ANNUAL REPORT
2016

BancSabadell d'Andorra

ANNUAL REPORT
2016
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

Auditors' report issued by an independent auditor

To the shareholders of BancSabadell d'Andorra, SA:

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of BancSabadell d'Andorra, SA (the parent Company) and other companies which make up the BancSabadell d'Andorra Group (the Group), which comprise the consolidated balance sheet and consolidated memorandum accounts at 31 December 2016, the consolidated income statement and consolidated statement of sources and applications of funds for the year then ended, as well as the explanatory notes of the consolidated financial statements which include a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the Group's financial position at 31 December 2016 and the consolidated results and consolidated resources which it has obtained and applied for the year then ended, in accordance with the accounting principles and standards generally accepted by the Andorran Financial System.

Basis of the opinion

We conducted our audit in accordance with the International Auditing Standards (IAS). Our responsibilities in accordance with these standards are described in the section of this report entitled *Responsibilities of the auditor regarding the audit of the consolidated financial statements*.

We are independent from the Group in accordance with the *Code of Ethics for Professional Accountants* issued by the Council of International Standards of Ethics for Accountants (IESBA Code of Ethics) and we have complied with the other responsibilities with regards to ethics in accordance with these requirements.

We believe that the audit evidence that we have obtained provides an adequate and appropriate basis for our opinion.

Responsibility of the Directors and the Audit Commission regarding the consolidated financial statements

The Directors of the parent Company are responsible for the preparation and fair presentation of the accompanying 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 the internal control which the Directors of the parent Company consider necessary for the preparation of the consolidated financial statements free from material misstatement, whether due to fraud or error.

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In preparing the consolidated financial statements, the parent Company's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, when necessary, any matters related to going concern and using the going concern basis of accounting unless the parent Company's Directors intend to either liquidate the Group or cease operations, or there has been no other realistic alternative.

The Audit Commission of BancSabadell d'Andorra, SA is responsible for the supervision of the Group's financial reporting procedures.

Responsibilities of the auditor regarding the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements of BancSabadell d'Andorra, SA and the other companies which make up the BancSabadell d'Andorra Group as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with the ISAs always detects a material misstatement when one exists. Misstatements may arise due to fraud or error and are considered as material if, individually or in aggregate, it is reasonably foreseeable that they will have a bearing on the financial decisions which users take based on the consolidated financial statements.

As part of an audit carried out in accordance with the ISAs, we apply our professional judgment and we exercise professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and apply audit procedures to respond to such risks and obtain appropriate and adequate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of a material misstatement due to error, as fraud may imply collusion, falsification, deliberate omissions, intentionally erroneous statements or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies applied and the reasonableness of accounting estimates and related disclosures made by the parent Company's Directors.

- Conclude on the appropriateness of the parent Company's Directors use of the going concern basis of accounting and, based on the audit evidence obtained, conclude on whether or not there is any material uncertainty regarding events or conditions which may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion . Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosed information, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate evidence regarding the Group's financial information and business activities to express an opinion on the Group's consolidated financial statements.

- Take responsibility for managing, supervising and carrying out the Group's audit.

- Take responsibility for the auditors' opinion.

With the Directors of BancSabadell d'Andorra, SA, we have discussed, amongst other matters, the scope of the proposed audit, the moment of its execution and its main findings as well as any significant deficiency of internal control identified during the course of the audit.

We have also informed the Directors of BancSabadell d'Andorra, SA, that we have complied with the ethical requirements applicable regarding independence as informed by us, given that they concern all of the relationships and other matters that may reasonably be expected to affect our independence, as well as, if the case, the relevant safeguards.

PricewaterhouseCoopers Auditores, S.L.

Raúl Ara Navarro

30 March 2017

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A 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 a discrepancy the original Catalan language version prevails.

BANCSABADELL D'ANDORRA, SA

AND SUBSIDIARIES

Consolidated Balance Sheets as of 31 December 2016 and 2015
(figures in thousands of euros)

ASSETS	2016	2015*
Cash on hand and deposits with OECD central banks	**38,901**	**20,018**
Notes and coins	38,901	20,018
Deposits with INAF (note 5)	**210**	**210**
Deposits in guarantee reserves	210	210
Deposits held with financial intermediaries (note 6)	**55,328**	**43,252**
Banks and credit institutions	55,527	43,390
Less - Allowance for credit losses	(199)	(138)
Loans and receivables (note 7)	**336,748**	**355,846**
Loans and advances to customers	337,867	355,111
Customer overdrafts	12,051	7,871
Customer bill portfolio	7,852	7,104
Less - Allowance for credit losses	(21,022)	(14,240)
Investment securities (note 8)	**224,189**	**194,608**
Bonds and other fixed-income securities	210,902	181,510
Government debt issued by the Andorran government	28,352	19,708
Other bonds and fixed-income negotiable securities	183,498	164,902
Less - Allowance for credit losses	(948)	(839)
Less - Allowance for impairment of investment securities	-	(2,261)
Investments in group companies	981	978
Other investments	88	88
Not listed on regulated markets	148	148
Less - Allowance for impairment of investment securities	(60)	(60)
Shares and other equity securities	1,539	849
Shares and other equity securities	1,539	849
Investment schemes	10,679	11,183
Intangible assets and deferred charges (note 9)	**2,829**	**2,762**
Intangible assets and deferred charges	17,036	15,919
Less - Accumulated depreciation	(14,207)	(13,157)
Tangible fixed assets (note 10)	**31,513**	**33,155**
Tangible fixed assets	48,744	48,405
Less - Accumulated depreciation	(14,794)	(14,009)
Less - Allowance for depreciation of tangible fixed assets	(2,437)	(1,241)
Prepayments and accrued income (note 19)	**3,943**	**4,090**
Uncollected accrued interest	3,943	4,090
Other assets (note 19)	**3,903**	**3,380**
Current transactions	3,423	2,988
Other	480	388
Taxes	-	4
TOTAL ASSETS	**697,564**	**657,321**

(*) Presented solely and exclusively for comparison purposes.
The accompanying notes are an integral part of the consolidated financial statements at 31 December 2016.

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BANCSABADELL D'ANDORRA, SA

AND SUBSIDIARIES

Consolidated Balance Sheets as of 31 december 2016 and 2015
(figures in thousands of euros)

LIABILITIES AND EQUITY	2016	2015*
Due to INAF (note 5)	**57,480**	**32,568**
Due to INAF	57,480	32,568
Creditors	**538,080**	**504,216**
Disposals from banks and credit institutions (note 11)	8,423	2,812
Other financial intermediaries (note 11)	1,544	330
Customer deposits (note 12)	528,113	501,074
Debt securities in issue (note 13)	**13,927**	**38,420**
Other fixed-income securities	13,927	38,420
Allowance for liabilities and charges (note 14)	**703**	**445**
Retirement benefit and similar obligations	297	245
Litigation	406	200
Accruals and deferred expenses (note 19)	**691**	**1,688**
Unpaid accrued expenses	568	1,628
Unearned revenue	123	60
Other liabilities (note 19)	**7,291**	**5,487**
Current transactions	5,610	3,586
Payable to suppliers and other creditors	1,331	1,256
Taxes	350	645
Share capital (note 16)	**30,068**	**30,068**
Issued share capital	30,068	30,068
Reserves (note 16)	**40,811**	**36,819**
Voluntary reserves	24,671	21,276
Consolidation reserves	1,566	1,559
Revaluation reserves	2,287	2,287
Legal reserves	6,014	5,730
Guarantee reserves	6,273	5,967
Profit (loss) (note 17)	**8,513**	**7,610**
Profit (loss) of the year	8,513	7,610
TOTAL LIABILITIES AND EQUITY	**697,564**	**657,321**

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BANCSABADELL D'ANDORRA, SA

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Consolidated Income Statements as of 31 December 2016 and 2015
(figures in thousands of euros)

INCOME STATEMENTS	2016	2015*
Interest receivable and similar income	**12,430**	**13,931**
On deposits held with INAF and financial intermediaries	618	1,751
On loans and receivables	7,892	8,713
On bonds and other fixed-income securities	3,920	3,467
Interest payable and similar charges	**(1,968)**	**(4,315)**
On borrowings from INAF and financial intermediaries	(404)	(1,716)
On customer deposits	(903)	(1,554)
On debt securities in issue	(661)	(1,045)
Income from equity securities	**28**	**31**
NET INTEREST INCOME (note 20)	**10,490**	**9,647**
Net fee and commission income	**14,399**	**14,182**
Fees and commissions for services provided	16,786	16,326
Fees and commissions for services received	(2,387)	(2,144)
Gains (losses) on financial assets and liabilities	**4,881**	**1,818**
Net additions to the allowance for impairment of investment securities (note 8)	630	520
Exchange gains (losses)	661	789
Gains (losses) on securities	3,522	441
Share of profit (loss) of companies accounted for by the equity method	68	68
Other operating income	**71**	**183**
GROSS OPERATING INCOME (note 20)	**29,841**	**25,830**
Personnel expenses	**(6,362)**	**(6,435)**
Employees, directors and indemnities	(5,012)	(5,081)
Social Security	(854)	(791)
Additions or ordinary contributions to the internal pension fund	(88)	(73)
Additions or ordinary contributions to other welfare institutions	(107)	(100)
Other personnel expenses	(301)	(390)
General expenses	**(4,735)**	**(4,182)**
Materials	(185)	(167)
Outside services	(3,626)	(3,200)
Taxes other than income tax	(632)	(622)
Other general expenses	(292)	(193)
Allowance for depreciation and amortisation, net of recoveries	**(1,834)**	**(1,919)**
Addition to the allowance for depreciation and amortisation	(1,834)	(1,919)
Allowance for impairment losses, net of recoveries	**(1,196)**	**(531)**
NET OPERATING INCOME (note 20)	**15,714**	**12,763**
Impairment losses	**-**	**(35)**
Allowance for credit losses, net of recoveries (notes 6, 7 and 8)	**(7,094)**	**(8,512)**
Additions to the allowance for credit losses	(16,464)	(12,390)
Recoveries from the allowance for credit losses	9,370	3,878
Allowance for liabilities and charges, net of recoveries (note 14)	**(206)**	**(40)**
Additions to the allowance for liabilities and charges	(277)	(40)
Recoveries from the allowance for liabilities and charges	71	-
Additions to the allowance for general banking risks (note 15)	**-**	**(1,290)**
INCOME FROM ORDINARY ACTIVITIES	**8,414**	**2,886**
Extraordinary income	**127**	**5,036**
Net Profit (loss) for disposal or derecognition of tangible and/or intangible assets	132	(91)
Recoveries from the allowance for general banking risks (note 15)	-	4,820
Other positive extraordinary income	191	395
Other negative extraordinary income	(196)	(88)
PROFIT (LOSS) BEFORE TAXES	**8,541**	**7,922**
Corporate Income Tax (note 21)	**(28)**	**(312)**
Tax accrued	(28)	(312)
PROFIT (LOSS) OF THE YEAR	**8,513**	**7,610**

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The accompanying notes are an integral part of the consolidated financial statements at 31 December 2016.

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BANCSABADELL D'ANDORRA, SA

AND SUBSIDIARIES

Consolidated Memorandum Accounts as of 31 december 2016 and 2015
(figures in thousands of euros)

MEMORANDUM ACCOUNTS	2016	2015*
Contingent liabilities	22,385	20,014
Guarantees, bonds and sureties given	22,385	20,014
Contingent exposures and commitments	95,966	94,566
Operational exposures and commitments	95,966	94,566
Other commitments and contingent exposures (note 23)	-	-
Futures (note 22)	164,842	289,602
Open forward currency contracts	86,871	187,112
Financial futures transactions	77,971	102,490
Own securities and other assets held in custody	1,498,856	1,665,754
Securities and other assets held in custody (note 24)	1,315,358	1,500,973
Own securities and other assets held in custody	183,498	164,781
Other memorandum accounts held solely for administrative control purposes (note 25)	52,851	81,892
Guarantees and commitments received	2,301	3,670
Other memorandum accounts	50,550	78,222
TOTAL MEMORANDUM ACCOUNTS	**1,834,900**	**2,151,828**

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BANCSABADELL D'ANDORRA, SA

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Consolidated Sources and Applications of Funds as of 31 december 2016 and 2015
(figures in thousands of euros)

SOURCE OF FUNDS	2016	2015*
Cash flows from operating activities	**18,429**	**16,877**
Profit (loss) for the year	8,513	7,610
Net additions to the allowance for credit losses	6,954	7,123
Net additions to the allowance for impairment of investment securities	1,196	234
Depreciation and amortisation	1,834	1,919
Other	-	59
Profit (loss) from companies accounted for by the equity method	(68)	(68)
Increase in net debt	**26,557**	**29,039**
INAF (liabilities - assets)	24,912	-
Banks and credit institutions (liabilities - assets)	-	27,709
Other financial intermediaries (liabilities - assets)	1,214	177
Other items (liabilities - assets)	431	1,153
Net increase in liabilities	**27,041**	**10,549**
Creditors: customers	27,041	8,519
Debt securities in issue	-	2,030
Net decrease in assets	**12,316**	**6,960**
Cash on hand	-	-
Loans and advances to customers	12,316	6,960
Cash flows from financing activities	**65**	**1,328**
Other equity items	-	1,265
Dividends received from long-term investments	65	63
TOTAL SOURCES OF FUNDS	**84,408**	**64,753**

APPLICATIONS OF FUNDS	2016	2015*
Cash used in operating activities	**2,003**	**4,115**
Uses of the other allowances	2,003	4,113
Other	-	2
Increase in net assets	**6,526**	**6,624**
INAF (assets – liabilities)	-	6,624
Banks and credit institutions (assets – liabilities)	6,526	-
Net decrease in liabilities	**24,493**	**-**
Debt securities in issue	24,493	-
Net increase in assets	**46,312**	**41,046**
Cash on hand	18,883	11,968
Investment securities less equity investments	27,429	29,078
New long-term investments	**1,456**	**9,230**
Purchases of shares	-	67
Purchases of fixed assets	1,456	9,163
Cash used in financing activities	**3,618**	**3,738**
Dividends	2,627	2,502
Other equity items	911	1,236
TOTAL APPLICATIONS OF FUNDS	**84,408**	**64,753**

(*) Presented solely and exclusively for comparison purposes.
The accompanying notes are an integral part of the consolidated financial statements at 31 December 2016.

A 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 a discrepancy the original Catalan language version prevails.

BANCSABADELL D'ANDORRA, SA
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Notes to the Consolidated Financial Statements for the year ended 31 December 2016.
(figures in thousands of euros)

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 2016 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.

On 21 December 2015, the group made the decision that Serveis d'Assessorament BSA, SAU would cease carrying on the business activities of its corporate purpose, In 2016, it commenced procedures to obtain the administrative permit to dissolve and liquidate the Company, which was ratified on 9 January 2017 with the publication of the Company's liquidation in the Official Gazette of the Principality of Andorra.

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 branch, 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 2016, 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 24 March 2017.

The Boards of Directors of Sabadell d'Andorra Inversions SGOIC and Assegurances Segur Vida, SAU and the Sole Director of Serveis d'Assessorament BSA, SAU have prepared the respective Financial Statements at 24 March 2017.

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 2016, 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 2015 were approved by the Bank General Meeting of Shareholders on 15 April 2016.

The reference currency of these consolidated 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 2015 contained in these consolidated Financial Statements for 2016 is presented solely and exclusively for comparison purposes and so does not constitute the consolidated Financial Statements of the group for 2015.

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 consolidated 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 consolidated 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 2016 and 2015, in thousands of euros, are given below:

					Thousands of euros				
					2016				
Company	Registered address	Activity	% ownership direct	Consolidation method	Capital	Reserves	Profit for 2016	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	1,143	256	(250)	1,449
Serveis d'Assessorament BSA, SAU (*)	Av. del Fener, 7 (Andorra la Vella)	Provision of services	100%	Fully consolidated	60	47	3	–	110
Assegurances Segur Vida, SAU	Ctra. de l'Obac, 12 Ed. "El Forestal B" (Andorra la Vella)	Insurance company	100%	Equity method	602	376	68	(65)	981
					962	**1,566**	**327**	**(315)**	**2,540**

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

(*) This company of the group is in the process of being dissolved (see note 1).

					2015				
Company	Registered address	Activity	% ownership direct	Consolidation method	Capital	Reserves	Profit for 2015	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	1,104	323	(285)	1,442
Serveis d'Assessorament BSA, SAU (*)	Av. del Fener, 7 (Andorra la Vella)	Provision of services	100%	Fully consolidated	60	83	(37)	–	106
Assegurances Segur Vida, SAU	Ctra. de l'Obac, 12 Ed. "El Forestal B" (Andorra la Vella)	Insurance company	100%	Equity method	602	372	68	(63)	979
					962	**1,559**	**354**	**(348)**	**2,527**

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

At 31 December 2016 and 2015, 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 and the Corporate Income Tax projection.

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 2016 are shown below:

	Exchange rate
U.S. dollars	1.0565
Pound sterling	0.8541
Japanese yen	123.3700
Swiss francs	1.0744

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 deposits with financial institutions and fixed-income financial securities and 1% of the rest of net loans and advances to customers and fixed-income nin financial 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.
- At 31 December 2015, the Bank recorded a voluntary general charge to the general allowance referred to in the previous paragraph, which included covers on loans which financed real estate promotions in progress. At 31 December 2016, and after the individual studies made of the aforementioned operations, the group has regarded these covers as specific provisions (see note 7).
- 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. At 31 December 2016, 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 Bank 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 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 which compose the ordinary portfolio 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 their acquisition 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

The property used for the group's operations which is the group's head office was revalued on 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). The accounting valuation is supported by an up-to-date appraisal of an independent specialist every two years.

The group has analysed the valuation made by an independent specialist in September 2016 of the property where its head office is located, and has not detected any indication that this property has given rise to any impairment. As a result, the group has not recorded an asset impairment allowance against revaluation reserves.

b) Not used for the group's operations

Tangible fixed assets not used for the group's operations include land and buildings not directly used for the banking activity, which are valued at acquisition cost and are depreciated over their useful live at the same rates as 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 specialist, 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 is justified by an up-to-date valuation (at least every two years) carried out by an independent specialist. If impairments are produced, they are recorded in the consolidated income statement.

Pursuant to the Technical Communiqué 114 of the INAF, assets acquired (excluding land) 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

In a board meeting held on 12 December 2014, the Board of Directors agreed that, in line with Law 5/2014 of 24 April regarding Personal Income Tax, changes be made to the retirement plan established in November 2006 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 part of the balance corresponding to the employees of the previous Retirement Plan was cleared and an initial contribution was 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, which is a defined contribution 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 by the promoter represent 1% of the fixed salary of the previous year and the additional 1% contribution for the individual contributions is eliminated.

Currently, this caption corresponds to pension commitments for senior executives (see note 14).

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 2016 and 2015, the group 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), which are not covered by other provisions.

At 31 December 2016 and in accordance with the comments of this note, the group's Management has not considered that any amount should be recorded in the Allowance for General Risks (See note 15).

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.

The general indirect tax taxes all consumptions of goods and services. 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 Real Estate 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 Real Estate 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 even though the payment was made in January 2015. The Bank and the group have recorded this expense for 2016 and 2015 against an accounts payable under the caption "Other liabilities".

q) Personal Income Tax

On 24 April 2014, Law 5/2014 on personal income tax came into force with effect from 1 January 2015, which was subsequently amended by Law 42/2014, of 11 December.

This tax is levied on income obtained by persons who are tax resident in Andorra including employment income, income from capital and real property investment income as well as income from business activities.

The liabilities caption of the balance sheet "Other liabilities" includes the aforementioned tax on income from capital of persons outstanding at 31 December 2016 (see note 19).

4. Residual maturity of assets and liabilities

Details of the maturities of the balances of assets for loans and receivables, bonds and other fixed-income securities with INAF, banks and credit institutions at 31 December 2016 and 2015, without taking provisions into account, are as follows:

	Thousands of euros							
	2016							
	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	-	5,943	14,771	16,961	-	-	17,852	55,527
Loans and receivables	33,472	15,084	18,399	25,660	83,942	176,914	4,299	357,770
Bonds and other fixed-income securities	-	-	20,546	24,858	158,271	8,175	-	211,850
	33,472	**21,027**	**53,716**	**67,479**	**242,213**	**185,089**	**22,361**	**625,357**

At 31 December 2015, the item “Banks and credit institutions – No specified maturity” included €7,451 thousand corresponding to the correspondent account with Banca Privada d’Andorra (BPA) (see note 6).

In 2016, as a result of the final Resolution of BPA, the total BPA position has been recovered at the aforementioned date, with no equity loss being generated by the group. At 31 December 2016, the group does not have any positions with this entity.

	Thousands of euros							
	2015							
	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	-	11,517	6,568	8,229	-	-	17,076	43,390
Loans and receivables	14,540	13,609	10,455	49,034	88,882	189,939	3,627	370,086
Bonds and other fixed-income securities	-	20,342	9,579	38,440	97,880	18,369	-	184,610
	14,540	**45,468**	**26,602**	**95,703**	**186,762**	**208,308**	**20,913**	**598,296**

Details of the maturities of the balances of liabilities for customer deposits and debt securities with INAF, banks and credit institutions at 31 December 2016 and 2015 are as follows:

	Thousands of euros							
	2016							
	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	-	-	48,600	-	-	-	8,880	57,480
Banks and credit institutions	-	1,197	2,748	-	-	-	4,478	8,423
Others financial intermediaries	-	-	1,050	-	-	-	494	1,544
Client deposits	-	8,450	85,591	123,240	5,891	-	304,941	528,113
Debts represented by securities	-	-	-	-	13,906	21	-	13,927
	-	**9,647**	**137,989**	**123,240**	**19,797**	**21**	**318,793**	**609,487**

	Thousands of euros							
	2015							
	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	-	-	-	28,430	-	-	4,138	32,568
Banks and credit institutions	-	53	462	525	-	-	1,772	2,812
Others financial intermediaries	-	-	-	-	-	-	330	330
Client deposits	-	-	23,765	78,389	133,002	8,082	257,836	501,074
Debts represented by securities	-	1,323	7,054	13,445	16,578	21	-	38,420
	-	**1,376**	**31,281**	**120,789**	**149,579**	**8,103**	**264,076**	**575,204**

5. INAF

A breakdown of assets and liabilities by currency at 31 December 2016 and 2015 is given below:

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
By currency:				
In euros	210	57,353	210	32,566
In foreign currency	-	127	-	2
	210	**57,480**	**210**	**32,568**

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 2016 and 2015, not taking into account the allowance for credit losses, are set out below:

	Thousands of euros	
	2016	2015
By currency:		
In euros	16,806	13,923
In foreign currency	38,721	29,467
	55,527	**43,390**
By type:		
Correspondent bank accounts	53,338	42,122
Margin deposits for derivatives	2,189	1,268
	55,527	**43,390**

As stated in note 4 of these consolidated Financial Statements, at 31 December 2015, the group had a correspondent account totalling €7,451 thousand with BPA. In 2016, as a result of the final Resolution of BPA, the total BPA position has been recovered at this date, with no equity loss being generated by the group. At 31 December 2016, the group does not have any positions with this entity.

At 31 December 2016, the group's positions with the shareholder Banco de Sabadell, S.A. total €1,973 thousand (€2,654 thousand at 31 December 2015).

A breakdown of banks and credit institutions positions by their maturity is set out in note 4 of the accompanying consolidated 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 2016 for interest on balances in Banks and credit institutions totals €378 thousand (€189 thousand at 31 December 2015).

The movement of the allowance for credit losses between 2016 and 2015 is set out below:

	Thousands of euros
	General allowance
Opening balance at 1 January 2015	**274**
Additions:	
Net additions to allowance	86
Applications:	
Allowance for credit losses used	-
Funds released (recoveries)	(222)
Closing balance at 31 December 2015	**138**
Opening balance at 1 January 2016	**138**
Additions:	
Net additions to allowance	255
Applications:	
Allowance for credit losses used	-
Funds released (recoveries)	(194)
Closing balance at 31 December 2016	**199**

7. Loans and receivables

A breakdown of loans and receivables at 31 December 2016 and 2015 by currency and sector, not taking account of the allowance for credit losses, is given below:

	Thousands of euros	
	2016	2015
By currency:		
In euros	351,360	367,011
In foreign currency	6,410	3,075
	357,770	**370,086**
By sector:		
Banks	-	-
Andorran public sector	36,234	35,621
Central government	12,702	13,575
Local government	23,532	22,046
Private sector	321,536	334,465
	357,770	**370,086**
By type of collateral:		
Security interest	252,074	272,217
Mortgage	203,125	206,867
Cash	10,454	6,572
Pledged securities	38,495	58,778
Personal guarantee	105,696	97,869
No guarantee	-	-
	357,770	**370,086**
By degree of risk:		
Normal (*)	324,298	355,546
Due	82	164
Doubtful	33,390	14,376
	357,770	**370,086**

(*) At 31 December 2016, risks classified as normal risks include €34,516 thousand for loans classified as under special monitoring regarding which a provision totalling €7,655 thousand has been recorded (€14,254 thousand at 31 December 2015, with a provision of €4,142 thousand).
In addition, at 31 December 2015, risks classified as normal risks included €24,558 thousand for transactions which financed real estate promotions in progress regarding which a charge totalling €3,995 thousand was recorded to a voluntary general allowance. As a result of the individual studies made of the aforementioned transactions, the group has regarded them as transactions under special monitoring and allocated them to the voluntary general allowance existing at 31 December 2015.

The movements in the allowance for credit losses between 2016 and 2015 were as follows:

	Thousands of euros			
	Specific allowance	General allowance	Voluntary general allowance	Total
Opening balance at 1 January 2015	**6,414**	**767**	**-**	**7,181**
Additions:				
Net additions to allowance	7,197	432	3,995	11,624
Applications:				
Allowance for credit losses used	(509)	-	-	(509)
Funds released (recoveries)	(3,743)	(313)	-	(4,056)
Closing balance at 31 December 2015	**9,359**	**886**	**3,995**	**14,240**
Opening balance at 1 January 2016	**9,359**	**886**	**3,995**	**14,240**
Additions:				
Net additions to allowance	12,999	551	2,091	15,641
Applications:				
Allowance for credit losses used	(24)	-	-	(24)
Funds released (recoveries)	(2,162)	(587)	(6,086)	(8,835)
Closing balance at 31 December 2016	**20,172**	**850**	**-**	**21,022**

At 31 December 2016, 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 3.f). 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 2016, the group has derecognised defaulted assets for a total of €118 (€887 thousand in 2015).

A breakdown of loans and receivables by their maturity is set out in note 4 of the accompanying consolidated Financial Statements.

8. Investment securities

Details of Investment securities in the accompanying consolidated balance sheets at 31 December 2016 and 2015, 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	
	2016	2015
By currency:		
In euros	187,385	151,558
In foreign currency	37,812	46,210
	225,197	**197,768**

	Thousands of euros	
	2016	2015
By type:		
Ordinary investments -	**89,997**	**85,505**
Equity securities	1,539	849
Bonds and other fixed-income securities	77,779	73,473
Investment schemes	10,679	11,183
Held to maturity -	**134,073**	**111,136**
Andorran and OECD government debt	28,352	19,708
Bonds and other fixed-income securities	105,721	91,428
Long-term investments -	**1,127**	**1,127**
Investments in group companies	979	979
Other investments	148	148
	225,197	**197,768**
By listing status:		
Listed	157,621	131,827
Unlisted	67,576	65,941
	225,197	**197,768**
By valuation levels:		
Level I	109,826	109,643
Level II	72,447	55,774
Level III	42,924	32,351
	225,197	**197,768**

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

At 31 December 2016 the amount of securities classified under Level III includes mainly an Andorran Government Debt security totalling €28,352 thousand, structured products totalling €11,905 thousand and permanent securities totalling €1,127 thousand as there is no observable official quotation for these securities (€19,708 thousand, €7,140 thousand, €3,327 thousand in subordinated debts and €1,127 thousand, respectively, at 31 December 2015).

On 2 November 2015 Visa Inc. announced an offer to acquire all of the shares of Visa Europe, which was carried out on 21 June 2016. The consideration for the shares owned by the group has consisted of an up-front cash payment plus convertible preferential shares in Visa Inc. and an amount in cash payable on the third year after the end of the operation. This operation has given rise to a profit totalling €3,379 thousand recorded under “Profits from operations with securities” of the consolidated income statement.

At 31 December 2016 the variable-income securities recorded in the ordinary investments portfolio include preferential securities issued by Estacions de Muntanya Arinsal Pal, SAU (EMAP) and the convertible preferential shares of Visa Inc.

At 31 December 2016 and 2015 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 2016 and 2015 the group proceeded to sell three and five securities from the held-to-maturity portfolio for €6,255 thousand and €9,266 thousand, respectively.

The market value of the held-to-maturity portfolio, not including Andorran Government Debt, at the year-end exchange rate is €108,239 thousand, while that of the ordinary investment portfolio is €90,341 thousand.

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

	2016		2015	
	Valued amount (thousands of euros)	% of scheme's net assets	Valued amount (thousands of euros)	% of scheme's net assets
BSA Inversors Qualificats FI, Compartiment Euríbor 3 mesos + 120 p.b. risc Grup Banco Sabadell, SA	-	-	1,200	17.14%
BSA Inversors Qualificats FI, Compartiment Euríbor 3 mesos + 150 p.b. risc Grup Banco Sabadell, SA	-	-	1,204	13.11%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium IV	907	18.00%	655	8.15%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium V	-	-	1,078	21.40%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium VI	4,174	10.56%	3,622	36.00%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium VII	-	-	150	2.14%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium VIII	60	0.55%	850	7.73%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium XIV	2,650	26.50%	1,774	17.40%
BSA Inversors Qualificats FI, Compartiment Rendiment Premium XV	-	-	642	8.13%
BSA Monetari Plus	226	0.56%	8	0.02%
SICAV II Sabadell d'Andorra, SA - Estructurats I	13	0.22%	-	-
SICAV II Sabadell d'Andorra, SA - Estructurats III	300	100%	-	-
SICAV II Sabadell d'Andorra, SA - Estructurats V	2,350	100%	-	-
	10,679		**11,183**	

The investments that the group has in Investment Schemes at 31 December 2016 are mostly temporary. These investments have all been acquired from clients of the group which had positions in these Investment Schemes.

The group has kept the investment in the Investment Scheme "BSA Inversors Qualificats FI, Compartiment Euríbor 3 months, 120 BP" and "BSA Inversors Qualificats FI, Compartiment Euríbor 3 months, 150 BP" up to 25 May 2016, the date on which these schemes matured.

The movements in the general allowance for credit losses in 2016 and 2015 were as follows:

	Thousands of euros
Opening balance at 1 January 2015	**639**
Additions:	
General additions to the allowance	376
Applications:	
Recoveries	(176)
Closing balance at 31 December 2015	**839**
Opening balance at 1 January 2016	**839**
Additions:	
General additions to the allowance	452
Applications:	
Recoveries	(343)
Closing balance at 31 December 2016	**948**

The movement on the allowance for impairment of securities of the ordinary investment portfolio during 2016 and 2015 was as follows:

	Thousands of euros
Opening balance at 1 January 2015	**2,780**
Additions:	
General additions to the allowance for impairment of securities	1,000
Applications:	
Recoveries	(1,519)
Closing balance at 31 December 2015	**2,261**
Opening balance at 1 January 2016	**2,261**
Additions:	
General additions to the allowance for impairment of securities	611
Applications:	
Uses	(1,631)
Recoveries	(1,241)
Closing balance at 31 December 2016	**-**

The allowance for the impairment of securities at 31 December 2015 was mainly composed of the differences between market value and the adjusted acquisition price of two fixed-income securities included in the ordinary investment portfolio. Consequently, the group has impaired these securities at 31 December 2016.

Therefore, at 31 December 2016, these securities are recorded at their adjusted value, which has meant that the securities fluctuation allowance did not record any amount for this concept.

9. Intangible assets and deferred charges

The movements in intangible assets during 2016 and 2015 and the related accumulated amortization were as follows:

	Thousands of euros
	Computer software
Cost	
Opening balance at 1 January 2015	14,810
Additions	1,109
Closing balance at 31 December 2015	15,919
Accumulated amortisation	
Opening balance at 1 January 2015	(12,084)
Additions	(1,073)
Closing balance at 31 December 2015	(13,157)
Net assets at 31 December 2015	**2,762**
Cost	
Opening balance at 1 January 2016	15,919
Additions	1,117
Closing balance at 31 December 2016	17,036
Accumulated amortisation	
Opening balance at 1 January 2016	(13,157)
Additions	(1,050)
Closing balance at 31 December 2016	(14,207)
Net assets at 31 December 2016	**2,829**

At 31 December 2016 the fully amortized intangibles totals €11,465 (€10,435 thousand in 2015). There were no retirements or reclassifications in 2016 and 2015.

10. Tangible fixed assets

The movements in tangible fixed assets in 2016 and 2015 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 2015	4,687	10,382	1,470	6,251	1	4,130	127	95	671	12,537	40,351
Additions	-	162	64	84	9	50	-	-	-	13,140	13,509
Disposals	-	-	-	-	-	-	-	-	-	(5,455)	(5,455)
Transfers	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2015	**4,687**	**10,544**	**1,534**	**6,335**	**10**	**4,180**	**127**	**95**	**671**	**20,222**	**48,405**
Depreciation charges											
Opening balance at 1 January 2015	-	(2,139)	(1,380)	(5,200)	-	(3,775)	(73)	-	-	(596)	(13,163)
Additions	-	(263)	(31)	(292)	-	(158)	(21)	-	-	(81)	(846)
Disposals	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2015	**-**	**(2,402)**	**(1,411)**	**(5,492)**	**-**	**(3,933)**	**(94)**	**-**	**-**	**(677)**	**(14,009)**
Allowance for depreciation of tangible fixed assets											
Opening balance at 1 January 2015	-	-	-	-	-	-	-	-	-	(1,007)	(1,007)
Additions	-	-	-	-	-	-	-	-	-	(274)	(274)
Disposals	-	-	-	-	-	-	-	-	-	40	40
Transfers	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,241)**	**(1,241)**
Net assets at 31 December 2015	**4,687**	**8,142**	**123**	**843**	**10**	**247**	**33**	**95**	**671**	**18,304**	**33,155**
Cost											
Opening balance at 1 January 2016	4,687	10,544	1,534	6,335	10	4,180	127	95	671	20,222	48,405
Additions	-	454	74	292	275	149	-	20	-	171	1,435
Disposals	-	-	-	-	(5)	-	-	-	-	(1,091)	(1,096)
Transfers	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2016	4,687	10,998	1,608	6,627	280	4,329	127	115	671	19,302	48,744
Depreciation charges											
Opening balance at 1 January 2016	-	(2,402)	(1,411)	(5,492)	-	(3,933)	(94)	-	-	(677)	(14,009)
Additions	-	(266)	(38)	(248)	-	(134)	(13)	-	-	(86)	(785)
Disposals	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2016	-	(2,668)	(1,449)	(5,740)	-	(4,067)	(107)	-	-	(763)	(14,794)
Allowance for depreciation of tangible fixed assets											
Opening balance at 1 January 2016	-	-	-	-	-	-	-	-	-	(1,241)	(1,241)
Additions	-	-	-	-	-	-	-	-	-	(1,196)	(1,196)
Disposals	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2016	-	-	-	-	-	-	-	-	-	(2,437)	(2,437)
Net assets at 31 December 2016	**4,687**	**8,330**	**159**	**887**	**280**	**262**	**20**	**115**	**671**	**16,102**	**31,513**

With the authorisations of INAF on 30 December 2004, the group updated the net book values of the property where its head office is situated. At 31 December 2016, the group has analysed the independent expert's valuation of the property made in December 2016 and has not detected any indication of any impairment. As a result, the group has not recorded any asset impairment allowance against revaluation reserves.

In addition, at 31 December 2016 the group has analysed 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 2016 the non-operating assets consisted of properties owned by the group totalling €3,892 thousand (€3,892 thousand at 31 December 2015), of which €1,147 thousand correspond to properties which were let (€932 thousand at 31 December 2015, the total amount of which was let).

At 31 December 2016 the group has analysed the valuation made in December 2016 by an independent expert of the assets not arising from tenders not used for the group's business activities and has not observed any indication that the carrying amount of the assets exceeds their recoverable amount. In addition, at 31 December 2016, the group has analysed the other assets not arising from tenders and has not observed that the carrying amount of the assets exceeds their recoverable amount.
At 31 December 2016 the non-operating assets consisted of assets allocated to pay debts totalling €16,084 thousand, of which €10,596 thousand corresponded to properties which are let (€17,005 thousand at 31 December 2015, of which €3,442 thousand corresponded to properties which were let).

At 31 December 2016 the group has analysed the valuation made in December 2016 by an independent expert of the assets not arising from tenders not used for the group's business activities and, as a result of this valuation, it has recorded an impairment allowance totalling €640 thousand. In addition, at 31 December 2016, the group has analysed the other assets not arising from tenders not used for the group's business activities and has not observed that the carrying amount of the assets exceeds their recoverable amount.

In addition, applying the depreciation criteria established in the Technical Communiqué 114 of the INAF (See note 3.1.b), the group has recorded a net addition for impairment totalling €556 thousand (€234 thousand at 31 December 2015) and the total impairment allowance for this concept has increased to €1,797 thousand (€1,241 thousand at 31 December 2015).

At 31 December 2016 fully depreciated tangible fixed assets totalled €9,310 thousand (€8,616 thousand in 2015), consisting of €4,265 thousand (€3,767 thousand in 2015) included in Fixtures, €3,589 thousand (€3,449 thousand in 2015) in Computer equipment, €1,370 thousand (€1,342 thousand in 2015) in Furniture and €86 thousand (€58 thousand in 2015) in Vehicles.

In the 2016 and 2015 financial years, no interest or exchange differences have been capitalised for tangible fixed assets.

At 31 December 2016 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 2016 and 2015, by reference currency and nature, are as follows:

	Thousands of euros	
	2016	2015
Banks and credit institutions		
By currency:		
In euros	3,943	1,772
In foreign currency	4,480	1,040
	8,423	**2,812**
By type:		
Demand deposits	3,487	222
Time deposits	4,936	2,590
	8,423	**2,812**
Other financial intermediaries		
By currency		
In euros	1,421	330
In foreign currency	123	-
	1,544	**330**
By type		
Demand deposits	494	280
Time deposits	1,050	50
	1,544	**330**

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 consolidated 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 2016 totals €120 thousand (€46 thousand for 2015).

12. Customer deposits

A breakdown of this caption of the “Liabilities” section of the accompanying consolidated balance sheets at 31 December 2016 and 2015, by reference currency and type of deposit, is given below:

	Thousands of euros	
	2016	2015
By currency		
In euros	452,861	425,277
In foreign currency	75,252	75,797
	528,113	**501,074**
By type		
Demand deposits	304,941	257,837
Current accounts	303,354	256,582
Savings accounts	1,587	1,255
Time deposits	223,172	243,237
Time deposits	223,172	243,237
	528,113	**501,074**

A breakdown of customer deposits by maturity is set out in note 4 of the accompanying consolidated 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 2016 totals €903 thousand (€1,554 thousand for 2015).

13. Debt securities

A breakdown of debt securities at 31 December 2016 and 2015 by reference currency is given below:

	Thousands of euros	
	2016	2015
By currency:		
In euros	11,785	36,323
In foreign currency	2,142	2,097
	13,927	**38,420**

This item contains issues of structured products which pay a variable coupon based on benchmarked shares, interest rates or indices.

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.

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

At 31 December 2016 the cash value of the structured products secured against the ordinary portfolio (bonds and other fixed-income securities) was €4,927 thousand (€27,904 thousand in 2015). In addition, this item also includes repos (temporary assignments of assets) on securities from the Bank's portfolio, with the Investment Schemes being managed by Sabadell d'Andorra Inversions, SGOIC, SAU, which, at the 2016 year end, did not have any position (€7,738 thousand in 2015).

A breakdown of debt securities by maturity is set out in note 4 of the accompanying consolidated Financial Statements.

The movements in debt securities during 2016 and 2015 were as follows:

	Thousands of euros
Opening balance at 1 January 2015	**36,390**
Additions:	
New issues	15,569
Applications:	
Issues matured	(13,539)
Closing balance at 31 December 2015	**38,420**
Opening balance at 1 January 2016	**38,420**
Additions:	
New issues	2,488
Applications:	
Issues matured	(26,981)
Closing balance at 31 December 2016	**13,927**

The average cost of the issues in 2016 and 2015 was 1.02% and 1.34%, respectively.

14. Provisions for liabilities and charges

The movements in the allowance for liabilities and charges during 2016 and 2015 were as follows:

	Thousands of euros		
	Provisions for pensions and similar obligations	Provisions for litigation	Total
Opening balance at 1 January 2015	**199**	**200**	**399**
Additions:			
Additions to the allowance	46	40	86
Uses:			
Allowance used	-	(40)	(40)
Net revaluations:	-	-	-
Closing balance at 31 December 2015	**245**	**200**	**445**
Opening balance at 1 January 2016	**245**	**200**	**445**
Additions:			
Additions to the allowance	52	277	329
Uses:			
Allowance used	-	(71)	(71)
Net revaluations:	-	-	-
Closing balance at 31 December 2016	**297**	**406**	**703**

As described in note 3.k, 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.

At 31 December 2016 and 2015 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 group's management.

At 31 December 2016 the group has recognised an allowance for lawsuits totalling €406 thousand for the two cases where the group expects that it may have had 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 is 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 2016 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.

The Bank has signed some agreements with Sabadell d'Andorra Inversions, SGOIC, SAU in accordance with which, if requested by this Company, until 31 December 2016, it should repurchase investments with codes ES0213860069, ES03138601P3, ES0213860200, ES0318621Y3, ES03138601M0, ES03138602Q9, ES03138602S5 and ES0213860085 and structured products where the Investment Schemes pay a fixed or variable coupon and where, on the maturity of the product, the total amount of the investment will be recovered provided that no credit event is associated with this Company. At the date of preparation of these consolidated Financial Statements, these agreements have been renewed up to 31 December 2017.

At 31 December 2016 and up to the date of preparation of these cosolidated Financial Statements, the Company of the Sabadell d'Andorra Inversions, SGOIC, SAU group has not asked the Bank to repurchase these investments. In addition, following the analysis carried out by the Bank's Management, there is no need to record an allowance for the Bank's possible obligations with the Investment Schemes managed by the group.

In addition, the Bank has signed agreements with Sabadell d'Andorra Inversions, SGOIC, SAU in accordance with which, if requested by this Company, until 31 December 2015, it should repurchase investments with code ES0213860069, ES03138601P3, ES0213860200, ES0318621Y3, ES0313860106 and ES0213860085 from the Investment Schemes managed and represented by the Company at their face value and investments with codes ISIN ES0314100068, ES0314100076, XS0252366702 and XS0413494500 at their adjusted acquisition price.

At 31 December 2015 the Company of the Sabadell d'Andorra Inversions, SGOIC, SAU group has not asked the Bank to repurchase these investments. In addition, following the analysis carried out by the Bank's Management, there is no need to record an allowance for the Bank'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 2016 and 2015 were as follows:

	Thousands of euros
Opening balance at 1 January 2015	**3,640**
Additions:	
Additions to the allowance	1,290
Uses:	
Allowance used	(110)
Recovery of the allowance	(4,820)
Closing balance at 31 December 2015	**-**
Opening balance at 1 January 2016	**-**
Additions:	
Additions to the allowance	-
Uses:	
Allowance used	-
Recovery of the allowance	-
Closing balance at 31 December 2016	**-**

At 31 December 2015 the allowance mainly included a general cover for loan and receivable transactions which finance real estate promotions.

During 2015, the group recorded the covers on loan and receivable transactions for real estate promotions in progress as a general voluntary allowance "Credit Investments-Allowance for credit losses" (see note 7). The recovery of the Allowance for General Risks totalling €4,820 made in 2015 corresponds to the aforementioned general voluntary allowance.

At 31 December 2016 and 2015 and in accordance with the comments of this note, the group's Management has not considered that any amount should be recorded in the Allowance for General Risks.

16. Changes in equity

A breakdown of the group's equity in 2016 and 2015 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 2014	**30,068**	**5,020**	**5,695**	**2,287**	**17,777**	**1,380**	**7,268**	**-**	**69,495**
Distribution of 2014 profit	-	710	-	-	3,881	-	(7,268)	2,502	(175)
Dividend	-	-	-	-	-	-	-	(2,502)	(2,502)
Reclassification of reserves	-	-	272	-	(272)	179	-	-	179
Other movements	-	-	-	-	(110)	-	-	-	(110)
Asset impairment (note 10)	-	-	-	-	-	-	-	-	-
Profit for 2015	-	-	-	-	-	-	7,610	-	7,610
Balance at 31 December 2015	**30,068**	**5,730**	**5,967**	**2,287**	**21,276**	**1,559**	**7,610**	**-**	**74,497**
Distribution of 2015 profit	-	284	-	-	4,693	-	(7,610)	2,627	(6)
Dividend	-	-	-	-	-	-	-	(2,627)	(2,627)
Reclassification of reserves	-	-	306	-	(306)	7	-	-	7
Other movements	-	-	-	-	(992)	-	-	-	(992)
Asset impairment (note 10)	-	-	-	-	-	-	-	-	-
Profit for 2016	-	-	-	-	-	-	8,513	-	8,513
Balance at 31 December 2016	**30,068**	**6,014**	**6,273**	**2,287**	**24,671**	**1,566**	**8,513**	**-**	**79,392**

Share capital

At 31 December 2016 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, SA, 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 2016 the group Company Assegurances Segur Vida, SAU owns 3,143 B-series shares of the Bank for a net book value of €416 thousand.

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 2016 the group's legal reserve is in accordance with the percentage required under the Law mentioned above.

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 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 2015 was €5,967 has increased €306 at 31 December 2016. The difference resulting from the change in the amount of the guarantee reserves, totalling €6,273 thousand, has been reclassified to voluntary reserves (see note 29).

At 31 December 2016 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 Caixabank, Citigroup, Lloyds Bank, Bankinter, Danske Bank, ING Bank, Barclays Bank and Royal Bank of Canada totalling €6,273 thousand (see note 29).

Revaluation reserve

At 31 December 2016 this reserve relates to the revaluations of tangible fixed assets authorized by INAF on 30 December 2008, corresponding to the properties where the group's head office is located (see note 10).

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.

Due to the statutory requirements established in Article 60 of Law 8/2015, of 2 April 2015, the Bank made an initial extraordinary contribution totalling €110 thousand to the Andorran Funds for the Resolution of Banking Entities (FAREB) and established a restricted reserve totalling €992 thousand, in accordance with the accounting treatment proposed by INAF in its Technical Communiqué no. 244/15 of 18 December 2015. The amount of the restricted reserve was held in two bonds in the Bank's own portfolio (Banco Sabadell VT 05/12/2016 and Bankinter VT 16/06/2016). The effective contribution of this restricted reserve to the FAREB was made on 14 April 2016.

Consolidation reserves

The movements in consolidation reserves in 2016 and 2015 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 2014	**1,000**	**42**	**338**	**1,380**
Profit for 2014	704	41	184	929
Dividend paid from reserves	(600)	-	(150)	(750)
Balance at 31 December 2015	**1,104**	**83**	**372**	**1,559**
Profit for 2015	323	(36)	68	355
Dividend paid from reserves	(285)	-	(63)	(348)
Balance at 31 December 2016	**1,142**	**47**	**377**	**1,566**

Consolidated profit or loss for the period

Details of the consolidated profit or loss for 2016 and 2015, by company, are as follows:

	Thousands of euros	
	2016	2015
BancSabadell d'Andorra, SA	8,501	7,604
Sabadell d'Andorra Inversions, SGOIC, SAU	256	323
Interim dividend Sabadell d'Andorra Inversions, SGOIC, SAU	(250)	(285)
Serveis d'Assessorament BSA, SAU	3	(37)
Assegurances Segur Vida, SAU	68	68
Interim dividend Assegurances Segur Vida, SAU	(65)	(63)
	8,513	**7,610**

17. Distribution of profit

The distribution of profit for 2016 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 2015 approved on 24 April 2016, are as follows:

	Thousands of euros	
	2016	2015
Distribution:		
Legal reserves	-	284
Voluntary reserve	5,624	4,693
Dividends	2,877	2,627
Profit (loss) for the year	**8,501**	**7,604**

The Bank's Board of Directors has established a conservative and consistent policy for distribution of dividends 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 2016.

Following the preparation of the accompanying consolidated 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 2016 and 2015 the group had the following currency cash positions expressed in euros (thousands of euros):

	Thousands of euros					
	2016			2015		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
By currency						
US dollars	55,149	55,155	**(6)**	78,274	78,281	**(7)**
Japanese yen	195	195	-	121	121	-
Pounds sterling	12,116	12,116	-	3,546	3,546	-
Swiss francs	99	99	-	2,299	2,299	-
Canadian dollars	1,438	1,438	-	1,931	1,931	-
Other currencies	3,307	3,310	**(3)**	6,759	6,762	**(2)**
	72,304	**72,313**	**(9)**	**92,930**	**92,940**	**(9)**

19. Other balance sheet items

a) Prepayments and accrued income

"Prepayments and accrued income" in the accompanying consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Thousands of euros	
	2016	2015
Uncollected accrued interest	**3,943**	**4,090**
Interest	2,543	2,375
Fee and commission income	1,400	1,715
Prepaid expenses	-	-
	3,943	**4,090**

During the first quarter of 2017, the amounts recorded in the sub-caption "Uncollected accrued interest" have been cleared.

b) Other assets

"Other assets" in the accompanying consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Thousands of euros	
	2016	2015
Current transactions	**3,423**	**2,988**
Cheques in transit and awaiting clearance	1,170	989
Bills in transit and awaiting clearance	196	199
Credit card transactions	1,242	1,491
Other items	815	309
Other	**480**	**388**
Taxes	-	**4**
	3,903	**3,380**

At 31 December 2016 and 2015, the sub-caption "Taxes" mainly includes General Indirect Tax payable by Sabadell d'Andorra Inversions SGOIC, SAU for the fund management commissions receivable.

The sub-caption "Taxes" includes the withholdings of General Indirect Tax payable.

During the first quarter of 2017, the amounts of the sub-captions "Transactions in progress", "Others" and "Taxes" have been cleared.

c) Accruals and deferred income

"Accruals and deferred income" in the accompanying consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Thousands of euros	
	2016	2015
Unpaid accrued expenses	**568**	**1,628**
Interest	472	1,369
Commissions	53	55
Other	43	204
Prepaid income	**123**	**60**
Commissions	40	33
Other	83	27
	691	**1,688**

During the first quarter of 2017 the amounts of the sub-caption "Unpaid accrued expenses" and "Prepaid income" have been cleared.

d) Other liabilities

"Other liabilities" in the accompanying consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Thousands of euros	
	2016	2015
Current transactions	**5,610**	**3,586**
Cheques in transit and awaiting clearance	1,135	727
Security transactions in progress	3,538	2,015
Other transactions in progress	937	844
Suppliers and others payable	**1,331**	**1,256**
Payable to public administrations	-	-
Payable to suppliers	900	179
Provision for remuneration and per diems	387	684
Other	44	393
Taxes payable	**350**	**645**
Prepayments	350	645
	7,291	**5,487**

At 31 December 2016 the sub-caption "Taxes" mainly includes the Corporate Income Tax payable for 2016 (see note 3.o) and the tax payable on savings income, Personal Income Tax withholdings on clients over real estate investment income and the special regime of the general indirect tax.

During the first quarter of 2017 the amounts of the sub-captions "Transactions in progress", "Suppliers and others payable" and "Taxes" have been cleared.

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 2016 and 2015:

a) Net interest income

	Thousands of euros	
	2016	2015
Interest receivable and similar income	**12,430**	**13,931**
On demand deposits held with INAF and financial intermediaries	618	1,751
On loans and receivables	7,892	8,713
On bonds and other fixed-income securities	3,920	3,467
Interest payable and similar charges	**(1,968)**	**(4,315)**
On borrowings from INAF and financial intermediaries	(404)	(1,716)
On customer deposits	(903)	(1,554)
On debt securities in issue	(661)	(1,045)
Income from equity securities	**28**	**31**
Net interest income	**10,490**	**9,647**

The group's net interest income in 2016 has increased on that of 2015 mainly due to the exceptionally low interest rates, which has resulted in a bigger reduction of the expense for interest payable and similar charges than the reduction of the interest receivable and similar income.

b) Gross operating income

	Thousands of euros	
	2016	2015
Net fee and commission income	**14,399**	**14,182**
Fees and commissions for services provided	16,786	16,326
Fees and commissions for services received	(2,387)	(2,144)
Gains (losses) on financial assets and liabilities	**4,881**	**1,818**
Net additions to the allowance for impairment of investment securities	630	520
Exchange gains (losses)	661	789
Gains (losses) on securities	3,522	441
Share of profit (loss) of companies accounted for by the equity method	68	68
Other operating income	**71**	**183**
Income from tangible fixed assets	201	183
Other	(130)	-
Gross operating income	**29,841**	**25,830**

The group's gross operating income in 2016 has increased over that of 2015 mainly as a result of the profits generated by the corporate operations of Visa Inc. totalling €3,379 thousand (see note 8).

c) Net operating income

	Thousands of euros	
	2016	2015
Staff costs	**(6,362)**	**(6,435)**
Employees, directors and indemnities	(5,012)	(5,081)
Social Security	(854)	(791)
Additions or ordinary contributions to the internal pension fund	(88)	(73)
Additions or ordinary contributions to other welfare institutions	(107)	(100)
Other staff costs	(301)	(390)
General expenses	**(4,735)**	**(4,182)**
Material	(185)	(167)
Outside services	(3,626)	(3,200)
Taxes other than income tax	(632)	(622)
Other general expenses	(292)	(193)
Allowance for depreciation and amortisation, net of recoveries	**(1,834)**	**(1,919)**
Addition to the allowance for depreciation and amortisation	(1,834)	(1,919)
Allowance for impairment losses, net of recoveries	**(1,196)**	**(531)**
Net operating income	**15,714**	**12,763**

In 2016, the group has increased the allowance for depreciation of assets as a result of the valuations of property, plant and equipment made by the group (note 10).

The net operating income for 2016 is higher than in 2015 mainly due to the corporate operation of Visa Inc., which gave rise to a higher gross operating margin.

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 2016 is given below:

	Thousands of euros	
	2016	2015
Consolidated accounting profit (loss) before taxes	**8,474**	**7,855**
Corporate Income Tax of companies not integrated by global integration (*)	76	75
Consolidated tax profit (loss) before taxes	**8,550**	**7,930**
Incorporation of interim dividend distributed by group Companies	315	348
Aggregate accounting profit (loss) before taxes of the Tax Consolidated group	**8,865**	**8,278**
Adjustments	(3,839)	(402)
Eliminations	(404)	(348)
Taxable income	**4,622**	**7,528**
Tax rate	10%	10%
Tax liability before tax credits	**462**	**753**
Tax credits	(434)	(441)
Tax liability after tax credits	**28**	**312**
Advance payments	209	115
Total tax liability	**(181)**	**197**

(*) 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 2015 and tax liabilities paid for municipal and business activities taxes.

The sub-caption "Adjustments" mainly includes the recovery of the balance of the Voluntary General Allowance. As the allowance is voluntary, a positive adjustment has been made to the contributions to the allowance in the calculation bases of prior Corporate Income Tax returns. The recovery of this allowance implies a negative adjustment to the base for 2016 (see note 7).

In the opinion of the group's Directors, at the date of preparation of the accompanying consolidated Financial Statements, there are no tax exposures for Corporate Income Tax declared for 2015 or for the Corporate Income Tax forecast for 2016, which may have a significant effect on the accompanying consolidated Financial Statements for 2016.

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 2016 and 2015, classified according to the purpose of the contracts, are given below:

	Thousands of euros	
	2016	2015
Purchases and sales of foreign currency	86,871	187,112
Interest rate swaps	667	4,085
Securities options	-	3,168
Futures	2,304	3,237
Credit default swaps	75,000	92,000
	164,842	**289,602**

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 2016 and 2015 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	
	2016	2015
Purchases and sales of foreign currencies		
Up to 1 year	86,871	187,112
	86,871	**187,112**
Interest rate swaps		
Up to 1 year	-	3,196
Between 1 year and 5 years	667	889
	667	**4,085**
Securities options		
Up to 1 year	-	3,128
Between 1 year and 5 years	-	40
	-	**3,168**
Futures		
Up to 1 year	2,150	3,237
Between 1 year and 5 years	154	-
	2,304	**3,237**
Credit default swaps		
Up to 1 year	36,000	37,000
Between 1 year and 5 years	39,000	55,000
	75,000	**92,000**

23. Assets pledged as collateral

At 31 December 2016 and 2015, 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 2016 and 2015, by type of security, is given below:

	Thousands of euros	
	2016	2015
Shares and other equity securities	248,521	326,618
Bonds and other fixed-income securities (*)	520,016	540,365
Securities of investment schemes not managed by the group	143,400	199,388
Securities of investment schemes managed by the group	336,341	351,125
Other	67,080	83,477
	1,315,358	**1,500,973**

(*) At 31 December 2016 and 2015 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 2016 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 €336,341 thousand (€351,125 thousand at 31 December 2015).

The securities deposits and other securities held in custody at 31 December 2016 include an amount of €45,714 thousand (€63,276 thousand at 31 December 2015) 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 2016 and 2015, independently of whether they are held in custody or deposited by the group or not, are given below:

	Resources managed					
	Thousands of euros					
	2016			2015		
	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	328,268	-	328,268	347,113	-	347,113
Discretinoary funds under management	196,126	-	196,126	298,802	-	298,802
Other individual clients	971,543	-	971,543	1,034,157	-	1,034,157
	1,495,937	**-**	**1,495,937**	**1,680,072**	**-**	**1,680,072**

26. Other memorandum accounts held solely for administrative control purpose

The breakdown of this item in the accompanying consolidated memorandum accounts at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Guarantees and commitment received	2,301	3,670
Defaulted assets	4,968	4,115
Unlisted own securities and assets	41,699	33,050
Trusts (*)	2,378	40,129
Other	1,505	928
	52,851	**81,892**

(*) "Trusts" includes deposits of the investment schemes managed by the group's Fund Management Company and brokered by the Bank.

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 2016 and 2015 are disclosed below:

	Thousands of euros	
	Shareholders	Investees
2016	Banco de Sabadell, S.A.	Assegurances Segur Vida, SAU
Number of individuals	-	-
Number of companies	1	1
Lending transactions		
Demand deposits at bank	222	-
Banks and credit institutions	-	-
Investment securities	64,190	-
Loans and receivables	2,111	-
Prepayments and accrued income	8	-
Other assets	-	-
	66,531	**-**
Borrowing transactions		
Demand deposits at banks	-	-
Banks and credit institutions	4,680	1,580
Accruals and deferred income	22	416
Customer deposits	-	976
	4,702	**2,972**
Income statement transactions		
Interest receivable and similar income	126	-
Interest payable and similar charges	(163)	42
Income from equity securities	-	65
Net fee and commission income	(10)	-
General expenses	-	-
Taxes (Corporate Income Tax)	-	-
	(47)	**107**
Memorandum accounts	**6,591**	**32,964**

2015	Thousands of euros	
	Shareholders	Investees
	Banco de Sabadell, S.A.	Assegurances Segur Vida, SAU
Number of individuals	-	-
Number of companies	1	1
Lending transactions		
Demand deposits at bank	1,237	-
Banks and credit institutions	-	-
Investment securities	56,584	-
Loans and receivables	1,598	-
Prepayments and accrued income	22	-
Other assets	-	-
	59,441	**-**
Borrowing transactions		
Demand deposits at banks	-	-
Banks and credit institutions	1,040	3,345
Accruals and deferred income	11	387
Customer deposits	-	5,853
	1,051	**9,585**
Income statement transactions		
Interest receivable and similar income	155	-
Interest payable and similar charges	(18)	41
Income from equity securities	-	63
Net fee and commission income	18	-
General expenses	-	-
Taxes (Corporate Income Tax)	-	-
	155	**104**
Memorandum accounts	**123,721**	**62,549**

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.
- 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 based on operations of Customers, the Treasury and Capitals Market Department to manage the Bank's treasury.

Credit Risk Operations with Customers.

The group's credit risk 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: Office.
- Level 2: Risk Management composed of the Office + Risk Manager.
- Level 3: Risk Committee composed of the Risk Manager + General Management.

Operations which exceed the terms of reference of the Risk Committee are penalised by the Risk Delegate Committee of the Board of Directors and notified to the Board of Directors.

The Office 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 impairment which may make 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 as well as the projected loss.

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 is established, with instalment payments adapted to the capacity of return.
- The economic terms of the operation are reviewed.
- In addition to the initial guarantees, further guarantees of quality and with total legal security are obtained for a sufficient amount to ensure that the operation is covered under the new terms and conditions.

The Credit 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 composition of the credit risk at 31 December 2016 and 2015 is shown in note 7 of the accompanying consolidated Financial Statements.

Credit Risk Operations for cash management.

Risk-generating operations consist of:

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

Proposals commence in the Treasury and Capitals Market Department on the basis 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 and approved by the Risk Delegate Commission of the Board of Directors:

- 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.

For derivatives transactions with financial institutions, the Bank has entered into an ISDA agreement and the corresponding Credit Support Annex (CSA) with the counterparties, with which it has established the furnishing of collateral warranties which mitigate the risk of these operations considerably.

For investments of the Bank's own portfolio without a specific approved line, in addition to the matters stated above, the following criteria are also taken into consideration:

- They shall be fixed-income securities which are quoted on OECD regulated markets.
- They shall have a floating coupon indexed to Euribor or Libor to mitigate interest rate risk or in fixed coupon securities, maintaining an adequate balance.
- Generally securities will be for a minimum of €500 million or US$ equivalent to guarantee liquidity.
- The maximum amount invested in one issue will not exceed 5% of the carrying amount of the portfolio and it will not exceed a maximum value of €6 million or its equivalent in foreign currency.

These criteria are also 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, recognising the corresponding allowance for impairment when necessary.

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 and its financial situation.

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 due to the lack of diversification of the portfolio and to keep a high level of exposure of specific Customers.

To measure the individual concentration risk correctly, the group of each Customer is defined so that all risks which the Bank has with the Customer can be adequately identified.

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 are managed by Treasury and Capital Market 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 2016 the net global position (taking into account both spot and forward operations) was €40 thousand (€52 thousand in 2015).

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 arise from sales activities with Customers and 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 monthly intervals the Treasury and Capital Market 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 7% 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 2016, the sensitivity of the balance sheet in euros to a 1% change in interest rates was €70 thousand in absolute terms, equivalent to 1.90% of year-end net interest income (€543 thousand and 6.30%, respectively, at 31 December 2015).

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.
- In addition to the previous control, every day the Treasury Department verifies that the liquidity ratio according to criteria established by INAF is above the established 40% minimum level, At 31 December 2016, this ratio was 49.02% (59.09% at 31 December 2015).
- For internal purposes, the Bank also monitors the Liquidity Coverage Ratio (LCR) every day, according to criteria of the European banking authorities, At 31 December 2016, this ratio was 124.92% (71.31% at 31 December 2015).

In 2016 and 2015, the Bank has considered increasing the amount of notes and coins to deal with the increase in its operating income effectively and increase the Liquidity Coverage Ratio (LCR).

Liquidity management is the responsibility of the Treasury and Capital Markets 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 any funding required.

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 and informing the relevant authorities, when required.
- Investor protection, by applying the MIFID Directive and carrying out questionnaires for appropriateness and suitability tests, The contents of this Directive were implemented in Andorra 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 problem operations 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 Financial Intelligence Unit, the supervisory body of this matter.

29. Compliance with applicable laws and regulations

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 2016 and 2015, the Bank held the following Andorran Government Debt securities:

2016				2015			
Date of issue	Amount held	Maturity	Annual effective interest rates	Date of issue	Amount held	Maturity	Annual effective interest rates
30/03/2016(*)	13,749	30/03/2017	0.00%				
15/04/2016	1,959	13/04/2018	1.00%	05/12/2014	997	03/06/2016	0.00%
03/06/2016	1,056	01/12/2017	0.90%	16/04/2015	3,618	17/10/2016	0.00%
17/10/2016	6,251	17/10/2017	0.75%	04/06/2015	2,179	31/12/2015	0.32%
19/12/2016	2,372	19/12/2019	1.15%	02/01/2012(*)	11,570	31/12/2015	0.32%
19/12/2016	2,965	19/12/2019	1.15%	18/12/2013	1,344	19/12/2016	2.60%
	28,352				**19,708**		

(*) 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 2016 the amount of the guarantee reserves determined by INAF is €6,273 thousand. In accordance with the aforementioned law, this amount is held in the following securities:

	(Thousands of euros)	
	Amount	Maturity
Fixed income bond Caixabank	1,709	18/04/2017
Fixed income bond Danske Bank	928	19/11/2018
Fixed income bond ING Bank	930	20/11/2019
Fixed income bond Lloyds Bank	927	02/04/2020
Fixed income bond Royal Bank of Canada	932	06/08/2020
Fixed income bond Citigroup	606	11/11/2019
Fixed income bond Barclays	241	30/06/2017
	6,273	

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

In accordance with a letter of the Deposits Guarantee System Management Committee dated 29 May 2015 and with a charge to voluntary reserves, the sum has been increased to €6,273 (€5,967 thousand at 31 December 2015).

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 2016, measured in accordance with this law, were 21.99% and 49.02%, respectively (at 31 December 2015, they were 20.77% and 59.09%, 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 2016 and 2015 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 19.18% in 2016 and 17.47% in 2015. 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 2016 and 2015 did not exceed 52.79% in 2016 and 52.78% in 2015 of such adjusted net assets of the group. All board members have risks with the group which 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 November 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.

In 2015, the following two amendments have been made: (i) introduced by Law 2/2015, the framework regime of the UIFAND has been amended, and (ii) introduced by Law 11/2015, the penalty regime applicable to taxpayers has been amended to establish a more severe regime and Article 46 on the notification obligation has been amended:

These amendments have introduced the concepts of very serious and serious infringements, which are defined as follows:

- Very serious infringements: Failure to comply with obligations to verify the identity of clients and genuinely entitled persons, failure to comply with the obligation to declare suspicious transactions and failure to comply with the duty of confidentiality.
- Serious infringements: Failure to comply with the obligation of special surveillance for risk operations or clients designated by the UIFAND, failure to comply with the obligation to obtain information on the purpose of the business relationship, failure to comply with the obligation to continually monitor the business relationship, failure to comply with the obligation to verify the source of the funds nad failure to comply with the obligation to identify transfers.

Very serious infringements may be penalised with a fine of between €90,000 and €1,000,000 a restriction on transactions or the revoking of the banking authorisation.

Serious infringements may be penalised with a fine of between €15,000 and €90,000 and a temporary restriction on transactions.

Under this Law, wilful misconduct or negligence of senior executives in their capacity as liable parties may be sanctioned with fines of up to €300,000 and suspensions of salary payments and work indefinitely. The Law does not define the post of senior executive, Law 8/2013 defines it as: “2) Senior management: Senior management is considered to be the directors and general management of the entity”, Law 7/2013 defines General Management in Article 2 as “General management: Members of general management are understood to be those persons who have a general manager or deputy general manager post and those persons who form part of the entity’s top management body”.

This amendment should be considered in relation to the amendment introduced by Law 10/2015 to Article 409 of the Criminal Code which establishes that money laundering is a criminal act and which introduces new underlying crimes including, most notably, smuggling and crimes involving assets such as misappropriation, fraud and improper management.

In addition, with the introduction of Law 12/2010, the Law regulating the actions of insurance companies dated 11 May 1989 has been amended to introduce criteria on insurance companies.

Finally, by means of the Technical Communiqué of the UIFAND 02/2015 dated 3 December 2015, the UIFAND has established some due diligence obligations for cash transactions of large amounts and has established the obligation to obtain a copy of cross-border money transfer declarations for amounts over €10,000.

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.

This legislation has been repealed with effect from 1 January 2017 with the introduction of Law 19/2016 on the automatic exchange of tax information, which establishes due diligence measures to determine the tax residence of customers and, if the case, comply with the obligations on communication of data of customers resident in a Member State of the European Union and other States which establish the relevant agreements with the Principality of Andorra.

Conventions to avoid international double taxation.

Conventions between the Principality of Andorra and the Kingdom of Spain and the French Republic to avoid double taxation on income tax and to prevent tax evasion, which came into force on 26 February 2016 and 1 July 2015, respectively. In addition, on 1 January 2017, the double tax conventions with the Principality of Liechtenstein and the Grand Duchy of Luxembourg will come into force.

These conventions are bilateral and regulate direct taxation of Corporate Income Tax, General Indirect Tax, Personal Income Tax and Non-Residents' Income Tax. The conventions establish instruments for the granting of tax powers whereby taxes can be reduced or eliminated in countries where investments are made or income is generated. Mechanisms for the elimination of double taxation and a dispute resolution system are established, in accordance with which persons or entities are taxed in their place of residence on their worldwide income.

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%.

Law 8/2015, of 2 April 2015, of urgent measures to implement mechanisms for the restructuring and resolution of banking entities.

Faced with the need to introduce a legal framework to establish the procedures for resolving banking entities and considering the situation to be extremely pressing, on 1 April 2015, the Andorran Parliament established the “Draft law on urgent measures to implement mechanisms for the restructuring and resolution of banking entities” and, as a result, on 2 April 2015, the “Law 8/2015, of urgent measures to implement mechanisms for the restructuring and resolution of banking entities” (hereinafter “Law 8/2015) was passed, based on Directive 2014/59/EU.

This law has four mainstays.

The first is based on the principle that a banking entity’s shareholders are the first to bear losses, which has, amongst others, the following objectives:

- To guarantee, when necessary, the continuity of business activities, the interruption of which could have an adverse effect on the proper functioning of economic activities.
- To protect depositors, whose funds are guaranteed by a deposit guarantee system.
- To guarantee an optimum use of public resources which have been used to maintain stability and the functioning of the banking system.

The second mainstay is composed of two singular processes: restructuring and resolution, These concepts should not be confused with the traditional procedures on bankruptcy and do not necessarily lead to the liquidation of the banking entity.

The third mainstay is that the system created with the Law is mainly administered by a State Banking Entities Resolution Agency (hereinafter “AREB”) acting as the authorities in charge of resolution. The main responsibilities of these authorities are the creation and execution of BPA’s Resolution Plan based on the provisions of Law 8/2015, with the aim of minimising losses and maximising the continuation of its value, to prioritise the international alignment and importance of the Andorran financial centre. All of the agreed measures will be financed via the Andorran Funds for Resolution of Banking Entities (hereinafter “FAREB”), an entity without legal personality managed by the AREB.

The fourth and last mainstay is the instruments which the authorities may agree and use in the event of restructuring or resolution, which is always based on the circumstances of the particular case in question.

In addition, Article 59.1 of this law requires that the resources of FAREB should be equal to 1% of the guaranteed deposits as defined in Law 1/2011, of 2 February 2011, on the creation of a deposit guarantee system by banking entities, which establishes, by means of a calculation, the ordinary contributions, in accordance with Article 60.1 of Law 8/2015, to be made by banking entitles via FAREB on a straight-line basis, up to their total contribution (see note 20).

Law 42/2014, of 11 December 2014, on Personal Income Tax.

On 24 April 2014, Law 5/2014 on Personal Income Tax came into force with effect from 1 January 2015, which was subsequently amended by Law 42/2014, of 11 December 2014.

This tax is levied on income obtained by persons who are tax resident in Andorra including employment income, income from capital and real property investment income as well as income from business activities.

30. Post-balance sheet events

On 1 January 2017, the Decree which approved the accounting framework applicable to operating entities of the Andorran financial system and joint investment schemes under Andorran law in accordance with international financial reporting standards adopted by the European Union (EU IFRS) which have now been adopted by Andorra (Andorran IFRS), has come into force.

This decree establishes the obligation to prepare the first individual and consolidated Financial Statements for the financial years starting from 1 January 2017 in accordance with the EU IFRS.

At the date of preparation of these consolidated Financial Statements, the group is working on its transition plan to the new accounting framework which includes, amongst other matters, an analysis of the differences in accounting criteria, a selection of the accounting criteria applicable in the cases when alternative treatment is permitted and an assessment of the modifications to computer procedures and systems. The group is working on assessing how far the consolidated balance sheet and income statement of 2016 which form part of these consolidated Financial Statements differ from those previously prepared in which the accounting criteria established for the EU IFRS are applied.

No significant events have occurred after year end which have been commented in the previous notes.

31. Other points of interest

There have been no other points of interest which have been commented in the previous notes.

Board of Directors

Chairman	*Josep Permanyer i Cunillera*
Directors	*Miquel Alabern i Comas*
	Marcel Albós i Riba
	Miquel Àngel Canturri i Montanya
	Joan Capellas i Cabanes
	Joan Llonch i Andreu
	Josep Anton Ribes i Roca
	Josep Segura i Solà
	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*
Chief Asset Management	*Sandra Estebe i Jové*
Commercial Director	*Gerard Fonolleda i Ramboux*
Private Banking Manager	*Antoni Masip i Mestre*
Normative Compliance and Legal Advice Manager	Jordi Paris i Aguiló
Operations Manager	*Jordi Vilardebó i Costa*

Branch Managers

Xavier Badell i Santeugini
Judit Camprubí i Rial
Lluís Gaztelu i Guitart
Joan Pla i Oliva
Lluís Pons i Vega
Jordina Ribó i Roca
Joaquima Serra i Galbany

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