ANNUAL REPORT
2014

BancSabadell d'Andorra

ANNUAL REPORT
2014
INFORME ANUAL

BancSabadell
d'Andorra

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This version of our report is a free translation from the original, which was prepared in Catalan. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

INDEPENDENT AUDITOR'S REPORT

To the shareholders of BancSabadell d'Andorra, SA

Auditor's Report for the Consolidated Financial Statements

We have audited the accompanying financial statements of BancSabadell d'Andorra, SA and its Subsidiaries, which comprise the consolidated balance sheet and consolidated memorandum accounts at 31 December 2014, the consolidated income statement, the consolidated statement of sources and applications of funds and related notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Financial Statements

BancSabadell d'Andorra, SA's Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting principles and standards generally accepted by the Andorran Financial System (see Notes 2 and 3 of the accompanying notes to the consolidated financial statements) and for the Group's internal control which the Directors consider necessary to ensure that the consolidated financial statements are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We have conducted our audit in accordance with the International Standards on Auditing which require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence on the balances in the consolidated financial statements and the information contained in the related notes. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting principles and standards used and the reasonableness of accounting estimates made by BancSabadell d'Andorra, SA's Directors as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of BancSabadell d'Andorra, SA and the Subsidiaries comprising the BancSabadell d'Andorra Group at 31 December 2014 and the consolidated results of their operations and consolidated resources obtained and applied for the year then ended, in accordance with the accounting principles and standards generally accepted by the Andorran Financial System.

PricewaterhouseCoopers Auditores, S.L.

Ramon Aznar Pascua

16 March 2015

Free translation of the consolidated financial statements originally issued in Catalan and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see note 2). In the event of discrepancy, the original Catalan language version prevails.

BANCSABADELL D'ANDORRA, SA

AND SUBSIDIARIES

Consolidated Balance Sheets as of 31 December 2014 and 2013
(figures in thousands of euros)

ASSETS	2014	2013*
Cash on hand and deposits with OECD central banks	**8,050**	**6,439**
Notes and coins	8,050	6,439
Deposits with INAF (note 5)	**210**	**210**
Deposits in guarantee reserves	210	210
Deposits held with financial intermediaries (note 6)	**71,559**	**51,374**
Banks and credit institutions	71,833	51,584
Less - Allowance for credit losses	(274)	(210)
Loans and receivables (note 7)	**369,865**	**391,331**
Banks and credit institutions	-	-
Loans and advances to customers	356,525	379,961
Customer overdrafts	12,971	9,375
Customer bill portfolio	7,550	5,925
Less - Allowance for credit losses	(7,181)	(3,930)
Investment securities (note 8)	**165,267**	**149,727**
Bonds and other fixed-income securities	155,092	136,752
Government debt issued by the Andorran government	13,903	14,631
Other bonds and fixed-income negotiable securities	144,608	125,701
Less - Allowance for credit losses	(639)	(646)
Less - Allowance for impairment of investment securities	(2,780)	(2,934)
Investments in Group companies	974	940
Other investments	148	148
Shares and other equity securities	849	896
Shares and other equity securities	849	896
Investment schemes	8,204	10,991
Intangible assets and deferred charges (note 9)	**2,726**	**2,885**
Intangible assets and deferred charges	14,810	13,839
Less - Accumulated depreciation	(12,084)	(10,954)
Tangible fixed assets (note 10)	**26,181**	**23,651**
Tangible fixed assets	40,351	36,336
Less - Accumulated depreciation	(13,163)	(12,244)
Less - Allowance for depreciation of tangible fixed assets	(1,007)	(441)
Prepayments and accrued income (note 19)	**7,090**	**6,429**
Uncollected accrued interest	7,065	6,401
Prepaid expenses	25	28
Other assets (note 19)	**3,208**	**4,254**
Current transactions	2,696	3,747
Inventories	-	-
Other	404	469
Taxes	108	38
TOTAL ASSETS	**654,156**	**636,300**

(*) Presented solely and exclusively for comparison purposes.
The accompanying notes are an integral part of the consolidated financial statements at 31 December 2014.

Free translation of the consolidated financial statements originally issued in Catalan and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see note 2). In the event of discrepancy, the original Catalan language version prevails

BANCSABADELL D'ANDORRA, SA

AND SUBSIDIARIES

Consolidated Balance Sheets as of 31 december 2014 and 2013
(figures in thousands of euros)

LIABILITIES AND EQUITY	2014	2013*
Due to INAF (note 5)	**39,192**	**39,116**
Due to INAF	39,192	39,116
Creditors	**496,256**	**447,432**
Disposals from banks and credit institutions (note 11)	3,546	4,904
Other financial intermediaries (note 11)	153	466
Customer deposits (note 12)	492,557	442,062
Debt securities in issue (note 13)	**36,390**	**69,406**
Other fixed-income securities	36,390	69,406
Allowance for liabilities and charges (note 14)	**399**	**424**
Retirement benefit and similar obligations	199	230
Litigation	200	194
Allowance for general banking risks (note 15)	**3,640**	**3,115**
General banking risks	3,640	3,115
Accruals and deferred expenses (note 19)	**4,666**	**4,301**
Unpaid accrued expenses	4,546	3,985
Unearned revenue	120	316
Other liabilities (note 19)	**4,118**	**7,902**
Current transactions	2,577	5,107
Payable to suppliers and other creditors	729	1,827
Taxes	812	968
Share capital (note 16)	**30,068**	**30,068**
Issued share capital	30,068	30,068
Reserves (note 16)	**32,159**	**27,576**
Voluntary reserves	17,777	14,744
Consolidation reserves	1,380	1,173
Revaluation reserves	2,287	2,287
Legal reserves	5,020	4,345
Guarantee reserves	5,695	5,027
Profit (loss) (note 17)	**7,268**	**6,960**
Profit (loss) of the year	7,268	6,960
TOTAL LIABILITIES AND EQUITY	**654,156**	**636,300**

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The accompanying notes are an integral part of the consolidated financial statements at 31 December 2014.

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BANCSABADELL D'ANDORRA, SA

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Consolidated Income Statements as of 31 December 2014 and 2013
(figures in thousands of euros)

INCOME STATEMENTS	2014	2013*
Interest receivable and similar income	**16,384**	**17,029**
On deposits held with INAF and financial intermediaries	3,375	3,081
On loans and receivables	9,175	10,005
On bonds and other fixed-income securities	3,834	3,943
Interest payable and similar charges	**(7,926)**	**(8,492)**
On borrowings from INAF and financial intermediaries	(3,494)	(2,846)
On customer deposits	(2,952)	(2,841)
On debt securities in issue	(1,480)	(2,805)
Income from equity securities	**16**	**-**
NET INTEREST INCOME (note 20)	**8,474**	**8,537**
Net fee and commission income	**14,170**	**11,653**
Fees and commissions for services provided	16,055	13,486
Fees and commissions for services received	(1,885)	(1,833)
Gains (losses) on financial assets and liabilities	**2,074**	**3,595**
Net additions to the allowance for impairment of investment securities	154	1,193
Exchange gains (losses)	488	413
Gains (losses) on securities	1,248	1,654
Share of profit (loss) of companies accounted for by the equity method	184	335
Other operating income	**65**	**55**
GROSS OPERATING INCOME (note 20)	**24,783**	**23,840**
Personnel expenses	**(6,004)**	**(6,009)**
Employees, directors and indemnities	(4,547)	(4,539)
Social Security	(712)	(691)
Additions or ordinary contributions to the internal pension fund	-	(54)
Additions or ordinary contributions to other welfare institutions	(97)	(92)
Other personnel expenses	(648)	(633)
General expenses	**(4,149)**	**(3,877)**
Materials	(123)	(142)
Outside services	(3,298)	(3,201)
Taxes other than income tax	(518)	(367)
Other general expenses	(210)	(167)
Allowance for depreciation and amortisation, net of recoveries	**(2,076)**	**(2,167)**
Addition to the allowance for depreciation and amortisation	(2,076)	(2,167)
Allowance for impairment losses, net of recoveries	**(1,007)**	**(145)**
NET OPERATING INCOME (note 20)	**11,547**	**11,642**
Allowance for credit losses, net of recoveries (notes 6, 7 and 8)	**(3,501)**	**(3,336)**
Additions to the allowance for credit losses	(4,955)	(4,166)
Recoveries from the allowance for credit losses	1,454	830
Allowance for liabilities and charges, net of recoveries (note 14)	**(6)**	**287**
Additions to the allowance for liabilities and charges	(6)	-
Recoveries from the allowance for liabilities and charges	-	287
Additions to the allowance for general banking risks (note 15)	**(4,427)**	**(3,520)**
INCOME FROM ORDINARY ACTIVITIES	**3,613**	**5,073**
Extraordinary income	**4,056**	**2,314**
Net Profit (loss) for disposal or derecognition of tangible and/or intangible assets	9	-
Recoveries from the allowance for general banking risks	3,902	2,449
Other positive extraordinary income	185	359
Other negative extraordinary income	(40)	(494)
PROFIT (LOSS) BEFORE TAXES	**7,669**	**7,387**
Corporate Income Tax (note 21)	**(401)**	**(427)**
Tax accrued	(401)	(462)
Adjustments	-	35
PROFIT (LOSS) OF THE YEAR	**7,268**	**6,960**

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The accompanying notes are an integral part of the consolidated financial statements at 31 December 2014.

Free translation of the consolidated financial statements originally issued in Catalan and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see note 2). In the event of discrepancy, the original Catalan language version prevails.

BANCSABADELL D'ANDORRA, SA

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Consolidated Memorandum Accounts as of 31 december 2014 and 2013
(figures in thousands of euros)

MEMORANDUM ACCOUNTS	2014	2013*
Contingent liabilities	**19,862**	**15,447**
Guarantees, bonds and sureties given	19,862	15,447
Contingent exposures and commitments	**71,612**	**34,409**
Operational exposures and commitments	71,612	34,409
Other commitments and contingent exposures (note 23)	-	-
Futures (note 22)	**274,102**	**265,141**
Open forward currency contracts	110,348	78,375
Financial futures transactions	163,754	186,766
Own securities and other assets held in custody	**1,529,872**	**1,359,852**
Securities and other assets held in custody (note 24)	1,385,264	1,234,104
Own securities and other assets held in custody	144,608	125,748
Other memorandum accounts held solely for administrative control purposes (note 25)	**133,060**	**167,681**
Guarantees and commitments received	1,610	1,711
Other memorandum accounts	131,450	165,970
TOTAL MEMORANDUM ACCOUNTS	**2,028,508**	**1,842,530**

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The accompanying notes are an integral part of the consolidated financial statements at 31 December 2014.

Free translation of the consolidated financial statements originally issued in Catalan and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see note 2). In the event of discrepancy, the original Catalan language version prevails

BANCSABADELL D'ANDORRA, SA

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Consolidated Sources and Applications of Funds as of 31 december 2014 and 2013
(figures in thousands of euros)

SOURCE OF FUNDS	2014	2013*
Cash flows from operating activities	**13,973**	**12,194**
Profit (loss) for the year	7,268	6,960
Net additions to the allowance for credit losses	3,308	2,908
Net additions to the allowance for depreciation and amortisation	1,007	441
Net additions to other allowances	525	54
Depreciation and amortisation	2,049	2,166
Profit (loss) from companies accounted for by the equity method	(184)	(335)
Increase in net debt	**111**	**208**
INAF (liabilities - assets)	77	-
Other financial intermediaries (liabilities - assets)	-	208
Other items (liabilities - assets)	34	-
Net increase in liabilities	**50,494**	**53,248**
Creditors: customers	50,494	53,248
Net decrease in assets	**18,216**	**23,221**
Cash on hand	-	464
Loans and advances to customers	18,216	22,757
Sales of permanent investments	**636**	**130**
Vendes of participations	-	-
Vendes of fixed assets	636	130
Cash flows from financing activities	**150**	**300**
Dividends received from long-term investments	150	300
TOTAL SOURCES OF FUNDS	**83,580**	**89,301**

APPLICATIONS OF FUNDS	2014	2013*
Cash used in operating activities	**179**	**410**
Net recoveries of the allowance for loan losses	154	-
Uses of the other allowances	25	-
Other	-	410
Increase in net assets	**24,803**	**13,930**
INAF (assets – liabilities)	-	6,034
Banks and credit institutions (assets – liabilities)	21,607	5,794
Other financial intermediaries (assets - liabilities)	313	-
Other items (assets - liabilities)	2,883	2,102
Net decrease in liabilities	**33,016**	**50,410**
Debt securities in issue	33,016	50,410
Net increase in assets	**16,955**	**19,238**
Cash on hand	1,610	-
Loans and advances to customers	15,345	19,238
New long-term investments	**6,251**	**2,766**
Purchases of shares	184	-
Purchases of fixed assets	6,067	2,766
Cash used in financing activities	**2,376**	**2,547**
Dividends	2,376	2,251
Decrease of reserves	-	296
TOTAL APPLICATIONS OF FUNDS	**83,580**	**89,301**

(*) Presented solely and exclusively for comparison purposes.
The accompanying notes are an integral part of the consolidated financial statements at 31 December 2014.

BANCSABADELL D'ANDORRA, SA
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Notes to the Consolidated Financial Statements for the year ended 31 December 2014.

1. Group description

BancSabadell d'Andorra, SA (hereinafter, "BancSabadell d'Andorra" or the "Bank") is an Andorran company which was incorporated on 10 April 2000 and started operating on 3 June 2000.

The Bank's corporate purpose is the purpose attributed to banks in article 8 of Law 7/2013, of 9 May, establishing the legal regime for companies operating under the Andorran financial system and other provisions regulating the execution of financial activities in the Principality of Andorra. The Bank is also authorized to carry out ancillary activities that are complementary to and support the accomplishment of said purpose.

The Bank is the parent of the BancSabadell d'Andorra group (the "Group"). The companies included in the consolidated group as of 31 December 2014 are:

Company	Country	Activity
Sabadell d'Andorra Inversions, SGOIC, SAU	Andorra	Management of collective investment schemes and management mandates
Serveis d'Assessorament BSA, SAU	Andorra	Provision of services
Assegurances Segur Vida, SAU	Andorra	Insurance

Sabadell d'Andorra Inversions, SGOIC, SAU is an Andorran company which was incorporated on 23 November 2000, under the name of Sabadell d'Andorra Inversions, Societat Gestora, SA. Its name was changed to the present one on 23 November 2010. The company's operations are subject mainly to Law 10/2008 regulating collective investment schemes under Andorran law, Law 7/2013, of 9 May, establishing the legal regime for companies operating under the Andorran financial system and other provisions regulating the execution of financial activities in the Principality of Andorra.

The management company's purpose is to carry out asset and liability management activities, administrative management activities, activities related to the distribution and representation of investment schemes and their assets, and the custody and administration of investment scheme units and, where applicable, the shares of the investment companies it manages. On 23 November 2010 the activities of discretionary and customized portfolio management and investment advice were included in its corporate purpose.

Serveis d'Assessorament BSA, SAU (formerly Sabadell d'Andorra Borsa, SAU) is an Andorran company, incorporated on 23 November 2000. Since 13 May 2010 its principal activity has been the provision of other business services that are not part of the financial system, aimed at supporting the activities of the Group made up of BancSabadell d'Andorra and its subsidiaries, including the management and operation of real estate assets belonging to the Group that are not used in the banking and financial activity, and IT, security, cleaning and postal services, also for the Group, and any other non-banking, non-financial services that may be provided within the Group.

Assegurances Segur Vida, SAU is a life insurance company whose principal activity is the practice of insurance transactions under private law and in the life branches, in the capacity of insurer, representative and/or broker. The insurer operates exclusively in Andorra. The insurer was incorporated on 8 March 2004, although its activity did not start until July 2005 with the marketing of a savings insurance product with a risk component where policy holders assumed the investment risk.

2. Basis of presentation

The consolidated financial statements of BancSabadell d'Andorra, SA and Subsidiaries consisting of the consolidated balance sheet and the consolidated memorandum accounts at 31 December 2014, the consolidated income statement, the consolidated statement of source and application of funds and the notes to the consolidated financial statements for the year then ended, have been prepared by the Bank's Board of Directors on 13 March 2015.

The Boards of Directors of Sabadell d'Andorra Inversions SGOIC and Assegurances Segur Vida, SAU will prepare their respective financial statements at 24 March 2015 and the Board of Directors of Serveis d'Assessorament BSA, SAU will prepare its financial statements at 24 March 2015.

a) True and fair view

The accompanying consolidated financial statements have been prepared on the basis of the accounting records of the Group and are presented in accordance with the standards, principles, criteria and rules established in the Chart of Accounts (Pla Comptable) of the Andorran Financial System, approved by the Andorran government on 19 January 2000, so as to give a true and fair view of the state of affairs of the Group and of its profit or loss and cash flows for the financial year.

Although these consolidated financial statements are for 2014, they have not yet been approved by the Bank's General Meeting of Shareholders; the Bank's Board of Directors expects that they will be accepted without changes.

The consolidated financial statements for 2013 were approved by the Bank General Meeting of Shareholders on 30 May 2014.

The reference currency of these financial statements is the Euro.

b) Accounting principles

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles and measurement criteria indicated in note 3, based on the principles and criteria established by the Andorran accounting system. All compulsory accounting principles and measurement criteria have been applied for the preparation of these consolidated financial statements.

c) Comparative information

The information relating to financial year 2013 contained in these consolidated financial statements for 2014 is presented solely and exclusively for comparison purposes and so does not constitute the consolidated financial statements of the Group for 2013.

d) Consolidation principles

Companies in which the parent holds more than a 50% equity interest and whose principal activity is similar to that of the Bank, with which they form a single decision-making unit, are fully consolidated.

Companies in which the Bank has a direct or indirect equity interest of between 20% and 50% are consolidated by the equity method. The equity method may also be used if the Bank's interest in a company is in excess of 50% but the company's activity is different from that of the Bank.

In the case of fully consolidated subsidiaries, the book value of the investment and its associated cash flows is replaced by the assets, liabilities, equity, income and expenses of the subsidiary. In other words, the financial statements of the parent and its fully consolidated subsidiaries are combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses.

Before the assets, liabilities, equity, income and expenses of the subsidiary are included in the parent's financial statements; timing and valuation differences and intragroup balances are eliminated.

The equity method consists of replacing the book value of an investment by the Group's share of the net assets of the investee. The profit of equity accounted undertakings is integrated in the consolidated income statement.

All material intercompany balances and transactions are eliminated on consolidation.

Details of the consolidated companies at 31 December 2014 and 2013, in thousands of euros, are given below:

					Thousands of euros				
					2014				
Company	Registered address	Activity	% ownership direct	Consolidation method	Capital	Reserves	Profit for 2014	Interim dividend	Total equity (1)
Sabadell d'Andorra Inversions, SGOIC, SAU	Ctra. de l'Obac, 12 Ed. "El Forestal B" Oficina 4 (Andorra la Vella)	Management of investment schemes and discretionary mandates	100%	Fully consolidated	300	1,000	704	(600)	1,404
Serveis d'Assessorament BSA, SAU	Av. del Fener, 7 (Andorra la Vella)	Provision of services	100%	Fully consolidated	60	42	38	–	140
Assegurances Segur Vida, SAU	Ctra. de l'Obac, 12 Ed. "El Forestal B" (Andorra la Vella)	Insurance company	100%	Equity method	602	338	184	(150)	974
					962	**1,380**	**926**	**(750)**	**2,518**

					2013				
Company	Registered address	Activity	% ownership direct	Consolidation method	Capital	Reserves	Profit for 2013	Interim dividend	Total equity (1)
Sabadell d'Andorra Inversions, SGOIC, SAU	Ctra. de l'Obac, 12 Ed. "El Forestal B" Oficina 4 (Andorra la Vella)	Management of investment schemes and discretionary mandates	100%	Fully consolidated	300	846	1,504	(1,350)	1,300
Serveis d'Assessorament BSA, SAU	Av. del Fener, 7 (Andorra la Vella)	Provision of services	100%	Fully consolidated	60	24	18	–	102
Assegurances Segur Vida, SAU	Ctra. de l'Obac, 12 Ed. "El Forestal B" (Andorra la Vella)	Insurance company	100%	Equity method	602	303	335	(300)	940
					962	**1,173**	**1,857**	**(1,650)**	**2,342**

(1) Includes profits of the year net of interim dividends.

At 31 December 2014 and 2013, the three companies have been audited.

e) Estimates made

In preparing the Group's consolidated financial statements, estimates have been used to calculate, amongst others, the fair value of certain assets and liabilities, impairment losses, useful life of tangible and intangible assets, the Corporate Income Tax projection and the Allowance for General Banking Risks.

Estimates have been made for the amounts recorded in the consolidated balance sheet and the consolidated income statement. Although the estimates have been made on the basis of the best available information, if they vary in following years as a result of events which may occur in the future, the effects of the change to the estimate will be recognised in the consolidated income statements of the corresponding years.

3. Accounting policies and valuation standards

The accounting principles and valuation rules established in the Chart of Accounts (Pla Comptable) of the Andorran Financial System and subsequent communiqués of the INAF in relation to the application of this Chart of Accounts were applied in the preparation of the accompanying consolidated financial statements.

The main accounting principles and most relevant valuation rules applied are as follows:

a) Going concern principle

The accompanying consolidated financial statements have been prepared in accordance with the going concern principle and on the basis that the Group will continue in the foreseeable future. Consequently, the application of accounting principles have not been carried out to determine the Group's equity for the purpose of its transfer, either as a whole or partially, or its liquidation proceeds for the case of its liquidation.

b) Accrual basis

Revenues and expenses are recorded on an accrual basis and the interest method is used for transactions which take more than twelve months to complete. Nevertheless, in accordance with the principle of prudence and applicable law, interest earned on loans classified as doubtful or very doubtful is recognized as income upon collection.

Following the accruals principle, the accrual accounts show income earned but not yet received, expenses incurred but not yet paid, income received in advance, and expenses paid in advance.

c) Recording basis

All the rights and obligations of the Group, including future or contingent rights and obligations, are recorded as they arise, either on the face of the balance sheet or in memorandum accounts, as applicable.

In accordance with banking practice, transactions are recorded on the date they take place, which may differ from their value date, which is used for calculating interest income and expense.

d) Foreign currencies

Assets, liabilities and memorandum accounts denominated in foreign currencies are translated to euros at the last mid-market exchange rates prevailing before the consolidated balance sheet date.

The main euro exchange rates prevailing on the last business day of financial year 2014 are shown below:

	Exchange rate
U.S. dollars	1.21555
Pound sterling	0.78265
Japanese yen	145.38
Swiss francs	1.2028

In the case of balance sheet positions hedged with derivatives, throughout the life of these contracts any latent exchange gains or losses arising from the balance sheet positions and any gains or losses on the hedging instruments are recognized under "Gains (losses) on financial assets and liabilities" in the accompanying consolidated income statement.

e) Doubtful assets

Loans and advances to customers, bonds and other fixed-income securities and other receivables are classified as doubtful when the likelihood of repayment is reduced due to a debtor's perceived inability to meet contractual obligations. Assets are classified as doubtful when principal or interest payments are six months' overdue. In the case of loans with periodic payments, subsequent payments are classified as doubtful on the date they fall due. Overdrafts and other receivables for demand deposits with no agreed maturity are classified as doubtful from the date of the first request for payment made by the Bank or from the first unpaid interest payment.

If there is only one risk for the total due and unpaid amounts classified as doubtful, for both the principal and the interest and expense payments, which represent more than 25% of unmatured risks (excluding unaccrued interest), or an amount is overdue by more than one year, the Bank classifies all of these items as doubtful.

Loans and advances to customers, bonds and other fixed-income securities and other receivables are classified as very doubtful when their holders or counterparties have been declared bankrupt or in administration, or their solvency has deteriorated irrecoverably, or their transactions have major documentation shortcomings for their execution. “Major documentation shortcomings” are understood to be the inexistence of documentation which justifies the resources, equity and/or guarantees required to authorise the transaction and the failure to update such documentation and includes transactions where the principal and interest payments were due more than one year ago and where the borrower has shown little inclination of negotiating alternative forms of payment. Notwithstanding, this group includes all balances which are three years’ overdue, except those for mortgage-backed transactions, which are considered to be very doubtful when they have been fully provisioned.

When doubtful assets are considered irrecoverable or of negligible or improbable recovery value, they are classified as very doubtful and they are derecognized and transferred to the memorandum accounts under the heading “Other memorandum accounts held solely for administrative control purposes – Other memorandum accounts” (see note 26).

Loans and advances to customers, bonds and other fixed-income securities and other receivables are classified as matured when procedures should be followed to consider whether they should be reclassified in any of the aforementioned groups, when problems have been detected and when there has been a serious breach of the terms and conditions of the transactions. Nonetheless, risks which are classified as matured are for unpaid balances which are not classified as very doubtful risk or doubtful risk.

Interests accrued from risks considered to be doubtful or very doubtful are recorded in the memorandum accounts under the caption “Other memorandum accounts held solely for administrative control purposes – Other memorandum accounts” (see note 26).

f) Allowance for credit losses

The allowance for credit losses is intended to cover losses on loans and receivables, securities portfolio and other exposures. This allowance is increased by provisions charged to income and decreased by charge-offs of loans considered uncollectible and recoveries of amounts previously provided. The allowance for credit losses comprises a specific allowance and a general allowance.

Under the Andorran accounting system, the allowance for credit losses is calculated as follows:

- The specific allowance, which relates to all classes of assets and memorandum accounts, is determined in accordance with the percentages for allowances established in the Chart of Accounts of the Andorran Financial System based on the collateral for the particular exposure and the length of time past after the first unpaid maturity. In addition, the Bank makes individual studies of specific exposures for the main matured and doubtful assets, endorsing and updating the value of the collateral available in accordance with the requirements established in the Technical Communiqué no. 198/10 issued by the INAF and recording the necessary specific allowances charged to income,
- The general allowance establishes a provision of 0.5% of net loans and advances to banks and fixed-income bank deposits and 1% of the rest of net loans and advances to customers and fixed-income customer securities, except for the part covered by pledged monetary guarantees and exposures secured by pledged listed securities (up to the limit of the market value of said securities), mortgage loans or securities issued by OECD central governments and the Andorran government and central banks of OECD countries or expressly guaranteed by such governments,
- The country risk allowance is determined by analysing such risk on the basis of maximum prudence criteria taking into account, amongst others, the country’s balance of payments, level of debt, charges for debt services, quoted debt on international secondary markets and other indicators and circumstances of the country.

The Group has not recorded any country risk allowance.

g) Unused credit facilities

Credit facilities granted to customers are recorded in the balance sheet at the amount used and the undrawn amounts are recorded in the memorandum accounts under "Contingent exposures and commitments - Operational exposures and commitments"

h) Investment portfolio

Fixed-income and equity securities are classified, according to their purpose, as either financial assets held for trading, held-to-maturity investments, ordinary investments or long-term investments.

a) Financial assets held for trading include listed securities and investment scheme units held in order to benefit from short-term price fluctuations. They are recorded at their market value. Any gains or losses arising from changes in the value of these securities are recorded net under "Gains (losses) on financial assets and liabilities – Gains (losses) on securities" in the accompanying consolidated income statements. Coupons that mature after fixed-income securities have been purchased are recorded under "Interest receivable and similar income – Bonds and other fixed-income securities".

   Transfers of securities from the trading portfolio to any other portfolio are done at market prices, less accrued interest where applicable.

b) Held-to-maturity investments include fixed-income securities which the Bank has decided to hold to maturity. These securities are stated at amortized cost (the cost is adjusted monthly by spreading the difference between cost and redemption value over the remaining life of the security). The result is recorded, together with matured coupons, under "Interest receivable and similar income – Bonds and other fixed-income securities" in the accompanying consolidated income statement.

   Any losses on disposal are taken to "Extraordinary income (loss)" in the accompanying consolidated income statement, while any gains are released on a straight-line basis over the residual life of the security sold, with a corresponding entry in "Gains (losses) on financial assets and liabilities" in the accompanying consolidated income statement.

   For this type of portfolio there is no need to provide an allowance for impairment of investment securities due to differences between market value and adjusted acquisition price.

   However, the Group has established that when the securities of this portfolio have been trading below 60% of their nominal value for over 18 months and when it has rejected resorting to offers of exchange or repurchase, the corresponding allowance for impairment of investment securities is increased by a provision charged to "Gains (losses) on financial assets and liabilities – Net additions to the allowance for impairment of investment securities" in the consolidated income statement.

c) Ordinary investments comprise all other securities, including investment scheme units, and are measured at amortized cost.

   Fixed-income securities included in ordinary investments are measured in the same way as ordinary held-to-maturity investments and the difference between market value and amortized cost is calculated. The allowance for impairment of investment securities is increased through a provision charged to the consolidated income statement in an amount equal to the sum of the negative differences less the sum of the positive differences.

   Equity securities included in ordinary investments are recorded in the balance sheet at the lower of cost and market value. To recognize any losses on equity securities, an allowance for impairment of investment securities has been created which is deducted from assets in the accompanying consolidated balance sheet.

   The margin obtained on the sale to customers of structured products and fixed-income securities included in this portfolio is recognized under "Net fee and commission income – Fees and commissions for services provided" in the accompanying consolidated income statement.

Transfers of securities from the ordinary investment portfolio to the held-to-maturity portfolio are done at the lower of market price and amortized cost, while any impairment losses are recognized in the income statement.

d) Long-term investments mainly include the net book value of Assegurances Segur Vida, SAU, consolidated by the equity method.

Transfers of securities from long-term investments to other portfolios are done at net book value.

The financial instruments reflected in the consolidated financial statements are classified using the following levels of fair values:

- Level I: the fair values are obtained from quoted prices (with no adjustment) on active markets for the same instrument,
- Level II: the fair values are obtained from quoted prices on active markets for similar instruments, prices of recent transactions or expected flows or other valuation methods where all significant inputs are based on directly or indirectly observable market data,
- Level III: the fair values are obtained from valuation methods where a significant input is not based on observable market data.

i) Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation.

The costs of any expansion, modernization or improvement that increases the productivity, capacity or efficiency or lengthens the useful life of tangible fixed assets are capitalized.

The Group depreciates its tangible fixed assets on a straight-line basis over the assets' estimated useful life, as follows:

	Years of estimated useful life (*)
Buildings	40
Fixtures	10
Furniture	5
Vehicles	5
Computer equipment	5

At each year end, the Group analyses whether there is any indication, either internally or externally, that the net book values of the items of its tangible fixed assets exceed their recoverable amounts. If this is the case, the Group decreases the net book value of the corresponding asset to its recoverable amount, which is either its fair value or, if higher, its value in use.

a) Used for the Group's operations

Tangible fixed assets used for the Group's operations were revalued on 30 December 2004 and 30 December 2008 with prior authorization from INAF and a revaluation reserve was recorded on such dates for the difference between the assets' estimated market price and acquisition cost less accumulated depreciation (see notes 10 and 16).

For tangible fixed assets used for the Group's operations which will be revalued, the accounting valuation is supported by an up-to-date appraisal of an independent valuer. At 31 December 2014, the Group has not recorded an impairment allowance for these assets against revaluation reserves (at 31 December 2013 an allowance totalling €296 thousand was recorded) (see notes 10 and 16).

In December 2014, the Group has revalued its only asset which is affected by revaluations and, in accordance with this revaluation, it has not had to make any accounting adjustment to the valuation.

b) Not used for the Group's operations

Tangible fixed assets not used for the Groups's operations include land and buildings not directly used for the Groups's banking activity, which are valued at acquisition cost and which are depreciated over their usefull life at the rates applied for tangible fixed assets used for the Group's operations.

Assets acquired by application of other assets (shares generated from converting bonds, interests acquired with non-cash contributions, securities or foreclosed land and buildings as payment of debts, dissolution of subsidiaries) is valued at the lower of the book value of the assets applied to its acquisition (without taking related provisions into account), plus any legal, registry and tax expenses incurred and any interest receivable, and the market value of the acquired assets, taking account of any amounts payable to third parties for subrogation of obligations in application of the assets.

The market value of assets acquired by applying other assets is estimated by an independent valuer, or, in the case of securities in non-listed companies, by the theoretical carrying amount resulting from the last available balance sheet, applying the most prudent valuation criteria.

For foreclosed land and buildings the accounting valuation should be justified by an up-to-date valuation (at least every two years) carried out by an independent valuer. If undervaluations are produced, they are recorded in the consolidated income statement.

Pursuant to the Technical Communiqué 114 of the INAF, assets acquired by foreclosure of problem credits non-performing loans that are not included in the Group's functional fixed assets or that are not sold within three years should be depreciated from the initial date of recovery, based on the following percentages of accumulated depreciation:

	Percentages of accumulated depreciation
Between 3 and 4 years	25%
Between 4 and 5 years	50%
Between 5 and 6 years	75%
More than 6 years	100%

j) Intangible assets and deferred charges

Intangible assets consist mainly of amounts paid to external suppliers for computer software. The cost of computer software is amortized on a straight-line basis over five years.

k) Pensions and similar obligations

On 1 November 2006 the Group established a Retirement Plan to provide benefits complementary to and independent of those provided by the Andorran state pension system. The plan is open to employees who meet the conditions to become beneficiaries stipulated in the plan regulations.

Each year, the sponsor has contributed 1% of each member's prior-year total gross earnings to the defined contribution plan. These contributions are used to acquire units in the collective investment scheme BSA Inversió, FI Compartiment Renda Variable, managed by Sabadell d'Andorra Inversions, SGOIC, SAU (Group Company, hereinafter referred to as the Fund Management Company).

The sponsor has contributed an additional 1% to this investment fund if the employee makes voluntary contributions to a collective insurance in a non-related company.

In addition, during 2006 the sponsor made a special contribution for members who joined the Group before 1 January 2005. This special contribution consisted of a lump sum based on the year the employee joined the Group.

The amount of the abovementioned annual contributions is recognized in the balance sheets under "Allowance for liabilities and charges – Retirement benefit and similar obligations" (see note 14). The market value of the units in the collective investment scheme BSA Inversió, FI Compartiment Renda Variable are recorded under "Investment securities – Investment schemes" in the accompanying consolidated balance sheets.

The cost for the year is recorded under "Personnel expenses – Other personnel expenses" in the accompanying consolidated income statements (see note 20.c.).

The plan covered retirement of employees who conclude their working life in the Group, permanent and total disability, and death. If any of these events should occur, the beneficiary will receive the corresponding benefit, which will consist of the value of the investments in the abovementioned collective investment scheme.

In a board meeting held on 12 December 2014, the Board of Directors has agreed that, in line with Law 5/2014 of 24 April regarding Personal Income Tax, changes are made to the retirement plan with effect from 1 January 2015 to ensure that it is in line with tax requirements for the plan to be tax deductible in employees' tax returns. The requirements to be complied with are:

- Externalise the ownership and management of funds via Assegurances Segur Vida, SAU,
- Establish the irrevocability of the contributions made,
- Establish the exceptional cases stipulated by the Law when vested rights can be fully or partially exercised by taxpayers.

At the end of 2014, the balance of the Retirement Plan has been cleared and an initial contribution has been made to the new Pension Plan for each employee which is equal to the value at clearance of the contributions made by the Bank to the Retirement Plan up to the current date (see note 14).

The new Retirement Plan is managed by Assegurances Segur Vida, SAU and it invests in the Guaranteed Capital Pension Plan II. As from 2015 the contributions to be made represent 1% of the fixed salary of the previous year and the additional 1% contribution for the individual contributions is eliminated.

l) Derivatives transactions

The Group uses future contracts to hedge its exposures to customers. Future contracts are recognized in the memorandum accounts at their face value (see note 22).

Transactions whose purpose and effect is to eliminate or substantially reduce the currency, interest rate or market risk associated with asset positions or other transactions are classified as hedges. Gains or losses on hedging transactions are recognized in the income statement at the time the revenues or expenses relating to the hedged item are recognized.

In 2014 and 2013, the Bank has only carried out transactions with financial instruments arising from hedges.

m) Allowance for General Risks

The Allowance for General Risks includes the amounts that the Group deems appropriate to cover risks inherent in banking and financial activity. (see note 15) considering that they are mainly for securities portfolio and loans and receivables. As general rule, the Group considers that the total amounts of the specific allowance and the Allowance for General Risks should be at least 5% of the loan and receivable transactions considered matured, doubtful transactions, risky transactions where the Group considers that it should exercise the mortgage guarantee and the foreclosed assets.

n) Interest accrual

The Group uses the effective interest method (i.e., the internal rate of return) to allocate interest income and expense over the term of financial assets and liabilities with maturities of more than twelve months.

For financial assets and liabilities maturing within twelve months, the Group may opt for either the effective interest method or the straight-line method.

o) Corporate Income Tax

The Andorran parliament passed the Law 95/2010 of 29 December on corporate income tax, and, subsequently, on 1 December 2011, it passed Law 17/2011, of 1 December, which amended Law 95/2010.

On 13 June 2012, the Andorran parliament passed the regulations implemented under Law 95/2010.

The withholdings and early payments of the Corporate Income Tax and other taxes of the Group as well as the advance Corporate Income Tax and the tax relief for tax-loss carry forwards or tax credits not recorded are recorded under "Other Assets" of the assets of the consolidated balance sheet (see note 19).

"Other liabilities" of the consolidated balance sheet includes deferred Corporate Income Tax, payable Corporate Income Tax and other temporary balances for tax recovered from third parties or withheld from customers (see note 19).

All charges and payments related to the Corporate Income Tax liabilities are recorded in the consolidated profit and loss statement (see note 21).

On 18 May 2012, the Extraordinary General Meeting of Shareholders of BancSabadell d'Andorra approved the application of the special tax consolidation regime established in Law 95/2010, of 29 December, on Corporate Income Tax for the companies of the BancSabadell d'Andorra Group.

In addition, on 14 December 2012, the Extraordinary General Meetings of Shareholders of Sabadell d'Andorra Inversions, SGOIC, SAU, Assegurances Segur Vida, SAU and Serveis d'Assessorament BSA, SAU approved the application of the special tax consolidation regime established in Law 95/2010, of 29 December, on Corporate Income Tax for the companies of the BancSabadell d'Andorra Group.

On 20 December 2012, the Andorran government was notified of the resolution passed by the Group to opt to apply the new tax regime with effect from 2013.

p) General indirect tax

On 1 January 2013, Law 11/2012, of 21 June, on the general indirect tax, which abolished the previous Law on the Indirect Taxation of banking and financial services, came into force, on 14 May 2002.

The general indirect tax taxes all consumptions of goods and services and, specifically, for banking and financial services, the tax rate is 9.5%.

Input general indirect tax and output general indirect tax are recorded under "Other Assets" and "Other Liabilities", respectively, on the "Assets" section of the consolidated balance sheet (see note 19).

On 3 June 2014, Law 10/2014 amending Law 11/2012 was passed. The new Law 10/2014 establishes, amongst other matters, a limitation on the deduction of paid General Indirect Tax which is applicable to banking entities only. The limitation is 10% of the amounts charged for this concept and in practice, this amendment will therefore mean that part of the General Indirect Tax paid by banking entities cannot be deducted and will generate an expense for the entities for this tax.

This amendment came into force on 1 July 2014 despite the payment has been made on January 2015. The Group has recorded this expense for 2014 against an accounts payable under the caption "Other liabilities".

4. Residual maturity of assets and liabilities

Details of the maturities of the balances of loans and receivables, bonds and other fixed-income securities with INAF, banks and credit institutions at 31 December 2014 and 2013, without taking provisions into account, are as follows:

	Thousands of euros							
	2014							
	Matured	Up to 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	No specified maturity	Total
INAF	-	-	-	-	-	-	210	210
Banks and credit institutions	-	43,029	2,729	6,465	-	-	19,610	71,833
Loans and receivables	883	11,652	8,375	40,069	116,647	187,002	12,418	377,046
Bonds and other fixed-income securities	-	9,811	4,701	34,827	78,039	31,133	-	158,511
	883	**64,492**	**15,805**	**81,361**	**194,686**	**218,135**	**32,238**	**607,600**

	Thousands of euros							
	2013							
	Matured	Up to 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	No specified maturity	Total
INAF	-	-	-	-	-	-	210	210
Banks and credit institutions	-	32,842	3,700	7,491	-	-	7,551	51,584
Loans and receivables	370	19,705	16,270	52,308	95,759	199,745	11,104	395,261
Bonds and other fixed-income securities	-	-	13,347	23,668	65,603	23,944	13,770	140,332
	370	**52,547**	**33,317**	**83,467**	**161,362**	**223,689**	**32,635**	**587,387**

Details of the maturities of the balances of customer deposits and debt securities with INAF, banks and credit institutions at 31 December 2014 and 2013 are as follows:

	Thousands of euros							
	2014							
	Matured	Up to 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	No specified maturity	Total
INAF	-	-	37,995	210	-	-	987	39,192
Banks and credit institutions	-	172	821	45	2,476	-	32	3,546
Others financial intermediaries	-	-	-	-	-	-	153	153
Loans and receivables	-	25,585	92,410	188,067	2,219	-	184,276	492,557
Bonds and other fixed-income securities	-	-	2,000	10,389	23,965	36	-	36,390
	-	**25,757**	**133,226**	**198,711**	**28,660**	**36**	**185,448**	**571,838**

	Thousands of euros							
	2013							
	Matured	Up to 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	No specified maturity	Total
INAF	-	-	36,400	210	-	-	2,506	39,116
Banks and credit institutions	-	200	950	48	2,110	-	1,596	4,904
Others financial intermediaries	-	-	-	-	-	-	466	466
Loans and receivables	-	14,830	76,099	207,431	1,500	-	142,202	442,062
Bonds and other fixed-income securities	-	11,658	3,949	33,582	20,137	80	-	69,406
	-	**26,688**	**117,398**	**241,271**	**23,747**	**80**	**146,770**	**555,954**

5. INAF

A breakdown of assets and liabilities by reference currency at 31 December 2014 and 2013 is given below:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
By currency:				
In euros	210	39,190	210	39,114
In foreign currency	-	2	-	2
	210	**39,192**	**210**	**39,116**

The breakdown of INAF positions by their maturity is set out in note 4 of the accompanying consolidated financial statements.

The remunerations of the amounts recorded under "INAF" of the assets of these consolidated financial statements are recorded under "Interest receivable and similar income on deposits held with INAF and financial intermediaries" in the accompanying consolidated income statement.

The remunerations of the amounts recorded under "INAF" of the liabilities of the accompanying consolidated financial statements are recorded under "Interest payable and similar charges on borrowings from INAF and financial intermediaries" in the accompanying consolidated income statement.

6. Demand deposits held with financial intermediaries, banks and credit institutions

A breakdown of deposits held with financial intermediaries in the accompanying consolidated balance sheet by reference currency and type of account at 31 December 2014 and 2013, not taking into account the allowance for credit losses, are set out below:

	Thousands of euros	
	2014	2013
By currency:		
In euros	39,242	25,726
In foreign currency	32,591	25,858
	71,833	**51,584**
By type:		
Correspondent bank accounts	69,338	50,672
Margin deposits for derivatives	2,495	912
	71,833	**51,584**

At 31 December 2014, the Group's positions with the shareholder Banco de Sabadell, S.A. total €2,900 thousand (€4,296 thousand at 31 December 2013).

A breakdown of banks and credit institutions positions by their maturity is set out in note 4 of the accompanying financial statements.

The remunerations of the amounts recorded under "Financial intermediaries" in the accompanying consolidated financial statements are recorded under "Interest receivable and similar income on deposits held with INAF and financial intermediaries" in the accompanying consolidated income statement. Interest accrued during the year ended 31 December 2014 for interest on balances in Banks and credit institutions totals €233 thousand (€306 thousand at 31 December 2013).

The movement of the allowance for credit losses between 2014 and 2013 is set out below:

	Thousands of euros
	General allowance
Opening balance at 1 January 2013	**162**
Additions:	
Net additions to allowance	282
Applications:	
Allowance for credit losses used	-
Funds released (recoveries)	(234)
Closing balance at 31 December 2013	**210**
Opening balance at 1 January 2014	**210**
Additions:	
Net additions to allowance	400
Applications:	
Allowance for credit losses used	-
Funds released (recoveries)	(336)
Closing balance at 31 December 2014	**274**

7. Loans and receivables

A breakdown of loans and receivables at 31 December 2014 and 2013 by currency and sector, not taking account of the allowance for credit losses, is given below:

	Thousands of euros	
	2014	2013
By currency:		
In euros	373,451	390,109
In foreign currency	3,595	5,152
	377,046	**395,261**
By sector:		
Banks	-	-
Andorran public sector	26,981	31,914
Central government	9,444	9,297
Local government	17,537	22,617
Private sector	350,065	363,347
	377,046	**395,261**
By type of collateral:		
Security interest	295,631	310,897
Mortgage	220,968	226,566
Cash	4,879	3,119
Pledged securities	69,784	81,212
Personal guarantee	81,415	84,364
No guarantee	-	-
	377,046	**395,261**
By degree of risk:		
Normal (*)	355,408	379,818
Due	883	513
Doubtful	20,755	14,930
	377,046	**395,261**

(*) At 31 December 2014, risks classified as normal risks include €16,698 thousand for loans classified as under special monitoring regarding which a provision totalling €2,575 thousand has been recorded (€10,812 thousand at 31 December 2013, with a provision of €156 thousand).

The movements in the allowance for credit losses between 2014 and 2013 were as follows:

	Thousands of euros		
	Specific allowance	General allowance	Total
Opening balance at 1 January 2013	**186**	**991**	**1,177**
Additions			
Net additions to allowance	3,665	-	3,665
Applications:			
Allowance for credit losses used	(428)	-	(428)
Funds released (recoveries)	(316)	(168)	(484)
Closing balance at 31 December 2013	**3,107**	**823**	**3,930**
Opening balance at 1 January 2014	**3,107**	**823**	**3,930**
Additions:			
Net additions to allowance	4,176	224	4,400
Applications:			
Allowance for credit losses used	(193)	-	(193)
Funds released (recoveries)	(676)	(280)	(956)
Closing balance at 31 December 2014	**6,414**	**767**	**7,181**

At 31 December 2014, the Group has determined the specific allowance on the basis of individual studies carried out on the quality of exposures for the main matured and doubtful assets, endorsing and updating the value of the collateral available (see note 3f). As a result of this analysis, the Group has recorded the additional allowances under "Additions to the allowance for credit losses" of the accompanying consolidated income statement, considering that these assets are adequately provisioned as they do not incur future losses.

The balance of the Allowance for credit losses, net of recoveries account in the accompanying consolidated income statements relates mainly to movements in the allowance for credit losses shown in the preceding table, plus net additions to the general allowance for impairment of investment securities and the loans and receivable in banks and credit institutions (see note 3.e, note 6 and note 8). In 2014, the Group has derecognised defaulted assets for a total of €193 thousand (€428 thousand in 2013).

A breakdown of loans and receivables by their maturity is set out in note 4 of the accompanying financial statements.

8. Investment securities

Details of Investment securities in the accompanying consolidated balance sheets at 31 December 2014 and 2013, broken down by reference currency, type of securities and listing status and not taking account of the allowance for credit losses or the allowance for impairment of investment securities, are given below:

	Thousands of euros	
	2014	2013
By currency:		
In euros	116,206	118,215
In foreign currency	52,480	35,092
	168,686	**153,307**

	Thousands of euros	
	2014	2013
By type:		
Ordinary investments -	**57,169**	**23,996**
Equity securities	849	849
Bonds and other fixed-income securities	48,237	12,156
Investment schemes	8,083	10,991
Held to maturity -	**110,395**	**128,176**
Andorran and OECD government debt	13,903	14,631
Bonds and other fixed-income securities	96,492	113,545
Held for trading -	**-**	**47**
Fixed-income securities	-	-
Equity securities	-	47
Investment schemes	-	-
Long-term investments -	**1,122**	**1,088**
Investments in group companies	974	940
Other investments	148	148
Investment schemes	-	-
	168,686	**153,307**
By listing status:		
Listed	123,362	105,637
Unlisted	45,324	47,670
	168,686	**153,307**
By valuation levels:		
Level I	98,600	77,883
Level II	41,471	54,370
Level III	28,615	21,054
	168,686	**153,307**

The criteria for assigning securities to the different portfolios and for valuing them are described in note 3.h.

On 29 December 2014, the Group has transferred three securities of the held-to-maturity investment portfolio to the ordinary investment portfolio for a carrying amount of €5,079 thousand and a market value of €3,413 thousand. The €1,666 thousand unrealized loss is included the balance of the Allowance for Impairment of Securities which the Bank has recognized for this purpose.

At 31 December 2014 the amount of securities classified under Level III includes mainly an Andorran government debt security totalling €13,903 thousand, subordinated debts totalling €7,140 thousand, structured products totalling €4,483 thousand and permanent securities totalling €1,122 thousand as there is no observable official quotation for these securities (€14,631 thousand, €0 thousand, €4,626 thousand and €1,088 thousand, respectively, at 31 December 2013

At 31 December 2014 and 2013, the variable-income securities recorded in the ordinary investments portfolio include preferential securities issued by EMAP on 30 December 2013.

At 31 December 2014 and 2013, the held-to-maturity securities portfolio includes the securities in compliance with Law 1/2011, of 2 February, which creates a deposit guarantee system for banking institutions (see note 29).

During 2014 and 2013, with prior approval from INAF, the Group proceeded to sell eight and seven securities from the held-to-maturity portfolio for €8,646 thousand and €7,961 thousand, respectively.

The market value of the held-to-maturity portfolio, not including Andorran government debt, at the year-end exchange rate is €99,247 thousand (€112,474 thousand for 2013), while that of the ordinary investment portfolio is €54,368 thousand (€22,860 thousand for 2013). At 31 December 2014, the Group does not have any investments in the trading portfolio (€70 thousand for 2013).

A breakdown of the bonds and other fixed-income securities and government debt by maturity is set out in note 4 of the accompanying financial statements.

The caption "Investment Schemes" includes the investments which BancSabadell d'Andorra has in Investment Schemes managed by Sabadell d'Andorra Inversions shown below:

	2014		2013	
	Valued amount (thousands of euros)	% of scheme's net assets	Valued amount (thousands of euros)	% of scheme's net assets
BSA Inversió FI, Compartiment Renda Variable 25	-	-	230	5.82%
BSA Inversors Qualificats FI, Compartiment Euribor 3 months + 120 p.b. risk Grup Banco Sabadell, S.A.	1,194	16.33%	195	2.67%
BSA Inversors Qualificats FI, Compartiment Euribor 3 months + 150 p.b. risk Grup Banco Sabadell, S.A.	694	7.65%	343	3.83%
BSA Inversors Qualificats FI, Compartiment Euribor 3 months + 200 p.b. risk Grup Banco Sabadell, S.A.	-	-	101	1.82%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium IV	352	4.37%	251	3.13%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium VIII	2,360	21.45%	757	6.82%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium IX	2,824	27.90%	2,824	27.90%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium X	50	0.62%	-	-
BSA Inversors Qualificats FI, Compartiment Rendiment Premium XIV	227	2.20%	6,290	62.80%
BSA Monetari Plus	6	0.01%	-	-
SICAV's	376	100%	-	-
	8,083		**10,991**	

The investments that the Group has in Investment Schemes "BSA Inversors Qualificats FI, Compartiment Rendiment Premium VIII" at 31 December 2014 are mostly temporary. The Group hopes to sell the investments in these Investment Schemes.

The Group will maintain the investment in the "BSA Inversors Qualificats FI, Compartiment Rendiment Premium IX" investment scheme until 22 June 2015, the date on which the investments of this investment scheme portfolio mature.

At 31 December 2014, the Group has an interest in the SICAVs managed by Sabadell d'Andorra Inversions SGOIC, SAU called "SICAV I SABADELL D'ANDORRA,SA" and " SICAV II SABADELL D'ANDORRA, SA", respectively. These SICAVs were set up on 30 December 2014 and began operating in 2015.

"Investments in Group companies" shows the value of the shares of the equity-accounted investee Assegurances Segur Vida, SAU, equal to €974 thousand (€940 thousand at 31 December 2013). At 31 December 2014 said company has 2,932 shares of the Bank, valued at €387 thousand.

The movements in the general allowance for credit losses in 2014 and 2013 were as follows:

	Thousands of euros
Opening balance at 1 January 2013	**539**
Additions:	
General additions to the allowance	219
Applications:	
Recoveries	(112)
Closing balance at 31 December 2013	**646**

Opening balance at 1 January 2014	**646**
Additions:	
General additions to the allowance	155
Applications:	
Recoveries	(162)
Closing balance at 31 December 2014	**639**

The movement on the allowance for impairment of securities of the ordinary investment portfolio during 2014 and 2013 was as follows:

	Thousands of euros
Opening balance at 1 January 2013	**4,127**
Additions:	
General additions to the allowance for impairment of securities (note 20)	1,117
Applications:	
Recoveries (note 20)	(2,310)
Closing balance at 31 December 2013	**2,934**
Opening balance at 1 January 2014	**2,934**
Additions:	
General additions to the allowance for impairment of securities (note 20)	1,404
Applications:	
Recoveries (note 20)	(1,558)
Closing balance at 31 December 2014	**2,780**

9. Intangible assets and deferred charges

The movements in intangible assets during 2014 and 2013 and the related accumulated amortization were as follows:

	Thousands of euros
	Computer software
Cost	
Opening balance at 1 January 2013	12,770
Additions	1,069
Closing balance at 31 December 2013	13,839
Accumulated amortisation	
Opening balance at 1 January 2013	(9,768)
Additions	(1,186)
Closing balance at 31 December 2013	(10,954)
Net assets at 31 December 2013	**2,885**
Cost	
Opening balance at 1 January 2014	13,839
Additions	971
Closing balance at 31 December 2014	14,810
Accumulated amortisation	
Opening balance at 1 January 2014	(10,954)
Additions	(1,130)
Closing balance at 31 December 2014	(12,084)
Net assets at 31 December 2014	**2,726**

At 31 December 2014 the fully amortized intangibles totals €9,068 thousand (€7,959 thousand in 2013).

There were no retirements or reclassifications in 2014 or 2013.

10. Tangible fixed assets

The movements in tangible fixed assets in 2014 and 2013 and the related accumulated depreciation have been as follows:

	Thousands of euros										
	Operating assets								Non Operating assets		
	Land	Buildings	Furniture	Fixtures	Works in progress	Computer hardware and data processing equipment	Vehicles	Art collection	Land	Buildings	Total
Cost											
Opening balance at 1 January 2013	4,224	11,598	1,383	5,800	-	4,013	114	95	1,007	6,535	34,769
Additions	-	1,300	57	146	16	37	-	-	-	239	1,795
Disposals	-	-	-	-	-	-	-	-	-	(228)	(228)
Closing balance at 31 December 2013	4,224	12,898	1,440	5,946	16	4,050	114	95	1,007	6,546	36,336
Depreciation charges											
Opening balance at 1 January 2013	-	(1,917)	(1,268)	(4,495)	-	(3,362)	(63)	-	-	(159)	(11,264)
Additions	-	(295)	(62)	(346)	-	(242)	(17)	-	-	(18)	(980)
Disposals	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2013	-	(2,212)	(1,330)	(4,841)	-	(3,604)	(80)	-	-	(177)	(12,244)
Depreciation charges											
Opening balance at 1 January 2013	-	-	-	-	-	-	-	-	-	-	-
Additions	(296)	-	-	-	-	-	-	-	-	(145)	(441)
Disposals	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2013	(296)	-	-	-	-	-	-	-	-	(145)	(441)
Net assets at 31 December 2013	**3,928**	**10,686**	**110**	**1,105**	**16**	**446**	**34**	**95**	**1,007**	**6,224**	**23,651**
Cost											
Opening balance at 1 January 2014	4,224	12,898	1,440	5,946	16	4,050	114	95	1,007	6,546	36,336
Additions	-	206	30	245	266	80	41	-	-	4,114	4,982
Disposals	(296)	-	-	-	-	-	(28)	-	-	(643)	(967)
Transfers	759	(2,722)	-	60	(281)	-	-	-	(336)	2,520	-
Closing balance at 31 December 2014	4,687	10,382	1,470	6,251	1	4,130	127	95	671	12,537	40,351
Depreciation charges											
Opening balance at 1 January 2014	-	(2,212)	(1,330)	(4,841)	-	(3,604)	(80)	-	-	(177)	(12,244)
Additions	-	(328)	(50)	(359)	-	(171)	(21)	-	-	(18)	(947)
Disposals	-	-	-	-	-	-	28	-	-	-	28
Transfers	-	401	-	-	-	-	-	-	-	(401)	-
Closing balance at 31 December 2014	-	(2,139)	(1,380)	(5,200)	-	(3,775)	(73)	-	-	(596)	(13,163)
Depreciation charges											
Opening balance at 1 January 2014	(296)	-	-	-	-	-	-	-	-	(145)	(441)
Additions	-	-	-	-	-	-	-	-	-	(1,007)	(1,007)
Disposals	296	-	-	-	-	-	-	-	-	145	441
Transfers											
Closing balance at 31 December 2014	-	-	-	-	-	-	-	-	-	(1,007)	(1,007)
Net assets at 31 December 2014	**4,687**	**8,243**	**90**	**1,051**	**1**	**355**	**54**	**95**	**671**	**10,934**	**26,181**

On 31 December 2014, amounts recognised as “transfers” mainly correspond to the accounting reclassification of properties which, having been acquired together with the Bank’s business premises in 2008, are not used for its banking activities. Therefore, based on appraisals made in 2014, the Group has reclassified these properties which were previously classified as “Property for own use” and which are now recognised as “Properties not used for trade”.

In the last quarter of 2014, the office premises in Princep Benlloch haver come into operation, with the amount recognised in "transfers" of work in progress for the launch of the office premises totalling €281 thousand.

With the authorisations of INAF on 30 December 2004 and 30 December 2008, the Group updated the net book values of the properties where its head office and Pas de la Casa sales offices are situated (see note 3.i and note 16). At 31 December 2013, the Group analysed the value of these revalued assets and reversed the revaluation which made of the Pas de la Casa commercial premises. This reversal was recorded by applying an impairment allowance totalling €296 thousand for these assets against revaluation reserves (see note 16), which is the full amount of the revaluation made.

In December 2014, the Group has reviewed the valuation of the Group's head offices, the only property which is currently affected by revaluations and, in accordance with this review, it has not had to make any accounting adjustment to the valuation.

In addition, the Group has analysed the value of the remaining tangible fixed assets used for trade and has not observed any cases where the net value of such assets exceed their recoverable amount.

At 31 December 2014, the non-operating assets consist of properties owned by the Group totalling €3,892 thousand, of which €1,183 thousand correspond to properties which are let (€1,708 thousand at 31 December 2013, the total amount of which were let).

In addition, at 31 December 2014, the non-operating assets include foreclosed assets as payment of debts totalling €9,294 thousand, of which €3,244 thousand are for properties which are let (€5,702 thousand at 31 December 2013, the total amount of which were not let).

The Group has analysed the value of non-operating tangible assets and as a result of this valuation it has recorded an impairment allowance totalling €437 thousand for non-operating properties and €25 thousand for impairment of foreclosed assets. In addition, applying the depreciation criteria established in the Technical Communiqué no. 114 issued by the INAF (see note 3.i.b), the Group has recorded an impairment allowance totalling €545 thousand.

At 31 December 2014 fully depreciated tangible fixed assets totalled €7,379 thousand (€6,658 thousand in 2013), consisting of €2,791 thousand (€2,395 thousand in 2013) included in Fixtures, €3,274 thousand (€3,104 thousand in 2013) in Computer equipment, €1,311 thousand (€1,129 thousand in 2013) in Furniture and €2 thousand (€30 thousand in 2013) in Vehicles.

In the 2014 and 2013 financial years, no interest or exchange differences have been capitalised for tangible fixed assets.

At 31 December 2014 there was no other material circumstance affecting the Group's tangible fixed assets.

11. Banks and credit institutions and other financial intermediaries

The details of the amounts owed to banks and credit institutions and other financial intermediaries at 31 December 2014 and 2013, by reference currency and nature, are as follows:

	Thousands of euros	
	2014	2013
Banks and credit institutions		
By currency:		
In euros	2,300	3,381
In foreign currency	1,246	1,523
	3,546	**4,904**
By type:		
Demand deposits	32	1,595
Time deposits	3,514	3,309
	3,546	**4,904**
Other financial intermediaries		
By currency		
In euros	153	454
In foreign currency	-	12
	153	**466**
By type		
Demand deposits	153	466
Time deposits	-	-
	153	**466**

Demand deposits are any deposits that may be withdrawn at any time without notice or with notice of 24 hours or one business day.

A breakdown of the bank and credit institutions and other financial intermediaries positions by their maturity is set out in note 4 of the accompanying financial statements.

The remunerations of the amounts recorded under "Creditors – Deposits from Banks and credit institutions" and "Creditors – Other financial intermediaries" in the accompanying consolidated financial statements are recorded under "Interest payable and similar charges on borrowings from INAF and financial intermediaries" in the accompanying consolidated income statement. Accrued interest for the year ended 31 December 2014 totals €42 thousand (€41 thousand for 2013).

12. Customer deposits

A breakdown of this caption of the "Liabilities" section of the accompanying consolidated balance sheets at 31 December 2014 and 2013, by reference currency and type of deposit, is given below:

	Thousands of euros	
	2014	2013
By currency		
In euros	408,044	380,114
In foreign currency	84,513	61,948
	492,557	**442,062**
By type		
Demand deposits	184,276	142,202
Current accounts	183,374	141,460
Savings accounts	902	742
Time deposits	308,281	299,860
Time deposits	308,281	299,860
	492,557	**442,062**

A breakdown of customer deposits by maturity is set out in note 4 of the accompanying financial statements.

The remunerations of the amounts recorded under "Creditors – Customers deposits" in the accompanying consolidated financial statements are recorded under "Interest payable and similar charges on customers deposits" in the accompanying consolidated income statement. Accrued interest for the year ended 31 December 2014 totals €2,952 thousand (€2,841 thousand for 2013).

13. Debt securities

A breakdown of debt securities at 31 December 2014 and 2013 by reference currency is given below:

	Thousands of euros	
	2014	2013
By currency:		
In euros	33,922	66,327
In foreign currency	2,468	3,079
	36,390	**69,406**

This item contains issues of structured products which pay a variable coupon based on benchmarked shares, interest rates or indices. The main structured products are classified as follows:

- Products that pay a fixed or variable coupon. The customer receives a fixed or variable coupon and recovers 100% of the investment on maturity of the issue unless there has been a credit event linked to the underlying entity (bankruptcy, default or debt restructuring). These products are guaranteed against the Group's held-to-maturity portfolio or hedged using appropriate financial derivatives.

- Products with a variable yield. The customer obtains a yield which depends entirely or in part on the performance of a share or a basket of shares (underlying yield) and on maturity of the product, the customer recovers the capital on the basis of the evolution of the underlying yield. These products are hedged using appropriate financial derivatives.

These issues are marketed only to customers of the Bank who assume the counterparty risk of the issues.

At 31 December 2014 the cash value of the structured products secured against the ordinary portfolio (bonds and other fixed-income securities) was €20,522 thousand (€24,253 thousand in 2013). In addition, at 31 December 2014, this item also includes repos (temporary assignments of assets) on securities from the Bank's portfolio, with the Investment Schemes being managed by the Fund Management Company, in the amount of €7,597 (€19,813 thousand in 2013).

A breakdown of debt securities by maturity is set out in note 4 of the accompanying financial statements.

The movements in debt securities during 2014 and 2013 were as follows:

	Thousands of euros
Opening balance at 1 January 2013	**119,816**
Additions:	
New issues	32,856
Applications:	
Issues matured	(83,266)
Closing balance at 31 December 2013	**69,406**
Opening balance at 1 January 2014	**69,406**
Additions:	
New issues	14,897
Applications:	
Issues matured	(47,913)
Closing balance at 31 December 2014	**36,390**

The average cost of the issues in 2014 and 2013 was 2.52% and 3.07%, respectively.

14. Provisions for liabilities and charges

The movements in the allowance for liabilities and charges during 2014 and 2013 were as follows:

	Thousands of euros		
	Provisions for pensions and similar obligations	Provisions for litigation	Total
Opening balance at 1 January 2013	**176**	**482**	**658**
Additions:			
Additions to the allowance	44	-	44
Uses:			
Allowance used	(2)	(288)	(290)
Net revaluations:	12	-	12
Closing balance at 31 December 2013	**230**	**194**	**424**
Opening balance at 1 January 2014	**230**	**194**	**424**
Additions:			
Additions to the allowance	241	6	247
Uses:			
Allowance used	(274)	-	(274)
Net revaluations:	2	-	2
Closing balance at 31 December 2014	**199**	**200**	**399**

As described in note 3.k, in 2006 a pension fund was set up for the Group's employees. In 2013 the Group acquired additional units in the collective investment scheme BSA Inversió, FI Compartiment Renda Variable 25, the proceeds of which will be paid to the beneficiaries when needed. The increase in the allowance for pensions and similar obligations through provisions correspond to the contributions which are annually made to schemes and the net revaluations correspond to the net capital gains from the investments in the schemes.

With the entry in force of Law 5/2014 of 24 April, the Board of Directors agreed in its meeting held on 12 December 2014 to clear the balance of the Retirement Plan for its employees and make an initial contribution to the new Pension Plan for each of its employees for the amount of the value at clearance of the contributions made by the Group to the Retirement Plan up to the current date (see note 3.k).

At 31 December 2014, after the contributions to the employees' Pension Plan have been externalised, the amount of this caption includes the contributions made for pension commitments established by the Bank's management.

At 31 December 2012, the Bank considered making a provision for lawsuits for €482 thousand for three cases where the Bank may have had to assume a cost. The provision was for the maximum forecasted cost. In 2013, the Group used €288 thousand of this provision

At 31 December 2014, the Bank has recognised an allowance totalling €200 thousand for the two cases where the Group expects that it will have to assume a cost.

The Group guarantees three products, the "Guaranteed Capital Retirement Plan I", the "Guaranteed Capital Retirement Plan II" and the "Guaranteed Capital Savings Plan". The "Guaranteed Capital Retirement Plan I" and the "Guaranteed Capital Retirement Plan II" are two products where the Bank guarantees the total capital and an annual minimum coupon which the participants of each Plan will be notified of during the first 15 working days of the beginning of the year, whilst the Bank guarantees the total capital of the "Guaranteed Capital Savings Plan". At 31 December 2014, following the analysis carried out; there is no need to record an allowance for the Bank's possible obligations with the customers of these products.

In addition, the Bank has signed an agreement with the Fund Management Company in accordance with which, until 31 December 2014, it should repurchase investments with code ES0213860069 from the Investment Schemes managed and represented by the Fund Management Company at their face value and investments with codes ISIN XS09779911970 and XS0971135727 at their adjusted acquisition price. At 31 December 2014, following the analysis carried out; there is no need to record an allowance for the Group's possible obligations with the Investment Schemes managed by the Group.

15. Allowance for general banking risks

The movements in the allowance for general banking risks during 2014 and 2013 were as follows:

	Thousands of euros
Opening balance at 1 January 2013	**2,044**
Additions:	
Additions to the allowance	3,520
Uses:	
Allowance used	(2,449)
Closing balance at 31 December 2013	**3,115**
Opening balance at 1 January 2014	**3,115**
Additions:	
Additions to the allowance	4,427
Uses:	
Allowance used	(3,902)
Closing balance at 31 December 2014	**3,640**

The allowance includes the amount allocated by the Group to cover general risks inherent in the banking business. As general rule, the Group considers that the total amounts of the specific allowance and the Allowance for General Risks should be at least 5% of the matured loan and receivable transactions, doubtful transactions, risky transactions where the Group considers that it should exercise the mortgage guarantee and the foreclosed assets.

At 31 December 2014, the allowance mainly includes a general cover for the Bank's loan and receivable transactions for real estate promotions in progress.

16. Changes in equity

A breakdown of the Group's equity in 2014 and 2013 is given below:

	Thousands of euros								
	Share capital	Legal reserves	Guarantee reserves	Revaluation reserves	Voluntary reserves	Consolidation reserves	Profit or loss for the period	Dividend	Total
Balance at 31 December 2012	**30,068**	**3,700**	**5,059**	**2,583**	**11,158**	**999**	**6,624**	**-**	**60,191**
Distribution of 2012 profit	-	645	-	-	3,554	-	(6,624)	2,251	(174)
Dividend	-	-	-	-	-	-	-	(2,251)	(2,251)
Reclassification of reserves (note 29)	-	-	(32)	-	32	174	-	-	174
Asset impairment (note 10)	-	-	-	(296)	-	-	-	-	(296)
Profit for 2013	-	-	-	-	-	-	6,960	-	6,960
Balance at 31 December 2013	**30,068**	**4,345**	**5,027**	**2,287**	**14,744**	**1,173**	**6,960**	**-**	**64,604**
Distribution of 2013 profit	-	675	-	-	3,701	-	(6,960)	2,377	(207)
Dividend	-	-	-	-	-	-	-	(2,377)	(2,377)
Reclassification of reserves (note 29)	-	-	668	-	(668)	207	-	-	207
Asset impairment (note 10)	-	-	-	-	-	-	-	-	-
Profit for 2014	-	-	-	-	-	-	7,268	-	7,268
Balance at 31 December 2014	**30,068**	**5,020**	**5,695**	**2,287**	**17,777**	**1,380**	**7,268**	**-**	**69,495**

Share capital

At 31 December 2014 the share capital shown in these consolidated financial statements is that of BancSabadell d'Andorra, SA It consists of 500,305 issued and fully paid shares with a nominal value of €60.10 per share. The shares are divided into two series, A and B, consisting of 255,000 and 245,305 shares, respectively. The A-series shares (50.97% of the Bank) belong to Banco de Sabadell, S.A., while the B-series shares (49.03% of the Bank) belong to Andorran minority shareholders.

The A and B series shares are freely transferable provided the transfer is permitted by company and finance law and the acquirer meets the same legal requirements.

At 31 December 2014 the Group Company Assegurances Segur Vida, SAU owns 2,932 B-series shares of the Bank for a net book value of €387 thousand (see note 8).

Reserves

Legal reserves

Under Law 20/2007 of 18 October on Public Limited Companies, published on 21 November 2007 and subsequently amended by Law 4/2008, of 15 May, Law 93/2010, of 16 December and Law 28/2013, of 19 December, companies that obtain a profit in the financial year must create a legal reserve in a minimum amount equivalent to 10% of the profit for the year until the reserve is equal to 20% of the share capital.

At 31 December 2014, the Bank's legal reserve is 83.5%. Once the Bank's General Meeting of Shareholders approves the distribution of profits proposed by its Board of Directors (see note 17), its legal reserve will be 95.26%.

Guarantee reserves

On 2 February 2011 the Andorran parliament passed Law 1/2011 on the creation of a deposit and investment guarantee scheme for Andorran banking institutions. The purpose of the abovementioned law is to create a deposit and investment guarantee scheme to guarantee to each customer the recovery of cash and securities deposited in Andorran banking institutions belonging to the guarantee scheme. Based on European models, the maximum amounts guaranteed have been fixed at €100,000 euros per depositor and €100,000 per investor, for each institution, with an overall limit for the scheme as a whole of €94.1 million, which will be increased by a system of annual contributions of 0.06% until the scheme's net assets reach 1.5% of the calculation basis of the defined contributions, with an upper limit of €200 million.

Following the entry into force of Law 1/2011 of 2 February on the creation of a deposit and investment guarantee scheme for Andorran banking institutions, the amount of the guarantee reserves determined by INAF, which at 31 December 2013 was €5,027 thousand now is €5,695 at 31 December 2014. The difference resulting from the change in the amount of the guarantee reserves, totalling €668 thousand, has been reclassified from voluntary reserves (see note 29).

At 31 December 2014, in accordance with the new law, the amount of the guarantee reserves determined by the Investments and Deposits Guarantee System Management Committee is held in fixed-income bonds of Société Générale, Caixabank, Caixa Geral de Depositos and Citigroup totalling €5,695 thousand (see note 29).

Revaluation reserve

At 31 December 2014, this reserve relates to the revaluations of tangible fixed assets authorized by INAF on 30 December 2008, of the properties where the Bank's head office is located (see note 10).

At 31 December 2013, the Group recorded an asset impairment allowance in the amount of €296 thousand against revaluation reserves (see note 10) corresponding to the revaluation of the Pas de la Casa sales offices made in 2004.

The revaluation reserves are non-distributable until the assets effectively leave the Group or INAF authorizes their disposal.

Voluntary reserves

Voluntary reserves are freely distributable.

Consolidation reserves

The movements in consolidation reserves in 2014 and 2013 were as follows:

	Thousands of euros			
	Sabadell d'Andorra Inversions, SGOIC, SAU	Serveis d'Assessorament BSA, SAU	Assegurances Segur Vida, SAU	Total
Balance at 31 December 2012	**734**	**14**	**251**	**999**
Distribution of profit for 2012	1,112	10	252	1,374
Dividend paid from reserves	(1,000)	-	(200)	(1,200)
Balance at 31 December 2013	**846**	**24**	**303**	**1,173**
Distribution of profit for 2013	1,504	18	335	1,857
Dividend paid from reserves	(1,350)	-	(300)	(1,650)
Balance at 31 December 2014	**1,000**	**42**	**338**	**1,380**

Consolidated profit or loss for the period

Details of the consolidated profit or loss for 2014 and 2013, by company, are as follows:

	Thousands of euros	
	2014	2013
BancSabadell d'Andorra, SA	7,092	6,754
Sabadell d'Andorra Inversions SGOIC, SAU	704	1,504
Interim dividend Sabadell d'Andorra Inversions, SGOIC, SAU	(600)	(1,350)
Serveis d'Assessorament BSA, SAU	38	17
Assegurances Segur Vida, SAU	184	335
Interim dividend Assegurances Segur Vida, SAU	(150)	(300)
	7,268	**6,960**

17. Distribution of profit

The distribution of profit for 2014 recommended by the Board of Directors of BancSabadell d'Andorra, SA to the Bank's shareholders in the General Meeting of Shareholders for their approval, and the distribution of profit for 2013 approved on 30 May 2014, are as follows:

	Thousands of euros	
	2014	2013
Distribution:		
Legal reserves	709	675
Voluntary reserve	3,881	3,702
Dividends	2,502	2,377
Profit (loss) for the year	**7,092**	**6,754**

The Bank's Board of Directors has established a conservative and policy for distribution of dividends consistent with the risk and solvency profile of the Bank and its Group and in line with its business performance and the reforms to laws.

The profit or loss of the Group's consolidated companies will be distributed as their shareholders decide.

At the date of preparation of the accompanying consolidated financial statements, the Entity has not received any notification of the amount of any contributions which is to made to the guarantee reserves against the profit or loss of 2014.

Following the preparation of the accompanying financial statements, before the Bank's General Meeting of Shareholders is called, the proposal for the distribution of profit may be modified, if the case, in accordance with the contributions calculated and notified by the Investments and Deposits Guarantee System Management Committee. If this notification is received after the General Meeting of Shareholders is called, the corresponding accounting entry will be made against voluntary reserves.

18. Assets and liabilities denominated in currencies other than the euro

As indicated in note 3.d, the exchange rates used are those of the last business day of the year. At 31 December 2014 and 2013 the Group had the following currency cash positions expressed in euros (thousands of euros):

	Thousands of euros					
	2014			2013		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
By currency						
US dollars	78,188	78,149	**39**	57,945	57,944	**1**
Japanese yen	262	262	-	391	391	-
Pounds sterling	2,673	2,672	**1**	1,727	1,729	**(2)**
Swiss francs	1,343	1,343	-	1,762	1,762	-
Canadian dollars	1,621	1,621	-	1,387	1,384	**3**
Other currencies	4,721	4,721	-	8,737	8,737	-
	88,808	**88,768**	**40**	**71,949**	**71,947**	**2**

19. Other balance sheet items

a) Prepayments and accrued income

"Prepayments and accrued income" in the accompanying consolidated balance sheets at 31 December 2014 and 2013 breaks down as follows:

	Thousands of euros	
	2014	2013
Uncollected accrued interest	7,065	6,401
Interest	5,330	4,651
Fee and commission income	1,725	1,750
Other	10	-
Prepaid expenses	25	28
	7,090	**6,429**

b) Other assets

"Other assets" in the accompanying consolidated balance sheets at 31 December 2014 and 2013 breaks down as follows:

	Thousands of euros	
	2014	2013
Current transactions	2,696	3,747
Cheques in transit and awaiting clearance	943	726
Bills in transit and awaiting clearance	273	1,035
Credit card transactions	835	902
Other items	645	1,084
Other	404	469
Taxes	108	38
	3,208	**4,254**

At 31 December 2014 and 2013, the sub-caption "Taxes" mainly includes General Indirect Tax payable by Sabadell d'Andorra Inversions SGOIC, SAU for the fund management commissions receivable.

c) Accruals and deferred income

“Accruals and deferred income” in the accompanying consolidated balance sheets at 31 December 2014 and 2013 breaks down as follows:

	Thousands of euros	
	2014	2013
Unpaid accrued expenses	4,546	3,985
Interest	4,242	3,867
Commissions	(25)	15
Other	329	103
Prepaid income	120	316
Commissions	38	33
Other	82	283
	4,666	**4,301**

d) Other liabilities

“Other liabilities” in the accompanying consolidated balance sheets at 31 December 2014 and 2013 breaks down as follows:

	Thousands of euros	
	2014	2013
Current transactions	2,577	5,107
Cheques in transit and awaiting clearance	932	496
Security transactions in progress	569	819
Other	1,076	3,792
Suppliers and others payable	729	1,827
Payable to public administrations	6	2
Payable to suppliers	426	963
Provision for remuneration and per diems	297	862
Taxes payable	812	968
Prepayments	812	968
	4,118	**7,902**

At 31 December 2014, the sub-caption “Taxes” mainly includes the Corporate Income Tax payable for 2014 (see note 3.o) and the tax payable on business activities carried out in Andorra by non-resident persons or companies.

20. Other items of the income statement

A breakdown of the income recorded in the accompanying consolidated income statement is given below to show the main differences between 2014 and 2013:

a) Net interest income

	Thousands of euros	
	2014	2013
Interest receivable and similar income	**16,384**	**17,029**
On demand deposits held with INAF and financial intermediaries	3,375	3,081
On loans and receivables	9,175	10,005
On bonds and other fixed-income securities	3,834	3,943
Interest payable and similar charges	**(7,926)**	**(8,492)**
On borrowings from INAF and financial intermediaries	(3,494)	(2,846)
On customer deposits	(2,952)	(2,841)
On debt securities in issue	(1,480)	(2,805)
Income from equity securities	**16**	**-**
Net interest income	**8,474**	**8,537**

b) Gross operating income

	Thousands of euros	
	2014	2013
Net fee and commission income	**14,170**	**11,653**
Fees and commissions for services provided	16,055	13,486
Fees and commissions for services received	(1,885)	(1,833)
Gains (losses) on financial assets and liabilities	**2,074**	**3,595**
Net additions to the allowance for impairment of investment securities	154	1,193
Exchange gains (losses)	488	413
Gains (losses) on securities	1,248	1,654
Share of profit (loss) of companies accounted for by the equity method	184	335
Other operating income	**65**	**55**
Income from tangible fixed assets	65	55
Gross operating income	**24,783**	**23,840**

In 2014, the improvement of financial markets has resulted in a net recovery of the allowance for impairment of investment securities totalling €154 thousand, with the resulting improvement of the Group's gross operating income at 31 December 2014. In 2013, the recovery of the additions for this concept was €1,193 thousand. As this income forms part of Gross Operating Income, it is not recurring income for the purpose of comparisons of the evolution of Net Operating Incomes of prior years.

Adjusting Gross Operating Income at 31 December 2014 and 2013 by the amounts recorded under the sub-caption "Net additions to the allowance for impairment of investment securities", and taking into account that the other amounts recorded under Net Interest Income at 31 December 2014 and 2013 are not subject to any adjustment, the Gross Operating Income of the Group's recurring transactions is as follows:

	Thousands of euros	
	2014	2013
Adjusted ordinary operating income	**24,629**	**22,647**

c) Net operating income

	Thousands of euros	
	2014	2013
Staff costs	**(6,004)**	**(6,009)**
Employees, directors and indemnities	(4,547)	(4,539)
Social Security	(712)	(691)
Additions or ordinary contributions to the internal pension fund	-	(54)
Additions or ordinary contributions to other welfare institutions	(97)	(92)
Other staff costs	(648)	(633)
General expenses	**(4,149)**	**(3,877)**
Material	(123)	(142)
Outside services	(3,298)	(3,201)
Taxes other than income tax	(518)	(367)
Other general expenses	(210)	(167)
Allowance for depreciation and amortisation, net of recoveries	**(2,076)**	**(2,167)**
Addition to the allowance for depreciation and amortisation	(2,076)	(2,167)
Allowance for impairment losses, net of recoveries	**(1,007)**	**(145)**
Net operating income	**11,547**	**11,642**

In 2014, the Group has recorded an allowance for depreciation of assets (Note 10) totalling €1,007 thousand in the Net Operating Income. This adjustment should be considered to be a recurring adjustment for the purpose of any comparison of the evolution of Net Operating Income.

On the basis of the adjusted Gross Operating Income stated above less the impact of the addition to the allowance for depreciation of tangible assets, the adjusted Net Operating Income of the Group's recurring transactions for 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Adjusted net operating income	**12,400**	**10,594**

21. Tax situation: Corporate Income Tax

As the Group is taxed under the tax consolidation regime, the reconciliation between the accounting profit (loss) and the Corporate Income Tax base of the Tax Consolidated Group in 2014 is given below:

	Thousands of euros	
	2014	2013
Consolidated accounting profit (loss) before taxes	**7,699**	**7,387**
Corporate Income Tax of companies not integrated by global integration (*)	184	37
Consolidated tax profit (loss) before taxes	**7,883**	**7,424**
Incorporation of interim dividend distributed by Group Companies	750	1,650
Aggregate accounting profit (loss) before taxes of the Tax Consolidated Group	**8,633**	**9,074**
Permanent differences	(1,124)	864
Eliminations	(750)	(1,650)
Taxable income	**6,759**	**8,288**
Tax rate	10%	10%
Tax liability before tax credits	**676**	**829**
Tax credits	(469)	(455)
Tax liability after tax credits	**207**	**374**
Advance payments	194	86
Total tax liability	**14**	**288**

(*) Corresponds to the performance of the subsidiary Assegurances Segur Vida, SAU consolidated for accounting purposes by the equity method.

The amount recorded for "adjustments" mainly includes non-tax deductible expenses to calculate taxable income on the basis of the aggregate accounting profit (loss) before taxes. In addition, the amounts recorded as "Eliminations" and "Tax credits" are mainly deductions for double taxation of interim dividends distributed by subsidiaries in 2014 and tax liabilities paid for municipal and business activities taxes.

In the opinion of the General Management, at the date of preparation of the accompanying financial statements, there are no tax exposures for Corporate Income Tax declared for 2013 or for the Corporate Income Tax forecast for 2014, which may have a significant effect on the accompanying consolidated financial statements for 2014.

In 2013, the Group opted to apply the special tax consolidation regime (see note 3.o). Each of the companies of the BancSabadell d'Andorra Group should file their own individual Corporate Income Tax returns and the Bank should pay the tax.

22. Derivatives transactions

Details of the amounts of derivatives transactions at 31 December 2014 and 2013, classified according to the purpose of the contracts, are given below:

	Thousands of euros	
	2014	2013
Purchases and sales of foreign currency	110,348	78,375
Interest rate swaps	4,452	13,210
Securities options	1,775	9,310
Futures	2,527	3,407
Credit default swaps	155,000	160,839
	274,102	**265,141**

All the interest rate swaps, securities options and credit default swaps relate to hedging transactions in relation to various products sold by the Group.

All derivatives transactions are firm.

At 31 December 2014 and 2013 all the financial derivatives except the futures were OTC products. The maturity structure of the derivatives transactions, counting from the balance sheet date, is as follows:

	Thousands of euros	
	2014	2013
Purchases and sales of foreign currencies		
Up to 1 year	109,910	78,375
Between 1 year and 5 years	438	-
	110,348	**78,375**
Interest rate swaps		
Up to 1 year	-	8,397
Between 1 year and 5 years	4,452	3,480
More than 5 years	-	1,333
	4,452	**13,210**
Securities options		
Up to 1 year	1,647	8,870
Between 1 year and 5 years	128	440
	1,775	**9,310**
Futures		
Up to 1 year	2,527	3,407
	2,527	**3,407**
Credit default swaps		
Up to 1 year	82,000	32,839
Between 1 year and 5 years	73,000	128,000
More than 5 years	-	-
	155,000	**160,839**

23. Assets pledged as collateral

At 31 December 2014 and 2013, no assets were pledged as collateral.

24. Securities deposits and other third-party securities held in custody

This note shows the market value of the securities deposited by customers with the Group and held in custody by third parties. A breakdown of this item in the accompanying consolidated memorandum accounts at 31 December 2014 and 2013, by type of security, is given below:

	Thousands of euros	
	2014	2013
Shares and other equity securities	283,388	224,053
Bonds and other fixed-income securities (*)	592,127	567,675
Securities of investment schemes not managed by the Group	195,782	97,236
Securities of investment schemes managed by the Group	281,621	344,396
Other	32,346	744
	1,385,264	**1,234,104**

(*) At 31 December 2014 and 2013 this item includes the depositary of the debt securities, which are also recorded under "Debt securities" on the liabilities side of the balance sheet (see note 13).

At 31 December 2014 and pursuant to the Technical Communiqué no. 233/13 issued by the INAF on 11 January 2014, in addition to the securities of investment schemes managed by the Group, securities deposits include the securities of such investment schemes of which the Bank is depositary, which total €312,835 thousand (€344,396 thousand at 31 December 2013).

The securities deposits and other securities held in custody at 31 December 2014 include an amount of €70,862 thousand (€81,212 thousand at 31 December 2013) as collateral for various lending transactions and discretionary funds under management.

Asset management fees are included under "Fees and commissions" in the accompanying consolidated income statement.

25. Managed resources

Details of the total resources managed at 31 December 2014 and 2013, independently of whether they are held in custody or deposited by the Group or not, are given below:

	Resources managed					
	Thousands of euros					
	2014			2013		
	Held in custody/ deposited by the Bank	Held in custody/ deposited by third parties	Total	Held in custody/ deposited by the Bank	Held in custody/ deposited by third parties	Total
Collective investment schemes	305,663	-	305,663	338,554	-	338,554
Discretinoary funds under management	270,278	-	270,278	205,725	-	205,725
Other individual clients	1,090,706	-	1,090,706	879,320	-	879,320
	1,666,647	**-**	**1,666,647**	**1,423,599**	**-**	**1,423,599**

26. Other memorandum accounts held solely for administrative control purpose

The breakdown of this item in the accompanying consolidated memorandum accounts at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Guarantees and commitment received	1,610	1,711
Defaulted assets	2,130	1,947
Unlisted own securities and assets	24,229	27,560
Trusts (*)	104,012	135,360
Other	1,079	1,103
	133,060	**167,681**

(*) "Trusts" includes deposits of the investment schemes managed by the Group's Fund Management Company and brokered by the Bank. It also includes deposits held at other Banks on behalf of customers.

27. Transactions with related parties and group entities

Details of balances with BancSabadell d'Andorra Group subsidiaries and shareholders and entities related to the shareholders in excess of 5% of profit for the year (in the income statement) or 10% of net assets (in the balance sheet) for 2014 and 2013 are disclosed below:

	Thousands of euros	
	Shareholders	Investees
2014	Banco de Sabadell, S.A.	Assegurances Segur Vida, SAU
Number of individuals	-	-
Number of companies	1	1
Lending transactions		
Demand deposits at bank	774	-
Banks and credit institutions	-	-
Investment securities	63,506	-
Loans and receivables	2,126	-
Prepayments and accrued income	41	-
	66,447	**-**
Borrowing transactions		
Demand deposits at banks	-	-
Banks and credit institutions	1,037	5,814
Accruals and deferred income	16	388
Customer deposits	-	21,502
	1,053	**27,704**
Income statement transactions		
Interest receivable and similar income	159	-
Interest payable and similar charges	(168)	139
Net fee and commission income	(5)	-
Taxes (Corporate Income Tax)	-	-
	(14)	**139**
Memorandum accounts	**111,923**	**104,006**

	Thousands of euros	
	Shareholders	Investees
2013	Banco de Sabadell, S.A.	Assegurances Segur Vida, SAU
Number of individuals	-	-
Number of companies	1	1
Lending transactions		
Demand deposits at bank	2,349	-
Banks and credit institutions	-	-
Investment securities	47,747	-
Loans and receivables	1,947	-
Prepayments and accrued income	72	37
	52,115	**37**
Borrowing transactions		
Demand deposits at banks	-	-
Banks and credit institutions	1,199	3,547
Accruals and deferred income	9	661
Customer deposits	-	22,172
	1,208	**26,380**
Income statement transactions		
Interest receivable and similar income	109	-
Interest payable and similar charges	(321)	(361)
Net fee and commission income	103	-
Taxes (Corporate Income Tax)	-	37
	(109)	**(324)**
Memorandum accounts	**150,001**	**107,750**

All the Group's transactions with related parties and Group companies were carried out at market prices.

28. Risk management polices

The BancSabadell d'Andorra Group considers that risk management is one of its key strategic factors in maintaining the Group's solvency and image and contributing to the development of its business in a balanced manner in accordance with market circumstances at all times.

The Group's risk management and policies are based on the following principles:

- The economic risks assumed by the Bank should be compatible with their solvency level, identification and quantification, and the relevant procedures should be put in place for their appropriate monitoring and mitigation,
- All of the risks should be managed in a jointly manner during their life cycle by means of different procedures depending on the nature of the risks,
- Their proposal, appraisal and monitoring require the intervention of different decision-making divisions and bodies with separate functions and different levels of autonomy,
- The Group should not incur a significant market risk at any time as it does not intend to carry out another operation in the markets for own account. Its operations will be mainly hedges,
- A firm commitment with excellence and quality implies a very accurate management of operational risk,
- The Group should continually be vigilant in sustaining its good image and reputation by monitoring possible compliance risks.

The main risks to be managed are:

Credit risk

Credit risk arises from the possibility that losses will be sustained for defaults of payment obligations by borrowers or counterparties as well as losses of value for impairment of their credit quality.

Credit risk operations may occur in either sales offices when they are operations with Customers, the Treasury and Capitals Market Department when they are operations with other Financial Institutions, or the Collective Investment Bodies Management Company when they are operations of Financial Institutions to place funds.

<u>Credit Risk Operations with Customers.</u>

The Group's credit operations are considered to be the following operations:

- Commercial discounts,
- Credits and loans,
- Bank guarantees and other guarantees,
- Documentary credits.

To analyse and approve these operations, if the case, the different levels of autonomy given to decision-making bodies depending on the terms and conditions, amounts and guarantees of the operations should be taken into account, which are structured as follows:

- Level 1: Branch Management,
- Level 2: Risk Management composed by the Branch Manager and Risk Manager,
- Level 3: Risk Committee composed by the Risk Manager and General Management.

Operations which exceed the level of decision of the Risk Committee are broght to the endorsement of the Risk Committee of the Board of Directors.

The branch Management and the Credit Risk Department are jointly responsible for the control of all these risk operations with Customers and will monitor these operations during their life cycle to ensure that their payment commitments are met and to anticipate any symptoms of serious impairment which may suggest a potential Customers default on payment.

In the event of default on payment, the Office initiates appropriate procedures to claim the outstanding payments from the Customer.

For operations which are considered to be bad or doubtful debts, the Bank follows a strict policy of making specific provisions for the debts in addition to the general provision, taking into account the time during which payment is delayed and relevant guarantees.

The Risk Department checks that the terms and conditions agreed for an operation have been performed and complied with, in particular those regarding relevant guarantees.

The Bank applies the same risk policies for refinancing operations with Customers as those for its normal financing operations, although it strengthens its policies for the former operations as follows:

- The operation should be viable, i.e. the Customer should prove its solvency and capacity to generate resources for the payment of the borrowed capital,
- A reasonable term of payment shall be established, with instalment payments adapted to the capacity of return. As a result, the economic terms of the operation shall be reviewed,
- In addition to the initial guarantees, further guarantees of quality and with total legal security should be obtained for a sufficient amount to ensure that the operation is covered under the new terms and conditions,
- Refinancing operations are not carried out for doubful operations.

The composition of the credit risk at 31 December 2014 and 2013 is shown in note 7 of the accompanying financial statements.

<u>Credit Risk Operations with Financial Institutions.</u>

Risk-generating operations are operations carried out by the Bank and consist of:

- Placements of funds in the form of an interbank deposit,
- Purchases of financial assets for the Bank's own portfolio,
- Contracting of spot or forward exchange deals,
- Financial derivatives on interest rates, credit and variable income.

Investment Proposals come from the Treasury and Capitals Market Department or the Fund Management Company in the form of a line with a maximum amount and a maximum term of placement.

The following matters are taken into account when these operations are analysed:

- Rating given to the Entity by the rating agencies Standard & Poor's, Moody's and Fitch,
- Updated action of the Entity's credit default swap which indicates the level of risk perception existing in the market at all times,
- Favourable opinion of the Risk Committee.

For investments of the Bank's own portfolio, in addition to the matters stated above, the following criteria are also taken into consideration:

- They should be fixed-income securities issued by Financial Institutions or Insurers of OECD countries or companies which are quoted on OECD regulated markets,
- Generally they shall have a floating coupon indexed to Euribor or Libor to mitigate interest rate risk although investments can also be made in fixed coupon securities,
- Securities should be for a minimum of €500 million or US$ equivalent to guarantee liquidity,
- The maximum amount invested in one issue may not exceed €4 million or the equivalent amount in US$.

These investment parameters are directly approved by the Board of Directors' Risk Delegate Committee.

The risk is monitored by the Internal Control Department on a daily basis taking into account both the internal limits granted in the form of a line and the maximum concentration percentage according to the weightings by product established by the Andorran Finances Institute in its capacity as Supervisor of the Andorran Financial System.

The Assets and Liabilities Committee reviews positions held with different Entities and their associated risks on a monthly basis. Regarding risks of the Bank's own portfolio, all securities which have latent losses are reviewed and an analysis and assessment are made on the issuer and whether to keep the security in the portfolio.

In addition, for operations regarding derivative financial products contracted with Financial Institutions, the Bank has signed an ISDA agreement and the corresponding Credit Support Annex (CSA) with the counterparties, with which it establishes the provision of collateral guarantees which mitigate the risk of these operations considerably.

Concentration risk

The concentration risk refers to high levels of exposure which represent a likelihood of a high level of loss and which could put the Bank's viability at risk.

Under prevailing laws, the Credit Risk Department verifies that the risk-weighted exposure for a Customer or risk group, which is understood to be a group of related Customers, does not exceed 20% of the Bank's net assets at any moment and informs the INAF every month of the risk groups which exceed 5% of its net assets.

For internal purposes, the Bank analyses and monitors the concentration risk in more detail and segregates it into the two following types of risk:

Individual concentration risk. This refers to the likelihood that the Bank may generate a high level of losses as a result of a high level of exposure of specific Customers.

To measure the individual concentration risk, the Bank takes into consideration all different risks that a single Client may have in different accounts, which conform a group of risk.

In general, the amount of exposure of each Customer in figures is calculated on the basis of the limit granted to the Customer excluding those drawdown products which are resolved case by case at the Bank's criteria, in which case the total amount drawn down is used. Any allowances which have been recognised are deducted.

Sector concentration risk. As in the case of the aggregation of risks for the analysis of individual concentration risk, the main sectors are defined and each Customer is assigned to its main business sector to obtain the sector concentration.

Market risk

Market risk arises from the possibility that losses of value will be sustained for positions that the Bank has in different types of assets as a result of fluctuations in market factors such as exchange rate, interest rate or variable-income price. They arise from Treasury and Capital Market positions and they are managed by this Department.

Foreign exchange risk.

The Group systematically hedges the currency positions generated by Customers, carrying out the relevant counter operations in the market so that the open position in currencies is marginal.

As a result of this policy, the Board of Directors has authorised the Group to maintain an open position limit in each currency, for long or short positions, for a maximum of €60 thousand and, for all currencies, an open position, in either direction, for a maximum of €300 thousand.

For forward operations, the criteria applied are also the systematic hedging of operations in the market and the execution of counter operations for equal amounts and conditions to obtain the hedge for both amounts and maturities.

At 31 December 2014 the net global position (taking into account both spot and forward operations) was €61 thousand (€30 thousand in 2013).

The Internal Control Department checks this risk daily and informs the General Management of the existing level of risk and that it is within the stated limits.

Interest rate risk.

Interest rate risks, together with liquidity risk, arise from sales activities with Customers and the Treasury Department's own operations. Management of this risk aims to provide stability for net interest income and maintain adequate levels of liquidity and solvency.

The interest rate risk arises from changes to interest rates, whether they are changes to the level of the interest rate or the interest rate curve, which are the benchmark for assets, liabilities and off-balance sheet positions. When these positions do not follow a symmetrical maturity structure, changes to the level of interest rates may have an adverse effect on the evolution of profits.

To measure and manage these types of risks, the methodology used consists of a static analysis of the sensitivity of net interest income for one year to a change of interest rate of 100 basis points. The Group's policy is to minimize this risk by ensuring that the structure of assets and liabilities in 12 months is symmetrical, so that the impact of any change in interest rates is minimum.

At weekly intervals the Internal Risk and Control Department performs a gap analysis of the balance sheet, which may be sensitive to interest rate fluctuations, and, on a monthly basis, it carries out a simulation of the impact a 100 basis points fluctuation would have on net interest income to ensure that the impact is never more than 5% of net interest income in absolute terms.

The Assets and Liabilities Committee reviews this gap on a monthly basis and validates the resulting sensitivity and the temporary structure of the assets and liabilities for the 12-month period.

At 31 December 2014, the sensitivity of the balance sheet in euros to a 1% change in interest rates was €138 thousand in absolute terms, equivalent to 1.67% of year-end net interest income (€89 thousand and 1.11%, respectively, at 31 December 2013).

Variable-income risk.

The positions which the Group holds in variable-income securities of its own portfolio may not represent more than 5% of the Entity's net assets.

The management of these positions involves updating their net book value to market value every month, so that possible latent losses are recognised at all times for accounting purposes.

The Assets and Liabilities Committee reviews the Group's variable income positions on a monthly basis and, when proposed by the Treasury and Capital Markets Department, assesses the suitability of selling these positions taking into account market conditions.

Liquidity risk.

This risk is defined as the Bank's potential incapacity to meet payment commitments (even if this is temporary) as it does not have liquid assets or cannot obtain financing in markets at a reasonable price. This may be due to external factors such as a financial recession or internal factors such as an excessive concentration of matured liabilities compared to matured assets.

The Bank carries out several controls on liquidity:

- Every day the Treasury Department reviews and updates certain receivables and payables projected in the short term (three months) to ensure that the Bank has sufficient liquidity at all times to make payments without difficulties,
- Every month and as a usual control of the Assets and Liabilities Committee reviews the gap analysis of liquidity at 12 months, taking into account all of its assets and liabilities by their maturity, to determine the potential financing needs which the Bank may have in one year,
- In addition to the two previous controls, every week the Internal Control Department verifies that the liquidity ratio is above the established 40% minimum level. At 31 December 2013, this ratio was 89.37% (86.58% at 31 December 2013).

Liquidity management is the responsibility of the Treasury Department, which, on the basis of the aforementioned projections and available positions, places resources, seeking maximum profitability and always acting in accordance with the agreements of the various counterparties. Similarly, in response to specific needs for liquidity, it resorts to the market for funding.

Operational risk

Operational risk arises from the possibility that losses may be generated as a result of inadequate or failed processes, human errors and internal systems, or from unexpected external events.

The Group pays special attention to this type of risk and it has established a specific management procedure to identify, notify and analyse the risk and adopt any measures to mitigate or prevent the repetition of circumstances. This procedure is activated every time that an operational risk is identified in one of the offices or departments and it allows for historical information to be collected regarding previous cases and their impact.

In addition, and as a general preventive measure, the Group has a risk map which includes all those business processes which may generate operational risks. This map identifies potential risk points and assigns them a level of severity so that the Group may give priority to them to improve the control measures already in place.

The Internal Control Department is responsible for operational risk management and carries out the following to manage these risks:

- Analyse and identify new risk points by reviewing processes and operational risks generated,
- Together with the affected division, propose necessary measures to mitigate or eliminate the risk,
- Establish appropriate control measures to guarantee that the risk is duly mitigated or eliminated,
- Report to the Audit and Control Committee periodically.

The Audit and Control Committee supervises the management of operational risks in general and establishes the policies on this matter.

Compliance risk

The need to manage this risk (which is understood to be the risk of legal and administrative penalties, a significant financial loss or a loss of reputation as a result of failing to comply with laws, regulations, rules or codes of conduct applicable to the Group) has arisen due to the direct repercussions of failing to comply with legislation and a loss of image with Customers, the Regulator and the market.

For this reason, the Group has a Compliance Risk Department which monitors the compliance of legislation in the following ways:

- Customer acceptance policy, placing special emphasis on verifying business activities and consistency of economic flows,
- Prevention of money laundering and financing of terrorism, carrying out a thorough review of suspicious operations,
- Investor protection, by applying the questionnaires for appropriateness and suitability tests. This MIFID Directive was adapted to Andorran law in 2010 with the introduction of Law 14/2010, amended by Law 8/2013, of 9 May.

To carry out the above, the Group has established the following measures according to its various relevant areas:

- Technology: All rules and controls which help to detect possible incidents in advance are incorporated in computer systems,
- Training: All staff receives specific training sessions and staff of the Risk Compliance Department have specialised and homologated training sessions,
- Legislation: Clear and specific procedures are established so that staff can know how to act in the event of any type of circumstances which may arise,
- Communications: Systems are established which enable quick notification of any incident or suspicion of a problematic operation,
- Legal: New legislation which may affect any of the areas of responsibility for compliance of legislation is continually monitored.

This Department reports directly to General Management and the Board of Directors' Audit Delegate Committee and there are fluid and constant relations with the supervisory body of this matter.

Law regulating required reserves.

On 30 June 1994 the Andorran parliament passed a law regulating required reserves. On 9 December 2009 an amendment to the law regulating required reserves was approved. Under this law all deposit-taking institutions that use customers' funds to make loans and other investments must invest a proportion of their funds in Andorran government debt securities.

On 3 March 2010, within the framework of the Law regulating required reserves and by means of a decree of national and social interest, the Council of Ministers approved a €12,500 thousand program of preferential finance for start-up companies and businesses, innovation, and restructuring of entrepreneurial projects. This program is intended to provide financial support for company creation and new entrepreneurs, based on loans provided by banks with a government guarantee.

On 16 March 2011, by means of a decree classified as of national and social interest, the Council of Ministers approved a €24,000 thousand program of preferential finance for home renovation and the renovation of buildings for residential use. This program is intended to provide access to financing for home renovation and the renovation of buildings for residential use, including measures to improve sustainability and energy efficiency and the adoption of renewable energy in the Principality of Andorra. Credit granted by banks under this program is fully guaranteed by the government and classifies as public funds for the purpose of compliance with the required reserve ratio.

Government debt

At 31 December 2014 and 2013, the Bank held the following Andorran government debt securities:

2014				2013			
Date of issue	Amount held	Maturity	Annual effective interest rates	Date of issue	Amount held	Maturity	Annual effective interest rates
07/06/2013	989	05/12/2014	3.00%	05/06/2013	321	05/12/2014	3.00%
02/01/2012(*)	11,570	31/12/2015	0.56%	17/04/2013	1,396	17/10/2014	3.30%
18/12/2013	1,344	19/12/2016	2.60%	02/01/2012(*)	11,570	31/12/2015	0.56%
	13,903			18/12/2013	1,344	19/12/2016	2.60%
					14,631		

(*) This security is calculated in accordance with the required reserve ratio.

The amount paid by the Bank for these securities is recorded under "Investment securities – Bonds and other fixed-income securities" in the accompanying consolidated balance sheets (see note 8). The debt securities are classified in the held-to-maturity portfolio.

Law regulating the creation of a deposit guarantee scheme for banking institutions.

On 2 February 2011 the Andorran parliament passed Law 1/2011 on the creation of a deposit and investment guarantee scheme for Andorran banking institutions. The purpose of the abovementioned law is to create a deposit and investment guarantee scheme to guarantee to each customer the recovery of cash and securities deposited in Andorran banking institutions belonging to the guarantee scheme. Based on European models, the maximum amounts guaranteed have been fixed at €100,000 euros per depositor and €100,000 per investor, for each institution, with an overall limit for the scheme as a whole of €94.1 million, which will be increased by a system of annual contributions of 0.06% until the scheme's net assets reach 1.5% of the calculation basis of the defined contributions, with an upper limit of €200 million.

The law establishes that an amount equivalent to the guarantee reserve must be invested in safe, liquid assets and must be considered to meet the following requirements:

a) Immediately available amounts or amounts with a maturity of no more than one month held at other Andorran credit institutions, credit institutions in OECD countries or other institutions that are subject to supervisory standards which INAF considers equivalent to those applicable in Andorra;

b) Investment in Andorran government debt or in the government debt of OECD member countries;

c) Other immediately available assets or assets with a maturity of no more than one month or that are easily convertible into cash and that INAF considers appropriate at any given time.

At 31 December 2014 the amount of the guarantee reserves determined by INAF is €5,695 thousand. In accordance with the aforementioned law, this amount is held in the following securities:

	(Thousands of euros)	
	Amount	Maturity
Société Générale fixed-income bond	1,348	31/03/2015
Caixabank fixed-income bond	1,452	18/04/2017
Caixa Geral de Depositos fixed-income bond	1,389	28/09/2015
Citigroup fixed-income bond	1,506	09/02/2016
	5,695	

The above securities are recorded under “Investment securities” in the accompanying consolidated balance sheet (see note 8).

In 2014 and with a charge to voluntary reserves, the sum of €5,027 thousand recorded at 31 December 2013 has been increased to €5,695 thousand, in accordance with a letter of the Deposits Guarantee System Management Committee dated 30 June 2014.

Law regulating Capital and Liquidity Requirements for Financial Institutions.

On 29 February 1996, the Andorran parliament passed the Law regulating Capital and Liquidity Requirements for Financial Institutions.

This law, and the regulations implemented under the law by the Andorran Institute of Finance, requires banks to maintain a capital ratio of at least 10%. The law also establishes a mandatory liquidity ratio of at least 40%.

The Group’s capital and liquidity ratios at 31 December 2014, measured in accordance with this law, were 22.99% and 89.37%, respectively (at 31 December 2013, they were 22.78% and 86.58%, respectively.

The Law on Capital and Liquidity Requirements specifies that the concentration of exposures to any one beneficiary may not exceed 20% of the Group’s net assets. It further establishes that the aggregate exposure resulting from exposures each of which individually exceeds 5% of net assets may not exceed 400% of net assets. In addition, the exposure to directors may not exceed 15% of net assets. These risks are weighted in accordance with the provisions of this law.

In 2014 and 2013 the Group complied with all the requirements of the law. The maximum concentration of exposures to any one beneficiary as a percentage of the Group’s adjusted net assets was 12.60% in 2014 and 11.78% in 2012. The total amount of loans and other transactions involving an exposure to one beneficiary in excess of 5% of adjusted net assets at 31 December 2014 and 2013 did not exceed 62.95% in 2014 and 63,10% in 2013 of such adjusted net assets of the Group. All board members have risks with the Groupwhich individually exceed 15% of the net assets.

Law on international cooperation to combat the laundering of the proceeds of international crime.

The Law on international cooperation to combat the laundering of the proceeds of international crime, which replaced the 1995 Law on the protection of banking secrecy and the laundering of money or assets derived from international crime, came into force on 24 July 2001.

In compliance with this law, the Group has put in place a series of internal control and communication procedures aimed at protecting banking secrecy and preventing transactions for money laundering and the financing of terrorism. Specific staff training programs have been implemented.

On 11 December 2008 the Andorran parliament passed the Law amending the Law on international cooperation to combat the laundering of the proceeds of international crime. This amendment to the Andorran legislation to combat money laundering and the financing of terrorism updated the previous Law, adapted it to international standards and harmonized it with the equivalent laws of other European countries.

During 2009 the new Regulations implementing the Law on international cooperation to combat the laundering of the proceeds of international crime and the financing of the terrorism came into force.

On 25 May 2011 the Andorran parliament passed a new law amending the Law on international cooperation to combat the laundering of the proceeds of international crime and the financing of terrorism. A Decree of 18 May 2011 amended the regulations implemented under the Law on international cooperation to combat the laundering of the proceeds of international crime and the financing of terrorism, passed by the Decree of 13 May 2009.

The Law on international cooperation referred to above was amended by Law 20/2013 of 10 October to adapt it to the Monetary Agreement with the European Union approved by the General Council on 24 Novmber 2011. The Regulations implemented under this Law were also amended by the Decree of 20 November 2013.

Finally, the Law has been amended by Law 4/2014 of 27 March to extend the chapter on measures to prevent the financing of terrorism. A new body, the Permanent Commission, has been set up to prevent and combat terrorism and the financing of terrorism

Agreement between Andorra and the European Community in relation to the establishment of measures equivalent to those provided in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments.

On 21 February 2005 the Andorran parliament ratified the agreement between Andorra and the European Community in relation to the establishment of measures equivalent to those provided in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments. Subsequently, on 13 June 2005 the Government passed a law implementing the above agreement.

In the current year the Group, acting in its capacity as a payment agent, complied with the obligations contained in the agreement and it’s implementing law and settled the amount of the withholding.

Law 14/2010 of 13 May on the legal regime of banking institutions and the basic administrative regime of the financial system operating entities, amended by Law 8/2013, of 9 May on the organisational requirements and operating conditions of financial system operating entities, investor protection, market abuse and financial guarantee agreements.

On 13 May 2010, the Andorran parliament passed the law on the legal regime of banking institutions and the basic administrative regime of the financial system operating entities. This law was published in the Andorran Official State Gazette on 9 June 2010, with a period of adaptation to said law of 12 months from the date of publication.

The abovementioned law is intended to regulate the legal regime of banking institutions and the basic administrative regime of the financial system operating entities, giving greater security to the Andorran financial sector.

This law adapts the Andorran legal framework to the provisions of EU Directive 2004/39/CE of 21 April 2004, more usually referred to as MiFID (Markets in Financial Instruments Directive).

On 9 May 2013, the Andorran parliament passed Law 8/2013 on the organisational requirements and operating conditions of financial system operating entities, investor protection, market abuse and financial guarantee agreements. The main purpose of this law is to extend the requirements established in Law 14/2010, make some amendments to bring the administrative regime of Andorran financial system entities into line with international standards and clarify the interpretation of Law 14/2010 as well as incorporate some regulatory matters regarding the use of privileged information, the manipulation of the market and contractual compensation and financial guarantee agreements.

On 23 May 2013, Law 10/2013 of the Andorran Institute of Finance was passed which also amends the Law regulating criteria on the solvency and liquidation of financial entities of 29 February 1996, the Law regulating the disciplinary procedures for the financial system of 27 November 1997 as well as Law 10/2008 regulating collective investment schemes, Law 35/2010 on the regulations for authorising the creation of new operating entities and Law 1/2011 of 2 February on the creation of a deposit guarantee system by banking entities.

Law on Corporate Income Tax.

On 29 December 2010 the Andorran parliament passed Law 95/2010 of 29 December on corporate income tax, and subsequently, on 1 December 2011, it passed Law 17/2011, of 1 December which amended Law 95/2010. .

On 13 June 2012, the Andorran parliaments passed the regulations implemented under Law 95/2010 were passed.

Law 95/2010 determines that the general rate of corporate income tax is 10%.

Law 11/2012, of 21 June, of indirect taxation.

On 18 July 2012 the Andorran parliament passed Law 11/2011 of 21 June on indirect taxation which annuls the previous Law on the indirect taxation of banking services and financial services of 14 May 2002 and was subsequently amended by Law 10/2014 of 3 June . This Law came into force on 1 January 2013 to ensure that the obligations established regarding the charging and collection of the tax are correctly met.

The general indirect tax is levied on all consumptions of goods and services and, specifically, for banking and financial services, the tax rate is 9.5%.

As the tax is only levied on final consumption, companies may deduct the tax borne on their purchases so that, at each stage, the tax corresponding to the inherent value at such stage is collected. Consequently, until the amendment of 2014 came into force on 1 July 2014, the tax is neutral for companies.

A limit is established for banking entities with effect from 1 July 2014 for the tax deduction of Real Estate Tax liabilities for activities subject to Real Estate Tax. The limit is 10% of the tax charged at the higher rate of 9.5%.

30. Post-balance sheet events

There have been no other significant post-balance sheet events.

31. Other points of interest

At 31 December 2014 there were no other points of interest.

Board of Directors

Chairman	*Robert Cassany i Vila*
Directors	*Miquel Alabern i Comas*
	Marcel Albós i Riba
	Miquel Àngel Canturri i Montanya
	Joan Capellas i Cabanes
	Joan Llonch i Andreu
	Josep Permanyer i Cunillera
	Josep Anton Ribes i Roca
	Josep Vilanova i Trias
Secretary	*Joan Roca i Sagarra*

Management Team

Chief Executive Officer	*Miquel Alabern i Comas*
General Manager	*Josep Segura i Solà*
General Controller	*Mireia Montoriol i Garriga*
Information Technology Manager	*Àngels Colell i Sinfreu*
Fund Manager Division	*Sandra Estebe i Jové*
Commercial Director	*Gerard Fonolleda i Ramboux*
Private Banking Manager	*Antoni Masip i Mestre*
Operations Manager	*Jordi Vilardebó i Costa*

Branch Managers	*Xavier Badell i Santeugini*
	Enric Call i Grau
	Judit Camprubí i Rial
	Lluís Gaztelu i Guitart
	Joan Pla i Oliva
	Lluís Pons i Vega
	Joaquima Serra i Galbany

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