

# Financial Statements 2012

**BANCA PRIVADA D'ANDORRA, SA AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
DECEMBER 31, 2012 TOGETHER WITH THE AUDITOR'S REPORT

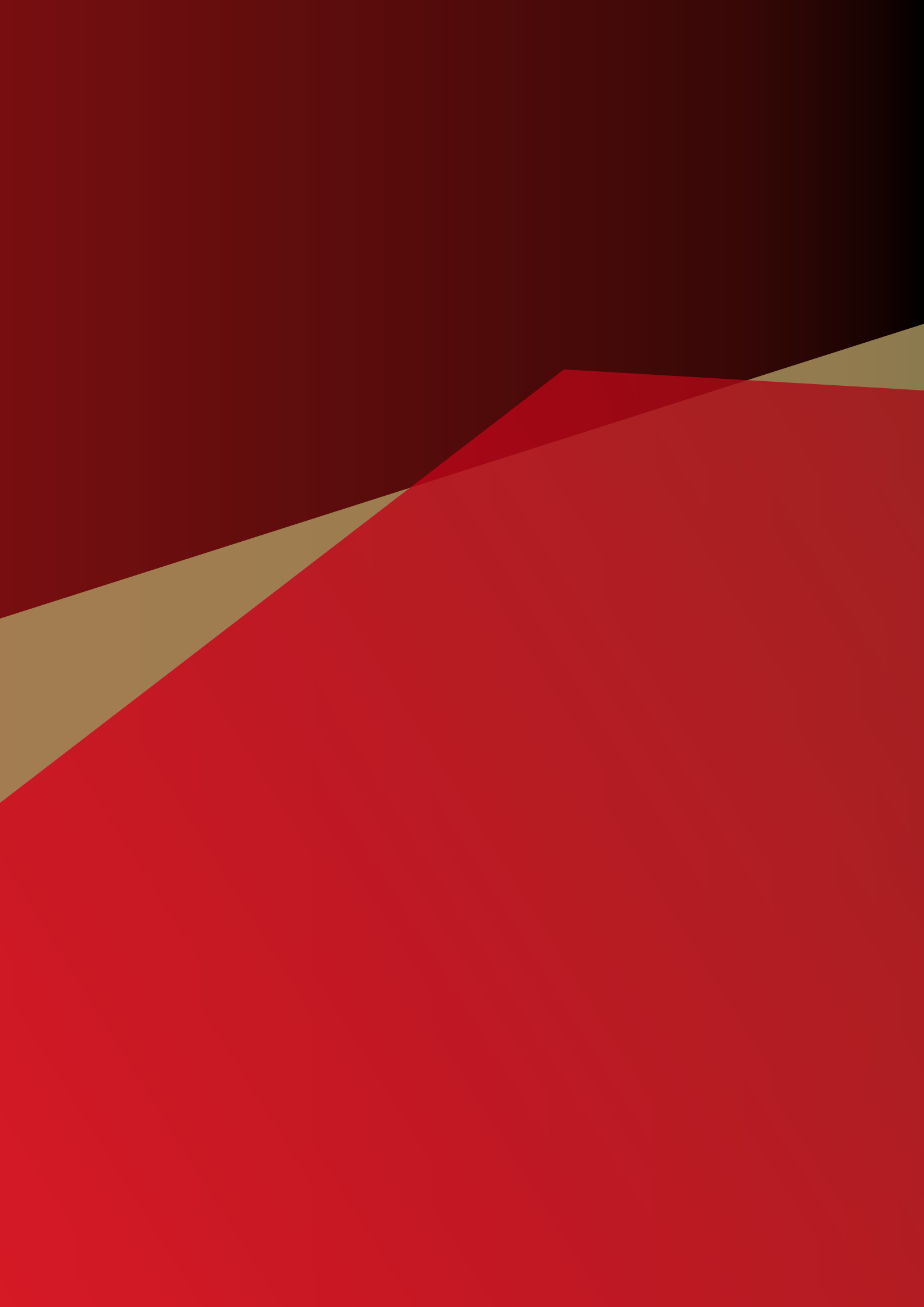


BANCA PRIVADA D'ANDORRA



## Summary

PRESENTATION	<b>5</b>
BPA MANAGEMENT ORGANS	<b>9</b>
FINANCIAL SUMMARY CONSOLIDATED	<b>11</b>
AUDITOR'S REPORT	<b>12</b>
CONSOLIDATED BALANCE SHEETS	<b>14</b>
CONSOLIDATED INCOME STATEMENTS	<b>16</b>
CONSOLIDATED OFF-BALANCE SHEET ITEMS	<b>17</b>
CONSOLIDATED STATEMENTS OF SOURCE OF FUNDS	<b>18</b>
CONSOLIDATED STATEMENTS OF APPLICATION OF FUNDS	<b>19</b>
NOTES TO THE FINANCIAL STATEMENTS	<b>20</b>
APPENDIXES	<b>70</b>
HEAD OFFICE AND OFFICES	<b>72</b>
BPA GROUP	<b>73</b>



## PRESENTATION

The growth in the world economy lost its momentum in 2012, when the GDP slowed down in an environment of great uncertainty and a low level of confidence. In the Eurozone, the sovereign debt crisis once again went through critical moments throughout the year. As a result of such turbulence, in June, Spain was forced to request financial assistance to clean up its banking sector. Throughout the year 2012, central banks actively continued to apply unconventional monetary policies. The European Central Bank (ECB) announced, in August, its willingness to perform Outright Monetary Transactions (OMT), a decision that led to an improvement of financing conditions in the Eurozone at the final stages of the year. The strong willpower shown by the member countries to keep Greece in the EMU, avoiding the risk of break-up of the euro area, also contributed to stabilize the situation.

The main indicators of the economy of Andorra showed in 2012 a similar performance to previous years, with no symptoms of economic rally. The most representative indicator, the wage-earning population, recorded a new 3.4% decrease. Nevertheless, it should be pointed out that, in the tourism sector, the situation tended to stabilize. Thus, the number of tourists slowed down its decline up to 1%, the lowest in the last five years. Moreover, the number of tourists –i.e. the visitors who spend at least one night in the Principality of Andorra– remained relatively stable, with hardly any decrease, 0.2% in 2012.

Throughout the year 2012, Andorra continued to move forward in the process of fiscal harmonization with the rest of Europe. In June, the General Indirect Tax Law (IGI) was passed –it came into force on January 1<sup>st</sup>, 2013, replacing the majority of the indirect taxes existing until then in Andorra. Within the chapter of process changes, there is no doubt that the Law of Foreign Investment passed in June 2012 plays an important role. It implies opening 100% to foreign investments as long as there is reciprocity. Within this context of increasing integration and adaptation to the international standards, it should be pointed out that the Principality has already signed and ratified twenty Fiscal Information Exchange Agreements, the last one having been signed with Poland in June 2012.

Andorra's financial sector registered an extremely positive performance in 2012, which is reflected in the growth of 13.9% in clients' managed assets, reaching 35,400 million euros, a historical maximum figure.

Regarding BPA, the year 2012 was very relevant in the process of growth of the Group and in the consolidation of its Spanish subsidiary, Banco Madrid, as a Prime Company of private banking in Spain. The last corporate transactions, with the acquisition of Nordkapp in 2012 and Liberbank Gestión at the beginning of 2013, have allowed the Group to expand, get a foothold in strategic markets and project its objectives as a private bank, focusing, as a priority, on becoming a leader in management practices.

The acquisition of Nordkapp from Banco de Valencia has allowed the Bank to raise its AUMs and to increase assets managed through investment funds, customers' portfolios and SICAVs. As a result of this operation, BPA Group joined the ranking of the first fifteen companies managing SICAVs in Spain. On the other hand, the integration of the Liberbank Gestión Group will allow Banco Madrid Investment Funds Management Company,

Banco Madrid Gestión de Activos (BMGA), to be the investment fund supplier for Liberbank branches, the seventh bank in the Spanish market.

The Strategic Growth Plan, whose target is to reach a volume of 7,800 million euros in AUMs and a consolidated net profit of 22.2 million euros in 2015, rules the expansion of Group BPA in Spain. BPA's strategy takes into account the consolidation and development of synergies of the Group as the driving force for a significant increase in their profits in the coming years.

BPA's business performance and its consolidated results in 2012 show that the integration of the Companies of the Group is moving forward at a good pace and that the majority of the projected revenue and cost synergies have been achieved. BPA's own growth, together with the acquisitions carried out, placed the turnover in 6,404 million euros in 2012, 21% higher than in 2011. The consolidated net profit in 2012 has been 17.6 million euros, with a significant improvement in the financial margin, the ordinary margin and the operating margin.

The strength of BPA is reflected in its capital ratio of 19.04% in 2012 and in its liquidity ratio of 64.27% that clearly exceeds the regulatory minimum of 10% and 40% respectively. Banco Madrid, BPA's Spanish subsidiary, stands out as one of the strongest banks in Spain, with a capital ratio of 39.4%, three times higher than the average sector ratio, and a non-performing rate of 1.07%. The growth of BPA in 2012 was accompanied by the reinforcement of its workforce, which has increased in 5.6%, to 547 people.

Also in 2012, the agency Fitch Ratings granted BPA a new IDR as a long-term issuer, thus maintaining a BB + rating and improving the outlook, from negative to stable. This positive review of the Entity's outlook by the ratings agency is consistent with the fact that BPA is adopting the appropriate measures to consolidate the Group's integration, emphasizing on the improvement of corporate governance and the increase of profitability, as well as a dividend policy aimed at strengthening the Entity's capitalization level.

The excellent assessment given by different analysts and independent financial publications to BPA fund managers, continue to be a special reason for satisfaction for the Group. It should be noted that in the year 2012, the Fund Manager of the BPA Fondo Ibérico Acciones FI was granted an A rating by Citywire. This rating was confirmed in January 2013. Morningstar granted Four Stars to the BPA Ibérico Acciones Fund, run by Banco Madrid and which changed its name to Banco Madrid Ibérico Acciones in March 2013, thus being placed in the bronze category by this prestigious analyst. On the other hand, VDOS Stochastics Analysts have confirmed Banco Madrid as a leading bank in SICAV profits in Spain, together with six other partnerships amongst the fifteen most profitable ones in 2012

The year 2012 was also extremely satisfactory for BPA Group as to its recognition in quality issues. The renewal of a 9001:2008 ISO Certification to BPA by the Asociación de Normalización y Certificación (AENOR) and the International Certification Network (IQNET) should be noted. This confirms the quality of its Organization and Technology Services.

BPA Group is highly committed to society to whom it returns part of the profits obtained from its financial activity, and aims at boosting social cohesion and encouraging sustainable economic growth. As part of its Corporate Responsibility Policy, in 2012, BPA confirmed its

certificate as a Family-Responsible Company, awarded by the Másfamilia Foundation and guaranteed by the Ministerio de Sanidad, Política Social e Igualdad (Ministry of Health, Social Policy and Equality) of Spain.

The Fundació Privada Banca Privada d'Andorra is a cornerstone in the development of the Social Responsibility activities of the Company. In this field, we should point out Xeridell Occupational Workshop, which aims at contributing towards the improvement of its users' life quality and relationship with the environment. The Foundation also works helping in favour of legally incapable people through the Fundació Privada Tutelar del Principat d'Andorra and with children at risk, through an agreement with the Shelter Home La Gavernera. Additionally, the Foundation supports the entry of young people to the labour market, offering grants for temporary work placement at the BPA Group.

Summing up, BPA ended the year 2012 being a stronger and more solid bank despite a still difficult environment, as a result of its desire to improve, its leadership vocation and its commitment with society as a whole. Such results would not have been possible without the involvement and all the Group's professionals' hard work and the trust of its clients.

Many thanks to all of them.

**The Board of Directors**





## BPA MANAGEMENT ORGANS

### BOARD OF DIRECTORS

<b>Higini Cierco Noguer</b>	Chairman
<b>Ramon Cierco Noguer</b>	Chairman
<b>Anna Maria Zamora Bonet</b>	Member of the Board
<b>Bonaventura Riberaigua Sasplugas</b>	Member of the Board
<b>Joan Pau Miquel Prats</b>	Member of the Board
<b>Ricard Climent Meca</b>	Member of the Board
<b>Frederic Borràs Pàmies</b>	Member of the Board
<b>Rosa Castellón Sánchez</b>	Secretary

### AUDIT AND CONTROL COMMISSION

<b>Ricard Climent Meca</b>	Chairman
<b>Ramon Cierco Noguer</b>	Member of the Commission
<b>Higini Cierco Noguer</b>	Member of the Commission
<b>Bonaventura Riberaigua Sasplugas</b>	Member of the Commission
<b>Frederic Borràs Pàmies</b>	Member of the Commission
<b>Rosa Castellón Sánchez</b>	Secretary

### MANAGEMENT TEAM

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



## Financial Summary Consolidated

	2012	2011
<b>Balance</b> (THOUSANDS OF EUROS)		
Total assets	2,845,463	2,335,438
Cash and banks	321,218	321,359
Loans and advances to customers, net	1,124,663	1,077,964
Investment securities	1,005,315	596,708
Deposits	1,621,477	1,484,676
Shareholder's equity	236,779	232,121
<b>Income statement</b> (THOUSANDS OF EUROS)		
Financial margin	38,665	12,237
Ordinary margin	99,919	63,825
Operating margin	16,042	1,459
Net profit	17,596	18,528
<b>Key ratios</b> (%)		
ROE (Net profit/Average equity)	7.46	8.37
ROA (Net profit/Average total assets)	0.63	0.96
Efficiency ratio (Operating expenses/Ordinary margin)	75.29	81.38
Risk - weighted capital ratio	19.04	21.20
Liquidity ratio	64.27	80.33
<b>Resources</b>		
Number of employees	547	518
Number of offices	25	25



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Principat d'Andorra

### Independent Auditors' Report

(Free translation from the original report in Catalan (see note 35),  
in the event of discrepancy, the Catalan-language version prevails)

To the shareholders of  
Banca Privada d'Andorra, SA

#### **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 2012, and the consolidated profit and loss account, 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 judgment, 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.

KPMG S.L., societat andorranesa de responsabilitat limitada,  
és una entitat afiliada a KPMG Europe LLP i membre de la  
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International Cooperative ("KPMG International"),  
societat suïssa.

Inscrita al Registre de Societats del M.I. Govern,  
amb el número 8045, Llibre S-61, folis 145 a 152  
N.R.T. L-703201-2


**(Free translation from the original report in Catalan (see note 35),  
in the event of discrepancy, the Catalan-language version prevails)**

2

### **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 2012, 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.

KPMG, SL



Francesc Gibert Pibernat

28 March 2013

# Consolidated Balance Sheets

31 December 2012 and 2011

(EXPRESSED IN THOUSANDS OF EUROS)

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
<b>Cash in hand and at central banks of the OECD</b>	<b>16,386</b>	<b>37,754</b>
<b>Andorran National Institute of Finance (INAF) (note 5)</b>	<b>210</b>	<b>8,521</b>
<b>Financial intermediaries (note 5)</b>	<b>304,832</b>	<b>283,605</b>
Banks and credit institutions	305,795	285,178
Other financial intermediaries	–	–
Provision for loan losses	(963)	(1,573)
<b>Loans and receivables (note 6)</b>	<b>1,124,663</b>	<b>1,077,964</b>
Loans and credits to customers	1,089,323	1,051,719
Customer account overdrafts	52,598	47,407
Customer discounted notes	7,846	4,487
Provision for loan losses	(25,104)	(25,649)
<b>Investment securities (note 7)</b>	<b>1,005,315</b>	<b>596,708</b>
Bonds and other fixed-income securities	964,607	559,278
Provision for loan losses	(6,281)	(1,451)
Security valuation reserve	–	–
Equity investments in Group companies	6,264	8,362
Security valuation reserve	–	(47)
Other equity investments	724	858
Security valuation reserve	(246)	(246)
Shares and other variable-income securities	12,051	13,910
Security valuation reserve	–	–
Investment funds	28,196	16,044
Security valuation reserve	–	–
Treasury shares	–	–
<b>Gains on consolidation (note 2 (c))</b>	<b>87,275</b>	<b>83,239</b>
Gains on consolidation	87,275	87,347
Amortisation and depreciation	–	(4,108)
<b>Intangible assets and amortisable costs (note 8)</b>	<b>19,266</b>	<b>13,979</b>
Goodwill	3,900	–
Intangible assets and amortisable costs	45,950	40,718
Depreciation	(30,584)	(26,739)
<b>Tangible assets (note 9)</b>	<b>141,305</b>	<b>143,153</b>
Tangible assets	181,431	179,532
Depreciation	(39,968)	(36,221)
Provision for depreciation of tangible assets	(158)	(158)
<b>Prepayments and accrued income (note 10)</b>	<b>29,467</b>	<b>29,872</b>
Accrued income	28,764	27,511
Prepaid expenses	703	2,361
<b>Other assets (note 11)</b>	<b>116,744</b>	<b>68,954</b>
Transactions in progress	44,953	26,280
Inventories	126	167
Options purchased	–	–
Others	33,971	14,623
Taxes	37,694	27,884
<b>Total assets</b>	<b>2,845,463</b>	<b>2,335,438</b>

The accompanying notes 1 to 35 form an integral part of the consolidated financial statements for 2012.

# Consolidated Balance Sheets

31 December 2012 and 2011

(EXPRESSED IN THOUSANDS OF EUROS)

<b>LIABILITIES</b>	<b>2012</b>	<b>2011</b>
<b>Andorran National Institute of Finance (INAF) (note 12)</b>	<b>557</b>	<b>429</b>
<b>Creditors (note 13)</b>	<b>2,312,879</b>	<b>1,847,025</b>
Banks and credit institutions	691,174	362,349
Other financial intermediaries	228	—
Customer deposits	1,621,477	1,484,676
<b>Debt securities (note 14)</b>	<b>102,635</b>	<b>75,661</b>
<b>Provision for risks and contingencies (note 15)</b>	<b>4,064</b>	<b>3,815</b>
Provisions for pensions and similar obligations	—	—
Provisions for contingent liabilities	122	278
Provisions for forward transactions	—	—
Provisions for litigation	—	—
Provisions for taxes	—	—
Other provisions	3,942	3,537
<b>General risks reserve (note 16)</b>	<b>2,000</b>	<b>2,000</b>
<b>Subordinated liabilities (note 17)</b>	<b>63,131</b>	<b>63,667</b>
<b>Accrued expenses and deferred income (note 18)</b>	<b>23,524</b>	<b>14,746</b>
Unpaid accrued expenses	23,502	14,746
Deferred income	22	—
<b>Other liabilities (note 19)</b>	<b>99,853</b>	<b>89,050</b>
Transactions in progress	9,522	1,494
Suppliers and other creditors	82,484	81,367
Taxes	7,847	6,189
<b>Minority interests (note 20)</b>	<b>41</b>	<b>6,924</b>
<b>Share capital (note 20)</b>	<b>70,000</b>	<b>70,000</b>
Subscribed capital	70,000	70,000
<b>Reserves (note 20)</b>	<b>150,712</b>	<b>147,743</b>
Legal reserve	14,000	13,706
Guarantee reserves	12,647	11,630
Voluntary reserves	49,270	68,730
Revaluation reserves	1,678	1,678
Share premiums	40,000	40,000
Consolidation reserves	33,071	11,926
Conversion differences	46	73
<b>Profit (note 20)</b>	<b>16,067</b>	<b>14,378</b>
Profit for the year	17,588	18,809
Prior years' losses pending application	(521)	(1,431)
Interim dividend	(1,000)	(3,000)
<b>Total liabilities</b>	<b>2,845,463</b>	<b>2,335,438</b>

The accompanying notes 1 to 35 form an integral part of the consolidated financial statements for 2012.

# Consolidated Income Statements

for the years ended 31 December 2012 and 2011

(EXPRESSED IN THOUSANDS OF EUROS)

	2012	2011
<b>Interest and related income</b>	<b>72,829</b>	<b>45,653</b>
INAF and financial intermediaries on sight	3,419	4,474
On loans and receivables	28,493	23,506
On bonds and other fixed-income securities	40,917	17,673
<b>Interest and related expenses</b>	<b>(34,126)</b>	<b>(33,254)</b>
INAF and financial intermediaries	(7,347)	(4,112)
On customer deposits	(13,295)	(9,759)
On debt securities	(8,604)	(18,341)
On subordinated liabilities	(1,975)	(1,023)
On others	(2,905)	(19)
<b>Income from variable-income securities</b>	<b>(38)</b>	<b>(162)</b>
On equity investments in Group companies	(173)	–
On other equity investments	–	–
On shares and other variable-income securities	135	(162)
On investment funds	–	–
<b>Net interest margin</b>	<b>38,665</b>	<b>12,237</b>
<b>Net fees and commissions accrued on services (note 26)</b>	<b>48,466</b>	<b>46,701</b>
Fees and commissions accrued on services supplied	69,099	54,734
Fees and commissions accrued on services received	(20,633)	(8,033)
<b>Gains on financial assets and liabilities</b>	<b>12,540</b>	<b>4,076</b>
Net charges to security valuation reserve (note 7)	–	(233)
Foreign exchange gains	2,093	1,619
Profit on securities transactions	9,756	1,531
Profit/(losses) on forward transactions	(141)	651
Exchange gains on consolidation	3	–
Share of profit of equity accounted companies	829	508
<b>Other profit from ordinary activity (note 9)</b>	<b>248</b>	<b>811</b>
<b>Gross margin</b>	<b>99,919</b>	<b>63,825</b>
<b>Personnel expenses</b>	<b>(37,171)</b>	<b>(24,662)</b>
Personnel, board of directors and severance indemnities	(26,977)	(18,430)
Indemnities	(717)	(194)
Social Security	(4,395)	(2,753)
Other personnel expenses	(3,578)	(1,929)
Ordinary charges or contributions to other savings entities (note 31)	(1,504)	(1,356)
<b>Overheads</b>	<b>(38,062)</b>	<b>(27,280)</b>
Material	(304)	(241)
External services	(30,079)	(20,485)
Taxes (note 3 (I))	(7,641)	(6,554)
Other overheads	(38)	–
<b>Amortisation and depreciation of fixed assets, net of recoveries (notes 8 and 9)</b>	<b>(8,639)</b>	<b>(10,424)</b>
Charge to the provision for amortisation and depreciation of intangible and tangible assets	(8,639)	(10,424)
Recoveries of provision for amortisation and depreciation of intangible and tangible assets	–	–
<b>Provisions for amortisation and depreciation of fixed assets, net of recoveries (note 9)</b>	<b>(5)</b>	<b>–</b>
Charge to the provision for amortisation & depreciation of intangible and tangible assets	(5)	–
Recoveries of provision for amortisation and depreciation	–	–
<b>Net operating margin</b>	<b>16,042</b>	<b>1,459</b>
<b>Provisions for loan losses, net of recoveries (notes 5, 6 and 7)</b>	<b>(6,535)</b>	<b>(1,250)</b>
Charge to the provision for loan losses	(14,261)	(19,667)
Recoveries of provision for loan losses	7,726	18,417
<b>Provisions for risks and contingencies, net of recoveries</b>	<b>(735)</b>	<b>1,410</b>
Charge to the provision for risks and contingencies (note 15)	(1,118)	(8,895)
Recoveries of the provision for risks and contingencies	383	10,305
<b>Charges to the general risks reserve (note 16)</b>	<b>–</b>	<b>(1,098)</b>
<b>Ordinary profit</b>	<b>8,772</b>	<b>521</b>
<b>Extraordinary profit (note 28)</b>	<b>2,040</b>	<b>721</b>
<b>Profit before taxes</b>	<b>10,812</b>	<b>1,242</b>
Income tax (note 27)	852	–
Foreign income tax	5,924	17,567
<b>Profit for the year</b>	<b>17,588</b>	<b>18,809</b>
<b>Profit/(loss) attributable to minority interest</b>	<b>(8)</b>	<b>281</b>
<b>Profit attributable to the Group</b>	<b>17,596</b>	<b>18,528</b>

The accompanying notes 1 to 35 form an integral part of the consolidated financial statements for 2012.



## Consolidated Off-Balance Sheet Items

31 December 2012 and 2011

(EXPRESSED IN THOUSANDS OF EUROS)

	2012	2011
<b>Contingent liabilities</b>	<b>69,565</b>	<b>82,959</b>
Guarantees, commitments, sureties and pledges	68,877	82,121
Documentary credits issued to or received from customers	65	638
Notes and similar accepted	–	–
Doubtful contingent liabilities	203	–
Other contingent liabilities	420	200
<b>Commitments and contingent risks</b>	<b>154,553</b>	<b>189,493</b>
Operational commitments and risks	154,387	189,659
Actuarial commitments and risks	–	–
Other contingent commitments and risks	166	(166)
<b>Forward operations (note 22)</b>	<b>1,568,824</b>	<b>798,283</b>
Outstanding forward currency purchase and sales	1,226,017	766,669
Forward financial instrument operations	340,719	28,277
Outstanding purchase and sale of financial assets	2,088	–
Other forward operations	–	3,337
<b>Security deposits and other securities held in custody</b>	<b>5,752,031</b>	<b>4,448,337</b>
Security deposits and other securities held in custody of third parties (note 23)	4,833,394	3,922,827
Security deposits and other securities in own custody	918,637	525,510
<b>Other memorandum accounts exclusively for administrative control (note 24)</b>	<b>450,166</b>	<b>317,432</b>
Guarantees and commitments received	114,526	108,967
Other Memorandum Accounts	335,640	208,465
<b>Total memorandum accounts</b>	<b>7,995,139</b>	<b>5,836,504</b>

The accompanying notes 1 to 35 form an integral part of the consolidated financial statements for 2012.

## Consolidated statements of source of funds

for the years ended 31 December 2012 and 2011

(EXPRESSED IN THOUSANDS OF EUROS)

<b>SOURCES OF FUNDS</b>	<b>2012</b>	<b>2011</b>
<b>Funds generated from operations</b>	<b>32,848</b>	<b>42,855</b>
Profit for the year	17,588	18,809
Net charges to the provision for loan losses	6,535	4,250
Net charges to the provision for fixed asset depreciation	4	233
Net charges to the security valuation reserve	–	–
Charges to other provisions (pension funds, etc.)	845	(132)
Depreciation and amortisation of tangible and intangible assets	8,640	10,424
Loss on sale of fixed assets	(775)	(323)
Profit/(loss) on sale of treasury shares and equity investments	180	–
Others (+/-)	–	10,102
Losses contributed by equity accounted companies (-)	(169)	(508)
<b>Increase in liabilities over assets</b>	<b>309,526</b>	<b>115,435</b>
INAF and financial intermediaries (Liabilities-Assets)	128	–
Banks and credit institutions	309,245	115,361
Other financial intermediaries	153	74
Others (Liabilities-Assets)	–	–
<b>Net increase in liabilities</b>	<b>139,911</b>	<b>305,407</b>
Creditors: customers	132,768	274,344
Debt securities and subordinated liabilities	7,143	31,063
<b>Net decrease in assets</b>	<b>21,368</b>	<b>–</b>
Cash	21,368	–
Loans and receivables: customers	–	–
Securities portfolio, less equity investments	–	–
<b>Sale of long-term investments</b>	<b>7,653</b>	<b>441</b>
Sale of equity investments	2	–
Sale of fixed assets	7,651	441
<b>Funds from financing activities</b>	<b>–</b>	<b>–</b>
Dividends received	–	–
Funds from financing activities	–	–
<b>Total sources of funds</b>	<b>511,306</b>	<b>464,138</b>

The accompanying notes 1 to 35 form an integral part of the consolidated financial statements for 2012.

## Consolidated statements of application of funds

for the years ended 31 December 2012 and 2011

(EXPRESSED IN THOUSANDS OF EUROS)

<b>APPLICATION OF FUNDS</b>	<b>2012</b>	<b>2011</b>
<b>Funds used in operations</b>	–	–
Application of other funds (pension funds, etc.)	–	–
Others (+/-)	–	–
<b>Increase in assets over liabilities</b>	<b>27,804</b>	<b>98,063</b>
INAF and financial intermediaries (Assets – Liabilities)	–	28,765
Banks and credit institutions (Assets-Liabilities)	–	–
Other financial intermediaries (Assets-Liabilities)	–	–
Other items (Assets – Liabilities)	27,804	69,298
<b>Net decrease in liabilities</b>	<b>536</b>	<b>56,846</b>
Creditors: customers	–	–
Debt securities and subordinated liabilities	536	56,846
<b>Net increase in assets</b>	<b>461,777</b>	<b>249,617</b>
Cash	–	22,260
Loans and receivables: customers	46,154	179,891
Securities portfolio, less equity investments	415,623	47,466
<b>Acquisition of long-term investments</b>	<b>20,189</b>	<b>52,612</b>
Acquisition of equity investments	0	1,241
Acquisition of fixed assets	20,189	51,371
<b>Funds applied to financing activities</b>	<b>1,000</b>	<b>7,000</b>
Dividends	1,000	7,000
Others	–	–
<b>Total applications of funds</b>	<b>511,306</b>	<b>464,138</b>

The accompanying notes 1 to 35 form an integral part of the consolidated financial statements for 2012.

# Notes to the Financial Statements

for the year ended 31 December 2012

## 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 Avinguda 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.

At 31 December 2012 the Bank has eight branch offices: two in Andorra la Vella, one in Escaldes-Engordany, one in Pas de la Casa, one in La Massana, one in Sant Julià de Lòria, one in Ordino and another one in Encamp and is the head of a group of companies involved in banking and complementary activities. Details of these companies are shown in note 2(c). The Bank, in conjunction with these companies, forms the Banca Privada d'Andorra Group (hereinafter the Group).

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.

As an integral part of the Andorran financial system, the Bank 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**

### **a) Fair presentation**

The accompanying consolidated financial statements have been prepared by the Bank's directors on the basis of the accounting records of the Bank and its Group companies, taking into consideration mandatory accounting principles and valuation criteria and are presented in accordance with the models 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 (see note 3), so that they give a true and fair view of the Group's equity and financial position at 31 December 2012 and of the results of its operations and source and application of funds for the year then ended.

The financial statements of Banca Privada d'Andorra, SA and each of its subsidiaries for 2012 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 consolidated financial statements and the individual financial statements of the Group companies will be approved without any significant changes. The consolidated financial statements for 2011 were approved by the Bank's shareholders at a general meeting held on 18 June 2012.

The information relating to 2011, contained in these financial statements for 2012, is presented exclusively for comparative purposes and does not therefore constitute the Group's consolidated financial statements for 2011.

### **b) Accounting principles and comparative information**

The accompanying consolidated financial statements have been prepared in accordance with the generally accepted accounting principles established in the Accounting Plan of the Andorran Financial System and subsequent communiqués issued by the INAF in relation to the application of this Plan (see note 3). No mandatory accounting principles having a significant effect on these financial statements have been excluded during their preparation.

The balances for 2012 and 2011 presented in these consolidated financial statements are comparative, with the exception of:

- Differences on first-time consolidation and goodwill: as established in INAF communiqués 227/12 of 28 December 2012 and 228/12 of 31 December 2012, respectively, effective as from 1 January 2012 and in line with international accounting standards, gains on consolidation and goodwill are not amortised but are recognised at their initial value on first-time consolidation less any impairment arising after initial recognition.
- Goodwill is recognised at acquisition price, where applicable, less any impairment arising after the acquisition date. In both cases, the Bank is required to distribute part of its annual profit to a non-distributable reserve by an amount equivalent

to 10% of the difference on first-time consolidation or goodwill up to 100% of the carrying amount of goodwill. These communiqués were first applicable as from 1 January 2012, the date on which the INAF established that entities were required to reverse unused provisions for amortisation and depreciation recognised at that date to offset impairment, against reserves (in the case of goodwill) or consolidation reserves (in the case of gains on consolidation) and generate a non-distributable reserve. Had these criteria been applied when balances for 2011 were stated, Gains on consolidation-Amortisation and depreciation would have been Euros 3,230 thousand lower and Reserves-Consolidation reserves would have been Euros 1,310 thousand higher. In addition, profit for the year ended 31 December 2011 would have been Euros 1,920 thousand higher.

- On 1 December 2011 the Principality of Andorra's General Council approved Income Tax Law 17/2011 amending Income Tax Law 95/2010 of 29 December 2010, in accordance with which as from 2012 companies pay a general tax rate of 10%. However, pursuant to the first additional provision of the aforementioned Law, during the first applicable year of income tax, the Bank will benefit from a 50% reduction. Through communiqué 226/12, the INAF established the criteria for the accounting treatment and presentation of income tax in the financial statements and the accompanying notes thereto. The impact of the accounting treatment of income tax for 2012 is presented in the accompanying consolidated balance sheet under Other Assets-Taxes and Other Liabilities-Taxes as well as under Income tax and Foreign income tax on the accompanying consolidated income statement for 2012.
- As this is the first year of application of the aforementioned income tax, the balances of the above-mentioned items are not comparable with those of the prior year, with the exception of income tax of foreign subsidiaries in 2011, which has been reclassified from Extraordinary profit and loss to Foreign income tax in the accompanying consolidated income statement.
- Furthermore, the amounts presented in the memorandum accounts as Securities deposited and others held in custody - Securities deposited and others held in custody of third parties have been restated in accordance with INAF communiqué 233/13. As a result of this change in criteria, the aforementioned item increased by Euros 864,999 thousand, corresponding to the recognition in memorandum accounts of investments in collective investment undertakings deposited by customers at the Bank. Tax payable for 2011, which is presented as Other liabilities-Suppliers and other payables has been restated and classified as Other liabilities-Taxes to facilitate the comparison of information with 2012. The reclassified amount totals Euros 6,091 thousand.

### **c) 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 by itself 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.

The same 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 its 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 a non-differentiated activity (entities from the financial system or instrumental and/or auxiliary entities, fundamentally) and when it belongs to the economic group.

According to the full consolidation method, the carrying amount of investments and flows resulting from this situation is replaced with the assets and liabilities, and with the income and expenditure of the investee company, i.e. the items of the subsidiaries to be consolidated that form part of the group are included within or added to the balance sheet and to the income statement of the Parent, replacing the carrying amount of the equity investment with the assets and liabilities of the companies to be consolidated.

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

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 carrying amount 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 relating 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
<b>Direct equity investments</b>				
BPA Fons, SAU	Andorra	100%	Investment fund management	Full consolidation
BPA Serveis, SAU	Andorra	100%	Services	Full consolidation
Banca Privada d'Andorra (Uruguay), S.A. I.F.E.	Uruguay	100%	Cash and securities brokerage	Full consolidation
Banca Privada d'Andorra, S.A. (Panamá)	Panama	100%	Banking entity	Full consolidation
BPA Valores, S.A.	Panama	100%	Investment security company	Full consolidation
Banco de Madrid S.A.U.	Spain	100%	Banking entity	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 IPWM (Suisse), S.A.	Switzerland	66.67%	Asset management	Full consolidation
BPA Gestió, SAU	Andorra	100%	Real estate project management	Full consolidation
BPA Financing, S.àr.l.	Luxembourg	100%	Intermediation services in financial markets	Full consolidation
Noswey, S.A.	Uruguay	100%	Investment advisory services	Full consolidation
BMadrid Mexico S.A. de C.V. SOFOM	Mexico	99.9%	Granting of loans	Full consolidation
BPA International TRUST, S.A.	Panama	100%	Trustee business	Full consolidation
BPA Assegurances, SAU.	Andorra	100%	Insurance company	Equity method
Vigilància i Protecció, S.A.	Andorra	24%	Services	Equity method
Les Llenguaderes dels Vilars, S.L.	Andorra	25%	Real estate construction, development and commercialisation	Equity method
Càbala, S.L.	Andorra	25%	Real estate construction, development and commercialisation	Equity method
Zaguer Inmoprom, S.L.	Spain	25%	Construction and development	Equity method
Seguriser, SA	Andorra	19.78%	Security and other services	Equity method

(\*) Direct subsidiary of BPA which now 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
BPA Global Funds Asset Management S.G.I.I.C., S.A.U.	Spain	100%	Investment fund management	Full consolidation
Nordkapp Inversiones, SV, S.A. (**)	Spain	100%	Other financial services	Full consolidation
MB Corredors d'Assegurances, SA	Andorra	25%	Insurance	Equity method

(\*) Direct subsidiaries of BPA which now have direct equity investments in other companies.

The main changes to the consolidated Group during 2012 have been the acquisition of the Nordkapp Group, the acquisition of 100% of the shares of Interdin, S.A. and the non-monetary contribution of BPA Global Funds A.M to the corporate structure

of Banco Madrid, S.A. In analysing the accompanying income statement, it should be considered that in 2011 55.11% of Interdin was incorporated into the Group, effective as of 16 November 2011 and 100% of Banco de Madrid, S.A.U, effective as of 20 July 2011.

The statutory activity of BPA Fons, SAU, a company with registered offices in Andorra, is the administration and representation of collective investment funds and undertakings.

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

Banca Privada d'Andorra, (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 2012 this company has no activity and the Bank has initiated proceedings to wind it up.

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 for the duration of 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 Global Funds Asset Management, S.G.I.I.C., S.A. (previously called Interdin Gestión S.G.I.I.C., S.A.), is a company domiciled in Spain and engaged in the acquisition, holding, use, administration and sale of all kinds of securities, on its own behalf and without intermediation acquired in 2009. These acquisitions generated a gain on first-time consolidation of Euros 391 thousand, recognised under gains on consolidation in the accompanying consolidated balance sheet. This company was consolidated in 2011 through a non-monetary contribution of share capital to the corporate structure of Banco Madrid.

Banco de Madrid, S.A.U. is a company domiciled in Spain, the statutory activity of which 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 Banco Madrid, S.A. 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. This company is subject to the legislation and regulations of banking and credit entities operating in Spain.

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

Interdin, S.A. is a company domiciled in Spain which holds 100% of Interdin Bolsa SV, 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 share capital. This operation was carried out through a reduction in the company's share capital, approved by the shareholders at the corresponding annual general meeting held in November 2012 and was registered by the INAF in December 2012. The company and investees are subject to Spanish legislation and regulations.

BPA-IPWM (Suisse), SA 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 operate as a financial intermediary.

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

BPA Financing, S.àr.l., incorporated in 2008, is a company domiciled in Luxembourg, the statutory activity of which is the rendering of brokerage services in financial markets. On 29 December 2009 the company increased its share capital by Euros 988 thousand, which was fully subscribed by the entity.

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

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

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. In 2005, BPA Assegurances, SAU also acquired a 15% interest in this company on behalf of the BPA Group employees' retirement plan (see note 29).

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.

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 and which has been fully amortised at 31 December 2012.

Seguretat i Serveis, SA (Seguriser, SA) is domiciled in Andorra and its statutory activity is to provide security and other related services. On 10 November 2010 the company increased share capital by Euros 1,600 thousand, 20% of which has been subscribed by the Bank.

Nordkapp Inversiones, Sociedad de Valores, S.A. is a securities company incorporated in June 2003, which owns 100% of the share capital of Nordkappital Desarrollo, S.L. On 2 August 2012 and following authorisation by INAF and the Spanish Securities Market Commission (CNMV), Banco Madrid, S.A. acquired a direct interest of 100% in the company's share capital. This acquisition has generated a gain on first-time consolidation of Euros 993 thousand, recognised under Gains on consolidation in the accompanying consolidated balance sheet.

BMadrid México Asesores Patrimoniales, S.A. de C.V., formerly BPA Investment, S.A. de C.V. Sociedad Operadora de Sociedades de Inversión is domiciled in Mexico and is an investment company operating company. It has been wholly owned by BPA Global Funds Asset Management, S.G.I.I.C., S.A. since February 2010. This acquisition generated a gain on first-time consolidation of Euros 268 thousand, recognised under Gains on consolidation in the accompanying consolidated balance sheet. Due to a change in the Group's internationalisation strategy, proceedings were initiated in 2012 with the relevant bodies to dissolve and wind up the company.

MB Corredors d'Assegurances SA is domiciled in Andorra and invested in by BPA Assegurances, SAU. Its principal activity is the intermediation of insurance products in the brokerage line of business.

NOSWEY, SA is domiciled in Uruguay and was incorporated on 22 June 2009, the statutory activity of which is the rendering of investment advisory services. At the 2012 year end, the company has presented the relevant documentation for its registration with the Central Bank of Uruguay and is pending approval to start operating.

BMadrid Mexico S.A. de C.V. SOFOM ENR is a financial company for multiple purposes, the statutory activity of which 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 2012 the company is being wound up.

BPA International TRUST, S.A. is a Panamanian company incorporated on 15 July 2011, the statutory activity of which involves acting as a trustee. On 19 August 2011 the Superintendency of Banks of Panama granted a trustee license so that it could exercise trustee business from Panama and it is fully operational at the 2012 year end.

Details of shareholders' equity of fully consolidated companies at 31 December 2012  
are as follows:

THOUSANDS OF EUROS

Society	Capital	Reserves	Profit for 2012	Prior years' profit / (losses)	Interim dividend	Total shareholders' equity	Participating loans <sup>(2)</sup>
BPA Fons, SAU <sup>(1) (2)</sup>	300	2,668	5,443	–	(4,500)	3,911	–
BPA Serveis, SAU <sup>(3)</sup>	60	367	258	–	–	685	–
BPA (Uruguay), S.A.I.F.E	3,590	(25)	(5)	(161)	–	3,399	–
BPA, S.A. (Panama) <sup>(1)</sup>	2,098	696	15	(192)	–	2,617	–
BPA Valores, S.A. <sup>(1)</sup>	214	13	146	102	–	475	–
BPA Global Funds Asset SGIIC S.A. <sup>(1)</sup>	3,300	1	29	(330)	–	3,000	2,069
Banco de Madrid, S.A.U. <sup>(1)</sup>	37,800	17,839	9,127	–	–	64,766	–
Banco Madrid Gest. de Activos, SGIIC <sup>(1)</sup>	2,523	46	3	(83)	–	2,489	–
Interdin, S.A. (sub-consolidated) <sup>(1)</sup>	4,104	7,707	377	(3,147)	–	9,041	–
BPA-IPWM (Suisse), SA <sup>(1)</sup>	111	8	(23)	(85)	–	11	–
Nordkapp Inv., SV, S.A.(sub-consolidated) <sup>(1)</sup>	16,350	54	(151)	(10,340)	–	5,913	–
BPA Gestió, SAU	60	348	(33)	–	–	375	–
Noswey, S.A. <sup>(1)</sup>	1,817	171	(271)	(204)	–	1,513	–
BPA International TRUST, S.A. <sup>(1)</sup>	189	–	(57)	(59)	–	73	–
BMadrid Mexico SA de CV	18	–	–	–	–	18	276
BPA Financing, S.àr.l.	1,000	100	(62)	(100)	–	938	–
<b>Total</b>	<b>73,534</b>	<b>29,993</b>	<b>14,796</b>	<b>(14,599)</b>	<b>(4,500)</b>	<b>99,224</b>	<b>2,345</b>

(1) Audited balance sheets.

(2) During 2012 dividends of Euros 6,500 thousand have been paid.

(3) During 2012 dividends of Euros 1,500 thousand have been paid.

Details of shareholders' equity of equity accounted companies at 31 December 2012  
are as follows:

THOUSANDS OF EUROS (100%)

Society	Capital	Reserves	Profit for 2012	Prior years' profit / (losses)	Underlying carrying amount of 100%	Participating loans
BPA Assegurances, SAU <sup>(1) (2)</sup>	610	3,721	1,057	–	5,388	–
Vigilància i Protecció, SA	75	462	34	14	585	–
Les Llenguaders dels Vilars, SL	3	–	(316)	(2,541)	(2,854)	2,300
Càbala, SL	6	63	(271)	(1,062)	(1,264)	4,500
Zaguer Inmoprom, S.L. <sup>(1)</sup>	1,264	–	(369)	(19)	876	–
Seguriser, SA	1,663	808	(187)	(1,263)	1,021	–
MB Corredors d'Assegurances, SA <sup>(1)</sup>	60	347	89	–	496	–
<b>Total</b>	<b>3,681</b>	<b>5,401</b>	<b>37</b>	<b>(4,871)</b>	<b>4,248</b>	<b>6,800</b>

(1) Audited balance sheets.

(2) During 2012 dividends of Euros 1,500 thousand have been paid.

### 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:

#### a) 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.

#### b) 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.

#### c) 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 2012 are as follows:

	2012	2011
US dollars	1.3229	1.29865
Pounds sterling	0.8200	0.83490
Japanese yen	113.76	99.9800
Swiss francs	1.2078	1.21425
Canadian dollars	1.3163	1.31970

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.

#### **d) Provision for loan losses**

The purpose of the provision for loan losses is to cover losses arising from the impairment of the Group's assets and liabilities. This account is 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 by the Bank based on a detailed analysis of the exposure to credit risk, which takes into account both quantitative and qualitative criteria and actual losses on loans and other relevant factors.

#### **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.



#### **e) 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.

#### **f) 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.

As authorised by the INAF, the Bank presents certain securities, basically preference shares held to maturity at fair value, calculated according to the model values on the date of acquisition. Income on these securities is recognised in the income sta-



tement as accrued. A non-distributable reserve is set up for the difference between the carrying amount and the quoted price.

## **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 carrying amount taken from the latest available consolidated 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 carrying amount 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 communiqué 227/12. When an investment in the securities portfolio shows signs of impairment, the Bank adjusts the value of the investee in its individual financial statements.

## **g) Tangible assets**

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	50*
Fixtures	10
IT equipment	4-5
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 not used for operations 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 17). At 31 December 2012, Euros 678 thousand of the revaluation has been depreciated.

#### **h) 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.

#### **i) 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 2012, it considers that it has always acted correctly and it is not expected that any significant liabilities will arise as a result thereof.

#### **j) 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.

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.

### **k) 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 symmetrically to 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.

### **l) Indirect tax on services rendered**

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 values the services provided, based on economic and financial indicators.

In accordance with Law 3/2005 of 21 February 2005, modifying the indirect tax rate on the rendering of banking and financial services, the rate applicable this year stands at 9.5% (12% in 2011).

Payments on account of the indirect tax on the rendering of services by the Bank during 2012 and 2011 are recorded under Other assets - Others in the accompanying consolidated balance sheet (see note 11).

The expense accrued by the Bank with regard to indirect tax on the rendering of services in 2012 and 2011 amounts to Euros 4,459 thousand and Euros 5,284 thousand, respectively and is recorded under Overheads - Taxes in the accompanying consolidated income statement, with a balancing entry under Other liabilities – Taxes in the accompanying consolidated balance sheet. This tax is payable in the first quarter of the following year.

The aforementioned tax has been revoked with the entry into force of the general indirect tax on 1 January 2013.

#### **m) 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 and the other Andorran Group companies are subject to mandatory withholdings and during 2012 a general tax rate of 10% has been applied.

Amounts accrued for this item and pending settlement for the last quarter of 2012 are included under Other liabilities - Taxes on the accompanying consolidated balance sheet.

#### **n) Income taxes**

On 1 December 2011, the General Council of the Principality of Andorra approved Law 17/2011 of 1 December 2011, amending Law 95/2010 of 29 December 2010 on income tax (published in edition 80 of the Official State Gazette of the Principality of Andorra of 28 December 2011). The Law came into force the day after being published in the Official State Gazette of the Principality of Andorra and applies to the tax periods beginning as of 1 January 2012. The Bank and the other Andorran companies belonging to the Group pay tax at a rate of 10% although, in accordance with the first additional provision of the aforementioned law, they will benefit from a 50% reduction in net tax payable in the first year of application.

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

During the first year of application, payment on account is determined at a rate of 2.5% of the accounting profit of the year prior to the tax period. For subsequent tax periods, payment on account is determined at a rate of 50% of the net tax payable for the prior year.

The companies resident abroad are subject to the income tax legislation of each country.

Taxable income is determined using the direct determination method and is calculated by adjusting the accounting profit, in accordance with the Accounting Plan for the Financial 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.

The income tax expense is calculated based on profit reported for accounting purposes, adjusted for permanent differences with fiscal criteria and less any applicable credits and deductions. The tax effects of temporary differences, unused tax losses and rights to applicable credits and deductions are recognised in the relevant captions in the balance sheet.

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

#### **o) Minority interests**

This caption of the accompanying consolidated balance sheet includes the portion of shareholders' equity of fully consolidated companies which does not belong to the Group. The portion belonging to the Group is included under shareholders' equity in the accompanying consolidated balance sheet.

In the case of fully consolidated companies, the portion corresponding to the Group (based on the percentage of consolidation) and the portion relating to minority interests, not belonging to the Group are differentiated in the profit on the accompanying consolidated balance sheet.

#### **p) 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 carrying amount and up to the amount that corresponds to the Parent in proportion to its investment in the subsidiary.

As established in communiqués 227/12 on differences on first-time consolidation and 228/12 on goodwill, 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.

#### 4. DISTRIBUTION OF PROFIT

The directors of the Bank will propose to the shareholders at their annual general meeting that the profit for 2012 be distributed as follows:

THOUSANDS OF EUROS	2012	2011
<b>Distribution:</b>		
Dividends	1,000	3,000
Interim	1,000	3,000
<b>Reserves</b>	<b>9,801</b>	<b>2,472</b>
Legal reserve	–	294
Voluntary reserves	9,267	2,178
Special reserves (*)	534	–
<b>Total profit for the year</b>	<b>10,801</b>	<b>5,472</b>

(\*) Pursuant to INAF communiqué 227/12 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 2012 this amount totals Euros 7,165 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. Consequently, in 2012 the Bank has increased its contribution to the system by Euros 534 thousand (see note 31 f).

The proposed distribution of earnings of subsidiaries for 2012 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	2012	2011
<b>Currency:</b>	<b>305,795</b>	<b>285,178</b>
Euros	274,897	218,006
Foreign currency	30,898	67,172
<b>Type:</b>	<b>305,795</b>	<b>285,178</b>
Correspondent accounts	134,928	100,329
Deposits	170,867	184,849
<b>Maturity:</b>	<b>305,795</b>	<b>285,178</b>
Up to one month	205,964	235,587
One month to three months	–	2,744
Three months to one year	79,136	32,454
One to five years	20,317	14,008
More than five years	378	385

At 31 December 2012 the Bank has two deposits totalling Euros 44,000 thousand which secure future payments to be made in 2013 to 2015 for the acquisition of Banco de Madrid, S.A.U. (see note 19).

Movement in the general risks reserve in thousands of Euros during 2012 and 2011 is as follows:

THOUSANDS OF EUROS	2012	2011
	General risks Banks and credit institutions	
<b>Opening balance</b>	<b>1,573</b>	<b>736</b>
Plus:		
Net charges to provision	200	1,732
Less:		
Recoveries	(760)	(895)
Applications	(50)	–
<b>Closing balance</b>	<b>963</b>	<b>1,573</b>

## 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	2012	2011
<b>Currency:</b>		
Euros	987,969	933,649
Foreign currency	161,798	169,964
<b>Total</b>	<b>1,149,767</b>	<b>1,103,613</b>
<b>Sectors:</b>		
Customers		
Andorran public sector	47,633	54,759
Central government	34,805	26,612
Local government	17,550	18,061
Semi-public entities	2,882	2,960
Other public sectors	91,371	–
Private sector	1,003,159	1,055,980
<b>Total</b>	<b>1,149,767</b>	<b>1,103,613</b>

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	2012	2011
<b>Type of guarantee:</b>		
Tangible security	886,189	909,599
Mortgage	523,164	506,733
Cash	60,250	69,018
Securities	302,775	333,848
Personal guarantee	263,578	194,014
Public sector	146,608	47,633
Other	116,970	146,381
<b>Total</b>	<b>1,149,767</b>	<b>1,103,613</b>
<b>Exposure:</b>	<b>1,149,767</b>	<b>1,103,613</b>
Ordinary	1,083,378	1,032,642
Past due	27,458	32,702
Doubtful	38,931	38,269
<b>Total</b>	<b>1,149,767</b>	<b>1,103,613</b>

Loans and receivables to customers include Euros 11,344 thousand of financing to investment funds managed by the Group company BPA Fons, SAU at 31 December 2012 (Euros 15,721 thousand at 31 December 2011).

On 30 June 2007 the Bank extended a Euros 500 thousand participating loan to Les Llenguaders dels Vilars, SL, which was increased by Euros 75 thousand on 6 October 2009. This loan matures on 31 December 2017 and bears interest at a variable rate based on the performance of results obtained by the borrower.

On 30 November 2008 the Bank extended a Euros 1,125 thousand participating loan to Càbala, SL, which is currently recorded under Loans and receivables on the accompanying consolidated balance sheet. This loan matures on 19 January 2015 and bears interest at a variable rate calculated on the performance of results obtained by the borrower.

In addition, at 31 December 2012 the Bank has securitised credit operations secured by a mortgage with the BPA Fons Mortgage Securities FI Fund for Euros 19,306 thousand (Euros 17,785 thousand at 31 December 2011), which are not included under this heading of 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 2012 and 2011, excluding the provision for loan losses and in accordance with the maturity as of the closing date are as follows:



THOUSANDS OF EUROS	2012	2011
Past due and doubtful	66,389	70,971
Up to one month	39,220	22,531
One month to three months	54,335	52,464
Three months to one year	142,686	196,716
One to five years	314,999	230,363
More than five years	532,138	530,568
<b>Total</b>	<b>1,149,767</b>	<b>1,103,613</b>

Movement in the provision for loan losses during 2012 and 2011 is as follows:

THOUSANDS OF EUROS			
	General risks Customers	Specific risks Customers	Total
<b>Balance at 31 December 2010</b>	<b>1,715</b>	<b>12,507</b>	<b>14,222</b>
Addition to consolidated group	–	10,806	10,806
Plus:			
Net charges to provision	3,418	14,478	17,896
Less:			
Recoveries	(3,098)	(14,093)	(17,191)
Applications	–	(84)	(84)
<b>Balance at 31 December 2011</b>	<b>2,035</b>	<b>23,614</b>	<b>25,649</b>
Addition 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)
<b>Balance at 31 December 2012</b>	<b>2,191</b>	<b>22,913</b>	<b>25,104</b>

## 7. INVESTMENT SECURITIES

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

THOUSANDS OF EUROS					
2012	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
<b>Total</b>	<b>136,120</b>	<b>814,684</b>	<b>6,988</b>	<b>54,505</b>	<b>1,012,297</b>

At 31 December 2012, the investment securities portfolio comprised listed securities of Euros 915,667 thousand and unlisted securities of Euros 96,830 thousand (Euros 530,405 thousand of listed securities and Euros 68,047 thousand of unlisted securities at 31 December 2011).

The acquisition costs of the securities included in the trading portfolio at 31 December 2012 and 2011 are Euros 137,364 thousand and Euros 213,927 thousand, respectively.

At 31 December 2012 the market value or fair value of the held-to-maturity portfolio is Euros 807,230 thousand, Euros 690,640 thousand of which relate to the market value of the securities and the remaining amount relates to securities valued according to the model.

The held-to-maturity portfolio includes securities associated with the issue of exchange products from the Leveraged Preferred BPA Fund amounting to Euros 116,590 thousand (Euros 171,630 thousand in 2011). These securities are recognised at fair value at the issue date of the exchange product (30 November 2009) in accordance with INAF's authorisation and a non-distributable reserve is set up with the difference between the carrying amount and the market value (see note 20). Furthermore, the ordinary investment portfolio includes securities of Euros 21,046 thousand relating to Madoff exchange rights, recognised at their market value at the issue date of this product (30 September 2009).

The held-to-maturity portfolio includes Euros 22,340 thousand relating to assets underlying the issue of structured products recognised under debt securities (see note 14) and 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. This balance also includes government debt of Euros 31,577 thousand issued by the Andorran Government, which the Bank has subscribed in accordance with the Law regulating mandatory investment ratios (see note 31 (c)).

At 31 December 2012 the market value of the ordinary investment portfolio in bonds and other fixed-income securities is Euros 57,109 thousand.

At 31 December 2012, the trading and held-to-maturity portfolios include an amount of Euros 76,906 thousand relating to government debt, 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).

Movement in the security valuation reserve and the provision for loan losses during 2012 and 2011 is as follows:

THOUSANDS OF EUROS	2012	2011
<b>Security valuation reserve</b>		
Opening balance	293	71
Charges	–	233
Recoveries	–	–
Applications	(47)	(11)
<b>Closing balance</b>	<b>246</b>	<b>293</b>
<b>Provision for loan losses</b>		
Opening balance	1,451	1,743
Charges	5,370	40
Recoveries	(540)	(332)
Applications	–	–
<b>Closing balance</b>	<b>6,281</b>	<b>1,451</b>

#### a) Bonds and other fixed-income securities

A breakdown of Bonds and other fixed-income securities at 31 December 2012 and 2011 is as follows:

THOUSANDS OF EUROS	2012	2011
<b>Government debt</b>	<b>484,759</b>	<b>308,726</b>
Principality of Andorra (note 31)	46,346	32,054
Other OECD countries	438,413	276,672
<b>Bonds and other fixed-income securities</b>	<b>479,848</b>	<b>250,552</b>
<b>Total</b>	<b>964,607</b>	<b>559,278</b>

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 2012 are as follows:

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	–
<b>Total</b>	<b>479,848</b>	<b>484,759</b>

There are no past due balances at 31 December 2012 and 2011.

## b) Investment funds

Details of units in investment funds at 31 December 2012 and 2011 are as follows:

THOUSANDS OF EUROS	2012	2011
<b>Investment funds managed by:</b>		
Entities related to the Group	24,747	10,815
Entities not related to the Group	3,904	5,229
<b>Total</b>	<b>28,651</b>	<b>16,044</b>

## c) 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 (c).

Details of securities comprising Other equity investments at 31 December 2012 are shown in Appendix I to this document.

## 8. INTANGIBLE ASSETS AND AMORTISABLE COSTS

Movement in intangible assets during 2012 and the related accumulated amortisation is as follows:

	THOUSANDS OF EUROS				
	Opening balance	Additions	Disposals	Transfers	Closing balance
<b>Software:</b>	<b>9,009</b>	<b>1,649</b>	<b>(416)</b>	<b>-</b>	<b>10,242</b>
Acquisition cost	37,053	5,488	(975)	-	41,566
Provision for amortisation	(28,044)	(3,839)	559	-	(31,324)
<b>Goodwill:</b>	<b>-</b>	<b>3,900</b>	<b>-</b>	<b>-</b>	<b>3,900</b>
Acquisition cost	-	3,900	-	-	3,900
Provision for amortisation	-	-	-	-	-
<b>Others:</b>	<b>4,970</b>	<b>154</b>	<b>-</b>	<b>-</b>	<b>5,124</b>
Acquisition cost	4,970	718	-	-	5,688
Provision for amortisation	-	(564)	-	-	(564)
<b>Total</b>	<b>13,979</b>	<b>5,703</b>	<b>(416)</b>	<b>-</b>	<b>19,266</b>

At 31 December 2012, fully amortised assets in use amount to Euros 17,971 thousand.

Additions for 2012 include an amount of Euros 3,900 thousand relating to changes in the consolidated group whilst other additions relate mainly to investments made for the purchase and standardisation of a new Host system for the Bank.

## 9. TANGIBLE ASSETS

Movement in tangible assets during 2012 and the related accumulated depreciation is as follows:

### Operating assets

THOUSANDS OF EUROS

	Opening balance	Additions	Disposals	Transfers	Closing balance
<b>Land:</b>	<b>36,639</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>36,639</b>
Acquisition cost	36,639	–	–	–	36,639
<b>Buildings:</b>	<b>46,739</b>	<b>2,621</b>	<b>(5,397)</b>	<b>687</b>	<b>44,650</b>
Acquisition cost	53,787	3,921	(6,258)	687	52,137
Provision for depreciation	(7,048)	(1,300)	861	–	(7,487)
<b>Fixed assets under construction:</b>	<b>1,713</b>	<b>119</b>	<b>(170)</b>	<b>(1,291)</b>	<b>371</b>
Acquisition cost	1,713	119	(170)	(1,291)	371
<b>Installations:</b>	<b>11,402</b>	<b>(1,333)</b>	<b>(1,803)</b>	<b>556</b>	<b>8,822</b>
Acquisition cost	25,541	1,404	(3,876)	556	23,625
Provision for depreciation	(14,139)	(2,737)	2,073	–	(14,803)
<b>IT and data processing equipment</b>	<b>1,876</b>	<b>(98)</b>	<b>(98)</b>	<b>–</b>	<b>1,680</b>
Acquisition cost	11,360	725	(313)	–	11,772
Provision for depreciation	(9,484)	(823)	215	–	(10,092)
<b>Others:</b>	<b>2,118</b>	<b>816</b>	<b>(260)</b>	<b>48</b>	<b>2,722</b>
Acquisition cost	6,304	2,914	(600)	48	8,666
Provision for amortisation	(4,186)	(2,098)	340	–	(5,944)
<b>Total</b>	<b>100,487</b>	<b>2,125</b>	<b>(7,728)</b>	<b>–</b>	<b>94,884</b>

On 20 July 2011, as part of its acquisition of Banco de Madrid, S.A., 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. These offices are leased to Banco de Madrid, S.A.

Additions relating to buildings correspond mainly to acquisitions of the buildings where the Banco de Madrid offices are located, as mentioned in the preceding paragraph.

Disposals of buildings and installations relate mainly to assets sold as part of the sale of BPA Tecnologia i Comunicació, SAU and the sale of various real estate assets.

At 31 December 2012 and 2011, fully depreciated tangible assets in use recorded under these captions amount to Euros 15,665 thousand and Euros 12,221 thousand, respectively.

At 31 December 2012 the Bank has foreclosed assets for operations for a carrying amount of Euros 6,469 thousand, Euros 3,600 thousand of which relate to buildings and Euros 2,869 thousand to land.

No interest or exchange gains or losses relating to tangible assets were capitalised in 2012 and 2011.

## Non-operating assets:

THOUSANDS OF EUROS

	Opening balance	Additions	Disposals	Transfers	Closing balance
<b>Land:</b>	<b>29,748</b>	-	-	-	<b>29,748</b>
Acquisition cost	29,906	-	-	-	29,906
Provision for impairment	(158)	-	-	-	(158)
<b>Buildings:</b>	<b>12,918</b>	<b>3,755</b>	-	-	<b>16,673</b>
Acquisition cost	14,282	4,033	-	-	18,315
Provision for depreciation	(1,364)	(278)	-	-	(1,642)
<b>Total</b>	<b>42,666</b>	<b>3,755</b>	-	-	<b>46,421</b>

At 31 December 2012 and 2011 some of the buildings not used for operations are leased to third parties. Income accrued amounted to Euros 840 thousand and Euros 873 thousand in 2012 and 2011, respectively, and is recorded under Other profit from ordinary activity in the accompanying consolidated income statement.

Additions in the Buildings caption during 2012 relate fully to foreclosed assets which had been pledged as security for credit operations and were granted to the Bank by the *Batllia* (Andorran Court).

At 31 December 2012 the Bank has foreclosed assets not used for operations for a carrying amount of Euros 14,794 thousand, Euros 10,136 thousand of which relate to land and Euros 4,658 thousand to buildings.

## 10. PREPAYMENTS AND ACCRUED INCOME

Details of this balance sheet caption are as follows:

THOUSANDS OF EUROS	2012	2011
<b>Accrued income</b>	<b>28,764</b>	<b>27,511</b>
Interest	13,487	18,690
Commission	4,690	3,944
Others	10,587	4,877
<b>Prepaid expenses</b>	<b>703</b>	<b>2,361</b>
<b>Total</b>	<b>29,467</b>	<b>29,872</b>

Prepayments and accrued income include accrued interest not yet due on the securities portfolio, accounts with credit institutions and the Group's loans portfolio, as well as the balancing entry of underlying gains from financial derivatives subject to hedging, not past due at 31 December 2012.

## 11. OTHER ASSETS

Details of this caption of the consolidated balance sheet, according to its nature, are as follows:

THOUSANDS OF EUROS	2012	2011
Transactions in progress	44,953	26,280
Inventories	126	167
Others	33,971	14,623
<b>Taxes</b>		
Withholdings and payments on account	7,058	7,386
Deferred tax assets, tax credits and deductions (note 27)	30,636	20,498
<b>20,498</b>	<b>116,744</b>	<b>68,954</b>

At 31 December 2012, Transactions in progress include transfers and cheques pending, which were collected at the beginning of 2013. At 31 December 2011, Transactions in progress include matured own portfolio products, as well as balances pending collection with correspondent banks and outstanding charges collected at the beginning of 2012.

At 31 December 2012, Others include mainly outstanding receivables.

At 31 December 2012 Taxes-Withholdings and payments on account include Euros 5,284 thousand (Euros 7,386 thousand at 31 December 2011) relating to payments on account of the indirect tax on services rendered by the Bank during the year.

## 12. INAF – LIABILITIES

Details of this caption of the accompanying consolidated balance sheet at 31 December 2012 and 2011, by currency and type of transaction, are as follows:

THOUSANDS OF EUROS	2012	2011
<b>Currency:</b>		
Euros	557	429
<b>Transaction:</b>		
Demand deposits	347	219
Term deposits	210	210
<b>Total</b>	<b>557</b>	<b>429</b>

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

## 13. CREDITORS

### a) Banks and credit institutions

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

THOUSANDS OF EUROS	2012	2011
<b>Currency:</b>		
Euros	691,394	353,855
Foreign currency	8	8,494
<b>Total</b>	<b>691,402</b>	<b>362,349</b>
<b>Type:</b>		
Demand deposits		
Correspondent accounts	1,112	9,424
Term deposits	690,290	352,925
<b>Total</b>	<b>691,402</b>	<b>362,349</b>

At 31 December 2012 Deposits from banks and credit institutions include Euros 596,200 thousand relating to credit facilities with the European Central Bank and Euros 76,906 thousand 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	2012	2011
Up to one month	816	66,130
One month to three months	–	64,195
Three months to one year	44,000	1,418
One to five years	646,586	230,606
<b>Total</b>	<b>691,402</b>	<b>362,349</b>

### b) Customer deposits

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

THOUSANDS OF EUROS	2012	2011
<b>Currency:</b>		
Euros	1,047,571	946,574
Foreign currency	573,906	538,102
<b>Total</b>	<b>1,621,477</b>	<b>1,484,676</b>
<b>Type:</b>		
Demand deposits		
Current and savings accounts	607,338	483,995
Term deposits:		
Term deposits	1,013,553	988,255
Structured deposits	586	12,426
<b>Total</b>	<b>1,621,477</b>	<b>1,484,676</b>



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

THOUSANDS OF EUROS	2012	2011
Up to one month	695,666	576,624
One month to three months	166,824	144,739
Three months to one year	745,355	680,940
One to five years	13,632	82,373
More than five years	-	-
<b>Total</b>	<b>1,621,477</b>	<b>1,484,676</b>

At 31 December 2012 and 2011 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 at 31 December 2012 and 2011, by currency are as follows:

THOUSANDS OF EUROS	2012	2011
<b>Currency:</b>		
Euros	84,103	72,248
Foreign currency	18,532	3,413
<b>Total</b>	<b>102,635</b>	<b>75,661</b>

This caption comprises structured products issued by the Bank during 2012 and prior years, including exchange products for the Leveraged fund.

The Leveraged exchange product matures in 2018 and, in accordance with INAF authorisation of 2008, a provision is recorded annually for the difference between the amount contributed by customers and the amount repaid. During 2012 and pursuant to INAF authorisation, the Bank offered its customers the opportunity for early cancellation of the product and has recognised a provision against reserves for the estimated amount resulting from early cancellation (see note 20), which has been partially applied to cover payments to customers who have chosen this option. At 31 December 2012, the amount pending accrual for this item until 2018 totals Euros 6,000 thousand.

Details of this caption at 31 December 2012 and 2011, by residual maturity, are as follows:

THOUSANDS OF EUROS	2012	2011
Up to one month	26,000	-
One month to three months	-	-
Three months to one year	24,060	19,861
One to five years	21,824	31,790
More than five years	30,751	24,010
<b>Total</b>	<b>102,635</b>	<b>75,661</b>

## 15. PROVISIONS FOR RISKS AND CONTINGENCIES

Movement in the provision for risks and contingencies during 2012 and 2011 is as follows:

THOUSANDS OF EUROS	2012	2011
<b>Opening balance</b>	<b>3,815</b>	109
Addition to consolidated group	214	5,116
Charges	1,118	8,895
Recoveries	(383)	(10,305)
Applications	(700)	–
<b>Closing balance</b>	<b>4,064</b>	<b>3,815</b>

## 16. GENERAL RISKS RESERVE

Movement in the general risks reserve during 2012 and 2011 is as follows:

THOUSANDS OF EUROS	2012	2011
<b>Opening balance</b>	<b>2,000</b>	902
Charges	–	1,098
Recoveries	–	–
Applications	–	–
<b>Closing balance</b>	<b>2,000</b>	<b>2,000</b>

## 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 and 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 2012 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.

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.

## 18. ACCRUED EXPENSES AND DEFERRED INCOME

Details of this balance sheet caption are as follows:

THOUSANDS OF EUROS	2012	2011
<b>Unpaid accrued expenses</b>	<b>23,502</b>	<b>14,746</b>
Interest	17,060	7,833
Commission	2,376	1,773
Others	4,066	5,140
<b>Deferred income</b>	<b>22</b>	<b>-</b>
Interest	4	-
Others	18	-
<b>Total</b>	<b>23,524</b>	<b>14,746</b>

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 2012.

## 19. OTHER LIABILITIES

Details of this caption according to its nature are as follows:

THOUSANDS OF EUROS	2012	2011
<b>Transactions in progress</b>	<b>9,522</b>	<b>1,494</b>
<b>Suppliers and other creditors</b>		
Public entities	2,093	2,824
Deferred payment	44,000	44,000
Others	36,391	34,543
<b>Taxes</b>		
Deferred taxes (note 27)	127	98
Tax withholdings	7,720	6,091
<b>Total</b>	<b>99,853</b>	<b>89,050</b>

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. Others include mainly transactions with customers and depositors that have not been settled at 31 December 2012 and which were settled at the beginning of 2013.

Taxes include Euros 4,459 thousand (Euros 5,284 thousand at 31 December 2012) for expenses accrued by the Bank during 2012 for indirect tax on the rendering of services by the Bank during the year (see notes 2 (b) and 3 (l)).

## **20. MOVEMENT IN CONSOLIDATED SHAREHOLDERS' EQUITY**

Details of the Group's consolidated shareholders' equity and movement during 2012 and 2011 are provided in Appendix II.

### **Share capital**

At 31 December 2012, 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 account 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 2012, the legal reserve has been fully appropriated.

### **Guarantee reserves**

At 31 December 2012, in compliance with the requirements described in Law 1/2012 governing the creation of a deposit guarantee system for banking entities (see note 31 (f)) the Bank has a mandatory and non-distributable reserve of Euros 12,646 thousand

recognised under Guarantee reserves on the balance sheet and holds investments of Euros 13,400 thousand in liquid assets recognised under Government debt.

### **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:

- In accordance with the requirements established by the INAF, non-distributable reserves have been set up for an amount equivalent to the difference between the market value (quotation) of the assets underlying the BPA Fons Leveraged Fund exchange products and the carrying amount of these assets.
- 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 until the Bank is definitively released from these buildings.
- In accordance with INAF communiqué 227/12 regulating the accounting treatment of differences on first-time consolidation, at 31 December 2012 the Bank has 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 has not been applied to recognise any impairment at the aforementioned date. In following years, profit will be distributed to a non-distributable reserve equivalent to 10% of the carrying amount of the differences on first-time consolidation and goodwill, up to 100% of their value.
- To avoid duplications, this reserve does not include goodwill or differences on first-time consolidation from subsidiaries which are required under local regulations to set up a reserve similar to the reserve mentioned above.
- In accordance with Law 20/2007 of 18 October 2007 governing public and private limited companies, at 31 December 2012 the Bank has 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 2012, 45% of the Bank's voluntary reserves are blocked by the above-mentioned items.

In accordance with the exceptional authorisation granted by the INAF, the Bank has partially cancelled in advance the BPA Fons Leveraged Preferred Euro exchange product issued to customers, with a charge to freely distributable reserves of Euros 17,767 thousand net of tax and has recognised a provision for this commitment under Debt securities on the accompanying consolidated balance sheet. These reserves should be reconstituted with profits obtained on disposals of the underlying products. During 2012 profits obtained on the sale of underlying products recognised in reserves amount to Euros 179 thousand.

### Revaluation reserves

This reserve relates to the revaluation of tangible assets carried out in 1999 (see note 3 (g)).

### 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 2,934 thousand, Euros 9,507 thousand and Euros 5,221 thousand, respectively.

### Minority interests

At 31 December 2012 fully consolidated companies generating minority interests are as follows:

THOUSANDS OF EUROS	2012	2011
Interdin, S.A.	–	6,887
BPA IPWM (Suisse)	41	37
<b>Total</b>	<b>41</b>	<b>6,924</b>

## 21. ASSETS AND LIABILITIES IN CURRENCIES OTHER THAN THE EURO

Details of certain assets and liabilities by currency at 31 December 2012 and 2011 are as follows:

THOUSANDS OF EUROS					
2012	Assets	Liabilities	Net closed position at 31/12/2012	Net forward hedging position (memorandum accounts) *	Open position at 31/12/2012
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
<b>Total</b>	<b>257,197</b>	<b>624,201</b>	<b>(367,005)</b>	<b>367,676</b>	<b>671</b>

THOUSANDS OF EUROS					
2011	Assets	Liabilities	Net closed position at 31/12/2011	Net forward hedging position (memorandum accounts) *	Open position at 31/12/11
US dollars	192,119	542,821	(350,702)	345,064	(5,638)
Pounds sterling	15,412	15,670	(258)	200	(58)
Swiss francs	35,824	8,403	27,421	(27,420)	1
Japanese yen	37,835	111	37,724	(37,705)	19
Canadian dollars	8,296	8,298	(2)	–	(2)
Other currencies	7,338	6,176	1,162	–	1,162
<b>Total</b>	<b>296,824</b>	<b>581,479</b>	<b>(284,655)</b>	<b>280,139</b>	<b>(4,516)</b>

\* 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 2012 and 2011, according to the purpose for which they were contracted, are as follows:

THOUSANDS OF EUROS	2012 Hedge	2011 Hedge
<b>Spot currency sale and purchase</b>	<b>266,700</b>	<b>103,648</b>
Foreign currencies receivable	131,879	51,751
Foreign currencies payable	134,821	51,897
<b>Forward foreign currency sale and purchase</b>	<b>959,317</b>	<b>663,021</b>
Foreign currencies receivable	478,639	334,728
Foreign currencies payable	480,678	328,293
<b>Outstanding forward currency purchase and sales</b>	<b>1,226,017</b>	<b>766,669</b>
<b>Forward financial instrument operations</b>	<b>340,719</b>	<b>28,277</b>
In currencies	2,162	–
Interest rate	318,882	11,581
Securities and other financial instruments	19,675	16,696
<b>Securities sold on credit pending settlement</b>	<b>2,088</b>	<b>–</b>
<b>Outstanding purchase and sale of financial assets</b>	<b>2,088</b>	<b>–</b>
<b>Other forward transactions</b>	<b>–</b>	<b>3,337</b>
<b>Forward transactions</b>	<b>1,568,824</b>	<b>798,283</b>

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 2012, 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 2012 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 in 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	2012	2011
Shares and other variable-income securities	614,756	444,810
Bonds and other fixed-income securities	1,434,704	906,650
Units in investment funds not managed by the Group	1,036,909	502,528
Units in investment funds not managed by the Group	1,081,540	864,999
Money market securities	–	576,550
Others	665,485	627,290
<b>Total</b>	<b>4,833,394</b>	<b>3,922,827</b>

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:

	THOUSANDS OF EUROS					
	Funds managed					
	2012			2011		
	Held in custody / deposited by the Entity	Held in custody / deposited by third parties	Total	Held in custody / deposited by the Entity	Held in custody / deposited by third parties	Total
Collective investment undertakings	1,036,909	288,293	1,325,202	966,087	122,221	1,088,309
Individual customer portfolios managed under mandate	313,412	–	313,412	334,510	–	334,510
Other individual customers	3,734,717	–	3,734,717	2,678,666	441,020	3,119,685
<b>Total</b>	<b>5,085,038</b>	<b>288,293</b>	<b>5,373,331</b>	<b>3,979,263</b>	<b>563,241</b>	<b>4,542,504</b>

## 24. OTHER MEMORANDUM ACCOUNTS

Details of Other memorandum accounts exclusively for administrative control at 31 December 2012 and 2011 are as follows:

THOUSANDS OF EUROS	2012	2011
Guarantees and commitments received	114,526	108,967
Very doubtful assets	5,788	5,217
Unlisted own shares and securities	233,904	111,812
Trusts	58,131	58,667
Securitised loans (see note 6)	19,306	17,785
Others	18,511	14,984
<b>Total</b>	<b>450,166</b>	<b>317,432</b>



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. 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 2012 and 2011 there are 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, according to the nature of the transaction, is as follows:

THOUSANDS OF EUROS	2012	2011
<b>Fees accrued on services supplied:</b>		
Securities and investment funds	42,109	32,902
Currency sales and purchases	1,158	1,167
Transfers and cheques	2,924	3,300
Credit operations	2,247	2,490
Management fees from investment funds	13,544	9,545
Other fees	7,117	5,330
<b>Fees and commissions accrued on services received</b>	<b>(20,633)</b>	<b>(8,033)</b>
<b>Total</b>	<b>48,466</b>	<b>46,701</b>

## 27. TAXATION: INCOME TAX

Since 2012 the Bank and other Andorra companies have been required to pay income tax. In accordance with tax legislation, profits are taxed at a rate of 10% although the first year of application is eligible for a 50% reduction in net tax payable. Tax payable is eligible for certain deductions in accordance with legislation prevailing at any given time. 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. A reconciliation between accounting profit for the year and the taxable income the Group expects to declare once these annual accounts have been authorised for issue is as follows:

THOUSANDS OF EUROS

**2012**

	Local	Foreign
<b>Aggregate accounting profit before tax</b>	16,971	6,591
<b>Net expenses recognised in equity</b>	(19,544)	-
<b>Total</b>	<b>(2,573)</b>	<b>6,591</b>
<b>Permanent differences</b>	(15,434)	(3,077)
originating in the year	(7,963)	(3,077)
originating in prior years	(7,471)	-
<b>Temporary differences</b>	21,818	(580)
originating in the year	21,818	(580)
originating in prior years	-	-
<b>Taxable income</b>	<b>3,811</b>	<b>2,934</b>

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

THOUSANDS OF EUROS

**2012**

	Local	Foreign
Taxable income	3,811	2,934
Tax payable	(381)	(883)
Deferred tax assets	2,182	5,921
Expenses recognised in equity	(1,954)	2
Deductions, credits and reductions	1,005	884
<b>Income tax recoverable</b>	<b>852</b>	<b>5,924</b>

The income tax expense for 2012 is calculated as follows:

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)
Taxable income	(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 2012 are as follows:

THOUSANDS OF EUROS	<b>2012</b>	
	Local	Foreign
<b>Deferred tax assets</b>		
Charge to provision for loan losses	714	–
Financial assets	500	–
Other provisions	968	4,012
<b>Unused tax loss carryforwards</b>	403	23,610
<b>Unused deductions and credits</b>	429	–
<b>Total Assets (note 11)</b>	<b>3,014</b>	<b>27,622</b>
<b>Deferred tax liabilities related to temporary differences</b>	–	127
<b>Total Liabilities (note 19)</b>	<b>–</b>	<b>127</b>

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, according to the nature of the transaction, is as follows:

THOUSANDS OF EUROS	<b>2012</b>	<b>2011</b>
<b>Extraordinary income:</b>		
Sale of fixed assets (note 9)	775	323
Others	1,766	1,109
<b>Extraordinary expenses:</b>		
Others	(501)	(711)
<b>Total</b>	<b>2,040</b>	<b>721</b>

## 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 2012, 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 (c), the total foreign currency balances recognised in the accompanying consolidated balance sheet held by the Group at 31 December 2012 and 2011 are as follows:

THOUSANDS OF EUROS	2012	2011
<b>Assets (note 21)</b>		
Financial intermediaries (note 5)	30,898	67,172
Loans and receivables (note 6)	161,798	169,964
Others	64,501	59,688
<b>Total</b>	<b>257,197</b>	<b>296,824</b>
<b>Liabilities (note 21)</b>		
<b>Creditors</b>		
Banks and financial intermediaries (note 13 (a))	8	8,494
Customer deposits (note 13 (b))	573,906	538,102
Others	50,287	34,883
<b>Total</b>	<b>624,201</b>	<b>581,479</b>

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 2012, 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 is exposed at 31 December 2012 are 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 loan extending structure with different requirements according to the amount extended.

The accounting policy associated with hedging the credit risk on the loans portfolio is described in note 3 (d).

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 employs an analysis of different 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 has amounted to 0.37%, 0.61% and 0.35%, 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 2012, backtesting has shown that trends in gains and losses have followed 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**

### **(a) Law regulating the capital adequacy and liquidity requirements for financial institutions**

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 are 19.04% and 64.27% at 31 December 2012 and 21.20% and 80.33% at 31 December 2011.

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. In addition, this Law 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.

This year the Bank has complied with the requirements established by the Law. The maximum risk concentration borne by the same beneficiary stands at 12.52% of the Bank's consolidated shareholders' equity. 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 148% during the year. Therefore, the exposure to members of the Board of Directors at any given moment in time has not exceeded 15% of the shareholders' equity.

### **(b) Law governing international criminal cooperation and the combat against laundering of money or securities arising from international crime**

In its session held on 25 May 2011, the General Council of the Principality of Andorra approved Law 4/2011 dated 25 May 2011 amending the Law governing international crime cooperation and the combat against laundering of money or securities arising from international crime and against the financing of terrorism dated 29 December 2000 and on 18 May 2011 the amendment to the regulation was approved. These amendments update the law prevailing until that date and adapt it to international standards, on the basis of the main principles comprising anti-crime policies in the Principality of Andorra.

In compliance with prevailing Andorran legislation, the Group has developed internal regulations covering the prevention of money laundering, control procedures, internal communication procedures and specific personnel training programmes.

**(c) Mandatory investment ratios: government 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, the activities of which 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 2012, to Euros 31,577 thousand in Andorran government debt issued on 31 December 2009. This debt matures on 31 December 2013 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).

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

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 taxation of savings income in the form of interest payments. The General Council passed the law implementing this Agreement on 13 June 2005. The Bank has applied a withholding of 35% during 2012, in accordance with prevailing legislation.

During 2012 the Bank, acting as a payment agent, has 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.

**(e) 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**

At its session held on 13 May 2010 the General Council of Andorra approved 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 with the aim of upholding a structurally and functionally robust financial system and adapting it to the provisions established in European Directive 2004/39/EC of 21 April 2004 or MiFID (Markets in Financial Instruments Directive). The principles introduced by Law 14/2010 of 13 May 2010 are designed to modernise the financial markets bringing them into line with current needs, reinforce investor protection measures and modify the organisational requirements applicable to entities operating within the Andorran financial system to ensure that they act in line with the services rendered.



**(f) 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 as a means of reinforcing the mechanisms in place to protect the robustness and capital adequacy of the Andorran banking system for its depositors. Adhesion to the new guarantee system is mandatory for all banking entities authorised to operate in Andorra and it is implemented using liquid asset investments from adhered entities which are taken to a non-distributable reserve. The aim of the System is to guarantee the beneficiaries the reimbursement of their hedged cash deposits and hedged security deposits up to a maximum of Euros 100 thousand.

**(g) Law 94/2010 of 29 December 2010 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 2011 has 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 which came into force on 1 January 2012.

**(h) Law 17/2011 of 1 December 2011, amending Law 95/2010 of 29 December governing corporate income tax**

In its session held on 1 December 2011, the General Council of the Principality of Andorra approved Law 17/2011, amending Law 95/2010 of 29 December 2010 governing corporate income tax. The Law is applicable the day after being published in the Official State Gazette of the Principality of Andorra and applies to the tax periods beginning as of 1 January 2012. The Bank will be subject to tax at a rate of 30%. In accordance with the first additional provision of the Law, during the first applicable year of income tax, the Bank will benefit from a 50% reduction.

On 28 December 2012 the INAF published communiqué 226/12 on the accounting treatment of income tax to complement the Accounting Plan of the Andorran Financial System published on 26 January 2000 (see note 27).

**(i) Law 29/2012 of 18 October 2012, amending Law 11/2012 of 21 June 2012 governing general indirect taxation**

On 21 June 2012 the General Council of the Principality of Andorra approved Law 11/2012 regulating general indirect taxation. This law will apply to tax periods commencing from 1 January 2013, and its repeal provision repeals the Law governing Indirect Tax on the Rendering of Business and Financial Services of 14 May 2002. The Bank will be subject to a tax rate of 9.5%, which will be applied to its banking and financial services.

On 18 October 2012 the General Council of the Principality of Andorra approved Law 29/2012, amending Law 11/2012 of 21 June 2012 on general indirect taxation, which will be applicable as of 1 January 2013.

## 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. This Plan is only applicable to BPA Group personnel in Andorra as personnel working for subsidiaries of the Group outside Andorra may have their own pension plans offered by the various subsidiaries, which differ from the Plan mentioned above.

The Plan is instrumented 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, during 2006, the Plan, through BPA Assegurances, SAU, became one of Banca Privada d'Andorra's shareholders on 2 June 2006, with the purchase of 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, with an investment of 1.14% in 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 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.

The Group's contributions to the Plan during 2012 and 2011, including extraordinary contributions, amount to Euros 1,324 thousand and Euros 1,292 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**

Corporate responsibility is one of the key characteristics of BPA. 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 management supports diversity, stable high quality employment and work-life balance. In 2012 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 has been renewed. As a Family Responsible Company, BPA strives to develop in areas of responsibility such as achieving a work-life balance and promoting equal opportunities.

BPA has adopted an environmentally-conscious approach to management in order to ensure that energy resources and materials are used responsibly and that waste products are disposed of in a way that respects the environment.

BPA's activities at the service of the community comprise different initiatives related to social action, promotion of cultural activities, sports projects and promoting the economic development of the Principality.

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.

During 2012 the Banca Privada d'Andorra Private Foundation has continued its activities in the above-mentioned areas. On the basis of its founding principles, it has favoured projects and services which represent an improvement for the Principality of Andorra and its citizens.

One of its most emblematic projects is the Xeridell Occupational Workshop which is promoted in collaboration with the Nostra Senyora de Meritxell Special Needs School. In 2012 this entity has continued to work on reorganising its activities to adapt them better to the profile of users and to ensure ongoing occupation throughout the year. Training activities have been focused on increasing the knowledge and skills of the educators and users, in order to improve the production lines in the screen printing and manual skills workshop.

Another project which is highly representative of the BPA Private Foundation's philosophy 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 disabilities and 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. After 4 years of collaboration, an agreement was signed in 2011 with the Ministry of Health, whereby the BPA Private Foundation will help to subsidise summer camps over the next 5 years.

Training is one of the priorities of the BPA Private Foundation. In collaboration with the Andorran Red Cross, the BPA Private Foundation promotes first aid courses for second stage primary school children throughout the Andorran educational system. During 2012 a Career Guidance Fair for secondary school children in Andorra was organised at the BPA headquarters. BPA also carries out employment training through a work placement grant programme to enable young people aged 16 to 20 to learn about the day-to-day workings of a bank, acquire work experience and specific knowledge relating to the financial world.

The BPA Private Foundation is an entity which is open to the Andorran general public. In addition to other social institutions, it collaborates with the Albatros Association-TDAH (ADHD) with training programmes and benefiting families. During 2012 a session was organised for families and educators/teachers of people suffering from ADHD. BPA also participates in the Red Cross Gold Lottery and through the Andorran Banking Association (ABA) it collaborated throughout 2012 with various NGOs and subsidised projects run by different charities such as Caritas, Creu Roja, Infants del Món, Mans Unides and Unicef.

Through ABA, the BPA Foundation collaborates every year with Unicef in its publishing of the *State of the World's children report*. Furthermore, in 2012, also in conjunction with Unicef and the CRES (Sociological Research Centre belonging to the Institute of Andorran Studies), the BPA Foundation signed an agreement to set up a Childhood Observatory in Andorra. BPA also collaborated with FADEA (Andorran Federation of Adapted Sports), which participated in 2012 for the first time in the summer Paralympics under the sponsorship of the BPA Private Foundation.

#### **34. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD**

During the first quarter of 2013, Banca Privada d'Andorra has been processing its request for prior authorisation from the regulating body, INAF, to acquire 100% of the shares of Spanish fund management company Liberbank Gestión, S.G.I.I.C., S.A. for an amount of Euros 23,500 thousand through its Spanish subsidiary Banco de Madrid, S.A.U. This operation forms part of the Bank's expansion process within the Spanish financial sector and, more specifically, within the market for managing equity investments and as a specialised supplier of investment and savings products.

#### **35. ENGLISH TRANSLATION**

These consolidated financial statements are a free translation of the consolidated financial statements originally issued in Catalan. In the event of a discrepancy, the Catalan language version prevails. These consolidated financial statements are presented in conformity with the accounting principles and valuation criteria established by the Accounting Plan of the Andorran Financial System. Certain accounting practices applied by the Group that conform with the Accounting Plan of the Andorran Financial System may not conform with generally accepted accounting principles in other countries.

# Appendixes

## APPENDIX I

### Notes to the Consolidated Financial Statements

Details of Other Investments at 31 December 2012.

EXPRESSED IN THOUSANDS OF EUROS

Company	Registered address	Activity	% ownership	Carrying amount	THOUSANDS OF EUROS (100%)			
				Net book value	Capital	Reserves	Profit for 2012	Underlying net book value
Seguriser, SA*	Andorra	Security	19.78%	202	1,663	(455)	(187)	1,021
Semtee, SA**	Andorra	Services rendered	1%	323	29,403	17,291	1,932	48,626
Altres	Andorra	–	–	199	–	–	–	–
<b>Total</b>				<b>724</b>	<b>31,066</b>	<b>16,836</b>	<b>1,745</b>	<b>49,647</b>

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

\*\* The figures of this subsidiary correspond to the audited closing figures at 31 December 2011.

This Appendix forms an integral part of note 7 to the consolidated financial statements for 2012.

## APPENDIX II

### Notes to the Consolidated Financial Statements

#### Details of Consolidated Shareholders' Equity and movement during 2012 and 2011.

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	Complementary dividend
Balance at 31 December 2010	70,000	11,476	8,311	60,386	1,678	40,000	6,101	27	(2,000)	25,142	221,121	-
Distribution of profit for 2010	-	2,230	-	13,152	-	-	3,760	-	2,000	(25,142)	(4,000)	4,000
Consolidation adjustments	-	-	-	-	-	-	634	46	-	-	680	-
Other movements (*)	-	-	-	(16)	-	-	-	-	-	-	(16)	-
Amortisation of first-time consolidation diffs. (**)	-	-	-	(1,473)	-	-	-	-	-	-	(1,473)	-
Application of reserves (**)	-	-	3,319	(3,319)	-	-	-	-	-	-	-	-
Profit for 2011	-	-	-	-	-	-	-	-	(3,000)	18,809	15,809	-
<b>Balance at 31 December 2011</b>	<b>70,000</b>	<b>13,706</b>	<b>11,630</b>	<b>68,730</b>	<b>1,678</b>	<b>40,000</b>	<b>10,495</b>	<b>73</b>	<b>(3,000)</b>	<b>18,809</b>	<b>232,121</b>	<b>4,000</b>
Distribution of profit for 2011	-	294	-	-	-	-	15,515	-	3,000	(18,809)	-	-
Other adjustments (****)	-	-	-	(853)	-	-	3,310	(27)	-	-	2,430	-
Reversal of amort. 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	-
<b>Balance at 31 December 2012</b>	<b>70,000</b>	<b>14,000</b>	<b>12,646</b>	<b>49,270</b>	<b>1,678</b>	<b>40,000</b>	<b>32,550</b>	<b>46</b>	<b>(1,000)</b>	<b>17,588</b>	<b>236,778</b>	<b>-</b>

\* 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 communiqué 227/12 (see note 2 (b)).

\*\*\*\* These adjustments relate mainly to the effect of the change in the Bank's percentage ownership of Interdin, S.A.

This Appendix forms an integral part of note 20 to the consolidated financial statements for 2012.

## Head office and offices

### PRINCIPALITY OF ANDORRA

#### BANCA PRIVADA D'ANDORRA, SA

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# BPA Group

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