ANNUAL REPORT 2016

ANDBANK

Private Bankers

ANNUAL REPORT 2016

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KEY FIGURES

Financial group founded in 1930. Preserving and growing the wealth of our customers is our only goal. Our customers' trust is our most valuable asset

7
Banking licenses

6
Investment advisors

5
Asset management Co

1,142
Employees

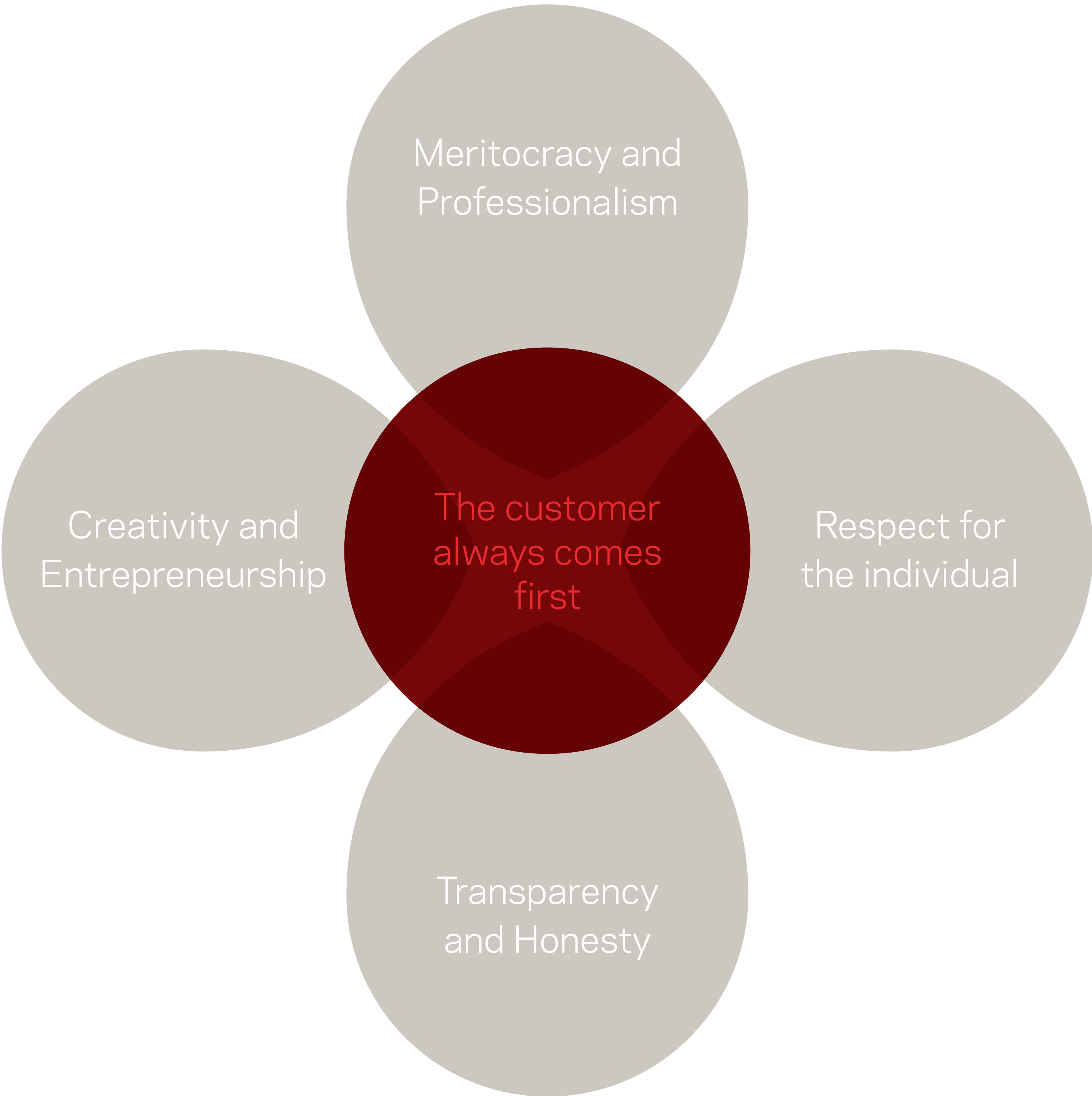
29
Nationalities

41
Offices

Vision

To be a leading banking and financial group, with an active international presence, and a leader in Andorra. We seek the best solutions for our customers, managing their wealth as efficiently as possible, with a committed and highly professional team.

Andbank's Values



Key figures

21,989 M€
AUM

BBB
Fitch Ratings

65.58 %
Liquidity

Stable
Outlook

25.50 %
Solvency

3.47 %
NPL ratio

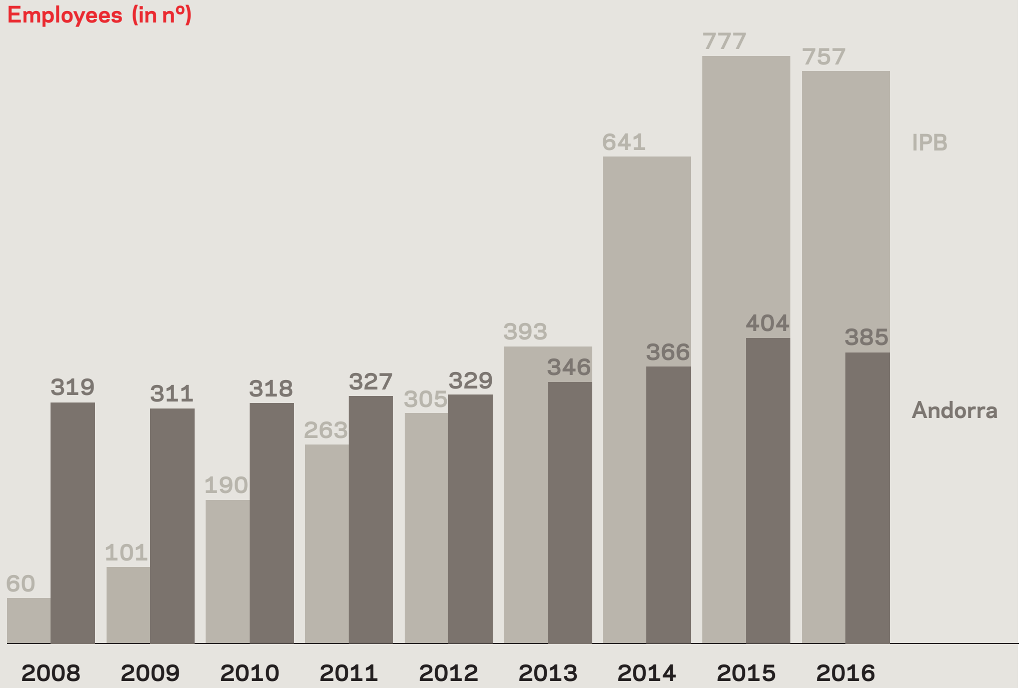
576
Core Capital

9.23 %
ROE

Andbank has been chosen as the best private bank by The Banker for the third consecutive year

A fully International Bank

Employees (in nº)

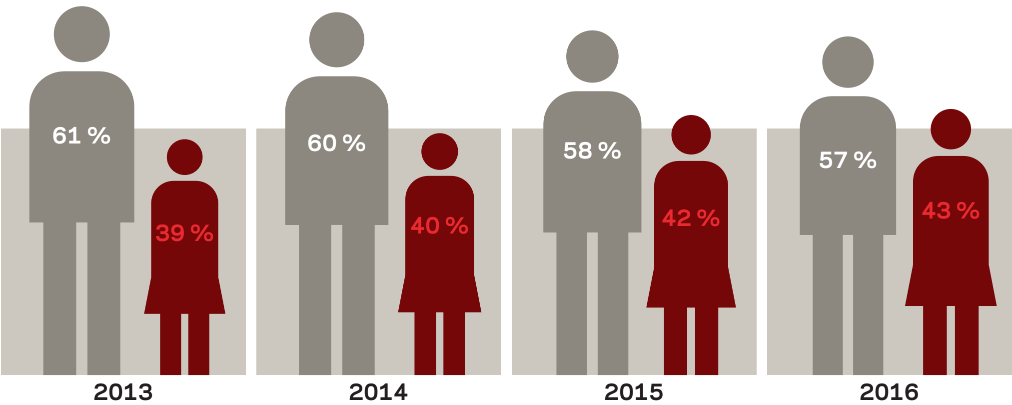


Recurring revenue generation

Income statement (in thousands of euros)	2015	2016
Net Interest Income	50,913	40,811
Gross margin	249,125	255,887
Net Operating Margin	60.072	61.491
Net Profit	**54,048**	**47,472**

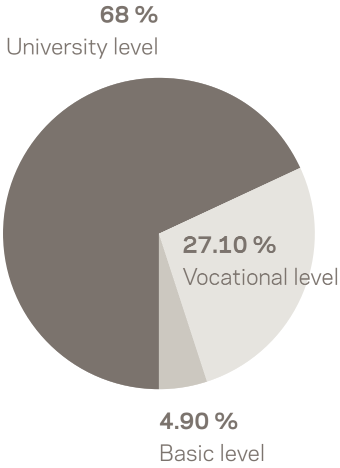
A workforce moving toward equity

Employee distribution by gender. Andorra

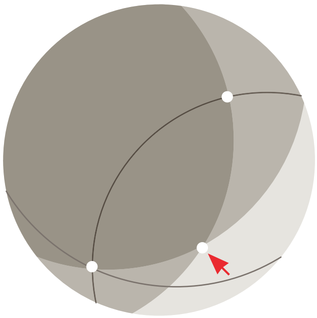


A highly trained human team at your service

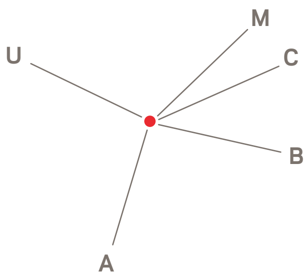
Employee distribution by education level (Andorra and subsidiaries)



Online campus



Agreements with leading universities



1.

LETTER FROM THE CHAIRMAN

Letter from the Chairman

Investors faced a complex and uncertain global environment in 2016, with pronounced differences in investment opportunities both geographically and at different times during the year. In short, a muddled global panorama that required a cautious approach in countries experiencing considerable political and economic difficulties, and flexibility in managing the apparent acceleration in key Asian countries such as China and India. Globally, economic activity reached a turning point in July, entering a synchronised cycle that also benefited Europe, with global GDP growing by nearly 3.1% in 2016 (one tenth lower than 2015).

Globally, inflation also rose during the second half of the year, although there were significant regional differences. In OECD countries, prices climbed by 2.3% year-on-year, a level not seen for nearly five years, but continued to fall in most non-OECD countries, with the exception of China where consumer prices rose.

Equity markets benefitted from extremely favourable conditions with some developed market indices regularly pushing through record levels. It is worth highlighting the performance of some emerging equities markets, such as the Bovespa index in Brazil, which surged a spectacular 39% over the year, and the Indian market which gained 26% between February and September (before the demonetisation measures were introduced) compared to the S&P in the USA which rose 9.5%.

Debt markets painted a different picture, depending on the region. Emerging market government debt had one of the best years in recent decades (especially in Brazil where the benchmark 10-year bond in local currency recorded a gain of 56% and 23% for the US dollar denominated bond, while the return on the Argentinian bond was 12%). However, debt markets in developed countries experienced much less auspicious conditions, making it hard to find bonds offering a positive yield during the first half of the year (especially in Europe). In the second half of 2016, and in light of widespread expectations of an economic recovery driven by expansionary policy measures (reflation trade), US government bonds began a series of strong yield increases (especially in longer term issues), with the subsequent fall in prices, dragging fixed income markets in other developed countries down with it. This sharp rise in yields diluted the tiny gains accumulated by fixed income portfolios during the first half of the year. The main threat of this recovery in bond yields was the potential for much more restrictive monetary conditions, hindering growth and threatening the fragile economic recovery. However, this threat never materialised and, in most cases, yields in this asset class faltered and their levels remained at historically low levels. If we were to pick one key player in 2016 it would be Mario Draghi for his accommodative negative interest rate policy, implemented through an extensive asset purchasing program that pushed most bonds (government and private) into negative territory for much of the year. It would be fair to say that this policy took a significant toll on bank profits, shown by the ECB council's decision to take a new approach to its easing policy around the middle part of the year, called "Monetary easing with yield curve control" – a euphemism for attempts to mitigate the damaging effects of its policy on the banking sector, demonstrated by the fact that share prices of the main European banks reacted most favourably to this decision (having hit historical lows of course).

In 2016, the Principality of Andorra continued to make progress in its commitment to join the leading international organisations and adopt a transparent, modern and comparable legal framework in line with other countries and financial marketplaces. Of particular note was the signing of the agreement between the European Union and Andorra to automatically exchange data, the result of the Principality's decision to adopt the EU and OECD's international transparency standards (Multilateral Competent Authority Agreement, 03/12/2015). Andorra is also progressing in its negotiations to conclude an Association Agreement with the European Union with a view to joining the single market.

We ended 2016 with the satisfaction that we had achieved our objectives in a challenging year for numerous reasons. Despite the volatility in the markets and Eurozone interest rates at around 0%, we held a total of €22 billion in customer funds during 2016, which once again makes us leaders in the financial marketplace.

Looking at key figures from the income statement, revenue generation improved compared to 2015, with gross operating income of €256 million, the highest figure for the company to date. This once again shows the excellent capacity of our business model to generate income.

Andbank's capital structure and liquidity remained solid in 2016. The liquidity ratio exceeded 65% (well above the minimum 40% required by prevailing regulations). The bank's solvency ratio was 25.5% with a Basel III Tier 1 capital ratio of 15.8%, more than 50% higher than the capital requirements of our European counterparts.

Investment in growth and our international presence continues to rise and we continue to invest in improvements in new technologies and software to transform the bank into a technological leader. Our board of directors is firmly committed to providing us with corporate governance in line with the CRD IV capital requirements directive, enabling Andbank to meet the strictest regulatory demands.

Although the Group has made significant investments throughout the year, it ended 2016 with a net profit of more than €47 million, some 18% higher than forecast.

We set ourselves new challenges every year. In 2016 we began a process of upgrading our technology that will be completed in 2017, which we believe will make Andbank a leading institution for digital solutions in the private banking sector. This project will allow us to fully integrate all of our data and information, enabling us to make quicker decisions and deliver quality across all our management activities.

In 2016, the Group was well received by the specialist media. Fitch Ratings maintained its credit rating at BBB with a stable outlook, highlighting its strategy, management, risk profile and geographic diversification. The prestigious British magazine, The Banker, part of The Financial Times group, nominated us as Best Private Bank for the third consecutive year in recognition of all our work.

The outlook for the financial markets in 2017 is similar to 2016, nevertheless the political sphere with newly installed leaders in various countries may bring important changes that will call on all our skills to adjust and adapt.

This should not be difficult for us, thanks to our years of experience preparing and adapting our processes. The key to our success is simple. A clear private banking business model, implemented by a team of more than 1,000 highly-qualified professionals, who ensure that this project called Andbank that began more than 85 years ago, stays on course to become a world leader for private banking and international asset management.

Our goals have led us to create a team of highly trained professionals, capable of anticipating and adapting to these changes; a team of ambitious people with a great work ethic, who embody the bank's values such as loyalty and dedication, hard work and excellence. Year after year, these people uphold the trust that our customers place in us; a trust for which I am grateful. The Group's shareholders and board of directors are equally committed to continue working diligently and prudently, ensuring best practices so we can deliver the highest quality service to our customers.

Manel Cerqueda Donadeu
Chairman

2.

WORLD ECONOMIC REVIEW 2016

World Economic Review 2016

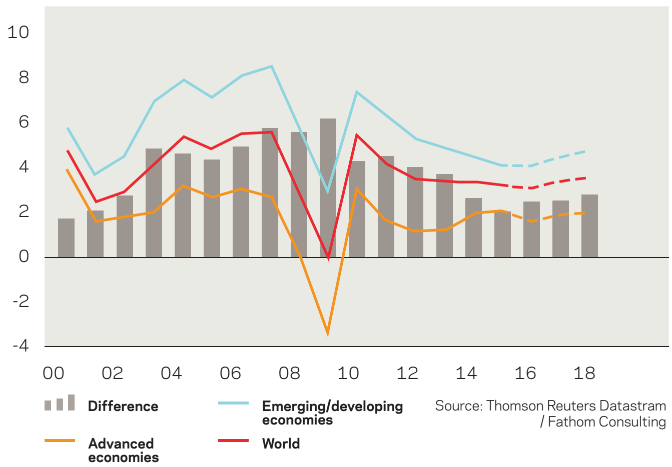
External environment and global economic performance in 2016

Global economic activity improved during the second half of 2016 and recently published figures confirm that world growth kept pace, even if this was moderate compared to historical levels. The Purchasing Managers' Index (PMI), reflecting global production, rose to a level of 53.3 in Q4 2016 from 51.5 the previous quarter, indicating that global growth recovered during the second half of last year. Overall, global GDP reached nearly 3.1% at the end of 2016 for the year as a whole (one tenth lower than 2015).

Volatility in the financial markets remained low throughout the year and the stock markets of the developed economies posted new gains. Yields on long-term US government bonds rose slightly but remained at low levels in other developed economies. Overall there was a modest decrease in capital outflows from emerging economies, which proved less persistent than in previous episodes of uncertainty. In general, there were significant outflows from China in December that were only brought under control by the strict measures imposed by the Chinese authorities.

World GDP

Annual percentage changes, including IMF forecast



Source: Thomson Reuters Datastram / Fathom Consulting

Global inflation also picked up during the second half of the year following the rebound in oil prices and commodities as a whole. However, this was uneven across different regions. In OECD countries y-o-y inflation, measured by the consumer price index (CPI), had increased to 2.3% by the end of the year, returning to levels not seen for nearly five years. By contrast, inflation continued to fall in most of the main non-OECD countries, with the exception of China, where consumer prices recovered.

Monetary policy decisions
At their monetary policy meetings, the governing councils of two of the world's main central banks (the ECB and BoJ) concluded that a significant degree of accommodative monetary policy is still necessary, even as the first signs of underlying inflationary pressures are being seen. The governing councils of these two banks have therefore increasingly reiterated, with regards to non-conventional monetary policy measures, that they would continue their financial asset purchases (mainly debt) as part of their asset purchase programmes (APP) at the levels seen during the first half of the year and until the end of March 2017 (in the case of the ECB). Furthermore, from April (in the case of Europe), net purchases are expected to continue at €60 billion per month until the end of December 2017, or later if necessary, and either way until the governing council sees a sustained adjustment in the inflation trend bringing it in line with its inflation target. Net purchases occur in parallel to reinvesting the nominal payments of the purchased securities under the APP as these securities mature. These central banks have also been providing stability to the markets, insisting that if the outlook deteriorates or if financial conditions become incompatible with achieving a sustained adjustment in the inflation trend, they are prepared to increase the volume and duration of their asset purchase programmes.

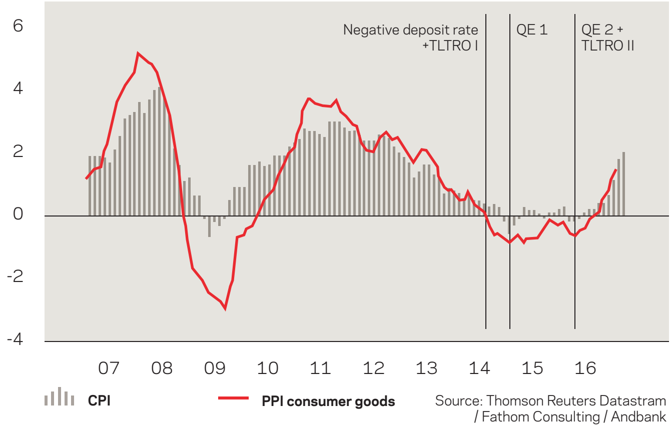
Conversely, in the United States the Federal Reserve has opted for a gradual tightening of monetary conditions in response to the acceleration in economic activity and prices in the country. However, doubts about the strength and sustainability of this cycle have clearly weighed on the decisions of the US monetary authority as shown by the indecision and slow pace of its rate rises.

Eurozone
The economic recovery in the Eurozone picked up in the last few months of 2016 with real GDP growth for the zone at 0.4% q-o-q for the fourth quarter on the heels of similar growth during the previous three months. Full year growth for the euro bloc was 1.7%, boosted by the ECB's monetary policy measures introduced in June 2014 which helped to ease financing conditions for businesses and households and benefitted credit flows across the whole of the Eurozone. The improvement in corporate profits thanks to historically-low wage and financing costs have contributed to driving new investment and with it, economic activity. Moreover, higher employment levels are having a positive impact on real disposable household income which in turn is boosting private consumption. Externally, conditions have also been favourable, especially during the second half of the year with signs of a global recovery picking up as well as an increase in international trade (especially towards Asia), which has been fundamental in bringing the Eurozone into this global cycle.

Inflation in the euro bloc was clearly on the rise during 2016 after four years of falling inflation and deflationist figures in 2015 (falling prices). Prices ended the year 1.1% higher for the 12 months.

USA
Economic activity in the USA ended the year in a much more solid position, underpinned by consumer spending and the recovery in investment, as there was a smaller contraction in the energy sector and the strong dollar had less of an impact on corporate profitability.

Euro area CPI and PPI
Twelve-month percentage changes



Source: Thomson Reuters Datastram / Fathom Consulting / Andbank

Solid consumer spending (boosted by a strongly performing labour market) and the recovery in private investment (with credit growing at 7%) led to moderate expansion in 2016. Furthermore, the Fed continued its expansive approach despite the change of direction in its monetary policy, with financing rates remaining close to historical lows.
Trump's subsequent victory in November also helped to feed the perception of a more expansive future fiscal policy, which led to an uptick in confidence indicators and inventory renewals.

Prices also accelerated in the US economy during 2016, ending December 2.1% higher for the year having posted average levels of 1% throughout the year.

United Kingdom
In the United Kingdom, economic activity proved to be surprisingly resilient after the EU "Brexit" referendum. Although investment stagnated in the last quarter of 2016 set against a background of Brexit-related uncertainty, private consumption was unusually robust, significantly contributing to GDP growth.

Japan
In Japan, real GDP growth decelerated in Q4 2016 as domestic demand weakened. The contribution from net foreign demand, bolstered by a depreciating Yen, outperformed domestic demand. Although the Japanese authorities wanted to continue to shore up growth through the significant fiscal and monetary policy stimuli, these failed to achieve their goal of accelerating economic activity and real GDP growth faltered as the year went on. Consequently, while GDP grew at around 0.5% in the first and second quarters, it subsequently weakened to 0.3% during the third and fourth.

Neither were the authorities capable of thwarting the deflationist trend. Although the general price index did rise during 2016 and ended the year at 0.3% y-o-y, underlying inflation (excluding energy and food) remained at 0%.

Emerging economies in Asia and EMEA

Quarterly figures have also improved as the year has gone on in the emerging economies of Asia and the EMEA region. They improved in China (thanks to the strong fiscal stimulus implemented in the first quarter which began to bear fruit after the summer) and in Russia, although the figures faltered in India due to the recent demonetisation policy.

In China, growth intensified in the latter part of the year after an uncertain start influenced by the same doubts hanging over its economy at the end of 2015. As mentioned previously, the turnaround was driven by a major fiscal stimulus package in China, channelled through its state-owned companies (their investments jumped 23% during the year compared with 2% growth in investment in private companies). This stimulus managed to rein in the instability and led to renewed impetus in both public and private consumption and the recovery in investment. China ended 2016 with growth running at an impressive 6.7%.

India has long been seen as a sleeping economic tiger that has yet to achieve its potential. The countless regulations and the government's convoluted federal structure have hindered business growth and prevented India from fulfilling its expected economic potential. However, this seems to have changed in the last two years, especially with the arrival of Narendra Modi as Prime Minister. State governments, traditionally at odds with the central government, are now aligned and have unveiled various reforms and changes that have made it comparatively easier to do business in India than ever before. And this process is not the sole preserve of the state governments. The process has been institutionalised by the Department of Industrial Policy and Promotion under the classification mechanism regarding the adoption of business reforms, widely recognised as a game-changer in India's transformation. India's economy has proved to be resilient to global economic crises and has become one of the world's fastest growing economies. The Indian economy performed strongly in 2016, closing the year with 6.9% growth y-o-y, although below the average 7.7% recorded in the first three quarters of the year. This deceleration was closely related to the major impact of demonetisation (the withdrawal of high denomination bills) in an economy that relies heavily on cash transactions. Nevertheless, the economy performed extremely well.

Any signs of recovery from the deep recessions experienced by the major commodity-exporting countries are extremely mixed. In Russia, quarter-on-quarter growth of real GDP swung back into positive territory in 3Q 2016, lifting the country out of recession, mainly driven by net foreign demand. The country's central bank has held official interest rates unchanged and the rouble has therefore appreciated. Equity markets also rose thanks to the rally in the oil price.

Latin America

In Brazil, real GDP contracted by more than expected in the second half of 2016. Economic activity has not benefited sufficiently from the revival in commodity prices and therefore from the improvement in the terms of trade in this country (the favourable difference between export and import prices). The reformist agenda, defined by its restrictions on and rebalancing of the public accounts, has put the brakes on public expenditure -and with it economic activity- which has resulted in a gradual stabilisation of business confidence. On the other hand, the persistent political uncertainty, with numerous corruption cases still being investigated, and the threat that this poses to the stability of the Temer administration, have played a key role in the country's economic efforts that have once again fallen below expectations. In short, the recurrent political uncertainty and the need to consolidate its public finances have continued to weigh heavily on the Brazilian economy.

The Mexican economy faced a complex external environment in 2016, which deteriorated as the year went on. A high degree of volatility was especially prevalent, driven by uncertainty associated with the normalisation of the monetary position in the USA, among other factors, as well as the US electoral process and its outcome during the latter part of the year. This led to portfolio adjustments in international financial markets that had a significant impact on domestic markets, pushing asset prices lower while increasing volatility. The effect of this scenario on the exchange rate contributed to higher inflation, which accelerated ending the year at 3.3% (above the 3% target) and even pushing through the 4% barrier in early figures taken in 2017, far higher than the average levels of 2% seen during 2016. With regards to GDP, productive activity continued to grow in Q4 2016, albeit at a slower rate than the previous quarter. Foreign demand continued to recover and private consumption maintained its positive trend. Nevertheless, weak levels of investment persisted. In this context the Mexican economy grew by 2.1% for 2016 as a whole, far below its potential.

Financial markets performance in 2016

Fixed income markets

Taken as a whole, yields on long-term government debt in the world's main markets experienced both ups and downs in 2016. The first six months of the year showed a clear downward trend in bond YTMs, before changing direction in July and accelerating in November following the Trump victory and promises of tax reforms with potential inflationist effects.

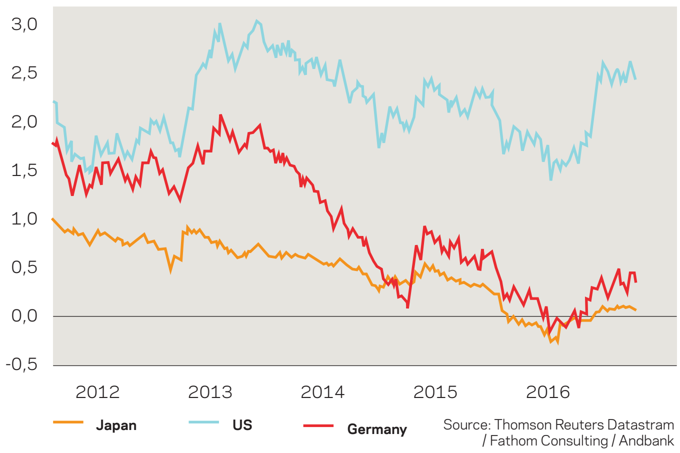
The YTM on the 10-year US Treasury bond recorded a series of cuts during the first quarter of the year set against a scenario of plunging energy prices, which in turn led to lower inflation forecasts. The yield moved from 2.25% to 1.75% during this period, further intensifying after the Brexit referendum, which pushed the YTM on the T-bond down to 1.38% in July. Nevertheless, following a reflation process in most commodities (increase in prices) driven by the vast fiscal stimulus applied in China, inflation levels in OECD countries subsequently began to rise again, pushing yields on the US government bond higher, which then continued to rise significantly ending the year at nearly 2.6%.

In Europe, the German Bund followed a similar path, although it started from a much lower absolute level, driven by strong purchasing pressure from the ECB and its asset purchase programme. The yield on the Bund began 2016 at 0.6% before plummeting during the summer to around -0.20%. It subsequently recovered, following the global trend, and ended the year close to +0.20%.

By contrast, the debt of Europe's peripheral economies followed the trend of lower risk premiums and yields during the first nine months of the year and it was not until September that yields begin to pick up again. Overall, most peripheral economy bonds recorded a decline in the YTM of their benchmark 10-year bonds. In the case of Spain, the YTM fell from 1.78% to 1.33% during the year; in Ireland it declined from 0.96% to 0.73%; while in Greece the effect was much more pronounced, where the yield was slashed from 8.3% at the start of the year to 7.02% at the end of December. Only Italy and Portugal recorded increases in the cost of their 10-year bonds. In Italy the yield on the bond rose during the year from 1.59% to 1.83%, while in Portugal the rate surged from 2.53% to 3.76%.

In most cases, emerging market government debt performed spectacularly. The Brazilian 10-year bond was the star asset, appreciating (in price and coupon) by 56.6%, followed by Russia (+21%), India (+18%), Indonesia (+16.5%) and Turkey (+6.5%). Other emerging government debt markets also performed well, although more moderately. The 10-year Malaysian bond rose 4%, Singapore 3.5% and South Korea 2.5%. By region, Asian bonds rose by an average of 5%, Latin American bonds by 26% and bonds from Europe's emerging countries appreciated 13.6%.

Benchmark 10Y government bond yields
Per cent



Source: Thomson Reuters Datastram / Fathom Consulting / Andbank

Equity markets
Global equity markets experienced an uneven year in 2016. For the year as a whole, the main bourses recorded an average (linear) gain of 2.9%, although they were significantly outperformed by the Brazilian market, posting a 39% gain, followed by the S&P in the USA with a 9.5% rise, Mexico with 6.2% and India, which after soaring 25% in the main part of 2016, collapsed in the latter part (after the demonetisation of its economy) ending the year with a cumulative +2%.

Markets that entered negative territory included the Shanghai Index in China which tumbled 12.3%; Europe, measured by the Stoxx 600, which lost 1.2%; and within Europe, the IBEX 35 in Spain, which ended the year 2% lower.

Commodity markets
The prices of most commodities continued to fall during early 2016 in a trend that lasted until mid-February. However, following the formidable economic stimulus package rolled out in China, commodity prices generally began to recover. Oil ended the year 45% higher while the generic and more representative CRB index (representing all commodities) had risen by nearly 10% by year-end.

Foreign exchange market
The most notable movement in this market was the 19% depreciation in the British pound against the dollar (and its 16% depreciation against the euro). The uncertainties surrounding the United Kingdom's departure from the European Union weighed heavily on investors who decided to reduce their exposure to the British currency.
Other significant movements included a 20.6% decline in the Mexican peso against the dollar, and the Argentinian peso, which lost 22.5% of its value during the year.

On the upside, Brazil's currency strengthened significantly, with the Real rising by 17.8% against the dollar and 20.4% against the euro.

Of the most liquid currency pairs, the euro lost ground against the dollar (-3.2%) during the year, the Swiss franc lost 1.6% against the dollar while the Japanese yen appreciated by 2.8%.

3.

GLOBAL ECONOMY AND FINANCIAL MARKETS OUTLOOK

Global economy and financial markets outlook

Global economic outlook for 2017

Large parts of the developed world continue to hope that monetary policy measures will continue driving the current deleveraging process and supporting domestic demand in some way. The favorable financing conditions in most countries and the subsequent improvement in corporate profitability are expected to act as a driver for the recovery in investment. Nevertheless, on the downside, the speed at which the structural measures are applied in the West (especially in Europe) and the corrections that still need to take place in some key sectors of their economies, seems painfully slow. These are factors that sooner or later will once again come into play (dampening economic activity) and mean that the economic bounce of 2016 may not go on much longer or become stifled in the latter part of 2017.

These include certain economic aspects that are still present in early 2017, such as the vast stimulus applied during 2016 in key economies such as China, which have led to the creation of a synchronized cycle known as "global reflation". These stimuli, and their consequences, will not be present throughout 2017 since they have been gradually withdrawn since Q3 2016, increasing our concerns about the global powerhouse, which has accelerated commodity prices and subsequent investment.

Taking all these factors into consideration, we estimate that global GDP will grow at around 3% in 2017, several tenths below the rate seen in 2016 (3.1%). China will be the largest contributor to this gentle deceleration, while India and Europe may still record modest upticks.

Eurozone

Macroeconomic forecasts for the Eurozone point to annual growth in real GDP of 1.8% in 2017, slightly higher than initial estimates but supported by data from the start of the year that show that Europe is entering a more synchronized economic cycle.

Monetary policy decisions. March's ECB meeting brought better price and growth prospects accompanied by less dovish talk, while the possibility of using all monetary policy instruments within its mandate was withdrawn from the statement. Nevertheless, the ECB acknowledged that domestic risks were still tilted on the downside.

Given this situation, we see a tapering scenario in 2017 with a gradual reduction in stimuli, something that will be openly discussed mid-year after the French elections.

If the ECB follows the Fed's path, the asset purchase programme could be scaled back in 2018 with the first decisions about some very gradual rate hikes coming in 2019. In fact, in March the market had already priced in a 46% probability of an ECB depo rate hike this year.

Macro figures. Sentiment indicators continue to gain ground, with March's preliminary surveys coming in higher than expected for both industry and services. Employment is also performing strongly and industrial production is picking up with positive readings. GDP is expected to settle at around 0.4% QoQ for the last three quarters of the year.

Inflation rose once again in February driven by the energy component, with headline CPI running at 2% YoY and underlying CPI at a lower 0.9% YoY. We believe that CPI levels will probably peak during the first three months of the year before settling down again in the second half of 2017, ending the year as a whole at around 1.7% annually for headline inflation and 1% for core inflation.
Although it might appear that deflation risks have largely disappeared (according to Draghi), we should not lose sight of the underlying causes of this recent increase in prices (stimulus in China and the commodities rally). However, with these factors now off the table and most commodity prices stable, it is unrealistic to think that prices can continue to rise. We therefore believe that price indices are more likely to come in lower than expected rather than higher in 2017.

Politics. Following the Dutch elections, with a result that -theoretically- is good news for the euro bloc, all eyes are now on France with the presidential elections in April and legislative elections in March. The Netherlands held their general elections on 15 March with a market-friendly result. The Eurosceptic PVV party won less support than expected, although it increased its number of seats, which does not lead us to be overly optimistic. Moreover, other political alternatives with an economic nationalism agenda (such as the CDA or the Forum for Democracy) also gained ground and will probably form part of a coalition that, one way or another, will fuel a more nationalistic debate. This could prove dangerous in a Eurozone full of regional inequalities.
In France the risk is not in the presidential elections but in the legislative ones, which will be highly fragmented due to powerful internal divisions in the main centrist parties (Socialists and Republicans) making it harder to implement the so-called "Pact for the Republic" to neutralize Le Pen's FN and could give rise to a legislative "stalemate" in the National Assembly.
Meanwhile in the United Kingdom, Prime Minister Theresa May finally triggered Article 50 for the UK to leave the EU, marking the start of negotiations that are already looking extremely tough and complex and could cast a shadow over confidence levels across the whole continent.

USA

Main macroeconomic forecasts: we forecast growth in real GDP of around 2.3% for 2017, with full-year headline inflation at 2.2% and unemployment at 4.7%.
While markets are betting heavily on stronger GDP growth, appropriately priced in to fixed income assets prices, which tend to discount more favorable outlooks, we caution investors to be mindful of potential downside surprises. We believe economic growth, and inflation in particular, may be tamer than expected, which could generate substantial headwinds if the Fed is considering three interest rates hikes in 2017.
Admittedly there have been some signs of encouragement. 1) After bottoming out in negative territory last November, US industrial production momentum is steadily accelerating towards an above-trend peak this summer, with manufacturing rising in the past few months, especially driven by the rebound in energy mining picking up steam. 2) Early indicators point to continued strength, with Markit PMI New Orders picking up solidly, while regional manufacturing surveys have jumped sharply higher. 3) Results from utilities companies have been depressed by unseasonably warm winter weather, but a reversal is likely in the months ahead, adding fuel to the increasing momentum. 4) The improving labor market continues to drive rising household income. However, there are also signs of weakness. 5) Real retail sales have been disappointing for the past few months, contracting in January before a modest rebound in February. 6) Auto sales have also come down from a peak in December. 7) Building permits have weakened recently, although new home sales remain firm.

Politics and reforms. The political setback suffered by Trump on 24 March, when Congress rejected his proposed healthcare reforms, forces us to be more cautious about the reform agenda, which is likely to be slower than expected. Despite our caution, the impact on markets may prove to be limited because many of the pending reforms, especially those aimed at deregulating key aspects of the economy (such as banking), may eventually receive the support of the "obstructionists" within the Republican party. Our own view is that there is a decent chance that a smaller package will get through on corporate tax, but not before the first quarter of 2018. We doubt that anything will get done on infrastructure.
Monetary policy. The Fed seems in no hurry to speed things up. Despite a strong hawkish shift in Fed rhetoric in recent weeks, the outcome of the last meeting showed a largely unchanged outlook for monetary policy, with interest rate forecasts essentially identical to the December meeting. After a strong hawkish push in recent weeks, the last meeting came across as relatively dovish. The Fed only seems to respond to real economic data (hard data) but is not reacting strongly to rising confidence surveys (soft data) or fiscal policy expectations. We continue to expect two hikes in 2017, with a maximum of three.

Inflation. In the medium term, we still see some modest upside for inflation, but we do not view the recent strength as the beginning of a sharp acceleration. The consumer price index (CPI) rose in February and the YoY rate was 2.7%, although core inflation decelerated one tenth to 2.2% YoY.

Japan

Monetary policy. The central bank's forecasts do not include any tapering of its expansionary program. Although one Bank of Japan (BoJ) council member called on the institution in the early part of the year to begin reducing its quantitative easing program (QE) through massive asset purchases, the likelihood that the central bank will announce any such change is negligible, since other members insist that the bank sticks to its course. Many believe that the decline in the BoJ's purchases marks the start of the process of withdrawing its stimuli, but we do not think that is a correct interpretation and purchases will continue. The BoJ's holdings of Japanese government bonds increased by ¥34 billion in the second half of 2016 (admittedly less than the ¥51.4 billion seen in 1H2016). By switching its quantitative easing (QE) program last summer for a quantitative and qualitative easing (QQE) program with yield curve control, the BoJ decided that it would let the yield on the 10-year bond rise and settle around zero, which has meant that the BoJ purchases fewer assets in the market. This tapering was intended to reduce stress in the financial sector (to offset lower margins in a zero rate environment), so there are unlikely to be further cuts in the BoJ's purchases.

Are these monetary stimulus policies working? To date, the BoJ's successes are limited to the following areas: 1) New household lending jumped 20% in 2016. This increase was mainly driven by homeowners upgrading to new low-cost mortgages looking to improve their terms of their borrowing, although investors also played an important part, buying properties in search of rental yields of 4%. 2) This demand in investment fed into the wider real estate market and lending to developers grew by 15% in 2016, sparking a major rebound in construction activity leading to a bullish property market in some major cities. 3) Corporate borrowing rose by almost ¥1 billion in 4Q 2016, although outside of the real estate sector little of this was used to fund investment in domestic capacity.

Nevertheless, these stimulus policies also have their costs: 1) The BoJ's QE program has drawn criticism from US government officials who have accused Japan of manipulating its currency. 2) Negative interest rates and QE have depressed returns in Japan's financial sector.

Given all of the above, we do not expect a tapering any time soon. All of these successes could be described as "limited achievements" since all of them are related to the real estate sector and the stock market. This is simply symptomatic of low bond yields forcing institutions and investors to allocate more of their funds to riskier assets (equities) or less liquid ones (real estate).
In general terms, we agree with those who claim that the BoJ's policy stance has clearly been a failure: 1) Growth remains lackluster; 2) Core inflation is barely in positive territory and inflation expectations have not budged; 3) The BoJ has no realistic chance of achieving its inflation target of 2% in the foreseeable future and with 2% inflation unachievable, the bank will be grateful for any upside in lending and real estate prices; and 4) The BoJ continues to be the sole player in the JGB market. Any attempt to reduce its bond purchases in such a thin market would lead to a dramatic increase in their rates, choking off Japan's fragile recovery. The BoJ therefore has little choice but to continue with QE, in what is viewed as a clear "expansionary policy trap".

External environment. Can a trade war with the USA be avoided? Abe counteracts any accusations that Japan is a currency manipulator by pointing out that the BoJ has not intervened in the foreign exchange market through open market operations since 2011. Regarding the BoJ's QQE policy, he replies that it is necessary in order to buy time for his economic policy programme to take effect. Meanwhile, in response to Trump's complaints that Japan buys too few US-made cars, Abe can demonstrate that his country no longer erects barriers against auto imports from the US. On the issue of investment, Abe can point out that Japanese manufacturers have directly invested more than US$400 billion in the USA and Toyota intends to invest US$10 billion in its US plants over the next five years.
Abe will probably offer his support to Trump's infrastructure plan, with an expected $1 billion, and may give a commitment on behalf of Japan's giant government pension fund (GPIF) to purchase US infrastructure bonds to help finance Trump's famous fiscal plan.
Abe may also offer a promise to increase Japan's defense spending (currently at 1% of Japanese GDP) as a way of avoiding any trade spats. Talks indicate that Tokyo could double this expenditure over the five-year period commencing 2019. This would amount to a major military program (exactly the sort that Trump is demanding) and given Japan's lack of experience in certain areas (notably in advanced missile systems), there would be plenty of lucrative work for specialist US defense contractors. Such an arrangement could work for both sides and makes us believe that there is sufficient potential to avoid any trade conflicts.

China
One of the major global surprises of 2016 was the acceleration of the Chinese economy, ending the year with GDP growth at an impressive 6.7%. This was a "surprise" because 2016 began with the same concerns that rocked the market in the summer of 2015, namely, serious worries about the banking system and the real estate sector, the collapse in the copper price (used as collateral in loans), stock market corrections that threatened to derail the progress of the Chinese economy, etc. China's response was decisive. In early 2016 wide-ranging stimulus measures were approved, including liquidity injections by the central bank, tax cuts and a significant increase in public spending (channeled through state-owned companies, in which investment levels soared by 23.5% compared to a meagre 2.8% in private companies). All of this helped to shore up demand and dodge a deeper recession, although it also put debt levels on a less sustainable path. The bulk of the growth in 2016 came from the very sector that was supposed to trigger the economic collapse, namely the real estate sector. Sales figures, prices and construction activity all moved higher.
With the Chinese real estate sector picking up, commodities hitched a ride too and oil, copper, steel and coal all rose strongly in the second half of the year. We are often asked why China decided to use economic stimulus measures and not opt for a massive devaluation. By keeping its currency stable (since the PBoC only allowed the RMB to depreciate by the interest rate spread between US Treasuries and Chinese government bonds), the Chinese central bank ensured that the renminbi's credibility as a potential reserve currency was not affected. This is certainly an important aspect, since many central banks had switched part of their reserves out of US Treasury bonds and into Chinese government bonds during the previous five years.
Lessons to be drawn: 1) China seems to be the world's main exporter of inflation. With growth rebounding (driven by huge stimuli), inflation in the early stages of the value chain (manufacturers' prices) also bounced back, and the producer price index (PPI) returned to positive territory for the first time since 2011, pushing price indices in the West higher. 2) China was the main driver of the commodity price rebound, but this is unsustainable. China's import data for 2016 does not reflect strong final demand and Chinese inventory-building cannot go on much further at a time of low prices. 3) With most of these stimuli being withdrawn (the fiscal stimulus virtually disappeared in the summer while monetary stimulus was scaled back in the winter), it is logical to think that the big push in commodities cannot continue and, that being the case, we will probably see the end of the global reflation trade.

Long-term outlook. Growth will continue to slow in China for structural reasons, but policymakers still have policy levers to cushion a deep deceleration in activity. The search for social stability will continue to be the primary objective of China's policymaking. Our growth forecasts for GDP in 2017 are between 6.25% and 6.5%.

Political vision. Short-sighted fine-tuning or longer-term bold reforms? There is a consensus on China's relaxation of its reform agenda and the frequent use of stimulus to extinguish successive fires. At Andbank we attribute this to the political agenda (Xi Jinping's fear of losing support if he undertakes tough reforms). It is worth remembering that Xi Jinping began his mandate implementing major reforms that affected companies with state ownership (which resulted in a brutal deceleration in contracts and purchases of foreign minerals and the imprisonment of many of the executives of these public companies). Hopefully, after consolidating his authority at the Communist Party's 19th Congress, Xi Jinping will return to the hard reformist line, which makes better long-term economic sense. The outlook continues to be constructive for this economy.

India

Politics. Prime Minister Modi's political party (the BJP) was the clear victor in the elections held in five states, with the last major victory in the state of Uttar Pradesh, the most populous in India and the key to governing the country. The BJP won 434 of the 690 seats at stake and obtained a crushing 80% of the votes in this key state. Why is this significant? These elections had been seen as a mini-referendum on Modi's reforms, especially the painful decision to withdraw high denomination bank notes. Modi's victory suggests that the population has correctly deciphered the goal of these reforms, which are seen as: 1) Measures to expand and extend the formal economy, which should increase tax receipts and the volume of funds in the banking system, and 2) Part of a campaign against corruption.

Modi's victory represents much more than the headlines might suggest. First, it puts Modi's BJP in pole position to regain power (and with larger majorities) in the 2019 national elections. Secondly, it is a mandate for Modi to continue (and even accelerate) federal policies and to introduce credible pro-business measures (including a rapid roll-out of the Goods and Services Tax [GST] reform, the most important reform since 1947). Thirdly, it clearly signals political stability, an element that every foreign investor considers when making investment decisions. As we see it, all these factors will encourage the unprecedented flow of FDI seen in 2016 to continue at a good pace. We guess that financial investment will also respond with (probably) intense inflows into India's markets (equities and bonds), especially having observed the net outflows since demonetization took place.

The budget signaled a clear commitment to long-term stability. Following the decision to scrap large denomination banknotes, the budget was carefully calibrated in a move to reassure financial markets after the IMF estimated that the demonetization would cut economic growth by one percentage point this fiscal year. The budget shows that India remains committed to fiscal responsibility. Fiscal prudence is reassuring for international investors (especially bondholders). Sound financial management and reining in external imbalances means the rupee is unlikely to collapse, which in turn increases the attractiveness of other Indian assets. The bad news is that fiscal prudence and Delhi's commitment to cut the deficit makes it harder to press ahead with a decisive clean-up of India's state banks. With a 12% NPL rate in the 27 public banks, investment could remain stalled. Public lenders need an estimated capital injection of US$30-50bn, but the central government's budget has only offered US$11bn.

In exchange, Delhi's budget offered much-needed infrastructure spending. The goal is to try and "crowd in" private investment, which has been in the doldrums since 2012.

Total budgeted expenditure is INR21 billion (around $310 billion), with the fiscal deficit pegged at 3.2% of GDP. Although this figure is a shade over the original target of 3%, it is tight enough to satisfy the rating agencies. Minister of Finance, Arun Jaitley, expects to hit the 3% target in 2018-2019, halving the deficit level seen in 2011-2012. Official investment in rural areas is rising by 25% (to INR 2 billion). In infrastructure, we are seeing an 8% increase in railways (to INR 1.3 billion) and 11% in highways (to INR 640 billion). Housing loans account for INR 200 billion and "infrastructure" status will be granted to affordable housing, giving residential developers access to cheaper financing. Tax cuts: For the urban middle-class and small corporations (which account for 95% of all Indian companies).

Having said all of this, the government estimates that GDP growth will bounce back this year, coming in at 7%, even without re-energized private investment.

The risks are fading. Of course we are aware of the risks (although recently these seem to be dwindling): 1) A context of high prices in commodities and basic products; 2) Trump and his economic nationalism, and 3) The fact that Modi will not have a majority in the upper house before 2019, which could mean his more ambitious reforms being frustrated until then.

Latin America

In Brazil, plummeting inflation will enable the central bank to support the economy.

Our economic forecasts for 2017. GDP growth 2017: +0.5%. HICP 2017: +0.4%. Unemployment rate: 13% (currently 12.6%). Benchmark interest rate (Selic): 8.5%.

Fiscal discipline. The public accounts don't stack up. The 2017 budget was based on GDP growth of 1.6%, but the real figure will be 0.5% or lower, meaning that tax receipts will also be lower than expected. What can we expect? Since changing the primary surplus target is not an option, the BRL 44 billion gap (BRL 58bn–BRL 14bn) will likely be covered by freezing expenditure and raising taxes. We expect potential measures to include: 1) Discretionary spending cuts totaling BRL 120 billion, of which 37 billion will be investments; 2) Non-recurrent revenues from judicial trials: BRL 14 billion, and 3) Sales of public assets (airports).

Inflation is providing considerable respite for the central bank. Both realized and expected inflation (12 months forward) continue their sharp decline. Expected full year inflation (HICP) could end 2017 below 4% in Brazil. This gives the central bank plenty of room to follow an accommodative path in monetary policy.

Reforms. Social Security. The Special Commission has the majority to approve the bill sent by the government with voting expected to take place at the end of March or early April. The government made some concessions, excluding state and municipal civil servants from the reform. They represent around 25% of the deficit, but don't affect federal results. This concession seeks to shorten the bill approval process. In our view, the social security reform will be approved in the House of Representatives on 17 May and in the Senate on 17 October. Despite the changes to the original bill, the reform has the potential to reverse the perverse sovereign debt dynamic. The minimum age of 65 for men and women is one of the critical points of the reform.

Outsourcing Law. The Outsourcing Law allows more flexible structures to hire employees as service providers, offering the chance to improve job market efficiency. The Senate is already working on a new bill, seeking to tone down the current one. The voting session sent a warning to the government, with defections of part of its supporter base. In our opinion, this structural reform will demand more negotiation and new concessions to consolidate its base.

No big political risks ahead, at least in the short term. Recent leaks of Marcelo Odebrecht's testimonies have hit the Dilma-Temer candidature. In our view, the political class has little incentive to end President Michel Temer's mandate early, since he has been doing all the "dirty work" (structural reforms). Consequently, the slowness of the Supreme Electoral Tribunal process (both in-house and, later on, in the Federal Supreme Court – "STF") will allow Temer to finish his mandate. Janot sent inquiries on 83 politicians to the STF, based on Odebrecht's testimonies. They include five of Temer's ministers and important leaders in the PT, PSDB and PMDB parties. Temer is still out of the spotlight, at least directly. In our view, the "Car Wash" Operation will hit some ministers, leading to resignations. However, these will occur gradually, allowing the president to handle the situation without greater damage.

Banking sector. The largest Brazilian private banks decided to allocate a larger portion of their billion-dollar profits to shareholders. That means two things – firstly, that banks do not have capitalization problems, and secondly, that they still have little appetite to lend. In 2016, Itaú, Bradesco and Santander paid out more than half of their profits as dividends.

In Mexico, investors' renewed appetite in emerging markets has helped, but we see little room for improvement.

Central bank. Mexico's central bank (Banxico) hiked official rates to 6.5%. In our view, the central bank's interest rate could end the year between 7% and 7.25%.

Inflation measured by the CPI continues to rise and is currently at 4.86%, well above Banxico's target of 3% (±1%), due to the effects of the Peso depreciation that became more evident during the first half of the month. Monthly economic indicators came in above analysts' forecasts in the early part of the year.

Politics and NAFTA negotiations. NAFTA's renegotiation has started with a more active participation by Luis Videgaray, the new Mexican chancellor. It seems like Trump's aggressive rhetoric against Mexico has diminished as the diplomatic teams on both sides have started work. While bilateral trade with the US has increased under NAFTA by $380bn (from $106bn in 1994 to $482bn today and now accounts for 45% of Mexican GDP), we believe that the negotiations are unlikely to be derailed. We would bet on a modernization and renegotiation of the current agreement rather than a break from it. Why? Of course, the US has a dominant position in the negotiations. However, Mexico also has a lot to say and this balances their positions in terms of reaching an agreement that satisfies both parties. For example, excluding cars, it is Mexico that has a trade deficit with the US, because the US exports a lot of agricultural produce to Mexico, especially from the Midwest. This means that the US Midwest would be severely harmed if the US takes an aggressive stance resulting in a break from NAFTA, something to be seriously considered since this region is the heartland of Trump's electorate. Mexico has plenty of experience in trade negotiations, having been negotiating the TPP accords in the labor and environmental areas. It has also signed trade agreements with 45 countries (more than most countries), proof of its indisputable experience of negotiating trade deals. Furthermore, Mexico has stated that it is open to negotiating and modernizing NAFTA, but will strongly resist anything that means restrictions on free trade, such as the imposition of tariff barriers.

We believe that the negotiations will focus on the "Rules of Origin" – a set of rules that determine if a product is eligible for free trade. One of these rules is Value Added Content (or Regional Value Content), which in turn is divided into two groups: Product Specific or Wide Regime. The latter contains "De minimis" rules (that stipulate the maximum content of external materials admissible in one product) and the "Accumulation rule" (which allows imported products to be treated as if they were domestic). These rules are very flexible and the negotiation will probably come from this side.

Public finances. The last report for 2016 showed that government efforts were insufficient to achieve a primary balance surplus. The Debt/GDP ratio reached 50.5% at its widest measurement, a level at which rating agencies consider it sufficient reason to downgrade the rating of the sovereign issuer.

Argentina is on track to achieve 3% GDP growth, although it seems to be doing it by building a deficit. The economy is finally showing signs of recovery and Q4 2016 confirmed that the Argentinean economy had two consecutive quarters of growth with inflation slowly easing. However, political stress is ramping up as wage negotiations with the unions get tougher and legislative elections approach (scheduled for October this year).

Tax amnesty. December 31 2016 was the main deadline for this program. The results point to a major success with US$98bn in assets declared by Argentineans (in a US$530bn economy). Some 86% of these declared assets are offshore, while 14% remain in Argentinian territory. The next (and last) deadline is March 31 and estimates indicate that an additional US$20bn could be declared. The previous government resorted to monetary issuance to cover the fiscal gap (which caused high inflation). Once the holdouts issue had been resolved, the current government changed its source of financing and tapped international debt markets to cover its funding requirements until it can implement the necessary reforms to recover budgetary balance (gradualism). Two aspects are key for this plan – low leverage of the economy (Total Debt to GDP @53.8% and External Debt to GDP @31.7%) and the legitimacy of the plan itself, which will be tested by the legislative elections this year.

Argentina's economy grew by 0.5% QoQ in Q4 2016, which marks the end of the recession that started exactly one year previously. As expected, GDP contracted by 2.3% in 2016 as a whole. Although public consumption was the main driver of GDP growth in Q3 2016, the external sector took the lead in Q4 with both imports and exports performing well. However, high frequency indicators are showing mixed signs with retail sales rising and industrial production indices falling. In this scenario our target remains at 3% GDP real growth for 2017.

Tax situation. After the cabinet reshuffle at the start of the year in which Nicolas Dujovne took over as Treasury Minister, the government has confirmed its 2017 target of a 4.2% primary deficit. However, next year's targets were revised upwards from 1.8% to 3.2% in 2018, and 0.3% to 2.2% in 2019. They also introduced quarterly targets and will publish monthly information about the state of the public finances. Although these changes are not good news as they delay fiscal consolidation, they are more reasonable considering the path of the adjustments made to date. The primary deficit for 2016 was 4.6% in line with the government's target.

Inflation. The official CPI rose in February to 2.5% (from 1.3% in January). However, the government's target for this year remains in the 12-17% range after the central bank left the policy rate unchanged at 24.75% as inflation expectations increased following the last reading. Considering that this is an electoral year and the stickiness of core inflation, we think that this target will not be met and expect inflation to close 2017 at 20%.

Financial markets. Foreign exchange: The Argentinean Peso ended 2016 with depreciation of 23% for the year. Major USD inflows from debt issuance, the tax amnesty and better conditions for foreign investors to invest locally made depreciation much lower than inflation. However, due to a slower rate of reduction in the policy rate coupled with better USD inflows (from the tax amnesty and debt issuances) and prospects of a record harvest, we are reducing our year-end exchange rate target for 2017 to 18 pesos per dollar (from 18.5), which would represent 13% depreciation for the year.

Financial markets outlook in 2017

Fixed income markets

US 10-year Treasury bond. Key levels: Sell when yields approach 1.95%. Buy levels: 3%-3.25%. Fundamental target: 2.75%. Swap rates rose slightly in March to 2.35% (from 2.32% the previous month). The 10Y Treasury yield down-ticked to 2.40% (from 2.45%). The swap spread therefore rose to -5 bp (from -15bp the previous month). For this spread to normalize at around +25bp area, with 10Y CPI expectations anchored around 2.20% (taking the swap rate as a proxy), the 10Y UST yield would have to move towards 1.95%. The slope of the yield curve on the US 10Y bond fell to 133bp (from 123bp). With the short end of the curve normalizing towards 1.25% (currently at 1.28%), to reach the 10Y average slope (of 175bp), the yield on the 10Y UST would have to go to 3.0%. A good entry point in the 10Y UST could be when the real yield hits 1%. Given our CPI forecast of 2-2.5%, the 10Y UST yield would have to rise to 3-3.25% to become a "BUY".

German 10-year Bund. Key levels: Sell when yields fall below 0.40%. Buy levels: 0.90%. Fundamental target: 0.70%. Swap rates rose sharply to 0.81% (from 0.67% the previous month), while the Bund yield did its part, rising to 0.42% (from 0.26%). The swap spread therefore down-ticked to 39 bps (from 41bps). For the swap spread to normalize towards the 30-40 bp area, with our 10Y CPI expectations anchored in the 1%-1.25% range (approximated by the swap rate), the Bund yield would have to move towards 0.90% (entry point). The slope of the EUR curve fell to 114 bp (from 118). If the short end of the curve "normalizes" in the -0.25% area (today at -0.72%), to reach the 10Y average slope (122bp), the Bund yield would have to go to 0.97%.

European peripheral government bonds. Fundamental buy levels (yield): Spain 1.90%; Italy 2.30%; Portugal 3.30%; Ireland 1.40%, and Greece 7.50%.

Emerging market government bonds. We hold a constructive view of these assets for 2017. Although there are certain risk factors fueling investor concerns in emerging debt markets, there are also positive structural factors that make us feel comfortable with these assets.

The negative side includes: 1) A strong dollar that historically has been synonymous with "bad news" for emerging markets (think of 1997); 2) Higher interest rates in the US did not help in the past (recall the "Taper Tantrum" in fixed income markets in 2013); and 3) The prospects for greater protectionism signal something "toxic" for mercantilist emerging countries.

On the positive side, we would highlight: 1) After a prudent reconstruction, the majority of EMs now have better external balance situations (India, Brazil, etc.), which makes them less dependent on external financing in dollars. 2) In past episodes, emerging markets generally had overvalued currencies. Today however, most are undervalued (MEX, TRY, RUB...), which means that the risk of capital flight is lower. 3) If EMs are now more synchronized with the developed economies, emerging assets should hold up better in a tightening monetary environment in the USA. Furthermore, an additional tightening bias in EMs (caused by higher yields) may even be useful in containing any risk of overheating of their economies. 4) EM firms now increasingly rely on the capital markets and less on their domestic financial systems. In 1997, bank loans in USD accounted for 65% of domestic debt in USD; today USD bank loans represent 54%. Therefore, banks in EMs are not so exposed to USD volatility.

Equity markets

The view of the Andbank group for global equity markets is moderately optimistic, with single-digit growth in western bourses and double-digit growth in some emerging markets, such as India or even Brazil. We have established various fundamental targets for the main indices based on our growth forecasts for sales, profits and earnings per share, while taking into account a hypothesis for a fair PER multiple in line with the current context of pro-market and expansionary fiscal policies, especially in the USA. The table below shows these target levels for all equity markets, as well as entry and exit points.

Above and beyond our fundamental analysis, from a more short-term valuation based on our indicators of global flows and fund managers' positioning, currently in a range that suggests that the market is moderately overbought (although not significantly stressed), we conclude that: a) The market is expensive although in terms of flows and managers' positioning the movements have been gradual rather than violent. b) Admittedly, the likelihood of a sudden risk-off shift has been reduced after the slight correction in the S&P 500 in

March, although there is still room for the market to go deeper into the “overbought” zone.
In short, equity markets are broadly supported by investors as a whole, although this support has been gradual and constant with no major changes in investors’ exposures or sharp increases in funds flowing into these assets, which leads us to believe that stock markets could continue to be attractive to investors, despite being slightly overbought, tolerating higher levels of stress in the aforementioned parameters. Nevertheless, we note that many indices are now approaching our exit levels after accumulating significant gains in the early part of the year.

Commodity markets
Our fundamental target for oil (WTI) is $45 per barrel, with the buy-level at $30 and the sell-level at $55.
Our forecasts are based on a series of structural changes in the energy market, indicative of lower prices in the long-term.

Alternative energies are picking up the baton. Producers must bear in mind that the value of their reserves is no longer dictated by the price of oil and the quantity of their reserves, but rather by the amount of time for which they can pump before alternative energies render oil obsolete. In order to delay this deadline as long as possible, it is in producers’ interests to keep the oil price low as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

The growing environmental problems will gradually tighten legislation and production levels. Producers are aware that the value of their reserves depends on the amount of time they can pump at current levels before tougher environment-inspired regulation comes in. For example, Saudi Arabia has between 60 to 70 years of proven oil reserves at current output, but with mounting concern about climate change and growing environmental problems that will likely continue to put big pressure on the market for fossil fuels over the coming decades, Riyadh’s most serious risk is of sitting on a big chunk of “stranded reserves” that it can no longer extract or sell. It is therefore right to assume that Saudi Arabia (and other producers) has a powerful incentive to monetize as much of its reserves as soon as possible by pumping as much oil as it can (if only to fund the construction of a less oil-dependent economy).

The re-entry of Iran is a game changer equivalent to a structural change in the global energy market. Iran insists that it must be allowed to step up its output from 3.6m to 4m bbl/day. This would imply that Saudi Arabia (the world’s largest producer) would have to take the most, if not all, of the proposed cuts in its own output, but this is somewhat incompatible with the condition imposed by the Saudis of not losing market share under the agreement.

OPEC’s producers are no longer able to fix prices. There are good reasons to believe that any deal reached from now on involving the freezing of production would prove ineffective. Back in the 1970s or the early 2000s, the exporters’ cartel agreed to cut output and this approach worked well since it was easy to defend market share as the principal competition was among oil producers (especially between Opec and non-Opec producers). That is not the case today. Today’s biggest threat to any conventional oil producer comes from non-conventional producers and other alternative energy sources. Energy cut from conventional oil will easily be offset by a quick increase in shale oil production, which means that Opec producers are no longer able to fix prices.

	Sales per Share	EPS	Net margin	Andbank's sales growth	Sales per share	Andbank's Net Margin	EPS
Index	**2016**	**2016**	**2016**	**2017**	**2017**	**2017**	**2017**
USA S&P	1,160	119.0	10.3 %	10.0 %	1,276	10.0 %	128
Europe STXE 600	295	20.4	6.9 %	3.7 %	306	7.6 %	23
Spain IBEX 35	7,325	535.5	7.3 %	4.0 %	7,618	8.3 %	632
Mexico IPC GRAL	30,886	2,291.0	7.4 %	7.0 %	33,048	7.1 %	2,338
Brazil BOVESPA	51,104	3,900	7.6 %	5.5 %	53,915	7.7 %	4,151
Japan NIKKEI 225	19,494	995.7	5.1 %	2.5 %	19,981	5.2 %	1,039
China SSE Comp.	2,501	212.7	8.5 %	7.5 %	2,689	8.0 %	215
China Shenzhen Comp	821	67.5	8.2 %	8.5 %	890	7.8 %	69
Hong Kong HANG SENG	12,170	1.807.0	14.8 %	3.0 %	12,535	14.5 %	1,818
India SENSEX	14,280	1,503.0	10.5 %	11.0 %	15,851	10.5 %	1,664
MSCI EM ASIA (MXMS)	379	47.8	12.6 %	7.5 %	407	12.6 %	51

Global imbalance of supply over demand runs at 1 million bbl/day. Even if the proposed output cuts are confirmed, this deal will not be a game-changer for the international oil market. The global oil market's imbalance of supply over demand continues to run at 1 million bbl/day according to Opec. The cartel's proposed production cut will therefore be insufficient to reverse the oil glut.

Shale producers are ready to raise output heavily at $60 in the oil price. The IEA said that an oil price of $60 would be enough for many US shale companies to restart stalled production.

In the gold market, we still fail to see value in this commodity and recommend waiting until US$900-1,000/oz to buy.
In real terms, the gold price (calculated as the current nominal price of $1,255/oz, divided by the US Implicit Price Deflator-Domestic Final Sales, which we use as a proxy for the global deflator and which is currently at 1.1233) rose to $1,117/oz (from $1,090 the previous month). Nevertheless, in real terms gold continues to trade well above its 20-year average of $786/oz. Given the above value of our global deflator, for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) would have to remain near $883.

Another method that we use to value gold is to express it in terms of silver (which tells us about the preference for a store of value over productive assets). This ratio has ticked up to 68.97x (from 68.12x the previous month) and remains well above its 20-year average of 61.15, suggesting that gold is expensive (in terms of silver). For this ratio to reach its long term average level, assuming that silver is fairly priced, then the gold price would have to reach $1,113/oz.

We also measure gold in terms of oil (gold/oil). This ratio rose to 25.96x (from 23.27x last month) and still remains well above its 20-year average of 14.66. Considering our fundamental long-term target for oil of US$45 per barrel (our central target), the nominal price of gold would have to approach $660 for this ratio to remain near its long-term average level.

In relation to gold in terms of equities (Dow Jones Index/Gold), this ratio has fallen to 16.49x (from 16.56x previously), still below its long-term average of 20.33. Given our LT target price for the DJI of 20,000 points, the price of gold would have to approach $984 for this ratio to remain near its long-term average.

Forecasts Andbank

EPS growth	PE ltm	PE ltm	Index current price	Fundam. price	E[Pref] to fundam	Entry point	Exit point	Revaloriz Potencial Exit point
2017	**2016**	**2017**		**2017**	**2017**	**2017**	**2017**	
7.2 %	19.85	17.50	2,363	2,233	**-5.5 %**	2,009.7	2,456.3	4.0 %
13.8 %	18.66	15.00	381	349	**-8.5 %**	313.9	383.7	0.7 %
18.1 %	19.54	15.50	10,463	9,801	**-6.3 %**	8,820.5	10,780.6	3.0 %
2.0 %	21.19	20.00	48,542	46,756	**-3.7 %**	43,997.7	49,515.0	2.0 %
6.4 %	16.66	16.00	64,984	66,423	**2.2 %**	59,780.6	73,065.2	12.4 %
4.4 %	19.01	17.90	18,932	18,599	**-1.8 %**	17,668.7	19,528.6	3.1 %
1.1 %	15.15	15.00	3,223	3,226	**0.1 %**	2,903.7	3,548.9	10.1 %
2.8 %	29.42	28.50	1,986	1,979	**-0.4 %**	1,781.3	2,177.2	9.6 %
0.6 %	13.38	12.50	24,178	22,720	**-6.0 %**	20,447.9	24,991.9	3.4 %
10.7 %	19.79	18.00	29,740	29,958	**0.7 %**	26,962.2	32,953.8	10.8 %
7.4 %	9.92	8.75	474	449	**-5.3 %**	404.3	494.1	4.2

Foreign exchange market

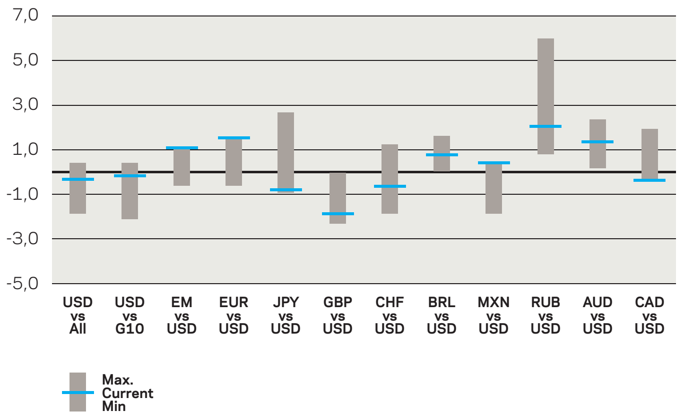
There has been a slight increase during the early part of the year in investors' global positioning in USD. Despite this recent uptick, positioning in the US dollar still remains far below the US$+28.7bn seen in September 2016, although admittedly it is now in the upper half of the Z-score range seen in the last three years (see chart).

Under this approach, there is still room to build new long positions in the US dollar during 2017, although this will depend on the US Congress and Senate passing the planned bills. However, the USD outlook against other currencies would still be neutral even in the absence of these supportive factors.

EUR/USD. Our fundamental target for 2017 is 1.00. In the aftermath of the first French presidential debate, the EUR had a few days of respite, with the net short speculative positioning in EUR being aggressively trimmed (from US$ -7.67 bn to US$ -2.66 bn) with EUR shorts at the lowest level in nearly 3 years (or the positioning in Euros is now the longest seen in the last three years – see upper chart). Any further appreciation in the European single currency will set new positioning records in Euros. Given our doubts about the sustainability of economic progress (considering that the vast fiscal and monetary stimuli in China that lie behind most of the "reflation trade" have been gradually withdrawn since last summer), if investors' structural pattern continues and they decide to hold the average exposure seen in the last three years, the stage is set for further depreciations in the Euro from this level. Our fundamental value for EUR/USD remains unchanged at 1.00.
Known positives for USD: 1) Rising positive carry on US dollar debt instruments. 2) The Fed has a tightening bias, while most other central banks still have an easing bias. 3) Continued improvement in the US trade balance through greater domestic energy production. 4) US$10 billion of unfunded positions leveraged with USD. Now that other currencies are signaling their easing stance more clearly, many of these leveraged positions could change their funding currency (borrowing in EUR or JPY to buy back USD and then repaying the loans).
Known negatives for USD: 1) The US president is a clear mercantilist and mercantilists tend to dislike strong currencies. Trump's desire to relaunch manufacturing in the US cannot happen without a weaker dollar. 2) The US dollar is increasingly overvalued on a PPP basis against many currencies. 3) Almost everyone remains bullish on the US dollar.
Our targets for other FX: USD/JPY 112; GBP/USD 0.83; USD/CHF 0.95; USD/MXN 21; USD/BRL 3.20; USD/ARS 18.5.

Speculative position in the FX markets

(3 Yr – Z SCORES. MAx., Min & Current 1Yr)



4.

AUDITOR'S REPORT

Auditor's Report

KPMG, SLU
Edifici Centre de Negoci
C/ Manuel Cerqueda i Escaler, 6
AD700 Escaldes-Engordany
Principat d'Andorra

Independent Auditor's Report in accordance with International Standards on Auditing

To the shareholders
of Andorra Banc Agricol Reig, SA

Opinion

We have audited the consolidated financial statements of Andorra Banc Agricol, SA (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2016, and the consolidated income statement, consolidated statement of source and application of funds and consolidated memorandum accounts for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give, in all material respects, a true and fair view of the financial position of the Group at 31 December 2016, and its financial performance and its funds obtained and applied for the year then ended in accordance with the Chart of Accounts for the Andorran Financial System.

Basis for Opinion

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IESBA Code.

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

Directors' Responsibilities for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with Chart of Accounts for the Andorran Financial System, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG, SLU

Albert Rosés Noguer

31 March 2017

5.

FINANCIAL STATEMENTS ANDBANK GROUP

Consolidated Balance Sheets at 31 December 2016 and 2015

Expressed in thousands of EUR

Assets	2016	2015
Cash and central banks of the OECD	**940,713**	**76,818**
INAF (Andorran National Institute of Finance) (note 4)	**210**	**210**
Financial intermediaries on sight and banks and credit institutions (notes 4 and 5)	**796,484**	**1,030,201**
Banks and credit institutions	796,451	1,030,217
Other financial intermediaries	35	111
Provisions for loan losses	(2)	(127)
Loans and receivables (notes 4 and 6)	**1,604,343**	**1,816,948**
Loans and advances to customers	1,612,383	1,816,553
Customer account overdrafts	21,084	33,984
Customer discounted notes	4,631	9,312
Provisions for loan losses	(33,755)	(42,901)
Investment securities (notes 4 and 7)	**1,149,804**	**1.646.256**
Bonds and other fixed-income securities	1,105,459	1,598,729
Provisions for loan losses	(2,294)	(2,269)
Securities valuation reserve	-	-
Investments in Group companies	3,071	3,491
Securities valuation reserve	(75)	(50)
Other investments	6,736	4,781
Securities valuation reserve	(58)	(58)
Shares and other variable-income securities	5,560	6,952
Securities valuation reserve	-	-
Investment funds	33,622	35,709
Securities valuation reserve	(3,822)	(2,291)
Own shares	1,605	1,262
Gains on consolidation (note 8.b)	**152,918**	**149,630**
Intangible assets and amortisable costs (note 8.a)	**99,581**	**85,115**
Intangible assets and amortisable costs	159,541	135,306
Amortisation	(59,960)	(50,153)
Provision for depreciation of intangible assets	-	(38)
Tangible assets (note 8.a)	**103.732**	**93.298**
Tangible assets	177.478	162.031
Depreciation	(69.233)	(64.254)
Provision for depreciation of tangible assets	(4.513)	(4.479)
Prepayments and accrued income	**43,334**	**49,134**
Interest accrued and not collected	36,064	42,905
Prepaid expenses	7,270	6,229
Other assets (note 13)	**97,559**	**116,386**
Operations in progress	13,079	9,230
Inventories	15	14
Options purchased	28,146	48,687
Other	48,956	46,799
Taxes	7,363	11,656
TOTAL ASSETS	**4,988,678**	**5,063,996**

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Consolidated Balance Sheets at 31 December 2016 and 2015

Expressed in thousands of EUR

Liabilities	2016	2015
INAF (Andorran National Institute of Finance) (note 4)	**12,688**	**13,115**
Creditors (note 4)	**3,984,395**	**4,115,650**
Banks and credit institutions	504,023	454,037
Other financial intermediaries	39,627	27,160
Customer deposits	3,440,745	3,634,453
Debt securities (note 4)	**159,816**	**173,675**
Provisions for risks and contingencies (note 9)	**16,780**	**15,674**
Provisions for pensions and similar obligations	7,080	7,416
Other provisions	9,700	8,258
Subordinated liabilities (note 11)	**50,000**	**50,000**
General risks reserve (note 11)	**3,686**	**4,729**
Accrued expenses and deferred income	**43,639**	**41,112**
Unpaid accrued expenses	41,875	37,746
Deferred income	1,764	3,366
Other liabilities (note 13)	**141,572**	**97,616**
Dividends payable	652	358
Operations in progress	51,451	4,327
Options issued	4,678	3,631
Suppliers and other creditors	67,090	59,272
Taxes	17,701	30,028
Share capital (note 11)	**78,842**	**78,842**
Subscribed capital	78,842	78,842
Reserves (note 11)	**447,924**	**418,849**
Legal reserve	15,768	15,768
Guarantee reserves	24,722	23,439
Statutory reserves	-	-
Voluntary reserves	299,500	286,143
Consolidation reserves	31,455	24,573
Revaluation reserves (note 8)	1,942	1,942
Own share reserves	1,605	1,262
Share premiums	73,441	73,441
Translation differences	(509)	(7,719)
Profit (notes 10 and 11)	**47,472**	**54,048**
Profit for the year	47,472	54,048
Interim dividend	-	-
Minority interests	**1,864**	**686**
TOTAL LIABILITIES	**4,988,678**	**5,063,996**

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Consolidated Memorandum Accounts at 31 December 2016 and 2015

Expressed in thousands of EUR

Memorandum accounts	2016	2015
Contingent liabilities	**85,375**	**94,412**
Guarantees, bonding, sureties and other	85,375	94,412
Documentary letters of credit issued to or received from and confirmed by customers	-	-
Notes and similar accepted	-	-
Commitments and contingent risks	**231,603**	**244,533**
Commitments and operational risks	224,357	236,672
Commitments and actuarial risks	7,246	7,861
Futures operations (note 14)	**3,754,567**	**5,294,332**
Outstanding forward currency purchases and sales	1,427,847	1,808,450
Forward financial instrument operations	2,326,720	3,485,882
Security deposits and other securities held in custody (note 19)	**12,963,345**	**15,177,880**
Security deposits and other securities held in custody of third parties	12,054,534	13,812,506
Security deposits and other securities in own custody	908,811	1,365,374
Other memorandum accounts exclusively for administrative control	**1,268,017**	**1,234,818**
Guarantees and commitments received	966,091	1,052,180
Other memorandum accounts (note 21)	301,926	182,638
TOTAL MEMORANDUM ACCOUNTS	**18,302,907**	**22,045,975**

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Consolidated Income Statements for the years ended 31 December 2016 and 2015

Expressed in thousands of EUR

Income Statements	2016	2015
Interest and similar income	**135.800**	**146.367**
INAF and financial intermediaries on sight and term	177	77
Loans and receivables	108,415	112,556
Bonds and other fixed-income securities	27,208	33,734
Interest and similar charges	**(96,684)**	**(95,652)**
INAF and financial intermediaries	(65,122)	(78,186)
Customer deposits	(24,036)	(11,925)
Debt securities	(4,697)	(3,120)
Subordinated liabilities	(2,751)	(2,343)
Others	(78)	(78)
Income from variable income securities	**1,695**	**198**
Investments in Group companies	1,695	-
Other investments	-	198
NET INTEREST MARGIN	**40,811**	**50,913**
Net fees and commissions on services	**162,368**	**158,963**
Fees and commissions accrued on services rendered	202,111	199,714
Fees and commissions accrued on services received	(39,743)	(40,751)
Gains on financial assets or liabilities	**50,716**	**37,780**
Net charges to securities valuation reserve	(989)	4,154
Foreign exchange gains	10,548	6,449
Profit on securities operations	27,820	15,045
Profit on futures operations	9,838	7,601
Other	3,140	3,734
Exchange gains/losses on consolidation	-	-
Share of profit of equity accounted companies	359	797
Other profit from ordinary activity	**1,992**	**1,469**
GROSS MARGIN	**255,887**	**249,125**
Personnel expenses	**(105,066)**	**(105,639)**
Personnel, board of directors and severance indemnities	(96,119)	(96,335)
Social Security	(5,113)	(5,397)
Other personnel expenses	(3,834)	(3,907)
Overheads	**(67,269)**	**(63,441)**
Material	(397)	(438)
External services	(53,928)	(50,154)
Taxes	(4,446)	(3,518)
Other overheads	(8,498)	(9,331)
Amortisation and depreciation of fixed assets, net of recoveries (note 8)	**(18,780)**	**(19,391)**
Charge to the provision for amortisation and depreciation of intangible and tangible assets	(18,780)	(19,391)
Provisions for amortisation and depreciation of fixed assets, net of recoveries (note 8)	**(3,281)**	**(582)**
Charge to the provision for amortisation and depreciation of intangible and tangible assets	(3,281)	(582)
Recoveries of provisions	-	-

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Expressed in thousands of EUR

Income Statements	2016	2015
NET OPERATING MARGIN	**61,491**	**60,072**
Provisions for loan losses, net of recoveries	**(838)**	**(8,042)**
Charges to the provision for loan losses (notes 5, 6 and 7)	(4,423)	(8,915)
Recoveries of provision for loan losses	3,585	873
Provisions for risks and contingencies, net of recoveries (note 9.b)	**(4,166)**	**(1,742)**
Charges to provisions for risks and contingencies	(4,480)	(1,742)
Recoveries of provisions for risks and contingencies	314	-
Charges to general risks reserve (note 11.g)	**-**	**(200)**
PROFIT FROM ORDINARY ACTIVITY	**56,487**	**50,088**
Extraordinary profit/(loss)	**(3,143)**	**6,588**
PROFIT BEFORE INCOME TAX	**53,344**	**56,676**
Income tax (note 15)	**(2,854)**	**(722)**
Foreign income tax	**(3,472)**	**(1,906)**
CONSOLIDATED PROFIT	**47,018**	**54,048**
Profit attributed to minority interests	**454**	**-**
Profits attributed to the Group	**47,472**	**54,048**

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Consolidated Statements of Source and Application of Funds for the years ended 31 December 2016 and 2015

Expressed in thousands of EUR

Source of funds	2016	2015
Funds generated from operations	**76,682**	**79,253**
Profit for the year	47,472	54,048
Net charges to provision for loan losses	837	8,042
Net charges to provision for fixed asset depreciation	3,281	582
Net charges to securities valuation reserve	988	(4,154)
Net charges to other provisions (pension funds and general risks)	4,480	1,742
Amortisation and depreciation of intangible and tangible assets	18,780	19,391
Loss on sale of fixed assets	1,833	3,805
Loss on sale of own shares and investments	-	-
Profit on sale of fixed assets	(631)	(3,406)
Profit on sale of own shares and investments	-	-
Other	-	-
Losses contributed by equity accounted companies (-)	(358)	(797)
Increase in liabilities less assets	**375,511**	**373,792**
INAF and financial intermediaries	-	8,904
Banks and credit institutions (Liabilities-Assets)	283,752	364,888
Other financial intermediaries (Liabilities-Assets)	12,543	-
Other items (Liabilities-Assets)	79,216	-
Net increase in liabilities	**-**	**158,166**
Creditors: customers	-	-
Debt securities	-	108,166
Subordinated liabilities	-	50,000
Net decrease in assets	**682,052**	**12,341**
Cash and central banks of the OECD	-	-
Loans and receivables: customers	185,285	12,341
Securities portfolio, less investments	496,767	-
Sale of non-current investments	**8,564**	**87,643**
Sale of investments	420	-
Sale of fixed assets	8,144	87,643
Funds from financing activities	**-**	**-**
External capital contributions	-	-
Other equity items	-	-
Dividends from non-current investments	-	-
TOTAL SOURCE OF FUNDS	**1,142,809**	**711,195**

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Consolidated Statements of Source and Application of Funds for the years ended 31 December 2016 and 2015

Expressed in thousands of EUR

Application of funds	2016	2015
Funds used in operations	**3,849**	**3,764**
Application of other funds (pension funds, etc.)	2,806	-
Other	1,043	3,764
Increase in assets less liabilities	**427**	**87,156**
INAF (Assets-Liabilities)	427	-
Banks and credit institutions (Assets-Liabilities)	-	-
Other financial intermediaries (Assets-Liabilities)	-	70,565
Other items (Assets – Liabilities)	-	16,591
Net decrease in liabilities	**207,567**	**41,122**
Creditors: customers	193,708	41,122
Debt securities	**13,859**	-
Net increase in assets	**865,850**	**508,177**
Cash and central banks of the OECD	863,895	36,258
Loans and receivables: Customers	-	-
Securities portfolio, less investments	1,955	471,919
Acquisition of non-current investments	**33,557**	**42,072**
Acquisition of investments	343	357
Acquisition of fixed assets	33,214	41,715
Funds applied to financing activities	**31,559**	**28,904**
Interim dividend for the year	-	-
Complementary dividends from prior year	22,117	27,860
Decrease in reserves	9,442	1044
Other equity items	-	-
TOTAL APPLICATION OF FUNDS	**1,142,809**	**711,195**

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

1. Activity

Andorra Banc Agrícol Reig, S.A. is a limited liability company incorporated in 1930, protected by the law of Andorra, with registered office in Escaldes-Engordany (Principality of Andorra).
At an extraordinary meeting held on 10 May 2002, the shareholders adopted a resolution to change its registered name from Banc Agrícol i Comercial d'Andorra, S.A., to Andorra Banc Agrícol Reig, S.A. (hereinafter Andbank or the Bank), together with a corresponding modification of article 1 of its articles of association. The Bank's statutory activity is to carry out banking activities, as defined by the regulations of the Andorran financial system. In addition, it can undertake any activity related to or which complements its statutory activity.

In order to adapt to Law 7/2013 of 9 May 2013, on 28 June 2013, the Board of Directors expands the statutory activities to all those activities that Andorran financial system legislation allows banking entities to carry out and that it may also perform as many operations and activities which are accessory or complementary to the principal activity.

Andbank is the Parent of the Andorra Banc Agrícol Reig Group (hereinafter the Andbank Group), which comprises the companies listed in notes 2.d and 7.b.

As a member of the Andorran financial system, Andbank is subject to the supervision of the INAF, which is the Andorran financial system's authority and which performs its functions independently from the General Administration. The Bank is also subject to compliance with local Andorran legislation (see note 22).

2. Basis of Presentation and Consolidation Principles

a) Fair presentation

The accompanying consolidated financial statements comply with the format established by the Decree approving the normalised Accounting Plan to be implemented by all operators in the financial system by 19 January 2000, as published in the Official Gazette of the Principality of Andorra Number 5, year 12, on 26 January 2000. The consolidated financial statements were prepared on the basis of Andorra Banc Agrícol Reig, S.A.'s accounting records and those of its subsidiaries as at 31 December 2016, to give a true and fair view of the equity and financial position of the Group, the consolidated results, and consolidated source and application of funds at that date.

The figures included in the documents that comprise these consolidated financial statements are expressed in thousands of Euros.

The consolidated financial statements of the Group and of the subsidiaries comprising the Group are pending approval by the shareholders at their respective general meetings. However, management considers that they will be approved without significant changes. The Group's consolidated financial statements for 2015 were approved by the shareholders at their general meeting on 28 April 2016.

The financial statements of Andorra Banc Agrícol Reig, S.A. at 31 December 2016 and 2015 have been presented separately from the aforementioned financial statements. The key financial indicators disclosed in the aforementioned financial statements are as follows:

Thousands of EUR	2016	2015
Total assets	3,983,327	4,148,622
Share capital and reserves	495,820	480,837
Profit for the year	38,613	46,527

b) Comparative information

The information relating to 2015, contained in the consolidated financial statements for 2016, is presented exclusively for comparative purposes and does not therefore form part of the Group's consolidated financial statements for 2016.

c) Significant Accounting Principles

These consolidated financial statements have been prepared following the generally accepted accounting principles described in note 3. There are no mandatory accounting principles which have not been applied that would have a significant effect on preparation of the consolidated annual accounts.

d) Consolidation principles applied to the financial statements

The consolidated financial statements of the Group at 31 December 2016 and 2015 have been prepared by the management of the Bank.

The most significant subsidiaries of Andorra Banc Agrícol Reig, SA at 31 December 2016 and 2015 and their main corporate data is as follows (expressed in thousands of Euros):

Notes to the Consolidated Financial Statements

2016			
Company	Registered office	Activity	% Ownership Direct
Caronte 2002, SLU	Andorra	Services	100%
Clau d'Or, SL	Andorra	Real estate	100%
Món Immobiliari, SLU (*)	Andorra	Real estate	100%
Andorra Gestió Agrícol Reig, SAU	Andorra	Investment fund manager	100%
Andbank (Bahamas) Limited	Bahamas	Bank	100%
Nobilitas N.V.	Dutch Antilles	Holding	100%
Egregia B.V.	Holland	Special purpose vehicle	-
Zumzeiga Coöperatief U.A	Holland	Special purpose vehicle	-
Andorra Assegurances Agrícol Reig, SAU	Andorra	Insurance	100%
AndPrivate Wealth S.A.	Switzerland	Asset management	-
Columbus de México, S.A.C.V.	Mexico	Asset management	-
Quest Capital Advisers Agente de Valores, S.A.	Uruguay	Securities broker	-
Andbank Asset Management Luxembourg.	Luxembourg	Investment fund management	-
Andbank Luxembourg, S.A.	Luxembourg	Bank	100%
Andbank España, S.A.U.	Spain	Bank	100%
Andbank Wealth Management, SGIIC, SAU	Spain	Investment fund manager	-
Medipatrimonia Invest, S.L.	Spain	Investment services company	-
AndPrivate Consulting, S.L.	Spain	Services	100%
Andbanc Wealth Management LLC	USA	Holding	-
Andbanc Advisory LLC	USA	Advisory services	-
Andbanc Brokerage LLC	USA	Financial services	-
APW International Advisors Ltd.(*)	British Virgin Islands	Asset management	100%
APW Consultores Financeiros, Lda	Brazil	Financial services	100%
AND PB Financial Services, S.A	Uruguay	Representation office	100%
Andorra Capital Agrícol Reig BV	Holland	Special purpose vehicle	100%
Andbank (Panama) S.A.	Panama	Bank	100%
And Private Wealth(Chile) (*)	Chile	Financial services	-
Andbank Monaco S.A.M.	Monaco	Bank	100%
LLA Participaçoes Ltda	Brazil	Portfolio and collective investment undertaking management company	77.94%
Andbank (Brasil) Holding Financeira Ltda	Brazil	Holding	100%
Banco Andbank (Brasil), S.A	Brazil	Bank	-
LLA Holding	Brazil	Holding	-
LLa Distribuidora de Tilulos e Valores Mobiliários Ltda (DTVM)	Brazil	Intermediation of securities and discretional portfolio management	-
Sigma Investment House Ltd.	Israel	Holding	60%
Sigma Portfolio Management Ltd.	Israel	Portfolio management	-
Sigma Premium Ltd.	Israel	Portfolio management and advisory services	-
Sigma Mutual Funds	Israel	Investment fund management	-
Sigma Financial Planning Pension Insurance Agency Ltd.	Israel	Investment fund management	-
APW Uruguay SA	Uruguay	Services	100%
AndPrivate Wealth Securites SA	Panama	Investment advice	-
APC Servicios Administrativos SLU	Spain	Services	-

(*) Data from 31 December 2015

Expressed in thousands of EUR

% Ownership Indirect	Audited company	Interim dividend	Equity	Share capital	Reserves	Prior years' losses pending offset	Profit/(loss)
-	No	-	31	32	6	-	(7)
-	No	-	(76)	30	3	(94)	(15)
-	No	-	91	27	64	-	-
-	Yes	2,700	2,743	1,000	1,419	-	3,024
-	Yes	3,500	38,479	21,500	16,424	-	4,055
-	Yes	-	(2,844)	1,000	7,172	(10,970)	(46)
100%	Yes	-	3,681	180	11,469	(8,087)	119
100%	Yes	-	(11,338)	551	-	(11,818)	(71)
-	Yes	-	551	-	839	-	(288)
100%	Yes	-	3,640	3,758	2	(237)	117
50%	Yes	-	725	563	15	49	98
100%	Yes	-	3,826	14	1	2,302	1,509
100%	Yes	-	4,828	3,000	-	2,355	(527)
-	Yes	-	49,568	54,100	-	(4,129)	(403)
-	Yes	-	203,564	75,000	127,219	(1,399)	2,744
100%	Yes	-	4,242	1,004	1,800	-	1,438
51%	Yes	-	150	28	883	(756)	(5)
-	Yes	-	(3,130)	3	-	(3,477)	344
100%	Yes	-	(1,486)	12,552	-	(12,921)	(1,117)
100%	Yes	-	1,992	1,859	-	(48)	181
100%	Yes	-	1,262	2,672	-	(1,488)	78
-	Yes	-	1,514	9	-	1,590	(85)
-	Yes	-	(8,852)	281	-	(8,636)	(497)
-	Yes	-	85	162	-	(51)	(26)
-	Yes	-	244	18	-	145	81
-	Yes	6,655	14,152	6,655	-	3,906	10,246
100%	No	-	-	-	-	-	-
-	Yes	-	27,529	21,000	2,438	2,918	1,173
-	Yes	-	34	12	9	-	13
-	Yes	-	35,179	34,568	2,360	-	(1,749)
100%	Yes	-	26,403	35,956	(213)	(6,990)	(2,350)
100%	No		453	248	35	102	68
100%	Yes		365	274	(39)	102	28
-	Yes	-	5,686	-	5,694	(4)	(4)
60%	Yes	-	(943)	-	1,104	(1,007)	(1,040)
60%	Yes	-	(401)	-	459	(717)	(143)
60%	Yes	-	669	103	295	(241)	512
42%	Yes	-	(382)	-	-	(371)	(11)
-	Yes	-	(1,787)	371	-	(873)	(1,285)
100%	Yes	-	642	642	-	-	-
100%	Yes	-	55	50	(2)	-	7

Notes to the Consolidated Financial Statements

2015			
Company	Registered office	Activity	% Ownership Direct
Caronte 2002, SLU	Andorra	Services	100%
Clau d'Or, SL	Andorra	Real estate	100%
Món Immobiliari, SLU (*)	Andorra	Real estate	100%
Andorra Gestió Agrícol Reig, SAU	Andorra	Investment fund manager	100%
Andbank (Bahamas) Limited	Bahamas	Bank	100%
Nobilitas N.V.	Dutch Antilles	Holding	100%
Egregia B.V.	Holland	Special purpose vehicle	-
Zumzeiga Coöperatief U.A	Holland	Special purpose vehicle	-
Andorra Assegurances Agrícol Reig, SAU	Andorra	Insurance	100%
AndPrivate Wealth S.A.	Switzerland	Asset management	-
Columbus de México, S.A.C.V.	Mexico	Asset management	-
Quest Capital Advisers Agente de Valores, S.A.	Uruguay	Securities broker	-
Andbank Asset Management Luxembourg.	Luxembourg	Investment fund management	-
Andbank Luxembourg, S.A.	Luxembourg	Bank	100%
Andbank España, S.A.U.	Spain	Bank	100%
Andbank Wealth Management, SGIIC, SAU	Spain	Securities broker	-
Medipatrimonia Invest, S.L.	Spain	Investment services company	-
AndPrivate Consulting, S.L.	Spain	Services	100%
Andbanc Wealth Management LLC	USA	Holding	-
Andbanc Advisory LLC	USA	Advisory services	-
Andbanc Brokerage LLC	USA	Financial services	-
APW International Advisors Ltd.(*)	British Virgin Islands	Asset management	100%
APW Consultores Financeiros, Lda	Brazil	Financial services	100%
AND PB Financial Services, S.A	Uruguay	Representation office	100%
Andorra Capital Agrícol Reig BV	Holland	Special purpose vehicle	100%
Andbank (Panama) S.A.	Panama	Bank	100%
And Private Wealth (Chile) (*)	Chile	Financial services	-
Andbank Monaco S.A.M.	Monaco	Bank	100%
Tonsel Corporation	Belize	Special purpose vehicle	100%
Mangusta Antilles Holding, N.V.	Curaçao	Special purpose vehicle	-
LLA Participaçoes Ltda	Brazil	Portfolio and collective investment undertaking management company	77.94%
Andbank (Brasil) Holding Financeira Ltda	Brazil	Holding	100%
Banco Andbank (Brasil), S.A	Brazil	Bank	-
Sigma Investment House Ltd.	Israel	Holding	60%
Sigma Portfolio Management Ltd.	Israel	Portfolio management	-
Sigma Premium Ltd.	Israel	Portfolio management and advisory services	-
Sigma Mutual Funds	Israel	Investment fund management	-
Sigma Financial Planning Pension Insurance Agency Ltd.	Israel	Investment fund management	-
APW Uruguay SA	Uruguay	Services	100%
AndPrivate Wealth Securites SA	Panama	Investment advice	-
APC Servicios Administrativos SLU	Spain	Services	-

(*) Data from 31 December 2014

Expressed in thousands of EUR

% Ownership Indirect	Audited company	Interim dividend	Equity	Share capital	Reserves	Prior years' losses pending offset	Profit/(loss)
-	No	-	32	32	-	-	-
-	No	-	(61)	30	3	(88)	(6)
-	No	-	91	27	64	-	-
-	Yes	5,100	2,819	1,000	1,329	-	5,590
-	Yes	3,850	37,991	21,500	14,555	-	5,786
-	Yes	-	(1,868)	1,000	7,172	(7,757)	(2,282)
100%	Yes	-	3.551	180	11,469	(6,400)	(1,698)
100%	Yes	-	(11,107)	551	-	(9,861)	(1,796)
-	Yes	400	3,282	2,404	481	-	797
100%	Yes	-	3,493	3,723	-	1,026	(1,256)
50%	Yes	-	742	887	-	43	(188)
100%	Yes	-	3,026	13	1	1,611	1,401
100%	Yes	-	5,355	3,000	-	1,414	940
-	Yes	-	49,896	54,100	-	(3,743)	(461)
-	Yes	-	201,780	75,000	128,143	(4,657)	3,294
100%	Yes	-	2,806	1,004	734	-	1,069
51%	Yes	-	134	28	883	(889)	112
-	Yes	-	(3,158)	3	-	(2,310)	(851)
100%	Yes	-	(761)	11,422	-	(10,562)	(1,622)
100%	Yes	-	1,817	1,793	-	402	(378)
100%	Yes	-	482	1,891	-	(1,204)	(204)
-	Yes	-	285	-	-	-	285
-	Yes	-	(6,604)	224	-	(5,427)	(1,401)
-	Yes	-	105	153	-	22	(71)
-	Yes	-	177	18	-	91	67
-	Yes	4,311	10,172	6,420	(17)	1,524	6,556
100%	No	-	-	-	-	-	-
-	Yes	-	26,433	21,000	2,407	2,321	705
-	No	-	(315)	46	-	(360)	-
100%	No	-	-	-	-	-	-
-	Yes	-	19	9	10	-	(1)
-	Yes	-	24,924	22,857	-	(1)	2,069
100%	Yes	-	18,867	23,961	249	(8,205)	2,862
-	Yes	-	353	-	798	(443)	(3)
60%	Yes	-	(804)	-	1,589	(1,458)	(936)
60%	Yes	-	(218)	-	728	(1,002)	56
60%	Yes	-	1,086	164	469	(308)	761
60%	Yes	-	(373)	-	-	(409)	36
-	Yes	-	(475)	351	-	(5)	(822)
100%	Yes	-	642	642	-	-	-
100%	Yes	-	48	50	-	-	(2)

A brief description of the significant events arising in the Group companies during 2016 and 2015 is as follows:

LLA Participaçoes Ltda is the holding company of a group of Brazilian portfolio and collective investment undertaking management companies. The Andbank Group acquired 51.63% of the holding company's shares on 25 October 2011. During 2015 the Andbank Group subscribed to the purchase of an additional 26.31% of the capital in this company.

On 21 January 2014 the Bank requested prior authorisation from the INAF to acquire up to 100% of the shares of Banco Bracce, SA. which subsequently changed its name to Banco Andbank (Brasil), S.A. On 17 December 2014 the Central Bank of Brazil (Bacen) authorised this acquisition, in conjunction with a series of share capital increases for Euros 33 million between 2015 and 2016 effective as of the last regulatory authorisation. The transaction was also authorised by the INAF on 23 December 2014 and took place in January 2015.

In addition, the Bank has incorporated a non-financial company called Andbank (Brasil) Holding Financeira Ltda, which will hold 100% of Banco Andbank Brasil, S.A.'s shares. The Bank holds 99.99% of its shares.

On 19 November 2015, a contract was signed for the purchase of the shares representing 99.99% of the share capital of LLA Holding Financeira Ltda, by the subsidiary Banco Andbank (Brasil), S.A., which now directly controls LLA Holding Financeira Ltda and indirectly controls LLA Distribuidora de Títulos e Valores Mobiliarios Ltda. On 30 March 2016 the Central Bank of Brazil ("Bacen") issued a letter approving the change of control in LLA Holding Financeira Ltda. The transaction was also authorised by the INAF on 27 May 2016.

On 18 November 2014 a contract was signed for the sale and purchase of 60% of the Israeli company Sigma Investment House, Ltd (hereinafter Sigma) through the subscription of 100% of newly created shares.

Firstly, authorisations were received from the Israeli supervisors, the Israel Securities Authority and the Commissioner of the Insurance on 11 June 2015 and 30 June 2015, respectively. Subsequently, the Board of Directors of the INAF authorised this transaction at its meeting held on 8 October 2015. On 24 November 2014, the transaction date, the aforementioned sale and purchase transaction was closed, with the final phase of formally registering the transaction in the corresponding Israeli mercantile registry being completed during the first fortnight of February 2016. The transaction is currently being registered in the INAF's files.

Sigma is the head of four companies carrying out different activities in Israel. It is the 100% shareholder of Sigma Mutual Funds Ltd, Sigma Portfolio Management Ltd and Sigma Premium Ltd and a 70% shareholder of Sigma Financial Planning Pension Agency (2011) Ltd.

On 12 June 2015 the subsidiary AndPrivateWealth Securities, S.A. was incorporated and is wholly owned by the subsidiary Andbank (Panamà), S.A. This company applied for a securities company license from the Superintendency of the Securities Market of Panama and the Superintendency of Banks of Panama. However, on 5 January 2017 it informed the supervisor of its intention to withdraw the licence which had been granted in May 2016. At no moment in time did the company start operations as a securities company.

On 21 April 2015 APC Servicios Administrativos S.L.U. a wholly-owned subsidiary of Andbank España, S.A.U., was incorporated in Madrid. The statutory activity of APC Servicios Administrativos S.L.U. is the rendering of auxiliary services to Andbank España Group companies and carrying out market studies, strategic consultancy services and giving advice on setting up businesses. This transaction was authorised by the INAF on 27 February 2015.

Clau d'Or, SL and Món Immobiliari, SLU are not consolidated, as they are immaterial with respect to the Group's aggregate data.

The definition of the Group is in accordance with the Decree approving the Accounting Plan of 19 January 2000, issued by the Andorran Government.

The consolidation methods used are as follows:

- Proportionate consolidation for Columbus de México, S.A.C.V.

- Equity method for Andorra Assegurances Agrícol Reig, SAU.

The other companies are fully consolidated which basically consists of including in the balance sheet of the Parent all the assets, rights and obligations that comprise the equity of the subsidiaries and in the income statement all items of income and expenses which determine the profit and loss of the subsidiaries. All subsidiaries in which the shareholding of the Group is greater than 50% whose activity is not different to that of the Bank itself are consolidated in this manner and they constitute, with the Bank, one decision-making unit.

Under proportionate consolidation the balance sheet and income statement items of the investee to be consolidated are proportionate to the capital representing the interest, adjusting where necessary to maintain consistency. In all other respects the process is similar to that of full consolidation. Jointly controlled entities whose activities are similar to the Group's are consolidated by this method.

Consolidation by equity method consists of substituting the carrying amount by which an investment is stated in the balance sheet with an amount relating to the corresponding percentage held by the Parent in the equity of the investee company. The profit and loss of the companies consolidated by the equity method have been incorporated into the consolidated income statement. The subsidiaries which have been consolidated using this method are those where the direct and/or indirect holdings of Andorra Banc Agrícol Reig, S.A., are equal or greater than 20% without exceeding 50% or, if they exceed 50%, where the activity is different from that of the Bank.

All significant balances and transactions between consolidated companies have been eliminated in the consolidation of the financial statements.

Where necessary, adjustments are made to the individual financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

3. Accounting Principles and Valuation Criteria

The accounting principles and valuation criteria applied are as follows:

a) Accruals principle
Income and expenses are recognised on an accruals basis. All income accrued and expenses incurred or accrued are recognised, except for the interest on doubtful and very doubtful loans, which are recognised when they are collected.

In accordance with this principle, income/ expenses accrued and not yet received/paid and expenses/income paid/received in advance are recognised under Prepayments and accrued income and Accrued expenses and deferred income.

b) Recording principle
All of the Group's rights and obligations, including those of a contingent and future nature, are recognised when they arise, either in the accounts or memorandum accounts, where applicable.

Variations or transformations of the value of previous rights and obligations are recognised as soon as they are known.

In accordance with banking practice, transactions are recognised on the date on which they take place, which may differ from the corresponding value date, on the basis of which interest income and expenses are calculated.

c) Valuation of foreign currency transactions
Assets and liabilities denominated in currencies other than the Euro, and spot currency transactions for hedging, have been translated into Euros using the market exchange rates prevailing at the reporting date.

Gains or losses from these translations and the result of operations in foreign currencies conducted during the year are recognised at their net value under results of financial operations in the consolidated income statement.

Forward contracts in foreign currencies are valued according to the exchange rate on the last business day before the reporting date. Exchange gains and losses from forward contracts are fully recognised at their net value in the consolidated income statement.

The other memorandum accounts in foreign currencies are translated into Euros using international market exchange rates, according to the rate on the last business day before the reporting date. Income and expenses in foreign currencies are translated into Euros at the rates prevailing on the date of the operations.

The assets, liabilities and profit and loss for the year of subsidiaries denominated in currencies other than the Euro have been translated to Euros using the market exchange rates prevailing at the reporting date.

d) Provision for loan losses
The provision for loan losses covers losses that could occur in the recovery of loans and receivables or other credit and counterparty risks. The provision is credited by charges recognised in profit or loss and is debited by the write off of loans considered as non-recoverable and by the recovery of amounts previously provisioned.

In accordance with the Andorran financial system's Accounting Plan the provision for loan losses is calculated according to the following criteria:

▪ The specific provision, which covers all types of assets and memorandum account items, is determined based on individualised studies of the quality of the risks contracted with the principal debtors and borrowers on the basis, mainly, of guarantees available and the time expired since the maturity date.

▪ The general provision is based on 0.5% of the net loans and fixed-income securities with banking institutions and 1% of the net loans to customers and fixed-income securities, except for the part covered by cash pledged by contract or collateralised quoted securities up to the market value of these securities, mortgage-backed loans and loans and credits on income securities issued by the central administrations of Andorra and the OECD countries or expressly guaranteed by these institutions.

▪ The country risk provision is determined by a global analysis of the above-mentioned risks with the criteria of maximum caution to determine the necessary coverage. For the global risk evaluation, the development of the payment balances, the debt level, the charges to cover the debt, the debt rates in international secondary markets, as well as other indicators and circumstances in the country are considered.

Since 2010, in compliance with INAF Technical Communiqué 198/10, independent experts are commissioned to review the appraisals of the mortgage collateral for the loan portfolio, and additional provisions for loan losses were recognised based on the results of the appraisals (see note 6).

e) Unused credit facilities
Credit facilities extended to customers are recognised in the accompanying consolidated balance sheet at the amount drawn down, and the undrawn amounts are recognised in the memorandum accounts under Commitments and contingent risks - Commitments and operational risks.

f) Securities portfolio

Securities held in the Group's portfolio at 31 December 2016 are classified according to the following criteria:

▪ The trading portfolio includes the securities acquired for short-term sale. The securities assigned to this portfolio are stated at their quoted price as at year end or, if there is none, at the price calculated by an independent expert. The differences arising from the net valuation variations are recognised net (excluding the accrued interest on fixed-income securities), whether they are positive or negative, under Gains or losses on financial assets and liabilities in the consolidated income statement.

▪ The securities assigned to the held-to-maturity investment portfolio, which includes the securities that the Bank has decided to hold to maturity, are shown at their adjusted acquisition price (the difference between the acquisition price and the redemption value is apportioned periodically). The differences, including accrued interest, are recognised under Interest and similar income in the consolidated income statement.

The results of any sales that may arise are recognised in the consolidated income statement as an extraordinary result. In case of gains, they are accrued on a straight-line basis over the residual life of the security sold under Profit on securities operations.

This portfolio requires no securities valuation reserve for variations between the market value and the adjusted acquisition price. However, irreversible losses are recognised in the income statement.

▪ The permanent investments portfolio includes investments in variable-income securities of subsidiaries and investee Group companies consolidated using the equity method, as well as the minority interests in companies whose activity is complementary to financial activity and which are used to service the Bank's activities on a permanent basis. The latter companies are stated at their acquisition price. If this value is higher than their underlying carrying amount, a provision is made for the difference and is recognised in the consolidated income statement.

▪ The ordinary investment portfolio includes fixed-income or variable-income securities not included in the portfolios mentioned above. The fixed-income securities are stated at their adjusted acquisition price (the difference between the acquisition price and the redemption value is apportioned periodically). Potential net losses due to changes in market price or, if no market price is available, due to changes in the value calculated by an independent expert are provided for in the securities valuation reserve (equal to the total of the positive and negative differences, up to the negative limit) charged to the consolidated income statement.

The variable-income securities included in the ordinary investment portfolio are recognised in the consolidated balance sheet at the lower of acquisition cost or market value. The market value is determined according to the following criteria:

- Listed securities: quoted price on the last working day of the year.

- Unlisted securities: underlying carrying amount taken from the latest available consolidated balance sheet.

In order to recognise the corresponding losses, a securities valuation reserve has been created which reduces the assets of the accompanying consolidated balance sheet.

g) Gains on consolidation

Gains on consolidation show gains arising on the acquisition of the shares of companies consolidated using the full consolidation method, the proportionate consolidation method, or the equity method (see note 8.b).

As established in INAF communiqué 227/12 regarding differences on first-time consolidation and INAF communiqué 228/12 regarding goodwill, gains on consolidation and goodwill are not amortised but, following internationally recognised valuation criteria on this matter in the sector, assets are tested for impairment and if any signs of impairment are detected, the corresponding irreversible loss is recognised in the income statement. When the impairment of an investment in a subsidiary shows impairment of the investment in the portfolio, the value of the subsidiary is adjusted in the corresponding individual financial statements. In addition, a non-distributable reserve is constituted for an amount equal to the gain on first-time consolidation and a minimum of 10% of this amount is appropriated annually to the reserve through the distribution of profit for the year (see note 11.b).

Details of the acquisitions of companies that generated goodwill on consolidation are provided in note 8.b.

h) Tangible and intangible assets

Fixed assets are normally stated at their acquisition value, less the accumulated straight-line amortisation and depreciation at rates adequate to carry fixed assets at their residual value at the end of their useful lives.

Amortisation and depreciation rates used are:

	Annual percentage
Buildings for own use	3%
Installations and machinery	10%
Office furniture and machinery	20%
IT equipment	20-33%
Computer software	14-20%
Vehicles	20%

Where fixed assets, due to their use or obsolescence are irreversibly depreciated, the loss or decrease in value of the corresponding asset is recognised directly.

The depreciation of capitalised work and installations in relation to leased assets is related to their estimated useful life or until the lease agreement terminates.

As indicated in note 8, buildings used in operations acquired or built prior to 30 November 2008 were revalued on that date and a revaluation reserve was created at that time for the difference between the estimated market value and the acquisition cost, net of accumulated depreciation, keeping this amount in the items remaining on the balance sheet.

When an asset of this type is retired, any corresponding amounts recognised in the revaluation reserve may be transferred directly to voluntary reserves. During 2015 these revaluation reserves were transferred, net of tax effect, for an amount of Euros 53,313 thousand, as the result of a property sale transactions (note 8).

i) Non-operating tangible assets
Non-operating tangible assets are those not directly related to banking activity and foreclosed assets.

These include land, buildings, installations and furniture; which are recognised at their acquisition cost and depreciated over their estimated useful lives using the same percentages applied to operating fixed assets.

Foreclosed assets include land and buildings valued at the lower of their foreclosure cost or market value, after deducting provisions determined by the schedule set down by prevailing legislation.

j) Leases
1. Classification of leases
Under an operating lease, ownership of the leased asset and substantially all the risks and rewards incidental to ownership remain with the lessor.

Finance leases are considered to be those in which all the risks and rewards incidental to the leased asset are substantially transferred to the lessee.

2. Lessee accounting
The Bank occupies premises which it does not own under operating lease contracts as a lessee.

Operating lease installments are recognised as an expense on a straight-line basis over the lease term.

3. Sale and leaseback transactions
If the leaseback transaction is classified as an operating lease:

▪ If the transaction is established at fair value, any profit or loss is immediately recognised on the sale and taken to the income statement. The sale and leaseback transaction described in note 8 has been carried out in accordance with what is stated in this paragraph, i.e. at fair value.

▪ If the sale price is below fair value, any profit or loss is recognised immediately. However, in those cases where the loss is compensated for by future lease payments at below market value, it is deferred in proportion to the lease payments over the period for which the asset is used.

▪ If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is used.

Any potential profits generated on asset sale transactions associated with leaseback transactions which meet the conditions of a finance lease are deferred over the lease term.

k) Financial derivatives
The Bank has used these instruments in a limited way, both in hedging of its equity positions and in other operations.

Futures contracts are included as memorandum accounts as specified by the INAF regulations and are associated with currency and interest rate, market or credit risk, and specifically:

- Outstanding currency purchases and sales and swaps in foreign currency are recognised as spot or forward transactions depending on whether they mature in less or more than two business days. These swaps are recognised at the nominal amount of each of the cash flow exchange agreements implicit in the swap operations contracted by the Bank with its usual counterparties (see note 14).

- Forward rate agreements (FRAs), interest rate swaps, and other futures contracts outside organised markets are recognised at the principal amount of the operation.

Transactions which are aimed at eliminating or significantly reducing currency, interest rate or market risks associated with equity positions or other transactions, are considered as hedges. Gains or losses on hedging transactions are recognised in the income statement symmetrically to income or expenses relating to the hedged item.

Non-hedging operations, also called trading transactions, which have been undertaken in organised markets are valued in accordance with their quotations. Gains or losses arising from the changes in quotations are recognised in the consolidated income statement on the basis of their daily settlement.

Profit or loss on trading transactions contracted outside these markets is not recognised in the income statement until it has been effectively settled. However, the positions are valued and provisions made against the results for potential net loss for each kind of risk that may arise from these valuations. The type of risks considered for such purposes include interest rates (by currency), market price (by issuer) and currency (by currency).

l) General risks reserve
The general risks reserve includes amounts estimated by the Group to cover general risks and the risks inherent to banking and financial activities not covered by other provisions.

Charges to the reserve are reflected under charges to the general risks reserve in the consolidated income statement and the recoveries under extraordinary profit and loss.

m) Prepayment/accrual of interest
The Group uses the interest method (i.e. internal rate of return or resulting cost), to calculate the prepayment or accrual of interest, with maturities of more than 12 months.

For operations under 12 months, the Group can choose between this method and the straight-line accrual method.

n) Provisions for risks and contingencies
- Provisions for pensions and similar obligations

The Bank has recognised different commitments in relation to personnel: retired employees, early retirees, and funds for other obligations with current Bank employees.

Employees from what was previously called Banc Agrícol i Comercial d'Andorra, S.A., who retired before 22 December 1995 have a defined benefit retirement pension plan created in 1989. Employees who joined the Bank after 1 May 1995, except for certain groups belonging to a defined contribution scheme, do not belong to the retirement pension plan.

The Bank signed individual early-retirement agreements with certain employees (in accordance with Law 17/2008 and related regulations).

Under the agreements signed by retired personnel, the Bank has to make supplementary remuneration payments. At 31 December 2016, a fund of Euros 392 thousand was set up for these obligations (Euros 594 thousand in 2015). Furthermore, there is an internal fund of Euros 1,597 thousand at 31 December 2016 (Euros 565 thousand in 2015) for early retirees, which coincides with the obligations accrued at that date.

The actuarial variables and other assumptions used in the valuation at 31 December 2016 for retired personnel and early retirees are as follows:

	Retirees	Early retirees
Mortality tables	PERmf2000	PERmf2000
Nominal discount rate	3.5%	3.5%
Nominal rate of salary growth	-	-
Annual rate of pension growth	-	-
Retirement age	-	65

The charge to the internal fund for other obligations with current personnel in 2016 was 1.5% higher than contributions in 2015, and the interest rate for pension funds held on the balance sheet was set at 1.5% in 2015 (see note 9).

Current personnel belonging to the plan for other obligations can, upon request, transfer their funds to an investment fund managed by the Bank off the balance sheet (see note 9). As at 31 December 2016 pension funds managed off the balance sheet amounted to Euros 720 thousand (Euros 943 thousand in 2015), whilst internal funds for other obligations are classified as Provisions for risks and contingencies amounting to Euros 5,090 thousand (Euros 6,258 thousand in 2015).

o) Income tax
On 1 December 2011 the General Council of the Principality of Andorra approved Law 17/2011 of 1 December 2011 amending Law 95/2010 of 29 December 2010 on income tax (published in edition 80 of the Official Gazette of the Principality of Andorra (BOPA), dated 28 December 2011). This Law came into force the day after it was published in the BOPA and applies to taxation periods starting after 1 January 2012. The Bank pays tax at a rate of 10%.

On 13 June 2012 the Andorran Government approved the Regulation regulating Law 95/2010 of 29 December 2010 on income tax and Law 96/2010 of 29 December 2010 on taxation of economic activities, which sets out the formal obligations of the parties required to pay these taxes as well as the system for managing, settling and monitoring the aforementioned taxes.

Payment on account is calculated by applying 50% to the net tax payable for the prior year.

Taxable income is determined using the direct determination method and is calculated by adjusting the accounting profit, in accordance with the Accounting Plan for the Financial Sector, applying the principles and criteria of classification, valuation and temporary recognition set out in the requirements of the Income tax law, which permit off-balance sheet adjustments. Income tax expense represents the sum of the income tax expense for the year and the effect of the changes in deferred tax assets and liabilities and tax credits.

Both positive and negative off-balance sheet tax adjustments can be permanent or temporary according to whether they are reversed or not in subsequent tax periods. The income tax expense for each year is calculated based on profit before tax, adjusted for permanent differences with fiscal criteria and less any applicable tax credits and deductions. The tax effects of temporary differences, unused credits for tax losses and rights to deductions and credits pending application are included, where applicable, in the corresponding balance sheet captions, classified on the basis of the term according to the forecast review or realisation period.

Deferred tax assets and liabilities include temporary differences identified as those amounts which are payable or recoverable for differences between the carrying amounts of assets and liabilities and their tax value, as well as tax loss carryforwards and credits for tax deductions not applicable for tax purposes. These amounts are recognised by applying the temporary difference or credit at the tax rates at which they are expected to be recovered or settled.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets identified with temporary differences, unused tax losses and unused tax credits are only recognised to the extent that it is considered probable that the Company has future taxable profit against which they can be utilised.

At each reporting date, recognised deferred tax assets and liabilities are reviewed for the purpose of verifying that they remain effective and the appropriate corrections are made on the basis of the results of the analysis carried out.

The aforementioned expense is recognised under Income tax in the accompanying consolidated income statement at the amount accrued during the year and in the balance sheet under Other liabilities at the amount payable and under Other assets at the amount of the withholdings and payments on account.

p) Indirect tax on goods delivered, services rendered and imports

At its session held on 21 June 2012 the General Council of the Principality of Andorra approved the law governing indirect general tax (IGI), which entered into force on 1 January 2013. This tax is levied on goods delivered, service rendered and imports made by onerous contract in Andorra by business people or professionals usually or occasionally as part of their economic activity, irrespective of the purpose or the results achieved in the economic activity or in each particular transaction, including the condition of importer.

The general tax rate is 4.5%, with a reduced rate of 1% and an increased rate of 9.5%, which is only applied to banking and financial services rendered.

The fifth additional provision to Law 11/2012 governing Indirect General Tax approved by Law 10/2014 of 3 June 2014 amending Law 11/2012, stipulates a special tax regime for the financial sector to which banks and non-banking specialised credit institutions carrying out activities subject to the increased tax rate stipulated in article 60 of the Law must adhere. This special regime entered into force on 1 July 2014. This regime restricts the deduction of input tax to a maximum amount equivalent to 10% of the output tax at a rate of 9.5% for the rendering of bank and financial services.

The settlement period depends on the annual net turnover for all of the activities carried out by the tax payer in the immediately previous year. Payments can be made half-yearly, quarterly or monthly. Tax payers have to determine the tax debt in each settlement period, reducing the general indirect tax payable during the period by the general indirect tax installments receivable, which are deductible in nature. The entry into force of Law 11/2012 of 21 June 2012 governing Indirect General Tax and subsequent amendments repeals the Law governing indirect taxation on the rendering of banking and financial services of 14 May 2002.

q) Non-resident income tax

In accordance with Law 94/2010 of 29 December 2010 on non-resident income tax (hereinafter Law 94/2010) which taxes the income obtained in Andorra by individuals and entities considered by law as non-resident for tax purposes, the Andbank Group companies resident for tax purposes in Andorra are subject to withholding and has applied withholding of 10% on non-resident suppliers of services since 1 April 2011, the enactment date of this law. On 1 December 2011 the General Council of the Principality of Andorra approved Law 18/2011 of 1 December 2011 amending Law 94/2010 which will be applicable as of 1 January 2012.

The Bank recognises transitory balances corresponding to personal income tax collected from non-residents under Other liabilities/Taxes/Tax collection accounts, provided that payment has not been definitively made to the corresponding authority.

r) Law 5/2014 of 24 April 2014 on personal income tax

On 24 April 2014 the General Council of the Principality of Andorra approved Law 5/2014 on personal income tax which entered into force on 1 January 2015. This law constitutes a basic pillar of the Principality of Andorra's economic opening process, to the extent that it involves the creation of personal income tax which is compatible with that existing in neighbouring countries, the European Union and the OECD.

This tax is levied, inter alia, on the savings of individual taxpayers, specifically interest and similar income (investment yield), as well as capital gains or losses at a tax rate of 10%.

The Bank recognises transitory balances corresponding to personal income tax collected under Other liabilities/Taxes/Tax collection accounts, provided that payment has not been definitively made to the corresponding authority.

s) Memorandum accounts

Own and third party shares and securities under custody are always measured, where possible, at market price. Where no market prices are available, the Bank applies the following hierarchy to determine the market value of shares and securities:

- Price given by the issuer of the security;

- Generally accepted measurement techniques. The most frequently used measurement methodologies are discounted cash flow models such as Black Scholes, Cos Ross Rubinstein, Monte Carlo Simulation, Hull & White, Libor Market Model or variations on these models. Observable market data is used to measure the different shares and securities or, in the absence of observable data, estimates are applied based on the information provided by over the counter (OTC) markets, or according to internal interpolation methods based on observable data in organised markets.

- When none of the above mentioned methods can be used, shares and securities are measured at cost.

4. Residual Maturity of Assets and Liabilities

The breakdown by maturities of gross loans and receivables, balances with the INAF and in banks and credit institutions and gross financial intermediaries at 31 December 2016 and 2015 is as follows:

Thousands of Euros

2016

	Past due	Less than one month	From one to three months	From three months to one year	From one year to five years	More than five years	No maturity	Total
INAF	-	-	-	-	-	-	210	210
Banks and credit institutions and other financial intermediaries	-	97,195	-	-	-	44,757	654,534	796,486
Loans and advances to customers	85,015	12,398	99,651	315,265	426,405	626,720	46,929	1,612,383
Customer account overdrafts	451	-	-	-	-	-	20,633	21,084
Customer discounted notes	1,704	2,389	309	152	77	-	-	4,631

Thousands of Euros

2015

	Past due	Less than one month	From one to three months	From three months to one year	From one year to five years	More than five years	No maturity	Total
INAF	-	-	-	-	-	-	210	210
Banks and credit institutions and other financial intermediaries	-	150,002	-	-	1,053	-	879,273	1,030,328
Loans and advances to customers	77,838	38,222	88,989	385,661	434,700	731,221	59,922	1,816,553
Customer account overdrafts	119	-	-	-	-	-	33.865	33,984
Customer discounted notes	312	527	244	3,710	72	308	4,139	9,312

The breakdown by residual maturities of bonds and other fixed-income securities in the accompanying consolidated balance sheet at 31 December 2016 and 2015 is as follows:

Thousands of Euros

2016

	Past due	Up to one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	Total
Bonds and other fixed-income securities	-	171,357	178,334	197,950	255,443	302,375	-	1,105,459

Thousands of Euros

2015

	Past due	Up to one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	Total
Bonds and other fixed-income securities	-	189,316	360,084	208,972	304,552	535,805	-	1,598,729

The maturities of the INAF deposits and balances payable at 31 December 2016 and 2015 are as follows:

Thousands of Euros

2016

	Past due	Up to one month	From one to three months	From three months to one year	From one to five years	No Maturity	More than five years	Total
INAF	-	-	-	-	-	-	12,688	12,688
Banks and credit institutions and other financial intermediaries	-	14,260	-	68,118	-	247,647	213,625	543,650
Customer deposits	-	1,102,590	145,317	220,098	62,142	4,016	1,906,582	3,440,745
Debt securities		2,852	13,961	40,894	69,795	32,314	-	159,816
Subordinated liabilities	-	-	-	-	-	-	50,000	50,000

Thousands of Euros

2015

	Past due	Up to one month	From one to three months	From three months to one year	From one to five years	No Maturity	More than five years	Total
INAF	-	-	-	-	-	-	13,115	13,115
Banks and credit institutions and other financial intermediaries	-	-	37,117	-	68,118	223,248	152,714	481,197
Customer deposits	-	673,929	136,551	411,674	127,574	7,298	2,277,427	3,634,453
Debt securities	-	6,367	2,383	15,941	139,439	9,545	-	173,675
Subordinated liabilities	-	-	-	-	-	-	50,000	50,000

Details by currency of gross loans and receivables, balances with the INAF and banks and credit institutions and the gross securities portfolios at 31 December 2016 and 2015 are as follows:

Thousands of Euros

2016

	Euros	Other currencies	Total
INAF	210	-	210
Banks and credit institutions and other financial intermediaries	434,900	361,586	796,486
Loans and advances	1,425,117	187,266	1 ,612,383
Customer account overdrafts	8,615	12,469	21,084
Customer discounted notes	4,629	2	4,631
Securities portfolio	737,483	418,570	1,156,053

Thousands of Euros

2015			
	Euros	Other currencies	Total
INAF	210	-	210
Banks and credit institutions and other financial intermediaries	648,676	381,652	1,030,328
Loans and advances	1,596,883	219,670	1,816,553
Customer account overdrafts	14,241	19,743	33,984
Customer discounted notes	6,084	3,228	9,312
Securities portfolio	1,217,555	433,369	1,650,924

Details by currency of the INAF deposits and balances payable in the accompanying consolidated balance sheets at 31 December 2016 and 2015 are as follows:

Thousands of Euros

2016			
	Euros	Other currencies	Total
INAF	7,619	5,069	12,688
Banks and credit institutions and other financial intermediaries	387,013	156,637	543,650
Customer deposits	2,264,002	1,176,743	3,440,745
Debt securities	136,579	23,237	159,816
Subordinated liabilities	50,000	-	50,000

Thousands of Euros

2015			
	Euros	Other currencies	Total
INAF	8,350	4,765	13,115
Banks and credit institutions and other financial intermediaries	307,819	173,378	481,197
Customer deposits	2,875,238	759,215	3,634,453
Debt securities	127,914	45,761	173,675
Subordinated liabilities	50,000	-	50,000

Details by residual maturity dates of debt securities, which include the issue of fixed-income securities by Andorra Capital Agrícol Reig, BV at 31 December 2016 and 2015 are as follows:

Thousands of Euros

2016	Past due	Up to one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	Total
Debt securities issued in 2013	-	-	-	1,000	7,728	3,999	-	12,727
Debt securities issued in 2014	-	-	6,100	997	-	-	-	7,097
Debt securities issued in 2015	-	2,852	7,100	33,298	30,000	3,315	-	76,565
Debt securities issued in 2016	-	-	761	5,599	32,067	25,000	-	63,427

Thousands of Euros

2015	Past due	Up to one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	Total
Debt securities issued in 2013	-	-	-	5,428	26,793	9,544	-	41,765
Debt securities issued in 2014	-	-	-	-	8,506	-	-	8,506
Debt securities issued in 2015	-	6,367	2,383	10,513	104,141	-	-	123,404

5. Financial Intermediaries on Sight and Banks and Credit Institutions

Details of this caption at 31 December 2016 and 2015 are as follows:

Thousands of Euros

	2016	2015
Current accounts		
Banks and credit institutions	654,534	859,037
Other financial intermediaries	-	111
	654,534	**859,148**
Time deposits		
Banks and credit institutions	141,952	171,180
Other financial intermediaries	-	-
	141,952	**171,180**
Less, provision for loan losses	(2)	(127)
	796,484	**1,030,201**

Movement in the provision for loan losses during 2016 and 2015 is as follows:

Thousands of Euros

	Specific risks	General risks	Total
Balance at 31 December 2014	**-**	**1,020**	**1,020**
Charges	-	-	-
Applications	-	-	-
Recoveries	-	(893)	(893)
Balance at 31 December 2015	**-**	**127**	**127**
Charges	-	-	-
Applications	-	-	-
Recoveries	-	(125)	(125)
Balance at 31 December 2016	**-**	**2**	**2**

At 31 December 2016 and 2015 no outstanding or doubtful balances with financial intermediaries on sight or banks and credit institutions exist.

6. Loans and Receivables

Details of this caption of the accompanying consolidated balance sheet at 31 December 2016 and 2015, by credit status and guarantee type, are as follows:

Thousands of Euros

2016				
Credit status	**Standard**	**Past due**	**Doubtful**	**Total**
Loans and advances to customers	1,550,418	5,589	56,376	1,612,383
Customer account overdrafts	20,359	287	438	21,084
Customer discounted notes	4,631	-	-	4,631

Thousands of Euros

2015				
Credit status	**Standard**	**Past due**	**Doubtful**	**Total**
Loans and advances to customers	1,747,170	7,805	61,578	1,816,553
Customer account overdrafts	32,414	976	594	33,984
Customer discounted notes	9,312	-	-	9,312

Thousands of Euros

2016					
Type of guarantee	**Mortgage**	**Monetary**	**Securities**	**Personal guarantee and others**	**Total**
Loans and advances to customers	751,081	180,442	313,145	367,715	1,612,383
Customer account overdrafts	-	-	10,228	10,856	21,084
Customer discounted notes				4,631	4,631

Thousands of Euros

2015					
Type of guarantee	**Mortgage**	**Monetary**	**Securities**	**Personal guarantee and others**	**Total**
Loans and advances to customers	770,565	208,135	507,941	329,912	1,816,553
Customer account overdrafts	-	-	17,393	16,591	33,984
Customer discounted notes	-	-	-	9,312	9,312

Loans and advances to customers and customer account overdrafts at 31 December 2016 include loans for which legal action has been initiated, for an amount of Euros 39,547 thousand (Euros 52,145 thousand in 2015), Euros 29,124 thousand of which are secured by collateral (Euros 32,369 thousand in 2015).

Movement in the provision for loan losses during 2016 and 2015 is as follows:

Thousands of Euros

	Specific risks	**General risks**	**Total**
Balance at 31 December 2014	**39,154**	**6,535**	**45,689**
Charges	8.520	72	8,592
Recoveries	-	(389)	(389)
Applications	(10,991)	-	(10,991)
Other	-	-	-
Balance at 31 December 2015	**36,683**	**6,218**	**42,901**
Charges	4,227	171	4,398
Recoveries	(83)	(3,377)	(3,460)
Applications	(10,084)	-	(10,084)
Other	-	-	-
Balance at 31 December 2016	**30,743**	**3,012**	**33,755**

The charge for 2016 includes the effect of the review of the mortgage guarantees mentioned in note 3.d, in the amount of Euros 1,689 thousand (Euros 1,019 thousand in 2015).

Details of loans to public sector entities at 31 December 2016 and 2015, which represent loans and credits, are as follows:

Thousands of Euros

	2016	2015
Central government	64,272	64,279
Local government	21,859	23.711
	86,131	**87,990**

7. Securities Portfolio

a) Bonds and other fixed-income securities
Details of this caption at 2016 and 2015 are as follows:

Thousands of Euros

	2016	2015
Principality of Andorra’s public debt (see notes 21 and 22)	117,563	71,138
OECD countries’ public debt	660,873	1,186,795
Other bonds and marketable fixed-income securities	327,023	340,796
	1,105,459	**1,598,729**

Principality of Andorra's public debt includes Euros 63,744 thousand from the Government's issue falling due on 31 December 2015 and renewed in the first quarter of 2016.

b) Investments in Group companies
Details of investments in Group companies at 31 December 2016 and 2015 are as follows:

Thousands of Euros

2016							
	Registered offices	% Direct ownership	Share capital	Profit/ (loss) for the year	Dividend for the year	Total equity	Net asset value
Clau d’Or, S.L. (Real estate)	Andorra	100%	30	(15)	-	(76)	30
Mon Immobiliari, S.L.U. (Real estate) (*)	Andorra	100%	30	(65)	-	13	8
Investments in Group companies accounted for using the equity method (see note 2)			-	-	-	-	2,994
Other investments			-	-	-	-	39
							3,071

* Data from the financial statements for 2015

Thousands of Euros

2015							
	Registered offices	% Direct ownership	Share capital	Profit/ (loss) for the year	Dividend for the year	Total equity	Net asset value
Clau d'Or, S.L. (Real estate)	Andorra	100%	30	(6)	-	(61)	30
Mon Immobiliari, S.L.U. (Real estate) (*)	Andorra	100%	30	(2)	-	13	8
Investments in Group companies accounted for using the equity method (see note 2)			-	-	-	-	3,282
Other investments			-	-	-	-	171
							3,491

* Data from the financial statements for 2014

Details of investments in Group companies accounted for using the equity method at 31 December 2016 and 2015 are as follows:

Thousands of Euros

2016					
	% ownership	Share capital	Net asset value	Total equity	Dividends in 2016
Andorra Assegurances Agrícol Reig, SA (insurance company)	100%	2,404	2,994	2,994	647

Thousands of Euros

2015					
	% ownership	Share capital	Net asset value	Total equity	Dividends in 2015
Andorra Assegurances Agrícol Reig, SA (insurance company)	100%	2,404	3,282	3,282	400

c) Other investments
Other investments include investments in other companies where the Group does not hold a majority of the shares or have decision-making power.

Other investments at 31 December 2016 and 2015 are as follows:

Thousands of Euros

2016								
Company name and activity	Registered offices	Direct ownership	Subscribed capital	Total equity	Profit for the year	Dividends for the year	Cost	Securities valuation reserve
Serveis i mitjans de pagament XXI, SA	Andorra	20%	60	239	25	-	12	3
Túnel d'Envalira, SA (infrastructures)	Andorra	10%	8,400	12,963	653	-	840	55
S.E.M.T.E.E. (leisure and health)	Andorra	15%	29,403	42,965	(64)	-	3,929	0
VISA Inc	USA	-	-	-	-	-	1,687	-
AKM Real Estate I, S.A.	Spain	3.33%	7,972	6,526	255	-	268	-
							6,736	**58**

On 21 June 2016 Visa Inc completed its acquisition of Visa Europe Ltd. started in November 2015. On the basis of Andorra Banc Agrícol Reig, S.A.'s interest, this transaction involves the recognition of a gain of Euros 6,879 thousand in the income statement for 2016, as well as the entry into the portfolio of other permanent shareholdings of Visa Inc.

Thousands of Euros

2015								
Company name and activity	Registered offices	Direct ownership	Subscribed capital	Total equity	Profit for the year	Dividends for the year	Cost	Securities valuation reserve
Serveis i mitjans de pagament XXI, SA	Andorra	20%	60	213	91	-	12	3
Túnel d'Envalira, SA (infrastructure)	Andorra	10%	8,400	13,885	420	-	840	55
S.E.M.T.E.E. (leisure and health) (*)	Andorra	15%	29,403	43,998	(1,911)	-	3,929	-
							4,781	**(58)**

* Data from the financial statements for 2014

d) Shares and other variable-income securities
Shares and other variable-income securities include all listed or unlisted shares and securities in the Bank's held for trading portfolio, which represents shareholdings in the capital of other companies with which there is no long-term relationship and where the purpose of such shareholdings is not to contribute to the Bank's activity.

e) Investment funds

Details of gross investment funds by management entity at 31 December 2016 and 2015 are as follows:

Thousands of Euros

	2016	2015
Managed by:		
Entities related to the Group	20,424	30,046
Entities not related to the Group	13,198	5,663
	33,622	**35,709**

At 31 December 2016, the investment funds managed by the Group include the following investment funds: Alternative Investment Conservative-A, Alternative Investment Growth-A, Alternative Investment Private Equity-A, Andbank Balanced (P) EUR, Andbank Flexible Allocation (P) EUR, Halley Momentum Flex. All. Low Eur (I), Cons Alloc USD AR SICAV, Andbank European Equity, Andbank Short Term B EUR, Andbank US Equities and Medicompt EUR SHTERM.

f) Portfolio valuation

The securities at 31 December 2016 and 2015 classified by the valuation categories described in note 3(f), are as follows:

Thousands of Euros

	2016	2015
Trading portfolio	279,664	641,370
Fixed-income	275,974	609,779
Variable-income	611	587
Investment funds	3,079	31,004
Ordinary investment portfolio	221,545	236,242
Fixed-income	186,055	225,171
Investment funds	30,542	4,706
Variable-income	4,948	6,365
Held-to-maturity portfolio	643,432	763,778
Permanent investment portfolio	9,807	8,272
Own shares	1,605	1,262
	1,156,053	**1,650,924**

The market value or fair value of the held-to-maturity and ordinary investment portfolios at 31 December 2016 is Euros 619,905 thousand and Euros 219,120 thousand, respectively (Euros 736,888 thousand and Euros 233,200 thousand at 31 December 2015). Of the total market value of the held-to-maturity portfolio, at 31 December 2016 Euros 194,701 thousand correspond to marked-to-model and unlisted instruments (see note 3.f). Of the total fair value of the ordinary investment portfolio at 31 December 2016, Euros 23,233 thousand correspond to marked-to-model or unlisted instruments.

At 31 December 2016 21.63% of the market value of the trading portfolio has been calculated based on models developed by an independent expert and the rest using quoted prices (9.39% at 31 December 2015).

g) Securities valuation reserve

Movement in the securities valuation reserve during 2016 and 2015 is as follows:

Thousands of Euros	
Balance at 31 December 2014	**7,641**
Charges to the ordinary portfolio	-
Charges to the permanent investments portfolio	5
Recoveries	(5,247)
Balance at 31 December 2015	**2,399**
Charges to the ordinary portfolio	964
Charges to the permanent investments portfolio	25
Other movements	566
Balance at 31 December 2016	**3,954**

h) Provisions for loan losses

Thousands of Euros	
Balance at 31 December 2014	**2,581**
Net charges to provision	(312)
Balance at 31 December 2015	**2,269**
Net charges to provision	25
Balance at 31 December 2016	**2,294**

As 31 December 2016 and 2015 the provision for loan losses relates solely to the general provision on the investment portfolio.

8. Fixed Assets

a) Movement in tangible assets, intangible assets and amortisable costs
Movement in intangible assets and amortisable costs during 2016 and 2015 and related amortisation is as follows:

Thousands of Euros

	31/12/2015	Additions	Disposals	Transfers	31/12/2016
Cost					
Multi-owned assets	830	-	-	-	830
Computer software	65,244	10,605	7,801	(82)	83,568
Other	69,232	13,712	(7,801)	-	75,143
Total	**135.306**	**24.317**	**-**	**(82)**	**159,541**
Amortisation					
Multi-owned assets	(830)	-	-	-	(830)
Computer software	(39,630)	(6,718)	13	251	(46,084)
Other	(9,731)	(3,339)	(13)	37	(13,046)
Total AMORTISATION	**(50,191)**	**(10,057)**	**-**	**288**	**(59,960)**
Provision for depreciation of intangible assets	-	-	-	-	-
Total NET	**85,115**	**14,260**	**-**	**206**	**99,581**

Thousands of Euros

	31/12/2014	Altes	Baixes	Traspassos	31/12/2015
Cost					
Multi-owned assets	558	272	-	-	830
Computer software	52,024	5,997	(3,209)	10,432	65,244
Other	64,842	15,138	(316)	(10,432)	69,232
Total	**117,424**	**21,407**	**(3,525)**	**-**	**135,306**
Amortisation					
Multi-owned assets	(835)	(11)	-	-	(846)
Computer software	(30,146)	(10,234)	713	-	(39,667)
Other	(10,333)	(1,012)	1,667	-	(9,678)
Total AMORTISATION	**(41,314)**	**(11,257)**	**2,380**	**-**	**(50,191)**
Total NET	**76,110**	**10,150**	**(1,145)**	**-**	**85,115**

Additions to intangible assets during 2014 mainly reflect the inclusion of the valuation of the customer portfolio coming from Banco Inversis, S.A.'s retail banking business, amounting to Euros 42,798 thousand.

Details of the consideration given, of the fair value of net assets acquired and goodwill generated in relation to the Bank's acquisition of Banco Inversis, S.A.'s retail business (see note 2.d) were as follows:

Thousands of Euros	
Consideration given	179,800
Cash paid	
Attributable fair value of net assets acquired	89,959
Goodwill (note 8b)	**89,841**

In order to identify the transferred assets and liabilities the balance sheet of reference used has been that for the Joint Project for the Partial Spin-off of Banco Inversis, S.A. to Andbank España, S.A.U. This balance sheet was dated 31 October 2013.

The effective incorporation of all the assets and liabilities and human resources, as well as rights and obligations forming part of, as an economic unit, the retail banking activity of the spun off company, to Andbank España,. S.A.U., took place on 28 November 2014.

Movement in tangible assets during 2016 and 2015 and their depreciation is as follows:

Thousands of Euros

	31/12/2015	Additions	Disposals	Transfers	Revaluations	31/12/2016
Cost						
OPERATING						
Land	3,503	-	-	(404)	-	3,099
Buildings	7,175	-	-	(332)	-	6,843
Furniture	8,620	473	-	97	-	9,190
Installations	22,853	4,057	(2,029)	-	-	24,881
IT equipment	29,452	1,807	-	36	-	31,295
Vehicles	1,164	189	(44)	-	-	1,309
Fixed assets under construction	1,440	110	-	(133)	-	1,417
Subtotal	74,207	6,636	(2.073)	(736)	-	78,034
NON-OPERATING						
Buildings	79,870	22,040	(14,516)	-	-	87,394
Land	6,670	4,052	-	-	-	10,722
Installations	889	87	-	-	-	976
IT equipment	92	12	-	-	-	104
Furniture	41	-	-	-	-	41
Vehicles	262	-	(55)	-	-	207
Subtotal	87,824	26,191	(14,571)	-	-	99,444
Total TANGIBLE ASSETS	**162,031**	**32,827**	**(16,644)**	**(736)**	**-**	**177,478**
Depreciation						
OPERATING						
Buildings	(9,406)	(238)	-	4,521	-	(5,123)
Furniture	(7,222)	(486)	-	-	-	(7,708)
Installations	(14,220)	(2,972)	1,920	-	-	(15,272)
IT equipment	(23,577)	(1,001)	-	-	-	(24,578)
Vehicles	(693)	(207)	-	-	-	(900)
Subtotal	(55,118)	(4,904)	1,920	4,521	-	(53,581)
Depreciation						
NON-OPERATING						
Buildings	(8,051)	(3,759)	3,854	(6,551)	-	(14,507)
Installations	(887)	(4)	-	-	-	(891)
IT equipment	(92)	(1)	-	-	-	(93)
Furniture	(94)	-	-	-	-	(94)
Vehicles	(12)	(55)	-	-	-	(67)
Subtotal	(9,136)	(3,819)	3,854	(6,551)	-	(15,652)
Total DEPRECIATION	**(64.254)**	**(8.723)**	**5.774**	**(2.030)**	**-**	**(69,233)**
Provision for depreciation of tangible assets	(4,479)	(3,281)	481	2,766	-	(4,513)
Total TANGIBLE ASSETS NET	**93,298**	**20,823**	**(10,389)**	**-**	**-**	**103,732**

Thousands of Euros

	31/12/2014	Additions	Disposals	Transfers	Revaluations	31/12/2015
Cost						
OPERATING						
Land	45,359	-	(41,856)	-	-	3,503
Buildings	43.,798	-	(36,623)	-	-	7,175
Furniture	7.,108	1,393	(98)	217	-	8,620
Installations	39,346	2,060	(20,317)	1,764	-	22,853
IT equipment	27,511	1,956	(163)	148	-	29,452
Vehicles	1,932	255	(961)	(62)	-	1,164
Fixed assets under construction	1,071	2,498	-	(2.129)	-	1,440
Subtotal	166,125	8,162	(100,018)	(62)	-	74,207
NON-OPERATING						
Buildings	83,940	13,135	(17,205)	-	-	79,870
Land	10,641	2,129	(6,100)	-	-	6,670
Installations	4,304	-	(3,415)	-	-	889
IT equipment	92	-	-	-	-	92
Furniture	41	-	-	-	-	41
Vehicles	305	-	(105)	62	-	262
Subtotal	99,323	15,264	(26,825)	62	-	87,824
Total TANGIBLE ASSETS	**265,448**	**23,426**	**(126,843)**	**-**	**-**	**162,031**
Depreciation						
OPERATING						
Buildings	(25,737)	(1,264)	14,923	2,672	-	(9,406)
Furniture	(6,871)	(351)	-	-	-	(7,222)
Installations	(26,806)	(1,527)	14,113	-	-	(14,220)
IT equipment	(22,708)	(870)	1	-	-	(23,577)
Vehicles	(532)	(197)	36	-	-	(693)
Subtotal	(82,654)	(4,209)	29,073	2,672	-	(55,118)
Depreciation						
NON-OPERATING						
Buildings	(9,602)	(3,892)	5,443	-	-	(8,051)
Installations	(4,272)	(9)	3,394	-	-	(887)
IT equipment	(92)	-	-	-	-	(92)
Furniture	(32)	(62)	-	-	-	(94)
Vehicles	(12)	-	-	-	-	(12)
Subtotal	(14,010)	(3,963)	8,837	-	-	(9,136)
Total DEPRECIATION	**(96,664)**	**(8,172)**	**37,910**	**2,672**	**-**	**(64,254)**
Provision for depreciation of tangible assets	(2,153)	(582)	928	(2,672)	-	(4,479)
Total TANGIBLE ASSETS NET	**166,631**	**14,672**	**(88,005)**	**-**	**-**	**93,298**

Additions of operating fixed assets under construction in 2016 and 2015 comprise work in progress to improve fixed assets used in operations.

Additions of non-operating fixed assets recognised during 2016 and 2015 reflect the inclusion of foreclosed assets. During 2016 and 2015 no interest or exchange differences corresponding to fixed assets have been capitalised.

With express authorisation granted by INAF on 9 December 2008, the Bank revalued the carrying amount of the buildings housing its headquarters and branches with effective date 30 November 2008 (see notes 3.h and 11). Every two years, through an appraisal conducted by an independent expert, the aforementioned assets are tested to determine whether their market value is greater than their carrying amount, the appropriate provisions being recognised where this is not the case. At 31 December 2016 the Bank revalued the carrying amount of buildings used in operations and no valuation adjustment has arisen.

On 29 July 2015, Andorra Banc Agrícol Reig, S.A. ("Andbank") signed a sale and purchase agreement and subsequent operating leaseback for a period of 20 years, extendible tacitly for five-year periods, for the building in which the Andbank Group's headquarters are located. On 24 September 2015 a deed was drawn up declaring compliance with the conditions precedent on this transaction. The transaction price was Euros 80 million and Andbank obtained a gain of Euros 3.4 million on the carrying amount at the date of the sale. Once the building had been derecognised, revaluation reserves were reclassified as voluntary reserves, for the purpose of calculating solvency under Basel III (see note 22) net of the tax impact, which formed part of the carrying amount of the assets sold, for an amount of Euros 53.3 million (see note 11).

In relation to this operating lease contract:

▪ During 2016 lease expenses amount to Euros 4,000 thousand, recognised as External services under Overheads.

▪ At 31 December 2016 the present value of future payments incurred by the Bank during the contract's obligatory term (regardless of tacit extensions) amounts to Euros 3,830 thousand in the period of one year, Euros 13,462 thousand between one and five years and Euros 41,611 thousand in more than five years.

b) Gains on consolidation

	Thousands of Euros
Balance at 31 December 2014	**136,338**
Acquisitions	13,695
Gains on consolidation - depreciation	-
Exchange gains	403
Balance at 31 December 2015	**149,630**
Acquisitions	3,288
Gains on consolidation - depreciation	-
Exchange gains	-
Balance at 31 December 2016	**152,918**

The acquisition of Quest Capital Advisers, S.A. on 17 December 2009 generated goodwill of Euros 13,556 thousand, of which Euros 7,482 thousand was capitalised in 2010 to recognise deferred payments relating to the acquisition. As a result of subsequent adjustments on the basis of real payments of deferred commitments, goodwill totals Euros 13,588 thousand at 31 December 2016.

The acquisition of Columbus de México, S.A. on 11 April 2008 generated goodwill on consolidation of Euros 3,572 thousand. Subsequently, payment of the success premium of US Dollars 3,111 thousand is made, with goodwill totalling Euros 7,043 thousand at 31 December 2016.

Likewise, the acquisition of Andbank Monaco, SAM on 30 June 2011 generated goodwill on consolidation of Euros 11,347 thousand.

On 25 October 2011 the acquisition of LLA Participaçoes, Ltda generated goodwill on consolidation of Euros 10,482 thousand. In 2015 an additional interest of 26.31% was purchased in the aforementioned company, raising goodwill to Euros 15,676 thousand.

The acquisition on 15 April 2014 of Medipatrimonia Invest, SL and Andbank Wealth Management SGIIC, SAU by Andbank España, S.A. generated goodwill on consolidation of Euros 2,941 thousand (see note 2d).

The acquisition of Banco Inversis, S.A.'s retail business branch of activity by Andbank España, S.A. and the acquisition of Swiss Asset Advisors portfolio by Andbanc Advisory LLC has generated goodwill on consolidation of Euros 89,841 thousand and Euros 1,676 thousand, respectively.

During 2015, the acquisition of Banco Andbank (Brasil), S.A. generated goodwill of Euros 5,969 thousand. The acquisition of LLA DTVM by Andbank (Brasil) Holding Financeira Ltda generated goodwill of Euros 189 thousand.

During 2015, the acquisition of Sigma Investment House Ltd generated goodwill of Euros 3,584 thousand. Furthermore, as agreed as part of the acquisition of this company, payments were made in 2016 in line with its growth policy which have given rise to goodwill of Euros 1,063 thousand.

9. Provisions for Risks and Contingencies

a) Provisions for pensions and similar obligations
Movement in pensions and similar obligations during 2016 and 2015 is as follows:

Thousands of Euros

	Retirements	Early retirements	Other obligations	Total
Balance at 31 December 2014	**620**	**222**	**6,002**	**6,844**
Charge for the year against the income statement	2	6	-	8
Payments made to pensioners and surrenders for the year	(67)	(244)	(41)	(352)
Other movements	38	581	297	916
Balance at 31 December 2015	**593**	**565**	**6,258**	**7,416**
Charge for the year against the income statement	2	228	134	364
Payments made to pensioners and surrenders for the year	(67)	(465)	(780)	(1,312)
Other movements	(136)	1,269	(521)	612
Balance at 31 December 2016	**392**	**1,597**	**5,091**	**7,080**

The charge to the internal fund for other obligations is recognised under Other personnel expenses in the consolidated income statement. The financial charge for 2016 and 2015 amounts to Euros 78 thousand and Euros 72 thousand, respectively.

Payments made to retirees and early-retirees (in accordance with Law 17/2008 and related regulations) during 2016 and 2015 have been recognised against the provision. The pension fund, which relates to current personnel, is secured by deposits transferred to the interbank market.

Current personnel adhering to the plan for other obligations can, upon request, transfer their funds to an investment fund managed by the Bank off the balance sheet. At 31 December 2016 balances managed off the balance sheet amounted to Euros 720 thousand, whilst internal funds classified as Provisions for risks and contingencies amount to Euros 5,091 thousand (Euros 6,258 thousand at 31 December 2015).

b) Other provisions
Movements in these provisions are mainly the result of the additional provisions recognised in 2016 and 2015 to cover possible losses on certain written options and the obligations in relation to the annual contribution to the Andorran Fund for the Resolution of Banking Entities (FAREB).

Movement in other provisions during 2016 and 2015 was as follows:

Thousands of Euros

	31/12/15	Recoveries	Charges	Applications	31/12/16
Other provisions	8,258	(314)	4,480	(2,724)	9,700
Total	**8,258**	**(314)**	**4,480**	**(2,724)**	**9,700**

Thousands of Euros

	31/12/14	Recoveries	Charges	Applications	31/12/15
Other provisions	6,054	-	2,204	-	8,258
Total	**6,054**	**-**	**2,204**	**-**	**8,258**

10. Distribution of Profit

The directors of Andorra Banc Agrícol Reig, SA will propose to the shareholders at their annual general meeting that the profit for 2016 be distributed as follows:

Thousands of Euros

	2016
Legal reserve	-
Voluntary reserves	33,613
Interim dividend	-
Dividends	5,000
	38,613

The charge to the voluntary reserve includes an amount of Euros 15,589 thousand relating to the annual charge to the non-distributable reserve for gains on consolidation (see note 3.g).

During 2016 the Bank has not distributed interim dividends to the income statement for 2016.

Distribution of profit for the year ended 31 December 2015, approved by the shareholders at their annual general meeting on 28 April 2016, was as follows:

Thousands of Euros

	2015
Legal reserve	-
Voluntary reserves	24,410
Interim dividend	-
Dividends	22,117
	46,527

11. Movement in Equity and General Risks Reserve

Movement in the Group's equity during 2016 and 2015 is as follows:

	Share capital	Legal reserve	Guarantee reserves	Share premium	Revaluation reserves
Balance at 31 December 2014	**78.842**	**15.768**	**22.077**	**73.441**	**61.175**
Complimentary dividends	-	-	-	-	-
Distribution of profit for 2014	-	-	-	-	-
Consolidation adjustments	-	-	-	-	-
Other (note 3f)	-	-	-	-	-
Tax effect of sale of fixed assets (note 8)	-	-	-	-	(5,920)
Contributions to FAREB	-	-	-	-	-
Revaluation guarantee reserves	-	-	1,362	-	-
Profit for 2015	-	-	-	-	-
Interim dividend	-	-	-	-	-
Transfer of reserves	-	-	-	-	(53,313)
Own share reserves	-	-	-	-	-
Balance at 31 December 2015	**78,842**	**15,768**	**23,439**	**73,441**	**1,942**
Complimentary dividends	-	-	-	-	-
Distribution of profit for 2015	-	-	-	-	-
Consolidation adjustments	-	-	-	-	-
Other (note 3f)	-	-	-	-	-
Contributions to FAREB	-	-	-	-	-
Revaluation of guarantee reserves	-	-	1,283	-	-
Profit for 2016	-	-	-	-	-
Interim dividend	-	-	-	-	-
Own share reserves	-	-	-	-	-
Balance at 31 December 2016	**78,842**	**15,768**	**24,722**	**73,441**	**1,942**

a) Share capital

At 31 December 2016 the Banks share capital comprises 1,769,343 shares (1,751,825 class A shares, 14,232 class B shares and 3,286 class C shares) at Euros 44.56 par value each.

b) Legal and voluntary reserves

In accordance with Andorran mercantile law, banks must allocate 10% of the year's profit to the legal reserve until it reaches 20% of the share capital. At 31 December 2016 the legal reserve was fully appropriated.

Voluntary reserves include an amount of Euros 47,492 thousand for differences on first-time consolidation that are restricted and Euros 79 thousand for other items.

In accordance with Law 8/2015 of 2 April 2015 on urgent measures to implement restructuring and resolving mechanisms in banking entities, during 2016 a total of Euros 9,443 thousand has been contributed to the FAREB, with a charge to voluntary reserves (Euros 1,049 thousand in 2015).

84.93% of the Bank's voluntary reserves and share premium at 31 December 2016 are available for distribution.

c) Guarantee reserves

This caption includes the deposit guarantee reserves and other operating obligations held by entities belonging to the financial system.

In compliance with Law 01/2011 of 2 February 2011 on the creation of a deposit guarantee system for banks, guarantee reserves totalled Euros 24,722 thousand and Euros 23,439 thousand at 31 December 2016 and 2015, respectively (see note 22).

	Voluntary reserves	Own share reserves	Translation differences	Consolidation reserves	Interim dividend	Compl. dividends	Consolid.adj. without effect on equity	Profit
	205,787	**-**	**(127)**	**17,529**	**-**	**-**	**-**	**64,269**
	-	-	-	-	-	27,860	-	-
	30,710	-	-	5,699	-	(27,860)	-	(64,269)
	-	-	(7,592)	1,345	-	-	-	-
	6	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	(1,049)	-	-	-	-	-	-	-
	(1,362)	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	54,048
	-	-	-	-	-	-	-	-
	53,313	-	-	-	-	-	-	-
	(1,262)	1,262	-	-	-	-	-	-
	268,143	**1,262**	**(7,719)**	**24,573**	**-**	**-**	**-**	**54,048**
	-	-	-	-	-	(22,117)	-	-
	24,410	-	-	7,521	-	22,117	-	(54,048)
	-	-	7,210	(639)	-	-	-	-
	16	-	-	-	-	-	-	-
	(9,443)	-	-	-	-	-	-	-
	(1,283)	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	47,472
	(343)	343	-	-	-	-	-	-
	299,500	**1,605**	**(509)**	**31,455**	**-**	**-**	**-**	**47,472**

d) Revaluation reserves

Revaluation reserves reflect the revaluation of the carrying amount of some of the Bank's buildings to reflect their market value (see notes 3.h and 8).

The revaluation reserves are not available for distribution unless the assets are disposed of and/or the INAF authorises their distribution.

As a result of the sale of its headquarters (note 8), an amount of Euros 53,313 thousand was transferred to voluntary reserves in 2015.

e) Consolidation reserves

Consolidation reserves correspond to the following companies:

Thousands of Euros

	2016	2015
Andorra Gestió Agrícol Reig, SAU.	676	2,289
Andorra Assegurances Agrícol Reig, SA	839	962
Grup Nobilitas N.V.	(939)	1,910
Andbank (Bahamas) Limited	16,107	14,193
Group Andbank Luxembourg	4,702	1,632
Group Andbank España	(827)	558
AndPrivate Consulting	(2,843)	(1,538)
Andbank (Panamá) S.A.	4,118	1,339
APW Consultores Financeiros Lda	(2,400)	(1,481)
Other	12,022	4,709
Total	**31,455**	**24,573**

Movement in consolidation reserves in 2016 and 2015 is as follows:

Thousands of Euros

Balance at 31 December 2014	**17,529**
Distribution of 2014 profit to reserves	5,699
Other consolidation adjustments	1,345
Balance at 31 December 2015	**24,573**
Distribution of 2015 profit to reserves	7,521
Other consolidation adjustments	(639)
Balance at 31 December 2016	**31,455**

f) Profits/loss attributed to the Group
Details of profit/loss attributed to the Group at 31 December 2016 and 2015 are as follows:

Thousands of Euros

	2016	2015
Andorra Banc Agrícol Reig, SA	**38,613**	**46,527**
Fully consolidated companies:	**17,701**	**19,980**
Andorra Gestió Agrícol Reig, SA	3,025	5,590
Andbank (Bahamas) Limited	4,055	5,786
Grup Nobilitas N.V.	(46)	(2,282)
Columbus de México, SA, CV	98	(188)
And Private Wealth, SA	117	(1,256)
Quest Capital Advisers	1,509	1,401
Andbanc Wealth Management LLC Grup	(1,369)	(1,957)
Consolidation adjustments Nobilitas Group	(401)	(282)
Andbank Luxembourg Group	(1,039)	479
Andbank Luxembourg, S.A.	(404)	(461)
Andbank Asset Management Luxembourg, SA	(527)	940
Consolidation adjustments Andbank Lux Group	(108)	-
Andbank España Group	4,183	4,473
Andbank España S.A.U.	2,744	3,294
Andbank Wealth Mangament,SGIIC, SAU	1,438	1,069
Medipatrimonia Invest, SL.	(6)	112
APC SSAA	7	(2)
Consolidation adjustments Andbank España Group	-	-
Andbank (Panamà), SA	10,246	6,556
APW Consultores Financeiros Ltda.	(498)	(1,401)
Andbank Monaco, SAM	1,173	705
Banco Andbank (Brasil) Ltda.	(1,748)	1,467
Other	(1.650)	(1,391)
Companies accounted for using the equity method	**358**	**797**
Andorra Assegurances Agrícol Reig, SA	358	797
Consolidation adjustments	**(9,200)**	**(13,256)**
	47,472	**54,048**

g) General risks reserve

Movement in the general risks reserve during 2016 and 2015 is as follows:

Thousands of Euros

Balance at 31 December 2014	**8,493**
Charges to the reserve	936
Net charges to provision	(4,700)
Balance at 31 December 2015	**4,729**
Charges to the reserve	-
Net charges to provision	(1,043)
Balance at 31 December 2016	**3,686**

During 2016 the Bank recovered Euros 1,043 thousand from the general risks reserve (Euros 4,700 thousand in 2015) in order to offset expenses inherent to the activity's exposure during the year.

h) Subordinated liabilities

At its meeting held on 26 November 2014 the Bank's board of directors agreed to request authorisation to issue bonds amounting to Euros 50,000 thousand. On 29 December 2014 the INAF granted authorisation to issue perpetual contingent subordinated bonds of Euros 35,000 thousand and to issue perpetual convertible contingent subordinated bonds of Euros 15,000 thousand. These bonds are considered as equity for Andbank's solvency purposes, upon confirmation of registration with the INAF.

Taking as a reference the requirements set out in EU legislation and, more specifically, Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV) and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) these bond issues can be computed as additional Tier 1 capital instruments in accordance with the aforementioned regulatory framework (see note 22).

During the first few months of 2015, these products have been issued and commercialised, with the whole of both issues being subscribed and accruing annual interest at a rate of 5.5%.

i) Own shares

At 31 December 2016 the Bank has recognised own shares of Euros 1,605 thousand on the balance sheet (Euros 1,262 thousand in 2015), for which it has made a non-distributable reserve for the same amount.

12. Balances in Euros and Other Currencies

A breakdown of assets and liabilities in the consolidated balance sheets at 31 December 2016 and 2015 in Euros and other currencies, is as follows:

Thousands of Euros

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Euros	3,833,085	3,484,149	3,857,450	3,314,860
Other currencies	1,155,593	1,504,529	1,206,546	1,749,136
	4,988,678	**4,988,678**	**5,063,996**	**5,063,996**

13. Other Balance Sheet and Income Statement Items

In addition, at 31 December 2016 and 2015 other significant items are as follows:

a) Other assets

Thousands of Euros

	2016	2015
Operations in progress	13,079	9,230
Inventories	15	14
Options purchased	28,146	48,687
Public entities	-	-
Taxes	7,363	11,656
Other receivables	48,956	46,799
	97,559	**116,386**

Operations in progress include the amounts receivable from market counterparties.

Taxes comprise income tax payments made during the year.

b) Other liabilities

Thousands of Euros

	2016	2015
Operations in progress	51,451	4,327
Options issued	4,678	3,631
Public entities	18,294	30,572
Securities borrowed	33,709	36,673
Other payables	33,440	22,413
	141,572	**97,616**

The amount of securities borrowed by the Bank from its portfolio of assets held in custody is recognised under Other liabilities - Securities borrowed on the liabilities side of the balance sheet, and under Loans and receivables - Loans and advances to customers on the asset side of the balance sheet.

The valuation adjustment to options written is recognised, where applicable, under Provisions for risks and contingencies (see note 9.b).

14. Financial Derivatives

Transactions in futures and financial derivatives are detailed below at their notional amount by type of derivative product held by the Group at 31 December 2016 and 2015. A distinction is made between trading and hedging operations by market to which they belong:

Thousands of Euros

2016				
	Market	Hedging	Trading	Total
Outstanding forward currency purchases and sales	Unregulated	1,427,847	-	1,427,847
Options	Unregulated	88,399	75,000	163,399
Swaps	Unregulated	639,765	62	639,827
Other agreements	Unregulated	1,285,869	237,625	1,523,494
		3,441,880	**312,687**	**3,754,567**

Thousands of Euros

2015				
	Market	Hedging	Trading	Total
Outstanding forward currency purchases and sales	Unregulated	1,808,450	-	1,808,450
Options	Unregulated	36,213	330,077	366,290
Swaps	Unregulated	1,319,556	94,902	1,414,458
Other agreements	Unregulated	1,639,456	65,678	1,705,134
		4,803,675	**490,657**	**5,294,332**

Outstanding forward currency operations are firmly contracted with the main aim of hedging customer operations in the market and, with lesser amounts, to hedge currency risks. The Bank's global position by currency and terms is monitored and closed on a daily basis.

Swaps and options are firmly contracted in order to hedge the interest rate risk of operations with customers. The Bank regularly monitors the difference between the nominal amount contracted and the amount of the operations to be hedged and considers these differences as trading swaps.

Other agreements correspond to firm hedging operations executed with customers and other trading operations on securities positions.

The maturities of futures operations and financial derivatives are as follows:

Thousands of Euros

2016				
	Less than one year	From one year to five years	More than five years	Total
Outstanding forward currency purchases and sales	1,427,847	-	-	1,427,847
Options	8,398	155,000	-	163,398
Swaps	225,800	339,090	74,937	639,827
Other agreements	51,194	896,096	117,205	1,523,495
	2,172,239	**1,390,186**	**192,142**	**3,754,567**

Thousands of Euros

2015				
	Less than one year	From one year to five years	More than five years	Total
Outstanding forward currency purchases and sales	1,808,450	-	-	1,808,450
Options	36,213	310,000	20,077	366,290
Swaps	660,193	665,997	88,268	1,414,458
Other agreements	634,268	1,062,266	8,600	1,705,134
	3,139,124	**2,038,263**	**116,945**	**5,294,332**

15. Taxation: Income tax

The Group files income tax returns since 2012. In accordance with prevailing legislation, profits are taxed at a rate of 10%. Tax payable is eligible for certain deductions in accordance with legislation prevailing at any given time. Foreign subsidiaries are taxed in accordance with the legislation of each country.

In the opinion of the Bank's directors and its tax advisors, there are no significant tax contingencies which could give rise to different possible interpretations of prevailing tax legislation in the event of an inspection.

Details of this item of the consolidated income statement are as follows:

Thousands of Euros

	2016	2015
Current income tax for the year	(3,562)	(3,213)
Deferred tax income	-	1,256
Income tax adjustments	708	1,235
Local income tax	**(2,854)**	**(722)**
Foreign income tax	(3,472)	(1,906)

Due to the treatment permitted by Andorran tax legislation for certain transactions, the accounting profit differs from the profit for fiscal purposes. A reconciliation between accounting profit for the year and net tax payable that the Group expects to declare for its Andorran companies once these financial statements have been authorised for issue, together with details of forecast payments, is as follows:

Thousands of Euros

	2016	2015
Accounting profit before tax (*)	44,491	52,839
Permanent differences	(3,733)	(9,591)
originating in the year	(3,733)	(9,591)
originating in prior years	-	-
Accounting income	407,758	43,248
Temporary differences	-	477
originating in the year	-	477
Taxable income	40,758	43,725
Tax rate of 10%	4,076	4,373
Tax payable	**4,076**	**4,373**
Deductions and credits	(514)	(1,160)
Income tax expense for the year	3,562	3,213
Tax payable for temporary differences originating in prior years (**)	-	5,920
Withholdings and payments on account	(3,960)	(2,660)
Tax difference	**(398)**	**6,473**

(*)This amount corresponds to the sum of the individual accounting profit/loss of each Andbank Group company subject to Andorran income tax legislation.
(**) Amount recognised under deferred tax liabilities until effective settlement of income tax, due to the sale of fixed assets (note 8).

A reconciliation between accounting profit before tax and the aggregate income tax expense of the Andorran companies for 2016 and 2015 is as follows:

Thousands of Euros

	2016	2015
Income and expenses for the year	44,491	52,839
10% of the income and expenses balance for the year	4,449	5,284
Tax effect of permanent differences	(373)	(910)
Deductions and credits for the current year	(514)	(1,160)
Income tax expense	**3,562**	**3,213**

As a result of prevailing legislation, certain temporary differences have arisen which have been recognised on the balance sheet at 31 December 2016. Movement in the different deferred tax assets and liabilities during 2016 and 2015 has been as follows (in thousands of Euros):

	Deferred tax assets		Deferred tax liabilities	
	2016	2015	2016	2015
Opening balance	1,256	-	5,920	-
Increases	75	1.256	67	5,920
Decreases	(506)	-	(5,920)	-
Closing balance	**825**	**1,256**	**67**	**5,920**

Details by type of the origin of deferred tax assets and liabilities at 31 December 2016 and 2015 are as follows:

Thousands of Euros

	2016	2015
Deferred tax assets		
Differences due to temporary charging of income and expenses	825	1,256
Deferred tax liabilities	-	-
Other	67	-
Tax effect of revalued fixed assets (note 8)	-	5,920

According to estimates for 2016, the Group companies subject to Andorran Income Tax Law have no tax loss carryforwards to be offset against future taxable income.

The balance pending application at 31 December 2016 from the deductions generated by Group companies subject to the Andorran Income Tax Law amounts to Euros 0 thousand.

16. Assets Pledged as Collateral

At 31 December 2016 the Group has contracts for the transfer of assets under repurchase agreements, secured for a fixed income portfolio of Euros 296,161 thousand.

In compliance with Law 01/2011 of 2 February 2011 on the creation of a deposit guarantee system for banks, at 31 December 2016 the Group uses a volume of fixed income amounting to Euros 25,093 thousand to cover the Deposit Guarantee Fund.

17. Transactions with Related Entities and Individuals

Details of transactions with related entities and individuals that exceed 10% of equity at 31 December 2016 and 2015 are as follows:

Thousands of Euros

2016

	Shareholders	Subsidiaries	Members of the Board of Directors (non-shareholders)	Members of General Management (non-shareholders)	Other related parties
Banks and credit institutions					
Assets	-	-	-	-	-
Liabilities	-	-	-	-	-
Loans and receivables	57,653	-	-	-	-
Memorandum accounts	12,152	-	-	-	-
Customer deposits	873	-	-	-	-

Thousands of Euros

2015

	Shareholders	Subsidiaries	Members of the Board of Directors (non-shareholders)	Members of General Management (non-shareholders)	Other related parties
Banks and credit institutions					
Assets	-	-	-	-	-
Liabilities	-	-	-	-	-
Loans and receivables	54,511	-	-	-	-
Memorandum accounts	15,446	-	-	-	-
Customer deposits	402	-	-	-	-

The Bank's positions held with shareholders correspond to one individual, who is not a member of the Board of Directors or Senior Management.

In relation to subsidiaries, at 31 December 2016 and 2015 no balances representing more than 10% of equity are held with non-shareholder members of the Board of Directors and non-shareholder members of Senior Management.

There are no positions held with other related parties representing more than 10% of equity at 31 December 2016.

In relation to shareholders, during 2016 and 2015 no transactions have been conducted with non-shareholder members of the Board of Directors, subsidiaries, non-shareholder members of Senior Management or other related parties that represent more than 5% of profits for 2016 and 2015, respectively.

18. Risk Management and Control

Risk management and control is a key aspect and priority objective of the Andbank Group and it is a fundamental pillar of the internal control system. The risk control framework includes a qualitative component, concerning the definition of policies and responsibilities, and a quantitative component, associated with the setting of limits.

In view of the increasingly strict regulatory scenario, the Andbank Group has reinforced its risk governance structure with the creation of a Specialised Risk Committee which acts as an advisor to the Board of Directors with regard to risks. This Committee has two specialised advisors, one of whom is independent and who is in charge of guaranteeing compliance with regulations and conformity with the best international standards with regard to risk control and management.

During 2016 the Group has implemented a Corporate Risk Plan for the purpose of ensuring that the current Risk Function model covers all risks to which the Group is exposed and enables optimum management of its capital.

The positioning of the Group in terms of risk management is based on maintaining a prudent policy, where risk assumption is closely linked to the exercise of business activities in commercial banking, private banking and asset management.

The establishment of policies, the setting of limits and the overall supervision of risks is the responsibility of the Assets and Liabilities Committee (ALCO), under delegation from the Board of Directors. The general policies and specific limits defined by the ALCO are therefore submitted to the Specialised Risk Committee for its analysis and to the Board of Directors for analysis and approval.
To determine the risk limits granted to countries or financial institutions, the Group uses relatively stable variables such as credit ratings or Tier I capital, and market variables such as the price at which the Credit Default Swap is traded. Given the continuing sovereign debt crisis and the downgrading of countries and financial institutions, these limits have been reviewed frequently.

As the body responsible for the management of interest rate risk, currency risk, country risk, counterparty risk, liquidity risk and market risk, the ALCO meets at least monthly. The ALCO has delegated the task of supervising these risks to the Middle Office department, which reports to the ALCO on a daily and monthly basis, where applicable, with information on the risks managed. The ALCO is also responsible for balance sheet management and capital management, with the aim of maintaining a high level of capital adequacy.

Responsibility for guaranteeing the asset management business is exercised in accordance with the established legal and regulatory framework and the task of assessing the results is assigned to the Management Committee which meets monthly. The committee delegates the monitoring of asset management activity to the Middle Office. Besides monitoring compliance with the regulatory framework, the Middle Office assesses compliance with the investment policy of the funds and portfolios and regularly monitors the measures of return and risk.

Interest rate risk

Interest rate risk is defined as the impact on the market value of the Group's assets and liabilities resulting from movements in interest rates. The measures the Group uses to assess this impact are the sensitivity of the net interest margin to 25 basis point parallel shifts in the yield curve for the main balance sheet currencies and the sensitivity of the market value of own funds to 100 basis point parallel shifts in the yield curve.

In a scenario of historically low interest rates of recent years, the Group maintains positive exposure to shifts in the interest rate curve, i.e. the Group's financial margin would increase in the event of a rise in interest rates. On the contrary, its financial margin would drop in the event of a decrease in interest rates, although sensitivity is asymmetric in the current interest rate levels, with positive sensitivity being much higher than negative sensitivity. The repricing gap of the Group's interest-rate-sensitive balance sheet assets and liabilities is positive, i.e., overall, the repricing of assets precedes in time the repricing of liabilities. This positioning is reflected in very short term interbank deposits and in a fixed- income portfolio investing mainly in bonds pegged to the 3 or 6 month Euribor, or fixed-rate bonds maturing in the short or medium term, although part of the portfolio is made up of longer-term fixed-rate bonds which allow an additional margin to be generated and increase the duration of the balance sheet assets. Most of these bonds are financed through fixed rate repos, which enable the duration risk to be collected. During 2016 interest rate swaps have been contracted to hedge the duration risk of bonds in the medium and long term from the ordinary or held-to-maturity investment portfolio.

The limit on the sensitivity of equity to a 100 basis point parallel shift in the yield curve has been set by the Board of Directors at 5%. The sensitivity of equity was positive throughout 2016, due to the chosen interest rate strategy and the balance sheet positioning, but was maintained below this limit at all times.

Market risk

Market risk is understood as the potential loss to which the trading portfolio is exposed due to changes in market conditions, such as asset prices, interest rates, volatility and market liquidity. The measure the Group uses to manage market risk in its investment portfolio is value at risk (VaR), as a general market standard, together with stress testing of the held-to-maturity portfolio.

VaR is calculated using the historical method. The calculation obtained corresponds to the maximum expected loss over a given time horizon and with a given confidence level. The Group calculates VaR for a time horizon of one day and with a confidence level of 99%, and the historical period used for the calculation is one year. During 2016 the average VaR calculated for the trading portfolio was Euros 463 thousand, with a maximum of Euros 734 thousand and a minimum of Euros 240 thousand. The average position of the trading portfolio was Euros 433 million. Globally the trading portfolio comprises bonds with good credit ratings and of a very short duration, which determines a very reduced VaR.

The Group stress tests its investment portfolio to assess the expected loss in extreme situations involving abrupt increases in the yield curve or widening of credit spreads. These tests use simulations to predict how the market value of the portfolio assets is likely to change in different scenarios. Seven scenarios are analysed: four are historical (2010 Greek crisis, Lehman Brothers bankruptcy in 2008, 2001 terrorist attacks on the Twin Towers and 1998 Russian debt crisis) and three are hypothetical (steepening of the yield curve, general widening of credit spreads, and steepening of the yield curve correlated with a widening of credit spreads).

Credit risk
Credit risk is the potential loss that would arise should a counterparty fail to meet its obligations with the Group. The Group's exposure to credit risk comprises:

- The risk of default arising from ordinary treasury operations, which basically include interbank lending, securities lending and borrowing, repos and OTC derivative transactions.

- The risk of default by the issuers of bonds held in the Group's own portfolio.

- The risk of default of the loan portfolio.

The Group follows a prudent policy in assigning credit limits, authorising exposure only to countries with high credit ratings and in these countries only to the financial institutions with an investment grade credit rating and which have moderate credit spreads. Risk limits are approved annually by the Board of Directors, although upgrading of limits can be more frequent, in order to reflect changes in the credit rating and tensions in the credit spreads of entities, thus maintaining a moderate level of risk.

The Group follows a prudent policy in assigning credit limits, authorising exposure only to countries with high credit ratings and in these countries only to the financial institutions with a moderate credit risk. The Board of Directors approves the risk limits every year.

The Bank uses securities as collateral in various transactions. The limits granted are stricter for exposures to counterparties where there is no collateral as a guarantee. In such cases, the counterparty must have a high credit rating, based on the ratings assigned by the main agencies (Moody's, Fitch and S&P), and must have been assigned a relatively moderate credit risk by the market, as reflected in the level of five-year CDS prices compared to a benchmark. Observation of the market variable allows any change in the counterparty's credit rating to be swiftly included in the model.

General risk policy criteria are established regarding credit risk exposures due to transactions with customers, in order to keep a clean and controlled loan portfolio with regard to risk exposure, as part of the entity's corporate culture, and focusing on the global objectives policy, the basic principles being optimisation of quality and market diversification and positioning at all times.

Risk admission, the study and granting of transactions and credit risk management policies are established in the different phases (admission, monitoring and recovery).

The application of the risk policy is sustained by a structure of powers, responsibilities and functions:

Admission policy
The aim is to guarantee that transactions meet risk standards, using the following procedure:

- Admission channels: through the commercial network (branch office network).
- Documentation: guarantee that documentary support exists for analysing and final decision making regarding admission.
- Analysis: based on the documentation the transaction, and its capacity for return and solvency are analysed.
- Proposal by Sdar: IT application enabling the transaction to be presented based on the evaluation and corresponding sanction.
- Approval: depending on the sanctioning body which has the power to approve or reject.
- Formalisation and accounting: using the Sdar tool, the transaction is formalised and accounted for in the Group's systems.

Monitoring policy
Risk monitoring procedures exists as soon as payment default/overruns/overdrafts arise, as well as monitoring the value of collateral and control on derivative and exchange insurance transactions.

Recovery policy
Defaulted, contentious or pre-contentious risks are systematically reviewed and measures are taken to update, investigate and analyse the return capacity of debtors.

Liquidity risk
Liquidity risk is defined as the risk that the Group will be unable to meet its payment obligations at a given time, whether arising from, among others, the maturing of deposits, the drawdown of committed credit facilities or margin calls on collateralised borrowings.

The ALCO manages liquidity risk ensuring at all times that there is sufficient liquidity to meet liability settlements, whilst keeping a liquidity retainer to be able to take advantage of asset investment opportunities.

In order to correctly manage liquidity the balance sheet is analysed for contractual maturities. The entity has IT tools to correctly distribute maturities of assets and liability items over time, in such a way that future collection and payment flows can be analysed and possible gaps assessed.

Most of the Group's funds come from customer deposits, although the interbank market is also an important source of funding, mainly through repo transactions.

The Middle Office supervises the liquidity position on a daily basis and verifies that it remains above the minimum liquidity level set by the ALCO. This minimum level currently stands at Euros 350 million of cash and repo available within one day and an additional Euros 500 million of cash and highly liquid positions available within one year. Middle Office supervision includes daily monitoring of positions to be financed through repo and of the liquid portfolio.

The liquidity ratio established by the INAF, the Andorran banking supervisor, is calculated monthly. This ratio compares liquid and relatively liquid assets with liabilities becoming due and payable and is set at a minimum of 40%. This means that the Bank is required to have at least 40% of liquid or semi-liquid assets, available immediately or in the near term, to cover the total amount of the funding received. The Group’s average liquidity ratio during 2016 was 71.13% and the liquidity ratio at year end was 66.89%.

In order to comply with international standards, the Andbank Group calculates and monitors the liquidity coverage ratio (LCR). This ratio is defined by the Basel Banking Supervision Committee and links highly liquid and available assets with net cash inflows less outflows in the following 30 days. The Andbank Group has a LCR of 178% at 2016 reporting date, fully exceeding the limit imposed by legislation (70%).

Since the start of the international financial crisis the Group has prepared a liquidity contingency plan, which is updated monthly. This plan includes an assessment of contingent liquidity, assuming different levels of conversion of liquid assets into cash and available funding sources, taking the cost at which the liquidity could be generated into account. The assets that can be converted into cash and the manageable sources of liquidity are ranked, so as to give priority to the use of liquidity sources that have a low impact on the income statement, while postponing the use of liquidity sources that have a high negative impact on the income statement. In addition, potential outflows of liquidity, whether resulting from customer activity or activity in the financial markets, are identified and classified as either probable or improbable, based on likelihood of occurrence. Finally, the liquidity that could be generated is compared with the potential outflows to check that the surplus is above the approved minimum level of liquidity.

Currency risk

Currency risk is defined as the risk that movements in exchange rates will have an impact on the market value of the Group’s assets and liabilities denominated in currencies other than the Euro. Spot and forward currency transactions are monitored on a daily basis to ensure that the open position in foreign currency is kept within the authorised limits.

Operational risk

Operational risk is the risk of losses arising due to weaknesses or errors in internal and human processes, the faulty functioning of systems, external events and fraud, all of which are relevant and present throughout the Bank's business.

The Bank's main objective is to manage and control operational risk efficiently and in line with its risk appetite. The Bank has systems to identify, evaluate, control and monitor, by registering in the Group's database, all possible events implying a risk focus, with or without economic losses, for the purpose of adopting the best measures for risk mitigation.

The governance and methodology of analysis is established under the directives of the Basel Committee.

Legislative compliance risk

Compliance with prevailing legislation regarding anti money laundering and the rendering of investment services is an essential objective for Andbank. The entity has adopted a series of measures to manage legislative compliance and reputational risks. Legislative compliance risk is understood to be the possibility of material or reputational sanctions or financial losses as a result of non-compliance with prevailing legislation and/or the bank's own internal procedures. Therefore, the legislative compliance risk is closely linked to reputational risk, which implies that the Andbank Group is negatively perceived by public opinion or interest groups (customers, counterparties, employees, regulators) due to failures during the course of its activity.

Andbank considers that its public image is its best asset when retaining the trust of customers, regulators, shareholders and investors.

Andbank has a legislative compliance function in line with its strategic objectives, which carries out its activities separately from the business areas and is formed of professionals specialised in each jurisdiction in which the Group operates.

Taking into consideration the aforementioned objectives, Andbank has designed a series of global policies approved by the Board of Directors. These policies are reviewed regularly and are applicable to the whole of the Group. Andbank has also designed a series of internal controls to manage legislative and reputational risk.

The main pillars on which Andbank has instrumented the management of legislative compliance risk and reputational risk are as follows:

Ethical and conduct rules

Andbank adopts measures to promote ethical conduct by all of the Group's employees. For this purpose, Andbank understands that the customer is its key element and that no business can be admitted if it generates reputational risk.

The entity has an Ethical Code stipulating the standards of conduct with which all employees, directors and administrators must comply and binding them to a responsible conduct when carrying out their duties.

Prevention of money laundering and terrorism financing

Andbank undertakes to actively combat money laundering, financing of terrorism and other financial crimes. The effective implementation of procedures and rules based on the "Know your customer" (KYC) rules are fundamental for the Group.

KYC implies the entity having in-depth knowledge of both the individuals and entities with which it operates (whether it be a simple transaction or a long-standing commercial relationship) or to which it offers services, as well as knowing who are the final beneficiaries and related parties. KYC is an ongoing process which starts with acceptance of the customer and lasts during the whole business relationship.

In the framework of private banking the entity has a global money laundering model based on EU directives. This model includes necessary adaptations to the particularities of the business of each subsidiary and to local legislation and is constantly being changed to bring it into line with legislative amendments.

For this purpose, Andbank applies a series of reinforced measures when carrying out and monitoring customer transactions. On the basis of information provided by customers and the information obtained by the entity, all customers are classified in view of their potential risk in accordance with international standards (such as country of origin, residence or professional activity).

The legislative compliance function is focused on carrying out an independent review to provide sufficient guarantees when contracting new customers. This process is not just limited to accepting customers, it is also vital to perform ongoing monitoring to guarantee adequate knowledge of our customers at all times and therefore be able to detect transactions which could breach prevailing legislation.

In order to reinforce good governance in this field, critical for any financial institution, Andbank has set up various committees in which senior management participates and in which the contracting of especially relevant customers is reviewed. A follow up is also carried out of the measures taken by the legislative compliance function, making as many decisions as considered necessary for the aforementioned purposes.

Investor protection
The Group's commitment to its customers has two fundamental dimensions: long-term value creation and maximum information transparency. For this purpose, in order to guarantee that requirements stipulated by different legislations are met, the Group has global policies and procedures in place which are in line with each jurisdiction in which it operates.

The model established by Andbank to mitigate risks of legislative and reputational compliance takes into consideration the following:

▪ An organisational structure focused on risk management.

▪ Allocation of functions and responsibilities within the organisation.

▪ Transparent policies and procedures available to customers.

▪ Reinforcement of rules of conduct to increase investor protection.

▪ A procedure of distributing financial products based on classification of services, type of customer and products offered.

In this regard, the Group ensures that the following is achieved:

▪ Financial services in line with customer requirements.

▪ A transparent bilateral relationship with rights and obligations for both parties.

▪ Fair resolution of customer complaints.

Knowledge management and training
One of the Group's priorities in this area is the adoption of training actions, to ensure that all employees are aware of the requirements arising from applicable laws and regulations and of the procedures implemented.

Every year the Group draws up the necessary training plans in all jurisdictions. Training is given by the Group or external providers. Transmitting a culture of compliance throughout the organisation is key to adequate management of legislative compliance risk.

Incidents and complaints
Andbank gives priority at all times to its customers and therefore, it never fails to consider or deal with their opinions or possible complaints. The Quality Department channels all complaints that customers submit to the Bank through the various communication channels available. This department's aim is to quickly resolve any incidents and promote any necessary changes in policies and procedures to mitigate the risk of these incidents happening again.

19. Deposits and other securities held in custody

At 31 December 2016 and 2015, details of this caption of the consolidated memorandum accounts, by security type, are as follows:

Thousands of Euros

	2016	2015
Shares and other variable-income securities	2,547,591	2,784,244
Bonds and other fixed-income securities	4,411,606	5,789,424
Units in investment funds not managed by the Group	5,563,312	6,250,769
Units in investment funds managed by the Group	430,409	342,023
Other	10,427	11,420
	12,963,345	**15,177,880**

At 31 December 2016 Deposits of securities and other securities under custody include an amount of Euros 323,373 thousand (Euros 525,334 thousand in 2015) held as collateral for various security-backed loans (see note 6) and off-balance sheet exposures.

At 31 December 2016, the wealth of individual customers managed by the Bank is classified under Deposit of securities under custody of third parties in memorandum accounts and under liabilities in the accompanying consolidated balance sheet. The income recognised for management commissions is recognised under Fees and commissions for services in the accompanying consolidated income statement.

The measurement criteria for securities and other securities under custody are described in note 3.s.

20. Assets Managed for Third Parties

Details of assets managed for third parties, whether held in custody or not by the Group at 31 December 2016 and 2015 are as follows:

Thousands of Euros

	2016			2015		
	Held in custody / deposited by the Entity	Held in custody /deposited by third parties	Total	Held in custody / deposited by the Entity	Held in custody /deposited by third parties	Total
Collective investment undertakings	1,811,666	179,389	1,991,055	661,513	1,616,866	2,278,379
Individual customer portfolios managed discretionally	1,332,443	5,763,677	7,096,120	1,682,828	4,967,999	6,650,827
Other individual customers	12,902,532	-	12,902,532	13,830,643	-	13,830,643
Total	**16,046,641**	**5,943,066**	**21,989,707**	**16,174,984**	**6,584,865**	**22,759,849**

21. Other Memorandum Accounts

Details at 31 December 2016 and 2015 are as follows:

Thousands of Euros

	2016	2015
Very doubtful loans	86,698	77,694
Other	215,228	10,944
Trusts	85,642	87,143
Other	129,586	17,801
Public debt issued by the Andorran Government	117,563	7,393
Unlisted own securities	9.,807	8,272
Other	2.,216	2,136
	301,926	**182,638**

Trusts include unlisted variable-income securities that the Bank holds for third parties. These securities are shown at their nominal amount.

22. Compliance with Legislation

Law regulating mandatory investment ratios (Llei de regulació del coeficient d'inversions obligatòries)

In a session held on 30 June 2994 the Principality of Andorra's General Council passed a Law regulating mandatory investment ratios. The Regulations pursuant to this law exclusively concern banking institutions and oblige them to maintain a certain investment ratio of assets in Andorran public funds.

On 31 December 2005 the Government enacted a Decree for public debt issue to which the Bank subscribed in an amount of Euros 55,766 thousand, with maturity on 31 December 2009 and accruing interest at the official one-year rate of the European Central Bank. At 31 December 2009 this public debt was renewed by an amount of Euros 55,506 thousand maturing on 31 December 2013. Upon maturity at 31 December 2013, this issue was renewed once again and a new maturity date established at 31 December 2015. Finally, on 31 March 2016 it was renewed for an amount of Euros 63,744 thousand maturing on 30 March 2017.

Loans extended by the banks within a programme classified as being of national and social interest, which is aimed specifically at privileged financing of housing, are now also considered to be public funds, as approved by the Andorran Government on 26 April 1995. At 31 December 2016 the loans extended by the Bank in this regard amounted to Euros 0 thousand (Euros 10 thousand at 31 December 2015). They are recognised under Loans and receivables / Loans and advances to customers on the accompanying consolidated balance sheet. These loans accrue interest at an annual fixed market rate of 6%.

In a session held on 11 May 1995 the Principality of Andorra's General Council, passed a Law regulating deposit guarantee reserves and other operational obligations, which are to be held and deposited by entities operating in the financial system. This law obliges the banks forming part of the Andorran financial system to maintain in their permanent funds various minimum reserves of equity to secure their operational obligations up to a limit of 4% of their total investments, after deducting investments made using equity and banking funds. In accordance with Law 1/2011 of 2 February 2011 for the creation of a deposit guarantee scheme for banks, amounts deposited in the INAF pursuant to the provisions of the Law on deposit guarantee reserves and other operational obligations were released. Accordingly, as a consequence of the agreement reached by the guarantee fund Management Commission on 29 August 2011, pursuant to Law 1/2011 of 2 February 2011, the Bank has created a reserve of Euros 24,722 thousand at 31 December 2016 (see note 11.c).

On 3 March 2010 the Government issued a decree classified as of national and social interest under the program to provide privileged financing for start-up companies and businesses, innovation, conversion and entrepreneurial ventures. Basically, the decree is aimed at promoting and supporting the new ideas of those who, in difficult times and changing environments, see opportunities and challenges which, though not without risk, have the potential to assist the country's economic development. This is to be done by granting loans, subject to a prior assessment and overall approval of proposals by a joint committee made up of representatives of the Chamber of Commerce, Industry and Services of Andorra, the development company Andorra Desenvolupament i Inversió, SAU, the Association of Andorran Banks (ABA) and the Government of Andorra.

The amount outstanding at 31 December 2016 is Euros 208 thousand (Euros 334 thousand in 2015), recognised under loans and advances to customers in the balance sheet.

On 23 April 2014 the Andorran Government issued the Regulation governing the programme for adjustments to improve national real estate, enhance energy efficiency of buildings and the use of renewable energy, amended by the revised Regulation dated 11 February 2015. The amount outstanding at 31 December 2016 for operations under this programme is Euros 1,534 thousand (Euros 0 thousand at 31 December 2015), recognised under loans and advances to customers in the balance sheet.

Law regulating capital adequacy and liquidity criteria of financial institutions (Llei de regulació dels criteris de solvència i de liquiditat de les entitats financeres)

In a session held on 29 February 1996, the Principality of Andorra's General Council approved the Law regulating capital adequacy and liquidity criteria of financial institutions.

This law obliges banks to maintain a minimum capital adequacy ratio of 10%, based on the recommendation of the Basel Committee on Banking Regulations and Supervisory Practices, calculated on the basis of a ratio that relates the qualifying equity to the weighted risk assets as per the degree of risk of such assets. Banks are also obliged to maintain a liquidity ratio of at least 40%.

The capital adequacy and liquidity ratios of the consolidated financial statements, determined in accordance with this law, were 25.50% and 65.58%, respectively, at 31 December 2016 (20.72% and 76.60% at 31 December 2015).

The Law regulating capital adequacy and liquidity criteria of financial institutions also restricts the concentration of risks in a single beneficiary up to a maximum of 20% of the equity of the bank. The law also stipulates that the accumulation of risks that by themselves exceed 5% of the equity cannot exceed the limit of 400% of the above-mentioned equity. The risk maintained with the members of the board of directors cannot exceed 15% of the equity. These risks are weighted in accordance with the aforementioned law.

During the year the Group has complied with the requirements of this law. The maximum risk concentration of risk in favour of a single beneficiary was 18.80% of equity (18.86% in 2015). Loans or other operations involving risk in a single beneficiary that exceed 5% of equity have not exceeded an accumulation of risks of 216.79% in the aggregate (156.20% in 2015).

In addition, pursuant to the capital requirements in the framework of Basel III (see note 11.h) agreed by the Basel Banking Supervision Committee in 2010 which require at 2016 year end a minimum common equity tier 1 ratio of 5.125%, a minimum tier 1 capital ratio of 6.625% and a minimum capital ratio of 8.625% (including common tier 1 capital items, additional tier 1 capital items as well as tier 2 capital items), the Andbank Group stands at well above these minimum ratios at 31 December 2016 and presents a comfortable situation in order to comply with any regulations complementing current ones. In this stricter regulatory environment, Andbank Group's fully-loaded capital ratios at 31 December 2016 are:

- Common equity tier 1 ratio (CET1) of 13.55%.

- Tier 1 capital ratio of 15.79%.

- Capital ratio of 16.11%.

It should also be highlighted that the Andbank Group's current ratios amply meet the minimum capital requirements to enter into force in 2019 and which set a minimum of 7% for the CET1 ratio, 8.5% for the Tier 1 ratio and 10.5% for the capital ratio.

Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime (Llei de cooperació penal internacional i de lluita contra el blanqueig de diners o valors producte de la delinqüència internacional)

At its session held on 29 December 2000, the Principality of Andorra's General Council approved the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime, which was subsequently amended by Law 28/2008 of 11 December 2008, Law 4/2011 of 25 May 2011, Law 20/2013 of 10 October 2013 and Law 4/2014 of 27 March 2014.

In accordance with this law, the Group has set up proper and sufficient control and internal communications procedures to protect banking secrecy and prevent and impede operations related to money laundering generated by criminal activities. Specific personnel training programs have been carried out to this effect.

Law on the legal regime governing entities operating in the Andorran financial system and other provisions regulating financial activities in the Principality of Andorra (Llei sobre el règim jurídic de les entitats operatives del sistema financer andorrà i altres disposicions que regulen l'exercici de les activitats financeres al Principat d'Andorra)

In the session held on 9 May 2013 the General Council approved Law 7/2013 on the legal regime governing entities operating in the Andorran financial system and other provisions regulating financial activities in the Principality of Andorra (Llei sobre el règim jurídic de les entitats operatives del sistema financer andorrà i altres disposicions que regulen l'exercici de les activitats financeres al Principat d'Andorra)

The purpose of this law is to unify the legislation governing banks operating in the financial system contained in Laws 24/2008, 13/2010, 14/2010 and the 1996 Law regulating the operational functions of the different components of the financial system into one single text. For this reason, although this Law does not introduce any significant amendments to the existing regulations, it does act to reinforce and restructure the prevailing laws to provide increased legal security to the legislative framework governing the Andorran financial system.

Approval of Law 7/2013 implies repealing the following laws: 1996 Law regulating the operational functions of the different components of the financial system; Law 24/2008 regulating the regime of specialised non-banking credit institutions; Law 13/2010 regulating the legal regime of investment entities and collective investment undertaking management companies; and articles 8 to 17 of Law 14/2010 regulating the legal regime of banking entities and the basic administrative regime of entities operating in the financial system.

Law on organisational requirements and operating conditions of the operating entities of the financial system, investor protection, market abuse and financial collateral arrangements (Llei sobre els requisits organitzatius i les condicions de funcionament de les entitats operatives del sistema financer, la protecció de l'inversor, l'abús de mercat i els acords de garantia financera).
In the session held on 9 May 2013 the General Council approved Law 8/2013 on organisational requirements and operating conditions of the operating entities of the financial system, investor protection, market abuse and financial collateral arrangements (Llei sobre els requisits organitzatius i les condicions de funcionament de les entitats operatives del sistema financer, la protecció de l'inversor, l'abús de mercat i els acords de garantia financera).

The purpose of this law is to maintain a structurally and functionally sound financial system, aiming at clarifying the legal framework regulating the financial system prevailing in Andorra. As a result, the provisions of Law 14/2010 and the prevailing provisions of the Law regulating the Andorran financial system dated 27 November 1993 are unified into a single text which incorporates commitments acquired regarding privileged information and market manipulation and abuse into Andorran legislation with the signing of the Monetary Agreement with the European Union.

This law includes the principles set out in Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004, known as MiFID (Markets in Financial Instruments Directive), relating to the rules regarding ethics and conduct to be complied with by investment entities.

The approval of Law 8/2013 implies the repeal of articles 1 to 7, 18 to 44 and 46 to 55 of Law 14/2010 regulating the legal regime of banking entities and the basic administrative regime of entities operating in the financial system; and the repeal of the Law regulating the Andorran financial system of 27 November 1993.

Law regulating the Andorran National Institute of Finance (Llei de l'Institut Nacional Andorrà de Finances)
At the session held on 23 May 2013 the General Council approved Law 10/2013 regulating the Andorran National Institute of Finance (INAF).

The purpose of this law is to provide the INAF with the necessary resources to meet its objectives whilst, taking into consideration the INAF's global scope of operations in a context of international expansion of the Andorran financial system, increasing these resources in line with the global growth of financial markets and pursuant to the commitments Andorra has acquired from signing the Monetary Agreement with the European Union.

The approval of Law 10/2013 implies repealing the following laws: Law 14/2003 regulating the Andorran INAF; article 45 of Law 14/2010 regulating the legal regime of banking entities and the basic administrative regime of entities operating in the financial system; and article 22 of the Law regulating the capital adequacy and liquidity criteria of financial institutions of 29 February 1996, amongst other regulations.

Law governing indirect general taxation (Llei de l'Impost General Indirecte)
In its session held on 21 June 2012 the General Council of the Principality of Andorra approved the Law governing indirect general taxation (IGI) which entered into force on 1 January 2013. This law was subsequently amended by Law 29/2012 of 18 October 2012 and by Law 11/2013 of 23 May 2013, amending Law 11/2012.

This indirect general tax is levied on goods delivered, service rendered and imports made by onerous contract in Andorra by business people or professionals usually or occasionally as part of their economic activity, irrespective of the purpose or the results achieved in the economic activity or in each particular transaction, including the condition of importer. The general tax rate is 4.5%, with a reduced rate of 1% and an increased rate of 9.5%, which is only applied to banking and financial services rendered.

The fifth additional provision to Law 11/2012 governing indirect general tax approved by Law 10/2014 of 3 June 2014 amending Law 11/2012, stipulates a special tax regime for the financial sector to which banks and non-banking specialised credit institutions carrying out activities subject to the increased tax rate stipulated in article 60 of the Law have adhered. This regime restricts the deduction of input tax to a maximum amount equivalent to 10% of the output tax at a rate of 9.5% for the rendering of bank and financial services. It is not applicable to real estate property.

The settlement period depends on the annual net turnover for all of the activities carried out by the tax payer in the immediately previous year. Payments can be made half-yearly, quarterly or monthly. Tax payers have to determine the tax debt in each settlement period, reducing the general indirect tax payable during the period by the general indirect tax installments receivable, which are deductible in nature. The payable to or receivable from the Andorran Government deriving from the declaration of the aforementioned tax is recognised under Loans and receivables and Current receivables.

The entry into force of Law 11/2012 of 21 June 2012 governing indirect general tax repeals the Law governing indirect taxation on the rendering of banking and financial services of 14 May 2002.

Law governing non-resident income tax (Llei de l'Impost sobre la Renda de No Residents Fiscals)
In a session held on 29 December 2010 the General Council of the Principality of Andorra approved the Law governing non-resident income tax. This direct tax is levied on income obtained in the Principality of Andorra by individuals or entities which are non-resident for tax purposes.

The net tax payable is calculated by deducting the deduction for double taxation from the taxable income, determined in accordance with the Law governing non-resident income tax.

Pursuant to Law 94/2010 of 29 December 2010 governing non-resident income tax, amended by Law 18/2011 of 1 December 2011, the tax rate applicable in 2016 stands at 10% for general purposes, 1.5% when income derives from reinsurance operations and 5% when income is received in the form of royalties.
Payments on account of non-resident income tax made by the Bank during 2016 and 2015 are recognised under Other assets - Taxes on the accompanying balance sheet (see note 13).

Law 8/2015 of 2 April 2015 on urgent measures to implement restructuring and resolving mechanisms in banking entities (Llei 8/2015, del 2 d'abril, de mesures urgents per implantar mecanismes de reestructuració i resolució d'entitats bancàries)
In the session held on 2 April, the Principality of Andorra's General Council approved Law 8/2015 of 2 April 2015 on urgent measures to implement restructuring and resolving mechanisms in banking entities.

This law is the Principality of Andorra's response to certain events suggesting that the financial system is closely interconnected and that any crisis in a financial institution could spread rapidly to other banks and to the global economy. Certain measures have been set up to flexibly respond to various situations related to this systemic risk, including the creation of an Agency for the Resolution of Banking Entities (AREB) as the competent authority in the area of resolution. In addition, an Andorran Fund for the Resolution of Banking Entities (FAREB) has been created for the purpose of backing to the extent possible, the measures agreed when applying the aforementioned law. The FAREB is an entity without legal personality managed by the AREB.

The wording and drafting of this Law have been inspired on the principles of Directive (EU) no 2014/59.

Finally, the law stipulates an initial and extraordinary contribution to the FAREB of Euros 30 million by Andorran banking entities and the opening of a financing programme of up to Euros 100 million to finance companies and businesses.

Law 19/2016 of 30 November 2016 on automatic exchange of information in tax matters (Llei 19/2016, del 30 de novembre, d'intercanvi automàtic d'informació en matèria fiscal)
This Law regulates the legal framework required to meet the commitments regarding the automatic exchange both with the European Union and those commitments assumed by virtue of the multilateral agreement of the Council of Europe and the OECD and adapts and incorporates the OECD's Common Reporting Standards (CRS) to the Andorran legal system.

Likewise, Law 11/2005 of 13 June 2005 applying the Agreement between the Principality of Andorra and the European Community in relation to the establishment of measures equivalent to those provided for in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments, was repealed.

23. Corporate Citizenship or Similar Activities

The Group does not have any legal or statutory obligations relating to corporate citizenship. However, the Group has always been characterised by a strong social commitment and a strong desire to work towards the general interest to improve the country's economic and social progress.

24. Events After the Reporting Period

On 28 December 2016 the Andorran Government issued a Decree approving the accounting framework applicable to entities operating in the Andorran financial system and to collective investment undertakings under Andorran law in accordance with international financial reporting standards as adopted by the European Union (IFRS-EU) which have also been adopted by Andorra (IFRS-Andorra).

The aforementioned Decree stipulates that the first annual accounts prepared in accordance with the criteria set forth therein, shall be those for 2017. Nevertheless, the annual accounts for 2017 must include, for comparative purposes, the balance sheet at 31 December 2016 and the income statement for the year then ended prepared using the same accounting criteria and standards applied to prepare the annual accounts for 2017.

Andbank is currently analysing the implications of this Decree on the accounting criteria, the information to be disclosed in the annual accounts and the evaluation of the modifications to reporting procedures and systems. At the date these annual accounts are authorised for issue, Andbank is in the process of preparing the information to enable it to estimate the impact of the new Decree on the figures for 2016, which will be included in the annual accounts for 2017, as these will not be considered definitive until the 2017 annual accounts have been authorised for issue, which will depend on the definitive standards and interpretations and the options finally adopted by the Directors, in those cases where standards permit alternative treatment.

6.

RISK MANAGEMENT

Risk management

Risk management and control is a fundamental aspect of managing the Andbank group. The main risks to which Andbank is exposed as a result of the group's activities are:

- Interest rate risk,
- Exchange rate risk,
- Market risk,
- Credit risk,
- Liquidity risk,
- Operational risk,
- Reputational risk.

The Chief Risk Officer (CRO) is responsible for permanently monitoring and controlling risk at a global level through the Credit Risk Department, which manages and monitors credit risk with customers; the Middle Office, which supervises interest rate risk, exchange rate risk, market risk, counterparty risk, country risk and liquidity risk; the Controller Europe and Controller LatAm functions, which control the activities of international subsidiaries to ensure that these are carried out within the established regulatory framework and comply with the requirements of the supervisory authorities in each jurisdiction; and the Operational Risk area, which supervises the bank's operational risk. Furthermore, the risk control managers of each entity in the group have a functional reporting line to the CRO, who acts globally overseeing their activity and ensures that uniform control standards are applied across the whole group in addition to the necessary local requirements. In 2016 a new Specialist Risk Committee was created to advise the board of directors on risk-related matters.

The Internal Audit Department also has a role in controlling the aforementioned risks, highlighting any non-compliance or unauthorised risk taking and proposing any corrective actions in the event that these had not been detected and reported by the different permanent control managers.

The risk control framework comprises a qualitative component, associated with the policies that are defined and the assigned managers, and a quantitative component, based on establishing limits. The group's approach to managing risk is based on maintaining a prudent policy in which the assumption of risk is specifically linked to business activities in its commercial banking, private banking and asset management areas. The group manages and controls its risk according to the following principles:

- Clear definition of responsibilities of the units involved in controlling risk.
- Provision of the appropriate human and technical resources to effectively perform the risk functions.
- Appropriate internal control systems.
- Transparent information relating to the assumed risk.

Responsibility for defining policies, specifying limits and supervising risk is delegated by the board of directors to the Asset, Liability and Risk Committee (COAP). The general policies and specific limits defined by the COAP are therefore submitted to the Specialist Risk Committee to be analysed, and to the Board of directors to be evaluated and approved. In addition, risk limits are regularly reviewed in order to adapt them to the economic and market outlook and in all cases are submitted to the board of directors to be approved at least once a year. In 2016, the risk limit frameworks for country risk and counterparty risk were submitted to the board of directors to be approved.

The methodology for assigning country risk limits takes into account relatively static factors, such as membership of international organisations (EU, OECD) and ratings, as well as dynamic factors (market variables), such as credit default swap prices for the country. To assign risk limits to financial institutions, factors such as ratings and Tier I capital ratios are used, as well as market indicators, specifically credit default swap prices. This methodology enables the group to maintain stable risk exposures for countries and counterparties with good credit quality, as well as allowing it to quickly adjust its exposure to countries and counterparties whose credit quality deteriorates.

The COAP meets every month as part of its responsibility for managing interest rate, exchange rate, country and counterparty, liquidity and market risk. The committee is also responsible for managing the group's balance sheet and capital in order to ensure a high degree of solvency. In turn, the COAP delegates supervision of these risks to the Middle Office.

The Management Control Committee, which meets every month, has responsibility for ensuring that the asset management activity complies with established legal and regulatory requirements. It also assesses the results and risks. This committee delegates the asset management control work to the Middle Office. In addition to ensuring that the group's internal bodies and investment models are compliant with the regulatory framework, the Middle Office also assesses how the investment policy is performing and regularly monitors profitability and risk indicators.

In recent years, the Andbank group has adapted its risk management to events driven by the financial crisis in Europe, especially issues related to the sovereign debt of periphery economies, regularly reviewing the risk limits in order to reduce the group's exposure to countries and counterparties that have had their ratings downgraded and widening credit spreads on their debt. This dynamic management of the group's counterparty risk and a prudent approach to risk taking have enabled it to maintain a moderate level of risk throughout the financial crisis in line with its risk policy.

The group's objectives in terms of risk management for 2016 have focused on consolidating its new risk monitoring systems, especially market risk associated with transactions carried out in financial markets, as well as maintaining its flexibility to tackle the challenges posed by new activities and to implement the appropriate measures to maintain the desired risk profile in both time and form.

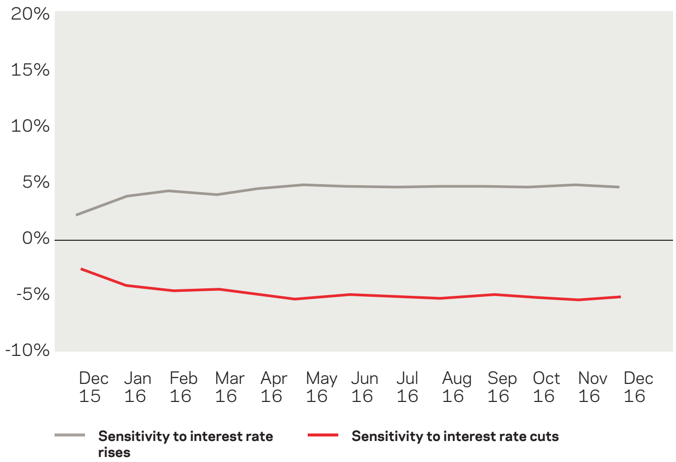
Interest rate risk

Interest rate risk is defined as the impact on the market value of the group's assets and liabilities as a result of movements in interest rates. The measures that the group uses to assess this impact are the sensitivity of net interest income to 25 b.p. parallel shifts in the interest rate curve for the main currencies in the balance sheet, and the sensitivity of the market value of capital to 100 b.p. parallel shifts in the interest rate curve.

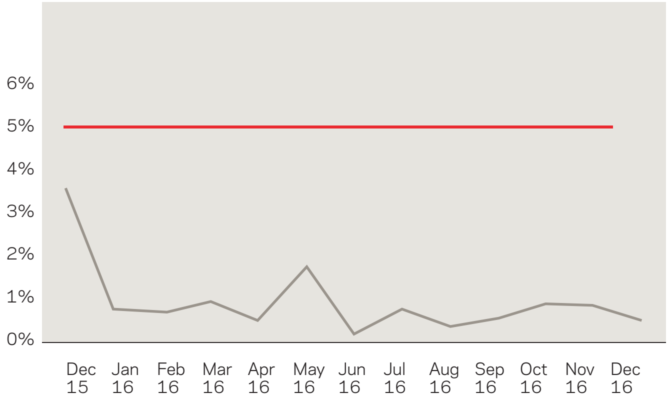
In the context of the historically-low interest rates of recent years, the group has a positive exposure to shifts in the interest rate curve. This means that the group's net interest income would increase if interest rates rise and, conversely, would decrease if interest rates fall, although this sensitivity is asymmetrical at current levels and there is far greater sensitivity to an interest rate rise than a fall. The repricing gap of interest rate-sensitive assets and liabilities on the balance sheet is therefore positive. In other words, in general assets are repriced at shorter intervals than liabilities. This positioning is reflected in the placing of very short-term interbank deposits and holding a fixed income portfolio mainly invested in bonds with a yield linked to the three or six-month EURIBOR rate or fixed rate bonds with short or medium-term maturities, although part of the portfolio consists of fixed rate bonds with long maturities that help to generate additional margin and increase the duration of the asset side of the balance sheet. A significant part of these bonds are financed in the market through fixed rate repo transactions that enable the group to cover the duration risk. In 2016, interest rate swaps were used to cover the duration risk of the medium and long-term bonds in the ordinary investment portfolio or at maturity.

The sensitivity limit for capital resulting from a 100 b.p. parallel shift in the interest rate curve was approved by the board of directors at a level of 5%. Although the sensitivity of capital was positive during 2016 as a result of the group's interest rate strategy and the structure of its balance sheet, the level was always kept below this limit.

Sensitivity of net interest income at one year



Sensitivity of capital



Exchange rate risk

The group defines exchange rate risk as the impact on the market value of the group's assets and liabilities denominated in non-Euro currencies as a result of movements in exchange rates. Spot and forward foreign exchange transactions are monitored every day to ensure that open positions are kept within authorised limits.

At the end of the year, the global open position was 0.526 million euros, well within the global limit for the net open foreign exchange position of six million euros. The largest net short position during the year was -1.119 million euros while the largest net long position was 1.119 million euros.

The group also has foreign currency positions on its balance sheet arising from its holdings in subsidiaries that are denominated in non-euro currencies. These positions are monitored, checked and hedged as necessary.

Market risk

Market risk is defined as the potential loss that the trading portfolio is exposed to as a result of changes in market conditions, such as changes to asset prices, interest rates, volatility or market liquidity. The group uses the "Value at Risk" methodology (VaR), the industry standard, to manage the market risk of the trading portfolio, as well as stress testing the investment portfolio at maturity.

The VaR calculation uses the historical method. The result of the calculation represents the maximum expected loss for a specific time horizon and confidence level. The group calculates the VaR for a one-day time horizon with a 99% confidence level and a historical period of one year. In 2016, the average VaR for the trading portfolio was 463,000 euros, reaching a maximum of 734,000 euros and a minimum of 240,000 euros, on an average trading position of 433 million euros. Globally, the trading portfolio consists of high credit quality bonds with a very short duration, which results in a very low VaR.

Trading portfolio

Month	VaR(*)	Average monthly volume(*)
January 2016	2.24	571
February 2016	2.264	424
March 2016	0.851	366
April 2016	1.054	355
May 2016	0.934	442
June 2016	0.585	387
July 2016	1.016	300
August 2016	0.439	545
September 2016	0.306	627
October 2016	1.287	734
November 2016	0.267	570
December 2016	0.525	240

(*)Figures in millions of euros

The group stress tests the investment portfolio to determine how much value this portfolio would lose in the event of extreme rises in the interest rate curve or extreme credit spreads.

These tests are carried out by simulating changes in the market value of the assets that comprise the portfolio under different scenarios.

Seven scenarios are analysed, four of which are historical (the Greek crisis of 2010, the Lehman Brothers bankruptcy of 2008, the terrorist attacks on the Twin Towers in 2001 and the Russian debt crisis of 1998) and three are hypothetical (a straightening of the interest rate curve, a general widening of credit spreads and the straightening of the interest rate curve correlated with widening credit spreads).

The worst case scenario is then selected and its impact on the portfolio is evaluated. In the case of the Andbank portfolio, the most adverse scenario is the Russian debt crisis of 1998. The following table shows the impact on the value of the portfolio by month:

Month	Potential loss	Average monthly MtM(*) (Market Value)
January 2016	-4.13 %	489
February 2016	-4.75 %	511
March 2016	-4.98 %	521
April 2016	-4.83 %	514
May 2016	-5.80 %	461
June 2016	-5.43 %	468
July 2016	-3.86 %	572
August 2016	-3.95 %	569
September 2016	-5.04 %	506
October 2016	-4.05 %	509
November 2016	-5.11 %	488
December 2016	-4.14 %	498

(*)Figures in millions of euros

Credit risk

Credit risk refers to the potential loss derived from a counterparty failing to fulfil its obligations with the group. The group's credit risk exposure consists of:

- The risk of default in routine treasury transactions that primarily consist of loans in the interbank market, stock lending and borrowing, repo transactions and OTC derivative transactions.
- The risk of default of the issuers of the bonds in the proprietary portfolio.
- The risk of default in the lending portfolio.

The group applies a prudent policy when assigning limits. It authorises risk exposure in countries with strong credit ratings and, within these countries, it authorises exposure to financial institutions that present moderate credit risk. Risk limits are approved by the board of directors once a year.

The limits for exposures with counterparties that are uncollateralised are far stricter. In these cases, the counterparty must have a high quality credit rating from the main rating agencies (Moody's, Fitch and S&P) and the market must assign it a moderate level of credit risk, in relative terms, reflected in the price of its five-year credit default swap compared to an index. The group monitors this market variable so that it can quickly incorporate any changes in the counterparty's credit quality into its model.

The group uses collateral to reduce risk exposure in certain transactions, primarily OTC derivative, repo and stock lending/borrowing transactions. Counterparties that have signed an ISDA framework agreement that includes netting can offset the derivatives exposure that exists between them. In 2016, Andbank signed ISDA, CSA and GMRA agreements with new counterparties, broadening the spectrum of potential counterparties for derivative transactions while also limiting its exposure to counterparty risk. At the same time, this collateral is managed extremely actively with daily exposure monitoring subject to the aforementioned agreements, issuing demands for additional collateral from counterparties when there is risk exposure that must be covered.

In 2016, the group's fixed income portfolio focused on high credit quality assets, with 68.61% of the portfolio invested in sovereign bonds, GGBs or government agencies. With regards to country concentration, the portfolio is mainly diversified into government debt from the United States, Germany, France, Holland, Spain and Italy. Following the corporate decision made in 2014 to invest in US sovereign risk (AAA rated), part of the portfolio was invested in these assets on the basis of the spreads compared to US interest rates as well as to benefit from USD cash flows generated by the liability side of the balance sheet.

The fixed income portfolio therefore consists of bonds in which the group is directly exposed to the risk of the issuer and/or guarantor, predominantly with "investment-grade" ratings, as well as bonds used to hedge customers' structured deposits, which the group holds on the balance sheet but has transferred all of the risk to its customers. The fixed income portfolio classified by issuer rating is as follows (in thousands of euros):

Fixed income portfolio

Rating	With exposure to the issuer's and/or guarantor's risk	With the risk transferred to the customer	Total
AAA	305,964	0	305,964
AA+ to AA-	183,764	0	183,764
A+ to A-	8,200	0	8,200
BBB+ to BBB-	175,956	0	175,956
Investment grade	**673,883**	**0**	**673,883**
BB+ to BB-	14	0	14
B+	71	0	71
High yield	**86**	**0**	**86**
Total	**673,969**	**0**	**673,969**

With regards to credit risk exposure on transactions with customers, the group has a credit portfolio of 1.923 billion euros, mainly in credit facilities and loans, of which 771 million euros are mortgage-backed transactions and 733 million euros have pledged collateral.

The main elements for managing credit risk are the group's lending and authorisation policies, monitoring the evolution of exposure and holding regular committee meetings (Irregular Risk Committee and the Board Risk Committee). Credit risk concentrations are reviewed weekly and monitored so that they remain within the parameters defined by the market supervisor, while also establishing maximum borrowing levels for certain groups. The Credit Risk Department is responsible for managing and controlling customer credit risk.
Default levels are also simultaneously controlled at the product level so that lending and authorisation policies can be adapted as required. Lending decisions are taken based on the transaction. The evolution of the risk is monitored by analysing qualitative and quantitative variables based on the supervisor's requirements. The group's NPL ratio is 3.23%, which is below the average of the financial institutions in neighbouring countries. In 2015, the group continued to apply a conservative provisioning policy and NPL coverage increased from 67.68% to 68.96%. Furthermore, during the year balances that had already been fully provisioned for, totalling 8.3 million euros, were adjusted.

General risk policy criteria have been established in the group in order to maintain a sound lending portfolio and control the risk exposure. These criteria are incorporated into the bank's corporate culture and reflect its global targets, founded on the basic principles of optimising quality, diversification and the situation in the market at any given time.

Policies are established for risk approval, for studying and approving transactions and for managing credit risk in the different phases (approval, monitoring and recovery).

The risk policy is applied based on a structure of powers, responsibilities and delegations.

Approval policy
Its purpose is to ensure that transactions comply with risk standards using the following procedure:

- Approval channels: through the sales network (branch network).
- Documentation: ensure that there is documentary support for analysing and making the final decision about the transaction.
- Analysis: the transaction, repayment capacity and solvency are all analysed based on the documentation.
- Sdar proposal: computer application that presents the transaction to be assessed and approved, as applicable.
- Approval: depending on the authorising body that has the power to approve or decline it.
- Formalisation and accounting: the transaction is formalised and recorded in the application using the Sdar application.

Monitoring policy
Procedures have been put in place to monitor the authorised risk in the event of defaults, limit breaches or overdrafts, as well as for monitoring collateral, collateral depreciation and control of derivative transactions and exchange rate hedges.

Recovery policy
Risks derived from default situations, in both pre-litigation and litigation phases, are systematically reviewed and actions are taken to update, investigate and analyse the status of the corresponding debtors.

Liquidity risk

Liquidity risk is defined as the risk of the group being unable to meet its payment commitments at a specific time, whether due to maturing deposits, drawdowns on agreed credit facilities or demands for security in collateralised transactions, among other reasons.

The COAP committee manages the group's liquidity risk ensuring that there is sufficient liquidity at all times to deal with any cancelled liabilities while simultaneously holding sufficient liquidity to exploit any asset-based investment opportunities that may arise.

The group's liquidity is appropriately managed by analysing the contractual maturities of the balance sheet. The bank uses computer software to correctly distribute the maturities of its assets and liabilities over time, enabling it to analyse future payment and collection flows and therefore to determine any potential gaps.

The majority of the financing comes from customer deposits, although the interbank market is also an important source of funding, mainly through the use of repo transactions.

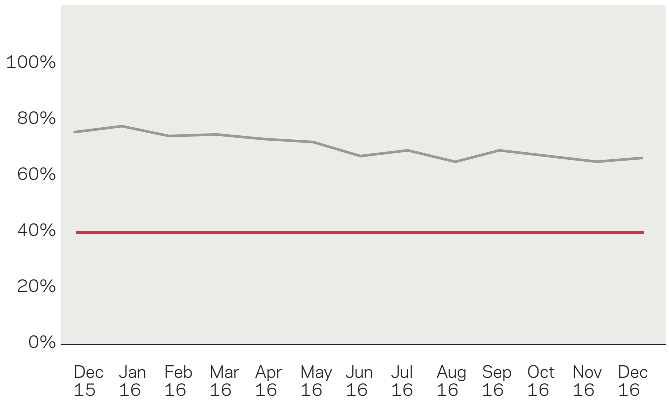
The following table shows the assets and liabilities classified by maturity. Certain headings, such as current accounts, include a proportion that is deemed to have no maturity based on the bank's own historical experience and the stability of these accounts in the balance sheet.

	Less than three month	From three to six month	From six month to one year	From one to five years	From five to ten years	More than ten years	Total
Total Loans	386	111	246	448	171	241	1,604
Interbank deposits	1,445	0	196	0	0	44	1,685
investment portfolio	378	18	127	245	151	231	1,150
Other assets	0	0	0	0	0	556	556
Total assets	**2,209**	**129**	**569**	**693**	**322**	**1,072**	**4,995**
Creditors	609	419	888	84	9	1,381	3,398
Interbank deposits	252	0	20	56	126	101	555
Debts repr. by securities	0	0	0	0	0	50	50
Other liabilities	0	0	0	0	0	1,001	1,001
Total liabilities	**861**	**419**	**908**	**140**	**135**	**2,533**	**4,995**
Simple GAP	1,348	-290	-339	554	187	-1,460	0
Cumulative GAP	1,348	1.058	720	1,273	1,460	0	0

The Middle Office controls the group's liquidity position every day, checking that it remains above the minimum level set by the COAP. This level is 350 million euros in cash and repo agreements available within one day plus an additional 500 million euros in cash and highly liquid positions up to one year. This control includes daily monitoring of positions that can be financed with repo agreements and the liquid portfolio.

The liquidity ratio set by INAF, the supervisory authority for Andorra's financial system, is calculated every month. This ratio compares liquid and readily-convertible assets with current liabilities and is set at a minimum of 40%. In other words, a financial institution must hold 40% of its assets in cash or easily convertible assets in order to cover all of the financing it has received, either immediately or within a short period of time. The group's average liquidity ratio in 2016 was 71.13% and 65.58% at the end of the year.

Liquidity ratio



The Andbank group calculates and uses the Liquidity Coverage Ratio (LCR), in line with international standards. This ratio is defined by the Basel Committee on Banking Supervision and compares the amount of available highly-liquid assets with the net amount of cash inflows and outflows over the next 30 days. The levels and compliance schedule are as follows:

	2016	2017	2018	2019
Minimum LCR	70%	80%	90%	100%
Andbank LCR	206%			

LCR: Liquidity Coverage Ratio

The Andbank group's ratio at the end of 2016 was 206%, easily exceeding the limit required by the regulations.

A contingency plan for the group's liquidity has been prepared every month since the start of the international financial crisis, to identify and assess the contingent liquidity based on different levels of availability of its liquid assets and the available sources of financing, examining the cost that could arise of this liquidity. Convertible assets and the available sources of liquidity are then ranked, prioritising those liquidity sources that would have a low impact on the income statement and relegating those that would have a high negative impact. Potential scenarios of liquidity outflows are also identified, whether they are the result of customer activities or events in the financial markets, and are classified into two groups according to their degree of probability (probable and improbable). Finally, the liquidity requirements that could be generated are compared to the potential outflows and the surplus amount is checked to ensure that it is greater than the approved minimum liquidity level.

Operational risk

Operational risk is defined as the risk of losses arising from deficiencies or errors in internal processes, people's actions, internal systems or external events.

The group believes operational risk requires an integral management approach, in the same way as other types of banking risk such as credit risk or market risk. The group has therefore established a continuous process for managing operational risk that is implemented across four stages:

- Identification of the operational risks to which each group entity is exposed and registration of any operational circumstances that lead to unplanned profits or losses.
- Evaluation and measurement of the potential and real impact of the risks identified, as well as the probability of their future occurrence.
- Monitoring of the evolution of previously identified risks.
- Control and mitigation of risks by establishing improvement action plans for the corresponding processes and controls.

The Risk Monitoring and Control Area is responsible for managing this type of risk and keeps a database of operational incidents that it analyses before presenting corrective measures to management.

An effective internal control system creates added value for the group by helping to improve management procedures that ensure the effectiveness of business processes and compliance with prevailing legislation in every country in which the group has a presence.

Reputational risk

The Andbank group defines reputational risk as the risk associated with the perception of the bank held by its different stakeholders in the course of its activities, and which can have an adverse impact on the results or expected development of the bank's businesses. It includes legal, economic, financial, ethical, social and environmental aspects, among others.

The management of reputational risk involves different departments of the group including Compliance, Legal, Internal Audit, Quality and the Middle Office.

Compliance

Andbank has an unwavering commitment to compliance with current regulations on anti-money laundering and the provision of investment services. The group has therefore adopted a series of measures to manage its compliance and reputational risk. Compliance risk is defined as the possibility of incurring sanctions or financial losses, material or reputational, as a consequence of breaching prevailing laws and regulations and/or the bank's own internal procedures. Compliance risk is therefore closely associated with reputational risk, which involves a negative perception of the Andbank group by the public or its stakeholders (customers, counterparties, employees, regulators) due to improper actions by the bank in carrying out its activities.

Andbank believes its public image is its best asset for maintaining the trust of its customers, regulators, shareholders and investors. Andbank's compliance function is aligned with the group's strategic objectives and performs its role independently from the group's other business areas. It consists of professionals that specialise in each jurisdiction in which the group has a presence.

A series of global policies has been designed taking into account the aforementioned objectives, approved by the board of directors, which are regularly reviewed and apply across the whole group, in addition to a set of internal controls for managing regulatory and reputational risk.

The main pillars on which Andbank bases the management of its compliance and reputational risks are listed below:

Ethical standards and rules of conduct
Andbank takes measures to promote ethical conduct by all of the bank's employees. Andbank understands that the customer is the bank's priority and any activity that could create reputational risk is unacceptable.

The bank has an ethical code that defines the standards of conduct expected from all employees, senior managers and directors, who are required to act in a responsible way in performing their duties.

Prevention of money laundering and terrorism financing
Andbank is actively committed to combating money laundering, terrorism financing and other financial crimes. The effective implementation of procedures and rules based on the "Know Your Customer" (KYC) concept is fundamental to the group.

KYC means knowing both the people and entities, in detail, with which the group engages (whether through a single transaction or a long-lasting commercial relationship) or to which it offers its services, as well as knowing who the ultimate beneficiaries are and any related parties. KYC is a continuous process that begins with approval of the customer and lasts for the duration of the business relationship.

In the private banking activity, the bank uses a global anti-money laundering model based on EU directives, which includes the necessary adaptations for the specific characteristics of each subsidiary and its local regulations. This model constantly evolves to adapt to changes in regulations.

Andbank therefore applies a series of toughened measures when accepting and monitoring customer operations. Every customer is classified according to its potential risk, based on the information provided by the customer and data obtained by the bank itself, according to international standards (such as the country of origin, residency or business activity).

The Compliance function performs an independent review to provide sufficient guarantees when accepting new customers. However, this process is not restricted to their acceptance. Customers must be continuously monitored to ensure that appropriate information about them is held at all times to be able to detect operations that may be illegal or unlawful.

To strengthen good governance in such a critical area for financial institutions, Andbank has established various committees involving the company's senior management which verify the acceptance of particularly sensitive customers and monitors the corresponding actions taken by the Compliance Department, taking all necessary decisions to comply with the aforementioned objectives.

Investor protection
The bank's commitment to its clients has two key aspects – the creation of long-term value and maximum information transparency. The group has therefore put in place global policies and procedures adapted to the individual characteristics of each jurisdiction where it operates to ensure compliance with the requirements of their different regulations.

Andbank's model to mitigate compliance and reputational risk take the following into consideration:

- An organisational structure designed around risk management.
- Assignment of duties and responsibilities within the organisation.
- Transparent policies and procedures for customers.
- Enhanced rules of conduct for better investor protection.
- A procedure for distributing financial products based on the classification of services, customer type and the products offered.

The group therefore ensures that:

- Financial services are appropriate to customers' needs.
- There is a transparent bilateral relationship with rights and obligations for both parties.
- Customer complaints are resolved fairly.

Knowledge management and training
Training is one of the group's priority actions to ensure that all employees understand the requirements of prevailing regulations and the bank's policies and procedures.

Every year, the group defines training plans for each jurisdiction and this training may be given by members of the group or external providers. Instilling a culture of compliance throughout the organisation is essential for correctly managing compliance risk.

Incidents and complaints
Andbank always puts its customers' interests first and customer opinions or potential complaints are always dealt with appropriately and taken into consideration. The Quality Department deals with all non-conformities that customers report to the bank through the various communication channels available to them. The purpose of this department is to quickly resolve any incidents and promote the necessary changes in policies and procedures to mitigate the risk of these incidents reoccurring.

Capital management

Management of the bank's capital is not only based on maintaining a minimum capital ratio, sufficient to support its existing and future business activities, and which complies with the supervisor's requirements, but is also about maintaining a level of capital that ranks Andbank among the group of financial institutions with the highest levels of solvency. The group's high degree of solvency conveys an important message of trust and security to its customers, the financial institutions that Andbank deals with, and all of its other stakeholders.

The group's solvency ratio at the end of the year was 25.50%, some 155% higher than the minimum level required by the supervisor of 10% and higher than the comparable ratio of the average for European financial institutions. Adjusted capital therefore totalled 367.41 million euros and the group holds a capital surplus of 223.33 million euros. Under the framework of the capital requirements agreed by the Basel Committee on Banking Supervision in 2010, the new capital requirements came into force from 1 January 2015. From this date onwards banks were required to maintain a minimum Common Equity Tier 1 (CET1) ratio of 4.5%, which increased to a minimum of 5.125% from 1 January 2016. Likewise, the minimum Tier 1 Capital Ratio (TIER1) was set at 6% from 1 January 2015 and rose to 6.25% from 1 January 2016. Simultaneously, and during this transitional period, the minimum total capital ratio (including elements of Common Equity Tier 1, Additional Tier 1 capital and Tier 2 capital) increased from the minimum level of 8% in 2015 to a minimum level of 8.625% from 1 January 2016. Furthermore, financial institutions must maintain an additional capital buffer of 2.5%, which may be defined by each regulatory authority, to be progressively applied between 2016 and 2019, and depending on the circumstances, an additional anti-cyclical capital buffer of up to 2.5% and a capital buffer for systematic risks of up to 3.5%. As a result of these buffers, new minimum levels will be set of 7% for the CET1 ratio, 8.5% for the TIER1 ratio and a minimum of 10.5% for the total capital ratio, applicable from 1 January 2019.

In this increasingly demanding regulatory environment and looking ahead to the new minimum capital requirements, the Andbank group already has a strong capital position as demonstrated by the following ratios:

- Common Equity Tier 1 ratio of 13.55%.
- Tier 1 capital ratio of 15.79%.
- Capital ratio of 16.11%.

Leverage ratio

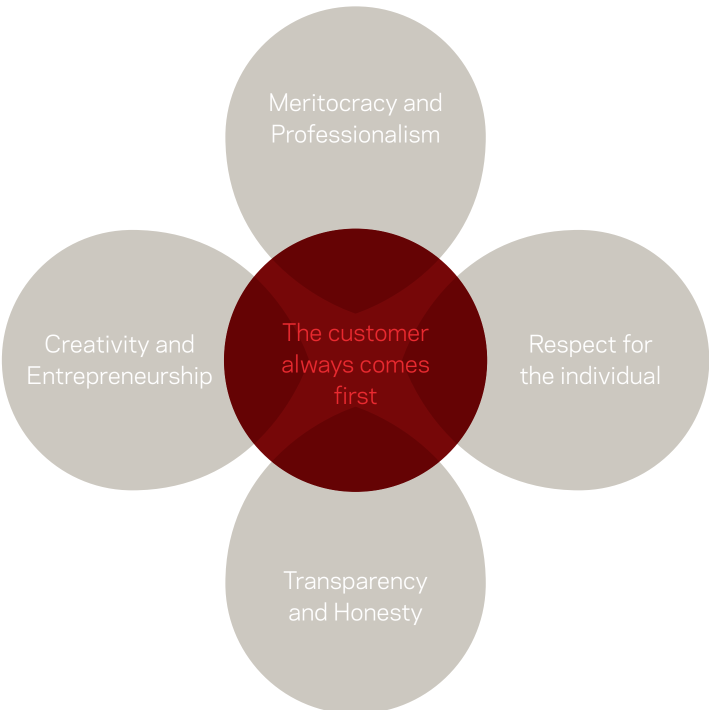
Under the framework of requirements agreed by the Basel Committee on Banking Supervision in 2010 to improve the capacity of the banking sector to absorb disruptions, new leverage rules came into force on 1 January 2013. Since then there has been a minimum leverage ratio of 3% to limit an accumulation of borrowing in the banking sector and to strengthen the risk-based capital requirements using this supplementary measure.

The Andbank group has an outstanding position with regards to this regulatory requirement with a leverage ratio of 7.16% at the end of 2016.

7.

SOCIAL RESPONSIBILITY REPORT 2016

Social Responsibility Report 2016



Introduction

Andbank seeks meaningful and sustainable growth based on a collective goal shared by many other institutions, to "meet the needs of the present without compromising the ability of future generations to meet their own needs" as part of its commitment to society and its stakeholders. As an influential member of society, it understands the important challenge of adopting innovative alternatives and new ways of thinking that comes with sustainable growth.

Corporate social responsibility is a key part of the Andbank Group culture, based on the principles of our mission as a bank, our vision as a company and the corporate values that define us as an institution seeking to create value for its stakeholders, with management and procedures focused on delivering outstanding service.

As a financial institution, we strive to be socially responsible, applying the necessary ethical standards and consistency. We are aware of the need to take into account the three pillars of sustainability (economic, social and cultural progress) in all of our business decisions and actions, founded on the belief that a company's primary responsibility is to create wealth in an honest and sustainable way.

Andbank's commitment requires a very direct and respectful relationship with all of the people in our company and needs consensus among all parties. It also relies on innovative communication policies that encourage inter-relationships and participation in decision-making across every area of the firm in order to promote a sense of shared responsibility between different levels of the organisation and trust in Andorra's business sector.

To maintain this relationship and engagement with Andorra and society in general, the bank always searches for the most appropriate actions that add value to the country's residents. Andbank therefore seeks to integrate corporate social responsibility (CSR) into every aspect of managing the company and its wider environment.

Andbank's strategic plan is based on four pillars. A sustainable growth model; the search for the best solutions for our customers and their protection; strict compliance with the legislation applicable in each of the countries where the bank operates; and training a team of experts and professionals in each area of the bank. This plan is what underpins our goal of becoming a leading family-owned independent private bank.

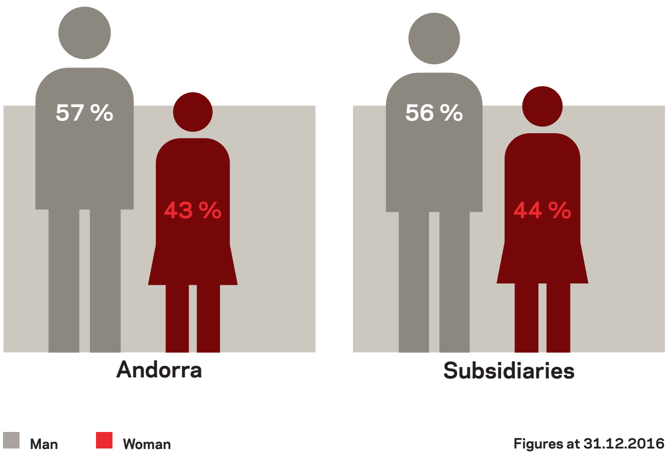
Our values
All of the initiatives for managing our talent are based on the Andbank values that infuse our culture and run through the DNA of our organisation.
At Andbank we promote a culture that has our commitment to the customer at its heart, providing the best advice and service through transparency and honesty, creativity and entrepreneurship, respect for the individual, meritocracy and professionalism.
This culture also creates opportunities for growth and development for Andbank's team of professionals, both personally and professionally, as well as encouraging and recognising continuous improvement.

- The customer always comes first
  Always committed to providing the best service and advice to the customer.
- Respect for the individual
  Our personal and professional relationships are based on trust and mutual respect. We encourage recognition, moral integrity and respect for others.
- Meritocracy and professionalism
  Professional development and promotion are based on merit and professional contribution.
- Creativity and entrepreneurial spirit
  We admire people that generate new ideas to improve products, processes and services. We value professionals that propose ways of offering better services and new opportunities to our customers.
- Transparency and honesty
  We expect our employees' conduct to be based on honesty, sincerity and integrity.

The Andbank team

The Andbank Group had a total of 1,142 employees at the end of the year. Of these, 385 work at the company's headquarters in Andorra while 757 are based in the Group's various international subsidiaries.

Employee distribution by gender

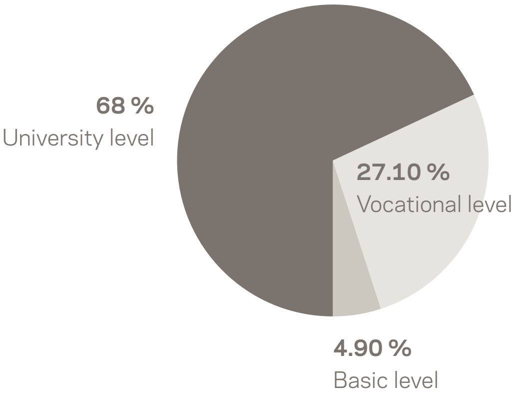


Figures at 31.12.2016

Characteristics of the Andbank team
Diversity is another trait of the Andbank team. The Group's employees currently represent 29 different nationalities.

The highly trained, professional and resourceful nature of the workforce belies the young average employee age of 40 in the Group's subsidiaries and 42 at the central services offices in Andorra. In terms of professional qualifications, more than 65% of Andbank Group employees hold university-level qualifications.

Employee distribution by education level (Andorra and subsidiaries)



Figures at 31.12.2016

Employee selection, welcome and satisfaction
The governing principles of Andbank's human resources policy ensure that its selection processes are based on diversity, equal opportunities and respect for individuals, completely free from any type of discrimination. We carry out all processes with integrity, adhering to the principles of confidentiality, honesty and respect for individuals at all times, while complying with all legislation and codes relating to national and international labour relations.

In 2016, a total of 89 employees joined the Andbank Group, of which 21 are employed at the headquarters in Andorra and 68 are distributed across the 12 subsidiaries. Globally, the main growth areas are Compliance and Control.
Andbank has an Integral Welcome Plan, comprising a series of actions that make up a standardised system for welcoming new employees with the following objectives:

- Accompany new employees through the process of joining the company and adapting to their new roles.
- Accelerate their assimilation of Andbank's corporate culture.

The Andbank Welcome Plan seeks to ensure that any professional joining the bank can count on the necessary involvement of the corresponding areas of the organisation and the support of a mentor throughout the whole process, ensuring that the joining process is quick and effective, reflecting the way that we manage our talent from the very start of the employment relationship.

The Integral Welcome Plan provides new employees with a series of informative tools, including the Code of Ethics and the Andbank

Handbook. These informative resources are supplemented with Andbank's internal training.

Integral Welcome Plan tools

The reception and welcome phase of the Welcome Plan is based on tools to help new employees fit into the bank. The most important of these are:

- A personal and individual welcome (specific to the employee's po sition)
- Welcome pack
- Code of ethics
- Introduction to the Andbank Campus to start onboarding training, especially for regulatory issues and the Compliance Policies Manual.

Andbank Performance – the new performance appraisal and development system

Andbank's commitment to service quality, professionalism and the development of its employees is highlighted through initiatives such as this.

If we accept that achieving the objectives defined in Andbank's strategy relies on its people, then we believe that this is one of the systems that will enable us to drive the organisation's performance by identifying the skills that we consider essential for achieving our mission and objectives, driving improvements in people's future actions and the bank's results.

Performance appraisals and development can be the 'Achilles heel' of talent management. A system such as this can therefore help us to become a high-performance team, tackling and achieving all of the challenges that lie ahead, especially during the transformative times that we are going through, not only globally in Andbank but in our environment, surroundings and sector too.

Andbank Performance is an extremely important system for our managers and every member of the team. It is a unique opportunity that enables us to commit and align ourselves, provide feedback, and to listen to the opinions, expectations and comments of our employees. Consequently -and no less importantly- this allows us to define the most appropriate development actions such as mobility, training and development in the workplace, which can be implemented through individual development and career plans.

The main characteristics of Andbank Performance are:

- Based on a global, flexible and simple technology platform.
- Helps to evaluate team potential, management potential and ove rall performance and to create an appropriate development and improvement plan.
- Eight different competence profiles are identified within the cate gories of Managers, Private Bankers and Specialists.
- It contains a total of 29 defined competences with four different performance levels.
- A training plan is linked to the system for the management team.

Andbank Performance has been implemented across every subsidiary using a cloud-based HR management platform. Consequently, more than 70% of all Andbank employees have received an anual performance appraisal.

Development of talent and organisational skills

Andbank's people are its foundations and principal asset. Motivated, trained and committed people are a key factor in delivering good customer service and business strategy success.

Constantly updating their professional knowledge encourages the development of skills and the professional careers of our employees, as well as ensuring the best possible customer service.

The Andbank training program consists of various options, from Group-wide programs through to specific programs for certain groups and countries, all of which may be mandatory or optional and given in classrooms, online or a combination of the two.

New training plans and programs were developed in 2015 to offer the Andbank team new opportunities to develop their professional careers.

Campus Andbank, the integral e-learning platform that ensures the global availability of key knowledge.

Andbank uses a proprietary e-learning platform called Campus Andbank to facilitate access to its training and improve its management. In addition to its global scope for key training aspects, the application has a collaborative 2.0 learning environment that brings together the collective knowledge of Andbank's employees and offers a space for sharing proprietary documentation and good practices. Andbank Campus seeks to:

- Standardise technical and business knowledge at a global level.
- Encourage training in every area.
- Promote the use of new online tools such as the knowledge management application.
- Professionalise and strengthen in-house talent through ad hoc designed programs.
- Improve the learning and communication experience among employees with new functionality.

Andbank Campus has six different programs to meet the needs of each employee:

- Welcome to Andbank
- Internal Training
- Business and Financial Sector
- General and Commercial Skills
- Languages
- IT skills

Key figures from Campus Andbank activities in 2016:

- 29 courses available (7 internal and 22 external).
- Voluntary and/or obligatory courses for different groups.
- Campus available in both Spanish and English.
- All employees have access to the Campus (via People Platform or the corporate desktop).
- More than 75% of employees carried out some type of training through the Campus during the year.

Development Plan for Country Banking Offices
We have created the PDO 2015-2016 program (Office Development Plan), especially designed for the Country Banking team at Andbank Andorra, to support our professionals during the changes occurring to the business model in the private banking sector caused by new regulations and changing customer behaviours, which are increasingly challenging and digital-based.

The PDO 2015-2016 consists of six training actions that will strengthen our professionals' technical and financial knowledge as well as their skills, such as customer service and advice and their operational and commercial management capabilities.

The program combines classroom-based and online methods through Campus Andbank. Most of the actions involve in-house classroom-based training, intended to promote training based on the knowledge of our own experts across different subject areas. This program seeks to maximise the opportunities that this training can provide as a tool for knowledge management and internal networking, helping us to identify in-house experts and retain talent, as well as being a good way of encouraging collaboration between people from different areas of the bank.

The program includes the design and implementation of a training and development initiative that is primarily intended to professionalise the advice we provide and promote a proactive commercial approach among professionals of the Andbank Andorra business area. This program was adapted to the different requirements of our Country Banking commercial managers and private bankers as well as senior managers from the Country Banking area. The objectives for these groups were as follows:

- To train managers in the necessary commercial skills to enable them to drive the branch's business and improve the profitability of their portfolios.
- To develop the commercial trainer role of commercial managers in the branch.

The future of private and commercial banking lies in creating a high-quality integral service, expert advice, close customer relationships and, above all, trust. This is the challenge that we are now facing and is the reason why training our professionals, especially those in front office roles, is becoming such a fundamental aspect.

Projects related to our commitment to our employees and society

Andbank Trainee Program
Andbank offers the opportunity to carry out summer internships so that students (especially children of employees) can learn and gain experience of different projects through the Andbank Trainee

Program. This work experience may be given in any department of the bank or its subsidiaries. Andbank assigns interns to specific mentors who specialise in each area.

These young people gain practical work experience through the Andbank Trainee Program so that they can go on to complete their education and enhance their CVs when they start looking for employment.

A total of 33 young students joined the Andbank Trainee Program in the summer of 2016 working in Corporate Services in Andorra and the subsidiaries of Andbank Luxembourg, Andbank Spain and Andbank Brazil. Their work experience covered diverse areas including the departments and areas for marketing, the Legal Department, Help Desk, treasury, real estate, corporate development, back office and the bank branches in Andorra.

Of the 33 interns, 42% were children of Andbank employees. At the end of the program, seven of the 33 interns joined Andbank as employees.

Measures for work-life balance
Having a team of satisfied employees who are proud to work at Andbank is one of the bank's main objectives. Andbank therefore provides its employees with a series of measures as part of the policies designed to improve the balance between their personal and professional lives, the organisation of their work and their professional growth.

Andbank currently has a total of 20 such measures including flexible working hours; special conditions for Andbank's financing, services and products; health insurance and training and promotion plans, among others.

Andbank and its customers

Our customers are at the heart of our financial activities and the lifeblood of our business. We must therefore safeguard their interests and satisfy their most pressing needs. In order to achieve this, our managers and specialists continually search for the best products to offer the best solutions.

Improvements to protect our customers

1. Investor protection
The bank's commitment to its customers has two key aspects – the creation of long-term value and maximum information transparency. The bank has therefore put in place procedures to ensure compliance with the requirements of the different regulations in the jurisdictions where it operates. Global policies have also been established, adapted to the individual characteristics of each jurisdiction.
Andbank's model to mitigate compliance and reputational risk take the following into consideration:

- An organisational structure focused on managing risk and conflicts of interest
- Assignment of duties and responsibilities within the organisation
- More transparent policies and procedures for customers
- Enhanced rules of conduct for better investor protection
- A procedure for distributing financial products based on the classification of services, customer type and products offered

The bank therefore ensures:
- Financial services appropriate for customers' needs
- A transparent bilateral relationship with rights and obligations for both parties
- Customer complaints are resolved fairly

2. Incidents and complaints
The Customer Support Service deals with enquiries, complaints and claims from the Quality Department.
Unresolved problems and poor customer service of the main reasons why banks lose customers. Accordingly, Andbank positively encourages its customers to report their concerns, complaints or claims, and believes that it is vital to ensure that these are passed on to the appropriate department and/or person and that appropriate actions are taken.

Andbank's goal is firstly to ensure the satisfaction of its customers, and secondly (if the first point is not achieved), to encourage them to express their concerns, since a customer that complains about a poor product or service is giving the bank the opportunity to correct its mistake and use it to drive the process of constant improvement, while helping to avoid losing the customer.

The following channels and resources are available to help customers report their concerns, complaints and claims:

1 - In person
2 - By telephone: a helpline service is available on (+376) 873 333 and (+376) 873 308.
3 - Submitting the ad hoc form available in all branches;
4 - Access via our corporate website under the "Contacts" section, "Complaints and Claims" subsection
5 - By sending a letter or email to Andbank's Human Resources Department or Quality Department.

Number of submitted complaints and enquiries		
2014	**2015**	**2016**
66	50	86

Average response time		
2014	**2015**	**2016**
13 days	13.5 days	11.9 days

% responses within one week		
2014	**2015**	**2016**
>60 %	>65 %	>60 %

3. Ethical standards and rules of conduct
Andbank takes measures to promote ethical conduct by all of the bank's employees. We understand that the customer is the bank's priority and any activity that could create reputational risk is unacceptable.
The bank has an ethical code that defines the minimum standards of conduct expected from all employees, senior managers and directors, who are required to act in a responsible way in performing their duties.

Sustainable products

A diverse range of products and services has been developed encompassing the Group's CSR values:

Andbank Microfinance Fund

The Microfinance Fund is a fixed income fund that invests in micro-loans in developing countries. It was developed in collaboration with Blue Orchard and has a dual philanthropic goal. In addition to investing in a socially-relevant activity, such as micro-loans for entrepreneurs in developing countries, some 80% of the profits from the fund are donated to projects run by NGOs selected by the investors, while the remaining 20% is divided among the unitholders.

The product comes under the umbrella of the Blue Orchard Microfinance Fund (BOMF), a fixed income fund that has been running for 18 years. It accepts investments in dollars and euros and has generated an average annual return of 4.3%.

Entrepreneur Loans

Andbank supports entrepreneurship and business innovation in the country, giving opportunities to anyone that has a vision for the future, through its Entrepreneur Loans initiative – a financing program designed to support people that want to launch new businesses.

This product is aimed at anyone with a future vision, an innovative and creative idea, or people that simply want to create something they believe in.

Pension Plan

In an increasingly complex environment, pension plans are one way of saving for the future to ensure a dignified retirement with an acceptable level of income. The personal pension plan from Andbank Assegurances is managed by a team of qualified professionals that looks after the interests and savings of our customers and seeks out the best investments for their retirement.

Andbank and society

The Andbank Group's commitment to the societies in which it operates goes beyond the purely financial and lies in a real awareness of its social responsibilities and the need to support organisations that work with the people of Andorra in order to contribute to their social well-being.

Corporate social responsibility is a key aspect of Andbank's culture. The bank has strong links with the communities where it is present, generating value in them through worthwhile collaborations for their societies, such as organising educational conferences with sector experts, promoting entrepreneurial projects, contributing to socially-responsible projects or encouraging young people to adopt the values associated with high-level sport, such as dedication, tenacity and perseverance – values that Andbank wholly identifies with.

Andbank has promoted various initiatives in the social, cultural and sporting fields in order to enhance and maximise their positive benefits to society.

Andbank's social and cultural work

Andbank has a commitment to Andorran society to support its development and social well-being.

We therefore provide financial and professional support to collaborating institutions that provide much-needed help to underprivileged people or those experiencing all types of difficulties.

Social

- Agreement with the Dames de Meritxell Association for the "Xeridell" occupational workshop to provide support to implement and enhance its annual projects.
- Dinner and art auction. Andbank has teamed up with the local councils in Ordino and La Massana for the third edition of the charity auction organised by La Capsa, the art school of Les Valls del Nord. This edition raised more than €4,500 for Càritas' clothing project.
- Agreement with the Red Cross for the PAPI project (first aid for children) aimed at pupils in the last year of primary school (10-11 years old).
- Program of conferences: Andbank hosted a wide range of speakers from different areas during 2016, including Carles Capdevila, Dr. Jordi Forés and Sister Lucía Caram, Josep M. Gay de Liébana, Pedro García Aguado and Francisco Castaño, Dr. Jordi Catalán Balaguer, Antoni Bassas, Adeyemi Ajao, Dr. Ludger Hanneken, Marc Pons and Dr. López Gil. The bank views these conferences as a way of helping to add value to society, providing information that may be of interest in different spheres, such as medicine, education, self-help or technology.

Carles Capdevila's conference

Antoni Bassas' conference

Cultural

- Spanish film festival. The seventh edition of the Spanish Film Festival took place in collaboration with the Spanish Embassy, showing five films by renowned directors and attended by the director Juanma Bajo Ulloa.
- Collaboration with the French embassy during its cultural season, with a performance of Tutú put on by the Chicos Mambo company. With more than 20 years of experience, this company uses it enormous skill to combine iconic elements from contemporary, classical, ballroom and dancesport with comedy.
- The 39th edition of the Literary Evening, organised every year by the Cercle de les Arts i les Lletres writers and artists association, once again presented the Manuel Cerqueda Short story award. First prize this year went to the work Escacs de mort by Marcel Fité Argelich, a detective novel with a surprising ending set in Barcelona's Ensanche district.
- Collaboration with the Castell de Peralada Festival. Andbank continues to help promote cultural activities and once again supported the amazing artistic proposals presented at this year's festival.

- Els Petits Cantors d'Andorra Christmas concert. This year's Christmas concert, on behalf of the Nostra Senyora de Meritxell specialist school, featured Els Petits Cantors who performed a carefully selected repertoire by various composers that included Christus, El cant dels ocells, Santa Claus is coming to Town and Les dotze van tocant.
- 1st Opera Season. Andbank's commitment to promoting culture in all of its formats saw the bank participate in Andorra's first opera season. This first edition featured performances of Carmen by Georges Bizet and The Merry Widow by Henri Meilhac.

Andbank and sport

The values intrinsic in both amateur and professional sport, such as dedication, tenacity and perseverance, are values that Andbank wholly identifies with and we have a long association with the world of sport.

- Andorran Olympic Committee (COA). Andbank has sponsored the COA's activities for more than a decade. At the Olympic Games 2016 held in Brazil, Andorra took part in four sports (athletics, shooting, swimming and judo).
- Andorran Ski Federation (FAE). Andbank once again sponsored the freestyle and cross-country ski teams of the Andorran Ski Federation made up of young competitors. Irineu Esteve and Carola Vila obtained excellent results in their competitions, while Carles Aguareles showed great promise in the freestyle.
- Manuel Cerqueda memorial. The traditional veterans' giant slalom ski race was once again organised by the Andorra Ski Club.
- Andbank Golf Tournament. Golf continues to be one of Andbank's primary areas of sponsorship. The 16th edition of the Andbank Golf Tournament was held in 2016 with eight local rounds. One of the objectives of this tournament has always been to play on prestigious Spanish courses. The rounds in this edition were played at Reial Club de Golf Cerdanya (Jaizkibel, San Sebastián) and León Golf Club, among others.
- The Andbank "Purito" Grand Prix. The bank teamed up with the project promoted by Joaquim "Purito" Rodríguez, who designed the "queen" stage of the Vuelta a España 2015 cycling tour. In this second edition, the "La Purito Andorra–Andbank Grand Prix" bike race, organised by the Sprint Club and supported by the Andorra government, attracted more than 2,000 competitors, as predicted by the organisers.

The Purito race

Andbank and the business community

As a financial and business institution, Andbank seeks to support initiatives in the business community through collaborations with companies and business leaders, to strengthen the growth and development of the country.

- Collaboration in the 15th edition of the Family Business Forum. This edition was entitled "Powerful perspectives". As always, it featured top-tier speakers, including Ms. Maria del Mar Nogreda, general manager of Laboratorios HIPRA; Mr José Luis Cordeiro, teaching fellow and energy adviser at the Singularity University (USA); and Ms. Esperanza Aguirre Gil de Biedma, spokesperson for the Partido Popular Municipal Group in Madrid City Council.
- Economic seminars with Àlex Fusté. One of the most international speakers has been our own macroeconomics expert Àlex Fusté. We held regular economics breakfasts throughout 2016 at the company's headquarters and Àlex has also been a guest speaker in numerous countries where Andbank has a presence such as Uruguay, Panama, Spain and Israel, among others.
- Taller Emprendedores. A group of business leaders and entrepreneurs were able to learn more about the VITA Entrepreneurship Center and the ESADECREAPOLIS creativity park in Sant Cugat, thanks to Taller Emprendedores and Andbank.
- IQS School of Management. Participation at the 25th anniversary event of this institution, attended by speakers such as Manel Cerqueda Díez, Andbank director; David Levy, founder and CEO of Diverinvest; and Luis Seguí, managing partner of Miura Private Equity, among others, as well as Dr. Santiago Niño Becerra, who gave a talk at the start of the conference.

Andbank shows solidarity

The Andbank Employee Solidarity Association (ASCA) once again teamed up with Andbank for a series of charitable works, altruistically providing publicity and support in response to requests for aid received by the bank. These projects, both in Andorra and abroad, are coordinated by ASCA.

- The annual collaboration with the Sant Joan de Déu Hospital is targeted at the "Cuida'm" program, intended to help children whose lives depend on getting access to highly complex medical and surgical treatment.

- Collaboration with La Gavernera.
- Collection of food and equipment for Andorran families in need.
- Campaign to collect plastic caps that can be exchanged for specialised chairs.
- Collaboration with the Andorran cancer association.
- El Cedre social and healthcare centre
- Contribution to the Marató de TV3 event

As part of its charitable work, Andbank offers members of the Andorra Rotary Club the “Rotary VISA” card, which pays a percentage of all purchases made with the card back to the Rotary Club, including the whole of the annual card fee, which is then used to subsidise the Club’s charitable projects in Andorra.

Other Andorran NGOs that Andbank works with include AINA and Cáritas. The collaboration with AINA in publishing its songbook helps to fund grants for young children whose families lack financial resources, while the annual contribution to Caritas Andorra is intended to support the projects that Caritas’ carries out and promotes.

Andbank and scientific innovation and knowledge

- FERO grants. This was the third year that Andbank has teamed up with the Fero Cancer Research Foundation, founded by the renowned Dr. Josep Baselga, to carry out research into cancer. The 9th edition of the Fero Grant, worth 70,000 euros, was awarded to Dr. Beatriz Morancho from the Vall d’Hebron Cancer Institute for her project on immunotherapy for treating breast and bowel cancer.
- Pasqual Maragall Foundation. The “ClaB” talks promoted by the Pasqual Maragall Foundation have returned, supported by Andbank and the Museo del Tabaco, with the aim of promoting the Foundation’s research into Alzheimer’s disease.

Supporting Caritas of Andorra

Andbank and its international expansion

International expansion, as part of its strategic plan, is one of the objectives of the Andbank Group. The bank’s commitment therefore extends beyond Andorra and involves close relationships and involvement with the business sector and society in general in all the jurisdictions in which the bank is present.

Various actions were carried out in 2016, including a series of meetings in various Spanish cities to present the latest tax changes and the opportunities for asset and wealth planning by individuals and companies.

FERO gala dinner

Andbank España took part in various conferences and talks, such as the sixth edition of "Gestores Patrimoniales"; seminars organised by various institutions in Spain; and strategy conferences that take place in several Spanish cities. In the social sphere, agreements have been signed to actively collaborate with Save the Children and the CRIS Cancer Foundation.

The Michael Blank "Global Economic Forecast" conference took place in Miami, attended by around 100 business leaders. Meanwhile, the new collection by Spanish photographer Fernando Manso entitled "La Alhambra, an Unpublished Vision" and supported by Andbank, was on show at Art Basel Miami.

Luxembourg hosted the first golf tournament for the Spanish community in this country. It was attended by more than 100 people from this expat community and supported by various institutions in aid of the Bazar International de Luxembourg.

Panama renewed its sponsorship of the Kiwanis club, collaborating in the 32nd edition of its charity race. This event attracts more than 800 participants and raises funds to support underprivileged children, among other groups.

Members of the association Save The Children

8.

GOVERNANCE STRUCTURE

Governance Structure

Chairmanship

Òscar Ribas Reig
Honorary Chairman

Manel Cerqueda Donadeu
Chairman

Oriol Ribas Duró
Vice Chairman

Board of Directors

Germán Castejón Fernández
Director

Manel Cerqueda Díez
Director representing Cerqueda Donadeu, S.A.

Manel Ros Gener
Director

Xavier Santamaria Mas
Director

Jaume Serra Serra
Director

Josep Vicens Torradas
Director, representing Inversions, Gestions i Estudis, S.A.U.

Josep Sansa Torres
Secretary (non director)

General Management

Ricard Tubau Roca
General Manager

José Luis Muñoz Lasuén
Deputy Chief Executive Officer
Corporate Services

Santiago Mora Torres
Deputy Chief Executive Officer
Investment Area

Josep X. Casanovas Arasa
Deputy Chief Executive Officer
Risk Area

Organizational Structure

Marta Bravo Pellisse
Chief Strategy Officer

Josep M. Cabanes Dalmau
Chief Andorran Bussiness
Officer

Pedro Cardona Vilaplana
Chief IT Officer

Jordi Checa Gutés
Chief Resources Officer

Àlex Fusté Mozo
Chief Economist

Josep García Nebot
Chief Subsidiaries Officer

Iván López Llauradó
Chief Compliance Officer

Sergi Pallerola Gené
Chief Private Banking and
Business Support Officer

Manuel Ruiz Lafuente
Chief Audit Officer

9.

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