpose of determining whether these contain a lease. A contract is considered or contains a lease if the right to control the use of the identified asset for a period of time in exchange for some form of compensation. The period of time during which the Group uses an asset, includes consecutive and non-consecutive time periods.

Leases where the Group is the lessee

The Group has identified contracts which have a lease agreement in which IFRS 16 is defined. In accordance with the information available to date, the Group has estimated that as at 1 January 2019, the Group should recognise one asset having "right to use" and one financial liability for committed future payments amounting to approximately €7,727,000.

Leases where the Group is the lessor

It is not expected that there will be a significant impact on leases in which the Group is the lessor.

IFRIC 23 "Uncertainty over income tax treatments"

This regulation establishes that 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.

Modifications to IFRS 9: "Prepayment feature with negative compensation"

A clarification on the treatment of certain prepayment options in relation to the assessment of the contractual cash flows of the principal and interest of the financial instruments.

Modifications to IAS 19: "Plan amendment, curtailment or settlement"

This modification to IAS 19 requires that an institution uses updated actuarial analyses to determine the cost of the current service and the net interest for the remaining period after an amendment, curtailment or settlement of a plan, and recognises part of the cost of the service provided, a profit or loss in the settlement, or any reduction in a surplus in the results, even if the said surplus has not been previously recognised as a cause of the impact on the limit of the assets.

In this modification, the plan amendments, settlements or curtailments will be applied prospectively in defined benefit schemes which take place from 1 January 2019 onwards, with its early application being permitted.

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.

Annual improvements to the IFRS - 2015 – 2017 Cycle

IFRS 3 Business combinations

The amendments clarify that an institution will remeasure its previous participation in a joint operation when it obtains control of the business.

IFRS 11 Joint Arrangements

The amendments clarify that an institution will not have to remeasure its previous participation in a joint operation when it obtains control of the business.

IAS 12 Tax Profits

The amendments clarify that an institution shall maintain accounts for all the consequences of the income tax payments on dividend payments in the same way.

IAS 23 Borrowing Costs

The amendments clarify that an institution shall treat any loans originally taken out to develop an asset once the asset is ready to be used or sold as part of its loans.

Amendment to the references to the IFRS conceptual framework

The Conceptional Framework establishes the basic fundamental concepts applied in the development of the new IFRS standards and helps ensure that they are consistent and that similar transactions are recorded in the same way, with the object of providing useful information to its users. Similarly, it also helps institutions develop accounting standards to a particular transaction when there are no applicable standards prepared.

The Conceptual Framework entered into force in March 2018, and among other aspects, it reintroduces the concept of prudence, modifies the definitions of assets and liabilities, includes clarifications regarding the recognition and derecognition of assets and liabilities as well as the measuring bases of elements of financial statements, and places the results as the key indicator of the performance of an institution.

Additionally, the IASB has published the document "Amendments to References of the conceptual framework of the IFRS standards", which updates the references included in several IFRS standards of the new conceptual. These amendments will be applicable from 1 January 2020, with their early application being permitted.

The Group is currently analysing the potential impacts resulting from these new standards and interpretations.

48. Primera aplicación de NIIF 9

On 1 January 2018, IFRS 9 "Financial Instruments" came into force, substituting IAS 39 "Financial Instruments: recognition and measurement", which has led to the amendment of all accounting requirements for the recognition and evaluation of financial assets and liabilities. Moreover, the application of this standard has resulted in significant amendments being made to IFRS 7 "Financial instruments: Disclosures".

The main quantitative impacts of first application of IFRS 9 as at 1 January 2018 are detailed below:

- The reconciliation of the portfolios in which the Group's financial assets are grouped together as at 31 December 2017, and for the purpose of their submission and evaluation in the 2017 consolidated annual accounts with those established by IFRS 9 as at the date of it coming into force, is as follows:

Portfolios used in consolidated annual accounts for the 2017 financial year (IAS 39)	Valuation method under IAS 39	Portfolios used after the entry into force of IFRS 9	Valuation method under IFRS 9	Balance on 31/12/2017	Reclassification	Remeasurement	Balance on 01/01/2018
Financial assets held for trading				**194,835**	**2,917**	**76**	**197,828**
Derivatives	Fair value	Financial assets held for trading	Fair value	16,843	-	-	16,843
Equity instruments	Fair value	Financial assets held for trading	Fair value	30,632	-	-	30,632
Debt securities	Fair value	Financial assets held for trading	Fair value	147,360	2,917	76	150,353
Financial assets designated at fair value through profit or loss				**357,145**	**47,438**	**-**	**404,583**
Equity instruments	Fair value	Financial assets not held for trading, mandatorily calculated at fair value through profit or loss	Fair value	299,559	47,438	-	346,997
Debt securities	Fair value	Financial assets not held for trading, mandatorily calculated at fair value through profit or loss	Fair value	57,586	-	-	57,586
Available-for-sale financial assets				**419,793**	**(50,355)**	**(321)**	**369,117**
Equity instruments	Fair value	Financial assets at fair value through other comprehensive income	Fair value	67,524	(47,438)	-	20,086
Debt securities	Fair value	Financial assets at fair value through other comprehensive income	Fair value	352,269	(2,917)	(321)	349,031
Loans and accounts receivable				**1,359,744**	**637 (*)**	**(8,772)**	**1,351,608**
Debt securities	Amortised cost	Financial assets at amortised cost	Amortised cost	165,791	-	(19)	165,772
Loans and advances	Amortised cost	Financial assets at amortised cost	Amortised cost	1,193,954	637 (*)	(8,753)	1,185,838
Held-to-maturity financial assets				**66,408**	**-**	**-**	**66,408**
Debt securities	Amortised cost	Financial assets at amortised cost	Amortised cost	66,408	-	-	66,408
TOTAL				**2,398,510**	**637 (*)**	**(9,017)**	**2,390,247**

(*) Corresponds to the reclassification under the heading "Provisions - Commitments and guarantees granted" of the liabilities of the consolidated statement of the financial position, of the provision related to guarantees granted to clients, arranged on 1 January 2018 (see Note 23).

- The reconciliation of the value adjustments for impairment of the financial assets and the off-balance sheet exposures of the Group as at 31 December 2017, which have been recognised in the 2017 consolidated annual accounts with them being recognised in accordance with IFRS 9, at the date of it entering into force, is as follows:

In thousands of euros

Portfolios used in the consolidated annual accounts of the 2017 financial year (IAS 39)	Portfolios used after IFRS 9 came into force	Value adjustments IAS 39 as at 31/12/2017	Reclassification	Remeasurement	Value adjustments IFRS 9 as at 01/01/2018
Available-for-sale financial assets	**Financial assets at fair value through other comprehensive income**	**-**	**-**	**321**	**321**
Equity instruments	Equity instruments	-	-	-	-
Debt securities	Debt securities	-	-	321	321
Loans and accounts receivable	**Financial assets at amortised cost**	**32,927**	**(637)**	**8,774**	**41,063**
Debt securities	Debt securities	179	-	19	198
Loans and advances	Loans and advances	32,748	(637)	8,753	40,865
Held-to-maturity financial assets	**Financial assets at amortised cost**	**97**	**-**	**-**	**97**
Debt securities	Debt securities	97	-	-	97
Total	**Total**	**33,024**	**(637)**	**9,095**	**41,481**

- The reconciliation of the consolidated net equity between 31 December 2017 and the date of IFRS 9 coming into force, is as follows:

In thousands of euros

Consolidated net equity according to IAS 39 as at 31.12.2017	**277,250**
Other reserves	**(8,087)**
Adjustments for assets at their amortised cost, reclassified at fair value through profit or loss	76
Adjustments related to the remeasurement of the expected loss of the financial liabilities – Loans and advances	(8,753)
Adjustments related to the remeasurement of the expected loss of the financial liabilities – Debt securities	(340)
Other adjustments	22
Tax effect	908
Consolidated net equity according to IFRS 9 as at 01.01.2018	**269,163**

In this way, the main impact resulting from the first application of IFRS 9, as at 1 January 2018, registered impairment financial assets at amortised cost, which has increased by €8,772,000 due to the visioning based on expected losses, head to the model of uncorrected losses from the IAS 39 standard. The new provisions have been accounted for under reserves.

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