FINANCIAL STATEMENTS

2020

BancSabadell d'Andorra

FINANCIAL STATEMENTS
2020

Financial Statements

BancSabadell d'Andorra, SA
Subsidiary Companies
Consolidated Financial Statements
balance as at 31 December 2020

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BancSabadell d'Andorra, SA
and companies which comprise the BancSabadell d'Andorra Group

Consolidated statements of financial position on 31 December 2020 and 2019
(Expressed in thousands of euros)

ASSETS	Note	31/12/2020	31/12/2019 (*) (Re-expressed)
Cash and cash balances at central banks and other demand deposits	**6**	**89,226**	**64,658**
Cash		21,679	29,210
Other demand deposits		67,546	35,448
Financial assets held for trading		**27,926**	**25,475**
Derivatives	10	1,289	1,062
Equity instruments	8	1,115	3,701
Debt securities	7	25,522	20,712
Non-trading financial assets mandatorily at fair value with changes in profit or loss		**42,368**	**54,810**
Equity instruments	8	923	921
Debt securities	7	41,445	53,889
Financial assets designated at fair value with changes in profit or loss		**46,273**	**44,496**
Debt securities	7	46,273	44,496
Financial assets at fair value with changes in other comprehensive income		**106,432**	**80,797**
Equity instruments	8	3,143	600
Debt securities	7	103,289	80,197
Financial assets at amortised cost		**690,804**	**589,598**
Debt securities	7	265,220	187,210
Loans and advances	9	425,584	402,388
Derivatives - Hedge Accounting		**82**	**113**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**11**	**78**	**76**
Investments in joint ventures and associates		**265**	**37**
Tangible assets	**13**	**23,941**	**26,374**
Fixed assets		14,719	14,278
Investment property		9,222	12,096
Intangible assets	**14**	**401**	**406**
Other intangible assets		401	406
Tax assets		**462**	**279**
Current tax assets		459	278
Deferred tax assets		3	1
Other assets	**15**	**7,359**	**16,998**
Non-current assets and disposal groups classified as held for sale	**12**	**1,916**	**4,194**
TOTAL ASSETS		**1,037,533**	**908,311**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

BancSabadell d'Andorra, SA
and companies which comprise the BancSabadell d'Andorra Group

Consolidated statements of financial position on 31 December 2020 and 2019
(Expressed in thousands of euros)

LIABILITIES	Note	31/12/2020	31/12/2019 (*)
Financial liabilities held for trading		**1,107**	**988**
Derivatives	10	1,107	988
Financial liabilities designated at fair value with changes in profit or loss	**7**	**46,288**	**44,510**
Other financial liabilities		46,288	44,510
Financial liabilities at amortised cost	16	**876,583**	**755,674**
Deposits	16	752,678	658,804
Debt securities issued	16.5	123,904	96,870
Derivatives - Hedge accounting	**11**	**5**	**72**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**11**	**-**	**-**
Provisions	**18**	**1,425**	**1,634**
Other long term employee benefits	18.2	555	475
Commitments and guarantees given	18.1	307	266
Other provisions	18.3	563	893
Tax liabilities		**1,604**	**991**
Current tax liabilities		1,470	916
Deferred tax liabilities		133	75
Treasury shares		**-**	**-**
Other liabilities	**17**	**7,895**	**13,281**
Liabilities included in disposal groups classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**934,905**	**817,150**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

BancSabadell d'Andorra, SA
and companies forming BancSabadell d'Andorra Group

Consolidated balance sheets at december 31, 2020 and 2019

(Expressed in thousands of euros)

EQUITY	Note	31/12/2020	31/12/2019*) (Reexpressed)
Capital	**19,1**	**30,069**	**30,069**
Paid up capital		30,069	30,069
Requested non-paid up capital		-	-
Share premium		**-**	**-**
Equity instruments issued other than capital		**-**	**-**
Other equity	**20**	**-**	**-**
Accumulated other comprehensive income		**1,168**	**669**
Items that will not be reclassified to profit or loss		-	-
Items that may be reclassified to profit or loss		*1,168*	*669*
Fair value changes of debt instruments measured at fair value with changes in other comprehensive income		1,168	669
Retained earnings	**19,2**	**69,598**	**58,267**
Minority reserves	**19,2**	**2,288**	**2,288**
Other reserves		**(9,673)**	**(9,673)**
Reserves or cumulative losses of investments in joint ventures and associates using the equity method		-	-
Other reserves		(9,673)	(9,673)
(-) Treasury shares		**(840)**	**(833)**
Profit or loss attributable to the owners of the parent company		**10,019**	**10,375**
(-) Interim dividends		**-**	**-**
Minority interests (non-controlling interests)		**-**	**-**
TOTAL EQUITY		**102,628**	**91,161**
TOTAL EQUITY AND TOTAL LIABILITIES		**1,037,533**	**908,311**
Off-balance-sheet transactions	**21**		
Financial guarantees given	**21**		
Loan commitments given	**21**		
Other commitments given	**21**		

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

BancSabadell d'Andorra, SA
and companies which comprise the BancSabadell d'Andorra Group

Consolidated income statement on 31 December 2020 and 2019

(Expressed in thousands of euros)

PROFIT AND LOSS	Note	31/12/2020	31/12/2019 (*) (Reexpressed)
Interest income	**24**	**11,911**	**12,491**
Financial assets held for trading		297	297
Non-financial assets mandatorily at fair value with changes in profit or loss		469	343
Financial assets at fair value with changes in other comprehensive income		564	432
Financial assets at amortised cost		10,580	11,420
(Interest expenses)	**24**	**(1,181)**	**(1,548)**
(Financial liabilities designated at fair value with changes in profit or loss)		-	-
(Financial liabilities at amortised cost)		(1,074)	(1,443)
(Derivatives - Hedge accounting, interest rate risk)		(107)	(105)
(Expenses on share capital repayable on demand)		**-**	**-**
Dividend income		**34**	**36**
Financial assets at fair value with changes in other comprehensive income		34	36
Investments in subsidiaries, joint ventures and associates recorded with the participation method		-	-
Fee and commission income	**25**	**12,155**	**12,433**
(Fee and commission expense)	**25**	**(2,812)**	**(2,674)**
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value with changes in profit or loss, net	**26**	**1,051**	**342**
Financial assets at fair value with changes in other comprehensive income		1,057	233
Financial assets at amortised cost		(7)	110
Gains or (-) losses on financial assets and liabilities held for trading, net	**26**	**1,528**	**1,877**
Gains or (-) losses on non-trading financial assets mandatorily at fair value with changes in profit or loss, net	**26**	**(498)**	**356**
Gains or (-) losses on financial assets and liabilities designated at fair value with changes in profit or loss, net	**26**	**2**	**1**
Gains or (-) losses from hedge accounting, net	**26**	**69**	**(2)**
Exchange differences (gains or (-) losses), net		**233**	**218**
Gains or (-) losses on derecognition of non-financial assets, net		**487**	**492**
Other operating income	**27**	**360**	**557**
(Other operating expenses)	**27**	**(683)**	**(684)**
GROSS INCOME		**22,653**	**23,895**
(Administrative expenses)	**28**	**(13,685)**	**(12,936)**
(Staff expenses)	28.1	(7,327)	(7,107)
(Other administrative expenses)	28.2	(6,359)	(5,829)
(Depreciation)		**(1,239)**	**(1,220)**
(Property, plant and equipment)		(879)	(819)
(Investment properties)		(236)	(303)
(Other intangible assets)		(124)	(97)
Profit or (-) loss from modification, net		**-**	**-**
(Provisions or (-) reversal of provisions)		**330**	**(561)**
(Commitments and guarantees granted)		-	-
(Other provisions)		330	(561)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value with changes in profit or loss)	**29**	**1,177**	**601**
(Financial assets at fair value with changes in other comprehensive income)		(6)	(114)
(Financial assets at amortised cost)		1,183	714
(Impairment or (-) reversal of impairment of investments in joint ventures or associates)		**-**	**-**
(Impairment or (-) reversal of impairment of non-financial assets)		**1,110**	**-**
(Investment properties)		**96**	**-**
(Others)		**1,014**	**-**
Negative goodwill recognised in profit or loss		**-**	**-**
Share revenue or recognised expenses of instruments in joint ventures and associates		**28**	**13**
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**30**	**247**	**1,265**
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**10,621**	**11,057**
(Tax expense or revenues related to profit or loss from continuing operations)		(602)	(682)
PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**10,019**	**10,375**
Profit or (-) loss after tax from discontinued operations		**-**	**-**
Profit or (-) loss prior to tax from discontinued operations		**-**	**-**
Relative tax expense or revenues on discontinued operations)		-	-
PROFIT OR (-) LOSS FROM THE YEAR		**10,019**	**10,375**
Attributable to minority interests [non-controlling interests]		**-**	**-**
Attributable to the owners of the parent		10,019	10,375
Earnings per share (in euros)			
Basic (in euros)		**20**	**21**
Diluted (in euros)		20	21

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

BancSabadell d'Andorra, SA
and companies which comprise the BancSabadell d'Andorra Group

Consolidated statement of comprehensive income on 31 December 2020 and 2019
(Expressed in thousands of euros)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	31/12/2020	31/12/2019 (*)
Profit or loss for the year	**10,019**	**10,375**
Other comprehensive income	**1,168**	**1,157**
Items that will not be reclassified to profit or loss	-	-
Items that may be reclassified to profit or loss	1,168	1,157
Hedges of net investments in foreign operations (effective portion)	-	-
Foreing currency translation	-	-
Cash flow hedges (effective portion)	-	-
Hedging instruments (non-designated elements)	-	-
Debt instruments at fair value with changes in other comprehensive income	1,168	1,157
Valuation gains or (-) losses taken to equity	1,168	1,157
Non-current assets and disposal groups classified as held for sale	-	-
Share in other recognised income and expense of investments in joint venture and associates	-	-
Income tax related to Items that may be reclassified to profit or (-) loss	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**11,187**	**11,532**
Attributable to minority interests (non-controlling interests)	-	-
Attributable to the owners of the parent	11,187	11,532

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

BancSabadell d'Andorra, SA
and companies which comprise the BancSabadell d'Andorra Group

Statement of changes in net consolidated equity on 31 December 2020 and 2019
(Expressed in thousands of euros)

ABREVIATED STATEMENTS OF TOTAL CHANGES IN EQUITY

	Share capital	Legal reserves	Guarantee reserves	Revaluation reserve	Voluntary reserves	(-) Treasury shares	Other comprehensive income	Consolidation reserves	Profit/loss for the year	Dividend	Total
Opening balance as at 31 December 2018 (*)	**30,069**	**6,014**	**6,928**	**2,288**	**26,949**	**(819)**	**(489)**	**1,558**	**10,249**	**-**	**82,747**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 1 January 2019 (*)	**30,069**	**6,014**	**6,928**	**2,288**	**26,949**	**(819)**	**(489)**	**1,558**	**10,249**	**-**	**82,747**
Total comprehensive income for the period	-	-	-	-	-	-	1,157	-	10,375	-	11,532
Other changes in equity	**-**	**-**	**2**	**-**	**7,080**	**(15)**	**-**	**63**	**(10,249)**	**-**	**(3,119)**
Dividends	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	(15)	-	-	-	-	(15)
Transfers between items of equity	-	-	2	-	7,080	-	-	63	(10,249)	-	(3,104)
Other increase or decrease in the equity	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2019 (*)	**30,069**	**6,014**	**6,930**	**2,288**	**34,029**	**(834)**	**668**	**1,621**	**10,375**	**-**	**91,160**
Effects on the changes in the accounting policies	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 1 January 2020	**30,069**	**6,014**	**6,930**	**2,288**	**34,029**	**(834)**	**668**	**1,621**	**10,375**	**-**	**91,160**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	10,019	-	10,019
Other changes in equity	**-**	**-**	**756**	**-**	**10,113**	**(7)**	**499**	**463**	**(10,375)**	**-**	**1,449**
Dividends	-	-	-	-	-	-	-	-	-	(3,002)	(3,002)
Purchase of treasury shares	-	-	-	-	-	(7)	-	-	-	-	(7)
Transfers between items of equity	-	-	756	-	10,113	-	499	463	(10,375)	3,002	4,458
Other increase or decrease in the equity	-	-	-	-	-	-	-	-	-	-	-
Closing balance as at 31 December 2020	**30,069**	**6,014**	**7,686**	**2,288**	**44,142**	**(841)**	**1,167**	**2,084**	**10,019**	**-**	**102,628**

(*) *Presented solely and exclusively for purposes of comparison (see Note 1.2).*

BancSabadell d'Andorra, SA
and companies which comprise the BancSabadell d'Andorra Group

Consolidated Cash Flow Statements on 31 December 2020 and 2019

(Expressed in thousands of euros)

	CONSOLIDATED CASH FLOW STATEMENTS	31/12/2020	31/12/2019 (*) (Re-expressed)
A.	**Cash flows from operating activities**	**19,873**	**195**
	Profit/loss for the financial year	**10,019**	**10,375**
	Adjustments to obtain the cash flows from the operating activities	**(1,563)**	**262**
	Depreciation	1,239	1,220
	Other adjustments	(2,802)	(958)
	Net increase/decrease in the operating assets	**(108,959)**	**(117,760)**
	Financial assets held for trading	(2,451)	36,849
	Non-trading financial assets mandatorily at fair value with changes in profit or loss	11,521	(49,496)
	Financial assets designated at fair value with changes in profit or loss	(1,778)	(6,026)
	Financial assets at fair value with changes in other comprehensive income	(24,714)	(11,131)
	Financial assets at amortised cost	(101,205)	(82,660)
	Other operating assets	9,668	(5,296)
	Net increase/decrease in the operating liabilities	**119,333**	**106,162**
	Financial liabilities held for trading	118	(110)
	Financial liabilities designated at fair value with changes in profit or loss	1,778	6,035
	Financial liabilities measured at amortised cost	120,909	95,606
	Other operating liabilities	(3,472)	4,631
	Collections/payments for corporate tax	**1,043**	**1,156**
B.	**Cash flows from investment activities**	**4,474**	**3,400**
	Payments	**(682)**	**(1,230)**
	Tangible assets	(441)	(1,008)
	Intangible assets	-	(185)
	Subsidiary institutions and other business units	(241)	(37)
	Collections	**5,156**	**4,630**
	Tangible assets	2,874	-
	Intangible assets	5	-
	Non-current assets and liabilities which have been classified as held for sale	2,278	4,630
	Other collections related to investment activities	-	-
C.	**Cash flows from financing activities**	**4**	**(3,091)**
	Payments	-	(3,127)
	Dividends (**)	-	(3,127)
	Collections	4	36
	Other collections related to financing activities (**)	4	36
D.	**Effect of the variations in exchange rates**	**216**	**215**
E.	**Net Increase (decrease) in cash and cash equivalents**	**24,568**	**719**
F.	**Balance at the beginning of the year**	**64,658**	**63,939**
G.	**Balance at the end of the year**	**89,226**	**64,658**
	CASH FLOWS CORRESPONDING TO:		
	Interest received	-	-
	Interest paid	-	-
	Dividends received	-	-
	COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		**-**
	Cash	21,679	29,210
	Other demand deposits	67,546	35,448
	TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**89,226**	**64,658**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 1

Activity, policies and accounting practices

1.1. Activity

BancSabadell d'Andorra, SA (hereinafter, BancSabadell d'Andorra or the Bank) whose head office is located at Avinguda del Fener No. 7, Andorra la Vella, is an Andorran banking entity incorporated on 10 April 2000, which began its activities on 3 June 2000.

The Bank's corporate purpose is that of a banking establishment as defined in Article 8 of *Law 7/2013, of 9 May, on the legal regime of the operating Entities of the Andorran financial system and other provisions that regulate the exercise of financial activities of the Principality of Andorra,* recently amended by *Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banking entities and investment companies*. In addition, it can also carry out complementary activities to the aforementioned purpose with the aim of improving its development.

Furthermore, the Bank is the Entity that heads BancSabadell d'Andorra Group (hereinafter, the Group). The description of the consolidated companies of the BancSabadell d'Andorra Group in 2020 is as follows:

Company	Country	Activity
Sabadell d'Andorra Inversions, SGOIC, SAU	Andorra	Management of investment agencies and of administration mandates
Assegurances Segur Vida, SAU	Andorra	Insurance
Serveis de Mitjans de Pagaments XXI SA (SERMIPA XXI)	Andorra	Services relating to the use of credit and debit cards and other means of payment

Sabadell d'Andorra Inversions, SGOIC, SAU, is an Andorran company, incorporated on 23 November 2000, under the name of Sabadell d'Andorra Inversions, Societat Gestora SA. On 23 November 2010, its name was changed to the current one. The Management Company's operations are mainly subject to the requirements established by *Law 10/2008, of 12 June, on the regulation of collective investment schemes of Andorran law* and by *Law 7/2013, of 9 May, on the legal regime of the operating Entities of the Andorran financial system and other provisions that regulate the exercise of financial activities in the Principality of Andorra*.

The corporate purpose of the Management Company is to carry out asset and liability management activities, administrative management activities and activities related to the distribution and representation of investment agencies and their assets, and the custody and management of the holdings of the collective investment entities and, where applicable, of the shares of the investment companies it manages. As of 23 November 2010, the activities of discretionary and individualised portfolio management and advisory services were included.

Assegurances Segur Vida, SAU is a life insurance company whose activity is carrying out insurance operations in the field of private law and in the field of life assurance, as an insurer, delegate and/or mediator. The scope of action of the Insurer includes the Principality of Andorra exclusively. The Insurance company was incorporated on 8 March 2004, although its activity began in the month of July 2005 by selling a risk-insured insurance product where the insurance policyholders undertake the risk of the investments.

Serveis i Mitjans de Pagament XXI, SA is a company registered in Andorra which was formed on 17 August 2012 and which has as its corporate purpose the provision of services relating to the use of credit and debit cards and other means of payment, particularly in terms of ordering, transfer and maintenance of technical equipment.

In accordance with the provisions of *Law 10/2013, of 23 May, on the Andorran National Institute of Finance* recently amended by *Law 12/2018, of 31 May, amending Law 10/2013, of 23 May, on the Andorran National Institute of Finance*, the Bank, as a banking entity, is under the supervision of the Andorran Financial Authority (hereinafter, AFA), an executive technical body of the financial authority by delegation of the Government of Andorra, and is subject to compliance with all the standards and regulations applicable to Banks operating in Andorra.

Furthermore, for the purpose of carrying out its activity, the Bank and its subsidiaries hold the relevant authorisations from the Government of Andorra's Trade and Industry Register as indicated below:

	Trade and Industry Register Number
Fener Branch	915533T
Meritxell Branch	915534S
Pas de la Casa Branch	916973B
La Massana Branch	918451D
Encamp Branch	919486P
Sant Julià Branch	920016V
Príncep Benlloch Branch	924542M
Sabadell d'Andorra Inversions, SGOIC, SAU	919348E
Assegurances Segur Vida, SAU	918957T
Serveis de Mitjans de Pagaments XXI SA (SERMIPA XXI)	923093L

1.2. Basis for presentation

Compliance with the IFRS Standards, adopted by the Government of Andorra

The annual accounts for the 2020 financial year have been prepared in accordance with the International Financial Reporting Standards adopted by the Government of Andorra ("IFRS-Andorra") established in the Decree of 28 December 2016 by which the accounting framework applicable to the operating entities of the Andorran financial system and to collective investment agencies under Andorran law is approved in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and which have also been adopted by Andorra (IFRS-Andorra), with the aim of showing an accurate image of its equity, financial position, results of its operations, cash flows and changes in BancSabadell d'Andorra, SA's net equity as at 31 December 2020 in accordance with the aforementioned framework.

These annual accounts have also been prepared in accordance with the IFRS-EU in force at the date of closure of accounts.

The International Financial Reporting Standards are the Standards and Interpretations issued by the International Accounting Standards Board (IASB). These rules include:

- The International Financial Reporting Standards (hereinafter, "IFRS")
- The International Accounting Standards (hereinafter, "IAS")
- IFRIC Interpretations (hereinafter, "IFRIC"); and
- The SIC Interpretations (hereinafter, "SIC").

Rules for the preparation of the Annual Accounts

The annual accounts have been prepared based on BancSabadell d'Andorra, SA's accounting records, using the operating company principle.

For the preparation of the annual accounts, the relevant accounting principles and Valuation standards listed in note 1.3 have been applied. There are no mandatory accounting principles which, being significant in their effect in the preparation of the annual accounts, have not been applied.

The annual accounts for the 2019 financial year, prepared in accordance with the IFRS-Andorra and IFRS-EU standards in force in 2019, were approved at the General Meeting of Shareholders held on 19 June 2020. The Bank's annual accounts for the 2020 financial year are pending approval by the General Meeting of Shareholders. However, the Entity's Directors estimate that these annual accounts will be approved without any significant changes.

Comparison of information

At 31 December 2020, the annual accounts have been prepared in accordance with IFRS-Andorra and IFRS-EU standards and, in accordance with this accounting framework, the annual accounts are presented for comparative purposes, with each of the items from the statement of financial position, the results statement, the statement of changes in net equity, the cash flow statement and the report, as well as the figures for the 2020 financial year, the corresponding statements from the previous year which formed part of the annual accounts for the 2019 financial year approved by the General Meeting of Shareholders on 19 June 2020, except for the corrections of errors listed in note 1.3.1).

Relevant judgements

Information on critical judgements in the application of accounting policies that have the most significant effect on the amounts recognised in the financial statements relates primarily to:

- The classification of financial assets: an evaluation of the business model followed by the Bank to manage the financial assets and an evaluation of the characteristics of the contractual cash flows of the financial assets.
- The establishment of criteria to determine whether the credit risk of the financial assets has increased significantly since their initial recognition and the determination of the methodology for measuring expected credit loss.

On 28 December 2016 the Official Gazette of the Principality of Andorra (hereinafter, BOPA) published the Decree by which the Government of Andorra approved the new accounting framework applicable to the operating Entities of the Andorran financial system and the collective investment agencies of Andorran Law in accordance with the International Financial Reporting Standards adopted in the European Union (IFRS-EU) that were simultaneously adopted by Andorra (IFRS-Andorra), which entered into force on 1 January 2017.

In addition, through the adoption of this Decree, the Government of Andorra repealed the standardised accounting Plan of the financial system, published in BOPA number 5, year 12, dated 26 January 2000, which Andorran banking entities used to present their Financial Statements from its approval until 31 December 2016.

As a result of the adoption of this new accounting framework, the Bank was obliged to draw up the Group's Consolidated Financial Statements in accordance with the IFRS-EU at the same time adopted by Andorra from 1 January 2017.

Also, on 21 March 2018, the AFA issued technical notice number 251/18 through which it authorised the Andorran banking entities to adopt, in advance, and for 2018, the IFRS adopted in the European Union as from 1 January 2018:

- IFRS 9 Financial instruments; and
- IFRS 15 Revenue from contracts with customers.

Subsequently, on 12 December 2018, a Decree was passed in which certain International Financial Reporting Standards adopted in the European Union (IFRS-EU) were approved, including those referred to in the standards and the aforementioned Decree dated 28 December 2016 was modified.

Therefore, the Group's consolidated Financial Statements for the year ending 31 December 2020 have been prepared in accordance with IFRS-EU. In this regard, a fair view of the group's assets as well as its financial situation is shown as at this date along with the results of its operations, changes in net equity and cash flows, all consolidated, for the year ending on that date. There is no principle or accounting standard or mandatory evaluation criteria which, being significant, has ceased to be applied in their preparation. This same note includes a summary of the most significant accounting principles and norms and criteria applied in these consolidated Financial Statements.

The accounting information relating to 2019 is presented solely and exclusively for comparative purposes, referring to the data for the year ending 31 December 2019.

The annual Consolidated Financial Statements have been drawn up based on the accounting records kept by the Bank and by each of the remaining Entities included in the Group. They include the reclassifications and adjustments necessary to standardise the accounting principles and policies, as well as the valuation criteria applied by the Group, described in this same note.

These consolidated annual Financial Statements, unless otherwise mentioned, are presented in thousands of euros. In order to present the amounts in thousands of euros, the accounting balances have been rounded; for this reason, it is possible that the amounts that appear in certain tables may not be the exact arithmetical sum of the figures that precede them.

The notes on the consolidated financial statements contain additional information to that submitted in the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in net equity and the consolidated cash flow statement. They express narrative descriptions or breakdowns of the above-mentioned consolidated financial statements in a clear, relevant, reliable and comparable manner.

The information contained in these consolidated annual Financial Statements is the responsibility of the Bank's Executive Directors. The Annual Consolidated Financial Statements of BancSabadell d'Andorra and companies that make up the BancSabadell d'Andorra Group, were prepared by the Board of Directors of the Bank on 26 March 2021, and are pending approval by the General Meeting of Shareholders, and are expected to be approved without significant changes. The Board of Directors of Sabadell d'Andorra Inversions SGOIC, SAU and Assegurances Segur Vida, SAU prepared the respective Annual Financial Statements on 25 March 2021.

In accordance with the aforementioned regulations, these annual Financial Statements have been drawn up giving full effect to all the standards and interpretations issued by the International Accounting Standards Board (IASB) adopted by the EU which had entered into force on 1 January 2020 and that were simultaneously adopted by Andorra (IFRS-Andorra)

STANDARDS AND INTERPRETATIONS ISSUED BY THE IASB WHICH CAME INTO EFFECT IN THE 2020 FINANCIAL YEAR

Standards and interpretations	Title
Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 9, IAS 39. IFRS 7, IFRS 4 and IFRS 16 (*)	Interest rate benchmark reform (Phases 1 and 2)
Amendments to IFRS 3	Business combinations
Amendments to IFRS 16	Rental reductions related to COVID-19
Amendments to IAS 19	Amendment, curtailment or settlement of a plan

(*) The amendments corresponding to Phase 2 have been approved for implementation in the EU after the close of the 2020 financial year and the group has opted for their early application in the 2020 financial year.

- **Amendments to IAS 1 and IAS 8 "Definition of material"**
  These amendments establish a new definition of "Material" in order to help companies make decisions that entail the application of judgements in relation to the information that must be included in the Financial Statements. According to the new definition, information is material if its omission or distortion could reasonably have an impact on the decisions that users make on the basis of the Entity's Financial Statements.

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform (Phases 1 and 2)"**
  The phase 1 amendments are intended to ensure that companies can continue to provide relevant information during the period of uncertainty which may arise as a result of the substitution of the interest rate benchmark, in particular the Interbank Offered Rates (IBOR).

  In accordance with this, some specific requirements for hedge accounting have been amended in order to mitigate the negative impacts that could arise from the substitution of interest rate benchmarks, which could result in entities having to discontinue their hedge accounting relationships. These amendments allow entities to apply hedge accounting on the assumption that the interest rate benchmark, which the cash flows of hedging instruments and hedged items are based on, will not be affected by the uncertainty as a result of interest rate reform.

Moreover, the amendments of phase 2 aim to address the problems that affect the financial information when changes are made in the financial instruments' cash flows or hedging relationships as a result of the IBOR reform. Below is a summary of the main changes:

- As a practical solution, the amendment of the financial assets, financial liabilities and lease liabilities of the lessees which is required as a direct consequence of the IBOR reform, carried out on an economically equivalent basis which will be accounted for through the prospective updating of the effective interest rate. If the amendment does not comply with the requirements of this practical solution, the general requirements of IFRS 9 and IFRS 16 must be applied.
- Additionally, specific temporary exceptions are provided for accounting hedging relationships in circumstances in which changes arise in hedged items and in the hedging instruments as a result of the IBOR reform. The amendments allow the designation to be modified and documentation of a hedging relationship to reflect these changes, without having to interrupt the hedging relationship or having to designate a new one to it. The changes permitted include redefining the hedged risk to refer to an alternative interest rate benchmark (regardless of whether it is contractually specified), amending the description of the hedged item and the hedging instrument to reflect the alternative interest rate benchmark, as well as a description of how the effectiveness of the coverage will be evaluated. Similarly, additional exceptions are also provided for specific hedge accounting requirements if certain conditions are met.

The group has chosen to apply the Phase 2 amendments in advance for the 2020 financial year, applying them retrospectively to its hedge ratios.

In addition, the group initially chose to apply IAS 39 to its hedging relationships, so that the amendments to IFRS 9 related to this scope will no longer be applicable.

The impact of these amendments in the hedging relationships in Andorra has not been significant. Most of the hedging relationships in Andorra are based on the Euribor, which has not been replaced; rather only its calculation methodology has been amended, therefore, the impacts of its entry into force of Andorra this rule have not been significant for these hedging relationships.

- **Amendments to IFRS 3 "Business combinations"**

These amendments aim to introduce improvements in the definition of business in order to help entities to differentiate between the purchases of assets and business acquisitions. This distinction is relevant since goodwill is only generated in business acquisitions.

The modified definition of business focuses on the object of a business being to provide goods and services to consumers, whereas the previous definition focused on obtaining dividends, reducing costs and other benefits for the investors.

- **Amendments to IFRS 16 "Rental reductions related to COVID-19"**

These amendments are intended to simplify the accounting for lessees who have received aids linked to their rent due to COVID -19, such as concessions or reductions in rent, allowing the said aids not to be considered as amendments to leases. They will apply to aids related to COVID-19 that involve a reduction in payments to be made until 30 June 2021. These changes have no impact on the lessors' accounts.

This amendment to IAS 19 requires an Entity to use updated actuarial assumptions to determine the cost of the current service, and the net interest for the rest of the period, following an amendment, reduction or liquidation of a plan, and to recognise in profit and loss as part of the cost of the past service, or a gain or loss in the settlement, or any reduction in a surplus, even if this surplus had not been previously recognised due to the impact of the asset limit.

STANDARDS AND INTERPRETATIONS ISSUED BY THE IASB, BUT NOT IN FORCE

As at the date of the formulation of these Consolidated Annual Accounts, the most significant standards and interpretations for the Group which have been issued by the IASB but still have not entered into force, either because their date of their application is later than the date of the Consolidated Annual Accounts or because they still have not been approved by the European Union, are as follows:

Standards and interpretations	Title	Mandatory application for financial years already begun, starting from:
Not approved for application in the EU		
Amendments to IAS 16, IAS 37 and IFRS 3 and annual improvements to IFRS 2018-20	Amendments with a limited scope	1 January 2022
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Presentation of financial statements: classification of liabilities as current and non-current	1 January 2023
Approved for application in the EU		
Amendments to IFRS 4	Extension of the temporary exemption to apply IFRS 9	1 January 2021

The Group has assessed the impact which would result from applying these standards and where possible, it has decided not to apply them in advance. Similarly, unless otherwise indicated below, the Group's Management considers that adopting them will not have a significant impact on the Group.

APPROVED FOR APPLICATION IN THE EU

- **Amendments to IFRS 4 "Extension of the temporary exception from applying IFRS 9"**
  These amendments to IFRS 4, the previous standard for insurance contracts, enable insurance companies to have the option of deferring the first application of IFRS 9 "Financial Instruments" until 1 January 2023.

NOT APPROVED FOR APPLICATION IN THE EU

- **Amendments with a limited scope to IAS 16, IAS 37 and IFRS 3 and annual improvements to IFRS 2018-20**
  These are, on the one hand, changes in relation to the income obtained before the use of an asset regulated by IAS 16 "Property, plant and equipment", the costs of fulfilling an onerous contract in accordance with IAS 37 "Provisions" and references to IFRS 3 Conceptual Framework "Business Combinations". Also, the annual improvements to IFRS 2018-20 have resulted in minor amendments to IFRS 1 "First-time Adoption of IFRS", IFRS 9 "Financial Instruments", IFRS 16 "Leases" and IAS 41 "Agriculture".

- **IFRS 17 "Insurance contracts"**
  IFRS 17 establishes the principles of recognition, measurement, presentation and the breakdown of insurance contracts. The purpose of IFRS 17 is to ensure that entities provide relevant information which faithfully represents these contracts.

  In accordance with this standard, insurance contracts combine features of both financial instruments and service contracts. Additionally, lots of insurance contracts generate cash flows that vary substantially and have a long duration, therefore, to provide useful information on these aspects, IFRS 17:

  - Combines the current measurement of future cash flows with the revenue recognition throughout the period during which the services established in the contracts are being provided.
  - It presents the profit and loss provided separately from financial expenses and income of these contracts.
  - It requires entities to decide whether they will recognise their total financial revenue and expenses through insurance contracts in the consolidated income statement or whether part of these results will be recognised in net equity.

  Also, in the 2020 financial year, some amendments to IFRS 17 have been incorporated. These aim to reduce implementation costs, simplifying the requirements of this standard, as well as making the explanations available to be provided in relation to the results of the entities operations and the transition to this new standard, deferring its effective date to 1 January 2023 and reducing the first application requirements.

The insurance companies associated with the group are working on the implementation of the new regulatory framework for insurance contracts arising from IFRS 17.

- **Amendments to IAS 1 "Presentation of Financial Statements: classification of liabilities as current or non-current"**
  These amendments are intended to clarify how to classify debts and other liabilities for entities as either current and non-current, in particular those liabilities without a specific maturity date and those that could be converted into capital. The early application of these amendments is permitted.

IMPACTS RESULTING FROM COVID-19

The health crisis caused by COVID-19 has meant an unprecedented shock: (i) it has caused a shock in supplies, given that it has paralysed global production chains, (ii) it is a demand shock, as a result of containment measures and the lockdown of the population in order to limit contagion and the pandemic, (iii) it represents a shock of uncertainty, generated by the spread of the virus itself and the lack of historical references to shocks of a similar nature, and (iv) initially classed as a financial shock, as it has caused an abrupt strain on financial conditions, illiquidity in capital markets and financial assets, extreme volatility and causing an impact on financial assets.

This situation has triggered an intense and coordinated response in the area of monetary, fiscal and supervisory policy. Central banks have taken steps to combat the malfunctioning of financial markets, provide liquidity to the system and offer governments room for an expansionary fiscal policy. Furthermore, governments in different countries have taken measures such as providing support to the financial system, allowing delays in paying taxes, benefits for affected workers, guarantees for bank financing and support for systemic companies facing difficulties. Specifically, in the Principality of Andorra, multiple government measures have been adopted with the aim of mitigating the impact of this crisis. Included among them are those contained in the Law 5/2020 (in substitution of the initial and repealed 3/2020) and 16/2020 of exceptional and urgent measures due to the emergency health situation caused by the SARS-CoV-2 pandemic and in the decrees dated 20/05/2020 and 18/11/2020 which amended the previous one. The measures established in these laws and decrees are aimed at protecting the most vulnerable families and groups, as well as supporting and protecting the self-employed and companies. Included among these measures are, for example, the reduction of the rent of commercial premises for certain activities or for companies and self-employed people who can prove drastic reductions in their turnover. Similarly, reductions in the housing rentals to individuals included in Temporary Furlough-type Redundancy Plans, (ERTOs in its Catalan initials) are also established.

- **Public and sectoral moratoriums**
  The Decree 18/11/2020 (amending decree 20/05/2020), establishes the possibility of companies and self-employed people who meet a series of requirements to be able to apply for soft loans. These loans are 100% guaranteed by the Government of Andorra.

  Law 05/2020 establishes the possibility of individuals and the self-employed being able to apply directly for a direct legal delay in the payment of capital plus interest from financial entities through mortgage loans for their habitual housing, renovations, the acquisition of vehicle, commercial premises or a maximum of two homes intended for rent and affected by the rent reduction scheme.

  Similarly, the group has adhered to the sectoral agreement of waiting period promoted by the association of banks, Andorran Banking, dated 11/06/2020 to be able to offer to their customers, companies, private individuals and the self-employed an interest free period (not including capital) on mortgages for their usual residence, renovations, personal loans for the acquisition of a vehicle, financing of studies and medical expenses. The maximum date to apply is 31/03/2021 and an extension of up to 9 months can be applied.

- **Specific customer support measures**
  The Group has carried out a specific plan for customer segments, including companies and individuals, offering solutions beyond government measures, such as delayed payments of up to 6 months in personal and SME loans, overdue credit line renewals and an extension of maturity of circulating lines.

  The quantitative data in relation to the group's risk exposure arising from legal and sectoral deficiencies and transactions granted under the public aid programmes implemented in response to the crisis caused by COVID-19 have been estimated as having little significance.

  Similarly, the impact that COVID-19 has had on the main risks affecting the group has been considered insignificant and is detailed in note 3 of these annual accounts.

USE OF JUDGEMENTS AND ESTIMATES IN THE DRAWING UP OF THE FINANCIAL STATEMENTS

The drawing up of the annual consolidated financial statements requires the use of certain accounting estimates. It also demands that the management exercises its judgement in the process of applying the Group's accounting policies. These judgements and estimates may affect the amount of assets and liabilities and the breakdown of the contingent assets and liabilities at the date of drawing up the consolidated Financial Statements, as well as the amount of the income and expenses related to the financial year.

The COVID-19 pandemic has increased uncertainty in making estimates and has reinforced the need to apply professional judgement when it comes to evaluating the impact of the current macroeconomic situation on these estimates, primarily in that which refers to the determination of impairment losses on assets, both financial and assets of another nature. Although the estimates made are based on the best management knowledge of current and foreseeable circumstances, the final results may differ from these estimates.

The main judgements and estimates made in these consolidated Financial Statements relate to the following items:

Amendments to business models under which financial assets are managed (see Note 1.3.3).

- Determining of the significant increase in credit risk of financial assets since their initial recognition (see Note 1.3.4).
- Impairment losses of certain financial assets (see Notes 7, 8 and 9).
- The useful life of tangible and intangible assets (see Notes 1.3.10 and 1.3.12).
- The provisions and considerations of contingent liabilities (see Note 1.3.13).
- The fair value of certain financial assets unlisted (see Note 5).
- The recoverability of deferred tax assets and tax credits (see Note 32).

Although the estimates made are based on the best management knowledge of current and foreseeable circumstances, the final results may differ from these estimates.

1.3. Significant accounting principles and policies and valuation criteria

The following are accounting principles and policies, as well as the most significant valuation criteria, applied in drawing up these annual consolidated Financial Statements.

1.3.1. Changes in accounting criteria and error corrections

During the year ended 31 December 2020, an error has been corrected which has led to the re-expression of the amounts included in the annual accounts for the year ended 31 December 2019. This has been done in order to make them comparative with those of the current year and facilitate their comparison. Details of the correction of this error is presented below:

Financial Statement	Presented on 31 December 2019	Re-expressed	Re-expressed on 31 December 2019
Non-trading financial assets mandatorily at fair value with changes in profit or loss	-	921	921
Financial assets at fair value with changes in other comprehensive income	921	(921)	-
Financial assets designated at fair value with changes in profit or loss	-	4,716	4,716
Financial assets at Amortised Cost	4,716	(4,716)	-
TOTAL ASSETS	**4,716**	**-**	**4,716**
Other reserves	58,255	(58,255)	-
Retained earnings	-	58,255	58,255
TOTAL NET EQUITY	**58,255**	**-**	**58,255**

The errors corrected in the financial statements for 2020 correspond to a reclassification in the amount of 4,716 thousand euros of debt securities shown in the financial statement under the heading “Financial assets at amortised cost” to the heading “Non-trading financial assets mandatorily at fair value with changes in profit or loss” in order to meet the classification requirement set out in IFRS 9; a reclassification of 921 thousand euros of equity instruments in the financial statement under the heading “Financial assets at fair value with changes in other comprehensive income” to the heading “Non-trading financial assets mandatorily at fair value with changes in profit or loss”; and a reclassification of 58,255 thousand euros from “Other reserves” to “Retained earnings”.

1.3.2. Consolidated principles

During the consolidation process all the Group companies are analysed. As a result of this analysis, it is concluded that two of them must be considered as subsidiary Institutions, since the Group has control over them and one of them as an associate.

Subsidiary institutions

It is considered that there is control when the Group is exposed, or has the right, to variable returns from its involvement in the investee and has the capacity to influence on these returns through its power over them.

Regarding what is considered to be control, the following circumstances must apply:

- Power: An investor has power over an investee when it has rights in force that give it the ability to direct the relevant activities, that is, those that significantly affect the investee’s returns.
- Returns: An investor is exposed, or has the right, to variable returns for its involvement in the investee when the returns obtained as a result of this involvement may vary depending on the financial progress of the investee. The returns of the investor may be solely positive, solely negative or positive and negative at the same time.
- Relationship between power and returns: An investor controls an investee if the investor not only has power over it and is exposed, or has the right, to variable returns for its involvement in the investee, but also has the ability to use its power to exert influence over the returns that it receives due to this involvement in the investee.

The consolidated financial statements of Subsidiary institutions are consolidated with those of the Bank through the application of the global integration method, consisting of the aggregation of the assets, liabilities, net equity, income and expenses of a similar nature to those contained in their Individual Financial Statements. The carrying value of the direct and indirect holdings in the equity of the subsidiary Institutions is eliminated with the fraction of the net equity of the subsidiary Entities they represent. Consequently, all the balances and effects of the transactions performed between the consolidated companies are eliminated in the consolidation process.

There have been no changes in the level of holdings in subsidiaries in 2020 in comparison to the 2019 level.

Associated entities

Associated entities are those on which the group exerts significant influence, which, in general, but not exclusively, states maintaining a holding, direct or indirect, of 20% or more of the voting rights of the investee.

In the consolidated annual accounts, associated entities are valued by the method of participation.

The information regarding consolidated companies, as well as the consolidation methods applied in each case in accordance with IFRS-EU, is detailed below:

Company	Registered Address	Activity	Percentage of direct holding	Consolidation method
Sabadell d'Andorra Inversions, SGOIC, SAU	Carretera de l'Obac 12, edifici "El Forestal B", Oficina 4 (Andorra la Vella)	Management of investment agencies and management mandates	100%	Global integration
Assegurances Segur Vida, SAU	Carretera de l'Obac 12, edifici "El Forestal B", (Andorra la Vella)	Insurance company	100%	Global integration
Serveis de Mitjans de Pagaments XXI SA (SERMIPA XXI)	Carrer Ciutat de Consuegra 16, Edifici l'Illa, 2n pis, (Andorra la Vella)	Services relating to the use of credit and debit cards and other means of payment.	20%	Equity method

In all the cases, the consolidation of the results generated by the companies which are part of the Group in a given year is carried out taking into account only those relating to the period between the date of acquisition and the end of the year.

Detailed below, in thousands of euros, is the information as at 31 December 2020 and 2019 with respect to consolidated companies:

(Thousands of euros)			31/12/2020						
Company	Registered Address	Activity	Percentage of direct holding	Consolidation method	Capital	Reserves	Profit/ loss in 2020	Interim dividend	Total equity (1)
Sabadell d'Andorra Inversions, SGOIC, SAU	Carretera de l'Obac 12, edifici "El Forestal B", Oficina 4 (Andorra la Vella)	Management of investment agencies and management mandates	100%	Global integration	300	1,225	98	(70)	1,553
Assegurances Segur Vida, SAU	Carretera de l'Obac 12, edifici "El Forestal B", (Andorra la Vella)	Insurance company	100%	Global integration	602	834	151	-	1,587
Serveis de Mitjans de Pagaments XXI SA (SERMIPA XXI) (*)	Carrer Ciutat de Consuegra 16, Edifici l'Illa, 2n pis, (Andorra la Vella)	Services relating to the use of credit and debit cards and other means of payment.	20%	Equity method	-	26	28	-	54
					902	**2,084**	**277**	**(70)**	**3,194**

(Thousands of euros)			31/12/2020						
Company	Registered Address	Activity	Percentage of direct holding	Consolidation method	Capital	Reserves	Profit/ loss in 2020	Interim dividend	Total equity (1)
Sabadell d'Andorra Inversions, SGOIC, SAU	Carretera de l'Obac 12, edifici "El Forestal B", Oficina 4 (Andorra la Vella)	Management of investment agencies and management mandates	100%	Global integration	300	1,190	134	(100)	1,525
Assegurances Segur Vida, SAU	Carretera de l'Obac 12, edifici "El Forestal B", (Andorra la Vella)	Insurance company	100%	Global integration	602	419	215	-	1,236
Serveis de Mitjans de Pagaments XXI SA (SERMIPA XXI) (*)	Carrer Ciutat de Consuegra 16, Edifici l'Illa, 2n pis, (Andorra la Vella)	Services relating to the use of credit and debit cards and other means of payment.	20%	Equity method	-	12	13	-	25
					902	**1,621**	**362**	**(100)**	**2,785**

Includes the result for the net financial year on interim dividends.
(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Both Sabadell d'Andorra Inversions, SGOIC, SAU and Assegurances Segur-Vida, SAU were audited as at 31 December 2020 and 2019.

The accounting principles and policies adopted in the drawing up of the consolidated Financial Statements for the 2020 financial year are consistent with those used in the drawing up of the Group's consolidated Financial Statements for the 2019 financial year.

As indicated in the section *"Standards and interpretations issued by the International Accounting Standards Board"* which entered into force in the 2020 financial year of this note, in 2020 the Group adopted different standards and interpretations.

1.3.3. Valuation of the financial instruments and recording of the variations that arise in their subsequent valuation

Generally, all financial instruments are initially recorded at their fair value (see Note 5) which, unless there is evidence to the contrary, coincides with the transaction price. For financial instruments which are not recorded at fair value with changes to profit and loss, the fair value amount is adjusted by adding, or deducting, the transaction costs directly attributable to their acquisition or issuance. In the case of financial instruments at fair value with changes to profit and loss, the directly attributable transaction costs are recognised immediately in the consolidated income statement. As a general rule, conventional purchases and sales of financial assets are registered for in the consolidated statement of the Group, applying the settlement date.

The changes in the value of the financial instruments that originate from accrual interest and similar items are recorded in the consolidated statement of profit, under the headings of *"Interest and other similar income"* or *"Interest expenses"*, as appropriate. Dividends of other companies are recognised as income in the consolidated income statement for the financial year in which the rights to receive them are created.

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

Changes in the valuations that occur after the initial recording, for reasons other than those mentioned above, are treated according to the classification of financial assets and liabilities for the purposes of their valuation, which is generally carried out based on the following aspects:

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

Business model

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

The following are the business models used by the Group:

- Holding of financial assets to receive their contractual cash flows: under this model, the financial assets are managed in order to collect their specific contractual cash flows and not to obtain a global return holding and selling assets. Notwithstanding the foregoing, allowances prior to the maturity of assets under certain circumstances are permitted. Amongst sales that may be compatible with a model of maintaining assets to receive contractual cash flows are the least frequent or more insignificant ones, those of assets close to maturity, which are motivated by an increase in credit risk and those which have been made to manage the concentration risk.
- Sale of the financial assets.
- A combination of the two previous business models (maintenance of financial assets to receive their contractual cash flows and sale of financial assets): this business model involves the sale of more frequent assets and those of greater value, these being essential to the business model.

Characteristics of contractual cash flows from financial assets

Financial assets and liabilities are classified for the purposes of their valuation in the following portfolios, depending on the aspects detailed above:

- Those financial assets whose contractual terms give rise, on specified dates, to cash flows consisting solely of principal and interest payments on the principal outstanding amount.
- Other financial assets.

For the purposes of this classification, the principal of a financial asset is its fair value at the time of its initial recognition, which may vary during the life of the financial asset; for example, if there are principal repayments. Likewise, interest is understood to be the sum of the consideration for the temporary value of the money, for the costs of financing and structure, and for the credit risk associated with the principal outstanding amount during a specific period, plus a profit margin.

In the case of a financial asset containing contractual clauses which might modify the calendar or amount of cash flows (for example, for options of prepayment or extension of the financial instrument, for contract extension, or for possible residual compensations), the Bank will estimate the cash flows that can be generated before and after amendment and will determine if they are only main payments and interest payments on the pending main amount.

At the time of initial recognition, clauses which have a highly reduced effect on cash flow (minimal effect) or depend on the occurrence of exceptional and highly improbable circumstances (non-genuine characteristics) do not prevent a financial asset from being classified within the category where cash flows consist solely of main payments and interest payments.

Classification of the financial liabilities for valuation purposes

Financial assets and liabilities are classified for the purposes of their valuation in the following portfolios, depending on the aspects detailed above:

FINANCIAL ASSETS AT AMORTISED COST

This category includes the financial assets that meet the following two conditions:

- They are managed using a business model whose purpose is to maintain them to receive their contractual cash flows.
- Their contractual conditions give rise to cash flows on specified dates, which are only payments principal and interest on the outstanding principal amount.

This category includes the investment from typical credit activity, such as the effective amounts prepared and pending depreciation for customers in the form of loans or deposits lent to other Entities, whatever their legal instrumentation, and debt securities that comply with the two previous conditions, as well as debts incurred by purchasers of goods or users of services which form part of the Group's business.

After the initial recognition of the financial assets classified in this category, they are valued at amortised cost, which must be understood as the cost of acquisition corrected by repayments of the principal and the part attributed to the consolidated income statement, using the effective interest rate method, the difference between the initial cost and the corresponding repayment value at maturity. Additionally, the amortised cost is reduced by any reduction in impairment value recognised directly as a decrease in the amount of the asset, or through a correcting or compensating entry of its value.

The effective interest rate is the updated rate that is exactly equal to the value of a financial instrument with the estimated cash flows over the expected lifespan of the instrument, based on its contractual conditions, such as early repayment options, but without taking into consideration expected credit losses. For financial instruments at a fixed interest rate, the effective interest rate coincides with the contractual interest rate established at the time of acquisition plus, if applicable, the charges which are, by their nature, comparable to an interest rate. For financial instruments at variable interest rates, the effective interest rate coincides with the rate of return in force for all the items until the first review of the reference interest rate that has to take place.

FINANCIAL ASSETS AT FAIR VALUE WITH CHANGES IN OTHER COMPREHENSIVE INCOME

This category includes the financial assets that meet the following two conditions:

- They are managed using a business model whose purpose combines the receipt of their contractual cash flows and their sale.
- The contractual conditions give rise to cash flows on specific dates which are only principal and interest payment on the main outstanding amount.

These financial assets are basically debt securities.

Likewise, the Group may choose, at the time of initial recognition and in an irrevocable manner, to include in the portfolio of financial assets at fair value with changes in other comprehensive income, the investments in equity instruments that are not classified as held for trade and which would otherwise be classified as financial assets mandatorily at fair value with changes in profit or loss. This option is exercised on an instrument by instrument basis.

The income and expenses of financial assets at fair value with changes in other comprehensive income are recognised in accordance with the following criteria:

- Interest accrued or, when appropriate, dividends accrued, in the consolidated income statement.
- Exchange differences, in the consolidated income statement, when these are monetary financial assets, and to other comprehensive income, when these are non-monetary financial assets.
- Impairment losses on debt instruments, or earnings for subsequent recovery, in the consolidated income statement and, in the case of equity instruments, to other comprehensive income.
- The remaining changes in value, to other comprehensive income.

When a debt instrument at fair value with changes in other comprehensive income is derecognised from the financial statement, the amount for change of value recorded under the heading *"Other comprehensive income"* of the consolidated net equity is reclassified to the consolidated income statement. However, when a net equity instrument at fair value with changes in other comprehensive income is derecognised from the consolidated financial statement, this amount is not reclassified to the consolidated income statement, but is reclassified to a reserves entry.

FINANCIAL ASSETS MANDATORILY AT FAIR VALUE WITH CHANGES IN PROFIT OR LOSS

A financial asset is classified in financial assets mandatorily at fair value with changes in profit or loss, as long as the Group's business model in relation to its management, or the characteristics of its contractual cash flows are not appropriate to classify it in any of the portfolios described above.

This portfolio is subdivided, in turn, into:

- Financial assets held for trading

  The financial assets held for trading are those which have been acquired with the aim of realising them in the short term, or are part of a portfolio of financial instruments identified and managed jointly for which recent actions have been undertaken to obtain short-term profits. They are also considered as financial assets held to negotiate the derivative instruments that do not meet the definition of a financial guarantee contract and have not been designated as accounting hedge instruments.

- Non-trading financial assets mandatorily at fair value with changes in profit or loss

  This portfolio classifies the rest of the financial assets mandatorily calculated at fair value with changes to profit and loss.

Fair value changes are recorded directly in the consolidated statement of profit, distinguishing, for non-derivative instruments, between the part attributable to the accrued earnings from the instrument, which is recorded as *"Interest and other similar income"*, applying the effective interest rate method, or as dividends, according to their nature, and the remainder, which are recognised as a result of financial operations under the corresponding heading.

FINANCIAL LIABILITIES HELD FOR TRADING

Financial liabilities held for trading include the financial liabilities which have been issued in order to buy them back in the short term, or are part of a portfolio of financial instruments identified and managed jointly for which recent actions have been carried out to obtain short-term profits. Short positions are also included as a result of firm sales of securities received from inverse repurchase loans, securities loans or guarantee with right of sale, as well as derivative instruments that do not meet the definition of a financial guarantee contract and have not been designated as accounting hedging instruments.

Fair value changes are recorded directly in the consolidated income statement, distinguishing, for non-derivative instruments, between the part attributable to the accrued earnings of the instrument, which is recognised as interest by applying the effective interest rate method, and the rest, which are recognised as a result of financial operations under the corresponding heading.

FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE WITH CHANGES IN PROFIT OR LOSS

This category includes financial liabilities that do not form part of the financial liabilities held for trading and have been irrevocably designated in their initial recognition. Changes in the fair value of these instruments are recorded in the consolidated income statement.

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

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

In particular, this category includes the capital with nature of financial liability which corresponds to the amount of financial instruments issued by the Group that, having the legal nature of capital, do not meet the requirements to qualify as consolidated net equity for accounting purposes. Basically. these are shares issued that do not include voting rights and their profitability is established based on an interest rate, fixed or variable.

After their initial recognition they are valued at amortised cost, applying similar criteria to financial assets at amortised cost, recording the accrued interest, calculated using the effective interest method, in the consolidated income statement. However, in the event that the Group has discretion in relation to the payment of coupons associated with financial instruments which are issued and classified as financial liabilities, the Group's accounting policy is to recognise them with the charge to consolidated reserves.

1.3.4. Impairment of the value of the financial assets

A financial asset or credit exposure is considered impaired when there is objective evidence that an event has occurred, or the combined effect of several events, that results in:

- In the case of debt instruments (credits and debt securities), a negative impact on the future cash flows calculated at the time the transaction is formalised as consequence of the realisation of a credit risk.
- In the case of off-balance exposures which entail credit risk, if the expected cash flows are lower than the contractual cash flows, in the event of the disposition of the commitment, or the payments that are expected to be made, in the case of financial guarantees given.

Debt instruments and off-balance exposures

Impairment losses on debt instruments and other off-balance credit exposures are recorded as an expense in the consolidated statement of profit and loss for the year in which this impairment is estimated and recoveries of previously recorded losses, if any, are also recognised in the consolidated income statement for the year in which the impairment disappears or is reduced.

The calculation of the impairment of financial assets is carried out according to the type of instrument and other circumstances that may affect them, once the effective guarantees received have been taken into account. For debt instruments valued at amortised cost, the Group recognises both corrective accounts, when provisions are made for insolvencies to cover impairment losses, as well as direct write-offs against the assets of the financial statement, when it is considered that their recovery is unlikely. For debt instruments at fair value with changes in other comprehensive income, impairment losses are recognised in the consolidated income statement with an opposite entry under the heading of *“Other comprehensive income”* of consolidated net equity. Hedging due to impairment losses on off-balance exposures are recorded in the liability of the consolidated financial statements as provisions.

In the risks classified as stage 3 (see section “Definition of classification categories” of this note), the recognition in the consolidated statement of profit and loss of accrual is carried out by applying the effective interest rate on its amortised cost adjusted for any correction of value due to impairment losses.

In order to determine impairment losses, the Group carries out individual monitoring of debtors, at least for all those which are significant, and collective, for groups of financial assets that have similar credit risk characteristics indicative of the capacity of the debtors to pay the outstanding amounts. When a specific instrument cannot be included in any group of assets with similar risk characteristics, it is analysed exclusively and individually to determine if it has deteriorated and, if applicable, to estimate impairment loss.

The Group has policies, methods and procedures to estimate the losses that could be arising, due to the credit risk maintained, as well as for the insolvency attributable to the counterparties as country risk. These policies, methods and procedures are applied to the granting, study and documentation of the debt instruments and off-balance sheet transactions, as well as to the identification of their impairment and the calculation of the amounts necessary to cover the expected losses.

Account classification based on credit risk due to insolvency

The Group has established criteria which enable identification of the creditors who show significant increases in risk or weaknesses or objective evidence of impairment, and classification according to their credit risk.

In the following sections, the principles and classification methodology used by the Group are detailed.

Definition of classification categories

Off-balance credits and off-balance sheet transactions are classified according to the credit risk into the following stages:

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

- Stage 2: this category includes all the operations that, without fulfilling the criteria to be able to be classified individually in Stage 3 or bankruptcy, show significant increases of the credit risk from the initial recognition. Included in this category are operations with overdue amounts of more than one month of arrears. Refinanced and restructured operations classified in this category will be classified in a lower risk category when they meet the requirements established to make this reclassification. Also included in this category are operations that are up to date with their payments, but which have had more than 3 unpaid instalments during the last 12 months. Finally, refinanced and restructured operations that have not passed the 12 month assessment period to be classified in stage 1 are included in this category.
- Stage 3: includes debt instruments, whether they are overdue or not, which, without the circumstances to be classified in the insolvency risk category, cause reasonable doubt regarding their total redemption (principal and interest); as well as off-balance exposures for which the payment for the Group is likely and their recovery doubtful.
  - Due to default by the debtor: operations with any amount expired of the principal, interest or contractually agreed upon expenses, in general, more than 90 days in arrears, unless it is appropriate to classify these as defaulted. Likewise, the amounts of all the operations of a debtor being more than 90 days in arrears are included.
  - For reasons other than default by the debtor: operations in which, without the circumstances materialising to classify them in the categories of bankruptcies or in stage 3 due to default, reasonable doubt arises regarding the obtaining of the estimated cash flows from the operation; as well as off-balance exposures not classified in stage 3 due to default on which payment for the Group is likely and its recovery doubtful.
- Insolvency risk:

The Group writes off from the consolidated financial statements those operations which, after an individual analysis, are considered to be unlikely to be recovered in whole or in part. This category includes the risks of customers who are in the process of negotiating with creditors with a request for settlement.

The Group writes off the amount recorded as a bad debt with its provision, without prejudice to the actions that may be carried out to try to obtain payment thereof until the rights to receive it have permanently expired, either due to a statute of limitations, cancellation by remission or other causes.

Criteria for the classification of operations

The Group applies a range of criteria to classify borrowers and operations into different categories according to their credit risk.

In order to allow for the early identification of the significant increase in risk or weaknesses and the impairment of operations, the Group establishes indicators, based on the number of days overdue, refinancing and restructuring indicators, as well as insolvency and significant increase of risk indicators, among others, differentiating between significant and non-significant borrowers.

The operations classified in stage 3 are reclassified to stages 1 or 2 when, as a result of the total or partial collection of the unpaid debts in the case of transactions classified in stage 3 due to default, or due to having passed the assessment period in the case of transactions classified in stage 3 for reasons other than default, reasons that are no longer valid, that, when applicable, led to their classification in stage 3, unless there are other reasons that recommend that they be kept in this category.

Individual assessment

The Group has set a threshold in terms of exposure to consider the borrowers as significant, based on levels according to the Exposure at Default (EAD). Furthermore, the credit exposures corresponding to the main risk groups are considered on an individual basis, as well as those that are not associated with a homogeneous risk group, for which, accordingly, their classification and coverage cannot be estimated collectively.

A system of indicators is established for significant borrowers that allows the identification of a significant increase in risk, weaknesses or indications of impairment.

Specifically, an expert team of risk analysts analyses the borrowers to conclude on the existence of a significant increase in risk or objective evidence of impairment and, if they find evidence of impairment, whether this event or events causing the loss has an impact on estimated future cash flows of the financial asset or its group.

Below are the aspects that the system of indicators sets out to identify:

- Significant financial difficulties experienced by the issuer or the borrower, indicative of a significant increase in risk or impairment, insofar as, due to their significance, limit the issuer or the borrower's capacity to meet its financial obligations with normality.
- In this respect, to identify a significant increase in risk or an impairment event, it is necessary to consider both indicative variables of a worsening or a bad economic-financial situation as variables that are potential causes or that anticipate this impairment event.

For example:

- Adverse changes in the financial situation, such as a significant increase in the level of indebtedness, significant falls in turnover or a significant narrowing of profit margins.
- Adverse changes in the economy or market indicators such as a significant fall in the price of shares or a decrease in the price of debt issues. In the case of sovereign debt issues, we also analyse the differentials in the price with respect to the German benchmark bond (risk premium).
- For transactions with a real asset as security, the worsening of the relationship between the amount and the value of the collateral, due to an unfavourable evolution of the value of the collateral, or due to the maintenance or increase in the amount pending depreciation as a result of the payment conditions set.
- Significant increase in the credit risk of other transactions of the owner, or in Entities related to the borrower's risk group.
- Evidence of impairment of other transactions from the same borrower, or in Entities related to the borrower's risk group.
- Failure to comply with contractual clauses, defaults or delays in the principal or interest payment: in addition to arrears in excess of 90 days, which are part of the automatic classification algorithm, arrears or delays of less than 90 days are identified, which may be an indication of impairment or a significant increase in risk.
- Due to financial difficulties, the concessions or benefits that are not considered otherwise would be given to the borrower: the granting of refinancing to a debtor in difficulties could prevent or delay the breach of their obligations and, in turn, the recognition of the impairment associated with the financial asset linked to this debtor.
- Probability of the borrower entering into an insolvency procedure: in cases where there is a high probability of the borrower entering into bankruptcy or restructuring, the solvency of the issuers or borrowers is ostensibly affected, and may result in a loss event based on the impact on the future cash flows to be received.
- The disappearance of an active market for the financial asset due to financial difficulties: the suspension of financial assets issued by the borrower or issuer can entail a risky economic-financial situation and therefore a low capacity to meet its obligations.

Collective assessment

For borrowers that do not exceed the threshold of significance and which, furthermore, have not been classified in stages 2 or 3, the Group has defined a process through which it identifies those exposures that present a significant increase of risk or weaknesses that may lead to losses greater than those of other similar transactions classified in stage 1.

Refinancing and restructuring transactions

The policies and procedures in the field of credit risk management applied by the Group guarantee detailed monitoring of the borrowers, demonstrating the need to make provisions when there is evidence of an impairment in their solvency. For this reason, the Group constitutes the necessary insolvency provisions for transactions in which the situation of its borrower so requires before formalising the restructuring/refinancing transactions, which must be understood as:

- Refinancing transaction: it is granted or used for economic or legal reasons related to the borrower's current or foreseeable financial difficulties to cancel one or several transactions granted by the Group, or whereby these transactions are brought completely or partially up to date with payment, in order to help borrowers repay their debt (principal and interest) because they cannot do so, or it becomes clear that they will not be able to meet their conditions in due time and form.

- Restructured transaction: the financial conditions of a transaction are modified for economic or legal reasons related to the borrower's current or foreseeable difficulties, in order to facilitate the repayment of the debt (principal and interest) because the borrower cannot do so, or it becomes clear that it will not be able to meet these conditions in due time and form, even if this amendment was foreseen in the contract. In any case, transactions whose conditions are modified to restructure their maturity date are considered to be restructured, the repayment table changes to reduce the amount of the instalments in the short term or reduce their frequency, or to establish or extend the expiry date of the principal, interest or both.

The formalisation of the amendment of the contractual conditions does not signify additional significant impairment of the borrower's situation that obliges the establishment of additional provisions.

If a transaction is classified in a given risk category, the refinancing transaction does not entail an automatic improvement in its risk assessment. For refinanced transactions, their initial classification is established based on their characteristics, mainly that the borrower has financial difficulties (for example, an inadequate business plan), that certain clauses apply such as extended grace periods or that they present amounts written off as they are deemed to be non-recoverable; subsequently, the initial classification according to the fixed assessment periods is modified.

Refinancing, refinanced or restructured transactions remain in stage 2 during an assessment period of at least 12 months.

The estimates of the impairment losses that are determined, and which are consistent with the risk classification, are provided at the time they are identified.

The methodology for estimating losses on these portfolios is, in general, similar to that of other financial assets valued at amortised cost, but it is taken into account that, a priori, a transaction that has had to be restructured in order to be able to meet its payment obligations, must have a loss estimate which is higher than that of a transaction that has never had problems with arrears, unless sufficient additional guarantees are provided that justify otherwise.

Determining the Risk Hedge

The amount of the impairment losses hedge is calculated based on whether or not a significant increase in credit risk has occurred since the initial recognition of the transaction, and whether or not a breach event has occurred. Hence, the hedge for impairment losses from transactions comes to:

- The expected credit losses in twelve months, when the risk of a non-performance event in the transaction has not increased significantly since its initial recognition (assets classified in stage 1).
- The expected credit losses in the life of the transaction, if the risk of a failure to honour the transaction has increased significantly since it was initially identified (assets classified in stage 2).
- The expected credit losses in the life of the transaction, when there has been a default event in the transaction (assets classified in stage 3).

Individual hedge estimates

The following are subject to an individualised estimation:

- Hedges of the transactions classified in stages 2 and 3 of the individually significant borrowers.
- If so, the transactions or borrowers whose characteristics do not allow a collective calculation of impairment.
- Hedges identified as no apparent risk classified in stage 3.

The Group has developed a methodology for estimating these hedges, calculating the difference between the gross carrying value of the transaction and the updated value of the estimated cash flows that are expected to be charged, discounted using the effective interest rate. For this, the effective guarantees received are taken into account (see the *"Guarantees"* section of this note).

Three methods are established to calculate the recoverable value in assets evaluated individually:

- Focus on cash flow discount: Debtors for whom the capacity to generate future cash flows is estimated with the development of the business itself by allowing the return of part or all of the debt incurred through the performance of the activity and the company's economic-financial structure. This entails the estimation of cash flows obtained by the borrower in the development of their business.

- Focus on real guarantee recovery: Debtors without the capacity to generate cash flows from carrying on their own business, being forced to liquidate assets in order to pay off their debts. This entails the estimation of cash flows based on the enforcement of guarantees.
- Mixed focus: Debtors for whom the capacity to generate future cash flows is estimated and who also hold assets outside the business activity. The aforementioned cash flows may be supplemented by potential sales of non-performing assets, insofar as they are not necessary to carry on their business activity and, consequently, for the generation of the aforementioned future cash flows.

Collective hedge estimations

The exposures that are not assessed through the individualised hedge estimation are the subject of collective estimation.

When calculating the loss due to collective impairment, the Group deals with the alternative solutions established in the *"Supervisory guide relative to the application of IFRS 9"* issued by the AFA on 21 December 2018.

For transactions classified as normal, normal with a significant increase in risk and doubtful transactions, certain hedge percentages are applied based on the credit risk segment, the effective secured and personal guarantees received after applying an agreed discount and, for the case of hedging of transactions classified as normal with a significant increase in risk and doubtful transactions, as well as how long these amounts have been overdue.

Classification and credit risk hedge for country risk

The country risk is the agreed risk that applies in the resident counterparties in a particular country due to circumstances other than the usual commercial risk (sovereign risk, transfer risk or risks derived from the international financial activity). The Group classifies transactions carried out with third parties in different groups according to the *"Supervisory guide relative to the application of IFRS 9"* issued by the AFA on 21 December 2018.

Off-balance sheet debt instruments or exposures with final borrowers residing in countries with long-term difficulties in paying their debts, considering the possibility of recovery doubtful, are classified in stage 3, unless they are classified as being at risk of bankruptcy.

Hedge estimation is carried out in two stages: first, the hedge for insolvency risk is estimated, and then additional hedging for country risk.

The Group is not significantly exposed to credit risk due to country risk.

Guarantees

Secured and personal guarantees are considered effective for which the Group demonstrates their validity as mitigating credit risk.

In no case shall effective guarantees be considered admissible when their effectiveness substantially depends on the credit quality of the debtor or of the economic group, of which, if applicable, it is a part.

Fulfilling these conditions, the following types of guarantees can be considered as effective:

- Real estate guarantees formalised as real estate mortgages with first charge:
  - Buildings and parts of finished buildings:
    - Houses.
    - Offices and commercial premises as well as multi-purpose warehouses.
    - Other buildings, such as non-multi-purpose industrial buildings and hotels.
  - Urban land and land zoned for building development.
  - Other real property.
- Pledged guarantees in the form of financial instruments:
  - Cash deposits.
  - Equity instruments in listed Entities and debt securities issued by issuers with recognised creditworthiness.

- Other real guarantees:
    - Movable property received as guarantee.
    - Subsequent mortgages on property.
- Personal guarantees involving direct and joint responsibility of the customer's new guarantors, with these individuals or Entities having demonstrated sufficient creditworthiness for the purposes of guaranteeing the full repayment of the transaction according to the agreed conditions.

The Group has evaluation criteria for the guaranties of the assets in accordance with the law in force. In particular, the Group applies selection and contracting criteria for valuation consultants which are designed to guarantee the independent nature of the said consultants and the quality of their valuations.

Property guarantees for credit transactions and for properties are valued at the time of their being granted or recognised; in the latter case it may be via the purchase, foreclosure or payment in lieu and when the asset experiences a significant fall in value. In addition, minimum update criteria are applied to guarantee that all high-value debts are evaluated every three years.

In order to estimate the hedging for credit risk losses, the Group determines the recoverable amount from the property guarantees, taking the valuation as a starting point. This is adjusted by taking into account the time needed for these guarantees to be executed, price tendencies and the Group's ability and experience to hedge similar properties in price terms, as well as the foreclosure, maintenance and sales costs.

1.3.5. Accounting hedges

The Group uses financial derivatives to (i) provide customers who request them with the said instruments or (ii) manage the risks of the Group's own positions (hedging derivatives). For this purpose, the Group uses financial derivatives which have been traded bilaterally with Over-the-Counter (OTC) counterparties.

The financial derivatives which do not qualify as hedging instruments are considered as held for trading. For a financial derivative to be considered as a hedging instrument the following conditions must be met:

- The financial derivative must cover the risk of changes in value of the assets and liabilities caused by changes in the interest rate and/or the exchange rate (fair value hedge), the risk of changes in estimated cash flows originating from financial assets and liabilities, commitments and transactions seen as being highly probable (cash flow hedge), or the exposure of net investment in foreign trades (net investment hedge in foreign trades).
- The financial derivative must effectively eliminate any risks inherent to the hedged item's position throughout the period covered, both in terms of prospective and retrospective effectiveness. Therefore, when setting up the hedge contract, the Group analyses this asset, to see whether, under normal conditions, it is expected to operate with a high degree of effectiveness and it verifies this throughout the life span of the hedge. This is done using effectiveness tests to check that the results vary within the range of 80% to 125% with respect of the results of the item covered by the hedge.
- It has to be documented properly that the procurement of the financial derivative takes place specifically to serve as hedging of certain balances or transactions and the way in which it is intended to achieve and measure this hedging is demonstrated, provided that this form is in keeping with the risk management performed by the Group.

The hedge applies to portfolios of financial assets (macro-hedges). All of the financial assets to be hedged share the same types of risk, a situation that is met when the sensitivity to a change in the interest rate of individually hedged items is similar.

In the aforementioned fair value hedges, any differences arising in the fair value of the derivative and the hedged item attributable to the risk being hedged are recognised directly in the consolidated income statement, using the balancing entries under the heading in the consolidated financial statement in which the hedged item has been recognised or under the heading *"Derivatives - Hedge accounting"*, whichever may apply.

If a derivative assigned as a hedge, due to its purpose or ineffectiveness or for any other reason, does not meet the requirements indicated above, this derivative becomes regarded as a trading derivative for accounting purposes. Therefore, the changes in its value will be recognised with its balancing entry offset in the profit / loss statement.

1.3.6. Financial guarantees

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

The Group recognises financial guarantee contracts under the heading: *"Financial liabilities measured at amortised cost - Other financial liabilities"* for their fair value which, in the first instance and without evidence to the contrary, is the current value of the fees and revenue expected to be received for these contracts throughout their lifespan. At the same time, the amount of the fees and revenue received at the beginning of the transaction is recognised on the assets as well as a credit on the asset for the amount of fees and similar revenue to be charged in the future and pending to receive.

Financial guarantees are classified according to the insolvency risk attributable to the customer or the transaction and, if necessary, the need to make provisions for this is assessed through the application of similar criteria to that used for debt instruments valued at their amortised cost.

The revenue obtained from guarantee instruments is recognised under the heading *"Fee and commission income"* in the consolidated statement of profit, and is calculated by applying the rate established in the contract with respect to the nominal amount of the guarantee.

1.3.7. Transfers and the derecognition of financial instruments from the Balance Sheet

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

1.3.8. Compensation for financial assets and liabilities

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

1.3.9. Non-current assets and disposable groups of items classified as held for sale and discontinued operations

The heading *"Non-current assets and disposable groups of items classified as held for sale"* from the consolidated statement of financial position includes the book value of the individual items or those integrated into a disposal group or which form part of a business unit intended to be disposed (discontinued operations), the sale of which is highly likely to occur, under the conditions in which these assets are currently available, within a specified period of one year from the date to which the annual consolidated Financial Statements refer to.

Therefore, the recovery of the carrying value of these items (which may be of a financial and non-financial nature) will foreseeably occur at the price obtained in their disposal.

In particular, property or other non-current assets received by the Group for the total or partial settlement of the borrowers' obligation to pay, are considered to be non-current assets held for sale, unless the Group has decided to make continuous use of these assets or use them in its rental operations. For all of these assets, the Group has a specific unit which focuses on their management and sale.

In addition, the heading *"Liabilities included in disposal groups of items classified as held for sale"* includes the credit balances associated with assets or disposal groups, or the Group's discontinued operations.

Non-current assets and disposal groups classified as held for sale have been classified, both on the acquisition date as well as subsequently, for the lowest amount comparing their book value and the net fair value of their estimated costs of sale. The book value at the date of acquisition of the non-current assets and disposal groups classified as held for sale from foreclosures or recovery, is defined as the outstanding balance on the loans or credits taken out for these purchases (net of any associated provisions); tangible and intangible assets, which would otherwise be subject to depreciation whilst they continue to be classified as "*non-current assets and disposal groups classified as held for sale*".

For the purposes of determination of fair net value of property assets, the group uses its own internal methodology, taking taxation value as the starting point, being adjusted taking into account the experience of sales of similar goods in terms of prices, the permanency period of each asset in the consolidated balance and other explanatory factors. Also taken into account are those agreements made with third parties for the disposal of these assets.

The valuation of these assets is done through the policies and criteria described in the "*Guarantees*" section of Note 1.3.4.

The gains and losses generated from the disposal of non-current assets and liabilities held for sale, as well as impairment losses and their reversal, where appropriate, are recognised under the heading "Gain *and loss from non-current assets and disposal groups of items classified as held for sale and not eligible as discontinued operations"* in the consolidated income statement. The remaining income and expenses pertaining to these assets and liabilities are recorded according to their nature.

Tangible assets which are considered non-current assets held for sale are mainly composed of property not assigned to operations or intended for banking activities. Current assets are classified as assets held for sale when their value has to be recovered mainly through their sale, provided that this is considered highly likely to occur.

The Group recognises these assets at their historical cost minus the accumulated amount for the impairment losses.

In order to determine whether there is objective evidence of the impairment, the Group analyses whether there are indications of impairment in the value of the assets based on the evaluations undertaken by external valuers as well as based on internal evaluations, thereby determining the recoverable amount. In the event that there is objective evidence of impairment, the amount in books is reduced to its fair value minus the cost of sale.

1.3.10. Tangible assets

Tangible assets include (i) property, plant and equipment held by the Group for current or future use, which it expects to use for more than one financial year (ii) property, plant and equipment which is assigned to customers under operating leases, and (iii) investment properties, which include land, buildings and other constructions which are held to be released or to obtain valuation gains when they are sold. This heading also includes tangible assets received in lieu of payment of debts classified according to their purpose.

As a general rule, tangible assets are valued at their acquisition cost minus accumulated depreciation and, where applicable, less any impairment loss arising from comparing the net value of each item with its corresponding recoverable amount.

Depreciation of tangible assets is calculated systematically according to the straight-line method, applying the estimated number of years of useful life of the various items to the cost of acquisition of the assets minus their residual value. With regards to land on which the buildings and other constructions have been built, it is considered that they have an indefinite lifespan, and therefore they are not subject to depreciation.

The annual provisions for the depreciation of tangible assets are made with a balancing entry in the consolidated statement of profit and are basically equivalent to the depreciation percentages determined in accordance with the estimated years of useful life, on average, of the different items.

	Years of useful life
Property	40
Facilities	10
Furniture	5
Vehicles	5
Computer equipment	5

The estimated useful life of the elements making up the tangible assets are regularly checked (at least at the end of each financial year) in order to detect significant changes in them which, where applicable, are adjusted by means of the corresponding correction of the charge to the consolidated statement of profit in future years of their depreciation charge, by virtue of the new useful life.

At each closure of accounts, the Group analyses whether there are any internal or external indications that a tangible asset could have become impaired. If there is evidence of impairment, the Group analyses whether the said impairment has taken place by comparing the net carrying value of the asset with its recoverable amount (the highest amount between its fair value minus the cost of sales and its value in use). When the book value exceeds the recoverable amount, the Group reduces the book value of the corresponding item to the recoverable amount and adjusts the future depreciation charges in proportion to the adjusted book value and in the event that its useful life has to be re-estimated, to the remaining number of years. Similarly, when there are indications that the value of a material asset has been recovered, the consolidated institutions record the reversal of the impairment loss recorded in previous periods and adjust the future charges by way of their depreciation accordingly. On no account may the reversal of the loss through the impairment of an asset result in an increase in the book value greater than that which would have occurred if impairment losses had not been recognised in previous years.

In particular, certain items of tangible assets are assigned to cash-generating units of the banking business. Impairment tests are carried out on these units in order to verify that sufficient cash flows are generated to be able to support the assets' value.

The cost of expansion, modernisation or improvements that represent an increase in productivity, capacity or efficiency for the extension of the useful life of the assets, are capitalised as an additional cost in respect of the assets.

1.3.11. Leases

The Bank evaluates the existence of a lease agreement at the start or when this agreement's conditions are modified. In this way, it is concluded that it is a lease agreement if the asset is identified in the agreement and the party receiving the goods has the right to control its use.

Leases where the Group acts as a lessee

The bank registers, for leases where it acts as lessee, that they fundamentally correspond to lease agreements of properties and offices with affect to its operating activity, a right of use asset of the leased goods and a liability for pending payments on the date on which the leased goods were made available for its use.

The lease deadline corresponds to the irreversible period established within the agreement, together with the periods covered by an option to extend the lease (if there is reasonable certainty that the lessee will exercise this option) and the periods covered by an option to rescind the lease (if there is reasonable certainty that the lessee will not exercise this option).

For those lease agreements with a defined duration that include, or not, a unilateral option for anticipated termination in favour of the Bank and where the derived cost of the termination is not significant, the lease deadline will generally be equivalent to the initial duration stipulated within the contract. Despite this, it will be taken into account if there are circumstances which may provoke the contracts being terminated prematurely.

For those lease agreements of a determined duration which include a unilateral extension option in favour of the Bank, the exercising of this option is evaluated depending on the economic incentives and historical experience.

The lease liability is initially registered under the heading *"Financial liabilities at an amortised cost - Other financial liabilities"* of the consolidated statement of financial position (see Note 17) for an amount equal to the actual value of the estimated pending payments, depending on the planned maturity date. These payments comprise of the following concepts:

- Fixed payments, less any incentive pending collection.
- Variable payments determined in relation to an index or rate.
- Amounts expected to be paid for residual value guarantees given to the lessor.
- The strike price for a purchase option if reasonably certain of exercising this option.
- Payments for penalties derived from the end of the lease, if the lease deadline suggests exercising an option to finalise it.

Lease payments are discounted using the implicit interest type, if this can be easily determined and, if not, the incremental type of financing, understood as the interest rate which the group would pay to finance the purchase of shares of a similar value to the rights of use acquired on the leased goods and within a period equal to the estimated duration of the lease agreements.

The payments liquidated by the lessee within each period lessen the lease liability and merit a financial expense which is registered in the consolidated income statement during the period of the lease.

The right of use asset, which is classified as a fixed asset depending on the nature of the leased goods, is initially recorded at its cost, comprising of the following amounts:

- The initial assessment amount of the lease liability, in accordance with the aforementioned.
- The lease payments made before or as from the lease start date, less received incentives.
- The initial direct costs.
- The estimated costs incurred under the disbanding and removal of the leased goods, redeveloping the area in which it is located or returning the goods to the required condition according to the contract.

The right to use asset is amortised on a straight-line basis for the lesser period between the lifespan of the asset and the lease period.

The criteria for impairment of these assets are analogous to those used for tangible assets (see Note 1.3.10).

On the other hand, the group exercises the option of registering as an expense of the financial year the short term lease payments (those which at the start date have a lease period of 12 months or less) and the leases in which the leased goods are of little value.

Sales with leaseback

If the group does not retain control of the goods, (i) the sold asset is derecognised and the right-of-use asset derived from the leaseback is recognised for an amount equal to the part of the previous book value of the leased asset, which corresponds to the proportion that represents the retained use right over the value of the asset sold, and (ii) a lease liability is recognised.

If the group retains control of the goods, (i) the sold asset is not derecognised and (ii) a financial liability is recognised for the amount of the received consideration.

The results of the operation are recognised immediately in the consolidated income statement if it is determined that a sale has been made (only for the amount of the profit or loss relating to the rights to the transferred asset), upon acquisition of the buyer-lessor controlling the goods.

Leases where the Group acts as a lessor

- **Finance leases**
  When the bank acts as the lessor of an asset, the sum of the current values of the amounts it will receive from the lessee is recorded as financing provided to third parties and is therefore included in the heading “Financial assets at an amortised cost” in the consolidated statement of financial position. This financing incorporates the strike price of the purchase option in favour of the lessee at the expiry of the contract in cases where this strike price is sufficiently lower than the fair value of the asset at the expiry date of the option, it being reasonably likely that it will be exercised.

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

- **Operating leases**
  Operating leases are regarded as operations in which all the risks and benefits corresponding to the object being leased as well as the ownership, are substantially borne by the lessor.

  In operations in which the Group acts as the lessor, the cost of the acquisition of the leased property is shown under the heading *“Tangible assets”* in the consolidated balance sheet. These assets are amortised in accordance with the policies adopted for similar material assets and the income resulting from the leasing contracts is recognised in the consolidated income statement on a straight-line basis, in the section titled *“Other operating income”*.

  When the Group acts as the lessee, the leasing expenses, including any incentives granted, if applicable, by the lessor, are charged on a straight-line basis to the consolidated income statement, in the section titled *“Other general administrative costs”*.

1.3.12. Intangible assets

Intangible assets are non-monetary, identifiable but non-physical assets, which arise as a consequence of an acquisition from third parties or that have been developed internally for the Group. An intangible asset is recognised when, in addition to meeting the above definition, the Group considers it is likely to receive economic profits derived from the said asset and that its cost can be reliably measured.

The intangible assets are initially recognised for their acquisition or production cost and subsequently valued at their cost, less, as appropriate, their corresponding accumulated depreciation and any impairment losses they have undergone.

- **Licences**

  Software licences are recognised by taking into account the costs incurred for their acquisition as well as the installation of the specific program. These costs are depreciated throughout their estimated useful life of between three and five years.

  The intangible assets which are generated internally, excluding capitalised development costs, are not activated, and the corresponding cost is recognised directly in the consolidated income statement for the financial year. Intangible assets with indefinite useful lives are not depreciated, but rather they are valued annually, either individually or as a cash-generating unit, to see whether there is evidence of impairment.

- **Software**

  The development costs which are directly attributable to the design and creation of software, being identifiable, unique and capable of being controlled by the bank, are recognised as intangible assets when they meet the following conditions:

  - Technically, it is possible to complete the production of an intangible asset in a way that it can be available for use or sale.
  - The Group's Management intends to complete the production of the intangible asset, to either use it or sell it.
  - The Group has the ability to use or to sell the intangible asset.
  - It can be demonstrated that the intangible asset is likely to generate economic profits in the future.
  - There are sufficient technical, financial or other types of resources available to complete the development of the intangible asset in order to use or sell it.
  - The expenditure attributable to the intangible asset during its development can be reliably valued.

  Expenditure which does not meet these criteria are recognised as a direct cost in the consolidated income statement, at the time it is incurred.

  Expenditure associated with software maintenance is recognised as a direct cost in the consolidated income statement as and when it is incurred.

  Software development costs which are recognised as intangible assets are depreciated over their useful life which is estimated to be no longer than three years.

1.3.13. Provisions and contingent assets and liabilities

Provisions are considered the current liabilities of the Group, arising as a result of past events, whose nature is clearly specified at the date of the Financial Statements, but cannot be determined with regards to their amount or settlement date; hence when these liabilities mature and are due to be settled, the Group considers that it will have to make a provision of resources.

The Group's annual consolidated Financial Statements includes all the significant provisions with regard to which it is calculated that it is more likely than not that the obligation will be met. Among other items, these provisions include pension commitments made to its employees (see Note 1.3.14), as well as legal provisions and other contingencies.

Contingent liabilities are potential obligations for the Group arising as a result of past events, the materialisation of which is conditional to the occurrence of one or more future events, regardless of the will of the Group. Contingent liabilities include current obligations of the Group for which the settlement is not likely to result in a reduction of resources or the amount of which, in exceptional circumstances, cannot be quantified with sufficient reliability. Contingent liabilities are not recognised in the consolidated annual financial statements, but rather they are disclosed in the consolidated report.

Contingent assets are potential assets arising as a result of past events whose existence is conditional, and it must be confirmed when events beyond the control of the Group occur or otherwise. These contingent assets are not recognised in the annual consolidated Financial Statements, but rather they are disclosed in the consolidated report, provided that an increase in resources which incur economic profits for this reason is likely.

1.3.14. Provisions for pensions

The Group's pension commitments to its employees are as follows:

Pension plan for all staff

This is a defined contribution plan. Contributions consist of predetermined contributions made to a pension plan managed by Assegurances Segur Vida, SAU, which invests in the Pla de Pensions II Capital Garantit (Capital Guaranteed Pension Plan II). The Group is not under any legal or de facto obligation to make additional contributions if Assegurances Segur Vida, SAU is unable to make the payments to employees in respect of the services rendered in the current financial year or in previous years.

These contributions are recognised each financial year in the consolidated income statement.

General Management pension plan

In this case, the pension is also a defined contribution plan for which the Group provides the amounts corresponding to the coverage of the retirement benefits for all members of the Entity's General Management who retire from the Group.

1.3.15. Operating and presentation currency, foreign currency and exchange differences

The functional and presentation currency of the Group is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are considered to be foreign transactions. The conversion of the balances and transactions expressed in a foreign currency is carried out as follows:

- In the initial recognition, the debit and credit denominated in a foreign currency is converted into the functional currency using the spot exchange rate on the date of the recognition, with this being defined as the exchange rate for an immediate delivery. Subsequent to the initial recognition, the following conversion rules are applied to the balances denominated in a foreign currency:
  - Monetary assets and liabilities are converted at the closing exchange rate, defined as the average spot exchange rate on the date that is referred to in the consolidated Financial Statements.
  - Non-monetary items valued at their historical cost are converted into the functional currency at the exchange rate on the date of their acquisition.
  - Non-monetary items valued at their fair value are converted at the exchange rate on the date when this fair value is determined.
  - The income and expenditure are converted at the exchange rate on the date of the transaction.

Exchange rate differences arising from the conversion of credit and debit balances denominated in a foreign currency are generally recognised in the consolidated income statement.

The main exchange rates used at the end of the financial year are set out below:

	31/12/2020	31/12/2019
US dollars	1.2278	1.1197
Pound sterling	0.9071	0.8536
Japanese yen	126.8650	122.2700
Swiss francs	1.0841	1.0895

1.3.16. Revenue recognition and expenses

Interest income and expenses and assimilated concepts

The interest on income and expenses and similar items is generally accounted for in accordance with its accrual and applying the effective interest rate method, under the headings *"Interest and other similar income"* or *"Interest expenses"* on the consolidated income statement, as applicable. Dividends received from other Entities are recognised as income at the moment of gaining the right to receive them.

Commissions, fees and assimilated concepts

Generally, the income and expenses for commissions and similar fees are recognised in the consolidated income statement in accordance with the following criteria:

- Financial assets and liabilities which are measured at their fair value resulting in changes to the gains or losses are recognised at the time of payment.
- Those in respect of transactions or services rendered over a period of time are recognised during the said period.
- Those in respect of a transaction or service that is performed in one single act is recognised when the said act is carried out.

Financial fees which form part of the yield or effective cost of financial transactions, are accrued/deferred, net of associated direct costs, and are recognised in the consolidated income statement over the expected average life of these transactions.

The assets, investment funds and pension funds managed by consolidated companies owned by third parties are not included in the consolidated statement of financial position. The commissions generated by this activity are recognised under the *"Fee and commission income"* heading in the consolidated statement of profit.

Non-financial income and expenses

These are recognised in accounting terms when the goods or non-financial services are delivered. To determine the amount and time of recognition, a five-step model is used: identification of the contract with the customer, identification of the separate obligations of the contract, determination of the transaction price, distribution of the price of the operation between the identified obligations and, finally, recording the income as the obligations are met.

Collections and payments deferred over time

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

Levies

For tax levies and obligations, regarding which the amount is certain and the date of payment is known, the liability is recognised when the event causing the said payment occurs, in the terms stipulated in the applicable legislation. The Group provides the estimated amount to be recorded in the consolidated income statement, adjusting the figure once the definite amount to be paid is known.

Therefore, the item to be paid is recognised when there is a current obligation to pay the levy, such as in the case of deposit guarantee funds. In cases in which the obligation to pay accrues over a period of time, this recognition is done progressively throughout the said period.

1.3.17. Corporate tax

The corporation tax regulated through *Law 95/2010, of 29 December, on the Tax on Companies (hereinafter, Law 95/2010) amended by Law 17/2011 and by Law 17/2017* is considered an expense and is recognised under the heading *"Taxes on income or expenses on earnings from continuous activities"* in the consolidated statement of profit, except when it is a consequence of a transaction recorded directly in the consolidated net equity; in which case it is recorded there directly.

The standard rate of the corporate tax for taxable subjects, as determined by *Law 95/2010*, is 10%.

The expenses for corporation tax for the year are calculated by means of the sum of the current tax resulting from the application of the corresponding rate to the taxable income for the financial year (after applying the fiscally eligible deductions and allowances) and the variations in the assets and liabilities for deferred tax liabilities recognised in the consolidated statement of profit.

The tax base for the year may differ from the income from the year presented in the income statement, given that it does not include the income or expense items that are taxable or deductible in other financial years and the items which are never recorded.

Deferred tax assets and liabilities refer to the taxes which are expected to be paid or recovered, arising from the differences between the accounting amounts of the assets and liabilities in the Financial Statements and their corresponding tax bases (*"tax value"*), as well as negative tax bases and credits for tax deductions which have not been applied and are likely to be offset in the future. They are determined by applying the rate of taxation which is expected to be recovered or settled to the relevant time difference or to the credit.

The Entity expects to generate future profits in order to be able to recover the recorded deferred assets.

The heading titled *"Tax assets"* includes the amount of all the assets of a fiscal nature, distinguishing between current taxes (amounts to be recovered for taxes over the coming twelve months) and deferred taxes (encompassing the amounts of the taxes to be recovered in future years, including derivatives from negative tax bases or credits for tax deductions or allowances pending offsetting).

The heading titled *"Tax liabilities"* includes the amount of all the liabilities of a fiscal nature, except tax provisions, which can be broken down into current taxes (including the amount to be paid for corporate tax relating to the fiscal profit for the year and other taxes over the coming twelve months) and deferred taxes (including the amount of the corporate tax to be paid in future years).

1.3.18. Consolidated cash flow statements

In the preparation of the consolidated cash flow statements, the indirect method has been used; therefore, based on the Group's profit and losses, the non-monetary transactions and all types of deferred payment and accruals items which have resulted in or will result in operating charges and payments, as well as income and expenses associated with cash flows from activities classed as investments for financing activities, are taken into account.

Certain items are used in the consolidated cash flow statements which can be defined as follows:

- Cash flows, which are the inflows and outflows of cash and cash equivalents, which are defined as short-term, highly liquid investments with a low risk of changes in their value. For this purpose, in addition to money in cash, deposits held in central banks or current accounts in Credit Institutions are classified as components of cash or cash equivalents.
- Operating activities, which are the typical day-to-day activities of the Group and other activities that cannot be classified as investment or financing activities.
- Investment activities, which are those related to the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents or in operating activities.
- Financing activities are those that result in changes in the size and composition of consolidated net equity and of liabilities that do not form part of operating activities.

No situations requiring the application of significant judgements to classify cash flows have arisen during the year.

There have been no significant transactions that have generated cash flows not reflected in the cash flow statement.

1.3.19. Statements of comprehensive income

In these statements, the income and expenses recognised as a result of the Group's activity are presented during the financial year, and they are distinguished between those recorded as income in the consolidated statement of profit and loss and other income and expenses recognised directly in the net equity.

1.3.20. Statements of changes in net equity

These statements show all changes in the net equity of the Group, including those arising from changes in accounting criteria and corrections of errors. The following are presented:

- A reconciliation of the carrying value at the beginning and end of the financial year of all the items that make up the net equity.
- Adjustments for accounting policy changes and error corrections, including changes in net equity arising from the retrospective restatement of balances in financial statements, distinguishing those arising from changes in accounting policies from those corresponding to errors; and
- The total comprehensive income from the financial year in which the aggregate income and the total of the items of the statement of comprehensive income are included.

1.4. Comparison of information

The information presented in these consolidated annual accounts for 2019 is presented solely and exclusively for purposes of comparison with the information for the year ended 31 December 2020 and therefore does not constitute the Group's consolidated accounts for 2019.

Nota 2

Proposed distribution of earnings, shareholder remuneration and earnings per share

Below is the distribution of BancSabadell d'Andorra Group's profits for the 2020 financial year that the Bank's Board of Directors shall propose to the shareholders at the Annual General Meeting for approval. It is expected to be approved without changes.

(Thousands of euros)	31/12/2020	31/12/2019
Proposal for the distribution of the result:		
To voluntary reserve	6,811	10,198
To dividends (**)	3,002	-
PROFIT/LOSS FOR THE FINANCIAL YEAR	**9,813**	**10,198**

(**) There are no potentially diluted shares and, therefore, the ordinary earnings per share is equal to the diluted earnings per share.

The income for 2020 shown in the table above corresponds to the income actually presented in BancSabadell d'Andorra, SA's individual Financial Statements which were drawn up on 26 March 2021 by the Bank's Board of Directors in accordance with the applicable accounting regulations.

The Bank's Board of Directors has established a prudent dividend distribution policy, consistent with the risk profile and solvency of the Bank and its Group, adjusting to the evolution of the business and the envisaged regulatory changes, and will propose to the Annual General Meeting of Shareholders to agree to distribute a gross dividend per share for the 2021 financial year of 6 euros per share.

This proposed distribution of results is not subject to any opposition from the Andorran Financial Authority (AFA), a decision that, on the date of preparation of these annual consolidated Financial Statements has not been answered.

The AFA's opposition to this proposal for the distribution of results could mean that the aforementioned proposal by the Board of Directors at the time of the Annual General Meeting was different from the one contained in this note.

The proposals for the application of the result of the Group's subsidiary Institutions will be approved by their respective Shareholders' Meetings.

Profit per share

The basic profit per share is calculated by dividing the Bank's net income with its total number of shares.

Below, BancSabadell d'Andorra's profit per share for the 2020 and 2019 financial years is indicated:

	31/12/2020	31/12/2019
Income attributable to the owners of the parent company (in thousands of euros)	10,019	10,375
Number of ordinary shares issued	500,305	500,305
Earnings per share (in euros) (**)	20	21

(**) It is not proposed to distribute dividends against reserves or premiums or in specie.

As at 31 December 2020 and 2019, there were no other financial instruments or commitments with employees based on shares that had a significant effect on the calculation of the diluted earnings per share for the financial years presented. For this reason the basic and diluted earnings coincide.

Nota 3

Risk managements

3.1. Introduction

BancSabadell d'Andorra considers risk management as one of its key strategic elements to preserve BancSabadell d'Andorra Group's solvency and image, and to contribute to the development of the business in a balanced way in accordance with current market conditions and the regulatory framework. In this sense, BancSabadell d'Andorra's risk management policy is applicable to each and every one of its subsidiaries so that there is no risk that is beyond its reach or, consequently, no risk that is not the subject of an identification, evaluation, management, monitoring and reporting process. Furthermore, in the development of this task, the Group ensures the preservation of its long-term interests at all times.

Risk management and control is configured as a broad framework of principles, policies and procedures integrated into an efficient decision-making structure under a governance framework of the risk function adapted to current regulations.

The framework of principles, policies and procedures adopted are periodically reviewed and reflect the Group's strategy regarding the role of risk management, incorporating the quantity and diversity of risks that the Group seeks and tolerates in order to achieve its business objectives, while maintaining the balance between profitability and risk.

The main financial risks incurred by Group Entities as a result of their activity related to the use of financial instruments are mainly credit, liquidity and market risk. Among all the risks to which the Entity is exposed, credit risk is the most relevant.

3.2. General principles of risk management

The Group's risk policy and management is based on the following principles:

High degree of involvement from the Bank's Board of Directors through the Risk and Monitoring Committee that oversees all the relevant risks and ensures that they are in line with the policies and profiles approved by the Board.

The economic risks assumed by the Group must be compatible with its level of solvency, with their identification and quantification, establishing the corresponding procedures for the correct monitoring, control, mitigation and reporting thereof.

Metrics for monitoring the different risks, both quantitative and qualitative, are generally the same as those that BancSabadell Group has defined to control each of the risks, while being adapted to the specific situation of BancSabadell d'Andorra.

A rigorous monitoring of all risks, which must be managed in an integrated manner throughout their life cycle and with different procedures and adjusted according to their nature.

The delegation and segregation of functions so that any risk management proposal, related ruling and corresponding follow-up require the intervention of different departments and decision-making bodies with specific functions and with different levels of autonomy.

The Group must not incur significant market risks at any time, since it does not have the desire to operate in markets that are not mostly hedged.

The firm commitment to excellence and quality entails the very careful management of operational risk.

Constantly monitor the maintenance of the Group's good image and reputation by controlling and monitoring the possible regulatory compliance risks.

As part of the Group's general corporate governance framework, the Board of Directors is the body responsible for establishing and supervising a solid risk management governance framework, which must include a culture of solid risk as well as a well-developed risk appetite, organised through the adoption of a **Risk Appetite Framework (RAF),** composed, among others, of the **Risk Appetite Statement (RAS),** which assures proactive control and management of risks.

3.2.1. Corporate governance

The governing bodies are the General Meeting of Shareholders and the Board of Directors.

The Board of Directors is the body responsible for establishing the general guidelines for the organisational distribution of the Group's risk control and management functions and for determining the main strategic lines in this respect. It is therefore the body responsible for approving the Risk Appetite Framework (RAF), which includes the Risk Appetite Statement (RAS), and for ensuring that it is consistent with the Group's short and long-term strategic objectives, as well as its business plan, capital planning, risk capacity and compensation programme.

The Board establishes the corporate risk culture through the RAF and passes this culture on to the organisation as a whole through three of the Board's delegated Committees (Risk and Monitoring Committee; Audit and Control Committee; and Appointments and Remuneration Committee), as well as through the Committees related to risk control and management.

Board committees

Risk and Monitoring Committee	Audit and Control Committee	Appointments and Remuneration Committee
Monitoring and follow-up of the risk profile	Supervision of the effectiveness of internal control, internal audit and risk management systems	Supervision of the remuneration policy and its alignment in the RAF

Main Committees related to Risk

Risk Committee

· Risk and Monitoring Committee
· Risk Management

Assets and Liabilities Committee	Credit Operations Committee	Audit and Control Committee	Money Laundering Prevention Committee	Security Committee
Management and supervision of structural balance risks	Approval of credit operations by delegations	Operational risk management and supervision	Management and supervision of risks of money laundering	Management and supervision of IT risks

Crisis committee	Regulatory Monitoring Committee	Corporate Ethics Committee	Product Governance Committee
Risk Support Committee in crisis situations	Management and supervision of Regulatory Compliance	Compliance with Standards of Conduct	Compliance with legal requirements relating to the distribution of banking products

3.2.2. Risk Appetite Framework (RAF)

The Risk Appetite Framework (RAF) includes, among others, the Risk Appetite Statement (RAS), defined as the quantity and diversity of risks that BancSabadell d'Andorra Group seeks and tolerates to achieve its business objectives, while maintaining the balance between profitability and risk.

The RAS is composed of quantitative metrics which enable objective monitoring to be carried out of the achievement of objectives and of established limits, and of qualitative elements that supplement these measures and guide the Group's risk control and management policy.

QUANTITATIVE ELEMENT

The quantitative metrics of the RAF are divided into 11 large sections:

- Capital and solvency
- Liquidity
- Asset Quality
- Credit and concentration
- Risk assessment of the counterparty
- Market risk
- Structural interest rate and exchange rate risk
- Operational risk
- Profitability
- Leverage risk
- Risk of legal and regulatory compliance

QUALITATIVE ASPECTS

In addition to the quantitative metrics, the following main qualitative metrics guide the Group's risk control and management:

- The Group's general position with regard to risk-taking aims to achieve a medium-to-low risk profile through the use of a prudent and balanced risk policy that will ensure the profitable and sustainable growth of its activity, and that is aligned with the Group's strategic objectives in order to maximise value creation while guaranteeing an adequate level of solvency.
- The Board of Directors is committed to the risk management and control processes through the approval, among others, of the RAF, the RAS and the risk management policies. Furthermore, with the reporting received from the Risks and Monitoring Committee, it assesses the adequacy of the methodologies and procedures implemented to correctly identify, evaluate, monitor and control risks.
- Risk management policies and procedures will be geared towards adapting the risk profile to the RAF, maintaining an adequate balance between expected return and risk.
- Risk management is underpinned by solid and ongoing procedures for checking that risks conform to predefined limits; with clearly defined responsibilities for identifying, assessing and tracking alerts and indicators.
- Monitoring the levels of Capital and Liquidity metrics should allow the Group to deal with the risks it has accepted, even in adverse economic situations, as quickly as possible.
- There should be no risk concentration levels that might significantly compromise the Group's own resources.
- The risk function is independent and has strong senior management involvement, ensuring a strong risk culture focused on protecting capital and ensuring an adequate return on capital.
- The Group's aim in terms of fiscal risk is to ensure compliance with tax obligations while guaranteeing an adequate return for shareholders.
- Achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practice in each area.
- The Group must have sufficient human and technological resources to efficiently perform the identification, evaluation, management, monitoring and reporting on all the risks that materialise in the course of its business.
- The group's compensation systems should align the individual interests with compliance with the Risk Appetite Framework (RAF).

3.2.3. Overall organisation of the risk function

The Group has a risk culture that is embedded in all its units, and it has units managing different risk types, so as to guarantee the independence of the risk function, combined with strong Senior Management involvement.

The Board of Directors is the body responsible for establishing the general guidelines for the organisational distribution of the Group's risk control and management functions and for determining the main strategic lines in this respect. It is therefore the body responsible for approving the Risk Appetite Framework (RAF), which includes the Risk Appetite Statement (RAS), and for ensuring that it is consistent with the Group's short and long-term strategic objectives, as well as its business plan, capital planning, risk capacity and compensation programme.

The Board establishes the corporate culture of risks through the RAF and transfers this culture to the whole organisation through three Commissions (Risk and Monitoring Committee, Audit and Control Committee, and Appointments and Remuneration Committee), as well as through the Committees related to the control and risk management (Risks Committee, Assets and Liabilities Committee, Credit Operations Committee, Audit and Control Committee, Money Laundering Prevention Committee, Security Committee, Crisis Committee, Regulatory Monitoring Committee, Corporate Ethics Committee and Product Governance Committee).

The Control Framework is based on a three-line defence model that is structured around the following assignment of functions:

- First Line of Defence comprising the Offices and Departments of Central Services, amongst which we would highlight the Credit Risk, Financial Management, and Treasury and Capital Market Departments. This line is responsible for the day-to-day management of the risks individually considered inherent to its activity, basically in the identification, admission, monitoring and evaluation of these risks to the Risk Committee through the establishment of the corresponding processes and controls.
- In addition, they are also responsible for the implementation of corrective actions to correct potential deficiencies detected in the execution of the processes and controls implemented.
- Specifically, they are assigned the following functions:
  - To maintain effective internal controls in order to ensure that the daily activity carried out is consistent with the Entity's risk appetite. For this purpose, the procedures and controls necessary for correct definition, evaluation, management, monitoring and periodic reporting of the risks to which the Entity is exposed on a daily basis.
  - To comply with approved policies and internal procedures at all times, ensuring that the activities carried out are consistent with the Group's strategic objectives and the Entity's risk appetite.
  - To implement correct management and supervision processes, focused on regulatory compliance, and particularly on the identification of the potential deficiencies detected in the daily execution of the controls and processes. These practices must also be fit for the correct management of unexpected events.
- Second Line of Defence comprising of:
  - Risk management, independent of the First Line of Defence, and responsible for the determination, evaluation, monitoring and control of all the globally considered risks of the Group and the monthly reporting on these to the Audit and Control Committee.
  - For the Directorate of Regulatory Compliance, whose main role is to minimise the possibility of regulatory breaches and/or breaches of internal policies and, in the event that these occur, to identify them correctly by proposing appropriate corrective measures and proceeding to their monthly reporting to the Money Laundering Prevention Committee and every quarter to the Regulatory Monitoring Committee.
  - The Department of Technological Security whose role is to identify those situations of risk associated with the use of technology, within the scope of all units, and which could result in operational or reputational risk for the Bank. This Department reports monthly to the Security Committee on the issues detected.

In general terms, the Second Line of Defence ensures that the First Line of Defence is well designed and fulfils its assigned functions, as well as advising Senior Management on possible improvements. For this purpose, it acts completely independently of the First Line.

The specific functions assigned to this Second Line are:

- To establish, implement and manage the risk management procedures which permit the identification, evaluation, management, control and drawing up of management reports of the risks derived from the Entity's activities, which must take into account the Group's risk appetite whilst paying particular attention to transactions with related parties.
- To supervise and ensure the correct application of the risk policies and procedures by the First Line, whilst validating that they are correct and effective.
- To take the necessary measures to resolve problematic situations, including the assignment of tasks and responsibilities at First Line of Defence level.
- To ensure that the processes and controls implemented by the First Line of Defence are correctly designated and work efficiently.
- To verify the correct compliance with the internal and external regulations applicable to the Group in carrying on its business whilst promoting the highest levels of compliance with applicable legislation and professional ethics within the Group.
- To propose improvements in the technological infrastructure of the Group for the correct identification, evaluation, control and reporting of the risks to which the Entity is exposed.
- To analyse and compare existing and future issues by analysing and reviewing information.
- To work in partnership with the management team to develop processes and risk management controls.
- To validate that the models work as planned, and that the results obtained are appropriate for the uses to which they are applied, both internal and regulatory.
- To guarantee the operative continuity of the ordinary business, as well as the security of the information that supports it.

• Third Line of Defence consisting of the Internal Audit Department, and fully independent of the First and Second Lines of Defence.

  The specific functions assigned to this Third Line are:

  - To examine, evaluate and supervise the adequacy and efficiency of the internal control system implemented by the Entity; to draw up conclusions and recommendations, as well as to verify their correct implementation to contribute to the improvement of the internal control system and corporate governance.
  - To draw up, maintain and execute an internal audit plan based on risks.
  - To develop an independent and objective verification and advice system, aiming to add value and help the Group to achieve its strategic objectives, while taking into account at all times its risk appetite.
  - To assist the Group in the achievement of its strategic objectives, providing a systematic and disciplined approach to evaluate the sufficiency and effectiveness of the governance processes and of the organisation's risk management and internal control systems.
  - To draw up an annual report that records the internal audit review in relation to the design and operational effectiveness of the Entity's internal control and risk management system, which is submitted to the Entity's Senior Management, for its evaluation and corresponding action, if applicable.

3.3. Management and monitoring of the main significant risks

3.3.1. Credit risk

3.3.1.1. Credit risk monitoring framework

Credit risk arises in the event of losses due to non-fulfilment of payment obligations by creditors or counterparties, as well as loss of value due to impairment of their credit quality.

Due to their special nature, we would highlight the following risks:

- Concentration risk
- Counterpart risk
- Country risk
- Risk of unproductive assets

ACCEPTANCE AND MONITORING OF THE CREDIT RISK

The exposure to the credit risk is rigorously managed and monitored upon the basis of regular creditworthiness analyses of borrowers and their potential to meet their payment obligations with the Group and the established exposure limits are adapted to each counterpart, up to the level which is deemed acceptable. It is also customary for the obligor to modulate the level of exposure by establishing collaterals and guarantees on behalf of the Group.

The Board of Directors grants powers and autonomy to the General Management so that it in turn can delegate at different decision levels. The implementation of a control of assigned duties and responsibilities based on the documentation supporting acceptance of transactions means that the delegation established for each level is based on the expected loss calculated for each of the company transactions presented.

In order to optimise the business opportunities with each client and guarantee a sufficient degree of security, responsibility for both risk acceptance and monitoring is shared between the business manager and the risk analyst, which, by means of effective communication, enables a comprehensive vision of the situation of each customer by their managers.

The manager performs operational monitoring that stems from direct contact with the customer and the management of their daily operations, while the risk analyst performs the more systematic part, derived from their specialisation.

Credit risk transactions may originate in the commercial banking branches resulting from the transactions carried out by the customers and the Treasury and the Capital Markets Department for the management of the Group's Treasury.

IRREGULAR RISK MANAGEMENT

During phases of weakness in the economic cycle, refinancing or debt restructuring are generally the risk management techniques that are most useful. The Group's aim with debtors or borrowers who experience, or may foreseeably experience financial difficulties, is to facilitate debt repayment and minimise the probability of default, in order to meet their payment obligations under the contractual terms.

The Group has an irregular risk management model to manage its impaired assets portfolio. The aim of irregular risk management is to find the best solution for clients with early indications of impairment, to reduce customers entering in arrears, to ensure intensive management and avoid dead times throughout the different stages.

CREDIT RISK OPERATIONS WITH CUSTOMERS

Within this section, credit operations and the risk of signing of products sold by the Group are taken into consideration:

- Business discount.
- Credits and Loans.
- Endorsements and Guarantees.
- Documentary credits.

For analysis and approval, if applicable, of these transactions, we take into account the different levels of self-governance granted to the decision-making bodies in accordance with terms, amounts and guarantees, as follows:

- Office.
- Credit Risk Management, consisting of the Branch together with the Risk Analyst.
- Credit Operations Committee, consisting of the Credit Risk Manager, together with General Management.

The operations that exceed the authority of the Credit Operations Committee are authorised by the Board of Directors Risks Commission, and reported to the Board of Directors.

The comprehensive monitoring of these risk transactions with customers is a joint function of the Office and the Credit Risk Department which ensure, during the whole lifespan of the transaction, the timely fulfilment of the payment commitments entailed and for the early detection of signs of impairment that may lead to a transaction going into default.

In the event that delays occur, the Office initiates the appropriate claims procedures with the customer for the recovery of the amounts due.

For those transactions with objective evidence of impairment considered unlikely to be collected or of defaulting, the Group follows a strict provisioning policy, considering the delay, the associated guarantees and the expected loss.

With regard to refinancing transactions with customers, the Group has the same risk policies as for normal financing transactions, although the requirement is extended to the following criteria:

- It must be a viable transaction for which the customer needs to demonstrate their solvency and capacity to generate resources for the payment of the loaned capital.
- A reasonable repayment period is established, with payments consistent with the capacity of repayment.
- The financial conditions of the transaction are reviewed.
- Attempts are made to obtain additional guarantees to the initial ones, of quality and with full legal security, and for a sufficiently large amount to ensure hedging of the transaction under the new terms.

The Credit Risk Department, together with the Group's Legal Advisory Department, controls the correct formalisation and compliance with the conditions under which a transaction has been approved, particularly with regard to the formal constitution of the corresponding guarantees.

The credit risk composition, as at 31 December 2020 and 2019, may be seen in Note 9 of these consolidated Annual Financial Statements.

CREDIT RISK OPERATIONS FOR TREASURY MANAGEMENT

The transactions generating this risk are transactions that correspond to:

- Demand balances in corresponding banks.
- Placement of funds in the form of an interbank deposit.
- Signing up to changes to the account or repayment period.
- Financial derivatives on interest rates, credit or variable income securities.
- Purchase of financial assets for the Bank's own portfolio.

The proposals originate from the Treasury and Capital Markets Departments based on lines with a maximum amount granted and maximum deadlines for placement.

For the analysis and approval of the lines by the Board of Directors Risk Committee, the following aspects are taken into account:

- Rating granted to the Entity by the rating agencies Standard & Poors, Moodys or Fitch and capital consumption.
- Updated credit default swap contribution by the Entity indicating the level of risk perception that exists in the market at all times.

For the contracting of derivative financial products made by Financial Entities, the Group has an ISDA and corresponding agreement with the relevant *Credit Support Annex* (CSA) which establishes the provision of collateral guarantees that substantially mitigate the risk inherent to these transactions.

For the Group's own portfolio of investments, without a specific approved line, the following additional criteria apply:

- They will be fixed-income securities which are listed on regulated OECD markets.
- They will be floating coupon index linked to the EURIBOR or LIBOR to mitigate interest rate or fixed coupon securities risks, maintaining a correct balance.
- Generally the issues will be of a minimum issued volume of 500 million EUR, or equivalent value in USD, to guarantee their liquidity.
- The maximum amount invested in a single issue will not exceed 5% of the portfolio book value and will not exceed 5 million euros in absolute value or equivalent value in another currency.

These criteria are also approved by the Board of Directors Risk and Monitoring Committee.

The monitoring of this risk is carried out by Risk Management, on a daily basis and taking into account both the internal limits granted in the form of a line as well as the maximum percentage of concentration according to the product weightings established by the AFA, in its capacity as Regulator of the Andorran Financial System.

The Assets and Liabilities Committee (ALCO) periodically reviews the positions maintained with the different Entities and the associated risks. Regarding the portfolio's risk, all those securities that show latent losses are reviewed, analysing the issuer and evaluating the maintenance of the security in the portfolio. Finally, special monitoring is carried out of transactions related to the construction sector and/or real estate development.

3.3.1.2. Exposure to credit risk

At the end of each financial year, the financial assets exposed to credit risk by portfolios and instruments are those which are shown below in terms of their gross book value, as an expression of the highest level of exposure to the credit risk undertaken, since they reflect the highest level of debt of the creditor on the date to which they refer.

(Thousands of euros)	31/12/2020	31/12/2019 (*)
Financial assets held for trading	**27,926**	**25,475**
Derivatives	1,289	1,062
Equity instruments	1,115	3,701
Debt securities	25,522	20,712
Loans and advances	-	-
Non-trading financial assets mandatorily at fair value with changes in profit or loss	**42,368**	**54,810**
Equity instruments	923	921
Debt securities	41,445	53,889
Loans and advances	-	-
Financial assets designated at fair value with changes in profit or loss	**46,273**	**44,496**
Debt securities	46,273	44,496
Loans and advances	-	-
Financial assets at fair value with changes in other comprehensive income	**106,432**	**80,797**
Equity instruments	3,143	600
Debt securities	103,289	80,197
Loans and advances	-	-
Financial assets at amortised cost	**690,804**	**589,598**
Debt securities	265,220	187,210
Loans and advances	425,584	402,388
Derivatives - Hedge Accounting	**82**	**113**
TOTAL CREDIT RISK FOR FINANCIAL ASSETS	**913,885**	**795,289**
Financial guarantees given	27,492	29,434
Available credit commitments	76,858	61,603
Other commitments given	-	36
Adjustments for valuation	-	-
TOTAL OFF-BALANCE EXPOSURES	**104,350**	**91,073**
TOTAL PEAK EXPOSURE TO CREDIT RISK	**1,018,235**	**886,362**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The collateral amount or other credit enhancements have not been deducted from the value of the exposure to the credit risk described above. These are commonly used in the financial instruments managed by the Entity, and have been received in order to ensure compliance.

3.3.1.3. Mitigation of credit risk

The exposure to the credit risk is rigorously managed and monitored upon the basis of regular creditworthiness analyses of borrowers and their potential to meet their payment obligations with the Group and the established exposure limits are adapted to each counterpart, up to the level which is deemed acceptable. It is also customary for the obligor to modulate the level of exposure by establishing collaterals and guarantees on behalf of the Group.

These guarantees usually involve financial collateral, mainly property mortgages for housing, both completed buildings and ones still under construction. The Entity also accepts, although to a lesser degree, other types of collateral such as mortgages on business premises, industrial warehouses, etc., as well as financial assets. Another credit risk mitigation technique often used by the entity is the acceptance of guarantees, in this case they are subject to the guarantor being able to demonstrate their proven creditworthiness.

All of these mitigation techniques are established ensuring their legal certainty, i.e. with legally binding contracts with all the parties and which enable the legal enforceability to ensure the guarantee can be enforced at any time.

Secured guarantees are formalised before a notary through a public deed, for the purpose of being effective against third parties.

Personal guarantees or sureties are established in favour of the Entity and, except in exceptional circumstances, they are also formalised before a notary through a public deed, in order to provide the contract with the maximum formalised legal security and to be able to make legal claims through enforcement proceedings in the event of non-payment. They constitute a credit right with respect to the guarantor which is irrevocable and due on first demand.

The Group's policies in relation to guarantees have not changed significantly during this financial year. Similarly, there has been no significant change in the quality of the Group's guarantees in comparison with the previous financial year.

The value of the guarantees received to ensure payment, whether they are real guarantees or other guarantees, as well as guarantees which cover those risks classified as doubtful, as at 31 December 2020 and 2019, are as follows:

(Thousands of euros)	31/12/2020	31/12/2019
Value of real guarantees	**313,865**	**282,148**
Of which: guarantee doubtful risks	10,695	11,470
Value of other guarantees	**77,886**	**95,442**
Of which: guarantee doubtful risks	3,271	2,270
TOTAL VALUE OF RECEIVED GUARANTEES	**391,751**	**377,590**

The main concentration risk for all types of collateral and credit enhancements relates to the use of mortgage guarantees as a credit risk mitigation technique in exposures from loans which are taken out to finance the construction of housing or other types of properties.

The table below shows the details of the credit investment in customers as at 31 December 2020 and 2019, according to the guarantee level:

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

(**) "Loan to value" is defined as the ratio of the gross book value and the amount in the last available evaluation.

The transactions segment with personal guarantees includes exposures to Public Authorities and Semi-public Entities which, at 31 December 2020, amounted to 19,621 thousand euros (23,505 thousand euros at 31 December 2019).

	Loans and advances to customers	
(Thousands of euros)	31/12/2020	31/12/2019 (*)
Loan to value >= 100%	13,293	8,455
80% <= Loan to value (**) < 100%	42,282	33,459
60% <= Loan to value (**) < 80%	66,234	55,988
40% <= Loan to value (**) < 60%	50,181	61,560
20% <= Loan to value (**) < 40%	54,613	47,630
Loan to value (**) < 20%	32,520	36,938
Without mortgage guarantees	132,628	133,560
TOTAL	**391,751**	**377,590**

For the credit risk exposures of the Group's own portfolio, see Notes 7 and 8 of this report.

3.3.1.4. Credit quality of financial assets

Throughout 2020 an improvement has been observed in the evolution of doubtful assets which have been reduced by 14,019 thousand euros with the default ratio and the hedge ratio of the doubtful assets being shown in the following table:

(Percentage)	31/12/2020	31/12/2019 (*)
Default ratio	3.58%	3.64%
Doubtful asset hedging ratio	59.95%	61.99%

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The differences which can be seen in the table above are mainly due to the renewal of two significant doubtful transactions of the Group, with the reduction of risks and partial allocations of assets. Generally speaking, the group follows an active policy for the management of foreclosed assets having proceeded in 2020 with the sale of a significant number of properties.

A breakdown of the impairment loss of the credit investment is detailed below according to whether a collective or individual analysis of the risk has been undertaken as at 31 December 2020 and 2019.

(Thousands of euros)	31/12/2020	31/12/2019 (*)
Collective analysis	3,368	3,274
Individual analysis	17,116	18,558
TOTAL	**20,484**	**21,832**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

3.3.1.5. Concentration risk

The concentration risk is defined as the credit risk level of exposure of an economic group, which, due to its significance may generate significant credit losses in the event of an adverse economic situation. This concentration may apply to an individual customer or an economic group, as well as to a sector or a particular geographical area.

Under the current law, the Credit Risk Department controls the weighted exposure of a customer or of a risk group, defined as customers who are related to one another, which may not exceed 25% of the Entity's own resources at any time.

For internal purposes, the group analyses and controls the concentration risk in a more detailed way and divides it into the following two sections:

- **Individual concentration risk.** This refers to the possibility of incurring high losses as a consequence of the lack of diversification, due to the high exposure of certain customers.

  In order to take the correct measures against this individual concentration risk, each customer is defined in such a way that all risks that the Group may have with the same customer are identified.

  In general, and to determine the exposure figure for each customer, the amount granted to that customer is used, except for those products for which the provision is authorised, on a case-by-case basis, at the Bank's discretion, in which case the total amount provided is used. Any provisions made previously are discounted.

- **Sector concentration risk.** Similarly, the aggregation of concentration risks to be analysed on an individual customer level are defined in the principal sectors and each customer is assigned to their sector of main activity. This is for the purposes of the customer's ability to generate resources so that the concentration can be obtained in terms of that sector.

  In order to ensure the efficient management of the concentration risk, BancSabadell d'Andorra has a series of specific tools and policies available:

    - Quantitative metrics from the Risk Appetite Statement (RAS) and their subsequent monitoring as first-tier metrics.
    - Individual limits to risks or customers considered as significant and established by Executive Management.
    - Self-governance of risk which means the most significant customer transactions have to be approved by the Risk and Monitoring Committee.

Consistency with the comprehensive risk framework

The group ensures the coherence between the level of exposures of the concentration risk and the tolerance of this risk, as defined in the RAS. In this regard, there are global concentration risk limits and internal controls which are adapted to be able to ensure that the concentration risk exposure does not exceed the risk appetite levels established by the Group.

Setting limits and metrics for concentration risk control

Given the nature of the Group's activity, concentration risk is primarily linked to credit risk, with a series of metrics and associated limits being implemented.

The setting of risk exposure limits takes into account the Entity's historical experience of loss and takes into account the level of equity and profitability expected under different scenarios.

Both the metrics of level monitoring as well as the appetite limits and tolerance thresholds for the identified risks are detailed in the RAS metrics.

Monitoring and periodic *reporting* on risk control

The Group monitors the concentration risk on a regular basis to facilitate the rapid identification and correction of deficiencies in the mechanisms implemented for managing this risk, recurrently reporting this information according to the established risk governance for the Board of Directors.

The RAS itself establishes the activation of Accommodation Plans, whether they are reinforced or not, to address said situations.

The credit investment of customers by economic sector and geographical area are presented in detail below.

	Loans and advances		Impairment	
(Thousands of euros)	31/12/2020	31/12/2019 (*)	31/12/2020	31/12/2019 (*)
By sector:				
Public sector	19,621	23,464	(101)	(120)
Primary sector	114	323	-	(2)
Construction sector	7,907	7,913	(1,024)	(1,097)
Secondary sector	1,897	3,070	(83)	(41)
Real Estate sector	36,823	34,576	(9,371)	(7,024)
Commercial sector	25,175	26,202	(431)	(627)
Financial sector	3,537	4,004	(49)	(7)
Tourist sector	23,866	30,755	(570)	(3,502)
Tertiary sector	72,954	63,877	(1,230)	(1,287)
Individuals sector	199,857	183,406	(7,625)	(8,125)
TOTAL	**391,751**	**377,590**	**(20,484)**	**(21,832)**
By geographical area:				
Andorra	370,056	358,089	(20,018)	(21,474)
European Union	19,603	17,360	(461)	(354)
Ibero-America	-	-	-	-
Rest of OECD	521	414	(1)	(1)
Others	1,572	1,726	(3)	(3)
TOTAL	**391,751**	**377,590**	**(20,484)**	**(21,832)**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

3.3.1.5.1. Exposure to customers or major risks

As at 31 December 2020, the maximum exposure in a creditor did not exceed 11% of the Group's own resources.

3.3.1.5.2. Country risk: geographical exposure of credit risk

This is the risk that arises from a country's debts, considered as a whole, which as a consequence of causes inherent to the country's sovereignty and economic situation; in other words, due to circumstances that are different from common credit risks. It manifests itself based on the inability of a debtor to make its foreign currency payment obligations to its foreign creditors, for various reasons; for example the country does not allow access to foreign currency, it does not allow transfers to be made or due to legal actions not being able to be enforced against the borrower for reasons of sovereignty, war, expropriation or nationalisation.

Country risk does not only affect debts contracted by a State or the Organisms it guarantees; it also affects the group of private debtors who belong to that State and for reasons beyond their control, they are unable to make the payments for their debts.

3.3.1.6. Counterpart risk

The risk assessment of the counterparty arises in the event that the counterparty could default before they have made the final settlement of the cash flows in a transaction with derivatives or in a transaction involving buyback commitments, with deferred settlement or collateral financing. In this regard, a comprehensive management and monitoring of the exposure resulting from the activity in the financial markets is carried out.

The exposure resulting from the activity in financial markets is mainly concentrated in customers, Financial Entities and clearing chambers.

3.3.2. Liquidity risk

3.3.2.1. Definition

This is defined as the potential inability of the Group to make its payment commitments, even temporarily, due to a lack of liquid assets, or being unable to access markets to obtain funding at a reasonable cost. This may be due to external reasons such as a financial crisis or internal reasons such as a mismatch in the maturity of liabilities compared with the maturity of assets.

The principal source of funding in the Group is based on customer deposits (mainly current accounts and term deposits sourced through the commercial network), supplemented with funding through the interbank market with the aim of achieving an appropriate level of diversification by type of product, terms and investors. The Group maintains a diversified portfolio of liquid assets, most of which are eligible as collateral for financing transactions with the European Central Bank (ECB).

The Group is exposed to daily demands on its available liquid resources due to the same contractual obligations of the financial instruments with which it trades, such as the maturity of deposits, credit drawdowns, settlements of derivative instruments, etc. However, experience shows that this ends up being a minimum amount, given that it can be predicted with a high degree of reliability.

In this area, the Group aims to maintain some liquid assets and a financing structure that, in accord with its strategic objectives, enables it to meet its payment commitments, normally and at a reasonable cost, whether this is under business-as-usual conditions or in a stress situation caused by both systemic and idiosyncratic factors.

In this regard, the Group maintains a liquidity safety net in the form of liquid assets in order to be able to face any liquidity needs that may arise.

Nevertheless, with the enactment of *Law 35/2018, of 20 December on solvency, liquidity and the prudential supervision of Banking Entities and investment companies*, the aforementioned *Law Regulating the Solvency and Liquidity Criteria of Financial Institutions* has been repealed, establishing new legal requirements to be met in the matter of liquidity, starting from 1 January 2019, among which the calculation of the “Liquidity Coverage Ratio” (hereinafter, LCR) is to be noted.

The Group monitors this ratio daily as a first level metric. At the end of 2020 it was 375.11%.

Additionally, the Group follows the Loan-to-Deposit ratio as first level metric on a monthly basis, following the BancSabadell Group methodology. Throughout 2020 this ratio has remained below 50.82%, with the target level being set by the Board of Directors to keep it below 75%.

3.3.2.2. Liquidity management

BancSabadell d’Andorra’s liquidity management aims to ensure the funding of its business activity at an appropriate cost and term, and at the same time minimising the liquidity risk. The Entity’s financing policy is focused on maintaining a balanced financing structure, based mainly on customer deposits which allow the group to maintain a comfortable liquidity position at all times.

In order to meet the objectives, the current liquidity risk management strategy of the Group is based on the following principles and pillars:

- The involvement of the Board of Directors and Senior Management in the management and control of liquidity and funding risks.
- Having a clear separation of duties among the departments within the organisation, with a clear division between the three lines of defence, providing independence in the evaluation of positions and the control and analysis of risks.
- Reliable identification, measurement, management, control and reporting processes for the various liquidity and funding risks which the Group is subject to.
- A balanced funding structure, based mainly on customer deposits.
- A broad base of unencumbered liquid assets with immediate availability to generate liquidity forming the first line of defence for the Group.
- Compliance with the regulatory requirements, recommendations and guidelines.

For this purpose, on a daily basis, the Treasury and Capital Markets Department reviews and updates the forecast of accounts receivable and payments in the short term (3 months) to ensure that sufficient liquidity is available at all times to meet payments without difficulties.

Liquidity management is a responsibility of the Treasury and Capital Markets Department, which, based on the forecasts mentioned above and the available positions, makes the placements of resources seeking the maximum profitability and always acting within the limits approved by the different counterparties. In the same way, in case of specific liquidity needs, it goes to the market to obtain funds.

In addition, the Group has a system of metrics and tolerance thresholds that define the Group's sensitivity to liquidity risk and are defined in the RAS approved by the Board of Directors. This system makes it possible to evaluate and monitor the liquidity risk by ensuring compliance with the strategic objectives, the risk profile and compliance with the regulations and Supervision Guidelines.

Furthermore, it should be noted that the Group has implemented an early warning indicators (EWIs) system, which includes market and liquidity indicators consistent with the Group's strategy.

The RAS metrics are subject to Board of Directors' approval, monitoring, reporting of overdrafts and adjustment plans established in the RAS and the RAF according to the hierarchical level of each metric.

The risk control and reporting framework is comprised of, amongst others:

Monitoring of RAS metrics and tolerance limits at a consolidated level.

Reporting the set of corresponding metrics according to the hierarchical levels of the metrics to the Committees and Governing and Management Bodies.

In the event that a breach is detected, activation of communication protocols and the necessary plans for the correction thereof.

3.3.2.3. Residual term of transactions

The table below shows the breakdown by contractual balance maturity dates, excluding, in some cases, value adjustments and impairment losses, of certain balance totals on the consolidated statement of financial position on 31 December 2020 under business-as-usual market conditions:

(Thousands of euros)	Demand	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Non-sensitive	Overall total
Monetary market	67,427	21,631	31,569	36,731	-	-	-	-	-	-	157,358
Credit investment	10,152	12,871	13,438	49,459	40,386	8,724	10,591	23,325	219,842	-	388,788
Debt securities		3,466	1,618	13,693	84,170	107,405	113,924	71,966	6,728	-	402,970
Other assets	-	-	-	-	-	-	-	-	-	88,417	88,417
Total assets	**77,579**	**37,968**	**46,625**	**99,883**	**124,557**	**116,129**	**124,515**	**95,291**	**226,570**	**88,417**	**1,037,533**
Monetary market	231	-	-	3,402	-	-	-	-	-	-	3,633
Assets under management	568,319	28,563	63,462	167,125	23,402	327	20,426	-	-	-	871,625
Other liabilities	-	-	-	-	-	-	-	-	-	162,275	162,275
Total liabilities	**568,550**	**28,563**	**63,462**	**170,528**	**23,402**	**327**	**20,426**	**-**	**-**	**162,275**	**1,037,533**
of which:											
secured liabilities	-	-	-	-	-	-	-	-	-	-	-
unsecured liabilities	*568,550*	-	*63,462*	*170,528*	*23,402*	*327*	*20,426*	-	-	*162,275*	1,008,971
Trading and hedging derivatives											
Positions Received	-	-	-	-	-	10,000	20,000	18,000	6,170	-	54,170
Positions Paid	-	-	-	-	-	10,000	20,000	18,000	6,170	-	54,170
Net	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Contingent risks	**13,148**	**255**	**159**	**1,148**	**1,372**	**1,878**	**911**	**215**	**8,416**	**-**	**27,503**
Financial guarantees	13,148	255	159	1,148	1,372	1,878	911	215	8,416		27,503

Below is the detailed composition of the high-quality liquid assets used in the calculation of the Group's LCR ratio in accordance with the European regulations, as at 31 December 2020 and 2019.

(Thousands of euros)	31/12/2020	31/12/2019
Level 1 Assets	57,448	71,264
Level 2A Assets	2,111	3,432
Level 2B Assets	15,916	9,899
Total high-quality liquid assets	**75,475**	**84,595**

3.3.3. Market Risk

This risk is defined as the possibility of loss in the market value of financial asset positions which the Group maintains in different types of assets, as a result of variations in market factors such as the exchange rate, the interest rate or equity value. Its management is the responsibility of the Treasury and Capital Markets Department.

Those positions that generate market risk are usually held in trading activities, consisting of hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

It may also arise simply due to maintaining overall balance sheet positions (also known as structural positions) that are left open in net terms. In the latter case, the Entity uses the market risk management and monitoring system to manage the structural market risk position.

NEGOTIATION ACTIVITY

The principal market risk factors considered by the Group in its trading activity are:

- Exchange rate risk: risk associated with the fluctuation in exchange rates with respect to the reference currency (in this case, the euro). This risk occurs mainly in currency exchange transactions and their derivatives.
- Interest rate risk: risk associated with the possibility of fluctuations in interest rates adversely affecting the value of a financial instrument. This is reflected, for example, in interbank deposit, fixed-income and interest rate derivative transactions.
- Credit spread risk: this risk derives from the fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.
- Equity risk: risk which derives from the fluctuation in the value of capital instruments (shares and indices). This risk is reflected in the market prices of the securities and their derivatives.

Commodity price changes did not have an impact in the year since the Group's exposure, both direct and to the underlying assets, is negligible.

INTEREST RATE RISK

This risk is derived from commercial activity with customers and from transactions for its own account. Its management is aimed at providing stability to the financial margin, maintaining adequate levels of liquidity and solvency.

Interest rate risk is caused by the impact of interest rate fluctuations on the income statement (revenues and expenses) and on the entity's equity structure (current value of assets, liabilities and off-balance sheet positions that are sensitive to interest rates). When these positions do not follow a symmetrical maturity structure, fluctuations in interest rates may lead to the possibility of incurring losses.

For the measurement and management of this type of risk, a methodology based on the static analysis of the sensitivity of the financial margin within one year is used, when faced with a fluctuation in interest rates of 100 base points. The Group has established a policy to minimise this risk consisting in making the structure of assets and liabilities symmetrical over 12 months, thus ensuring that the impact of possible interest rate fluctuations is minimal.

The Treasury and Capital Markets Department obtains, on a monthly basis, a gap analysis of the financial statements that is sensitive to interest rate fluctuations and a simulation of the impact that a fluctuation of 100 base points would have on the financial margin and verify that, in no case, this impact exceeds 6% of the financial margin in absolute terms. The ALCO periodically reviews this gap by validating the resulting sensitivity as well as the temporary structure of the 12-month projected assets and liabilities.

As instruments for hedging the risk, derivatives are contracted in the financial markets, mainly interest rate swaps (IRS), considered as hedging for accounting purposes.

The registered items of the financial statement at amortised cost do not present valuation adjustments associated with interest rate fluctuations.

INTEREST RATE GAPS

(Thousands of euros)	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Non-sensi-tive	Overall total
Monetary market	111,245	8,187	37,926	-	-	-	-	-	-	157,358
Credit investment	257,906	11,189	63,423	34,993	2,915	847	3,908	13,607	-	388,788
Debt securities	115,079	119,197	168,671	23	-	-	-	-	-	402,970
Other assets	-	-	-	-	-	-	-	-	88,417	88,417
Total assets	**484,230**	**138,574**	**270,019**	**35,016**	**2,915**	**847**	**3,908**	**13,607**	**88,417**	**1,037,533**
Monetary market	3,633	-	-	-	-	-	-	-	-	3,633
Assets under management	658,671	73,793	138,213	318	306	324	-	-	-	871,625
Other liabilities	-	-	-	-	-	-	-	-	162,275	162,275
Total liabilities	**662,304**	**73,793**	**138,213**	**318**	**306**	**324**	**-**	**-**	**162,275**	**1,037,533**
Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate gap	**(178,075)**	**64,781**	**131,806**	**34,697**	**2,609**	**523**	**3,908**	**13,607**	**(73,858)**	**-**

Below is the sensitivity of the financial margin to fluctuations of 100 base points in the interest rate on 31 December 2020.

(Thousands of euros)	**Sensitivity to financial margin**
Sensitivity to interest rate risk, by currency (increase of 100 bps)	
EUR	(1,930)
GBP	(29)
USD	(238)
Sensitivity to interest rate risk, by currency (decrease of 100 bps)	
EUR	4,332
GBP	28
USD	178

EXCHANGE RATE RISK

The purpose of managing structural exchange rate risk is to minimise the impact of adverse movements in currency markets on the value of the portfolio and the entity's equity. The risk appetite defined in the RAS takes precedence and the established levels for the risk metrics must be complied with at all times.

The Group's policy consists in the systematic coverage of the foreign currency positions generated by the customers, making the corresponding counterparties transactions in a way that the position in foreign exchange is marginal.

As a result of this policy, the Group is authorised by the Board of Directors to maintain an open position, long or short, in each currency of a maximum amount equivalent to 60 thousand euros and, for all currencies combined, an open position of any sign of a maximum of 300 thousand euros.

Exchange rate risk is monitored on a regular basis and reports on current risk levels and compliance with the limits assigned to each unit are sent to the Risk and Monitoring Committee. The main monitoring metric is the currency exposure, which measures the sum of the net open position (assets minus liabilities) maintained by the Entity in each currency through any type of financial instrument (foreign exchange spots, forwards and options), all with the equivalent value in euros.

Controlling and monitoring this risk is carried out daily by the Internal Control Department and reported to Senior Management by reporting on the existing level of risk and its compliance with the established limits.

In terms of foreign exchange forward transactions, the criterion used is also the systematic hedging of market transactions by contracting counterparty transactions with the same amounts and terms, so that efficient hedging is obtained both in terms of amounts and maturities.

As at 31 December 2020 and 2019, the Group holds the following cash positions in foreign currencies converted to euros (all figures in thousands of euros):

(in thousands of euros)	31/12/2020				
	US dollars	**Pound sterling**	**Swiss franc**	**Japanese yen**	**Australian dollars**
Assets in foreign currency					
Cash and cash balances at central banks and other demand deposits	7,734	417	975	52,257	389
Debt securities	52,272	-	-	-	-
Loans and advances	109,226	4,544	482	-	2,442
Other assets	86,329	463	145	202	34
Liabilities in foreign currency					
Deposits	146,733	4,806	1,421	52,357	2,863
Other liabilities	108,828	618	181	102	1

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

(in thousands of euros)	31/12/2019 (*)				
	US dollars	**Pound sterling**	**Swiss franc**	**Japanese yen**	**Australian dollars**
Assets in foreign currency					
Cash and cash balances at central banks and other demand deposits	2,409	209	885	7,968	84
Debt securities	16,306	-	-	-	-
Loans and advances	40,472	6,957	556	9,980	418
Other assets	43,079	581	73	(190)	(23)
Liabilities in foreign currency					
Deposits	57,039	7,178	1,337	17,678	479
Other liabilities	45,188	570	177	29	-

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

EQUITY RISK

The positions that the Group maintains in its equity portfolio cannot represent more than 5% of the Entity's own funds.

The management thereof involves periodically updating its book value to its market value, so that possible hidden losses are recorded for accounting purposes at all times.

The ALCO reviews the Group's equity position on a monthly basis and values the advisability of its possible sale based on market conditions and as proposed by the Treasury and Capital Markets Department.

Finally, it should be noted that the Group has no intention of exposing itself to equity risk.

3.3.4. Operational Risk

Operational risk is defined as the risk of incurring losses due to the inadequacy or failures of internal processes, people or systems or due to unexpected external events. This definition includes, amongst others, technological risk, understood as the possibility of losses derived from the inability of the system infrastructure to allow it to continue completely with the ordinary activity.

The Group pays special attention to this type of risk and has established a specific procedure to manage it that encompasses its identification, communication, analysis and taking corrective measures that can mitigate or prevent the repetition of detrimental circumstances. This procedure is activated every time an operational risk is identified by one of the Group's offices or departments, and it enables the collecting of historical information about the cases and their impact.

Management of operational risk is decentralised and devolved to process managers throughout the organisation.

The Internal Control Department is responsible for managing operational risks, carrying out the following functions:

- Analysis and identification of the risks identified from reviewing processes and the operational and/or potential risks.
- In cooperation with the affected unit, propose the corrective measures necessary to mitigate or eliminate the risk.
- Establishment of the appropriate control measures to ensure that the risk is duly mitigated or eliminated.
- Periodically reporting to the Audit and Control Committee.

At the same time, business continuity plans are designed and implemented for any processes identified as being of high criticality in the event of an outage. A qualitative estimate is made of the reputational impact of these identified risks if they were to materialise.

The Audit and Control Committee oversees the management of the operational risk carried out in general and establishes the policies to be followed in this area. Senior Management is directly and effectively involved in the management of this risk along with the Board of Directors, which establishes the strategy to follow through the approval of the RAS.

In addition, and as a general preventive measure, the Group has a risk map that encompasses the most relevant business processes that can generate operational risks. This heat map identifies the points of potential risk by assigning a degree of severity that enables prioritisation in order to establish the improvements to control measures already in place.

Operational risk includes management and oversight of the following main risks:

- Reputational risk: the possibility of losses arising from negative publicity related to the Entity's practices and activities, potentially leading to a loss of trust in the bank and having an impact on its solvency.
- Technological risk: impact or impairment of customer services (both internal and external) in terms of service and quality, which may involve losses and/or errors in the integrity of data, derived from incorrect management, operation, control and/or error in IT systems and the resilience capabilities of these, as well as the equipment they manage.
- Outsourcing Risk: possibility of incurring losses derived from suppliers' errors in the rendering of outsourced services, or due to their interruption, deficiencies in their security systems, employee disloyalty or failure to comply with the applicable standards.

3.3.5. Fiscal Risk

Fiscal risk is defined as the probability of failing to meet the objectives established in BancSabadell d'Andorra Group's fiscal strategy.

The Group's fiscal risk policies aim to establish principles and guidelines in order to ensure that the fiscal risks, which could affect the Group's fiscal strategy and objectives, are systematically identified, evaluated and managed.

The fact should be highlighted that in 2017, Law 19/2016 on automatic information exchange in tax matters came into force, which contains the principles established by the OECD for the Common Reporting Standard (CRS), included in the Convention on Mutual Administrative Assistance (MCAA) in Tax Matters, in relation to the automatic exchange of tax information between competent authorities in the member territories.

This Law requires the Andorran financial institutions to establish due diligence measures in order to determine the tax residence of customers and, where appropriate, to fulfil the data communication obligations of those customers residing in a Member State of the European Union or other States that establish the corresponding agreements with the Principality of Andorra.

The said law was modified by Law 29/2017, on 30 November, which modified Law 19/2016 and includes the list of the 41 jurisdictions with which, in 2018, information was automatically exchanged regarding financial accounts for the year 2017, within the framework of the MCAA.

Additionally, Law 30/2017, on 30 November, which modified Law 19/2016 includes the list of the 32 jurisdictions with which, in 2019, information was automatically exchanged regarding financial accounts for the year 2018, within the framework of the MCAA.

Finally, with the approval of Law 19/2018, also modifying Law 19/2016, is included the list of the jurisdictions with which will automatically be exchanged, in 2020, information regarding financial accounts for the year 2019, within the framework of the MCAA.

The Bank has implemented the mechanisms and procedures necessary for the proper application of this rule since 2017.

The Group's objective is to honour the fiscal obligations established in the current legal framework at all times.

3.3.6. Regulatory compliance risk

Regulatory compliance risk is defined as the possibility of incurring significant financial losses, or loss of reputation, due to legal or administrative penalties for breach of laws, standards, internal regulations or codes of conduct applicable to the Group. This risk includes, amongst others, the following risks:

- Risks of money laundering and financing of terrorism, consisting of non-compliance with the legal framework in force in this area.
- Risk of conflicts of interest: it is understood that there are conflicts of interest in the provision of a service when the operating Entity of the financial system, its staff, a customer or several customers of the Entity have an interest in the provision of the service, or in its result, that is at odds with the interest of the customer to whom the service is provided and may be detrimental to the latter, or when another customer or customers may obtain a profit or avoid a loss and there is the possibility of a concomitant loss for the customer to whom the service is provided.

The direct repercussion of regulatory breaches and the loss of reputation to the Group's customers, of the Regulator as well as the market, has prompted an imperative need to manage this risk.

For this reason, the Group has a Regulatory Compliance Department whose mission is to promote and ensure the highest levels of compliance with current law and regulations, as well as professional ethics within the Group, to minimise the possibility of a breach and ensure that those which may occur are identified, reported and resolved with due diligence, taking the appropriate preventative measures if otherwise.

Amongst others, this Department oversees the strict compliance with the following aspects:

- Group ethical codes.
- Policies and procedures adopted and, in particular, the Customer Acceptance Policy, with particular emphasis on the verification of financial activity and consistency of economic flows.
- Prevention of money laundering and terrorist financing by conducting a detailed review of all customers and potential customers in order, if necessary, to inform the Financial Intelligence Unit of Andorra (UIFAND) of any potential suspicious transactions.
- Protection of the investor through compliance with the legal framework in force in Andorra in this matter.
- Prohibition of engaging in abusive market practices.

To carry out these functions, the Group operates via different mechanisms:

- Technology: integrating within the computer system all those rules and controls which help to detect possible problematic operations.
- Training: carrying out specific training programmes for all staff and specialised programmes approved by Regulatory Compliance Department staff.
- Regulations: establishing clear, specific procedures so that staff know how to act in each case that they may encounter.
- Communication channels: to report all incidents or suspicious operations by means of flexible systems.
- Control and monitoring: carrying out monitoring of correct compliance with the legal provisions and the internal procedures adopted on the part of all the Group's employees.
- Judicial: ongoing monitoring of legislative developments which affect any of the areas of responsibility of regulatory compliance.

This Department reports directly to the General Directorate and the Audit and Control Committee, maintaining a fluid, on-going relationship with UIFAND as the supervisory body in the field of money laundering and financing of terrorism.

Applicable regulations

Law 17/2019, of 15 February, modifying Law 8/2013, of 9 May, on the organisational requirements and operating conditions of the operating entities of the financial system, investor protection, market abuse and financial guarantee agreements.

This law, passed by the General Council on 15 February 2019, tells us about the organisational requirements and operating conditions of the operating entities of the financial system, investor protection, market abuse and financial guarantee agreements.

This amendment represents a breakthrough over the previous regime and is an improvement in the protection of markets and customers of investment services. In particular, improvements are made to the customer classification blocks, customer information duties, incentives, suitability and adequacy assessment, management and execution of orders, conflicts of interest, protection of customer assets, registries and markets.

Decree of 6-3-2019 approving the Regulation for the development of Law 36/2018, of 20 December, on financial conglomerates.

Following the approval of Law 36/2018, of 20 December, on financial conglomerates, it was appropriate to establish regulatory technical regulations with a view to giving greater accuracy to the formulation of the additional supervisory obligations provided for in Article 7, section 1 of the Law. In particular, it was important to provide more details on the elements that should be considered for the purpose of presenting information on significant intra-group operations and significant risk concentrations, as well as to develop the various methods and technical principles applicable to the calculation of the additional solvency requirements provided for in section 1 of Article 7. Likewise, it was essential to develop the content of the obligations provided for in the Law in relation to the risk management processes and the internal control mechanisms required by financial conglomerates.

This Regulation was approved to cover these specific needs.

***Decree from 6-3-2019 approving the Regulation for the development of Law 35/2018, of 20 December, on solvency, liquidity* and prudential supervision of banking entities and investment companies.**

This Regulation is part of the fulfilment of the Monetary Agreement signed between the Principality of Andorra and the European Union, which incorporate certain European rules into the Andorran legal system in the field of solvency, liquidity and prudential supervision of banking entities and investment companies.

The Regulation develops the requirements regarding the exemption to the deduction of the ordinary level 1 capital of significant investments in computing applications of banking entities and investment companies provided for in article 30 of Law 35/2018 in order for entities to deal with these investments that will foster the international development of the Andorran financial sector, as well as facilitate the digital transformation of civil society, in such a way that it does not entail an excessive burden on the solvency of these entities. In this regard, and in order to comply with the Law developed by this Regulation, a provisional deduction exemption mechanism has been provided until the Principality of Andorra has to transpose, under the Monetary Agreement, the European provisions updated in solvency, liquidity and prudential supervision subject to Directive 2013/36/EU and Regulation (EU) no. 575/2013.

This Regulation also includes up to thirty-three transitory provisions governing the gradual application of solvency requirements in different calendars of four to eight years, depending on the type of new requirement, in order to facilitate a gradual adaptation of the solvency requirements capital with the same calendar as European financial institutions when the European Directive and Regulation were approved in 2014.

Decree from 3-4-2019 approving the Regulation for the development of Law 8/2013, of 9 May, on the organisational requirements and operating conditions of the operating entities of the financial system.

Law 8/2013, of 9 May, on the organisational requirements and operating conditions of operating entities of the financial system, protection of investors, abuse of the market and financial guarantee agreements is of significant importance in the Principality of Andorra and has been modified through Law 17/2019, of 15 February, modifying Law 8/2013, which has allowed the regulatory framework introduced by Directive 2004/39/EC of the European Parliament and Council, of 21 April 2004, concerning the markets for financial instruments in the Andorran legal system.

However, it was necessary to approve a development regulation that implements the obligations provided for in the Commission's Directive 2006/73/EC of 10 August 2006 on the measures of implementation of Directive 2004/39/EC of the European Parliament and Council regarding the organisational requirements and the conditions of exercise applicable to the operating entities of the financial system. This regulation therefore incorporates new obligations aimed at reinforcing the rules of conduct and organisational requirements that are required of the operating entities of the financial system that provide investment services.

This Regulation is a breakthrough in the standardisation of the regulations required by Andorran financial institutions, to the extent that it clarifies how certain obligations must be implemented by the operating entities of the financial system. This Regulation is also an improvement in the protection of customers of investment services. In particular, it introduces improvements to the organisational requirement blocks, protection of customer assets, conflicts of interest, information to customers and potential customers, obligations for optimum execution and processing of customer orders, registrations, classification of customers and criteria for considering complex and non-complex financial instruments.

Decree from 3-4-2019 approving the Regulation on the adoption of applicable European Union technical standards in the field of solvency, liquidity and prudential supervision of banking entities and investment companies.

In compliance with the provisions of the seventh final provision of Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banks and investment companies, and the first final provision of the Regulation for the development of Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banking entities and investment companies, the following technical regulations of European regulation and execution concerning prudential requirements and the prudential supervision of banking entities and investment companies are applicable to the Principality of Andorra:

- Commission Delegated Regulation (EU) 2016/101, of 26 October 2015, completing Regulation (EU) no. 575/2013, of the European Parliament and Council, with regard to the technical standards of regulation for prudent valuation within the framework of Article 105, section 14.
- Commission Delegated Regulation (EU) no. 241/2014, of 7 January 2014, completing Regulation (EU) no. 575/2013, of the European Parliament and Council, with regard to the technical standards of regulation for entities' equity requirements.
- Commission Delegated Regulation (EU) 2015/850, of 30 January 2015, modifying Delegated Regulation (EU) no. 241/2014, completing Regulation (EU) no. 575/2013, of the European Parliament and Council, with regard to the technical standards of regulation for entities' equity requirements.
- Commission Delegated Regulation (EU) 2015/923, of 11 March 2015, modifying Delegated Regulation (EU) no. 241/2014, completing Regulation (EU) no. 575/2013, of the European Parliament and Council, with regard to the technical standards of regulation for entities' equity requirements.
- Commission Delegated Regulation (EU) no. 525/2014, of 12 March 2014, completing Regulation (EU) no. 575/2013, of the European Parliament and Council, with regard to the technical standards of regulation for entities' equity requirements.
- Commission Delegated Regulation (EU) no. 1187/2014, of 2 October 2014, completing Regulation (EU) no. 575/2013, of the European Parliament and Council, with regard to the technical regulatory rules for determining global exposure to a customer or a group of customers linked to each other with respect to transactions with underlying assets.
- Commission Delegated Regulation (EU) 2015/61, of 10 October 2014, completing Regulation (EU) no. 575/2013, of the European Parliament and Council, regarding the requirement of liquidity coverage applicable to credit institutions.

- Commission Implementation Regulation (EU) 2016/200, of 15 February 2016, which establishes technical rules for implementation with regard to the publication of the leverage ratio of entities, in accordance with Regulation (EU) no. 575/2013, of the European Parliament and Council.
- Commission Implementation Regulation (EU) no. 1423/2013, of 20 December 2013, which establishes technical rules for implementation with regard to the publication of entities' equity requirements.

The aforementioned Decree regulates its application in the Principality of Andorra.

Decree from 24-4-2019 approving the amendment of the Regulation of rules applicable to payment service providers, to facilitate the automation of cross-border payments between the Principality of Andorra and the EU Member States.

The Government, at its sitting on 29 June 2018, approved the Regulation on rules applicable to payment service providers, mainly measures to facilitate the automation of cross-border payments between the Principality of Andorra and the Member States. of the European Union, as well as the technical requirements for the transfers and direct debit of payments in euros within the framework of the single zone of payments in euros, making use of the regulatory authorisation contained in the articles of *Law 8/2018, of 17 May, on payment services and electronic money.*

This Regulation develops the system of cross-border payments between the Principality of Andorra and any Member State of the European Union, as well as certain technical requirements of SEPA in relation to bank transfers and direct debits.

Decree from 8-5-2019 approving the Regulation for the development of Law 12/2017, of 22 June, on the organisation and supervision of insurance and reinsurance of the Principality of Andorra for certain branch offices in the Principality of Andorra.

Law 12/2017, of 22 June, on the organisation and supervision of insurance and reinsurance in the Principality of Andorra, forms the basis of the process of standardisation of our legal system to the principles in force in the field of international insurance and especially within the framework of the European Union.

In accordance with the provisions of Article 9.1.b of Law 12/2017, one of the criteria for exercising the supervisory role of the insurance sector is proportionality. For this purpose, this Decree approves a development regulation of the aforementioned Law 12/2017, whose main purpose is to establish a regime adapted to the needs and peculiarities of certain delegations of insurance companies domiciled outside the Principality of Andorra that meet certain requirements, and will come into force on 1 July 2019.

Legislative Decree of 17-7-2019 of publication of the revised text of the Law on the disciplinary regime of the financial system, of 27 November 1997.

The Government, at its sitting on 17 July 2019, approved the Decree ordering the publication in the Official Bulletin of the Principality of Andorra of the revised text of the Law on the disciplinary regime of the financial system, and repealing the Decree of 19 February 2014, which publishes the revised text of the Law on the disciplinary regime of the financial system, of 27 November 1997.

The Law regulating the disciplinary system develops two lines of measures: those of a preventive nature and those related to administrative offences.

Persons responsible for the offence are those who hold administrative or general management positions and persons responsible for the control functions provided for in Article 2, section 19 of Law 8/2013, on the entities responsible for the offence, when the offences are attributable to their misconduct or negligence.

The Andorran Financial Authority exercises the function of supervision and control of the operating entities of the financial system and monitors the evolution of these entities to check compliance with the legal and regulatory provisions regulating their action and acts in a preventive manner in noticing signs of irregularities.

As part of its oversight and control function, the Andorran Financial Authority addresses the various components of the financial system with notices regarding actions or procedures that, without involving infringement, depart from the rules of good professional conduct. If applicable, the AFA initiates the sanctioning procedure and carries out the instruction of the corresponding file. To this end, it notifies the initiation of the file to the alleged persons responsible for the possible infringement, informs them of the facts that motivate the initiation of the file, their possible qualification as a violation and set out the articles that establish the corresponding sanction.

Law 21/2019, of 28 November, of amendment of Law 14/2017, of 22 June, on prevention and fight against the laundering of money or securities and the financing of terrorism.

This amendment, approved by the General Council at its meeting on 28 November 2019, is intended to incorporate into the Andorran legal system, improvements in *Law 14/2017, of 22 June, on the prevention and fight against money laundering or securities and financing of terrorism*, as well as reinforcing interpretive aspects that have been observed during the course of the Law.

Andorra has made the highest commitment to implement international standards and regulations in the prevention and combating of money laundering and securities and the financing of terrorism. In this scenario, it is evaluated by a number of international bodies, including the Expert Committee for the Evaluation of Anti-Money Laundering and Securities and Against the Financing of Terrorism (Moneyval) and the Joint Committee made up of representatives of the Principality of Andorra and the European Union within the framework of the Monetary Agreement signed between the Principality and the European Union on 30 June 2011.

Treaty concerning the electronic transmission of requests for international legal cooperation between central authorities.

This Treaty, approved by the General Council in its session on 12 December 2019, regulates the use of the Iber@ electronic platform as a formal and preferential means of transmitting requests for international legal cooperation between central authorities, in the framework of the treaties in force between the parties and that provide for direct communication between these institutions.

It is for this reason that the Iber@ electronic platform, which has been operating since 2009, has become an ideal tool for transmitting requests for international legal cooperation, within the framework of the existing treaties between the parties. It is a digital tool to send and resolve requests for international legal cooperation directly between the central authorities, provided there is a treaty between the parties that relies on it, in a reliable, formal and rapid manner.

It is important to note that the Treaty does not establish a material area for action, but its purpose is to implement Iber@ as a formal electronic network through which applications for international legal cooperation between the parties, which have as their legal basis a treaty in force between all or any of the State Parties.

By way of example and without limitation, the most significant legal changes for the Group, which took place in 2020, are listed below.

On 18 April 2020, the General Council of Andorra approved Law 5/2020 on new exceptional and urgent measures to face the emergency health situation caused by the SARS-CoV-2 pandemic. Its repealing provision repeals Law 3/2020, of 23 March, on exceptional and urgent measures due to the emergency health situation caused by the SARS-CoV-2 pandemic, unless stated otherwise in the provisions of this Law.

The law establishes measures in matters of employment, Social Security, leasing, bank, fiscal and tax credit, as well as others, among which we highlight:

REDUCTION OF RENTS

Among other things, a reduction in the current contractual income for all business premises leases has been established, which is based on a table of percentages depending on the business activity. There is also a reduction in the income from housing rentals, until the Government declares by decree the end of the emergency health situation and prior justification of the employment situation of the lessor in the event of being affected by a temporary suspension of their employment contract or a reduction of their working day, being unemployed or for the self-employed if they meet certain conditions.

BANK LOANS

Grace periods or extensions of the repayment period of personal loans or mortgages for the financing of the acquisition of the usual home or vehicle by individuals who meet a series of specific conditions.

Grace periods or extension of loans or credits by business premises owners, who meet a series of specific requirements.

MEASURES IN TAX MATTERS

In certain cases, prior accreditation establishes the possibility of requesting deferral and instalment payments for tax debt, reduction of the payment on account of the corporate tax, reduction of the income tax instalment payments for private taxpayers, reduction of the tax base for unearned leases, extension of the payment period for the Registration Tax for Economic Activities as well as the recovered part of private pension plans being considered as exempt income.

On 5 October, Law 10/2020, on the Principality of Andorra joining the International Monetary Fund (IMF), is approved.

The Law, which consists of seven articles and a final provision, includes the commitments and appointments that the Principality of Andorra must carry out and which are established in the IMF's statutes and in the resolution of the IMF's Board of Governors relating to the Principality of Andorra's affiliation with the IMF. Thus, the Principality of Andorra is authorised to participate in the Department of Special Drawing Rights and to assume all the obligations deriving from it. The Government is authorised to make use of the financial instruments necessary to meet the payment of the fee established by the resolution of the IMF's Board of Governors and to issue the payment pledge in accordance with the IMF's statutes. The Ministry of Finances is recognised as the fiscal body that will establish communication with the IMF and will be authorised to carry out all operations and transactions authorised with the IMF. The Government is empowered to issue all the necessary regulatory provisions to comply with this Law and the appointment of the Governor and Deputy Governor of the IMF for the Principality of Andorra is determined, which is designated to the person holding the role of leader of the Ministry of Finances and a senior position appointed by the Ministry of Finances. Finally, it is determined that the entry of this Law into force will be after its publication in the Official Gazette of the Principality of Andorra and once the Principality of Andorra has ratified the constitutive Agreement of the International Monetary Fund.

The Principality of Andorra became the 190th full member of the IMF on 16 October 2020. Among other aspects, this will allow it to benefit from the technical assistance provided by the body in areas as diverse as macroeconomic statistics, to produce the necessary data to be submitted to the IMF for the analysis of the member countries (in accordance with Article VIII of their statutes), in the areas of financial supervision, the fight against money laundering and budgetary policy. In addition, with the Principality of Andorra joining the IMF, it will be able to obtain the international recognition which comes from being a member of this body and is the best option to improve the country's rating, as stated on numerous occasions by rating agencies in their evaluations. Finally, being part of the IMF also means that its members have access to emergency financing in case of need.

The IMF currently has 190 members and has become an institution that promotes financial stability and international monetary cooperation by facilitating international trade, promoting high levels of employment and sustainable economic growth. At the same time, the IMF grants loans to member countries undergoing financial difficulties to meet their foreign financial obligations. These measures are conditional on the adoption of economic reforms that guarantee the solvency of their economic system.

On 4 December 2020, Law 16/2020 on exceptional and urgent measures is approved, which enters into force on 1 January 2021 until the Government declares, by decree, the end of the health crisis situation and in any case by 30 June 2021, and resumes the measures of Laws 3/2020, 5/2020 and 7/2020 among others, in matters of employment, social security, leasing, loans and mortgages, fiscal and tax matters, cessation of payments and bankruptcies, relating to commercial companies.

1- Measures in employment matters

Law 16/2020 incorporates almost all the provisions of Law 3/2020 and Law 5/2020 and adds others, among which we highlight:

- The principle of continuity of employment contracts despite the suspension of the activity of companies due to the emergency health situation;
- Regulation of paid leave in case of absence to take care of dependent children;
- Compensation system for time not worked;
- Compensation system for overtime and public holidays in the future working calendar;
- Regulation of the temporary suspension of employment contracts or the reduction of the working day and;
- Regulation of benefits for those carrying out an activity as a self-employed person.

2- Measures in social security matters

In essence, Law 16/2020 incorporates the various measures in the field of social security of Law 5/2020.

The following points are regulated in it:

- Economic benefits for temporary disability due to isolation or a SARS-CoV-2 diagnosis;
- Coverage of employees and those carrying out an activity as a self-employed person in the health or socio-health field;
- Measures to make the obligation to contribute more flexible for people who carry out an activity as a self-employed person and;
- Adoption of a more favourable contribution base for certain people who carry out an activity as a self-employed person.

3- Measures in leasing matters

Law 16/2020 adapts the measures in relation **to business premises lease contracts.**

The following points are regulated in it:

- Reduction of the rent of business premises for businesses whose activity has been suspended;
- Possibility to ask the lessor for a grace period on the total rent amount or a reduction in rent, in the event of a decrease in turnover;
- Early termination of the lease modality;
- Benefit of a reduction in rent for housing;
- Measures in loans and mortgage matters;
- Grace period in mortgage loan instalments or extension of the repayment period of the mortgage loan for lessors who own houses or commercial premises.

4- Measures in fiscal and tax matters:

Law 16/2020 regulates the following points:

- Postponement and possibility of paying tax debts in instalments;
- Payment terms of the Registration Tax;
- Reduction of the IGI (Andorran equivalent of VAT) tax base and all direct taxes on rental income.

5- Measures in cessation of payments and bankruptcy matters

Law 16/2020 releases business traders from the obligation to request the cessation of payments declarations.

6- Measures relating to commercial companies

Law 16/2020 regulates the following points:

- Suspension of the cause of dissolution due to losses with respect to the 2020 and 2021 financial years;
- Possibility for legal entities to adopt agreements of collective bodies without a session, even if their statutes do not provide for this;
- Calls and remote meetings of the collective bodies of legal entities and the boards of business owners.

Nota 4

Own resources and capital management

4.1. Regulatory framework

The General Council of the Principality of Andorra, at its session on 29 February 1996, approved the *Law regulating the solvency and liquidity criteria of financial institutions* implemented in regulations by the AFA in force until 31 December 2018. This law obliges banking institutions to maintain a solvency ratio, based on the recommendations of the *"Basel Committee on Banking Regulation and Supervisory Practices"*, of at least 10%. It also requires maintaining a liquidity ratio of at least 40%.

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

The General Council of the Principality of Andorra, in the session of 20 December 2018, approved *Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banking institutions and investment companies*, which entered into force in Andorra on 1 January 2019.

This regulation transposes to the Andorran legal framework *Directive 2013/36/EEC, of 26 June, relating to access to the activity of credit institutions and to prudential supervision of credit institutions and investment companies (CRD IV)* which is structured into three pillars, regulates the minimum capital requirements that must be maintained by the banking institutions, both individual and consolidated, and the way in which these own resources (Pillar I) must be determined, as well as the process of capital self-evaluation (Pillar II) and the public information that must be provided to the market (Pillar III).

This directive develops the *Regulation (EU) 575/2013 (commonly known as CRR) of 26 June 2013 of the European Parliament and of the Council on the prudential requirements for credit institutions and investment firms,* and thus modifies *Regulation (EU) 648/2012*.

This regulation has been transposed in Andorra by the approval of the Decree, which approves the Regulation of development of the *Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banking institutions and investment companies*.

The Group carries out an ongoing analysis of the capital requirements required by this European standard and the regulation that develops it - specifically Regulation 575/2013 on the prudential requirements of credit institutions and investment companies (CRR).

4.2. Capital management

The management of capital resources is the result of the ongoing capital planning process. This process takes into consideration the expected progress of the financial, regulatory and sectoral environment, as well as more adverse scenarios. It records the expected capital consumption of the different business activities, in the different scenarios established, as well as the market conditions which may determine the effectiveness of the different actions that may be taken into consideration. The process is always framed within the strategic objectives of the Group and in the search for attractive returns for shareholders, and always ensures a level of equity appropriate to the inherent risks of the activity.

The Bank's Board of Directors, by approval of the RAS, establishes the Entity's risk appetite and sets the objective level of the solvency ratio at 15%, a level that far exceeds the aforementioned requirements. As a general policy, in terms of capital management, the Entity has as its objective the adaptation of its availability to the global level of the risks incurred.

The Group's Management is in charge of handling the Entity's capital level and the strategy to be defined by the Board of Directors is implemented.

4.3 Capital ratios

In accordance with the requirements established in Law 35/2018 and the regulations that develop it, Andorran banking institutions must comply with a total capital ratio of 8% at all times. However, it must be taken into account that the AFA may exercise their powers under the new regulatory framework and require the Entities to maintain additional levels of capital.

Given the entry into force of the aforementioned ruling in 2019 and the transitions that are provided for in its implementation, in 2020 additional capital buffers have not been required of banking institutions, the minimum required levels being the following:

- Common Equity Tier 1 (CET 1) ratio: minimum of 4.5%
- Level 1 capital ratio (Tier 1): minimum of 6%
- Level 2 capital ratio: minimum of 8%

At 31 December 2020, the group maintained a phased-in capital ratio (taking into account transients) of 20.40% (19.77% in 2019), for both CET1 as well as Tier1 and Tier2. The fully loaded capital ratio (excluding transients) at 31 December 2020 is 22.07% (21.11% in 2019), therefore, the minimums required by standard are broadly complied with.

(Thousands of euros)	31/12/2020		31/12/2019 (*)	
	Calculation phased-in	**Calculation fully loaded**	**Calculation phased-in**	**Calculation fully loaded**
Capital	30,069	30,069	30,069	30,069
Admissible reserves	64,201	64,201	55,466	55,466
Others	3,962	914	4,193	267
Common Equity Tier 1 (CET1)	**98,232**	**95,184**	**89,728**	**85,802**
CET1 Ratio (%)	20.40%	19.77%	22.07%	21.11%
Tier 1 equity	**98,232**	**95,184**	**89,728**	**85,802**
Tier 1 Ratio (%)	20.40%	19.77%	22.07%	21.11%
Capital base	**98,232**	**95,184**	**89,728**	**85,802**
Minimum required resources without buffers	38,523	38,523	32,523	32,523
Minimum required resources with buffers	38,523	38,523	32,523	32,523
Surplus of resources	**59,708**	**56,661**	**57,205**	**53,279**
Total ratio (%)	**20.40%**	**19.77%**	**22.07%**	**21.11%**
Risk-weighted assets (RWAs)	**481,544**	**481,544**	**406,537**	**406,537**

(*) On 24 April 2020, the Board of Directors of BancSabadell d'Andorra, SA agreed not to proceed with the distribution of dividends given the health crisis situation caused by COVID-19. This agreement meant that the phased-in consolidated solvency ratio stood at 22.07% (21.11% fully-loaded) at closure instead of the 21.71% initially reported in the consolidated annual accounts.

The distribution of the risk-weighted assets is as follows:

(As a percentage)	31/12/2020	31/12/2019 (*)
Credit risk (**)	89%	87%
Operational risk	9%	11%
Market risk	2%	2%
TOTAL	**100%**	**100%**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

(**) Includes counterparty risk and other risk exposure amounts.

Nota 5

Fair value of assets and liabilities

The fair value of a financial asset or liability at a specified date is understood to be the amount for which it could be sold or transferred, respectively, on that date between two parties who are independent and expert in the matter, acting freely and prudently under market conditions. The most objective and usual reference for the fair value of a financial instrument is the price which would be paid for it in an active, transparent and deep market (listed price or market price).

When there is no market price for a specific financial asset or liability, in order to estimate its fair value, this is based on the one established in recent transactions of similar instruments and, if any, on adequate mathematical evaluation models contrasted by the international financial community. In the use of these models, the specific characteristics of the assets or liabilities that have to be valued are taken into account and, in particular, the different types of risks associated with the asset or liabilities. However, the same limitations of the valuation models developed, and the possible inaccuracies in the hypotheses and the parameters required by these models, may lead to the fact that the estimated fair value of an asset or liability does not exactly match the price at which the asset or liability could be delivered or liquidated on the date of its valuation.

The fair value of financial derivatives with quoted value in an active market is their daily quoted value.

For the instruments in which quoted market values cannot be observed, the price estimate is made using internal models developed by the Bank, which in most cases use data based on observable market parameters such as significant inputs and, in other cases, they use other inputs which depend on their own assumptions which involve practices commonly accepted by the financial community.

In relation to financial instruments, fair value valuations reflected in the Financial Statements are classified using the following hierarchy of fair values at the following levels:

- Level 1: Fair values are obtained from quoted market value (non-adjusted) prices in active markets for the same instrument.
- Level 2: Reasonable values are obtained from quoted market prices in active markets for similar instruments, prices of recent transactions or expected flows or other valuation techniques in which all significant inputs are based directly or indirectly on observable market data.
- Level 3: Reasonable values are obtained from valuation techniques in which some significant input is not based on observable market data.

Here are the main methods of valuation, hypothesis and inputs used in the estimation of the fair value of the financial instruments classified in levels 2 and 3, depending on the type of financial instrument in question:

Financial instruments - Level 2	Valuation techniques	Main hypotheses	Main inputs used
Debt securities	Present value method	Calculation of the present value of financial instruments as well as the current value of future cash flows (discounted at market rates), taking into account:	Valor liquidatiu emès pels administradors dels OIC
Equity instruments	Net Equity	Net asset value issued by CIU directors	Net asset value issued by CIU directors
Simple Derivatives	Present value method	Calculation of implicit curves using market data	-Observable market interest rates -Observable Swap and Spot point curves
Other Derivatives / Structures	Black-Scholes Model for derivatives on shares	The Black-Scholes Model: assumes logo-normal diffusion of the underlying asset	- Forward Structure of the Underlying
	For derivatives on shares, currencies or raw materials	N/A as there are no positions	N/A
	By interest rate derivatives	This model assumes that: - Negative interest rates are allowed. - The forward interest rates in the structure of terms of the interest rate curve are perfectly correlated	Interest rate risk
	For credit derivatives: Intensity model	These models assume a structure of non-payment probabilities given for rates of default intensities by terms	- Estimated credit spreads of the issuer or a similar issuer - Historical volatility of credit spreads

Financial instruments –	Tècniques de valoració	Hipòtesi principals	Principals *inputs* no observables
Debt securities	Zero coupon bonds: Straight-line accrual of implicit yield	Calculation of the value taking into account	Spreads of estimated credit of the issuer or a similar issuer
	Bonds: valuation according to amortised cost	- Difference in price or coupon earned - Credit risk of the issuer	
Equity instruments	Method of discounting cash flows and maintaining purchase price for permanent investments	- Estimation of projections of company cash flow	Entity business plans
		- Financial sector risk	Premiums risk for the company's sector
		- Knowledge of company	
Derivatives / Structured	For derivatives / structures on shares	Valuation of the share with worse behaviour according to market price	- Quoted market price for the underlying asset
			- Historical volatility
	By interest rate derivatives:	This model assumes that:	- Use of the temporary structure of interest rates
	- Normal model	- Negative interest rates are allowed - The forward interest rates in the structure of terms of the interest rate curve are perfectly correlated	

The following is a comparison between the value by which the Group's financial assets and liabilities are recorded in the accompanying consolidated financial statements and their fair value:

(Thousands of euros)	31/12/2020		31/12/2019(*)	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets by headings:				
Cash and cash balances at central banks and other demand deposits	89,226	89,226	64,658	64,658
Financial assets held for trading	27,926	27,891	25,475	25,475
Non-trading financial assets mandatorily at fair value with changes in profit or loss	42,368	42,253	54,810	53,929
Financial assets designated at fair value with changes in profit or loss	46,273	46,273	44,496	44,496
Financial assets at fair value with changes in other comprehensive income	106,432	106,068	80,797	81,718
Financial assets at amortised cost	690,804	695,440	589,598	592,996
Derivatives - Hedge Accounting	82	82	113	113
TOTAL	**1,003,111**	**1,007,233**	**859,947**	**863,385**

(Thousands of euros)	31/12/2020		31/12/2019(*)	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities by headings:				
Financial liabilities held for trading	1,107	1,107	988	988
	46.288	46.288	44.510	44.510
Financial liabilities designated at fair value with changes in profit or loss	46,288	46,288	44,510	44,510
Financial liabilities measured at amortised cost	876,583	752,678	755,674	755,542
TOTAL	**923,983**	**800,078**	**801,244**	**801,244**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

In relation to the financial instruments whose book value differs from their fair value, the latter has been calculated in the following way:

- The fair value of "*Cash and cash balances at central banks and other demand deposits*" has been assimilated at their book value, because they are mainly short-term balances.

The following tables show the main financial instruments recorded at fair value in the accompanying consolidated statements of financial position, broken down by the valuation method used to estimate their fair value:

(Thousands of euros)	31/12/2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets by headings:				
Financial assets held for trading	7,134	15,714	5,079	27,927
Derivatives	-	*1,289*	-	*1,289*
Equity instruments	*290*	*825*	-	*1,115*
Debt securities	*6,844*	*13,600*	*5,079*	*25,523*
Non-trading financial assets mandatorily at fair value with changes in profit or loss	6,033	35,413	923	42,369
Equity instruments	-	-	*923*	*923*
Debt securities	*6,033*	*35,413*	-	*41,446*
Financial assets designated at fair value with changes in profit or loss	-	46,273	-	46,273
Equity instruments	-	-	-	-
Debt securities	-	*46,273*	-	*46,273*
Financial assets at fair value with changes in other comprehensive income	105,898	-	534	106,432
Equity instruments	*2,609*	-	*534*	*3,143*
Debt securities	*103,289*	-	-	*103,289*
TOTAL	**119,065**	**97,400**	**6,536**	**223,001**

(Thousands of euros)	31/12/2019(*)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets by headings:				
Financial assets held for trading	-	22,214	3,261	25,475
Derivatives	-	*1,062*	-	*1,062*
Equity instruments	-	*3,701*	-	*3,701*
Debt securities	-	*17,451*	*3,261*	*20,712*
Non-trading financial assets mandatorily at fair value with changes in profit or loss	5,027	48,862	921	54,810
Equity instruments	-	-	*921*	*921*
Debt securities	*5,027*	*48,862*	-	*53,889*
Financial assets designated at fair value with changes in profit or loss	-	44,496	-	44,496
Equity instruments	-	-	-	-
Debt securities	-	*44,496*	-	*44,496*
Financial assets at fair value with changes in other comprehensive income	80,197	-	600	80,797
Equity instruments	-	-	*600*	*600*
Debt securities	*80,197*	-	-	*80,197*
TOTAL	**85,224**	**115,572**	**4,782**	**205,578**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

(Thousands of euros)	31/12/2020			
	Level 1	Level 2	Level 3	Total
Financial liabilities by headings:				
Financial liabilities held for trading	-	1,107	-	1,107
Financial liabilities designated at fair value with changes in profit or loss	-	46,288	-	46,288
Financial liabilities measured at amortised cost	-	-	752,678	752,678
Derivatives - Hedge Accounting	-	-	5	5
TOTAL	**-**	**47,395**	**752,683**	**800,078**

(Thousands of euros)	31/12/2019(*)			
	Level 1	Level 2	Level 3	Total
Financial liabilities by headings:				
Financial liabilities held for trading	-	988	-	988
Financial liabilities designated at fair value with changes in profit or loss	-	44,510	-	44,510
Financial liabilities measured at amortised cost	-	-	658,804	658,804
Derivatives - Hedge Accounting	-	72	-	72
TOTAL	**-**	**45,570**	**658,804**	**704,374**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Transfers between levels that existed between 2020 and 2019 are not significant.

Nota 6

Cash, cash balances with central banks and other demand deposits of financial intermediaries

The breakdown of this heading of the consolidated statement of income for the years ending on 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Cash	21,679	29,210
Cash balances in central banks	-	-
Other demand deposits	67,547	35,448
TOTAL	**89,226**	**64,658**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

(Thousands of euros)	31/12/2020	31/12/2019(*)
By currency:		
In euros	84,135	61,518
In foreign currency	5,091	3,140
TOTAL	**89,226**	**64,658**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 7

Debt securities

The financial assets of the assets of the accompanying consolidated financial statements as at 31 December 2020 and 2019, based on the activity sector and the reference currency, on the nature of the securities and whether or not they are listed for trading, without considering the provision for credit losses, is the following:

(Thousands of euros)	31/12/2020	31/12/2019(*)
By headings:		
Financial assets held for trading	25,522	20,712
Non-trading financial assets mandatorily at fair value with changes in profit or loss	41,445	53,889
Financial assets designated at fair value with changes in profit or loss	46,273	44,496
Financial assets at fair value with changes in other comprehensive income	103,289	80,197
Financial assets at amortised cost	265,220	187,210
TOTAL	**481,749**	**386,504**
By nature:		
Public administrations	63,737	41,944
Banking and financial institutions	303,532	248,467
Companies	97,292	80,162
Others (OIC, Holdings)	17,188	15,931
Total	**481,749**	**386,504**
By currency:		
In euros	458,099	368,641
In foreign currency	23,650	17,863
Total	**481,749**	**386,504**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

As at 31 December 2020, *"Financial assets designated at fair value with changes in profit or loss"* includes the Units-linked managed by the Group insurer for an amount of 46,273 thousand euros that have their corresponding entry in liabilities under the heading of *"Financial liabilities denominated at fair value with changes in profit and loss"* for an amount of 46,288 thousand euros.

As at 31 December 2020, all debt securities are classified in Stage 1 and include impairment of 360 thousand euros (317 thousand euros in 2019).

The particular criteria for the allocation and valuation of the bonds in the different portfolios are outlined in note 1.3.3.

In relation to the amount of debt instruments accounted for under the heading "*Financial assets at fair value with changes in other comprehensive income*", the following details are presented:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Fair value	103,289	80,197
Accumulated depreciation recorded in the net equity on the closing date	(32)	(5)
Accumulated gains recorded in the net equity on the closing date	1,201	674

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

In relation to the portfolio of "Financial assets at amortised cost", the following breakdown is presented:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Public sector	43,603	38,729
Banking and financial institutions	181,285	132,849
Other sectors	40,331	20,348
Total	**265,219**	**191,926**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

This heading includes, as at 31 December 2020 and 2019, the following Public Debt issues of the Principality of Andorra (in thousands of euros):

31/12/2020				31/12/2019			
Date of issue	**Amount**	**Maturity**	**Annual effective interest rate**	**Date of issue**	**Amount**	**Maturity**	**Annual effective interest rate**
				13/04/2018	1,826	13/04/2020	0.85%
30/03/2017	12,830	30/03/2022	0.75% (*)	30/03/2017	12,806	30/03/2022	0.5% (*)
29/05/2017	3,938	30/05/2022	1.75%	29/05/2017	3,938	30/05/2022	1.75%
				10/04/2019	13	13/04/2020	0.85%
				18/12/2019	21	13/04/2020	0.85%
				03/06/2019	1,740	01/12/2020	0.75%
				17/10/2019	2,918	19/10/2020	0.45%
19/12/2019	5,438	19/12/2022	0.90%	19/12/2019	5,438	19/12/2022	0.90%
19/12/2019	1,500	19/12/2022	0.90%	19/12/2019	1,500	19/12/2022	0.90%
23/12/2019	1,635	19/12/2022	0.90%	23/12/2019	1,636	19/12/2022	0.90%
02/10/2020	3,070	20/01/2022	1.50%				
22/04/2020	5,028	30/03/2022	0.75%				
14/04/2020	4,025	14/04/2022	0.75%				
28/10/2020	7,309	14/04/2023	0.60%				
01/12/2020	1,500	19/12/2022	0.90%				
27/04/2020	352	14/04/2022	0.75%				
14/10/2020	6,821	14/04/2023	0.60%				
Total	**53,446**			**Total**	**31,836**		

(*) 1st year: 0.25%; 2nd year: 0.25%; 3rd year: 0.5%; 4th year: 0.75%, 5th year: 0.75%

The following table presents the breakdown of the debt securities recorded in the consolidated statements of financial position as at 31 December 2020 and 2019, according to the credit rating:

(Thousands of euros)	31/12/2020					
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value with changes in profit or loss	Financial assets at fair value with changes in profit or loss	Financial assets at fair value with changes in other comprehensive income	Financial assets at amortised cost	Total
By credit rating:						
AA-	2,974	3,020	2,266	-	11,168	19,428
A/A-/A+	10,625	28,207	6,933	34,288	111,787	191,840
BBB/BBB-/BBB+	11,923	10,025	2,099	63,520	111,165	198,732
BB-	-	-	198	-	10,396	10,594
Without credit rating	-	194	34,778	5,481	20,703	61,156
Total	**25,522**	**41,446**	**46,274**	**103,289**	**265,219**	**481,750**

(Thousands of euros)	31/12/2019 (*)					
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value with changes in profit or loss	Financial assets at fair value with changes in profit or loss	Financial assets at fair value with changes in other comprehensive income	Financial assets at amortised cost	Total
By credit rating:						
AA-	1,900	-	3,112	7,061	11,290	23,363
A/A-/A+	11,485	41,641	7,001	35,104	63,687	158,918
BBB/BBB-/BBB+	7,326	10,018	1,803	35,192	93,398	147,737
BB-	-	-	299	-	2,619	2,918
Without credit rating	-	2,231	32,281	2,840	16,216	53,568
Total	**20,711**	**53,890**	**44,496**	**80,197**	**187,210**	**386,504**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 8

Equity instruments

The financial assets on the assets in the accompanying consolidated statements of financial position, as at 31 December 2020 and 2019, based on the reference currency and the heading of impairment, are as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
By headings:		
Financial assets held for trading	1,115	3,701
Non-trading financial assets mandatorily at fair value with changes in profit or loss	923	921
Financial assets designated at fair value with changes in profit or loss	-	-
Financial assets at fair value with changes in other comprehensive income	3,143	1,520
Financial assets at amortised cost	-	-
Impairment	-	-
TOTAL	**5,181**	**6,142**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

(Thousands of euros)	31/12/2020	31/12/2019(*)
By nature:		
Public administrations	457	-
Banking and financial institutions	-	-
Companies	77	1,520
Others (OIC, Holdings)	4,647	4,622
TOTAL	**5,181**	**6,142**
By currency:		
In euros	4,891	6,142
In foreign currency	290	-
TOTAL	**5,181**	**6,142**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The particular criteria for the allocation and valuation of the bonds in the different portfolios are outlined in Note 1.3.3.

In relation to the equity instruments included under the heading "*Financial assets at fair value with changes in other comprehensive income*" the following information is presented:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Fair value	3,143	1,520
Accumulated depreciation recorded in the net equity on the closing date	-	-
Accumulated gains recorded in the net equity on the closing date	-	-

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

BancSabadell d'Andorra's holdings on Investment Agencies managed by Sabadell d'Andorra Inversions SGOIC, SAU in 2020 include 1,115 thousand euros under the heading *"Financial assets held for trading"* and 2,609 thousand euros under the heading *"Financial assets at fair value with changes in other comprehensive income"*, and they do not have a credit rating. At December 31, 2019, the holdings were included in full under the *"Financial assets held for trading"* heading.

The breakdown of the aforementioned holdings as at 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020		31/12/2019(*)	
	Amount	% of equity of the Fund	Amount	% of equity of the Fund
BSA Qualified FI Investors, Premium Yield Compartment VII	-	-	-	-
BSA Qualified FI Investors, Premium Yield Compartment XV	208	4.08%	104	2.04%
BSA Qualified FI Investors, Premium Yield Compartment IV	-	-	1,230	24.00%
BSA Qualified FI Investors, Premium Yield Compartment Grup Banc Sabadell, SA	-	-	-	0.00%
SICAV II Sabadell d'Andorra, SA - Structures Compartment I	-	-	-	-
SICAV II Sabadell d'Andorra, SA - Structures Compartment VI	-	-	-	-
BSA Qualified FI Investors, Premium Yield Compartment VIII	-	-	500	1.03%
BSA Qualified FI Investors, Premium Yield Compartment	-	-	1,199	8.55%
BSA Qualified FI Investors, Premium Yield Compartment XXI	-	-	50	100.00%
SICAV I Sabadell d'Andorra, SA - Multi-asset Compartment I	-	-	309	100.00%
SICAV II Sabadell d'Andorra, SA - Multi-asset Compartment II	-	-	309	100.00%
SICAV II Sabadell d'Andorra, SA - Multi-asset Compartment II	2,609	51.72%		
SICAV II Sabadell d'Andorra, SA - Multi-asset Compartment I	309	0.72%		
SICAV II Sabadell d'Andorra, SA - Structures III	308	2.09%		
SICAV II Sabadell d'Andorra, SA - Structures IV	290	3.27%		
TOTAL	**3,724**		**3,701**	

(*) Es presenta, únicament i exclusivament, a efectes comparatius (veure nota 1.2).

The investments that the Group maintains with the Investment organisations as at 31 December 2020 are temporary inn nature. The aforementioned investments have been acquired in their entirety by Group customers who held positions in the aforementioned Investment Organisations or are newly created and are expected to be marketed shortly.

Nota 9

Loans and advances

9.1. Central banks and credit institutions

The breakdown of the balance under the heading *"Loans and advances"* of Central Banks and Credit Institutions of the consolidated statements of financial position as at 31 December 2020 and 2019, is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
By headings:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value with changes in profit or loss	-	-
Financial assets designated at fair value with changes in profit or loss	-	-
Financial assets at fair value with changes in other comprehensive income	-	-
Financial assets at amortised cost	54,317	46,631
TOTAL	**54,317**	**46,631**
By nature:		
Term deposits	54,317	46,631
Temporary acquisition of assets	-	-
Financial assets at cost	-	-
Others	-	-
Assets classified as Stage 3	-	-
Value adjustment due to asset impairment	-	-
Other valuation adjustments (interest, bank charges and others)	-	-
TOTAL	**54,317**	**46,631**
By currency:		
In euros	993	1,598
In foreign currency	53,324	45,033
TOTAL	**54,317**	**46,631**

(*) Es presenta, únicament i exclusivament, a efectes comparatius (veure nota 1.2).

9.2. Customers

The breakdown of the balance of the heading *"Loans and advances"* of the customers of the accompanying consolidated statements of financial position, as at 31 December 2020 and 2019, is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
By headings:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value with changes in profit or loss	-	-
Financial assets designated at fair value with changes in profit or loss	-	-
Financial assets at fair value with changes in other comprehensive income	-	-
Financial assets at amortised cost	371,267	355,758
TOTAL	**371,267**	**355,758**
By nature:		
Loans	251,310	243,113
Credit policies	117,478	106,775
Discounted bills	5,492	10,093
Overdrafts	544	517
Others	2,963	3,352
Assets classified as Stage 3	13,964	13,740
Value adjustment due to asset impairment	(20,484)	(21,832)
TOTAL	**371,267**	**355,758**
By sector:		
Public sector	19,521	23,344
Primary sector	114	321
Construction sector	6,883	6,816
Secondary sector	1,814	3,029
Real Estate sector	27,452	27,552
Commercial sector	24,744	25,575
Financial sector	3,487	3,997
Tourist sector	23,296	27,253
Tertiary sector	71,724	62,590
Individuals sector	192,232	175,281
TOTAL	**371,267**	**355,758**
By currency:		
In euros	367,695	351,860
In foreign currency	3,572	3,898
TOTAL	**371.267**	**355.758**
By geographical area:		
Andorra	350,037	336,615
European Union	19,142	17,006
Ibero-America	-	-
Rest of OECD	519	413
Others	1,569	1,724
TOTAL	**371,267**	**355,758**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The figure for bankruptcies accumulated as at 31 December 2020 was 3,243 thousand euros (3,192 thousand euros).

The detail of the total amount reflected in the accompanying financial statement of loans and advances to the gross and net of provisions for the years 2020 and 2019, according to credit quality and estimation model, is detailed below:

(Thousands of euros)	31/12/2020		
	Gross balance	**Impairment**	**Net balance**
By credit quality:			
Stage 1	**339,313**	**3,953**	**335,360**
Collective estimate	324,391	1,547	322,844
Individual estimate	14,922	2,406	12,516
Stage 2	**38,474**	**8,127**	**30,347**
Collective estimate	10,229	749	9,480
Individual estimate	28,245	7,378	20,867
Stage 3	**13,966**	**8,404**	**5,562**
Collective estimate	2,032	1,072	960
Individual estimate	11,934	7,332	4,602
TOTAL	**391,753**	**20,484**	**371,269**

(Thousands of euros)	31/12/2019 (*)		
	Gross balance	**Impairment**	**Net balance**
By credit quality:			
Stage 1	**324,565**	**4,539**	**320,026**
Collective estimate	*306,425*	*1,554*	*304,871*
Individual estimate	*18,140*	*2,985*	*15,155*
Stage 2	**39,284**	**8,777**	**30,508**
Collective estimate	*9,998*	*806*	*9,192*
Individual estimate	*29,286*	*7,970*	*21,316*
Stage 3	**13,740**	**8,517**	**5,224**
Collective estimate	*2,115*	*913*	*1,202*
Individual estimate	*11,625*	*7,603*	*4,022*
TOTAL	**377,590**	**21,832**	**355,758**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The breakdown of the gross amounts of the financial assets, classified according to the credit risk, is presented below:

(Thousands of euros)	31/12/2020	31/12/2019 (*)
Stage 1:		
Loans and advances	393,629	371,195
Customers	339,313	324,565
Central banks and credit institutions	54,316	46,630
TOTAL	**393,629**	**371,195**
By sector:		
Public administrations	19,622	23,464
Central banks and credit institutions	54,317	46,631
Other private sectors	319,690	301,101
TOTAL	**393,629**	**371,195**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

(Thousands of euros)	31/12/2020	31/12/2019 (*)
Stage 2:		
Loans and advances	38,474	39,284
Customers	38,474	39,284
Central banks and credit institutions	-	-
TOTAL	**38,474**	**39,284**
By sector:		
Public administrations	-	-
Central banks and credit institutions	-	-
Other private sectors	38,474	39,284
TOTAL	**38,474**	**39,284**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

(Thousands of euros)	31/12/2020	31/12/2019 (*)
Stage 3:		
Loans and advances	13,965	13,740
Customers	13,965	13,740
Central banks and credit institutions	-	-
TOTAL	**13,965**	**13,740**
By sector:		
Public administrations	-	-
Central banks and credit institutions	-	-
Other private sectors	13,965	13,741
TOTAL	**13,965**	**13,741**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The movement of gross amounts, without taking into account the valuation adjustments of assets subject to impairment by the Group during the financial year ended 31 December 2020, was as follows:

(Thousands of euros)	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**324,565**	**39,284**	**13,740**	**377,589**
Transfers between levels	**(1,657)**	**633**	**1,024**	**-**
Stage 1	*(3,442)*	*3,304*	*138*	-
Stage 2	*1,627*	*(2,802)*	*1,174*	-
Stage 3	*157*	*131*	*(288)*	-
Increases	**126,393**	**16,969**	**316**	**143,678**
Decreases	**(85,943)**	**(16,669)**	**(981)**	**(103,593)**
Transfers to bankruptcies			**(5)**	**(5)**
Adjustments for exchange differences	**-**	**-**	**-**	**-**
Other movements	**(24,045)**	**(1,744)**	**(127)**	**(25,916)**
Balance as at 31 December 2019	**339,313**	**38,474**	**13,966**	**391,753**

There has not been any acquisition with credit impairment.

The breakdown of the assets classified as Stage 3 by guarantee type as at 31 December 2020 and 2019 was as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
With money guarantees	85	34
With securities guarantees	7	77
With mortgage guarantees	10,603	11,358
Other	3,269	2,271
TOTAL	**13,964**	**13,740**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The movement of the impairment value corrections established by the Group for credit risk hedging during the 2020 and 2019 financial years was as follows:

(Thousands of euros)	Amount
Initial balance as at 1 January 2019 (*)	**23,078**
Movements reflected in result	**(778)**
Provisions	2,010
Recoveries	(2,788)
Movements not reflected in result	**(468)**
Use of the insolvency fund	(63)
Other movements (**)	(405)
Final balance as at 31 December 2019 (*)	**21,832**
Movements reflected in result	**(1.343)**
Provisions	(1,343)
Recoveries	1,552
Movements not reflected in result	**(5)**
Use of the insolvency fund	(5)
Other movements (**)	-
Final balance as at 31 December 2020	**20,484**

(*) It is presented solely and exclusively for comparative purposes (see Note 1.2).

(**) This figure corresponds with the impairments associated with the adjudications produced.

Nota 10

Derivatives held for trading assets and liabilities

The balances under the heading of the assets and liabilities of the consolidated financial statements as at 31 December 2020 and 2019 are broken down below by type of risk:

(Thousands of euros)	31/12/2020		31/12/2019 (*)	
	Assets	Liabilities	Assets	Liabilities
Fair value risk	1,180	1,020	1,029	959
Cash flow statement	-	-	-	-
Currency risk	108	87	32	30
TOTAL	**1,288**	**1,107**	**1,062**	**989**
By currency:				
In euros	1,192	1,031	1,062	989
In foreign currency	96	76	-	-
TOTAL	**1,288**	**1,107**	**1,062**	**989**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Interest rate swaps, options on securities contracted and credit risk swaps correspond entirely to transactions that seek to mitigate the adverse effects caused by market fluctuations associated with various products marketed by the Group.

The transactions contracted with financial derivatives are irrevocable and are all expressed in euros.

As at 31 December 2020 and 2019, none of the financial derivatives were traded in regulated markets.

Nota 11

Hedging derivatives

The Group establishes strategies for hedging interest rate risk from positions that are not part of the trading portfolio, as a fundamental tool for managing this risk.

The breakdown of the amount of derivatives designated as accounting hedging and fair value of the items covered in the portfolio of interest rate risk as at 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020		31/12/2019 (*)	
	Nominal	Fair Value	Nominal	Fair Value
Assets	**7,171**	**160**	**8,153**	**189**
Accounting hedge derivatives	1,230	82	1,983	113
Fair value changes of the interest rate risk hedged items	5,941	78	6,170	76
Liabilities	**15,000**	**5**	**15,000**	**72**
Interest rate accounting hedge derivatives	15,000	5	15,000	72
Fair value changes of the interest rate risk hedged items	-	-	-	-

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The purpose of these hedges is to mitigate the impact of changes in value of the hedged item derived from hedging risks.

The Group uses macro hedges to hedge the interest rate risk on the fixed-rate loan portfolio. These items are included within the financial position statement asset heading “Financial Assets at an Amortised Cost - Loans and Advances”.

The Group covers the exposure to changes in the fair value of the loans at fixed rates recorded in the loan portfolio (assets macro-hedge). In this case, the Group enters a fixed payment / variable payment swap. The hedged risk is the interest rate risk derived from the impact of a potential variation in the risk-free interest rate that results in changes in the value of the amounts in the financial statements covered. Therefore, hedging of any other risk present in the amounts covered, other than risk-free interest rate risk, is excluded.

For the evaluation of effectiveness from the start of the hedging, a retrospective test is carried out comparing the accumulated monthly variation of the fair value of the hedged item with the accumulated monthly variation of the fair value of the hedging derivative. Additionally, the effectiveness is assessed prospectively by verifying that the future changes in the fair value of the hedged amounts of the financial statements are offset by future changes in the fair value of the derivative.

In the design of the hedges, the Group relates the notional derivatives with the balance of the masses of the financial statement hedged. The possible causes of partial or total ineffectiveness may arise from changes in the adequacy of the portfolio of the masses of the financial statement hedged or of the differences in the contractual characteristics of the same in relation to hedging derivatives.

On a monthly basis, the Group calculates the interest rate risk metrics and establishes hedging strategies according to the risk appetite framework established. Therefore, a procedure is carried out, establishing hedging based on the evolution of the amounts in the financial statement previously described in the management framework and control defined by the Group through the documents on policies and procedures.

These five swaps, mostly associated with the fair value hedging of fixed-rate mortgage loans granted to customers, are denominated in euros and mature, respectively, in January 2033 for an amount of 3,241 thousand euros (3,470 thousand euros nominal), two of them in December 2023 (for 10,000 thousand euros nominal each), in February 2029 (2,700 thousand euros nominal) and in April 2024 (5,000 thousand euros nominal).

The offsetting entry of the asset of these swaps, which reflects the change in the fair value of the hedged loans, amounts to 78 thousand euros, and is found under the heading *“Fair value changes of the hedged items in portfolio hedge of interest rate risk”.*

Nota 12

Non-current assets and disposal groups classified as held for sale

The breakdown of this heading of the consolidated statement of income for the years ending on 31 December 2020 and 2019 is as follows:

(Thousands of euros)	**Non-current assets for sale**
Cost of the asset	
Initial balance as at 1 January 2019 (*)	11,537
Recognitions	351
Derecognitions	(4,041)
Transfers	(2,654)
Final balance as at 31 December 2019 (*)	**5,193**
Provision fund due to depreciation of the tangible assets	
Initial balance as at 1 January 2019 (*)	(2,713)
Recognitions	(365)
Derecognitions	1,054
Transfers	1,024
Final balance as at 31 December 2019 (*)	**(1,000)**
Net assets as at 31 December 2020	**4,193**
Cost of the asset	
Initial balance as at 1 January 2020	5,193
Recognitions	-
Derecognitions	(5,204)
Transfers	2,882
Final balance as at 31 December 2020	**2,871**
Provision fund due to depreciation of the tangible assets	
Initial balance as at 1 January 2020	(1,000)
Recognitions	-
Derecognitions	1,015
Transfers	(969)
Final balance as at 31 December 2020	**(954)**
Net assets as at 31 December 2020	**1,917**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The net value of the assets coming from credit adjustments, divided into the type and age of the asset in the balance sheet as at 31 December 2020 and 2019 is detailed below:

(Thousands of euros)	**31/12/2020**	**31/12/2019 (*)**
Buildings and other completed constructions	10,165	15,316
Housing	8,046	*12,647*
Others	2,119	*2,669*
Lands	973	973
Buildings and other constructions in progress	-	-
TOTAL	**11,138**	**16,289**
Up to 1 year	-	776
From 1 to 2 years	3,747	6,703
From 2 to 3 years	1,273	2,655
More than 3 years	6,118	6,155
TOTAL	**11,138**	**16,289**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 13

Tangible assets

The movement of tangible asset accounts, during the financial years of 2020 and 2019 and their corresponding accumulated depreciation was as follows:

(Thousands of euros)	Material assets						Property		
	Furniture	Facilities	Ongoing construction works	Computer equipment and data processors	Vehicles	Art collections	Own use property	Inversions Immobiliàries	Total
Cost of the asset									
Initial balance as at 1 January 2019	1,626	6,804	524	4,698	144	114	15,696	14,471	44,077
Recognitions	17	42	222	409	-	-	359	1,050	2,099
Derecognitions	-	-	-	-	(41)	-	-	(1,753)	(1,794)
Transfers	**-**	**245**	**(247)**	**-**	**-**	**-**	**2**	**2,654**	**2,654**
Final balance as at 31 December 2019	**1,643**	**7,091**	**499**	**5,107**	**103**	**114**	**16,057**	**16,422**	**47,036**
Depreciation fund									
Initial balance as at 1 January 2019	(1,528)	(6,063)	-	(4,328)	(127)	-	(3,232)	(878)	(16,156)
Recognitions	(35)	(153)	-	(147)	(7)	-	(476)	(303)	(1,121)
Derecognitions	-	-	-	-	41	-	-	131	172
Transfers	-	-	-	-	-	-	-	-	-
Final balance as at 31 December 2019	**(1,563)**	**(6,216)**	**-**	**(4,475)**	**(93)**	**-**	**(3,708)**	**(1,050)**	**(17,105)**
Provision fund due to depreciation of the tangible assets									
Initial balance as at 1 January 2019	-	-	-	-	-	-	(280)	(2,203)	(2,483)
Recognitions	-	-	-	-	-	-	-	(353)	(353)
Derecognitions	-	-	-	-	-	-	-	303	303
Transfers	-	-	-	-	-	-	-	(1,024)	(1,024)
Final balance as at 31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**	**(280)**	**(3,277)**	**(3,557)**
Net assets as at 31 December 2019	**80**	**875**	**499**	**632**	**10**	**114**	**12,069**	**12,095**	**26,374**
Cost of the asset									
Initial balance as at 1 January 2020	1,643	7,091	499	5,107	103	114	16,058	16,422	47,036
Recognitions	36	349	331	789	-	-	(83)	-	1,422
Derecognitions	-	-	-	-	-	-	-	(1,029)	(1,029)
Transfers	-	572	(829)	(178)	-	-	-	(2,882)	(3,317)
Final balance as at 31 December 2020	**1,679**	**8,012**	**1**	**5,718**	**103**	**114**	**15,975**	**12,511**	**44,113**
Depreciation fund									
Initial balance as at 1 January 2020	(1,563)	(6,216)	-	(4,475)	(93)	-	(3,708)	(1,050)	(17,105)
Recognitions	(34)	(183)	-	(212)	(3)	-	(210)	(237)	(879)
Derecognitions	-	-	-	-	-	-	-	118	118
Transfers	-	-	-	-	-	-	-	-	-
Final balance as at 31 December 2020	**(1,597)**	**(6,399)**	**-**	**(4,687)**	**(96)**	**-**	**(3,918)**	**(1,169)**	**(17,866)**
Provision fund due to depreciation of the tangible assets									
Initial balance as at 1 January 2020	-	-	-	-	-	-	(280)	(3,277)	(3,557)
Recognitions	-	-	-	-	-	-	-	-	-
Derecognitions	-	-	-	-	-	-	96	187	283
Transfers	-	-	-	-	-	-	-	969	969
Final balance as at 31 December 2020	**-**	**-**	**-**	**-**	**-**	**-**	**(184)**	**(2,121)**	**(2,305)**
Net assets as at 31 December 2020	**82**	**1,613**	**1**	**1,031**	**7**	**114**	**11,873**	**9,221**	**23,942**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

With regards to the property investment item, the income derived from revenue coming from investment properties amounted to 296 thousand euros (compared to 375 thousand euros in 2019).

As at 31 December 2020 the amount of fully depreciated tangible assets is 207 thousand euros (compared with 190 thousand euros in 2019).

Nota 14

Intangible assets

The movement of intangible asset accounts, during the financial years of 2020 and 2019 and their corresponding accumulated depreciation is as follows:

(Thousands of euros)	**Computer applications**
Cost of the asset	
Initial balance as at 1 January 2019 (*)	1,720
Recognitions	282
Derecognitions	-
Transfers	-
Final balance as at 31 December 2019 (*)	2,002
Depreciation fund	
Initial balance as at 1 January 2019 (*)	(1,499)
Recognitions	(97)
Derecognitions	-
Transfers	-
Final balance as at 31 December 2019 (*)	(1,596)
Net assets as at 31 December 2019 (*)	**406**
Cost of the asset	
Initial balance as at 1 January 2020	2,002
Recognitions	119
Derecognitions	-
Transfers	-
Final balance as at 31 December 2020	2,121
Depreciation fund	
Initial balance as at 1 January 2020	(1,596)
Recognitions	(124)
Derecognitions	-
Transfers	-
Final balance as at 31 December 2020	(1,720)
Net assets as at 31 December 2020	401

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

As at 31 December 2020 the amount of fully amortised intangible assets is 94 thousand euros (compared with 46 thousand euros in 2019).

Nota 15

Other assets

The composition of the *"Other assets"* heading in the attached consolidated statements of financial position as at 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019 (*)
Ongoing operations	2,147	10,244
Others	5,213	6,754
TOTAL	**7,360**	**16,998**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

As at 31 December 2020, the heading "*Other assets - Others*" mainly includes uncollected accrued fees and the accrued customer fees as well as transactions pending settlement.

Nota 16

Financial liabilities measured at amortised cost

16.1. Composition of the balance

The composition of the balance of these sections of the consolidated statements of financial position in accordance with the nature of the financial liability as at 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019 (*)
Deposits:	**752,679**	**658,804**
AFA deposits	3,730	3,057
Deposits of credit institutions	231	2,744
Customer deposits	748,718	653,003
Debt securities issued	**123,904**	**96,870**
TOTAL	**876,583**	**755,674**
By currency:		
In euros	795,082	690,778
In foreign currency	81,502	64,896
TOTAL	**876,584**	**755,674**
By nature:		
Demand	716,713	471,910
Term deposits	159,870	283,764
TOTAL	**876,583**	**755,674**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

16.2. AFA deposits

The composition of the AFA deposits as at 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
By nature:		
Demand	3,730	2,727
Term deposits	-	330
TOTAL	**3,730**	**3,057**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

All of these amounts are denominated in euros.

16.3. Deposits of credit institutions

The breakdown of the balance under this heading of the attached consolidated statements of financial position, as at 31 December 2020 and 2019, based on the reference currency and the nature of the transactions, is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
By currency:		
In euros	227	113
In foreign currency	4	2,631
TOTAL	**231**	**2,744**
By nature:		
Demand	231	123
Term deposits	-	2,621
TOTAL	**231**	**2.744**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Amounts considered at sight are those that can be withdrawn at any time without giving prior notice, or that are subject to 24-hour or one business days' advance notice being required.

16.4. Customer deposits

The details provided under this heading in the attached consolidated statements of financial position, as at 31 December 2020 and 2019, based on the reference currency and their nature, are presented below:

(Thousands of euros)	31/12/2020	31/12/2019(*)
By currency:		
In euros	675,087	590,729
In foreign currency	73,632	62,274
TOTAL	**748,719**	**653,003**
By nature:		
Demand	712,753	469,060
Term deposits	35,966	183,943
TOTAL	**748,719**	**653,003**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The remunerations of the amounts recorded under the heading *"Financial liabilities measured at amortised cost - Deposits"* of these consolidated Financial Statements are recorded under the heading *"Interest expenses"* in *"Financial liabilities measured at amortised cost"* in the attached income statement. The interest accrued during the financial year ending on the 31 December 2020 amounted to 1,074 thousand euros (compared with 1,443 thousand euros in the 2019 financial year).

16.5. Debt securities issued

Details of the balance of the debt securities in the attached consolidated statements of financial position, as at 31 December 2020 and 2019 are accounted for in their entirety under the heading *"Financial liabilities measured at amortised cost"* and the subheading *"Debt securities"*.

These structured product issues accrue a fixed or variable instalment depending on the evolution of the shares, interest rates or reference rates.

The customer receives a fixed or variable instalment and upon maturity of the issue, they will recover 100% of the capital invested, provided that no credit event occurs to the reference Entity (bankruptcy, failure to meet payment obligations or the restructuring of the debt with the creditors). These products are covered by collateral in the Group's own portfolio or through hedging from the corresponding hedging derivatives.

These issues have been sold entirely to the Group's customers, who bear the risk associated with them.

The breakdown of the balance of the Group's debt securities from the consolidated statement of financial position as at 31 December 2020 and 2019 by the reference currency and according to the date of maturity is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
By currency:		
In euros	116,063	96,870
In foreign currency	7,842	-
TOTAL	**123,905**	**96,870**
By nature:		
Maturing in less than 1 year	30,417	76,742
Maturing after more than 1 year and less than 5 years	93,488	20,128
Maturing in more than 5 years	-	-
TOTAL	**123,905**	**96,870**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 17

Other liabilities

The composition of the *"Other liabilities"* heading in the attached statements of financial position, as at 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Payments pending	1,146	4,629
Transfers pending compensation	1,779	2,625
Bank cheques	1,412	1,711
Transfers received pending settlement	675	1,679
Lease liabilities	57	72
Others	2,826	2,565
TOTAL	**7,895**	**13,281**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 18

Provisions

The composition of the *"Provisions"* heading in the attached consolidated statements of financial position, as at 31 December 2020 and 2019 is as follows:

(Thousands of euros)	**31/12/2020**	**31/12/2019(*)**
Other long-term employee benefits	556	475
Commitments and guarantees given	306	266
Other provisions	563	893
TOTAL	**1,425**	**1,634**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

18.1. Provisions for contingent liabilities - Commitments and guarantees given

The movement in the provisions for contingent liabilities relate to the credit risk of the contingent guarantees and commitments in force during the 2020 and 2019 financial years is as follows:

(Thousands of euros)	**Available through credit policies**	**Available through credit cards**	**Guarantees**	**Total**
Initial balance as at 1 January 2019 (*)	**292**	**20**	**43**	**355**
Movements related to results				-
Provisions	77	7	10	94
Recoveries	(163)	(8)	(11)	(182)
Final balance as at 31 December 2019 (*)	**206**	**19**	**42**	**267**
Initial balance as at 1 January 2020	**206**	**19**	**42**	**267**
Movements related to results				
Provisions	141	9	9	159
Recoveries	(94)	(5)	(21)	(120)
Final balance as at 31 December 2020	**253**	**23**	**30**	**306**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

18.2. Pension provisions and other similar obligations

The amount shown under this heading includes contributions made by the Group in respect of the pension commitments entered into with the employees.

The movement in provisions for pensions and other similar obligations during the 2020 and 2019 financial years is as follows:

(Thousands of euros)	Other long-term employee benefits
Initial balance as at 1 January 2019 (*)	**409**
Additions	
Other provisions	-
Applications	**66**
Use of the fund	
Net revaluations	**-**
Final balance as at 31 December 2019 (*)	**475**
Initial balance as at 1 January 2020	**475**
Additions	
Other provisions	80
Applications	
Use of the fund	
Final balance as at 31 December 2020	**555**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

18.3. Other provisions

As at 31 December 2020, the Group held a provision fund for litigation amounting to 563 thousand euros, corresponding to 3 cases in which the Group expected to have to bear a cost.

The movement in the balance of other provisions during the 2020 and 2019 financial years is as follows:

(Thousands of euros)	Provisions for litigation	Other provisions	Total
Initial balance as at 1 January 2019	**406**	**330**	**728**
Additions	**398**	**330**	**728**
Provisions	398	330	728
Other provisions	-	-	-
Applications	**(228)**	**-**	**(228)**
Use of the fund	(228)	-	(228)
Net recoveries	**(13)**	**-**	**(13)**
Final balance as at 31 December 2019	**563**	**330**	**893**
Initial balance as at 1 January 2020	**563**	**330**	**893**
Additions	**-**	**-**	**-**
Provisions	-	-	-
Other provisions	-	-	-
Applications	**-**	**-**	**-**
Use of the fund	-	-	-
Net recoveries	**-**	**(330)**	**(330)**
FINAL BALANCE AS AT 31 DECEMBER 2020	**563**	**-**	**563**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

At 31 December 2019, it had made a provision for a possible contingency of 330 thousand euros, which was resolved during the 2020 financial year.

18.4. Other contingencies

The Group is the guarantor for three commercial products, *“Pla de Jubilació Capital Garantit I”* (Guaranteed Capital Retirement Plan I), the *“Pla de Jubilació Capital Garantit II”* (Guaranteed Capital Retirement Plan II) and the *“Pla d’Estalvi Capital Garantit”* (Guaranteed Capital Savings Plan). The *“Guaranteed Capital Retirement Plan I”* and the *“Guaranteed Capital Retirement Plan II”* are both products in which the Group guarantees 100% of the capital and the participants of each plan are informed of the minimum annual instalment during the first 15 working days of the beginning of each year, whereas in the *“Guaranteed Capital Savings Plan”* the Group guarantees 100% of the capital.

As at 31 December 2020, and after the analysis which had been carried out, it was not necessary to make any provisions for possible obligations of the Group to the customers of these products.

Moreover, after the analysis carried out by the Group’s Management, it was not necessary to make any provisions for the possible obligations of the Group with Investment Trusts managed by the Group.

Nota 19

Equity

The breakdown of the balance of equity in the consolidated statements of financial position as at 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Capital	30,069	30,069
Share premium	-	-
Equity instruments issued other than capital	-	-
Other net equity	-	-
Accumulated comprehensive income	1,168	669
Retained earnings	69,598	58,267
Minority reserves	2,288	2,288
Other reserves	(9,673)	(9,673)
(-) Treasury shares	(840)	(833)
Profits attributable to the Group	10,019	10,375
TOTAL NET EQUITY	**102,629**	**91,160**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

19.1. Capital

As at 31 December 2020, the share capital of BancSabadell d’Andorra, SA is represented by 500,305 shares at a nominal price of 60.10 euros each, fully subscribed and paid up. The shares are divided into two series: A and B, represented by 255,000 and 245,305 shares, respectively. The series A shares (50.97% of the Bank) belong to Banco de Sabadell, S.A., while the series B shares (49.03% of the Bank) belong to minority Andorran shareholders.

The series A and B shares are freely transferable provided that the transaction is in accordance with the applicable legislation, regarding commercial companies and particularly in the financial field, as well as the share purchaser being considered eligible under the same legal criteria.

As at 31 December 2020, the Group company, *“Assegurances Segur Vida, SAU”* owns 5,957 series B shares in the bank with a book value of 840 thousand euros.

19.2. Reserves

(Thousands of euros)	2020	2019
Legal reserve	6,014	6,014
Guarantee reserves	7,686	6,930
Minority reserves	2,288	2,288
Voluntary reserve	53,814	43,701
Consolidation reserves	2,084	1,621
First application reserves	(9,673)	(9,673)
TOTAL	**62,213**	**50,881**

LEGAL RESERVE

In accordance with *Law 20/2007, of 18 October, on public and private limited companies*, published on 21 November 2007, subsequently amended by *Law 4/2008, of 15 May;* by *Law 93/2010, 16 December;* and by *Law 28/2013, of 19 December*, companies which gain profits in the financial year must provide a minimum amount as a legal reserve equivalent to 10% of the profit of the financial year until it reaches a figure of 20% of the share capital.

As at 31 December 2020, the Group has constituted this reserve in its totality in accordance with the percentage established in the aforementioned Law.

GUARANTEE RESERVES

In its session on 13 September 2018, the General Counsel of the Principality of Andorra approved *Law 20/2018, of 13 September, regulating the Andorran Deposit and Investment Guarantee Fund*, (hereinafter, *Law 20/2018*), the aim of which is to approve the scheme in force to date, that of the deposit and investment guarantee scheme for Andorran banking entities regulated by *Law 1/2011, of 2 February, on the creation of a deposit and investment guarantee scheme for Andorran banking entities*, (hereinafter, *Law 1/2011*) the provisions set forth on this matter by the EU and, specifically, the following:

- *Directive 2014/49/EU, of 16 April 2014, on deposit guarantee schemes, of the European Parliament and of the Council, (hereinafter, Directive 2014/49/EU);*
- *Directive 97/79/CE, of 3 March 1997, of the European Parliament and of the Council, relating to investor compensation schemes;*
- *Guidelines on payment commitments in accordance with Directive 2014/49/EU (EBA/GL/2015/09; 28.5.2015);*
- *Guidelines on methods for calculating contributions to deposit guarantee schemes (EBA/GL 2015/10; 22.9.2015); and*
- *Guidelines on stress tests of deposit guarantee schemes in accordance with Directive 2014/49/EU (EBA/GL/2016/04; 19.10.2016).*

DEPOSIT GUARANTEE FUND

The Law regulates the Fons Andorra de Garantia de Dipòsits (Andorran Deposit Guarantee Fund, hereinafter FAGADI in its Catalan initials) as a deposit guarantee system in the terms established in Directive 2014/49/EU and with an additional reserve of financial resources so that the FAGADI has immediate access to more resources than those required by the Directive.

Like the Directive, this Law establishes a transition period during which banking entities which are members of the FAGADI must make the annual contributions determined by its Management Committee, in order to have the ex-ante financial resources available of an amount equivalent to 0.8% of the guaranteed deposits until at least 30 June 2024.

Additionally, this Law provides that the Andorran banking institutions shall continue making annual contributions to the FAGADI charged to their income statement during the period of eight years from 2024 in order to make an additional volume of the ex-ante financial resources equivalent to 0.8% of the guaranteed deposits in order to protect depositors.

During the planned period for providing the financial resources, the ex-ante Fund will run a dual system to ensure the immediate availability of the financial resources.

It maintains a coverage scheme of 100,000 euros per depositor and per Entity. Additional coverage up to a limit of 300,000 euros is incorporated in exceptional cases which guarantee deposits coming from transactions involving private, residential property; one-off payments received by the depositor linked to marriage, divorce, retirement, redundancy, disability or death; and those that are based on the payment of insurance benefits or compensation for damages as a result of a crime or a miscarriage of justice, provided that the said balances have been paid into accounts which were covered during the preceding three months leading up to the event.

ANDORRAN INVESTMENT GUARANTEE SYSTEM

This Law states that the Andorran Investment Guarantee System (hereinafter, SAGI in its Catalan initials) is an ex-post guarantee scheme in which, together with banking institutions who have been participants up until now, the following financial investment institutions may also participate: financial investment companies, financial investment agencies and equity management companies which offer discretionary and individualised portfolios in the form of direct management; and investment trusts which manage authorised collective investments to provide administration and safekeeping of financial instruments on behalf of customers in the Principality.

It maintains a coverage scheme of 100,000 euros per account holder, this being higher than the level of coverage of 20,000 euros established by the Directive 97/9/EC. This Law also establishes a total limit of the SAGI resources, however, the maximum coverage is higher than the total established by *Law 1/2011*.

The SAGI resource target is maintained at 1.5% of the base investment calculation regulated by *Law 1/2011*, with 30 June 2020 being the deadline to achieve the said target.

In accordance with the first additional Provision of the *Law 20/2018*, none of these reserves can be computed for the purposes of calculating the capital ratio.

At 31 December 2020, the amount of 8,300 thousand euros to be paid according to the request of the of the Deposit and Investment Guarantee System Management Commission determined in accordance with the *Law 20/2018* was implemented in fixed-interest bonds.

The different securities assigned to these guarantee reserves, with their market valuation at the end of 2020 are detailed below, an amount slightly higher than requested by the aforementioned Commission.

(Thousands of euros)	**Amount**	**Maturity**
Iberdrola fixed-income bond	1,000	15/04/2024
Carrefour fixed-income bond	2,500	15/06/2022
Banco Sabadell fixed-income bond	1,700	06/03/2023
Volkswagen fixed-income bond	2,000	12/07/2023
SIG Combibloc fixed-income bond	1,100	16/06/2023
TOTAL	**8,300**	

REVALUATION RESERVE

As at 31 December 2020, this reserve consists of the revaluation of the property, plant and equipment, authorised by the AFA on 30 December 2008, consisting of the properties where the Group's headquarters are located.

The revaluation reserves are unavailable until the asset is actually released by the Group and/or the AFA authorises its disposal.

VOLUNTARY RESERVE

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

CONSOLIDATION RESERVES

Consolidation reserves correspond to the income accrued in previous years by the Group companies that are part of the consolidation perimeter and that have not been distributed as dividends.

The movement of consolidation reserves for the 2020 and 2019 financial years was as follows:

(Thousands of euros)	Sabadell d'Andorra Inversions SGOIC, SAU	Assegurances Segur Vida, SAU	SERMIPA	Total
Balance as at 31 December 2018 amended (*)	**1,168**	**390**	**-**	**1,558**
Profit/loss in 2018	192	189	12	393
Dividend charged to the result	(170)	(160)	-	(330)
Balance as at 31 December 2019	**1,190**	**419**	**12**	**1,621**
Events after year end	-	-	-	-
Balance as at 31 December 2019 amended (*)	**1,190**	**419**	**12**	**1,621**
Extraordinary provision (*)	-	200	-	200
Profit/loss in 2019	134	216	13	363
Dividend charged to the result	(100)	-	-	(100)
Balance as at 31 December 2020	**1,224**	**835**	**25**	**2,084**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 20

Other comprehensive income

The composition of this heading as at 31 December 2020 and 2019 was as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Positive fair value differences in the portfolio of available-for-sale financial assets	1,200	674
Negative fair value differences in the portfolio of available-for-sale financial assets	(32)	(5)
TOTAL	**1,168**	**669**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 21

Commitments and guarantees given

The breakdown of the guarantees and contingent commitments given on 31 December 2020 and 2019 is detailed below:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Commitments and guarantees given:		
Guarantees, sureties, deposits and bonds provided	27,492	29,434
Available credit commitments	81,805	61,603
Other commitments given	-	36
Adjustments for valuation:		
Impairment for credit drawdowns	253	206
Impairment for credit card drawdowns	23	19
Impairment of guarantees	29	42
TOTAL	**109,602**	**91,340**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

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

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

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

As at 31 December 2020 and 2019, the Group does not have contingent guarantees or commitments in addition to those detailed in this note.

Nota 22

Business volume

The Group's business volume, as at 31 December 2020 and 2019, is detailed below, regardless of whether the managed resources are held/deposited by the Group or not:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Loans and advances to customers	**371,267**	**355,758**
Assets under management	**1,829,911**	**1,757,190**
Andorran Financial Authority (AFA)	84,505	89,167
Collective Investment Undertakings	452,434	449,246
Customers with a management mandate	175,961	175,773
Other individual customers	1,117,011	1,043,004
TOTAL	**2,201,178**	**2,112,948**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 23

Deposits of values and other securities held for third parties

This note records the market value of the values and other securities deposited by customers in the Group and held for third parties. The breakdown of this heading as at 31 December 2020 and 2019, based on the type of security, is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Andorran Financial Authority (AFA)	80,775	86,111
Shares and other variable-income securities	211,374	228,536
Obligations and other fixed-income securities (**)	529,771	583,873
Holdings of investment undertakings not managed by the Group	247,365	182,641
Holdings of investment undertakings managed by the Group	453,336	453,060
Others	6,348	1,756
TOTAL	**1,528,969**	**1,535,977**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

(**) As at 31 December 2020 and 2019, this heading covers the depository of the debts represented by securities, also recorded in the Entity's liabilities under "Financial liabilities measured at amortised cost - Debt securities issued" (see Note 16.5).

Nota 24

Interest income and expenses

These headings of the consolidated statement of income include the income and expenses for interest accrued during the year for financial assets and liabilities with either implicit or explicit return, which are obtained by applying the effective interest method, regardless of whether they are valued at their fair value, as well as product rectifications as a result of hedge accounting. The interest is recorded at the gross amount, without deducting tax withheld at source, if applicable.

Most of the income from interest was generated by Group financial assets that are valued at amortised cost or at fair value with changes in net equity.

The breakdown income from interest is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Income from interest	**11,910**	**12,491**
Financial assets held for trading	297	297
Financial assets designated at fair value with changes in profit or loss	469	343
Financial assets at fair value with changes in other comprehensive income	564	432
Financial assets at amortised cost	10,580	11,420
Income from interest in liabilities	-	-
Interest expenses	**(1,181)**	**(1,548)**
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value with changes in profit or loss	-	-
Financial liabilities measured at amortised cost	(1,074)	(1,443)
Derivatives: hedge accounting, interest rate risk	(107)	(105)
Interest income and expenses	**10,729**	**10,944**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 25

Income and expenses for commissions

The income and expenses for commissions for financial transactions and for the provision of services during 2020 and 2019 were as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Fee and commission income	**12,155**	**12,433**
Asset management and consulting	4,929	5,457
Credit operations	2,902	2,940
Security services	1,725	1,633
Buying and selling of securities and currencies	960	687
Administration and maintenance of accounts	426	425
Others	1,213	1,291
Fee and commission expense	**(2,812)**	**(2,674)**
Commissions for credit cards	(1,676)	(1,447)
Management services and SICAV	(944)	(751)
Others	(192)	(476)
Income and expenses for commissions, net	**9,343**	**9,759**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 26

Profit and loss of financial transactions (net)

The profit and loss from financial operations (net) is set out below and includes list of the headings in the consolidated income statement for the financial years ended 31 December 2020 and 2019:

(Thousands of euros)	31/12/2020	31/12/2019(*)
By headings:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value with changes in profit or loss, net	**1,051**	**343**
Financial assets at fair value with changes in other comprehensive income	1,057	233
Financial assets at amortised cost	(7)	110
Financial liabilities measured at amortised cost	-	-
Others	-	-
Gains or (-) losses on financial assets and liabilities held for trading, net	**1,528**	**1,877**
Gains or (-) losses on non-trading financial assets mandatorily at fair value with changes in profit or loss, net	**(498)**	**356**
Gains or (-) losses on financial assets and liabilities designated at fair value with changes in profit or loss, net	**2**	**1**
Gains or (-) losses from hedge accounting, net	**69**	**(2)**
Exchange differences (gains or (-) losses), net	**233**	**215**
TOTAL	**2,385**	**2,789**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 27

Other operating income and expenses

The breakdown of this heading of the consolidated income statement for the years ending on 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Other operating income	**360**	**558**
Income from properties	296	416
Others	64	142
Other operating expenses	**(683)**	**(684)**
Contributions to the FAREB and other Guarantee Funds	(660)	(480)
Others	(23)	(204)
Other operating income and expenses	**(323)**	**(126)**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Beginning with the entry into force of the *Law 20/2018*, the Bank has proceeded to make an annual provision to the FAGADI of 420 thousand euros (see Note 19.2), 360 thousand euros in 2019.

Likewise, in order to comply with what is established in Article 59 of the *Law 8/2015, of 2 April, that which creates and regulates the Andorran Fund for the Resolution of Bank Entities* (hereinafter, the FAREB) as a mechanism for financing resolution processes of Andorran Banking Entities, the Bank has made an annual provision to the FAREB of 240 thousand euros (120 thousand euros to 2019).

Nota 28

Administrative expenses

This heading of the consolidated income statement includes the amounts of expenses incurred by the Group in respect of the cost of staff and the rest of the general administration expenses.

28.1. Staff expenses

The breakdown of personnel expenses for the years ending on 31 December 2020 and 2019 was as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Short-term remuneration of employees (wages and salaries, including Social Security contributions)	6,719	6,569
Post-employment remuneration	-	-
Other long-term remuneration	-	-
Endowments or contributions to the internal pension fund	122	106
Ordinary endowments or contributions to other social benefits bodies	124	101
Compensations	54	-
Other staff expenses	308	331
TOTAL	**7,327**	**7,107**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The Group does not have an employee remuneration system based on the Bank's own shares.

The classification of the Group's workforce by category and gender, as at 31 December 2020 and 2019, is as follows:

	31/12/2020			31/12/2019(*)		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Directors	13	7	20	11	7	18
Middle managers	14	17	31	13	16	29
Technicians	36	29	65	32	31	63
Administrative staff	17	16	33	16	14	30
TOTAL	**80**	**69**	**149**	**72**	**68**	**140**

28.2. Other administrative expenses

This heading includes the rest of the administrative expenses as at 31 December 2020 and 2019:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Remuneration of the Board of Directors and Senior Management	343	300
Buildings, facilities and equipment	168	226
Advertising and marketing	442	242
Subcontracted administrative services	1,864	1,798
Supplies	335	298
Surveillance and fund transfer services	434	397
Contributions and taxes	1,002	734
Other general expenses	1,771	1,834
TOTAL	**6,359**	**5,829**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 29

Impairment of the value or (-) reversal of impairment of the value not measured at fair value with changes in profit or loss

The breakdown of this heading of the consolidated income statement for the financial years ending on 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Financial assets at amortised cost	1,183	714
Financial assets at fair value through changes in other comprehensive income	(6)	(113)
TOTAL	**1,177**	**601**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 30

Profits or (-) losses from non-current assets and disposable groups of elements classified as held for sale are not qualifying as discontinued activities

The breakdown of this heading of the consolidated income statement for the financial years ending on 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Profits from non-current assets and disposable groups of elements classified as held for sale not qualifying as discontinued activities	247	1,265
TOTAL	**247**	**1,265**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 31

Segmented information

The maximum decision-making body to define the operational segments of the Bank is the Group's Management Committee. The Group has concluded that there are no differentiated segments since the results of the activities that are carried out are not independently examined by Management, because:

- The services provided to customers do not differ significantly from each other, and do not justify differentiated monitoring.
- Non-banking activities are not significant. In this regard, the Andorran subsidiaries Sabadell d'Andorra Inversions, SGOIC, SAU and Assegurances Segur Vida, SAU do not present any significant balances.
- The Group does not have an international presence.

Nota 32

Deferred tax assets and liabilities

The breakdown of the origins of deferred tax assets and liabilities recorded in the financial statements for the years ended 31 December 2020 and 2019 is as follows:

(Thousands of euros)		31/12/2020		31/12/2019
	Assets	**Liabilities**	**Assets**	**Liabilities**
Tangible and intangible assets	-	-	-	-
Financial assets with changes in other comprehensive income	3	133	1	75
Actuarial result in defined benefit plans	-	-	-	-
Fair value hedges	-	-	-	-
Insolvencies	-	-	-	-
Compensable tax losses in the future	-	-	-	-
Others	-	-	-	-
Differential fee	**3**	**133**	**1**	**75**

The Group does not have any relevant unrecognised deferred tax assets.

32.1. Movement of deferred tax assets and liabilities

(Thousands of euros)	Balance 31/12/2019	Profit/Loss	OCI	Balance 31/12/2020
Tangible and intangible assets	-	-	-	-
Financial assets with changes in other comprehensive income	(74)	58	(114)	(130)
Actuarial result in defined benefit plans	-	-	-	-
Fair value hedges	-	-	-	-
Insolvencies	-	-	-	-
Compensable tax losses in the future	-	-	-	-
Others	-	-	-	-
Differential fee	**(74)**	**58**	**(114)**	**(130)**

The bank's administrators expect the deferred taxes shown in this note to be reversed within the next 5 years.

Nota 33

Tax situation

IMPACT RECOGNISED IN THE INCOME STATEMENT

The amount reflected in the Group's consolidated income statement corresponding to the years ending on 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Profit for the year attributable to the Group before taxes	**10,663**	**11,057**
Permanent differences	457	536
Temporary differences	(526)	221
Tax base	**10,594**	**11,814**
Tax rate	10%	10%
Tax fee	**1,059**	**1,181**
Deductions and allowances	(457)	(500)
Settlement fee	**602**	**682**
Payments on account	(292)	(292)
Differential fee	**310**	**390**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The permanent differences corresponding to financial years ended on 31 December 2020 and 2019 are as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Value adjustments due to amortisations	28	28
Provisions and losses for insolvencies of Group companies	-	-
Provisions	-	-
Municipal tax on income, establishment of entrepreneurial and professional commercial activities	429	481
Donations and Bequests	-	27
TOTAL PERMANENT DIFFERENCES	**457**	**536**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The temporary differences corresponding to financial years ended on 31 December 2020 and 2019 are as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
Value adjustments due to amortisations	-	-
Provisions and losses for insolvencies of Group companies	(526)	221
Provisions	-	-
Municipal tax on income, establishment of entrepreneurial and professional commercial activities	-	-
Donations and Bequests	-	-
TOTAL PERMANENT DIFFERENCES	**(526)**	**221**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

The breakdown of the deductions and allowances applied as at 31 December 2020 and 2019 is as follows:

(Thousands of euros)	31/12/2020	31/12/2019(*)
New investments in Andorra in fixed assets related to the activity	(33)	(39)
Municipal tax on income, establishment of entrepreneurial and professional commercial activities	(405)	(456)
Creation of jobs in Andorra	(19)	(4)
TOTAL DEDUCTIONS AND ALLOWANCES	**(457)**	**(500)**

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 34

Related parties

34.1. Senior Management

There are no transactions with directors and managers of the company that may be considered relevant. Those carried out are typical of the normal movements of the company or enjoy market conditions or are applied to employees.

There are no transactions carried out outside the market price with persons or Entities related to directors or Senior Management.

Remuneration of the Board of Directors and Senior Management

Senior Management is made up of the Board of Directors, the General Management and the Management Committee.

The remuneration earned by Senior Management members during 2020 was 1,509 thousand euros (1,493 thousand euros in 2019). Contributions to pension plans for the 2020 financial year were 77 thousand euros (65 thousand euros in 2019).

34.2. Transactions with related parties

The breakdown of the most significant balances held with related parties, as well as the effect on the profit and loss from the transactions made with them, is shown below for the 2020 and 2019 financial years.

(Thousands of euros)				2020	2019 (*)
	Associates	**Key Management staff**	**Other related parties**	**Total**	**Total**
Assets:					
Loans to customers and other financial assets	1,114	431	314	1,859	2,039
Liabilities:					
Customer deposits and other financial liabilities	1,076	2,755	1,308	5,140	7,075
Off-balance sheet exposures:					
Financial guarantees given	-	12	371	383	490
Loan commitments given	-	-	-	-	-
Other commitments given	-	-	-	-	-
Income statement:					
Interests and similar returns	-	7		7	5
Interests and similar charges	-	1	2	3	22
Net commissions	2,106	9	2	2,117	2,042

(*) Presented solely and exclusively for purposes of comparison (see Note 1.2).

Nota 35

Other information

There have been no other significant events that have not been detailed in the previous notes.

Nota 36

Subsequent events

There have been no significant events worthy of mention after the 31 December 2020.

BancSabadell d'Andorra