

Financial Statements 2013

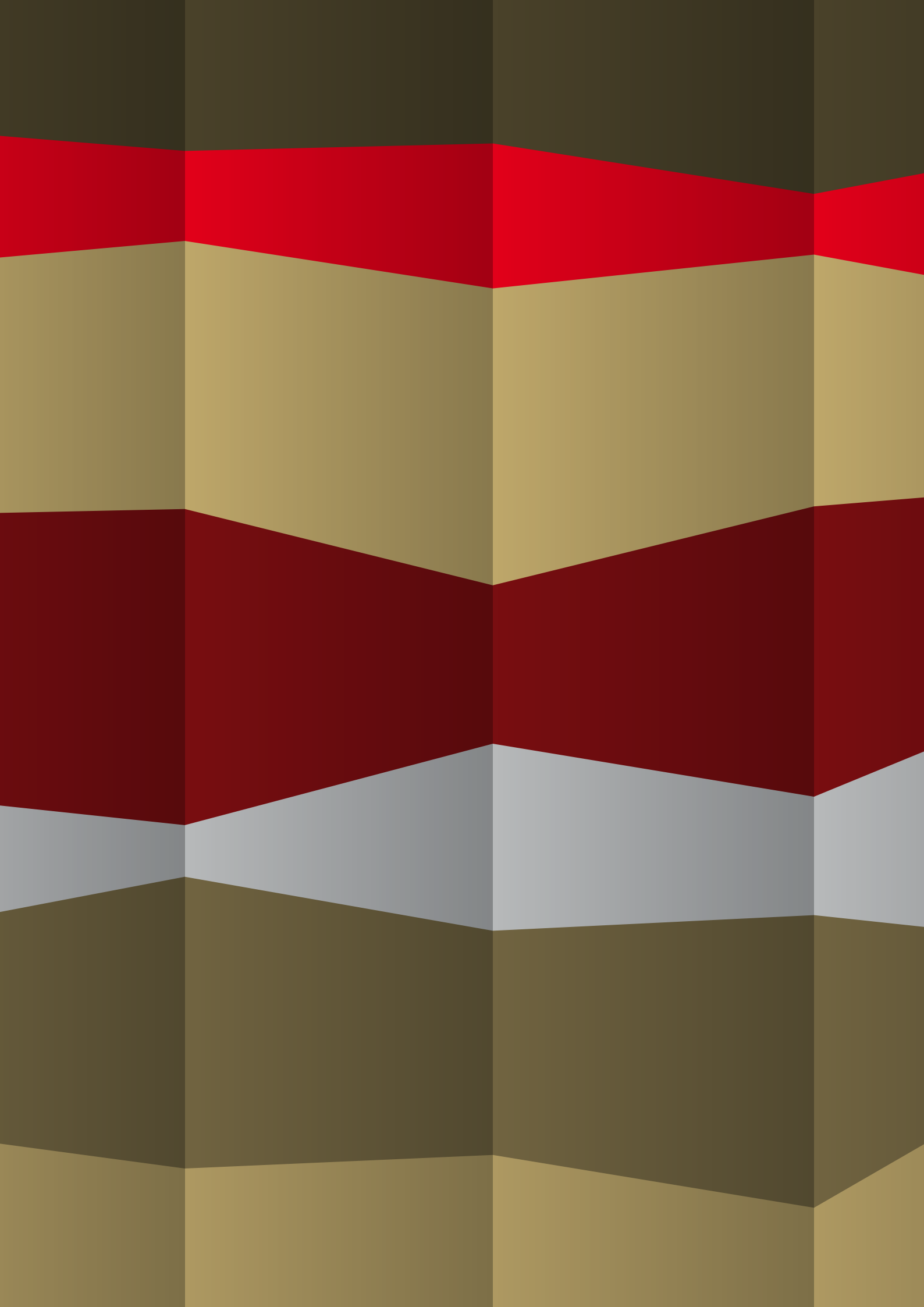
BANCA PRIVADA D'ANDORRA, SA AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2013 TOGETHER WITH THE AUDITOR'S REPORT

(Translation of consolidated financial statements originally issued in Catalan and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 35). In the event of a discrepancy, the Catalan language version prevails.)



BANCA PRIVADA D'ANDORRA



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PRESENTATION

The world economy continued to grow at a moderate pace in 2013 in a recovery which, despite its consolidation as the year progressed, was still weak and uneven. The improvement in confidence and activity led the chairman of the US Federal Reserve to announce in May 2013 his intention to begin reducing asset purchases gradually, which resulted in volatility in the financial markets affecting mainly the emerging countries. The euro zone came out of recession in 2013, although very high levels of unemployment and the processes of tax consolidation hindered the growth of activity. Inflation in Europe fell by more than a point to 1.4% and the ECB reduced interest rates in May and in November to 0.25%, reductions which continued in June 2014 when the reference rate was set at 0.15%. 2013 also saw advances in the creation of a single code for financial regulation and supervision in the EU as part of the process of setting up the European Banking Union.

In line with the improvement of the European economic environment in 2013, the Andorran economy reached a turning point to the downward trends of recent years. The number of persons employed in Andorra fell at a gentler rate to 1.9% and some branches of the services sector, led by professional activities and the financial sector, began to create jobs. The business sector of Andorra showed signs of improvement with the net creation of 207 establishments. In the tourist industry, despite the 3.2% fall in visitors, in 2013 there was improvement in the form of the recovery of tourist arrivals (4.1%) and of overnight stays (4.7%). However, corrections in the construction industry continued in 2013, with its share of employment again falling to 7.2%.

The process of tax reform and harmonisation of Andorra with the rest of Europe made significant progress in 2013. In May 2013 the EU agreed to open negotiations with Andorra and four other European states to amend the agreement on taxation of savings, with a view to extending its coverage and reinforcing the systems of exchange of information. The Andorran government also presented a draft bill on Income Tax and a draft bill on the bases of the law of taxation, which establishes a new taxation framework in order to improve the efficiency of the Andorran tax system. In this context of increasing integration and adaptation to international standards, Andorra signed an agreement with the Czech Republic in 2013 on the exchange of tax information and a convention on double taxation with France. Advances were also made in negotiations for double taxation conventions with Luxembourg—the convention being signed at the beginning of June 2014— and Spain.

The Andorran financial sector showed extremely positive signs in 2013 with growth of 16% in resources managed for customers which reached 41,043 million euros, a figure that represents a new record.

As regards BPA, 2013 was decisive in the growth process of the Group and the consolidation of its Spanish subsidiary, Banco Madrid, as a leading player in the private banking sector in Spain.

Banco Madrid completed in March 2013 the acquisition of 100% of the share capital of Liberbank Gestión, S.G.I.I.C., S.A.U., an operation which at the close of the financial year had brought the Group business worth 1,263 million euros.

Banco Madrid also reached an agreement with Banco Mare Nostrum, S.A. in November 2013 for the purchase of 100% of the shares of the management company BMN Gestión

de Activos, S.G.I.I.C., S.A. With this acquisition the BPA Group will obtain additional business in the course of 2014 worth around 500 million euros without taking into account organic growth. This will put Banco Madrid among the top 15 financial groups of the Spanish market in terms of assets managed in collective investment institutions.

These acquisitions, together with the organic growth of its own business, allowed the BPA Group to reach turnover of 8,071 million euros at the close of 2013, which represented an increase of 26% in respect of the previous year. The Group's assets under management (AUM) also rose by 35% to 7,074 million euros.

2013 also saw notable advances in the process of reorganisation of the Group, which will create synergies and will mean improved margins and results in future financial years. In September 2013 the merger by absorption of Nordkapp Gestión, Liberbank Gestión and Banca Privada d'Andorra Global Funds Asset Management was completed by Banco Madrid Gestión de Activos (BMGA), a company 100% owned by Banco Madrid. This reorganisation, justified by economic and efficiency considerations, helped to increase the quantity and the quality of the services offered to customers, improve competitiveness and management, simplify the corporate structure of Banco Madrid and release synergies and economies of scale as a result of unifying the provision of services.

The profit and loss account for 2013 was a reflection of a solid and reliable business generation model which sets the scene for favourable prospects in the years to come. The BPA Group closed the financial year with consolidated net profits of 20.5 million euros, a result higher than that forecast and which represents an increase of 17% in relation to 2012.

The ordinary margin increased by 23% to 122.9 million euros, while operating expenses grew by 10% to 92 million euros. The rise in current expenses is a reflection of the process of expansion which has led to an increase in business resources and investment in the new banking platform Avaloq, which came into operation in March 2014 and was the beginning of a new technological phase for the Group.

The priorities of the BPA Group for coming years are to gain in efficiency and reach the profitability targets it has set itself. In 2013 the Group's efficiency ratio improved from 75.29% to 66.37%. The BPA Group also raised its liquidity ratio significantly in 2013 from 64.27% to 80.30%. The growth of the BPA Group in recent years has been accompanied by a strengthening of its human resources, which have gone from 518 people in 2011 to 556 in 2013.

The excellent valuation given by various independent financial analysts and publications to the funds of BPA continues to be a cause of particular satisfaction for the Group. Banco Madrid is one of the Euromoney Top 10 private banks and in 2013 was named the Best Private Banking Entity in Spain by the financial journal *Capital*. The fixed income fund managed by Banco Madrid Gestión de Activos has also been recognised by Inverco as the best Spanish fixed income investment fund in the last three years (2011-2013). This fund has also been singled out with a maximum rating of five stars by the prestigious British publication Morningstar, for being the most profitable Spanish fixed income fund over the last three years (35%) and for being the only one which has broken through the barrier of 10% annually over three years. More recently, the fund Banco Madrid SICAV Selección was top of the 25 funds in its category making up the ranking for January 2014 of the financial publication *Expansión*. The investment fund portfolios of Banco Madrid also received the gold award for the best conservative portfolio and the silver award for the second best aggressive portfolio in the competition organised by *Expansión* and AllFunds in 2013.

As a reflection of the Group's progress in July 2013, the agency Fitch Ratings gave a new rating for BPA as a long-term issuer in which it retains both the level BB+ and the outlook of remaining stable. The review carried out by the ratings agency highlights the Group's adequate levels of liquidity and capitalisation and the improvement in the quality of its assets and views favourably the emphasis put on increasing AUM and profitability.

The year 2013 was also highly satisfactory for the BPA Group as regards recognition of quality. Reference should be made to the renewal of the ISO quality certificate 9001:2008 issued to BPA by the Spanish Association for Normalisation and Certification (AENOR) and by the International Certification Network (IQNET), which confirms the quality of its organisation and technology. It should also be mentioned that the R+D+I project for the introduction of Avaloq technology in the BPA Group retained in 2013 the status of innovative technological project awarded in 2012 by the Ministry of Industry, Energy and Tourism of the Spanish government.

Corporate responsibility continued to be one of the defining characteristics of the BPA Group in 2013. The Group's activities in this area aim to increase social cohesion and promote sustainable economic growth. Within this policy of corporate responsibility BPA obtained once again in 2013 the certificate of Family Responsible Company issued by the *Fundación Másfamilia* with the support of the Ministry of Health, Social Policy and Equality of the Spanish state.

The activities of BPA for the community took on various forms of social action, promotion of culture, the encouraging of sport and the economic promotion of the Principality of Andorra. Culture was one of the priority areas of BPA in 2013. One of the most noteworthy acts was the assigning of the work *7 Poetes* of the sculptor Jaume Plensa to the Commune of Andorra la Vella, a project that was developed during 2013 and concluded in 2014.

The principles of corporate responsibility of the BPA Group are also present in Banco Madrid. Banco Madrid is firmly committed to the dynamisation of the economic and business environment, in which it supports a number of associations and institutions such as the IESE, Cercle d'Economia, the Professional Association of Economists of the Balearic Islands and Cercle d'Economia of Mallorca.

The Private Foundation Banca Privada d'Andorra plays a key part in the corporate responsibility projects of the BPA Group. Reference should be made here to the work of the Foundation with the Xeridell Occupational Workshop, the objective of which is to contribute to improving the quality of life of its users and the relation with their environment. The Foundation also works for people who are incapacitated —through the Fundació Privada Tutelar d'Andorra— and children at risk —through an agreement with the Children's Home La Gavernera. Among other projects the Foundation also supports the integration of young people in the labour market by way of a programme of grants for a temporary work experience in the BPA Group.

All in all BPA ended 2013 being a financial Group which is able to combine successfully solidity, growth and a commitment to society. These results would not have been possible without the involvement and the work of all of the professionals who make up the Group and the trust placed in it by its customers.

Many thanks to all of them.

The Board of Directors

BPA MANAGEMENT ORGANS

BOARD OF DIRECTORS

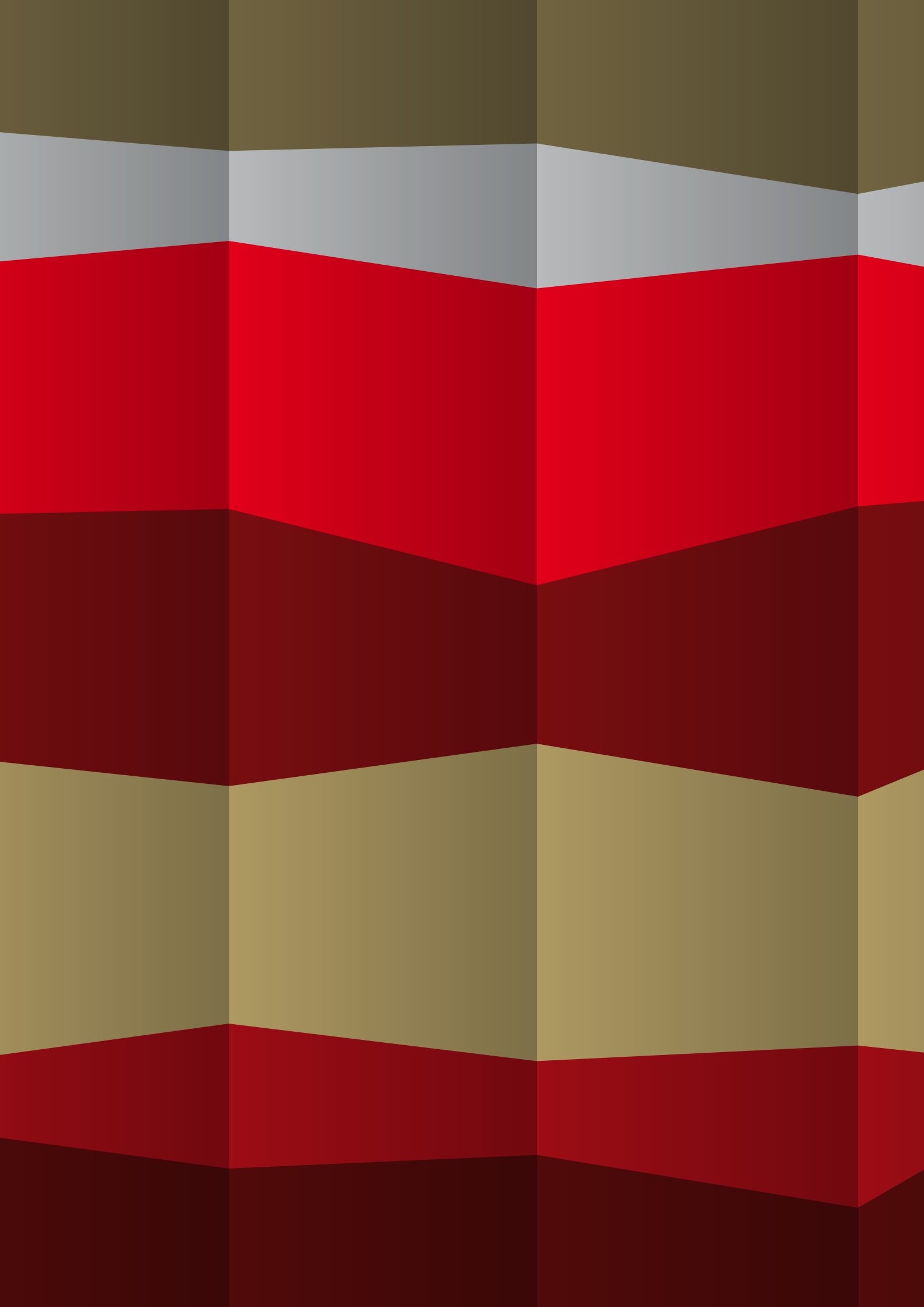
Higini Cierco Noguer	Chairman
Ramon Cierco Noguer	Chairman
Frederic Borràs Pàmies	Member of the Board
Ricard Climent Meca	Member of the Board
Joan Pau Miquel Prats	Member of the Board
Bonaventura Riberaygua Sasplugas	Member of the Board
Rosa Castellón Sánchez	Secretary

AUDIT AND CONTROL COMMITTEE

Ricard Climent Meca	Chairman
Ramon Cierco Noguer	Member of the Committee
Higini Cierco Noguer	Member of the Committee
Frederic Borràs Pàmies	Member of the Committee
Bonaventura Riberaygua Sasplugas	Member of the Committee
Rosa Castellón Sánchez	Secretary

MANAGEMENT TEAM

Joan Pau Miquel Prats	Chief Executive - General Manager
Santi de Rosselló Piera	Assistant General Manager
Joan Cejudo Peña	Assistant General Manager
Cristina Lozano Bonet	Assistant General Manager
Xavier Campos Tomás	Assistant General Manager
Juan Carlos Peón Melón	Assistant General Manager
Josep Antoni Rivero Carrizo	Deputy General Manager
Carles Izquierdo Mor	Deputy General Manager
Alfredo Español Guijarro	International Legal Counsel
Rosa Castellón Sánchez	Secretary



Financial Summary Consolidated

	2013	2012
Balance (THOUSANDS OF EUROS)		
Total assets	3,346,905	2,845,463
Cash and banks	415,091	321,218
Loans and advances to customers, net	975,371	1,124,663
Investment securities	1,573,531	1,005,315
Deposits	1,516,235	1,621,477
Shareholder's equity	237,822	236,779
Income statement (THOUSANDS OF EUROS)		
Financial margin	48,524	38,665
Ordinary margin	122,867	99,919
Operating margin	30,691	16,042
Net profit	20,541	17,596
Key ratios (%)		
ROE (Net profit/Average equity)	8.63	7.46
ROA (Net profit/Average total assets)	0.68	0.63
Efficiency ratio (Operating expenses/Ordinary margin)	66.37	75.29
Risk - weighted capital ratio	17.03	19.04
Liquidity ratio	80.30	64.27
Resources		
Number of employees	556	547
Number of offices	26	25

Translation of a report originally issued in Català based on our work performed in accordance with international standards on auditing and of consolidated financial statements originally issued in Català and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 33). In the event of a discrepancy, the Català-language version prevails.

INDEPENDENT AUDITORS' REPORT

To the shareholders of
Banca Privada d'Andorra, S.A.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banca Privada d'Andorra, SA ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated income statement, the consolidated statement of source and application of funds and the notes on the consolidated financial statements for the year then ended.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Bank's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Accounting Plan of the Andorran Financial System, and for such internal control as the Bank's Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banca Privada d'Andorra, SA and its subsidiaries as at 31 December 2013, and the consolidated results of their operations and their consolidated source and application of funds for the year then ended in accordance with the accounting principles and valuation criteria established by the Accounting Plan of the Andorran Financial System.

Other issues

The financial statements of Banca Privada d'Andorra, SA and its subsidiaries for the financial year ended 31 December 2012 were audited by another auditor, who issued an unqualified opinion on said financial statements on 28 March 2013.

DELOITTE ANDORRA AUDITORS I ASSESSORS, S.L.


Fernando Fonca

27 May 2014

Consolidated Balance Sheets

31 December 2013 and 2012

(EXPRESSED IN THOUSANDS OF EUROS)

ASSETS	2013	2012*
Cash in hand and at central banks of the OECD	18,219	16,386
Andorran National Institute of Finance (INAF)	210	210
Financial intermediaries (note 5)	396,872	304,832
Banks and credit institutions	397,960	305,795
Other financial intermediaries	–	–
Provision for loan losses	(1,088)	(963)
Loans and receivables (note 6)	975,371	1,124,663
Loans and credits to customers	960,348	1,089,323
Customer account overdrafts	24,331	52,598
Customer discounted notes	12,071	7,846
Provision for loan losses	(21,379)	(25,104)
Investment securities (note 7)	1,573,531	1,005,315
Bonds and other fixed-income securities	1,498,596	964,607
Provision for loan losses	(6,658)	(6,281)
Security valuation reserve	(909)	–
Equity investments in Group companies	6,394	6,264
Security valuation reserve	–	–
Other equity investments	901	724
Security valuation reserve	(100)	(246)
Shares and other variable-income securities	28,340	12,051
Security valuation reserve	–	–
Investment funds	47,010	28,196
Security valuation reserve	(43)	–
Treasury shares	–	–
Gains on consolidation (note 2 c)	98,351	87,275
Intangible assets and amortisable costs (note 8)	29,023	19,266
Goodwill	2,125	3,900
Intangible assets and amortisable costs	61,480	45,950
Amortisation	(34,582)	(30,584)
Tangible assets (note 9)	145,425	141,305
Tangible assets	189,243	181,431
Depreciation	(42,899)	(39,968)
Provision for depreciation of tangible assets	(919)	(158)
Prepayments and accrued income (note 10)	49,506	29,467
Accrued income	44,716	28,764
Prepaid expenses	4,790	703
Other assets (note 11)	60,397	116,744
Transactions in progress	15,712	44,953
Inventories	118	126
Options purchased	10	–
Others	6,109	33,971
Taxes	38,448	37,694
Total assets	3,346,905	2,845,463

* Presented exclusively for comparative purposes.

The accompanying notes 1 to 35 and appendices I and II form an integral part of the consolidated financial statements for 2013.

Consolidated Balance Sheets

31 December 2013 and 2012

(EXPRESSED IN THOUSANDS OF EUROS)

LIABILITIES AND NET EQUITY	2013	2012*
Andorran National Institute of Finance (INAF) (note 12)	47,983	557
Creditors (note 13)	2,722,406	2,312,879
Banks and credit institutions	1,206,028	691,174
Other financial intermediaries	143	228
Customer deposits	1,516,235	1,621,477
Debt securities (note 14)	143,359	102,635
Provision for risks and contingencies (note 15)	3,048	4,064
Provisions for pensions and similar obligations	–	–
Provisions for contingent liabilities	137	122
Provisions for forward transactions	–	–
Provisions for litigation	–	–
Provisions for taxes	42	–
Other provisions	2,869	3,942
General risks reserve (note 16)	1,093	2,000
Subordinated liabilities (note 17)	61,940	63,131
Accrued expenses and deferred income (note 18)	30,037	23,524
Unpaid accrued expenses	30,020	23,502
Deferred income	17	22
Other liabilities (note 19)	99,180	99,853
Dividends pending payment	–	–
Transactions in progress	15,865	9,522
Suppliers and other creditors	68,589	82,484
Taxes	14,726	7,847
Minority interests (note 20)	37	41
Share capital (note 20)	70,000	70,000
Subscribed capital	70,000	70,000
Reserves (note 20)	147,288	150,712
Legal reserve	14,000	14,000
Guarantee reserves	13,175	12,647
Voluntary reserves	33,229	49,270
Revaluation reserves	1,678	1,678
Share premiums	40,000	40,000
Consolidation reserves	45,381	33,071
Conversion differences	(175)	46
Profit (note 20)	20,534	16,067
Profit for the year	20,534	17,588
Prior years' losses pending application	–	(521)
Interim dividend	–	(1,000)
Total liabilities and net equity	3,346,905	2,845,463

* Presented exclusively for comparative purposes.

The accompanying notes 1 to 35 and appendices I and II form an integral part of the consolidated financial statements for 2013.

Consolidated Income Statements

for the years ended 31 December 2013 and 2012

(EXPRESSED IN THOUSANDS OF EUROS)

	2013	2012*
Interest and related income	75,044	72,829
INAF and financial intermediaries on sight	276	3,419
On loans and receivables	24,475	28,493
On bonds and other fixed-income securities	50,293	40,917
Interest and related expenses	(27,027)	(34,126)
INAF and financial intermediaries	(6,429)	(7,347)
On customer deposits	(9,255)	(13,295)
On debt securities	(5,919)	(8,604)
On subordinated liabilities	(1,485)	(1,975)
On others	(3,939)	(2,905)
Income from variable-income securities	507	(38)
On equity investments in Group companies (note 7.3)	–	(173)
On other equity investments	–	–
On shares and other variable-income securities	507	135
Net interest margin	48,524	38,665
Net fees and commissions accrued on services (note 26)	54,014	48,466
Fees and commissions accrued on services supplied	84,796	69,099
Fees and commissions accrued on services received	(30,782)	(20,633)
Gains on financial assets and liabilities	19,000	12,540
Net charges to security valuation reserve (note 7)	(1,740)	–
Foreign exchange gains	2,004	2,093
Profit on securities transactions	21,731	9,756
Losses on forward transactions	(3,472)	(141)
Exchange gains on consolidation	7	3
Share of profit of equity accounted companies	470	829
Other profit from ordinary activity (note 9)	1,329	248
Gross margin	122,867	99,919
Personnel expenses	(41,687)	(37,171)
Personnel, Board of Directors and severance indemnities	(27,418)	(26,977)
Indemnities	(404)	(717)
Social security	(5,098)	(4,395)
Ordinary charges or contributions to the company pension fund	(188)	–
Other personnel expenses	(6,912)	(3,578)
Ordinary charges or contributions to other savings entities (note 32)	(1,667)	(1,504)
Overheads	(39,854)	(38,062)
Material	(427)	(304)
External services	(36,529)	(30,079)
Taxes (note 3 I)	(2,702)	(7,641)
Other overheads	(196)	(38)
Amortisation and depreciation of fixed assets, net of recoveries (notes 8 and 9)	(10,232)	(8,639)
Amortisation and depreciation of intangible and tangible assets	(10,232)	(8,639)
Recoveries	–	–
Provisions for amortisation and depreciation of fixed assets, net of recoveries	(403)	(5)
Charge to the provision for amortisation and depreciation of intangible and tangible assets (note 9)	(403)	(5)
Recoveries of provision for amortisation and depreciation	–	–
Operating margin	30,691	16,042
Provisions for loan losses, net of recoveries (notes 5, 6 and 7)	(7,935)	(6,535)
Charge to the provision for loan losses	(24,308)	(14,261)
Recoveries of provision for loan losses	16,373	7,726
Provisions for risks and contingencies, net of recoveries	2,269	(735)
Charge to the provision for risks and contingencies (note 15)	(1,817)	(1,118)
Recoveries of the provision for risks and contingencies	4,086	383
Charges to the general risks reserve	–	–
Ordinary profit	25,025	8,772
Extraordinary profit (note 28)	448	2,040
Profit before taxes	25,473	10,812
Income tax (note 27)	(925)	852
Foreign income tax (note 27)	(4,014)	5,924
Profit for the year	20,534	17,588
Profit/(loss) attributable to minority interest	(7)	(8)
Profit attributable to the Group	20,541	17,596

* Presented exclusively for comparative purposes.

The accompanying notes 1 to 35 and appendices I and II form an integral part of the consolidated financial statements for 2013.

Consolidated Off-Balance Sheet Items

31 December 2013 and 2012

(EXPRESSED IN THOUSANDS OF EUROS)

	2013	2012*
Contingent liabilities	44,717	69,565
Guarantees, commitments, sureties and pledges	44,450	68,877
Documentary credits issued to or received from customers	64	65
Notes and similar accepted	–	–
Doubtful contingent liabilities	203	203
Other contingent liabilities	–	420
Commitments and contingent risks	127,616	154,553
Operational commitments and risks	127,450	154,387
Actuarial commitments and risks	–	–
Other contingent commitments and risks	166	166
Forward operations (note 22)	1,355,427	1,568,824
Outstanding forward currency purchase and sales	784,536	1,226,017
Forward financial instrument operations	570,812	340,719
Outstanding purchase and sale of financial assets	610	2,088
Other forward operations	(531)	–
Security deposits and other securities held in custody	8,981,828	5,752,031
Security deposits and other securities held in custody of third parties (note 23)	7,438,008	4,833,394
Security deposits and other securities in own custody	1,543,820	918,637
Other memorandum accounts exclusively for administrative control (note 24)	470,186	450,166
Guarantees and commitments received	119,935	114,526
Other Memorandum Accounts	350,251	335,640
Total memorandum accounts	10,979,774	7,995,139

* Presented exclusively for comparative purposes.

The accompanying notes 1 to 35 and appendices I and II form an integral part of the consolidated financial statements for 2013.

Consolidated statements of source of funds

for the years ended 31 December 2013 and 2012

(EXPRESSED IN THOUSANDS OF EUROS)

SOURCES OF FUNDS	2013	2012*
Funds generated from operations	39,869	32,848
Profit for the year	20,534	17,588
Net charges to the provision for loan losses	7,935	6,535
Net charges to the provision for fixed asset depreciation	403	4
Net charges to the security valuation reserve	1,740	–
Charges to other provisions (pension funds, etc.)	(1,442)	845
Depreciation and amortisation of tangible and intangible assets	9,970	8,640
Loss on sale of fixed assets	1,634	(775)
Profit/(loss) on sale of treasury shares and equity investments	–	180
Others (+/-)	(435)	–
Losses contributed by equity accounted companies (-)	(470)	(169)
Increase in liabilities over assets	510,634	309,526
INAF and financial intermediaries (Liabilities-Assets)	47,426	128
Banks and credit institutions	420,906	309,245
Other financial intermediaries	1,698	153
Others (Liabilities-Assets)	40,604	–
Net increase in liabilities	40,724	139,911
Creditors: customers	–	132,768
Debt securities and subordinated liabilities	40,724	7,143
Net decrease in assets	153,017	21,368
Cash	–	21,368
Loans and receivables: customers	153,017	–
Securities portfolio, less equity investments	–	–
Sale of long-term investments	32,507	7,653
Sale of equity investments	340	2
Sale of fixed assets	32,167	7,651
Funds from financing activities	–	–
Funds from financing activities	–	–
Total sources of funds	776,751	511,306

* Presented exclusively for comparative purposes.

The accompanying notes 1 to 35 and appendices I and II form an integral part of the consolidated financial statements for 2013.

Consolidated statements of application of funds

for the years ended 31 December 2013 and 2012

(EXPRESSED IN THOUSANDS OF EUROS)

APPLICATION OF FUNDS	2013	2012*
Funds used in operations	9,881	–
Application of other funds (pension funds, etc.)	–	–
Others (+/-)	9,881	–
Increase in assets over liabilities	–	27,804
INAF and financial intermediaries (Assets–Liabilities)	–	–
Banks and credit institutions (Assets–Liabilities)	–	–
Other financial intermediaries (Assets–Liabilities)	–	–
Other items (Assets–Liabilities)	–	27,804
Net decrease in liabilities	106,433	536
Creditors: customers	105,243	–
Debt securities and subordinated liabilities	1,191	536
Net increase in assets	566,123	461,777
Cash	1,832	–
Loans and receivables: customers	–	46,154
Securities portfolio, less equity investments	564,291	415,623
Acquisition of long-term investments	69,006	20,189
Acquisition of equity investments	10,390	0
Acquisition of fixed assets	58,616	20,189
Funds applied to financing activities	25,308	1,000
Dividends	1,000	1,000
Others	24,308	–
Total applications of funds	776,751	511,306

* Presented exclusively for comparative purposes.

The accompanying notes 1 to 35 and appendices I and II form an integral part of the consolidated financial statements for 2013.

Notes to the Financial Statements

for the year ended 31 December 2013

1. GROUP ACTIVITY

Banca Privada d'Andorra, SA (hereinafter "BPA" or "the Bank") was incorporated in Andorra in 1958 as a limited liability company under the name Banca Cassany, which was changed to the current name in 1994. Since 28 July 2011, the Bank's registered office has been at Sant Antoni, 4 in Escaldes-Engordany (Andorra). In accordance with its banking licence, the Bank is authorised to carry out any private or commercial banking activity.

In accordance with its articles of association, the Bank's statutory activity is to carry out banking activity through financial, commercial and mercantile transactions and activities and, consequently, carry out all kinds of banking transactions and activities, currency exchange, opening of accounts, granting of loans and all other transactions and activities which are usual in the banking profession. In carrying out this statutory activity, the Bank may invest in the capital of other Andorran or foreign companies through the purchase of shares or equity investments. The Bank may also carry out activities which are ancillary or complementary to the aforementioned principal activity.

At 31 December 2013 the Bank had five branch offices: two in Andorra la Vella, one in Escaldes-Engordany, one in Pas de la Casa and one in La Massana, and is the head of a group of companies involved in banking and complementary activities. Details of these companies are shown in note 2.3. The Bank, in conjunction with these companies, forms the Banca Privada d'Andorra Group (hereinafter "the Group").

As an integral part of the Andorran financial system, the Group is subject to supervision by the Andorran National Institute of Finance (INAF), the technical body authorised to carry out financial supervision by the Andorran Government, and is required to comply with certain Andorran local legislation (see note 31).

2. BASIS OF PRESENTATION

2.1. True and fair view

The consolidated financial statements for the year ended 31 December 2013 were prepared by the Bank's Board of Directors at its meeting held on 27 May 2014 (as authorised by the INAF, see note 34) in accordance with the financial reporting standards applicable to the Bank and, in particular, with the accounting principles contained therein, so that they give a true and fair view of the Group's equity and financial position at 31 December 2013 and of the results of its operations and source and application of funds for the year then ended. These consolidated financial statements will be submitted to the Bank's shareholders for approval at the annual general meeting. The Bank's Board of Directors consider that they will be approved without modification. The consolidated financial statements for 2012 were approved by the Bank's shareholders at a general meeting held on 18 June 2013.

The financial reporting standards applicable to the Bank are established in the Accounting Plan of the Andorran Financial System approved by the Andorran Government on 19 January 2000 and subsequent communiqués issued by the INAF in relation to the application of this Plan.

The financial statements are presented in accordance with the models established in the Accounting Plan of the Andorran Financial System.

The individual financial statements of Banca Privada d'Andorra, SA and each of its subsidiaries for 2013 are pending approval by the respective shareholders at their annual general meetings. However, the Bank's Board of Directors, which also controls the consolidated subsidiaries, considers that the individual financial statements of the Group companies will be approved without any significant changes.

2.2. Accounting principles and comparative information

The Group's consolidated financial statements for the year ended 31 December 2013 have been prepared taking into account all the accounting principles and policies described in Note 3, together with any applicable valuation methods that may have a material impact on them. These financial statements have been prepared on the basis of the accounting records of the Bank and its Group companies. No mandatory accounting principles having a significant effect on these financial statements have been excluded during their preparation.

These financial statements are presented in thousands of euros, except where expressly stated.

In accordance with current legislation, the information contained in these notes relating to 2012 is presented exclusively for comparative purposes with the information relating to 2013, and does not therefore constitute part of the Group's consolidated financial statements for 2013.

2.3. Principles and scope of consolidation

According to the Accounting Plan of the Andorran Financial System, there is a relationship of control by a dominant entity over a dependent entity when the former, either directly in its own right or indirectly through other persons or entities acting on its behalf or in agreement with the former:

- holds a majority of the voting rights or is able to make use of, pursuant to an agreement with other shareholders, a majority of the voting rights of the latter;
- has the right or has actually exercised the right to appoint or remove the majority of the members of the governing body;
- has appointed, exclusively with its votes, at least half plus one of the members of the governing body of the latter; or
- controls the governing body because at least half plus one of the members of the governing body of the latter are board members or senior management, directly or indirectly, of the former.

An economic group is made up of those entities that, irrespective of their legal form, activity or registered offices, constitute:

- a decision-making unit so that one of these entities exercises, directly or indirectly, the sole management of the other entities or the aforementioned management is exercised by one or more individuals acting systematically and in coordination with each other; and
- an economic unit of risk because its solvency, capacity to generate funds or future viability depends closely on any of its components.

In any case, dominant entities and their dependent entities are understood as an economic group.

Jointly-controlled entities are those not included in the economic group but which are managed by one or more entities of the group and which form part of its share capital, together with one or more other entities which are not related to it. Entities are understood to be managed jointly when, in addition to forming part, directly or indirectly, of the capital, any of the following circumstances apply:

- joint management has been established in the company articles of association; or
- there are pacts or agreements that allow shareholders to exercise their right to veto in taking company decisions.

Associated entities are those not included in the economic group but which meet both the following requirements:

- one or more group entities form a part, directly or indirectly, of the entity's share capital; and
- a long-lasting relationship has been created that contributes to their activity.

These requirements are deemed to have been met when one or more group entities hold a direct or indirect share in the company's capital of at least 20%, or 3% if it is quoted on a regulated market.

Methods of consolidation:

The full consolidation method is applied when the entity to be consolidated carries out the same or a similar activity (entities belonging to the financial system or instrumental and/or auxiliary entities, fundamentally) and when it belongs to the economic group.

According to the full consolidation method, rather than recognising the net book value of investments and flows resulting from the investment, the assets and liabilities, income and expenditure of the group company to be consolidated are included within or added to the balance sheet and income statement of the Parent.

All significant balances between Group entities, i.e. loans, debts and other commitments, have been eliminated from the balance sheet and the memorandum accounts.

Income and expenses related to significant transactions between consolidated entities have been eliminated and do not affect the Group's results. Profit and loss on internal transactions have been eliminated and deferred until realised via third parties.

The difference between the net book value of fully consolidated companies and their equity at year end is included in the consolidation reserves.

The accounts of the consolidated entities are governed by the same rules of classification, valuation, amortisation and depreciation and provisions.

The consolidation of the profit or loss generated by subsidiaries acquired in a financial year is carried out by taking only into consideration the results for the period between the date of acquisition and the date this period ends.

In the case of fully consolidated companies, the portion corresponding to the Group (based on the percentage of consolidation) and the portion attributable to minority interests, i.e. not belonging to the Group, are differentiated in consolidated profit and loss. Minority interests recognised under liabilities reflect the part that does not form part of the equity and that corresponds to minority shareholders.

The equity method is applied when the entity to be consolidated is an associate, when it belongs to the economic group but carries out a different activity and when it is a jointly-controlled company with a different activity.

The annual accounts in foreign currency of consolidated entities are converted to the reference currency of the consolidated financial statements in accordance with the following criteria:

- Balance sheet assets and liabilities are converted at the exchange rate prevailing on the closing date of the consolidated financial statements.
- For the purpose of preparing the consolidated income statements, the income statements of subsidiaries are converted at the average exchange rate for the period.

- Share capital, reserves and retained earnings that are not eliminated on consolidation are converted at the historical exchange rate for the date on which they were generated.
- Differences arising from the use of different conversion methods are recognised under Conversion differences on the balance sheet.

Details of the consolidated companies and consolidation method used are as follows:

Company	Domicile	Percentage ownership	Activity	Method of consolidation
Direct equity investments				
BPA Fons, SAU	Andorra	100%	Investment fund management	Full consolidation
BPA Gestió, SAU	Andorra	100%	Real estate project management	Full consolidation
BPA Serveis, SAU	Andorra	100%	Services	Full consolidation
Banca Privada d'Andorra (Uruguay) S.A. I.F.E.	Uruguay	100%	Securities and money brokerage	Full consolidation
BPA Financing, S.à.r.l.	Luxembourg	100%	Financial markets brokerage services	Full consolidation
BPA IPWM (Suisse), S.A.	Switzerland	66.67%	Asset management	Full consolidation
Banca Privada d' Andorra, S.A. (Panamá)	Panama	100%	Banking entity	Full consolidation
BPA Valores, S.A.	Panama	100%	Securities investment company	Full consolidation
BPA International Trust, S.A.	Panama	100%	Trustee business	Full consolidation
Noswey, S.A.	Uruguay	100%	Investment advisory services	Full consolidation
BPA Finance, P.L.C.	Ireland	99.997%	Issuing debt	Full consolidation
BMadrid Mexico S.A. de C.V. SOFOM	Mexico	99.9%	Granting of loans	Full consolidation
BMadrid México Asesores Patrimoniales, S.A. de C.V.	Mexico	100%	Financial advise	Full consolidation
Banco de Madrid, S.A. (*)	Spain	100%	Banking entity	Full consolidation
Interdin, S.A. (*)	Spain	100%	Administration and sale of securities	Full consolidation
BPA Assegurances, SAU (*)	Andorra	100%	Insurance company	Equity method
Les Llenguaders dels Vilars, SL	Andorra	25%	Real estate construction, development and commercialisation	Equity method
Càbala, SL	Andorra	25%	Real estate construction, development and commercialisation	Equity method
Zaguer Inmoprom, S.L.	Spain	25%	Construction and development	Equity method
Vigilància i Protecció, SA	Andorra	24%	Services	Equity method

(*) Direct subsidiary of BPA which also has direct equity investments in other companies.

Indirect equity investments

Banco Madrid Gestión de Activos, S.G.I.I.C., S.A.U. (**)	Spain	100%	Investment fund management	Full consolidation
BMN Gestión de Activos, S.G.I.I.C., S.A. (**)	Spain	100%	Investment fund management	Full consolidation
Interdin Bolsa, Sociedad de Valores, S.A.U. (***)	Spain	100%	Investment and auxiliary services	Full consolidation
BPA Finance, PLC (***)	Ireland	0.003%	Issue of financial instruments	Full consolidation
MB Corredors d'Assegurances, SA (****)	Andorra	25%	Insurance brokerage	Equity method
Consultora de Riesgos Financieros, S.A. (***)	Spain	30%	Financial and accounting services	Equity method

(**) Indirect investments held through Banco de Madrid, S.A.U.

(***) Indirect investments held through Interdin, S.A.U.

(****) Indirect investments held through BPA Assegurances, SAU

The main changes to the Group's scope of consolidation in 2013 were the following:

Acquisition and merger of Nordkapp Inversiones, Sociedad de Valores, S.A.U. (absorbed company) by Banco de Madrid, S.A.U. (absorbing company)

On 30 October 2012 the Group acquired 16,133,070 shares from Banco de Valencia, S.A. and 216,930 shares from a minority shareholder, representing 98.68% and 1.32%, respectively, of the share capital of Nordkapp Inversiones, Sociedad de Valores, S.A.U. Goodwill of Euros 993 thousand was recognised to reflect the difference between the acquisition price and the net fair value of the assets and liabilities of Nordkapp Inversiones, Sociedad de Valores, S.A.U. at 30 October 2012. This amount was recorded under Gains on consolidation in the consolidated balance sheet for the year ended 31 December 2013.

Following the acquisition of 100% of the share capital of Nordkapp Inversiones, Sociedad de Valores, S.A.U., the Group acquired indirect control of this company's subsidiaries, comprising the former Nordkapp Group (Nordkapp Gestión, S.G.I.I.C., S.A. and Gestifondo S.A.). Nordkapp Gestión, S.G.I.I.C., S.A. was merged with Banco Madrid Gestión de Activos, S.G.I.I.C., S.A.U. during 2013 and Gestifondo S.A. was wound up.

Following the acquisition of Nordkapp Inversiones, Sociedad de Valores, S.A.U., on 21 December 2012 the Group recognised goodwill of Euros 3,900 thousand, arising entirely from the transfer of asset management activities between Nordkapp Inversiones, Sociedad de Valores, S.A.U. and Arcalia Patrimonios, Sociedad de Valores, S.A. In 2013, as a result of the amount received due to the early cancellation of the investment fund distribution contract signed with the Banco de Valencia Group (presently CaixaBank, S.A.), Banco de Madrid, S.A.U. recognised an impairment of Euros 1,895 thousand to the goodwill arising on the acquisition of Nordkapp, charged to Amortisation and depreciation of fixed assets - Amortisation and depreciation of intangible and tangible assets in the accompanying consolidated income statement. The net book value of the goodwill arising on the acquisition of Nordkapp was therefore Euros 2,005 thousand at 31 December 2013 (see note 8).

Goodwill totalling Euros 120 thousand recorded under Intangible assets and amortisable costs - Goodwill, in the consolidated balance sheet for the year ended 31 December 2013, corresponds entirely to the transfer on 10 May 2013 to the investee Banco de Madrid, S.A.U. from La Caixa (formerly Banco de Valencia, S.A.) of discretionary portfolio management, brokerage and securities administration contracts signed by Nordkapp Inversiones Sociedad de Valores, S.A.U. with certain customers.

The Boards of Directors of Banco de Madrid, S.A.U. and Nordkapp Inversiones, Sociedad de Valores, S.A.U., at their respective meetings held on 27 March 2013, formulated and signed a Common Project for the merger by absorption of Nordkapp Inversiones, Sociedad de Valores, S.A.U. by Banco de Madrid, S.A.U., the former being thereupon extinguished without liquidation.

The Common Merger Project, and the agreements related to the merger, were approved by the Bank as the sole shareholder of Nordkapp Inversiones, Sociedad de Valores,

S.A.U. on 31 May 2013. On 30 July 2013 the Spanish Ministry for the Economy and Competitiveness authorised the merger.

Following the merger, the assets of the the merged company were transferred en bloc to Banco de Madrid, S.A.U. (the absorbing company) by universal succession, Banco de Madrid, S.A.U. being subrogated to all the rights and obligations of the absorbed company.

Acquisition of Liberbank Gestión, S.G.I.I.C., S.A.U. and merger of Banco Madrid Gestión de Activos, S.G.I.I.C. S.A.U. (absorbing company), BPA Global Funds Asset Management, S.G.I.I.C., S.A.U., Nordkapp Gestión, S.G.I.I.C., S.A. and Liberbank Gestión, S.G.I.I.C., S.A.U. (absorbed companies)

i. Acquisition of Liberbank Gestión S.G.I.I.C., S.A.U.

On 25 March 2013 the Bank purchased by public deed 100% of the shares of Liberbank Gestión, S.G.I.I.C., S.A.U., from its sole shareholder, Liberbank Servicios Financieros, S.A., a company in the Liberbank, S.A. Group. The key features of this acquisition were:

- The purchase by public deed was preceded by an agreement between the two parties dated 28 December 2012, stipulating the conditions which, in general, were incorporated in the final agreement. Nevertheless, control of Liberbank Gestión, S.G.I.I.C., S.A.U. did not pass to the Bank until the date of the public deed of purchase, as certain conditions stipulated in the original agreement were only met on this date (principally, the obtaining of authorisation from the Spanish securities market regulator (the CNMV) and the Andorran National Institute of Finance (INAF).
- This purchase agreement formed part of an operation comprising the sale of 100% of the share capital of Liberbank Gestión, S.G.I.I.C., S.A.U. and the establishment between Liberbank Serveis Financers, S.A. and the Bank of an exclusive distribution agreement for collective investment products and services through the Liberbank Group's branch network. Under the contract, the parties have agreed a guaranteed minimum volume of assets under management corresponding to the collective investment undertakings (IIC) sold through said Group's branch network and which will be managed by Banco Madrid Gestión de Activos, S.G.I.I.C., S.A.U.
- The acquisition price for Liberbank Gestión, S.G.I.I.C., S.A.U., was Euros 26,095 thousand, of which Euros 8,109 thousand are recorded under Gains on consolidation in the Group's balance sheet, while Euros 14,590 thousand correspond to the financial asset recorded under Financial intermediaries - Banks and credit institutions (see note 5), based on the guaranteed minimum volume of assets under management corresponding to the IIC sold through the branch network.

ii. Merger of Banco Madrid Gestión de Activos, S.G.I.I.C., S.A.U. (absorbing company), BPA Global Funds Asset Management, S.G.I.I.C., S.A.U., Nordkapp Gestión, S.G.I.I.C., S.A. and Liberbank Gestión, S.G.I.I.C., S.A.U. (absorbed companies)

On 21 December 2012, Banco de Madrid, S.A.U. received from the Bank a non-monetary contribution of 3,300 shares with par value of Euros 1 thousand per share, representing

100% of the share capital of BPA Global Funds Asset Management S.G.I.I.C., S.A.U., for consideration of Euros 3,000 thousand.

The Boards of Directors of the Bank, as sole shareholder of Banco Madrid Gestión de Activos, S.G.I.I.C., S.A.U. and of all the absorbed companies, BPA Global Funds Asset Management, S.G.I.I.C., S.A.U., Nordkapp Gestión, S.G.I.I.C., S.A. and Liberbank Gestión, S.G.I.I.C., S.A.U. (hereinafter the companies), at their respective meetings held on 27 March 2013, unanimously approved the formulation of the Single Project for the merger by absorption of all the absorbed companies by Banco Madrid Gestión de Activos, S.G.I.I.C., S.A.U., the former being thereupon extinguished without liquidation.

The main reasons for the merger (economic and issues of efficiency) were:

- To increase the quantity and quality of services offered, providing access to larger and more complex projects and services, thanks to the increased consolidated equity of the absorbing company.
- To improve the competitiveness and efficiency of the managed services by enhancing the professional qualifications and training of the Group's personnel.
- To simplify the Group's corporate structure, centralising services in a single company, reducing the number of locations involved and the duplication of the administrative expenses applicable to this type of company.
- To take advantage of the synergies and economies of scale obtained from unifying services, extinguishing three of the companies in order to reduce corporate expenses.

The Single Merger Project and the agreements related to the merger were approved at the companies' respective Extraordinary General Meetings of Shareholders held on 7 June 2013. The merger was authorised by the Ministry for the Economy on 30 July 2013 on the recommendation of the Spanish securities market regulator (the CNMV).

Following the merger, the assets of the merged companies were transferred en bloc to the absorbing company by universal succession, the absorbing company being subrogated to all the rights and obligations of the absorbed companies.

Acquisition of BMN Gestión de Activos, S.G.I.I.C., S.A.

On 15 November 2013 the Bank purchased by public deed 100% of the shares of BMN Gestión de Activos, S.G.I.I.C., S.A., from its sole shareholder Banco Mare Nostrum, S.A. The conditions stipulated in the deed were principally those contained in the final agreement. The key features of this acquisition were:

- This purchase agreement formed part of an operation comprising the sale of 100% of the share capital of BMN Gestión de Activos, S.G.I.I.C., S.A. and the establishment between Banco Mare Nostrum, S.A. (the seller) and the Bank of an exclusive distribution agreement for collective investment products and services through the seller's branch network. Under the contract, the parties have agreed a guaranteed minimum amount of commission income corresponding to the collective investment

undertakings (IIC) to be sold through said Group's branch network and which will be managed by Banco Madrid Gestión de Activos, S.G.I.I.C., S.A.U. The sale agreement is based on the effectiveness of the distribution contract.

- The acquisition price for BMN Gestión de Activos, S.G.I.I.C., S.A. was estimated at Euros 27,217 thousand at 31 December 2013, including estimated adjustments to the contract price. This acquisition generated goodwill on consolidation of Euros 3,353 thousand recorded under Gains on consolidation in the Group's balance sheet and a financial asset of Euros 19,500 thousand recorded under Financial intermediaries - Banks and credit institutions (see note 5), based on the guaranteed minimum commission income from the IIC sold through the branch network. The acquisition price, which includes a variable component, will be determined and finally settled, in accordance with the contract, after the date on which these consolidated financial statements are prepared.
- The Group's Directors consider that, on the basis of a letter of intent signed by the parties on 31 December 2013, a legal ruling and discussions with regulatory bodies, control of BMN Gestión de Activos, S.G.I.I.C., S.A. passed to the Group on 31 December 2013. The purchase operation had previously been authorised by the Spanish securities market regulator (the CNMV) and the Andorran National Institute of Finance (INAF).

With regard to the Interdin consolidated sub-group, the Bank's Directors also wish to draw attention to the following:

- On 9 September 2013 the extraordinary general shareholders' meeting agreed to the voluntary winding up of Interdin Corporate Advisory, S.A.U.
- On 15 January 2014 the Group signed a letter of intent with an entity agreeing to sell its subsidiary Consultora de Riesgos Financieros, S.A. for a price equivalent to its underlying net book value at the sale date.

Details of the Group's subsidiaries and other information of interest

BPA Fons, SAU is a company with registered offices in Andorra. Its statutory activity is the provision of advisory services on investments, the custody and management of holdings in investment funds and the administration, management and representation of collective investment undertakings.

BPA Gestió, SAU is domiciled in Andorra and was created for the purpose of managing real estate projects.

BPA Serveis, SAU, with registered offices in Andorra, renders services complementary to the private banking activity carried out by the Bank.

BPA (Uruguay) S.A. I.F.E (External Financial Institution) is domiciled in Uruguay and its statutory activity is to render intermediary or brokerage services related to the supply of and demand for securities, money or precious metals located outside the country, dealing exclusively with non-residents. This company was incorporated by means of

articles of association signed on 27 November 2001 and ratified on 7 April 2003 and it obtained authorisation to operate as an External Financial Institution in Uruguay on 9 July 2003. At 31 December 2013 this company was inactive and the Group has initiated proceedings to wind it up.

BPA Financing, S.à.r.l., incorporated in 2008, is a company domiciled in Luxembourg. Its statutory activity is the rendering of brokerage services in financial markets. The company's operating volumes have declined significantly in recent financial periods. The Bank has not yet made a final decision concerning the future of this investee.

BPA-IPWM (Suisse), S.A. is domiciled in Switzerland and is dedicated to asset management. In accordance with an incorporation deed dated 9 March 2010 the Bank holds 66.67% of the company. In accordance with a ruling issued by l'Autorité Fédérale de Surveillance des Marchés Financiers (FINMA), the entity is authorised to provide financial brokerage services. The company's operating volumes have declined significantly in recent financial periods. The Bank has not yet made a final decision concerning the future of this investee.

Banca Privada d'Andorra, S.A. (Panamá) was inaugurated in 2009 as a representation office in Panama, in accordance with the license granted on 11 May 2009. On 8 March 2010 the Superintendency of Banks of Panama granted the Bank an international license authorising it to carry out banking transactions abroad, rendering null and void the former representation license. On 11 November 2011 this entity was granted the International Banking License, as a subsidiary to carry out the Bank's business in Panama.

BPA Valores, S.A. is domiciled in the Republic of Panama and its statutory activity comprises business involving securities and other activities related to and complementary to this business in accordance with the laws and regulations of Panama.

BPA International Trust, S.A. is a Panamanian company incorporated on 15 July 2011. Its statutory activity is the provision of trusteeship services. On 19 August 2011 the Superintendency of Banks of Panama granted a trustee license so that it could exercise a trustee business from Panama and it was fully operational at the 2012 year end. The company's operating volumes have declined significantly in recent financial periods. The Bank is in the process of selling its investment in this company. The sale operation had not been completed at the balance sheet date.

NOSWEY, S.A. is domiciled in Uruguay and was incorporated on 22 June 2009. The company's statutory activity is the provision of investment advisory services. It was entered in the Central Bank of Uruguay's registry of investment advisers on 14 February 2013.

BPA Finance, PLC was incorporated on 10 July 2013 in Dublin (Ireland). The company's main activity is the issue of preference shares and other securities and financial instruments in order to obtain financing for the Group.

BMadrid Mexico S.A. de C.V. SOFOM ENR is a financial company for multiple purposes. Its statutory activity is the extending of all kinds of loans. This company was inscribed in the register of the Mexican United States on 1 March 2011. The company's shares

are divided between BPA (99.9%) and BPA Serveis (0.1%). At 31 December 2013 the company is being wound up.

Banco de Madrid, S.A.U. is a company domiciled in Spain. Its statutory activity is the carrying out of all kinds of banking operations in general, in accordance with its articles of association. On 20 July 2011 the Bank acquired 100% of the share capital of this company. This acquisition generated a gain on first-time consolidation of Euros 79,161 thousand, recognised under Gains on consolidation in the accompanying consolidated balance sheet. Banco de Madrid is the parent of a group of companies whose activities include administration, fund management, financial brokerage, discretionary portfolio management and securities trading in Spain. This company is subject to the legislation and regulations of banking and credit entities operating in Spain. The Group's Directors, using estimates, forecasts and internal valuations carried out by an independent expert (IM Valora Consulting), have tested the aforementioned gains on consolidation for signs of impairment based on an estimate of their recoverable value. No impairment loss was recognised as a result of this assessment.

Interdin, S.A. is a company domiciled in Spain which holds 100% of Interdin Bolsa S.V., S.A. and Interdin Corporate Advisory, S.A.U., which is dedicated to rendering advisory services and the acquisition, holding, administration and sale of all kinds of securities. On 16 November 2011 the Bank acquired 55.11% of the share capital of this company. This acquisition generated a gain on first-time consolidation of Euros 6,444 thousand, recognised under Gains on consolidation in the accompanying consolidated balance sheet. On 14 December 2011 the INAF authorised the acquisition of up to 100% of its share capital. The company and investees are subject to Spanish legislation and regulations. The Group's Directors, using estimates, forecasts and internal valuations carried out by an independent expert (IM Valora Consulting), have tested the aforementioned gains on consolidation for signs of impairment based on an estimate of their recoverable value. No impairment loss was recognised as a result of this assessment.

BPA Assegurances, SAU is an insurance company domiciled in Andorra engaged in all lines of life insurance.

Les Llenguaderes dels Vilars, SL is domiciled in Andorra and engages in the construction, development and commercialisation of real estate. During 2005 the Bank acquired a 25% interest in this company at a cost of Euros 1000. On 30 June 2007 the Bank granted a Euros 500 thousand participating loan to this company, extending the loan by a further Euros 75 thousand on 6 October 2009, recorded under Loans and receivables on the accompanying consolidated balance sheet. This loan matures on 31 December 2017 and bears interest at a variable rate based on the performance of results obtained by the borrower. Two credit facilities have also been granted to this subsidiary, the amounts drawn at 31 December 2013 being Euros 15,248 thousand and Euros 1,499 thousand, maturing on 7 November 2017 and 14 February 2018, respectively. In 2005, BPA Assegurances, SAU also acquired a 15% interest in this company on behalf of the BPA Group employees' retirement plan (see note 32).

Càbala, SL is domiciled in Andorra and engages in the construction, development and commercialisation of real estate. In 2006 the Bank acquired a 25% interest in this company from BPA Serveis, SAU, at a cost of Euros 1000. On 26 September 2013 the Bank extended a Euros 6,000 thousand loan to Càbala, SL, which is currently recorded under Loans and receivables on the accompanying balance sheet. This loan matures on 26 September 2028 and bears interest at a variable rate benchmarked to the 12-month Euribor. A credit facility has also been granted to this subsidiary, the amount drawn at 31 December 2013 being Euros 18,802 thousand, maturing on 30 April 2028.

Zaguer Immoprom, S.L., domiciled in Spain, is engaged in the construction, development and commercialisation of real estate. On 30 October 2008 the Bank acquired a 49.60% interest in this company, 24.60% of which corresponds to the purchase made on behalf of the BPA Fons Real Estate fund, which was sold during 2012. The first consolidation of the Bank's 25% interest in the Group was carried out on 31 December 2008 and generated a gain on first-time consolidation of Euros 1,083 thousand, recorded under Gains on consolidation on the accompanying consolidated balance sheet. This gain was carried at Euros 291 thousand at 31 December 2013.

Vigilància i Protecció, SA (VIPSA) is domiciled in Andorra and provides surveillance and security services.

The Bank's 20% holding in Seguretat i Serveis, SA (Seguriser, SA) was sold during 2013.

Banco Madrid Gestión de Activos, S.G.I.I.C., S.A., a company domiciled in Spain, is a 100% subsidiary of Banco de Madrid, S.A.U. Its statutory activity is the administration, representation and management of investments and subscriptions and reimbursements of investment funds and undertakings.

BMN Gestión de Activos, a company domiciled in Spain, is a 100% subsidiary of Banco de Madrid, S.A.U. Its statutory activity is the administration, representation and management of investments and subscriptions and reimbursements of investment funds and undertakings.

MB Corredors d'Assegurances, SA. is a company with registered address in Andorra and held through BPA Assegurances, SAU. Its principal activity is the brokerage of private insurance products.

Interdin Bolsa, Sociedad de Valores, S.A.U. is a company with registered address in Spain and held through Interdin, S.A.U. Its activities are the brokerage and execution of sale and purchase orders for shares, fixed-income securities, futures and options traded through a range of channels.

Consultora de Riesgos Financieros, S.A. is a company with registered address in Spain and held through Interdin, S.A.U. Its activities are the brokerage and execution of sale and purchase orders for shares, fixed-income securities, futures and options traded through a range of channels.

Details of the shareholders' equity of fully consolidated companies at 31 December 2013 are as follows:

THOUSANDS OF EUROS

Society	Capital	Reserves	Profit for 2013	Prior years' profit / (losses)	Interim dividend	Total shareholders' equity	Participating loans ⁽²⁾
BPA Fons, SAU ^{(1) (3)}	300	2,711	6,307	–	(5,500)	3,818	–
BPA Gestió, SAU	60	348	76	(33)	–	451	–
BPA Serveis, SAU	60	625	(38)	–	–	647	–
Banca Privada d'Andorra (Uruguay), S.A. I.F.E.	3,590	(165)	(42)	(161)	–	3,222	–
BPA Financing, S.à.r.l.	1,000	100	(113)	(140)	–	847	–
BPA-IPWM (Suisse), S.A. ⁽¹⁾	111	13	(22)	(109)	–	(7)	–
Banca Privada d'Andorra (Panamá), S.A. ⁽¹⁾	2,098	396	57	9	–	2,560	–
BPA Valores, S.A. ⁽¹⁾	214	(11)	123	248	–	574	–
BPA International Trust, S.A. ⁽¹⁾	175	11	(77)	(59)	–	50	–
Noswey, S.A. ⁽¹⁾	1,817	100	(493)	(449)	–	975	–
BPA Finance, PLC	40	(29)	(132)	–	–	(121)	–
BMadrid Mexico S.A. de C.V. SOFOM	18	81	–	–	–	99	276
BMadrid México Asesores Patrimoniales, S.A. de C.V.	88	1	–	(34)	–	55	–
Banco de Madrid, S.A.U. ⁽²⁾	65,966	26,589	8,602	–	–	101,157	–
Interdin, S.A. ⁽²⁾	4,104	4,949	989	–	–	10,042	–
Banco Madrid Gestión de Activos, S.G.I.I.C., S.A.U. ⁽¹⁾	2,523	7,683	4,223	(81)	–	14,348	–
BMN Gestión de Activos, S.G.I.I.C., S.A.U. ⁽¹⁾	3,155	4,078	248	–	–	7,481	–
Interdin Bolsa, Sociedad de Valores, S.A.U. ⁽¹⁾	7,513	6,079	1,307	(1,950)	–	12,949	–
Total	92,832	53,559	21,015	(2,759)	(5,500)	159,147	276

(1): Figures from the audited individual financial statements.

(2): Figures from the audited consolidated financial statements of the sub-groups.

(3): The following dividends were paid in 2013: BPA Fons, SAU Euros 900 thousand against 2012 profits and Euros 5,500 thousand against 2013 profits.

Details of the shareholders' equity of equity accounted companies at 31 December 2013 are as follows:

THOUSANDS OF EUROS (DEL 100%)

Society	Capital	Reserves	Profit for 2013	Prior years' profit / (losses)	Underlying carrying amount of 100%	Participating loans
BPA Assegurances, SAU ^{(1) (2)}	610	3,778	1,256	–	4,844	–
Les Llenguaders dels Vilars, SL	3	–	(302)	(2,857)	(3,156)	2,300
Càbala, SL	3,006	(2)	(401)	(283)	2,320	6,000
Zaguer Inmoprom, S.L. ⁽¹⁾	1,264	–	(895)	(388)	(19)	–
Vigilància i Protecció, SA	75	499	(371)	14	217	–
MB Corredors d'Assegurances, SA	60	376	101	–	537	–
Consultora de Riesgos Financieros, S.A.	250	181	11	(84)	358	–
Vesta Residencial, S.A.	425	(13)	(21)	(393)	(2)	–
Serveis i Mitjans de Pagament XXI, SA (Sermipa) ⁽¹⁾	60	190	(53)	(14)	183	–
Total	5,753	5,009	(675)	(4,005)	5,282	8,300

(1): Figures from the audited individual financial statements.

(2): The following dividends were paid in 2013: BPA Assegurances, SAU, Euros 1,800 thousand (Euros 1,000 thousand against 2012 profits and Euros 800 thousand against 2013 profits).

3. ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

These financial statements have been prepared in accordance with the accounting principles and valuation criteria established by the INAF in the Accounting Plan of the Andorran Financial System and subsequent communiqués issued by the INAF in relation to the Plan, the most significant of which are as follows:

3.1. Accruals principle

Income and expenses are recorded on an accruals basis, and the effective interest method is applied to transactions with a settlement period of more than twelve months. Nevertheless, in accordance with the prudence principle and as required by applicable legislation, all interest accrued from debtors classified as doubtful or very doubtful is recognised as revenue when it is collected.

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

3.2. Recording principle

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

3.3. Foreign currency conversions

Foreign currency assets and liabilities have been translated to Euros at the mid-market exchange rates prevailing on the last working day before year end, as established by the Association of Andorran Banks (hereinafter ABA). Details of the principal exchange rates established by the ABA for the last working day of 2013 and 2012 are as follows:

	2013	2012
US dollars	1.3801	1.3229
Pounds sterling	0.8367	0.8200
Japanese yen	145.09	113.76
Swiss francs	1.2262	1.2078
Canadian dollars	1.4753	1.3163

In the event of balance sheet positions hedged with forwards, insurance contracts or foreign currency sales and purchases, and over the whole duration of these contracts, the underlying exchange gains or losses originating on balance sheet positions are neutralised by profit and/or losses on hedging instruments. Both these items are recorded under Gains or losses on financial assets or liabilities - Exchange gains/(losses) in the accompanying consolidated income statement.

Likewise, other income and expenses arising from exchange differences during the year are recorded under Gains or losses on financial assets or liabilities - Exchange gains/(losses) in the accompanying consolidated income statement.

3.4. Provision for loan losses

The purpose of the provision for loan losses is to cover losses arising from the recovery of loans and receivables, investment securities, guarantees and other Group operations. These accounts are increased by charges to income and reduced by the repayment of loans considered unrecoverable and by the recovery of amounts previously provided for.

The provisions providing coverage of loan losses established in the Accounting Plan for Andorra are as follows:

Specific provisions

Specific provisions are determined individually and in accordance with the prudence principle, based on quantitative and qualitative regulatory guidelines and on a detailed analysis of the exposure to credit risk, set at a level considered sufficient to cover all potential risks.

General provisions

To cover such losses as may arise from risks not individually identified as problematic at present, a general provision is made equivalent to:

- 0.5% of net loans to banks;
- 0.5% of fixed-income securities issued by banks;
- 1% of loans to customers, except for the part covered by contractually pledged cash guarantees and the risks guaranteed by listed securities, up to the limit of the market value of these securities, and mortgage-backed loans, up to the limit of the appraisal value in accordance with INAF communiqué 198/10 regarding the taxation of mortgaged land and buildings;
- 1% of fixed income securities, except for bond issues of central governments of OECD countries or Andorra, or central banks of OECD countries, or bonds expressly secured by these same bodies, for which no provision is made.

Provisions for country risk

The Group operates with correspondents and financial intermediaries established in Andorra or OECD countries. Likewise it has positions with securities or financial instruments located in Andorra or other OECD countries as well as certain securities traded with recognised counterparts. No provision for country risk has been recognised for these latter securities as they are traded on a regular basis and measured daily at executable prices provided by recognised counterparts.

The Bank has not recognised any provision for country risk.

3.5. Unused credit facilities

Credit facilities extended to customers are recorded in the accompanying consolidated balance sheet at the amount drawn down, and the undrawn amounts are recorded in memorandum accounts under Contingent commitments and risks – Operational commitments and risks.

3.6. Investment securities

i. Fixed income

Fixed-income securities held in the Group's portfolio are classified according to the following criteria:

- a) Securities assigned to the trading portfolio, which include securities which the Group intends to sell with the aim of making a profit in the short term from price fluctuations, are carried at market value. Any differences arising from variations in the value of these securities, excluding accrued coupon payments, are recorded net under Profit/(loss) on financial transactions – Profit/(loss) on securities transactions" in the accompanying consolidated income statement. Interest accrued after acquisition is recorded under Interest and related income – Bonds and other fixed-income securities.
- b) The securities in the held-to-maturity portfolio include securities that the Group has the intention and the financial capacity to hold to maturity. These securities are stated at adjusted acquisition cost: the acquisition cost is adjusted by the amount resulting from recognising the positive or negative difference between cost and redemption value over the remaining life of the security.

The losses that may be incurred as a result of disposals are recognised in the consolidated income statement as extraordinary losses; profits are accrued on a straight-line basis throughout the remaining life of the security sold and recognised under Profit/(loss) on financial transactions in the income statement.

- c) The remaining securities are assigned to the ordinary investment portfolio and are stated at adjusted acquisition cost. The difference between the market value and adjusted acquisition cost is calculated and a provision is made to the security valuation reserve equivalent to the sum of the negative differences, less the sum of the positive differences and is charged to the consolidated income statement.

The market value of unlisted securities or those securities with low liquidity and therefore, with an unrepresentative quotation has been calculated using, either a model (appraisal study by a renowned independent expert or by the risk management or control department's appraisal unit) or using other market-comparable data.

ii. Variable-income and investment funds

- a) Securities comprising the trading portfolio are carried at market value.

The market value of these securities is calculated as follows:

- Listed securities: quoted price on the last working day of the year.
- Unlisted securities: underlying net book value taken from the latest available balance sheet, taking into consideration any unrealised gains at the purchase date and existing at the valuation date of the investments.
- Units in investment funds are measured on the basis of the most recent values provided by the management companies.

- b) Securities assigned to the ordinary investment portfolio are carried at the lower of cost or market value.

iii. Long-term investment securities

Unlisted variable-income securities of Group companies classified as long-term investment securities are carried at the appropriate proportion of the net book value of the investment, calculated on its underlying value, adjusted by potential gains existing at the time of the acquisition, which still exist, up to the limit of the acquisition cost. In the event that the difference between the price paid for the shares of the subsidiary and the corresponding proportion of shareholders' equity results in positive goodwill, the Bank will test this goodwill for impairment annually, in accordance with the guidelines established in INAF communiqués 227/12 and 228/12. When an investment in the securities portfolio shows signs of impairment, the Bank adjusts the value of the investee in its individual financial statements.

3.7. Intangible assets and amortisable costs

Tangible assets are stated at cost, revalued where applicable, less accumulated depreciation provided on a straight-line basis over the estimated useful lives of the related assets, as follows:

	Useful life
Buildings	25-50*
Fixtures	10-20
IT equipment	3-5
Others	3-10

* Improvements to leased buildings classified as used for operations are depreciated over the lease term.

Foreclosed assets are recognised under Tangible assets and include land and buildings valued at the lower of cost of foreclosure or market price.

Foreclosed land and buildings are recognised in accounts on the basis of regular appraisals (a minimum of every two years). Any impairment is recognised in the income statement.

Repair and maintenance costs which do not improve or extend the useful lives of the related assets are expensed when incurred.

During 1999 and subsequent to authorisation from the INAF, the Bank revalued certain tangible assets by Euros 3,626 thousand. This amount was recognised as an increase in the cost of the fixed assets under Tangible assets on the accompanying consolidated balance sheet, with a balancing entry for the same amount in a restricted reserve. In accordance with the authorisation from the INAF, in 2000 the Bank reduced this revaluation reserve by Euros 1,948 thousand as a result of the application of the obligations under the new Accounting Plan of the Andorran Financial System and the remaining revaluation reserve stood at Euros 1,678 thousand (see note 20). At 31 December 2013, Euros 680 thousand of the revaluation had been depreciated.

3.8. Intangible assets

Intangible assets mainly relate to the cost of computer software and amortisable costs, are stated at cost and amortised over their useful lives up to a maximum of 5 years, except in the case of costs relating to the acquisitions of Banco de Madrid, S.A.U. and Interdin, S.A. which are amortised over a period of 10 years in accordance with an authorisation from the INAF.

Goodwill is recorded at acquisition cost. Impairment testing is carried out annually and where these assets show signs of impairment, the corresponding loss is recognised in the income statement. This loss is treated as irreversible even if the asset value recovers.

3.9. Provision for risks and contingencies

This caption includes provisions that the Group makes to prevent contingent payments or charges of a specific nature. These provisions are recognised as soon as the existence of the liability or obligations is known. Although the Group was involved in a number of lawsuits at 31 December 2013, it considers that it has always acted correctly and it is not expected that any significant liabilities will arise as a result thereof.

3.10. General risks reserve

The general risks reserve relates to provisions that the Group has made in accordance with the principle of prudence, given the risks inherent to banking and financial activities (see note 16).

According to the Accounting Plan of the Andorran Financial System, this reserve is considered as shareholders' equity for the purpose of calculating the capital adequacy ratio.

3.11. Financial derivatives

The Group uses these instruments, mainly futures or forward currency sales and purchases, to hedge its positions in currencies other than the Euro, and they are recorded under the accompanying consolidated memorandum accounts at the par value on maturity of the related contracts (see note 22).

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

The balancing entry of the unrealised gains or losses on financial derivatives used for hedging purposes outstanding at 31 December 2012 is recorded under Prepayments and accrued income and Accrued expenses and deferred income in the accompanying consolidated balance sheet (see notes 10 and 18).

Non-hedging items, also called trading transactions, contracted on an organised market are measured at their quoted value and variations in quoted values are recognised in full in the accompanying income statement.

Profit or loss on trading transactions contracted outside these markets is not recognised in the income statement until it has been effectively settled. However, at each month-end a valuation is made of positions, and, if necessary, a provision is charged to income to cover possible net losses for each type of risk detected in the valuation.

3.12. Indirect taxes

General indirect taxes

In accordance with Law 11/2012 of 21 June 2012 on general indirect taxation, amended by Law 29/2012 of 18 October 2012 on general indirect taxation, this tax was applicable from 1 January 2013, the previous Law on indirect taxation on the rendering of banking and financial services being revoked.

The general indirect tax is levied on the economic gains generated on the final consumption of goods or services. The rate applicable to banking and financial services is 9.5%.

The payments on account and withholdings pending settlement are recorded under Other assets - Taxes and Other liabilities - taxes, respectively (see notes 11 and 19).

Indirect tax on services rendered

In accordance with the provision repealing Law 11/2012 of 21 June 2012 on general indirect taxation, 2012 was the last year in which this tax was applicable, levied on banking and financial services provided by banking and financial institutions. The rate applicable in 2012 was 9.5%. The expense accrued by the Bank with regard to indirect tax on the rendering of services in 2012 amounted to Euros 4,459 thousand and is recorded under Overheads - Taxes in the accompanying consolidated income statement, with a balancing entry under Other liabilities - Taxes.

3.13. Non-resident income tax

In accordance with Law 94/2010 of 29 December 2010, amended by Law 18/2011 of 1 December 2011 governing taxation on the income obtained in Andorra by individuals or entities considered by law to be non-resident for tax purposes, the Bank is subject to mandatory withholdings and during 2013 a general tax rate of 10% has been applied.

Amounts accrued for this item and pending settlement for the last quarter of 2013 are included under Other liabilities – Taxes on the accompanying consolidated balance sheet.

3.14. Corporate income tax

A direct tax on the profits of legal entities, i.e. a corporate income tax, was introduced in accordance with Law 95/2010 of 29 December 2010 on corporate income tax, Law 17/2011 of 1 December 2011 amending Law 95/2010, the regulations implementing Law 95/2010, and Law 96/2010 on the taxation of gains from economic activities.

The income tax expense for the year is calculated by totalling the current tax arising from the application of the corresponding tax rate to the taxable income for the year, less any applicable credits and deductions. Taxable income is calculated by adjusting

the accounting profit, in accordance with the Accounting Plan for the Financial System, applying the principles and criteria of classification, valuation and temporary recognition set out in the requirements of the Income tax law, which permit off-balance sheet adjustments. Both positive and negative off-balance sheet tax adjustments can be permanent or temporary according to whether they are reversed or not in subsequent tax periods.

Income tax withholdings and payments on account are recorded under Other assets in the consolidated balance sheet, together with deferred tax assets, tax loss carryforwards and unrecognised deductions. These deferred tax assets are only recognised when it is considered likely that the company will have future taxable profits against which to offset these assets.

Deferred tax liabilities and amounts payable to public authorities in respect of other current taxes are recorded under Other liabilities in the consolidated balance sheet.

All debits and credits related to the income tax charge are recorded under Income tax in the consolidated income statement.

3.15. Gains on consolidation and goodwill

When the consolidation of a new entity results in a difference between the price paid for the shares in the subsidiary and the proportional part of shareholders' equity, this difference is recognised as an asset and classified as Gains on first-time consolidation. However, before recording any gains on first-time consolidation and, therefore, before determining goodwill on consolidation, the Bank should assess whether any portion of these differences should be recognised directly as consolidated balance sheet items that are lower or higher than their net book value and up to the amount that corresponds to the Parent in proportion to its investment in the subsidiary.

Differences on first-time consolidation and goodwill are not amortised. They are tested for impairment in accordance with the prevailing international valuation criteria on this matter recognised by the sector and where these assets show signs of impairment, the corresponding irreversible loss is recognised in the income statement. When an investment in a subsidiary reveals signs of impairment in the investment portfolio, the Bank adjusts the value of the investment in its individual financial statements.

When a new company is added to the scope of consolidation, whether directly or through a merger with a subsidiary, a non-distributable reserve must be constituted in the individual balance sheet of the parent company equal to the amount of the gains on consolidation, with a minimum of 10% of this amount taken annually to a non-distributable reserve from the profits for the year. When there are no or insufficient profits, this amount will be charged to distributable reserves.

Losses on consolidation are recognised in the income statement for the year in which they arise.

3.16. General risks reserve

The general risks reserve relates to provisions that the Bank has made in accordance with the principle of prudence, given the risks inherent to banking and financial activities (see note 16).

According to the Accounting Plan of the Andorran Financial System, this reserve is considered as shareholders' equity for the purpose of calculating the capital adequacy ratio.

4. DISTRIBUTION OF PROFIT

The directors of the Bank will propose to the shareholders at their annual general meeting that the profit for 2013 be distributed as follows:

THOUSANDS OF EUROS	2013	2012
Dividends	–	1,000
Interim	–	1,000
Reserves	11,989	9,801
Legal reserve	–	–
Voluntary reserves (*)	11,253	9,267
Special reserves (**)	736	534
Total profit for the year	11,989	10,801

(*) Pursuant to INAF communiqués 227/12 and 228/12 of 28 December 2012 regarding the treatment of differences on first-time consolidation, when profit for the year is distributed to voluntary reserves, a minimum of 10% of the amount is charged annually to a non-distributable reserve. In 2013 this amount totalled Euros 9,506 thousand.

(**) Pursuant to law 1/2011, governing the creation of a deposit guarantee system for banking entities approved by the General Council of the Principality of Andorra on 2 February 2011, the Bank is required to calculate on an annual basis the amount which should be contributed to this guarantee reserve and make the corresponding positive or negative adjustment in relation to the initial contribution (see note 31).

The proposed distribution of earnings of subsidiaries for 2013 will be as agreed by the shareholders at their respective annual general meetings.

5. FINANCIAL INTERMEDIARIES – BANKS AND CREDIT INSTITUTIONS – ASSETS

Details of this caption of the accompanying consolidated balance sheet by currency and type of transaction, excluding the provision for loan losses, are as follows:

THOUSANDS OF EUROS	2013	2012
Currency:	397,960	305,795
Euros	313,996	274,897
Foreign currency	83,964	30,898
Type:	397,960	305,795
Correspondent accounts	163,144	134,928
Deposits	176,605	170,867
Other assets with financial intermediaries	34,053	–
Assets acquired under repurchase agreements	24,158	–
Maturity:	397,960	305,795
Up to one month	227,004	205,964
One to three months	46,158	–
Three months to one year	50,030	79,136
One to five years	40,284	20,317
Over five years	34,484	378

At 31 December 2013 the Group had two deposits totalling Euros 22,000 thousand which secure future payments to be made in 2015 for the acquisition of Banco de Madrid, S.A.U. (see note 19).

The amounts recorded under Other assets with financial intermediaries at 31 December 2013 and detailed in the table above correspond to the guaranteed minimum volume of assets under management in accordance with exclusive distribution agreements for collective investment products and services with Liberbank, S.A. and Banco Mare Nostrum, S.A. totalling Euros 14,553 thousand (Euros 14,590 thousand when the agreement first came into force) and Euros 19,500 thousand, respectively (see note 2.3). The Group's Directors, using estimates, forecasts and internal valuations carried out by an independent expert (Intermoney), have tested the aforementioned financial assets for signs of impairment based on an estimate of their recoverable value. On the basis of this valuation, an impairment of Euros 37 thousand was recognised at 31 December 2013 against the financial asset corresponding to the agreement with Liberbank, S.G.I.I.C., S.A.U., recorded under Interest and related expenses - INAF and financial intermediaries in the consolidated income statement.

The movements in the general risks reserve in thousands of euros during 2013 and 2012 were as follows:

THOUSANDS OF EUROS	2013	2012
Opening balance	963	1,573
Plus:		
Net charges to provisions	460	200
Less:		
Recoveries	(335)	(760)
Applications	–	(50)
Closing balance	1,088	963

6. LOANS AND RECEIVABLES

Details of this caption of the accompanying consolidated balance sheet by currency and sector, excluding the provision for loan losses, are as follows:

THOUSANDS OF EUROS	2013	2012
Currency:		
Euros	851,632	987,969
Foreign currency	145,118	161,798
Total	996,750	1,149,767
Sectors:		
Customers		
Andorran public sector:	42,554	146,608
Central government	24,376	34,805
Local government	15,932	17,550
Semi-public entities	2,246	2,882
Other public sectors	–	91,371
Private sector	954,196	1,003,159
Total	996,750	1,149,767

A breakdown of loans and receivables by type of guarantee and exposure situation, excluding the provision for loan losses, is as follows:

THOUSANDS OF EUROS	2013	2012
Type of guarantee:		
Tangible security	837,791	886,189
Mortgage	497,815	523,164
Cash	80,012	60,250
Securities	259,964	302,775
Personal guarantee	158,959	263,578
Public sector	42,554	146,608
Other	116,405	116,970
Total	996,750	1,149,767
Exposure:	996,750	1,149,767
Ordinary	906,306	1,083,378
Past due	8,495	27,458
Doubtful	81,949	38,931
Total	996,750	1,149,767

Of the risks classified as doubtful, a total of Euros 65,098 thousand and Euros 32,747 thousand were secured by real collateral at 31 December 2013 and 2012, respectively.

Loans and receivables to customers include Euros 9,218 thousand of financing to investment funds managed by the Group company BPA Fons, SAU at 31 December 2013 (Euros 11,344 thousand at 31 December 2012).

In addition, at 31 December 2013 the Bank had securitised credit operations secured by a mortgage with the BPA Fons Mortgage Securities FI Fund for Euros 18,032 thousand (Euros 19,306 thousand at 31 December 2012), which are not included under this caption in the Bank's accompanying consolidated balance sheet, as the associated risks and rewards have been transferred to the aforementioned fund (see note 24).

Details of this caption of the accompanying consolidated balance sheet at 31 December 2013 and 2012, excluding the provision for loan losses and in accordance with the maturity as of the closing date are as follows:

THOUSANDS OF EUROS	2013	2012
Past due and doubtful	90,444	66,389
Up to one month	30,398	39,220
One to three months	18,908	54,335
Three months to one year	99,866	142,686
One to five years	244,736	314,999
Over five years	512,398	532,138
Total	996,750	1,149,767

Movement in the provision for loan losses during 2013 and 2012 is as follows:

	THOUSANDS OF EUROS		
	General Risk	Clients Specific Risk	Total
Balance at 31 December 2011	2,035	23,614	25,649
Additions to consolidated group	–	–	–
Plus:			
Net charges to provision	1,570	7,121	8,691
Less:			
Recoveries	(1,464)	(4,962)	(6,426)
Applications	50	(2,860)	(2,810)
Balance at 31 December 2012	2,191	22,913	25,104
Additions to consolidated group	–	–	–
Plus:			
Net charges to provisions	125	23,443	23,568
Less:			
Recoveries	(687)	(15,272)	(15,959)
Applications	132	(11,466)	(11,334)
Balance at 31 December 2013	1,761	19,618	21,379

7. INVESTMENT SECURITIES

A breakdown of the Investment securities caption in the accompanying consolidated balance sheet at 31 December 2013 and 2012, by type of security, excluding the provision for loan losses and security valuation reserve, is as follows:

At 31 December 2013

THOUSANDS OF EUROS

	Trading portfolio	Held-to-maturity portfolio	Long-term investments	Ordinary investment portfolio	Total
Bonds and other fixed income securities	146,833	914,203	–	437,561	1,498,597
Shares and other equity securities	20,796	–	–	7,543	28,339
Investment funds	32,858	–	–	14,152	47,010
Equity investments in Group companies	–	–	6,394	–	6,394
Other equity investments	–	–	901	–	901
Total	200,487	914,203	7,295	459,256	1,581,241

At 31 December 2012

THOUSANDS OF EUROS

	Trading portfolio	Held-to-maturity portfolio	Long-term investments	Ordinary investment portfolio	Total
Bonds and other fixed-income securities	102,022	814,684	–	47,901	964,607
Shares and other variable-income securities	5,447	–	–	6,604	12,051
Investment funds	28,651	–	–	–	28,651
Equity investments in Group companies	–	–	6,264	–	6,264
Other equity investments	–	–	724	–	724
Total	136,120	814,684	6,988	54,505	1,012,297

At 31 December 2013, the investment securities portfolio comprised listed securities of Euros 1,510,296 thousand and unlisted securities of Euros 70,945 thousand (Euros 915,667 thousand of listed securities and Euros 96,830 thousand of unlisted securities at 31 December 2012). The fair value of unlisted assets has been estimated, in almost all cases, on the basis of listed prices on organised markets for similar assets or using other valuation methods where all the significant inputs are based directly or indirectly observable market data.

Permanent holdings correspond to unlisted companies.

Trading portfolio

The acquisition costs of the securities included in the trading portfolio at 31 December 2013 and 2012 are Euros 201,992 thousand and Euros 137,364 thousand, respectively.

Euros 14,623 thousand correspond to the valuation of unlisted bonds and other fixed-income securities, of which Euros 5,384 thousand correspond to the issue of preference shares by the Bank (see Note 17), Euros 6,023 thousand to Government of Andorra issues and Euros 1,548 thousand to promissory notes maturing in less than one year.

An amount of Euros 5,754 thousand corresponds to bonds and other fixed-income securities underlying the issue of structured products recognised under Debt securities in the accompanying balance sheet (see note 14).

An amount of Euros 78,977 thousand corresponds to bonds and other fixed-income securities temporarily transferred under repurchase agreements to credit institutions of the OECD countries. The commitment to transfer assets under repurchase agreements is recognised under Creditors – Banks and credit institutions on the accompanying consolidated balance sheet (see note 13).

The Group manages investment funds totalling Euros 27,578 thousand.

Ordinary investment portfolio

At 31 December 2013 the market value or fair value of the ordinary investment portfolio was Euros 465,471 thousand (Euros 57,109 thousand at 31 December 2012).

In accordance with an exceptional authorisation received from the INAF, on 31 December 2013 the Bank transferred Leveraged EUR securities (issued as collateral for the loan granted by the Bank to BPA Fons Preferred Euro in respect of the BPA Leveraged Preferred EUR Fund) from the held-to-maturity portfolio to the ordinary investment portfolio. The transfer value of these assets at 31 December 2013 was Euros 109,727 thousand, generating a loss of Euros 11,565 thousand based on the net book value of these securities at that date and recorded under non-distributable reserves. The Bank has taken this loss directly to reserves, charging the corresponding non-distributable reserve.

From the transfer date, these securities are valued using the methods applicable to assets classified under the ordinary investment portfolio in accordance with current legislation.

The bonds and other fixed-income securities in the ordinary investment portfolio include securities relating to Madoff exchange rights, recognised as authorised by the INAF at their market value at the issue date of this product, 30 September 2009 (see note 14). The cost and fair value of these securities at 31 December 2013 was Euros 21,046 thousand and Euros 28,318 thousand, respectively.

An additional amount of Euros 290,160 thousand corresponds to bonds and other fixed-income securities of OECD countries.

On 27 December 2013 the Bank acquired preference shares in the Muntanya Arinsal-Pal ski station (hereinafter EMAP) for Euros 1,811 thousand. The nominal amount of this issue was used in repayment of a loan granted to EMAP for the same amount. These subordinated shares are held in perpetuity and from 30 December 2027 EMAP may elect to convert them into ordinary, newly issued shares. At 31 December 2013 these shares were recorded under Shares and other variable-income securities in the accompanying consolidated balance sheet and are classified under the ordinary investment portfolio for valuation purposes.

An amount of Euros 134,019 thousand corresponds to bonds and other fixed-income securities temporarily transferred under repurchase agreements to credit institutions of the OECD countries. The commitment to transfer assets under repurchase agreements is recognised under Creditors - Banks and credit institutions on the accompanying consolidated balance sheet (see note 13).

Held-to-maturity portfolio

At 31 December 2013 the securities in the held-to-maturity portfolio included Euros 20,760 thousand relating to assets underlying the issue of structured products recognised under debt securities (see note 14), Euros 5,000 thousand relating to the issue of subordinated debt by BPA Assegurances, SAU on a perpetual basis and with the possibility of early cancellation by the issuer, and Euros 31,577 thousand of public debt issued by the Government subscribed by the Bank in compliance with the Law regulating mandatory investment ratios (see note 31.6). A further amount of Euros 512,625 thousand corresponds to bonds and other fixed-income securities of OECD countries.

An amount of Euros 84,921 thousand corresponds to bonds and other fixed-income securities temporarily transferred under repurchase agreements to credit institutions of the OECD countries. The commitment to transfer assets under repurchase agreements is recognised under Creditors - Banks and credit institutions on the accompanying consolidated balance sheet (see note 13).

At 31 December 2013 the market value or fair value of the held-to-maturity portfolio was Euros 929,566 thousand (Euros 807,230 thousand at 31 December 2012).

The movements in the security valuation reserve and the provision for loan losses during 2013 and 2012 were as follows:

THOUSANDS OF EUROS	2013	2012
Security valuation reserve		
Opening balance	246	293
Charges	2,000	–
Recoveries	(260)	–
Applications	(934)	(47)
Closing balance	1,052	246
Provision for loan losses		
Opening balance	6,281	1,451
Provisions charged to the income statement	280	5,370
Provisions charged to reserves	4,801	–
Recoveries	(79)	(540)
Applications	(4,625)	–
Closing balance	6,658	6,281

7.1. Bonds and other fixed-income securities

A breakdown of Bonds and other fixed-income securities at 31 December 2013 and 2012 is as follows:

THOUSANDS OF EUROS	2013	2012
Government debt	927,986	484,759
Principality of Andorra (note 5)	37,600	46,346
Other OECD countries	890,386	438,413
Bonds and other fixed-income securities	570,610	479,848
Total	1,498,596	964,607

Maturity dates of balances of Bonds and other fixed-income securities, before the security valuation reserve and the provision for loan losses at 31 December 2013 and 2012 are as follows:

31 December 2013

THOUSANDS OF EUROS		2013
	Bonds and other fixed-income securities	Government debt
Less than three months	1,585	–
Three months to one year	140,226	194,007
One to five years	199,977	706,903
More than five years	228,822	27,076
Total	570,610	927,986

31 December 2012

THOUSANDS OF EUROS		2012
	Bonds and other fixed-income securities	Government debt
Less than three months	26,672	–
Three months to one year	18,220	47,766
One to five years	280,997	436,993
More than five years	153,959	–
Total	479,848	484,759

There are no past due balances at 31 December 2013 and 2012.

7.2. Investment funds

Details of units in investment funds at 31 December 2012 and 2012 are as follows:

THOUSANDS OF EUROS	2013	2012
Investment funds managed by:		
Entities related to the Group	37,058	24,747
Entities not related to the Group	9,952	3,904
Total	47,010	28,651

7.3. Long-term investments

The Investments in Group companies caption of the accompanying consolidated balance sheet includes the investment in equity accounted Group companies and associates, as indicated in note 2.3.

Details of securities comprising Other equity investments at 31 December 2013 are shown in Appendix I to this document.

8. INTANGIBLE ASSETS AND AMORTISABLE COSTS

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

THOUSANDS OF EUROS

	Opening balance	Additions	Disposals	Transfers	Closing balance
Acquisition cost	49,850	16,046	(2,291)	–	63,605
Software	41,566	15,607	(68)	–	57,105
Goodwill	3,900	120	(1,895)	–	2,125
Other	4,384	319	(328)	–	4,375
Provision for amortisation	(30,584)	(4,304)	306	–	(34,582)
Software	(30,019)	(3,941)	–	–	(33,960)
Goodwill	–	–	–	–	–
Other	(565)	(363)	306	–	(622)

	Opening balance	Closing balance
Net book value	19,266	30,016
Acquisition cost	49,850	64,598
Provision for amortisation	(30,584)	(34,582)

At 31 December 2013, fully amortised assets in use amount recognised under this caption amounted to Euros 25,295 thousand (Euros 17,971 thousand at 31 December 2012).

The additions recorded under Software in 2013 mainly correspond to investments made for the purchase and standardisation of a new Hosting system for the Bank. This amount includes the remuneration of staff dedicated to implementing the new system in 2013 and whose time is directly attributable to the project.

In 2013, as a result of the amount received due to the early cancellation of the investment fund distribution contract signed with the Banco de Valencia Group (presently CaixaBank, S.A.), the Group recognised an impairment of Euros 1,895 thousand to the goodwill arising on the acquisition of Nordkapp, charged to Amortisation and depreciation of fixed assets - Amortisation and depreciation of intangible and tangible assets in the accompanying consolidated income statement. The net book value of the goodwill arising on the acquisition of Nordkapp was therefore Euros 2,005 thousand at 31 December 2013 (see note 2.3). The disposals recorded under Intangible assets and amortisable costs in 2013 are mainly as a result of this transaction.

9. TANGIBLE ASSETS

The movements in tangible assets during 2013 and 2012 and the related accumulated depreciation were as follows:

Operating assets

THOUSANDS OF EUROS

	Opening balance	Additions	Disposals	Transfers	Closing balance
Acquisition cost					
Land	36,639	–	–	(30)	36,609
Buildings	52,137	205	(2,683)	(856)	48,803
Fixed assets under construction	371	2,706	–	–	3,077
Fixtures	23,625	2,560	(1,112)	–	25,073
IT and data processing equipment	11,772	1,228	(342)	5	12,663
Other	8,666	1,219	(1,655)	–	8,230
Total	133,210	7,918	(5,792)	(881)	134,455
Provision for amortisation					
Buildings	(7,487)	(1,325)	1,097	35	(7,680)
Fixtures	(14,803)	(2,462)	855	–	(16,410)
IT and data processing equipment	(10,092)	(904)	347	(5)	(10,654)
Other	(5,944)	(612)	426	–	(6,130)
Total	(38,326)	(5,303)	2,725	30	(40,874)

THOUSANDS OF EUROS

	2013	2012
Provision for depreciation		
Opening balance	–	–
Charges	(403)	–
Recoveries	–	–
Applications	–	–
Closing balance	(403)	–

THOUSANDS OF EUROS

	Opening balance	Closing balance
Net book value		
Acquisition cost	133,210	134,455
Depreciation	(38,326)	(40,874)
Provision for depreciation	–	(403)
Total operating assets	94,884	93,178

On 20 July 2011, as part of its acquisition of Banco de Madrid, S.A.U., the Bank acquired this bank's offices for Euros 41,284 thousand. Euros 24,750 thousand of this amount relate to the value of the land and Euros 16,534 thousand to the cost of the buildings, which are leased to Banco de Madrid, S.A.U. Nevertheless, on 5 July 2013, the Bank subscribed to an increase in the capital of Banco de Madrid, S.A.U., by means of a non-monetary contribution of Euros 16,717 thousand corresponding to land and Euros 11,449 thousand in buildings. The Bank therefore had land and buildings recognised

in its individual financial statements carried at Euros 4,223 thousand and Euros 7,158 thousand, respectively, which are leased to Banco de Madrid, S.A.U.

At 31 December 2013 and 2012, fully depreciated tangible assets in use recorded under these captions amounted to Euros 21,737 thousand and Euros 15,665 thousand, respectively.

Additions under the heading Fixed assets under construction in the year correspond mainly to investments in hardware for the development of the Group's new Hosting system (see note 8 above).

At 31 December 2013 the Group had foreclosed assets not used for operations with a net book value of Euros 6,371 thousand (Euros 6,469 thousand at 31 December 2012), Euros 3,502 thousand of which relate to buildings and Euros 2,869 thousand to land (Euros 3,600 thousand and Euros 2,869 thousand, respectively, at 31 December 2012).

No interest or exchange gains or losses relating to tangible assets were capitalised in 2013 and 2012.

Non-operating assets

2013

THOUSANDS OF EUROS

	Opening balance	Additions	Disposals	Transfers	Closing balance
Land	29,748	1,330	–	30	31,108
Acquisition cost	29,906	1,330	–	30	31,266
Provision for impairment	(158)	–	–	–	(158)
Buildings	16,673	5,540	(1,537)	463	21,139
Acquisition cost	18,315	5,903	(1,552)	856	23,522
Depreciation	(1,642)	(363)	15	(35)	(2,025)
Provision for depreciation	–	–	–	(358)	(358)
Total	46,421	6,870	(1,537)	493	52,247

At 31 December 2013 and 2012 some of the buildings not used for operations are leased to third parties. Income accrued amounted to Euros 1,030 thousand and Euros 840 thousand in 2013 and 2012, respectively, and is recorded under Other profit from ordinary activity in the accompanying consolidated income statement.

The amounts recorded under Debt securities in the accompanying consolidated balance sheet include Euros 13,324 thousand relating to a product issued for which the collateral is a number of rental homes not used for operations and recorded under Tangible assets - not used for operations in the accompanying consolidated balance sheet.

The additions in the year recorded under Buildings and Land shown in the table above correspond to foreclosed assets amounting to Euros 1,558 thousand which had been pledged as security for credit operations and were granted to the Bank by the Batllia

(Andorran Court), and to a building pledged as security by a private customer of Interdin Bolsa, Sociedad de Valores, S.A.U. valued at Euros 4,344 thousand.

At 31 December 2013 the Group had foreclosed assets not used for operations with a net book value of Euros 19,035 thousand (Euros 14,854 thousand at 31 December 2012), Euros 10,136 thousand of which relate to land and Euros 8,899 thousand to buildings (Euros 10,136 thousand and Euros 4,658 thousand, respectively, at 31 December 2012).

10. PREPAYMENTS AND ACCRUED INCOME

Details of this balance sheet caption are as follows:

THOUSANDS OF EUROS	2013	2012
Accrued income	44,716	28,764
Interest	14,341	13,487
Commission	8,901	4,690
Other	21,474	10,587
Prepaid expenses	4,790	703
Total	49,506	29,467

Prepayments and accrued income include accrued interest not yet due on the securities portfolio, the balance of accrued coupons in the securities portfolio, accounts with credit institutions and the Bank's loans portfolio, as well as the balancing entry of underlying gains from financial derivatives subject to hedging and not past due.

The amounts recorded under Prepaid expenses include an advance to Meliá Hoteles Internacional, S.A. of Euros 3,630 thousand in respect of the first payment for the early cession of the building land needed by the Group to extend the head offices of the company Banco Madrid, in accordance with an agreement signed by the parties on 24 July 2013.

11. OTHER ASSETS

Details of this caption of the consolidated balance sheet, according to asset type, are as follows:

THOUSANDS OF EUROS	2013	2012
Transactions in progress	15,712	44,953
Inventories	118	126
Options purchased	10	–
Other	6,109	33,971
Taxes		
Withholdings and payments on account	8,630	7,058
Deferred tax assets, tax credits and deductions (note 27)	29,818	30,636
Total	60,397	116,744

At 31 December 2013, Transactions in progress mainly comprised card payments pending settlement, which were collected at the beginning of 2014. At 31 December 2012 it also included a material amount of cheques and transfers pending settlement. These amounts were settled in early 2013.

At 31 December 2013 and 2012, the Others heading included prepaid expenses and other balances pending settlement, which were settled early in the following financial year (2014).

At 31 December 2013 the amount recognised under Taxes - Withholdings and payments on account included Euros 5,284 thousand relating to payments on account of the indirect tax on services rendered by the Bank during 2012 (see note 19).

12. ANDORRAN NATIONAL INSTITUTE OF FINANCE (INAF) - LIABILITIES

Details of this caption of the accompanying consolidated balance sheet at 31 December 2013 and 2012, by currency and type of transaction, are as follows:

THOUSANDS OF EUROS	2013	2012
Currency:		
Euros	3,318	557
Foreign currencies	44,665	–
Total	47,983	557
Transaction:		
Demand deposits	454	347
Term deposits	47,529	210
Total	47,983	557

Term deposits mature in one year from the balance sheet date.

13. CREDITORS

13.1. Banks and credit institutions and other financial intermediaries

Details of liabilities to banks and credit institutions on the accompanying consolidated balance sheet, by currency and type of transaction are as follows:

THOUSANDS OF EUROS	2013	2012
Currency:		
Euros	1,205,432	691,394
Foreign currency	739	8
Total	1,206,171	691,402
Type:		
Demand deposits		
Correspondent accounts	1,826	1,112
Term deposits	1,204,345	690,290
Total	1,206,171	691,402

At 31 December 2013 Deposits from banks and credit institutions included Euros 600,000 thousand (Euros 596,200 thousand at 31 December 2012) relating to credit facilities with the European Central Bank and Euros 368,345 thousand (Euros 76,906 thousand at 31 December 2012) for assets transferred under repurchase agreements (see note 7).

Details of balances payable to banks and credit institutions according to maturity from the reporting date are as follows:

THOUSANDS OF EUROS	2013	2012
Up to one month	220,766	816
One to three months	309,011	–
Three months to one year	61,000	44,000
One to five years	615,394	646,586
Total	1,206,171	691,402

13.2. Customer deposits

Details of this heading of the accompanying consolidated balance sheet, by currency and type of transaction are as follows:

THOUSANDS OF EUROS	2013	2012
Currency:		
Euros	1,035,324	1,047,571
Foreign currency	480,911	573,906
Total	1,516,235	1,621,477
Type:		
Demand deposits		
Current and savings accounts	713,912	607,338
Term deposits:		
Term deposits	796,147	1,013,553
Structured deposits	6,176	586
Total	1,516,235	1,621,477

Details of balances payable to customers according to maturity from the accompanying consolidated balance sheet date are as follows:

THOUSANDS OF EUROS	2013	2012
Up to one month	807,149	695,666
One to three months	112,269	166,824
Three months to one year	576,440	745,355
One to five years	20,246	13,632
Over five years	131	–
Total	1,516,235	1,621,477

At 31 December 2013 and 2012 there were no balances with no specified maturity, except for current and savings accounts.

14. DEBT SECURITIES

Details of the debt securities caption in the accompanying consolidated balance sheet by currency are as follows:

THOUSANDS OF EUROS	2013	2012
Currency:		
Euros	109,662	84,103
Foreign currency	33,697	18,532
Total	143,359	102,635

The items recorded under this caption correspond to structured products issued by the Group in 2013 and previous financial years, including BPA Fons Leveraged Euro/Dollar exchange products maturing in 2018 and 2015, and exchange rights issued in respect of assets affected by the Madoff case maturing in 2019, together with the current value of obligations contracted by the Bank with certain customers through the issue of products.

In accordance with the exceptional authorisation received from the INAF, the Group has taken to voluntary reserves the amount pending recognition of the present value of its entire obligation to customers who contracted the BPA Fons Leveraged EUR exchange product and who had not accepted early settlement at 31 December 2013. The amount charged to reserves totalled Euros 2,352 thousand. From 1 January 2014 until the maturity date of the exchange product, the Group will adjust the value of this obligation, recording under this caption the difference between the final obligation and the present value of said obligation at each moment. This difference will be taken to the income statement each financial year.

The exchange rights issued in respect of assets affected by the Madoff case are linked to certain underlying assets that the Group has classified in its investment securities portfolio (see note 7). In accordance with the exceptional authorisation received from the INAF, the Group has taken to voluntary reserves the amount pending recognition of the present value of the full cost of this exchange product. The amount charged to reserves totalled Euros 10,391 thousand. From 1 January 2014 until the maturity date of the exchange product, the Group will adjust the value of this obligation, recording under this caption the difference between the final obligation and the present value of said obligation at each moment. This difference will be taken to the income statement each financial year. If any of the securities comprising the Madoff exchange product reach their nominal value, the Bank may decide to exercise the powers granted to it under the product contract and sell said securities. All the revenues generated thereon must be used to constitute a provision covering the obligation to customers for the exchange of said product, given that at the product maturity date part of the final settlement with customers at 30 September 2019 will be paid in cash rather than in the form of securities.

Details of this caption at 31 December 2013 and 2012, by maturity, are as follows:

THOUSANDS OF EUROS	2013	2012
Up to one month	15,019	26,000
One to three months	9,000	–
Three months to one year	45,382	24,060
One to five years	53,960	21,824
Over five years	19,998	30,751
Total	143,359	102,635

15. PROVISION FOR RISKS AND CONTINGENCIES

Movement in the provision for risks and contingencies during 2013 and 2012 is as follows:

THOUSANDS OF EUROS	2013	2012
Opening balance	4,064	3,815
Additions to consolidated group	–	214
Charges	1,817	1,118
Recoveries	(4,086)	(383)
Applications	–	(700)
Other changes	1,218	–
Provision for corporate income tax 2013 (note 27)	35	–
Closing balance	3,048	4,064

16. GENERAL RISKS RESERVE

Movement in the general risks reserve during 2013 and 2012 is as follows:

THOUSANDS OF EUROS	2013	2012
Opening balance	2,000	2,000
Charges	–	–
Recoveries (note 28)	(907)	–
Applications	–	–
Provisions for taxes	–	–
Closing balance	1,093	2,000

17. SUBORDINATED LIABILITIES REPRESENTED BY SECURITIES

In accordance with the authorisation granted by the INAF on 9 December 2008, the Bank issued and placed preference shares amounting to Euros 10,000 thousand and USD 30,000 thousand. At 31 December 2010 the issue had been fully subscribed and paid. It can be considered as Tier I equity as disclosed in the aforementioned authorisation letter received from the INAF.

This issue of preference shares is a perpetual issue, although the issuer can redeem the shares in advance provided that a minimum period of 5 years has elapsed from this issue and prior authorisation has been received from the Andorran regulating authorities.

Interest on the Euros tranche is at the 3-month European Central Bank rate, established on the first working day of each calendar quarter, plus 160 basis points. Interest on the US dollar tranche is at the 3-month FED rate, established on the first working day of each calendar quarter, plus 160 basis points.

In July 2011 the Bank issued and placed Euros 25,000 thousand (including a tranche of Euros 19,400 thousand and USD 8,008 thousand) of preference shares in accordance with the INAF's authorisation dated 28 July 2010. At 31 December 2013 the issue had been fully subscribed and paid.

This issue of preference shares is a perpetual issue, although the issuer can redeem the shares in advance provided that a minimum period of 5 years has elapsed from this issue and prior authorisation has been received from the Andorran regulating authorities.

The Bank has recognised part of this issue as treasury shares under Investment securities (see note 7).

Interest on the Euros tranche is at the 3-month European Central Bank rate, established on the first working day of each calendar quarter, plus 172.5 basis points. Interest on the US dollar tranche is at the 3-month FED rate, established on the first working day of each calendar quarter, plus 172.5 basis points.

The balance under Subordinated liabilities represented by securities includes a subordinated loan between BPA Assegurances, SAU and Banco de Madrid, S.A.U. agreed on 30 September 2011 for a period of 10 years, maturing on 30 September 2021. The loan bears interest at a fixed rate of 8% and is payable annually.

18. ACCRUED EXPENSES AND DEFERRED INCOME

Details of this balance sheet caption are as follows:

THOUSANDS OF EUROS	2013	2012
Unpaid accrued expenses	30,020	23,502
Interest	14,547	17,060
Commission	4,126	2,376
Others	11,347	4,066
Deferred income	17	22
Interest	–	4
Other	17	18
Total	30,037	23,524

Accrued expenses and deferred income include accrued interest not yet due on customer demand deposits and term deposits, unpaid accrued expenses on certain items, as well as the balancing entry of underlying losses from hedged financial derivatives, not past due at 31 December 2013.

19. OTHER LIABILITIES

Details of this caption, by type of liability, are as follows:

THOUSANDS OF EUROS	2013	2012
Transactions in progress	15,865	9,522
Suppliers and other creditors:		
Tax and social security	71	2,093
Deferred payment	22,000	44,000
Other	46,518	36,391
Taxes		
Deferred taxes (note 27)	4,243	127
Tax withholdings	10,483	7,720
Total	99,180	99,853

Transactions in progress relate to transfers, cheques and other movements pending settlement at year end.

Deferred payments relate to the financing of the operation to acquire Banco de Madrid, S.A.U.

The Others caption includes Euros 27,217 thousand pending payment in relation to the acquisition of BMN Gestión de Activos, S.G.I.I.C, S.A. (see note 2.3).

The amount recorded under Taxes - Tax withholdings includes Euros 2,041 thousand relating to general indirect taxes and withholdings of other taxes which will be settled in 2014, and Euros 131 thousand relating to deferred taxes arising from timing differences applied to the calculation of income tax payable. It also includes Euros 4,741 thousand corresponding to the income tax payable for 2012 as calculated by the Bank. Payments on account totalling Euros 5,284 thousand were made during 2013 (see note 11), so the net amount pending settlement for 2012 is Euros 543 thousand in the Bank's favour, according to the Bank's estimates.

20. MOVEMENT IN CONSOLIDATED SHAREHOLDERS' EQUITY

Details of the Group's consolidated shareholders' equity and movement during 2013 and 2012 are provided in Appendix II.

Share capital

At 31 December 2013, the share capital of Banca Privada d'Andorra, SA is represented by 70,000 registered shares of Euros 1,000 par value each, fully subscribed and paid.

At an extraordinary general shareholders' meeting held on 29 June 2010 the Bank agreed and approved a share capital increase through the issue of 10,000 new registered shares of Euros 1,000 par value and a related share premium of Euros 40,000. This agreement was executed in a public deed on 15 October 2010. This share capital increase has been fully subscribed by the shareholders of the Bank.

On 2 June 2006, on behalf of the BPA Group Retirement Plan, BPA Assegurances, SAU became one of the Bank's shareholders. In 2010 it increased its interest to 1.14% of the Bank's share capital (see note 32).

Legal reserve

In accordance with Law 20/2007 of 18 October 2007 governing public and private limited companies published on 21 November 2007, companies must allocate at least 10% of their profits to a legal reserve until such reserve reaches an amount equivalent to 20% of share capital. At 31 December 2013, the legal reserve had been fully appropriated.

Guarantee reserves

At 31 December 2013, in compliance with the requirements described in Law 1/2011 governing the creation of a deposit guarantee system for banking entities (see note 31.6), the Bank had a mandatory and non-distributable reserve of Euros 13,175 thousand recognised under Guarantee reserves on the balance sheet and held investments of Euros 36,900 thousand in liquid assets recognised under Banks and credit institutions.

Share premium, voluntary reserves and special reserves

Voluntary reserves, share premium and profits are freely distributable by the shareholders, except for the following requirements and obligations:

- As per INAF requirements, non-distributable reserves have been set up for an amount equivalent to extraordinary profit obtained from the sale of buildings in 2010. These reserves will be maintained until the Bank is definitively released from these buildings.
- In accordance with INAF communiqués 227/12 and 228/12 regulating the accounting treatment of differences on first-time consolidation, at 31 December 2012 the Bank had set up a non-distributable reserve relating to the accumulated amortisation of the differences on first-time consolidation recognised in the Group's financial statements at 31 December 2011, and which had not been applied to recognise any impairment at the aforementioned date. From 2013, profit is allocated to a non-distributable reserve equivalent to 10% of the net book value of the differences on first-time consolidation and goodwill, up to 100% of their value (see note 4).
- In accordance with article 23 of Law 20/2007 of 18 October 2007 governing public and private limited companies, at 31 December 2013 the Bank had set up a non-distributable reserve relating to credit extended to shareholders for the purchase of new shares issued during the share capital increase dated 29 June 2010. This amount is reduced by payables to shareholders at the aforementioned date.

At 31 December 2013, 28% of the Bank's voluntary reserves were blocked by the abovementioned items.

In accordance with the INAF's exceptional authorization, with effective date 31 December 2013, there were debits registered in the Bank's reserves totalling Euros 24,308 thousand (see notes 7 and 14 and Appendix II).

Revaluation reserves

This reserve relates to the revaluation of tangible assets carried out in 1999 (see note 3.7).

Reserves in consolidated companies

This item includes reserves created in prior years by the subsidiaries after the date on which they joined the Group and which have not been distributed as dividends. The main reserves arise from BPA Fons, SAU, Banco de Madrid, S.A.U and BPA Assegurances, SAU for Euros 3,876 thousand, Euros 28,303 thousand and Euros 4,777 thousand, respectively.

Minority interests

At 31 December 2013 fully consolidated companies generating minority interests were as follows:

THOUSANDS OF EUROS	2013	2012
Interdin, S.A.	–	–
BPA IPWM (Suisse)	37	41
Total	37	41

21. ASSETS AND LIABILITIES IN CURRENCIES OTHER THAN THE EURO

Details of certain assets and liabilities by currency at 31 December 2013 and 2012 are as follows:

THOUSANDS OF EUROS

2013	Assets	Liabilities	Net closed position at 31/12/2013	Net forward hedging position (memorandum accounts) *	Open position at 31/12/13
US Dollars	191,236	536,101	(344,865)	346,632	1,767
Pounds sterling	10,326	19,261	(8,935)	8,768	(167)
Swiss francs	29,209	18,306	10,903	(10,922)	(19)
Japanese yen	5,065	781	4,284	(4,308)	(24)
Canadian dollars	1,104	8,540	(7,436)	7,456	20
Other currencies	9,490	9,004	486	(38)	448
Total	246,430	591,993	(345,563)	347,588	2,025

THOUSANDS OF EUROS

2012	Assets	Liabilities	Net closed position at 31/12/2012	Net forward hedging position (memorandum accounts) *	Open position at 31/12/12
US Dollars	147,327	549,322	(401,995)	403,372	1,377
Pounds sterling	10,231	17,396	(7,166)	7,061	(104)
Swiss francs	24,922	9,936	14,986	(15,060)	(74)
Japanese yen	33,278	132	33,146	(33,140)	6
Canadian dollars	2,911	9,835	(6,924)	5,926	(998)
Other currencies	38,528	37,580	948	(483)	465
Total	257,197	624,201	(367,005)	367,676	671

* The net forward hedging position hedges net positions at the contracting date of the financial derivatives hedged.

22. FINANCIAL DERIVATIVES - FUTURES TRANSACTIONS

Details of the nominal amounts of financial derivatives not past due at 31 December 2013 and 2012, according to the purpose for which they were contracted, are as follows:

THOUSANDS OF EUROS

	2013	2012
Hedging instruments		
Spot currency sale and purchase	2,667	266,700
Foreign currencies receivable	1,334	131,879
Foreign currencies payable	1,333	134,821
Forward foreign currency sale and purchase	781,869	959,317
Foreign currencies receivable	389,492	478,639
Foreign currencies payable	392,377	480,678
Outstanding forward currency purchase and sales	784,536	1,226,017
Forward financial instrument operations	570,812	340,719
Foreign currencies	–	2,162
Interest rate	532,003	318,882
Securities and other financial instruments	38,809	19,675
Securities sold on credit pending settlement	610	2,088
Outstanding purchase and sale of financial assets	610	2,088
Other forward operations	(531)	–
Forward operations	1,355,427	1,568,824

The nominal amount of the currency sale and purchase contracts for hedging purposes does not reflect the total exposure assumed by the Group, since the net position in respect of these financial instruments is determined by their composition and/or mix. The contracts are therefore recorded at their nominal amount at the purchase date plus the agreed cash settlement on maturity.

Forward and spot currency sales and purchases include trading transactions carried out by the Group with customers and the Group's transactions with third parties to hedge both those customers' transactions and its own balance sheet cash positions.

At 31 December 2013, all outstanding currency sale and purchase operations mature in less than one year and are not listed on regulated markets.

Forward interest rate operations at 31 December 2013 comprise different swap operations to hedge interest rate risk.

Securities sold on credit pending settlement consist solely of CFD purchase and sale positions, which are settled on D+3.

23. SECURITY DEPOSITS AND OTHER SECURITIES HELD IN CUSTODY OF THIRD PARTIES

Details of this caption of the accompanying consolidated memorandum accounts, according to type of security, are as follows::

THOUSANDS OF EUROS	2013	2012
Shares and other variable-income securities	766.306	614.756
Bonds and other fixed-income securities	1.608.877	1.434.704
Units in investment funds not managed by the Group	2.893.606	1.036.909
Units in investment funds managed by the Group	1.622.918	1.081.540
Money market securities	—	—
Other	546.301	665.485
Total	7.438.008	4.833.994

This caption includes the market value of securities and other securities deposited by customers and held in custody by the Group, except for certain guaranteed products which are recognised at guaranteed value.

Funds managed

In compliance with INAF communiqué 216/11, details of customer funds managed (on and off balance sheet), differentiating between those held in custody by the Group and those held by third parties, are as follows:

	Funds managed					
	2013			2012		
	Held in custody / deposited by the Group	Held in custody / deposited by third parties	Total	Held in custody / deposited by the Group	Held in custody / deposited by third parties	Total
Collective investment undertakings	2,833,407	329,228	3,162,635	1,036,909	288,293	1,325,202
Individual customer portfolios managed under mandate	242,058	112,724	354,782	313,412	–	313,412
Other individual customers	3,729,676	–	3,729,676	3,734,717	–	3,734,717
Total	6,805,141	441,952	7,247,093	5,085,038	288,293	5,373,331

24. OTHER MEMORANDUM ACCOUNTS

Details of Other memorandum accounts exclusively for administrative control at 31 December 2013 and 2012 are as follows:

THOUSANDS OF EUROS	2013	2012
Guarantees and commitments received	119,935	114,526
Very doubtful assets	14,346	5,788
Unlisted own shares and securities	234,847	233,904
Trusts	56,940	58,131
Securitised loans (see note 6)	18,032	19,306
Other	26,086	18,511
Total	470,186	450,166

In accordance with INAF communiqué 169/06, Unlisted own shares and securities include government debt issued by the Andorran Government and subordinated debt issued by BPA Assegurances, SAU, equity investments in group companies and structured products. Meanwhile, the Trusts caption includes preference shares issued by Banca Privada d'Andorra, SA stated at par value.

25. ASSETS PLEDGED AS COLLATERAL

At 31 December 2013 and 2012 there were no assets pledged as collateral, except for the assets transferred under repurchase agreements detailed in note 7 to the financial statements.

26. NET FEES AND COMMISSIONS ACCRUED ON SERVICES

A breakdown of this caption of the consolidated income statement, by transaction type, is as follows:

THOUSANDS OF EUROS	2013	2012
Fees accrued on services supplied		
Securities and investment funds	47,874	42,109
Currency sales and purchases	708	1,158
Transfers and cheques	2,244	2,924
Credit operations	1,538	2,247
Management fees from investment funds	26,930	13,544
Other fees	5,502	7,117
Fees and commissions accrued on services received	(30,782)	(20,633)
Total	54,014	48,466

27. TAX MATTERS: CORPORATE INCOME TAX

Since 2012 the Bank and other Andorran companies have been required to pay income tax. In accordance with tax legislation, profits are taxed at a rate of 10% although in the first year of application the Bank is eligible for a 50% reduction in net tax payable. Tax payable is eligible for certain deductions in accordance with prevailing legislation. Foreign companies pay tax in accordance with the relevant legislation in each country.

The accounting profit differs from taxable income as a result of the different tax treatment established for certain operations. Reconciliation between accounting profit for the year and the taxable income the Group expects to declare once these financial statements have been authorised for issue is as follows:

THOUSANDS OF EUROS	2013		2012	
	Local	Foreign	Local	Foreign
Aggregate accounting profit before tax	18,579	13,836	16,971	6,591
Net expenses recognised in equity	669	–	(19,544)	–
Permanent differences	(9,441)	504	(15,434)	(3,077)
Temporary differences	919	1,123	21,818	(580)
Taxable income	10,726	15,463	3,811	2,934

The income tax recoverable/(expense) for the year is as follows:

THOUSANDS OF EUROS	2013		2012	
	Local	Foreign	Local	Foreign
Taxable income	10,726	15,463	3,811	2,934
Tax payable	(1,072)	(2,138)	(381)	(883)
Deferred tax assets	(116)	(1,116)	2,182	5,921
Expenses recognised in equity	–	–	(1,954)	2
Deductions, credits and reductions	4	326	1,005	884
Consolidation adjustments	259	(1,086)	–	–
Income tax income / (expense)	(925)	(4,014)	852	5,924

The income tax expense for 2013 is calculated as follows:

THOUSANDS OF EUROS	2013		
	Local	Foreign	Total
Consolidated profit before tax	18,579	13,836	32,415
Consolidation adjustments	–	–	–
Aggregate accounting profit before tax	–	–	–
Net expenses recognised in equity	669	–	669
Permanent differences	(9,441)	504	(8,937)
	9,807	14,340	24,147
Temporary differences	919	1,123	2,042
Taxable income	10,726	15,463	26,189
Capitalised tax loss carryforwards	(3,640)	(7,530)	(11,170)
Taxable income after capitalised tax loss carryforwards	7,086	7,933	15,019
Tax payable	708	2,138	2,846
Deductions and credits	(4)	(326)	(330)
Net tax payable	704	1,812	2,516
50% tax credit	–	–	–
Income tax payable	704	1,812	2,516
Withholdings and payments on account of total taxable income	293	2,165	2,458
Tax difference	411	(353)	58

As the tax difference stated above is an estimate and the final tax declaration will be presented in July 2014, the Bank has recognised this item under the Provision for risks and contingencies caption in the accompanying consolidated balance sheet, in the amount of Euros 35 thousand.

THOUSANDS OF EUROS

	2012		
	Local	Foreign	Total
Consolidated profit before tax	–	–	10,812
Consolidation adjustments	–	–	12,750
Aggregate accounting profit before tax	16,971	6,591	23,562
Net expenses recognised in equity	(19,544)	–	(19,544)
Permanent differences	(15,434)	(3,077)	(18,511)
	(18,007)	3,514	(14,493)
Temporary differences	21,818	3,469	25,287
Capitalised tax loss carryforwards	–	(4,049)	(4,049)
Taxable income	3,811	2,934	6,745
Tax payable	785	880	1,665
Deductions and credits	(25)	(894)	(919)
Net tax payable	752	(14)	738
50% tax credit	(376)	–	(376)
Income tax payable	375	1	376
Withholdings and payments on account of total taxable income	(345)	(60)	(405)
Tax difference	38	(74)	(36)

Details of deferred tax assets and liabilities recognised in the balance sheet at 31 December 2013 are as follows:

THOUSANDS OF EUROS

	2013		2012	
	Local	Foreign	Local	Foreign
Deferred tax assets				
Charge to provision for loan losses	851	–	714	–
Financial assets	556	1,127	500	–
Other provisions	1,315	2,817	968	4,012
Unused tax loss carryforwards	286	22,437	403	23,610
Unused deductions and credits	429	–	429	–
Total assets (note 11)	3,437	26,381	3,014	27,622
Deferred tax liabilities related to temporary differences	131	4,112	–	127
Other liabilities (note 19)	131	4,112	–	127

The directors of the Bank do not expect any additional significant tax liabilities to arise in the event of an inspection by the taxation authorities.

In accordance with prevailing legislation in Andorra, local tax losses can be used to offset local taxable income from tax periods ending in the next ten years. Likewise, deductions not applied due to a shortfall in taxable income can be applied to the tax payable in the next three years. Subsidiaries located abroad (mainly in Spain) have a limit of 18 years to offset tax losses.

28. EXTRAORDINARY PROFIT/(LOSS)

A breakdown of this caption of the consolidated income statement, by transaction type, is as follows:

MILERS D'EUROS	2013	2012
Extraordinary income:		
Sale of fixed assets (note 9)	535	775
Other (note 16)	4,927	1,766
Extraordinary expenses:		
Sale of fixed assets (note 9)	(2,169)	–
Other	(2,845)	(501)
Total	448	2,040

29. TRANSACTIONS WITH RELATED ENTITIES AND INDIVIDUALS AND GROUP ENTITIES

Transactions between the Bank and Group entities and with related entities and parties for the year ended 31 December 2013, including companies in which those related entities and parties exercise significant influence, do not represent more than 10% of shareholders' equity in the balance sheet and more than 5% of profit for the year in the income statement. Group and related entities representing significant influence are fully consolidated.

30. RISK MANAGEMENT

The Financial Markets Division, under the supervision of the Global Risk Control area attached to the Control and Finance Division, is responsible for monitoring and managing currency and interest rate risk on the balance sheet, market risks affecting the Bank's own portfolio and concentration risks in treasury activities.

Currency risk

Following the valuation methods defined in note 3.3, the total foreign currency balances recognised in the accompanying consolidated balance sheet held by the Group at 31 December 2013 and 2012 were as follows:

MILERS D'EUROS	2013	2012
Assets (note 21)		
Financial intermediaries (note 5)	83,964	30,898
Loans and receivables (note 6)	145,118	161,798
Other	17,348	64,501
Total	246,430	257,197
Taxes (note 21)		
Creditors		
Banks and financial intermediaries (note 13.1)	739	8
Customer deposits (note 13.2)	480,911	573,906
Other	110,343	50,287
Total	591,993	624,201

The Group uses the net position of a currency to evaluate currency risk, i.e. the difference between the sum of all on-balance-sheet transactions and off-balance sheet transactions for each currency. The Group's policy is to maintain its net currency risk position close to zero at all times, although it has an overall currency risk exposure limit. Currency risk is continuously monitored during each day.

At 31 December 2013, the currency risk associated with most of the foreign currency balances had been hedged with currency forwards or swaps (see notes 21 and 22) or equity transactions.

Interest rate risk

Due to the composition of the Group's investments and its sources of financing, with a similar interest rate reviewing calendar and the use of consistent indexes to fix prices, the Group has a low exposure to interest rate risk.

The Group's interest-rate risk management policy has always been to minimise exposure to interest rates by means of a classic immunisation strategy based on a preliminary allocation of flows.

Therefore, the effect of a hypothetical 100 basis point increase in the current market interest rates on the Group's assets and liabilities would not entail a significant variation in the Group's equity.

In addition, the Group obtains daily information on the interest-rate sensitivity of the balance sheet gap.

Credit risk

The main risks to which the Group was exposed at 31 December 2013 were concentrated under the Financial intermediaries, Loans and receivables and Investment securities captions on the accompanying consolidated balance sheet.

Regarding the risk arising from loans to customers, the Group has a loans concessions structure based on different requirements in accordance with the amount extended.

The accounting policy associated with hedging the credit risk on the loans portfolio is described in note 3.4.

To minimise the counterparty risk associated with treasury activities, the Bank's Board of Directors establishes counterparty risk levels for each of its counterparties.

The Group follows a conservative policy with regard to assessing its counterparties and requires a minimum rating from rating agencies.

Price risk: fair value of assets and liabilities

In measuring, monitoring and managing different risks, BPA monitors market risks using VaR methodology, which is the basic standard market variable.

VaR parameters have been used to measure price risk. This methodology is based on analysing a range of factors to measure the portfolio. This portfolio is sensitive to changes in these factors. By analysing the fluctuations and correlations between the different factors, statistical techniques are employed to estimate the expected range of fluctuation in the value of the portfolio with a specific degree of probability (99%) and within a specific time period (one day).

The limits are set out in the Risk Policy for financial markets and a detailed report stating the VaR and different time periods and confidence intervals is periodically sent to the Audit and Control Commission and the Asset and Liability Committee. These VaR measurements enable the Bank to test for completeness and consistency, among other factors.

The average daily VaR calculated at a level of confidence of 99% for the trading, held-to-maturity and ordinary portfolios was 0.73%, 1.22% and 1.67%, respectively. These limits are lower than those established in the Policy approved by the Bank's Board of Directors.

The analysis of this report is complemented with backtesting. During 2013, backtesting showed that gains and losses were in line with statistical predictions.

To monitor and control the market risks borne by the Bank, the Asset and Liability Committee has approved a framework of global limits, which is implemented through:

- Investment limits; volume limit
- Investment limits by rating issuer, maturity and portfolio.
- Investment limits by concentration of issuer
- Limits by market risk; VaR per portfolio
- Limits by maximum accumulated loss.

The Global Risk Control department is responsible for monitoring and controlling these limits and the risks borne.

Liquidity risk

The body controlling this risk is the Asset and Liability Committee, which has formal procedures in place to analyse and monitor the Group's liquidity risk. The measures used to monitor the liquidity risk in managing the balance sheet include the liquidity gap and liquidity ratios.

The maturity structure of the Bank's assets and liabilities reduces the liquidity risk arising from its banking operations.

31. COMPLIANCE WITH LEGISLATION

31.1. Law regulating the liquidity and capital adequacy

On 29 February 1996, the General Council of Andorra passed a law regulating the liquidity and capital adequacy requirements for financial institutions.

This law specifies that banks must maintain a capital adequacy ratio of at least 10%, as recommended by the Basel Committee on Banking Regulation and Supervisory Practices. The law also established a mandatory liquidity ratio of at least 40%.

The capital adequacy and liquidity ratios measured in accordance with this Law were 17.03% and 80.30% at 31 December 2013 and 19.04% and 64.27% at 31 December 2012.

The Law regulating the capital adequacy and liquidity requirements for financial institutions also limits the concentration of risk in a single beneficiary to 20% of the Banks equity. It also establishes that the aggregate of risks which individually exceed 5% of the shareholders' equity cannot exceed the limit of 400% of this shareholders' equity. Therefore, the exposure to members of the Board of Directors cannot exceed 15% of the shareholders' equity. These risks are weighted in accordance with this Law.

The maximum risk concentration borne by the same beneficiary was 16.11% and 11.06% of the Bank's consolidated shareholders' equity in 2013 and 2012, respectively. Loans or other transactions which imply a risk for the same beneficiary, which exceed 5% of consolidated shareholders' equity have not exceeded an aggregate risk of 158.11% and 138.08% during 2013 and 2012, respectively.

31.2. Law for international cooperation on criminal matters and for combating the laundering of money or securities arising from international crime and terrorism

In its session held on 10 October 2013, the General Council of the Principality of Andorra approved Law 20/2013 dated 10 October, amending the Law governing international cooperation on criminal matters and combating the laundering of money or securities arising from international crime and terrorism dated 29 December 2000.

This law came into force on 31 October 2013 in compliance with the requirements of international organisations such as Greco and Moneyval, and transposing European Union regulations on preventing money laundering into Andorran law as stipulated in the Monetary Agreement signed between the Principality of Andorra and the European Union which was ratified by the General Council on 24 November 2011. The amendments contained in this law include a section on declaring cross-border cash movements. The definition of money or securities laundering has been modified and extended, in terms of the types of activity covered, the nature of the perpetrator, and the types of crime generating the funds. The list of criminal activities generating laundered funds has been considerably extended in accordance with the recommendations of Moneyval and the designated categories of offences issued by the Financial Action Task Force (FATF).

Financial institutions responsibilities are not just limited to compliance with the regulations. The risk is not just that of failing to comply with legal requirements, but of damaging the institutions reputation. They must, therefore, be proactive both when accepting new customers and managing existing customers.

The Bank has always been clearly committed to fighting the laundering of money or securities which are the proceeds of international crime and to fighting the financing of terrorism, not only in order to comply with the law, but also on the basis of the moral and ethical principles that govern our activities.

In accordance with the provisions of article 52 of this law, the Bank has established a series of internal control and communications procedures designed to prevent and impede money laundering operations and the financing of terrorism. These include specific staff training programmes.

31.3. Law regulating the organisational requirements and operating conditions of the operating entities of the financial system, protecting investors, market abuse and financial guarantee agreements

In order to ensure that the financial system is structurally and functionally sound, at its session held on 9 May 2013 the General Council of Andorra approved Law 8/2013 of 9 May 2013 regulating the organisational requirements and operating conditions of the operating entities of the financial system, protecting investors, market abuse and financial guarantee agreements.

This Law incorporates the basic administrative regime for entities operating within the financial system established in Law 14/2010, of 13 May 2010 regulating the legal regime of banking entities and the basic administrative regime of entities operating within the financial system.

It also maintains the requirements for protecting investors contained to date in Law 14/2010 based on the provisions established in European Directive 2004/39/EC of 21 April 2004, known as MiFID (Markets in Financial Instruments Directive).

The Bank complies with these organisational requirements.

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

On 21 February 2005 the General Council of the Principality of Andorra ratified the Agreement between the Principality of Andorra and the European Community in relation to the establishment of measures equivalent to those provided for in Council Directive 2003/48/EC on the taxation of income from savings in the form of interest payments. The General Council passed the law implementing this Agreement on 13 June 2005. The Bank applied a withholding of 35% during 2013, in accordance with prevailing legislation.

During 2013 the Bank, acting as a payment agent, complied with the obligations included in the Agreement and the applicable law, and will settle the amount of the withholding in accordance with the aforementioned legislation.

31.5. Law 1/2011 of 2 February 2011 governing the creation of a deposit guarantee system for banking entities

In its session held on 2 February 2011, the General Council of Andorra approved Law 1/2011 to create a Deposit Guarantee System for banking entities. The aim of the System is to guarantee the beneficiaries the reimbursement of their hedged cash deposits up to a maximum of Euros 100 thousand per beneficiary and of their hedged security deposits up to the same limit, separately and independently of the first guarantee.

This law requires banking entities authorised to operate in the Andorran financial system to hold investments in safe, liquid assets to balance a non-distributable reserve constituted to comply with the requirement of the deposit guarantee system. The maximum combined amount of the guarantee reserves for all the members of the system was initially set at Euros 94.1 million, with annual contributions until the reserve reaches 1.5% of the base amount established in said law. This amount will also be treated as the maximum coverage provided by the guarantee system for all beneficiaries. The absolute limit for the entire reserve is Euros 200 million.

The guarantee reserve recognised by the Bank at 31 December 2013 was Euros 13,175 thousand (see note 20).

31.6. Mandatory investment ratios: public debt

On 30 June 1994 the General Council of the Principality of Andorra approved the Law regulating mandatory investment ratios. This law obliges all entities whose activities include taking funds on deposit from the general public, and using these funds to extend loans or other investments, to maintain an investment ratio in Andorran public funds.

On 9 December 2009 the Decree amending the Decree regulating the Law governing the mandatory investment ratio dated 22 August 1994 was enacted, which obliges banking entities to maintain in their assets a 2% investment ratio in public funds.

In order to comply with this ratio the Group had subscribed, at 31 December 2013, to Euros 31,577 thousand in Andorran government debt issued on 31 December 2013. This debt matures on 31 December 2015 and earns interest at a one-year Euribor rate, established on the first working day of each calendar year. The amount subscribed by the Bank to this issue is recorded under Securities portfolio – Bonds and other fixed-income securities in the accompanying consolidated balance sheet (see note 7).

31.7. Law on the indirect tax on the rendering of banking and financial services

The Law on the indirect tax on the rendering of banking and financial services, approved by the General Council of the Principality of Andorra on 14 May 2002, imposes a tax on the banking and financial services rendered by banking and financial institutions. The tax liability is calculated based on a system which uses economic and financial indicators to value the services provided. The tax rate applicable in 2012 was 9.5% in accordance with Law 22/2011 of 29 December 2011 modifying the indirect tax rate on the rendering of banking and financial services.

In accordance with the provision repealing Law 11/2012 of 21 June 2012 on general indirect taxation, 2012 was the last year in which this tax was applicable.

31.8. Law on general indirect taxation

In accordance with Law 11/2012 of 21 June 2012, amended by Law 29/2012 of 18 October 2012 on general indirect taxation, the general indirect tax was applicable from 1 January 2013, the previous Law on indirect taxation on the rendering of banking and financial services being revoked.

The general indirect tax is levied on the economic gains generated on the final consumption of goods or services. The rate applicable to banking and financial services is 9.5%.

31.9. Law on corporate income tax

A corporate income tax was introduced in accordance with Law 95/2010 of 29 December 2010 on corporate income tax, Law 17/2011 of 1 December 2011 amending Law 95/2010, the regulations implementing Law 95/2010, and Law 96/2010 on the taxation of gains from economic activities.

The corporate income tax rate applicable in accordance with Law 95/2010 is 10%. 2012 was the first year in which the Law was applicable. In accordance with the first additional provision of the Law, during the first applicable year of income tax, the Bank benefited from a 50% reduction.

31.10. Law governing non-resident income tax

In its session held on 29 December 2010 the General Council of the Principality of Andorra approved Law 94/2010 governing taxation on the income obtained in Andorra

by individuals or entities considered by law to be non-resident for tax purposes. The Bank is subject to withholding and during 2013 applied a general tax rate of 10%. This law came into force on 1 April 2011. On 1 December 2011 the General Council of the Principality of Andorra approved Law 18/2011 amending Law 94/2010. The new law came into force on 1 January 2012.

Amounts retained for this item and pending settlement for the last quarter of 2013 are included under Other liabilities – Taxes on the accompanying balance sheet.

31.11. Law establishing the legal regime for companies operating under the Andorran financial system and other provisions regulating the execution of financial activities in the Principality of Andorra

At its session held on 9 May 2013 the General Council of Andorra approved Law 7/2013 of 9 May 2013, establishing the legal regime for companies operating under the Andorran financial system and other provisions regulating the execution of Cantabrian activities in the Principality of Andorra.

This law unifies the legislation governing banks operating in the financial system contained in a number of laws into one single text. It does not, therefore, introduce any significant amendments to the existing regulations governing the different types of entity operating in the system, but it does act to reinforce and restructure the prevailing laws to provide increased legal security to the legislative framework governing the Andorran financial system. It also establishes additional obligations to those already legally required in respect of the strategies and procedures to follow regarding solvency and liquidity.

The Bank has reviewed the requirements established by this law and introduced any necessary changes.

32. PENSION FUND – BPA GROUP RETIREMENT PLAN

In 2001 Banca Privada d'Andorra, SA created a Group Retirement Plan for BPA Group personnel (hereinafter the Plan), entitling all Banca Privada d'Andorra employees with at least two years' service with the Group to a pension plan.

The Plan is implemented via a mixed life and savings collective insurance policy, contracted by the sponsoring companies (BPA Group companies, including Banca Privada d'Andorra, SA) with BPA Assegurances, SAU.

During 2006 the Monitoring Committee for the BPA Group Retirement Plan prepared a regulation (hereinafter the Regulation), which was amended in 2011, to ensure that the Plan is fully regulated. This Regulation replaces the general and specific conditions of the aforementioned Group policy, which was intended to cover the pension commitments of BPA Group personnel.

The Regulation and its amendments specifically regulate the Plan's operating terms and those of the Plan's Monitoring Committee, and the rights and obligations of the sponsors, insured parties and beneficiaries, maintaining the same contributions structure and modifying the financing structure so that the Plan's beneficiaries assume the investment risk.

On 23 October 2007, the Monitoring Committee of the BPA Group Retirement Plan, in which Banca Privada d'Andorra, SA is represented as a sponsor company, approved a modification to the ordinary contributions structure of the Plan, previously approved by the Assembly of Participants held on 15 October 2007. This modification was transferred to the Regulation for the Monitoring Committee for the Group Retirement Plan for BPA Group personnel in February 2008.

The Plan's ordinary contributions structure, consisting of defined contributions, is as follows:

- An ordinary annual contribution of 9% of the yearly salary, by the sponsor companies;
- An annual ordinary contribution equivalent to a maximum of 1% of the dividend for the year distributed by the Bank and 0.6235% of net profit; and
- A minimum annual ordinary contribution of 4% of the yearly salary by the participants

The Plan's sponsor companies are also able to make extraordinary contributions to the system under the same financial and technical terms.

The Plan's Regulation and its appendices also regulate the title ownership, gains and earnings on related investments, which include the following:

Shares in Banca Privada d'Andorra, SA

In order to allow contributors to the BPA Group Retirement Plan to benefit from the Bank's dividends and revaluation, on 2 June 2006 the Plan, through BPA Assegurances, SAU, became one of Banca Privada d'Andorra's shareholders, purchasing 1% of the Bank's share capital for Euros 2,926,800 (see note 20). This acquisition was fully financed through a credit facility extended by the Bank, with no fixed maturity, bearing annual interest at the Euribor rate, with the same shares used as collateral.

On 15 October 2010 Banca Privada d'Andorra performed a share capital increase in which the BPA Group Employees' Retirement Plan participated, through BPA Assegurances, increasing its investment to 1.14% of the Bank's share capital.

Les Llenguaderes dels Vilars, SL

In order to allow contributors to the BPA Group Retirement Plan to benefit from the dividends of Les Llenguaderes dels Vilars, SL at the end of 2005 the Plan purchased, through BPA Assegurances, SAU, 15% of the shares in this company for Euros 450 thousand, with an additional interest-free contribution of Euros 300 thousand by way of partner financing. On 30 June 2007 the Bank extended a Euros 300 thousand participating loan to this company, recorded under Loans and receivables on the accompanying

balance sheet. This loan matures on 31 December 2017 and bears interest at a variable rate based on the performance of results obtained by the borrower.

The Bank's contributions to the Plan during 2013 and 2012, including any extraordinary contributions, amount to Euros 1,276 thousand and Euros 1,324 thousand respectively and are classified under Personnel expenses – Ordinary charges or contributions to other savings entities on the accompanying consolidated income statement.

33. OTHER MATTERS OF INTEREST AND SOCIAL WELFARE OR SIMILAR ACTIVITIES

BPA is firmly committed to the principles of Corporate Social Responsibility, a commitment that emphasises its desire to maximise the creation of shared value for its customers, employees, shareholders and for society as a whole. The Group gives back to the community part of the profits generated on its financial activities with the aim of fostering social cohesion and promoting sustainable economic growth.

BPA has for long applied a policy of working to achieve quality employment, equality of opportunity and a good work-life balance. In 2013 the Family Responsible Company certification, granted to BPA by the MásFamilia Foundation with the backing of the Spanish Ministry of Health, Social Services and Equality was renewed. BPA is the first and only Andorran company to have been awarded FRC certification, testifying to its policy of favouring equality of opportunity and a good work-life balance.

In its management programme BPA includes environmental criteria to ensure responsible consumption of energy resources and materials and a system for dealing with waste that is respectful of the environment.

BPA's measures to serve the community include initiatives related to social action, promotion of cultural activities, sports projects and promoting the economic development of the Principality. Culture has been a priority area for BPA's activity in 2013. A major initiative was the loan of the work *7 Poetes* by sculptor Jaume Plensa to the Commune of Andorra la Vella, a project which ran throughout 2013 and was concluded in 2014. In the area of culture BPA also supported the theatre company La Companyia És Grata which staged the show "La gran nit" to mark its 15th anniversary.

BPA's commitment to Andorra's economic development can be seen in its work to disseminate economic information and its support for sector and business organisations in the country. BPA also produces some of the country's leading economics publications, including *Síntesi d'Indicadors Socioeconòmics d'Andorra* and *Quaderns d'Actualitat Econòmica*. It also supports the Andorran Association of Farmers and Livestock Owners, the Andorran Family Business Association, of which it is a founder member, and the Andorran Society for Science.

Many of BPA's corporate responsibility initiatives in the community are carried out through the Banca Privada d'Andorra Private Foundation. The BPA Private Foundation is a non-profit making entity that promotes projects and services for the benefit of the citizens of Andorra in the areas of social welfare, social and employment issues and the environment.

A key project is the Xeridell Occupational Workshop run in partnership with the Nostra Senyora de Meritxell Special Needs School. In 2013 further work was done to adapt jobs to user's profiles and ensure continued employment for them throughout the year.

Another project which closely reflects the BPA Private Foundation's outlook is the Private Tutelage Foundation of the Principality of Andorra, of which BPA is a founding sponsor. This foundation is a non-profit making organisation that works to improve the quality of life of people with mental disabilities. It obtains more than half its income from the BPA Foundation.

One of the BPA Private Foundation's specific fields of activity is to help children at risk, through leisure and training stays at the La Gavernera Children's Centre.

Education is one of the BPA Private Foundation's priorities. In partnership with the Andorran Red Cross, the BPA Private Foundation organises first aid courses for second stage primary school children throughout the Andorran educational system. During 2013 a Careers Guidance Fair for secondary school children in Andorra was organised at the BPA headquarters. BPA also has a programme of grants to provide work experience for young Andorran students. They can work in the BPA Group in July and August, receiving payment during this period. The programme was extended to young university students for the first time in 2013.

The BPA Private Foundation is open to Andorran society, promoting its own projects and working jointly with a number of associations and other organisations with which it has developed a solidarity network. In 2013 the Foundation has helped to fund the work of various social institutions, including Càritas, the Red Cross and Infants del Món. During the year two new cooperation projects were launched, with the Associació d'Amics Solidaris amb el Poble Sahrauí, which supports the people of the Sahara, and with children's charity, Cooperand.

Each year the BPA Foundation works with Unicef on the publication "The State of the World's Children". In 2013 the Foundation also launched the Childhood Observatory in Andorra in partnership with Unicef and the CRES (the Institute of Andorran Studies' Sociological Research Centre).

The BPA Group's Corporate Responsibility principles are also respected by Banco Madrid, the Group's Spanish subsidiary.

Banco Madrid is firmly committed to promoting growth in business and the economy, supporting a number of associations and institutions, such as IESE, the Cercle d'Economia, el Col·legi d'Economistes de les Illes Balears and the Cercle d'Economia de Mallorca.

In the field of social action, Banco Madrid supports the Adecco Foundation's programmes for social and employment integration, and those of the Juan XXIII Foundation to help people with learning disabilities.

The Bank also sponsors a range of activities to bring culture to a wider public in Spain. It thus supports the work of the Lázaro Galdiano Foundation - Museum and in 2013 signed an agreement with La Filarmónica, which organises concerts of classical music.

In 2013 Banco Madrid also entered a new stage in its support for the world of sport by sponsoring the Renault Sport Banco Madrid team to take part in the 2013 Spanish Rally Championship.

34. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

In accordance with current legislation, the Bank's Directors must prepare consolidated financial statements prior to 31 March of the year after the balance sheet date. Nevertheless, on this occasion only, and with the authorisation of the INAF, the consolidated financial statements and the notes thereto were formulated on 27 May 2014. From 31 December 2013 to the date on which these consolidated financial statements were prepared, no significant events occurred which have not been disclosed in the notes to the financial statements which would give rise to the need to amend or extend the information provided in these consolidated financial statements and the notes thereto.

35. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPENDIX I

Details of Other Investments at 31 December 2012.

EXPRESSED IN THOUSANDS OF EUROS

				Net book value	THOUSANDS OF EUROS (OF 100%)			
Company	Registered address	Activity	% ownership	Net book value	Capital	Reserves	Profit for 2013	Underlying net book value
Sermipa, SA*	Andorra	Means of payment	20%	12	60	176	(53)	183
Semtee, SA**	Andorra	Provision of services	1%	323	29,403	19,223	904	49.530
Others	Andorra	–	–	466	–	–	–	–
Total				801	29.463	19.399	851	49.713

* The figures of this subsidiary correspond to the audited closing figures at 31 December 2013.
The subsidiary is equity accounted.

** The figures of this subsidiary correspond to the audited closing figures at 31 December 2012.

This appendix forms an integral part of note 7 to the consolidated financial statements for 2013.

APPENDIX II

Details of Consolidated Shareholders' Equity and movement during 2013 and 2012.

EXPRESSED IN THOUSANDS OF EUROS

	Capital	Legal reserve	Guarantee reserves	Voluntary reserve	Revaluation reserves	Share premiums	Reserves in consolidated companies	Conversion differences	Interim dividend	Profit for the year	Total	Final dividend
Balance at 31 December 2011	70,000	13,706	11,630	68,730	1,678	40,000	10,495	73	(3,000)	18,809	232,121	4,000
Distribution of profit for 2011	-	294	-	-	-	-	15,515	-	3,000	(18,809)	-	-
Consolidation adjustments	-	-	-	(853)	-	-	3,310	(27)	-	-	2,430	-
Amortisation of first-time consolidation diffs. (**)	-	-	-	-	-	-	3,230	-	-	-	3,230	-
Application of reserves (*)	-	-	1,016	(1,016)	-	-	-	-	-	-	-	-
Early cancellation of Exchange product (**)	-	-	-	(17,767)	-	-	-	-	-	-	(17,767)	-
Adjusted profit on Exchange product	-	-	-	176	-	-	-	-	-	-	176	-
Dividend for 2012	-	-	-	-	-	-	-	-	(1,000)	-	(1,000)	-
Profit for 2012	-	-	-	-	-	-	-	-	-	17,588	17,588	-
Balance at 31 December 2012	70,000	14,000	12,646	49,270	1,678	40,000	32,550	46	(1,000)	17,588	236,778	-
Distribution of profit for 2012	-	-	534	9,262	-	-	7,835	-	1,000	(17,588)	1,043	-
Consolidation adjustments	-	-	-	-	-	-	4,996	(221)	-	-	4,775	-
Application of reserves (*)	-	-	(5)	5	-	-	-	-	-	-	-	-
Application non-distributable reserve Leveraged EUR securities (****)	-	-	-	(11,565)	-	-	-	-	-	-	(11,565)	-
Recognition obligation/cost exchange products (*****)	-	-	-	(12,743)	-	-	-	-	-	-	(12,743)	-
Distribution charged to reserves	-	-	-	(1,000)	-	-	-	-	-	-	(1,000)	-
Profit for 2013	-	-	-	-	-	-	-	-	-	20,534	20,534	-
Balance at 31 December 2013	70,000	14,000	13,175	33,229	1,678	40,000	45,381	(175)	-	20,534	237,822	-

* Non-distributable guarantee reserve set up by the Bank, in compliance with law 1/2011 governing the deposit guarantee system for banking entities dated 31 august 2011.

** This movement relates to the charge authorised by the INAF, dated 30 October 2012, for the obligation to provide early consideration on the leveraged euro exchange product, net of tax effect.

*** In accordance with INAF communiqués 227/12 and 228/12 (see note 2.2).

**** See note 7.

***** See note 14.

This appendix forms an integral part of note 20 to the consolidated financial statements for 2013.

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