2023

Consolidated Financial Statements

MORABANC

Independent Auditor's Report in accordance with International Auditing Standards

MORA BANC GRUP, SA AND SUBSIDIARIES
Consolidated Financial Statements
for the year ended
December 31, 2023

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Translation of a report and consolidated financial statements originally issued in Catalan. In case of discrepancies, the Catalan-language version prevails.

INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH INTERNATIONAL AUDITING STANDARDS

To the shareholders of Mora Banc Grup, SA:

Opinion

We have audited the consolidated financial statements of Mora Banc Grup, SA (hereinafter, the "Parent Company") and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statements of financial position at December 31, 2023, the consolidated income statement, the consolidated statement of comprehensive income, the total statement of changes in the consolidated net equity and the consolidated cash flow statement for the year then ended, as well as the explanatory notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of the Group at December 31, 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS-EU"), which, in turn, have been adopted by Andorra ("IFRS-Andorra"), and other provisions in the regulatory framework applicable in Andorra.

Basis for opinion

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

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

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

Other information: consolidated annual report

The Parent Company's directors are responsible for preparation of the other information. The other information comprises the Consolidated Annual Report for the 2023 financial year under the terms established in article 90 of Law 35/2018, of December 20, on solvency, liquidity and prudential supervision of banking entities and investment companies but does not include the consolidated financial statements or our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of conclusion that provides a degree of assurance thereon.

Domicilio Social: Calle de Raimundo Fernández Villaverde, 65. 28003 Madrid - Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª. Madrid 9 de marzo de 1989.

A member firm of Ernst & Young Global Limited.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether there is a material inconsistency between the other information and the consolidated financial statements, or the knowledge obtained by us in the audit or whether it appears that there is a material misstatement of the other information for any other reason. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this. We have nothing to report in this regard.

Responsibilities of the Parent Company´s directors and the Audit and Compliance Committee for the consolidated financial statements

The directors of the Parent Company are responsible for the preparation and presentation of the accompanying consolidated financial statements so that they give a true and fair view in accordance with the International Financial Reporting Standards adopted by the European Union ("IFRS-EU") which, in turn, have been adopted by Andorra ("IFRS-Andorra"), and for such internal control as they determine is necessary to enable the preparation of the consolidated financial statements free from material misstatement, whether due to fraud or error.

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

The Audit and Compliance Committee of Mora Banc Grup SA is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in function of the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements from the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit and Compliance Committee of Mora Banc Grup, SA with a statement that we have complied with the applicable ethical requirements in relation to independence and have communicated to deal with all relationships and other issues that can reasonably be expected that may affect our independence and, if applicable, the corresponding safeguards.

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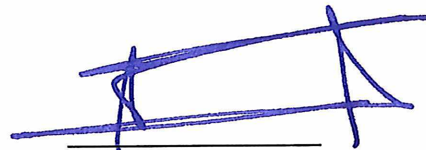

Roberto Diez Cerrato

March 28, 2024

MORABANC GROUP
Consolidated Financial Statements
for the 2023 financial year

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MORABANC

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of 31 December 2023 and 2022, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

ASSETS

	Note	31/12/2023	31/12/2022 (*)
Cash, cash balances in central banks and other sight deposits	9	181,454	252,332
Financial assets held for trading	7, 10	48,259	87,914
Derivatives		18,217	30,985
Equity instruments		17,594	15,626
Debt securities		12,448	41,303
Non-trading financial assets mandatorily measured at fair value through profit or loss	7, 12	243,047	257,842
Equity instruments		189,360	189,882
Debt securities		53,687	67,960
Financial assets at fair value through other comprehensive income	7, 13	332,379	776,691
Equity instruments		22,972	30,130
Debt securities		309,407	746,561
Financial assets at amortised cost	6, 7 and 14	2,882,956	2,845,021
Debt securities		1,325,268	1,184,126
Loans and advances		1,557,688	1,660,895
Credit institutions		125,567	122,947
Clients		1,432,121	1,537,948
Derivatives - hedge accounting	7, 15	22,238	28,442
Investments in subsidiaries, joint ventures and associates	4, 16	4,998	5,224
Assets covered by reinsurance contracts	22	26,088	27,358
Tangible assets	17	98,484	102,360
Fixed assets		72,475	71,997
Property investments		26,009	30,363
Intangible assets	18	24,936	28,843
Goodwill		11,784	11,784
Other intangible assets		13,152	17,059
Tax assets	41	9,683	10,113
Current tax assets		2,879	2,741
Deferred tax assets		6,804	7,372
Other assets	19	4,207	2,675
Non-current assets and disposable groups of items held for sale	20	2,171	3,185
TOTAL ASSETS		3,880,900	4,428,000

(*) Submitted solely and exclusively for comparative purposes. The balances in respect of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Note 2.3 and 47)

The attached Notes 1 to 47 form an integral part of the consolidated statement of financial position as of 31 December 2023.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of 31 December 2023 and 2022, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

LIABILITIES

	Note	31/12/2023	31/12/2022(*)
Financial liabilities held for trading	10	**24,563**	**34,003**
Derivatives		24,563	34,003
Financial liabilities designated at fair value with changes in profit or loss	12	**10,090**	**8,337**
Other financial liabilities		10,090	8,337
Financial liabilities at amortised cost	21	**3,072,779**	**3,660,094**
Deposits		3,018,697	3,604,583
Other financial liabilities		54,082	55,511
Derivatives - hedge accounting	15	**386**	**346**
Changes in the fair value of the hedged items with interest rate risk	15	**18,101**	**3,629**
Liabilities covered by insurance contracts	22	**292,096**	**299,108**
Provisions	23	**18,336**	**19,910**
Pensions and other post-employment defined benefit obligations		7,786	8,954
Other remuneration for long-term employees		948	1,101
Procedural issues and litigation for pending taxes		3,523	3,332
Commitments and guarantees granted		1,904	2,752
Other provisions		4,175	3,771
Tax liabilities	41	**9,649**	**8,279**
Current tax liabilities		8,304	6,585
Deferred tax liabilities		1,345	1,694
Other liabilities	19	**32,911**	**25,210**
TOTAL LIABILITIES		**3,478,911**	**4,058,916**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The attached Notes 1 to 47 form an integral part of the consolidated statement of financial position as of 31 December 2023.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of 31 December 2023 and 2022, in thousands of euros
MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP
NET EQUITY

	Note	31/12/2023	31/12/2022(*)
Capital	**25**	**44,022**	**44,022**
Issuance premium		**18,462**	18,462
Other comprehensive accumulated income	**15, 26**	**(22,236)**	**(23,093)**
Items which will not be reclassified to profit or loss		**(22,720)**	**(16,923)**
Fair value changes in equity instruments valued at fair value through other comprehensive income		(22,720)	(16,923)
Items which can be reclassified in profit or loss		**484**	**(6,170)**
Cash flow hedges (effective part)		437	930
Financial assets at fair value through other comprehensive income		(3,637)	(12,526)
Adjustments for valuation of insurance contracts		3,684	5,426
Accumulated profit	**25**	**342,597**	**323,352**
Other reserves	**25**	**(32,275)**	**(33,688)**
Profit or loss attributable to the owners of the controlling company		**51,423**	**40,033**
Minority interests (non-controlling interests)		**(4)**	**(4)**
Other items	27	(4)	(4)
NET TOTAL EQUITY		**401,989**	**369,084**
NET TOTAL EQUITY AND LIABILITIES		**3,880,900**	**4,428,000**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The attached Notes 1 to 47 form an integral part of the consolidated statement of financial position as of 31 December 2023.

CONSOLIDATED INCOME STATEMENTS

Financial years ending on 31 December 2023 and 2022, in thousands of euros

MORA BANC GRUP, SA AND THE COMPANIES COMPRISING THE MORABANC GROUP

	Note	2023	2022 (*)
Interest income	33	96,591	48,981
Interest expenses	33	(11,744)	(4,142)
Dividend income		432	507
Commission income	34	81,187	90,657
Commission expenses	34	(17,893)	(19,776)
Profit or loss of institutions valued by the holding method	36	229	575
Profit or loss from financial operations	35	9,040	7,910
For financial instruments not valued at fair value through profit or loss		(128)	2,432
For financial assets and liabilities held for trading		4,153	4,158
For other financial instruments at fair value through profit or loss		2,837	(1,400)
Profits or (-) losses resulting from hedge accounting, net		278	147
Exchange differences (net)		1,900	2,573
Other operating income	37	6,712	6,953
Other operating expenses	37	(994)	(609)
Net operating profit/loss		163,560	131,056
Administrative expenses		(91,762)	(82,056)
Labour expenses	38	(45,487)	(43,761)
Other general administrative expenses	39	(46,275)	(38,295)
Depreciation	17 and 18	(7,465)	(7,435)
Provisions (net)	23	(2,577)	(2,665)
Impairment of financial assets not recognised at their fair value through profit or loss (net)	40	(1,029)	3,110
At fair value through other comprehensive income		124	274
At amortised cost		(1,153)	2,836
Impairment of non-financial assets (net)	17	(4,036)	-
Tangible assets		(4,036)	-
Profits or (-) losses on derecognition of non-financial assets and holdings, (net)	18	(3,952)	(15)
Profits or losses from non-current assets on sale not classified as discontinued operations	20	3,714	1,472
Pre-tax profit/loss		56,453	43,467
Tax on profits	41	(5,030)	(3,434)
Profit or loss for the financial year from continuing operations		51,423	40,033
Profit/loss for the financial year		51,423	40,033
Attributable to the owners of the controlling company		51,423	40,033

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The attached Notes 1 to 47 form an integral part of the consolidated income statement for the financial year ending on 31 December 2023.

CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY (I)

Financial years ending on 31 December 2023 and 2022, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

Consolidated Statement of Comprehensive Income

	2023	2022(*)
PROFIT/LOSS FOR THE PERIOD	51,423	40,033
OTHER COMPREHENSIVE INCOME	857	(13,401)
Items which will not be reclassified to profit or loss	(5,797)	(5,535)
Fair value changes in equity instruments valued at fair value through other comprehensive income	(6,485)	(5,916)
Income tax related to items which will not be reclassified to profit or loss	688	381
Items which may be reclassified to profit or loss	6,654	(7,866)
Cash flow hedges	(493)	(315)
Profits (losses) by valuation	(493)	(315)
Financial assets at fair value through other comprehensive income	8,009	(8,886)
Profits (losses) by valuation	9,623	(12,144)
Amounts transferred to the profit and loss account	128	(2,168)
Adjustments for valuation of insurance contracts	(1,742)	5,426
Income tax related to items which can be reclassified in profit or loss	(862)	1,335
OVERALL PROFIT/LOSS FOR THE PERIOD	52,280	26,632
Attributable to the owners of the controlling company	52,280	26,632

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The attached Notes 1 to 47 form an integral part of the consolidated statement of comprehensive income for the financial year ending on 31 December 2023.

CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY (II)

As of 31 December 2023 and 2022, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

Total Statement of Changes in the Consolidated Net Equity

							Minority interests		
	Capital	Issuance premium	Other comprehensive accumulated income	Accumulated profit	Other reserves	Profit or loss attributable to the owners of the controlling company	Other comprehensive accumulated income	Other items	Total
Balance at 31 December 2021	**42,407**	**-**	**(11,444)**	**311,681**	**(24,515)**	**34,046**	**(171)**	**52,743**	**404,747**
Effects of changes in the accounting policies (see note 47)	-	-	1,752	-	(2,436)	-	-	-	**(684)**
Balance at 1 January 2022	**42,407**	**-**	**(9,692)**	**311,681**	**(26,951)**	**34,046**	**(171)**	**52,743**	**404,063**
Distribution of the 2021 profit	-	-	-	34,046	-	(34,046)	-	-	**-**
Other increases or decreases in net equity	1,615	18,462	-	(6,466)	(6,737)	-	171	(52,747)	**(45,702)**
Dividend distribution	-	-	-	(15,909)	-	-	-	-	**(15,909)**
Total overall profit/loss of the financial year	-	-	(13,401)		-	40,118	-	-	**26,717**
Balance at 31 December 2022	**44,022**	**18,462**	**(23,093)**	**323,352**	**(33,688)**	**40,118**	**-**	**(4)**	**369,169**
Effects of changes in the accounting policies (see note 47)	-	-		-	-	(85)	-	-	**(85)**
Balance at 1 January 2023	**44,022**	**18,462**	**(23,093)**	**323,352**	**(33,688)**	**40,033**	**-**	**(4)**	**369,084**
Distribution of the 2022 profit	-	-	-	40,033	-	(40,033)	-	-	**-**
Other increases or decreases in net equity	-	-	-	(1,448)	1,413		-	-	**(35)**
Dividend distribution	-	-	-	(19,340)	-		-	-	**(19,340)**
Total overall profit/loss of the financial year	-	-	857	-	-	51,423	-	-	**52,280**
Balance at 31 December 2023	**44,022**	**18,462**	**(22,236)**	**342,597**	**(32,275)**	**51,423**	**-**	**(4)**	**401,989**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The attached Notes 1 to 47 form an integral part of the consolidated statement of changes in net equity of the financial year ending on 31 December 2023.

CONSOLIDATED CASH FLOW STATEMENT
As of 31 December 2023 and 2022, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

	Euros (thousands)	
	2023	2022(*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	(43,144)	(85,797)
Profit/loss for the financial year	51,423	40,033
Adjustments to obtain the cash flows from the operating activities	11,402	4,079
Depreciation	7,465	7,435
Other adjustments	3,937	(3,356)
Net increase/(decrease) in the operating assets	475,514	46,276
Financial assets held for trading	39,655	1,187
Financial assets at fair value through profit or loss	14,792	136,174
Financial assets at fair value through other comprehensive income	444,327	18,662
Financial assets at amortised cost	(39,115)	(90,767)
Other operating assets	15,855	(18,980)
Net (increase)/decrease in the operating liabilities	(581,483)	(176,185)
Financial liabilities held for trading	(9,440)	(8,238)
Financial liabilities at fair value through profit or loss	1,754	(125,627)
Financial liabilities at amortised cost	(587,459)	36,006
Other operating liabilities	16,272	(75,510)
Collections/payments for tax on profits	(2,610)	(2,816)
B) CASH FLOWS FROM INVESTMENT ACTIVITIES	(10,294)	4,791
Payments:	(11,538)	(13,758)
Tangible assets	(7,946)	(6,419)
Intangible assets	(3,592)	(7,339)
Collections:	1,244	18,549
Non-current assets and liabilities which have been classified as held for sale	1,014	103
Other collections/payments related to investment activities	230	18,446
C) CASH FLOWS FROM FINANCING ACTIVITIES	(19,340)	(15,909)
Payments:	(19,340)	(15,909)
Dividends	(19,340)	(15,909)
D) EFFECT OF VARIATIONS IN EXCHANGE RATES	1,900	2,573
E) NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS (A+B+C+D)	(70,878)	(94,342)
F) CASH AND EQUIVALENTS AT THE START OF THE PERIOD	252,332	346,674
G) CASH AND EQUIVALENTS AT THE END OF THE PERIOD (E+F)	181,454	252,332
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD		
Cash	24,160	27,282
Other Financial Assets	157,294	225,050
TOTAL CASH AND EQUIVALENTS AT THE END OF THE PERIOD	181,454	252,332

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The attached Notes 1 to 47 form an integral part of the consolidated Cash Flow Statement for the financial year ending on 31 December 2023.

1. Introduction

Mora Banc Grup, SA (hereinafter, the Bank or the Institution) is an Andorran company with its registered office at Avinguda Meritxell 96, Andorra la Vella. Its corporate purpose consists of the provision of financial services, in accordance with the legislation in force at any time in the Principality of Andorra.

In addition to the operations it carries out directly, Mora Banc Grup, SA is the parent company of a group of subsidiary institutions (hereinafter, the Group or the MoraBanc Group (see Note 4). In addition, the Group provides the investment and auxiliary services permitted to banking institutions, as stipulated in Articles 20 and 21 of Law 7/2013, of 9 May, on the legal system of the operating financial institutions in Andorra and other provisions that regulate financial activities in the Principality of Andorra, and any legislation which may replace or supplement this regulation in the future. Consequently, the Bank undertakes to draw up, in addition to its own individual financial statements, the Group's consolidated financial statements, which additionally include holdings in joint ventures and associated institutions.

The consolidated financial statements of the MoraBanc Group for the 2023 financial year have been prepared by the Board of Directors of Mora Banc Grup, SA and are pending approval by the General Meeting of Shareholders. Notwithstanding the above, the Board of Directors of Mora Banc Grup, SA envisages their approval without any modifications. The consolidated financial statements of the MoraBanc Group in respect of the 2022 financial year were approved by the General Meeting of Shareholders held on 26 April 2023.

As an integral part of the Andorran financial system, the Group is subject to the supervision of the Andorran National Institute of Finance (hereinafter, the INAF/AFA), an authority of the Andorran financial system which performs its functions independently of the General Administration. Mora Banc Grup, SA, forms an integral part of the Andorran Banking Association (hereinafter, ABA).

2. Basis for the preparation of the consolidated financial statements

2.1. Declaration of compliance

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter, the IFRS) adopted by Andorra by means of the Decree of 22 December 2016, amended by the Decrees published on 19 December 2018 and 27 March 2019, 29 July 2020 and 24 February 2021, and by Decree 553/2022 of 22 December 2022, approving the accounting framework applicable to institutions operating within the Andorran financial system and collective investment undertakings under Andorran law, in accordance with the IFRS approved by the European Union (IFRS-EU), which have now been adopted by Andorra (IFRS-Andorra).

The Group's consolidated financial statements in respect of the 2023 financial year have been prepared by the Bank's directors in accordance with the provisions of the IFRS-EU, adopted by Andorra (IFRS-Andorra), applying the principles of consolidation, accounting policies and appraisal criteria outlined in Note 3, in such a way that they reflect the true and fair view of the operations' equity and result of its operations, the changes in its net equity and the consolidated cash flows which occurred in the 2023 financial year.

These consolidated financial statements have been drawn up upon the basis of the accounting records kept by the Bank and by each of the institutions comprising the Group, and include the adjustments and reclassifications necessary to standardise the accounting policies and appraisal criteria applied by the Group.

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

2.2. New standards and interpretations issued currently in force

The most significant standards and interpretations that have come into force during the 2023 financial year are as follows:

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a new comprehensive accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure. IFRS 17 has replaced IFRS 4 Insurance Contracts, which was issued in 2005. The overall aim of IFRS 17 is to provide an accounting model for insurance contracts which is more useful and uniform for insurers. Unlike the requirements of IFRS 4, which rely heavily on the application of local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts which covers all relevant accounting issues. The core of IFRS 17 is the general model, supplemented by:

• A specific adaptation for contracts with direct participation features (variable fee approach).

• A simplified approach (premium allocation approach), mainly for short-term contracts.

IFRS 17 is effective for financial years beginning on 1 January 2023, requiring the inclusion of comparative figures.

Amendments to IAS 8 - Definition of Accounting Estimates

In these amendments, the IASB has introduced a new definition of "accounting estimate", which clarifies the difference between changes in accounting estimates, changes in accounting policies and corrections of errors.

Amendments to IAS 1 and IFRS Practice Statement 2 - Information on Accounting Policies to be Disclosed

In these amendments, the IASB has included guidance and examples for applying judgement when it comes to identifying which accounting policies are material. The amendments replace the criterion of breaking down significant accounting policies by material accounting policies. It also provides guidance on how to apply the concept of material in order to decide which accounting policies fall into the category.

Amendments to IAS 12 - Deferred Taxes related to Assets and Liabilities arising from a Single Transaction

The IASB issued an amendment to IAS 12 to clarify that entities must recognise deferred taxes that arise during transactions such as leases and decommissioning obligations. The amendment requires entities to recognise a deferred tax asset and liability separately when the temporary differences arising during the recognition of an asset and a liability are equal, and they cannot make use of the initial recognition exception provided for in the standard. The purpose of this amendment is to reduce diversity in the presentation of information on deferred taxes in these transactions. Although its early application was permitted, the amendment entered into force on 1 January 2023, and it has not had a significant impact on the Group's consolidated financial statements.

2.3. Comparison of the information

The figures for the 2022 financial year are submitted solely and exclusively for comparative purposes and do not coincide with those formulated on 31 March 2023 by the Board of Directors of Mora Banc Grup, SA, as they have been restated with the new regulations. Note 47 of these Consolidated Financial Statements explains the main effects of the adaptation to the IFRS 17.

As indicated in the section titled "Basis for the preparation of the consolidated financial statements", the Group has applied IFRS 17 and IFRS 9 (in the insurance business) since 1 January 2023, the date of the IFRS 17 transition being 1 January 2022. Given the impracticability of applying IFRS 17 retroactively, the Group has chosen to apply the fair value approach provided for in the same standard. The Group has therefore determined the contractual service margin (CSM) or loss component of the remaining coverage liability on the transition date as the difference between the fair value of a group of insurance contracts on this date and the cash flows resulting from compliance valued on the same date.

It was concluded that reasonable and sustainable information was not available to apply the full retroactive method to calculate the liability for the remaining coverage of the contracts valued under the General Model (or, equivalently, the Building Block Approach or BBA) and the Variable Fee Approach (or VFA) for insurance contracts issued before the transition date. The fair value approach has therefore been applied to these contracts. This is a result of the fact that the historical source data are not available with the necessary granularity for their application and the cost of obtaining them is highly significant, requiring much greater efforts than those considered reasonable.

In the cases of products valued under the Premium Allocation Approach or PAA and liabilities for claims incurred, as they are products with contractual limits equal to or less than a year and they do not have implied future benefits (contractual service margin), respectively, it is considered appropriate to assess them from the date following the last issuance or renewal.

Aggregation level
The Group has included insurance contracts prior to 1 January 2022 in groups of contracts issued more than one year apart, as a result of which there was no reasonable or sustainable information available to make the division into annual cohorts. Measurement on the transition date

Discount rates
When determining the discount rates on the date of the initial recognition, the Group has used the discount rates on the transition date.

The main differences in the measurement and classification of liabilities for insurance and reinsurance contracts between IFRS 4 and IFRS 17 are as follows:

IFRS 4	IFRS 17
The liabilities for insurance contracts mainly include the mathematical provision (chiefly for insurance products in which the policyholder assumes all the risk of the investment) and the technical provisions for benefits.	The liabilities for insurance contracts are formed by the estimation of the cash flows resulting from the fulfilment of the contract and the future profit.
Maintenance of pricing assumptions in the calculation of provisions in accounting closures.	Use of updated assumptions.
Existence of a liability sufficiency test.	There is no sufficiency test and, in the event of onerousness, this is immediately recognised in the income statement.
The provisions are capitalised at the technical interest rate but they are not updated, due to changes in the rates.	The interest rate is distinguished from the initial recognition (*locked-in rate*) set at the beginning of the operation. In addition, the provisions for insurance contracts are updated at the interest rates of each closing, with the exception of the contractual service margin.
The insurance profit is presented net of the profit arising from the maintained reinsurance contracts.	The profit from the insurance contracts is presented separately from the accumulated profit of the maintained reinsurance contracts.
The impact on Other accumulated comprehensive income is nil.	The impact on Other comprehensive income includes, for portfolios included in the Other comprehensive income or OCI option, the impact of the change in value in the insurance provisions due to the difference between the initial recognition rate and the current rate (both the impact of the rate change and that of the credited interests).
The insurance income under IFRS 4 mainly relates to premiums and variations in the technical provisions. The product margin under IFRS 4 is recorded as the difference between the premiums issued net of provisions and premiums ceded and the provisions for the latter.	The income from premiums is replaced by the changes in the liabilities for the remaining coverage in the BBA and VFA models, including the recognition of the contractual service margin made in the insurance contracts (CSM). In the PAA model, the insurance service income is similar to the concept of imputed premium under IFRS 4. The product margin is recorded in the result of the insurance or reinsurance service

Financial instruments of the insurance business

On the date of the initial application of IFRS 17, in accordance with the provisions of the regulation, an institution which has applied IFRS 9 to the annual periods reported prior to the initial application of IFRS 17 may, among other measures, reassess whether an eligible financial asset is held within the framework of a business model that seeks to hold financial assets to obtain contractual cash flows or within the framework of a business model whose goal is achieved by obtaining contractual cash flows and selling financial assets.

The Group has therefore considered the redesignation of the portfolio of financial assets held until the maturity of the insurance business under the "financial assets at fair value through other comprehensive income" portfolio with the aim of transparently and consistently eliminating any additional volatility from the income statement while maximising comparability.

The main impacts are listed below:

- Under IFRS 9, in interaction with IFRS 17, part of the financial investments allocated to the insurance business are classified as "Financial assets at fair value through other comprehensive income". In other circumstances, to prevent asymmetries between assets and liabilities, some portfolios are classified as "Financial assets at amortized cost".

- As for the Unit Linked business, these portfolios are classified as "Financial assets not intended for trading mandatorily valued at fair value through profit or loss".

Furthermore, in Note 3.11 of the consolidated financial statements for 2022, the accounting principles and policies and valuation criteria of IFRS 4 are listed, which were amended with the first application of IFRS 17, in accordance with the same note (3.11) for financial year 2023.

2.4. Responsibility for the information and estimates made

In the drawing up of the consolidated financial statements, judgements, estimates and assumptions have been made by the Bank's Directors to quantify certain assets, liabilities, income, expenses and commitments recorded therein. These estimates chiefly refer to:

- Classification and measurement of financial instruments in relation to the analysis of the business model and the characteristics of contractual flows (Note 6).
- Establishment of criteria for determining whether the credit risk of a financial asset has been significantly increased and the methodology used to measure the expected loss (Note 6).
- The fair value of certain non-listed financial assets and liabilities (Note 7).
- Losses due to the impairment of certain financial assets and the fair value of the guarantees associated thereto (Notes 12, 13 and 14).
- The useful life and impairment losses concerning the tangible and intangible assets, including the goodwill fund (Notes 3.12, 3.14, 17 and 18).
- The assumptions used in the valuation of insurance or reinsurance contracts, in order to quantify certain provisions, and in the actuarial assumptions of liabilities and commitments for post-employment remuneration and other obligations (see Note 3.11).
- The valuation of the provisions necessary for the hedging of occupational, legal, fiscal and other contingencies (Note 23).
- The expenditure on corporation tax determined by means of the tax rate expected at the end of the year and the capitalisation of the tax credits and their recoverability (Note 41).
- The valuation of the usage rights and liabilities associated with leases (IFRS 16) linked to tangible assets and real estate investments (Note 17).

These estimates have been made upon the basis of the best available information on the date of the drawing up of these consolidated financial statements. However, it is possible that future events will require amendments of the consolidated financial statements in coming years. These would be performed in a prospective manner.

2.5. Functional and reporting currency

The figures in these consolidated financial statements are submitted in euros, which is the Bank's functional currency, unless the use of another monetary unit is expressly indicated. Certain financial information in this report has been rounded off to the nearest thousand units.

2.6. Error correction and changes in accounting policies

In the drawing up of the 2023 consolidated financial statements, no error has been detected leading to the restatement of the amounts included in the 2022 consolidated financial statements.

2.7. Mandatory investments

Mandatory investment coefficient

The General Council of the Principality of Andorra, at its meeting on 30 June 1994, passed the Law regulating the mandatory investment coefficient. This law obliges banking institutions to maintain a coefficient of investment in public funds.

2.7.1. Public debt

In compliance with this coefficient, the Group, as of 31 December 2023 and 2022, underwrote €233,000,000 and €186,000,000 in Public Debt of the Principality of Andorra, as outlined below:

- Issuance on 5 October 2021 with maturity on 13 October 2041, earning 1.7% interest with a rate schedule established upon the issuance.
- Issuance on 28 April 2021 with maturity on 6 May 2031, earning 1.25% interest with a rate schedule established upon the issuance.
- Issuance on 14 February 2022 with maturity on 23 February 2027, earning 1.25% interest with a rate schedule established upon the issuance.

The amount subscribed by the Group for this issuance is recorded under the "Financial assets at fair value with changes in other comprehensive income - Debt securities" heading and under the "Financial assets at amortised cost - Debt securities" heading of the attached consolidated statements of financial position (see Notes 13 and 14 respectively).

2.7.2. Privileged financing programmes

Loans granted by the Group within the framework of qualified programmes of national and social interest approved by the Government of Andorra, designed for the privileged financing of housing, newly-created companies and businesses, innovation, reconversion, entrepreneurial projects and housing restoration are also computable as public funds. Loans granted by the Group for these purposes, as of 31 December 2023 and 2022, accounted for the respective amounts of €347,000 and €2,087,000 and are recorded under the "Financial assets at amortised cost - Loans and advances" heading of the attached consolidated statement of financial position.

2.7.3. Guarantee reserves

Deposit Guarantee Fund

The General Council of the Principality of Andorra, in its session on 13 September 2018, enacted Law 20/2018 regulating the Andorra Deposit Guarantee Fund and the Andorran investment guarantee system.

Law 20/2018 regulates the Andorran Deposit Guarantee Fund (FAGADI) as a deposit guarantee system in the terms established by Directive 2014/49/EU with an additional cushion of financial resources for FAGADI.

The main features of the deposit guarantee system are as follows:

– The coverage regime of €100,000 per depositor and per institution is maintained. Additional coverages are incorporated in exceptional cases that provide guarantees up to a limit of €300,000.

– FAGADI's resources must reach 0.8% of the guaranteed deposits with a deadline of 30 June 2024, through the annual contributions of the banking institutions. Additionally, as of that date, banks must continue to make annual contributions to the Fund in order for this Fund to reach a level of 1.6% of financial resources within eight years from 2024 although the maximum FAGADI coverage limit for all beneficiaries may not exceed €200 million.

Law 20/2018 maintains the Andorran Investment Guarantee System ("SAGI") as an ex-post guarantee system in which the investment financial institutions, together with the banking institutions, which have been participating so far, participate and the management companies of collective investment institutions authorised to provide administration and custody of financial instruments.

This law imposes a duty on banking institutions authorised to operate in the Andorran financial system to maintain investments in liquid and safe assets as a counterparty of an unavailable reserve, subject to compliance with the guarantees covered by the guarantee system.

The amount of the guarantee reserve relating to the Deposit Guarantee Fund established by the Group amounted to €32,055,000 as of 31 December 2023 (€32,055,000 in 2022). The Group has invested an amount equivalent to the guarantee reserves in fixed-income securities - public debt of the OECD countries and the Principality of Andorra and other assets immediately available or with a maturity not exceeding one month, which can be easily settled, and that the AFA deems appropriate at any time, in accordance with the requirements established in the above-mentioned law (see Notes 25 and 43.1).

In accordance with the same law, during 2023 €1,800,000 have been provided (€1,934,000 in 2022) and the total amount of the provision constituted is €2,694,000 (€2,160,000 in 2022), which is recorded under the heading "Provisions-Other provisions" (Note 23.1). This annual provision corresponds to the ordinary contributions that are actually required to form the FAGADI ex-ante part, with a deadline of 30 June 2024.

2.7.4. FAREB (Andorran Fund for the Resolution of Banking Institutions)

Law 7/2021, of 29 April, on the recovery and resolution of banking institutions and investment companies, gives continuity to the Andorran Fund for the Resolution of Banking Institutions (hereinafter, the FAREB) created by the Law 8/2015, of 2 April, on urgent measures to implement mechanisms for the restructuring and resolution of banking institutions, as a mechanism for financing the resolution processes of Andorran banks. The financial resources of the FAREB, as established in Article 75 of Law 7/2021, must, no later than 31 December 2024, reach an amount equal to 1% of the guaranteed deposit amount.

In accordance with the same Law, the Group recorded the expenditure in respect of ordinary contributions in the 2023 financial year under the "Provisions (net)" heading of the attached consolidated income statements, for the amount of €1,358,000 (see Note 23), €1,354,000 in 2022. During 2023 and 2022, the same amount was settled at the FAREB.

3. Consolidation principles, accounting policies and appraisal criteria applied.

In the drawing up of the Group's consolidated financial statements for the 2023 financial year, the following principles, accounting policies and appraisal criteria have been applied, in accordance with the provisions of the IFRS-EU adopted by Andorra (IFRS-Andorra):

3.1. Transactions in foreign currencies
Criteria for the conversion of foreign currency balances

The conversion into euros of foreign currency balances is performed in two consecutive phases:

- Conversion of the foreign currency into the functional currency (currency of the main economic environment in which the institution operates).

  Transactions in foreign currencies performed by consolidated institutions whose functional currency is the euro are initially recorded in the corresponding currency. The monetary balances in the foreign currency are subsequently converted into the functional currency, using the exchange rate at the end of the financial year.

  Similarly:

  - Non-monetary items valued at their historical cost are converted into the functional currency at the exchange rate on the date of their acquisition.

- Non-monetary items valued at their fair value are converted at the exchange rate on the date when this fair value is determined.

- Income and expenses are converted at the exchange rates on the date of the transaction.

- Conversion into euros of the balances held in the currencies of the institutions with a functional currency other than the euro.

  The balances of the transitional consolidated statement of financial position of the consolidated institutions whose functional currency is different from the euro are converted into euros in the following manner:

  - The exchange rate at the end of the financial year is applied to the assets and liabilities.

  - The average exchange rate for the financial year is applied to the income and expenses.

  - The historical exchange rates are applied to net equity.

Record of exchange differences

The exchange differences which occur when converting the balances designated in a foreign currency into the functional currency are generally recorded by their net amount in the section titled “Gains/losses on financial operations- Exchange rate differences (net)” of the consolidated income statement.

The exchange differences which occur when converting into euros the financial statements of the Group’s companies denominated in the functional currencies of the institutions whose functional currency is different from the euro are recorded under the heading “Other reserves” of the net equity.

3.2. Consolidation principles

Subsidiary institutions

Subsidiary institutions are regarded as those over which the Group has the capacity to exercise control. This capacity for control is manifested when:

- It has the power to manage their relevant activities, in other words, those which significantly affect their performance, by means of a legal provision, charter or agreement.

- It has the present, in other words, practical capacity to exercise its rights to use this power in order to influence their performance.

- As a result of its involvement, it is exposed or entitled to the variable returns of the investee.

The consolidated financial statements of subsidiary institutions are consolidated with those of the Bank by means of the application of the full consolidation method, consisting of the aggregation of the assets, liabilities, net equity, income and expenses of a similar nature to those contained in their individual financial statements. The carrying value of the direct and indirect holdings in the equity of the subsidiary institutions is eliminated with the fraction of the net equity of the subsidiary institutions they represent. Consequently, all the balances and effects of the transactions performed by the consolidated companies are eliminated in the consolidation process.

At the time of the acquisition of the control of a subsidiary company, its assets, liabilities and contingent liabilities are recorded at their fair values on the acquisition date. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill. Any negative differences are recognised in profit or loss on the acquisition date.

In addition, the holdings of third parties in the equity of the Group's companies are submitted in the section titled "Minority interests (non-controlling holdings)" of the consolidated statement of financial position. The profits of the financial year are submitted in the section titled "Profit/loss for the period - attributable to minority interests" in the consolidated income statement.

Under certain circumstances, as established in IFRS 10, the Group treats an investee separately if, and only if, a set of conditions are met:

- The assets specified by the investee (and related credit enhancements, if there are any) are the sole source of payment of the investee's specified liabilities, or any other specified holdings of the latter.
- The parties other than those with the specified liability do not have rights or obligations related to the specified assets or the residual cash flows resulting from said assets.
- There are no yields from specified assets which can be used from the remainder of the investee or separate liabilities of the institution which can be paid with the assets remaining from the investee.
- All the institution's assets, liabilities and equity considered separately are protected from the global investee.

Holdings in joint ventures (jointly-controlled institutions)

Joint ventures are regarded as those which, while not being subsidiary institutions, are jointly controlled by two or more institutions which are not related parties. This is demonstrated by contractual agreements whereby two or more institutions have holdings in institutions, in such a way that the decisions on the relevant activities require the unanimous consent of all the institutions which share the control.
In the consolidated statement of financial position, multi-group institutions are valued by the holding method, in other words, by the fraction of their net equity representing the Group's holding in their capital, once the dividends received from the latter and other equity eliminations have been considered. In the event of transactions with a jointly-controlled institution, the corresponding losses or profits are eliminated in the percentage of the Group's holding in its capital.

As of 31 December 2023, and 2022, the Group maintained its holding in Societat Financera Pyrénées, SAU as a joint venture in its consolidated statement of financial position (see Note 16 and Note 36).

Associated institutions

These are institutions over which the Group has the capacity to exert a significant influence and are not subsidiary institutions or joint ventures. It is assumed that the Group exercises significant influence if it owns 20% or more of the investee's voting power. If the voting rights are lower than 20%, the significant influence may be demonstrated if any of the circumstances indicated in IAS 28 "Investments in associates and joint ventures" occur. Circumstances which usually demonstrate the existence of significant influence include having representation on the Board of Directors, participation in the investee's policy-setting processes, the existence of transactions of relative importance between the institution and the investee, the exchange of management personnel and the provision of essential technical information.

In the consolidated statement of financial position, associated institutions are valued by the equity method, in other words, by the fraction of their net equity representing the Group's holding in their capital, once the dividends received from the latter and other equity eliminations have been considered. In the event of transactions with an associated institution, the corresponding losses or profits are eliminated in the percentage of the Group's holding in its capital.
As of 31 December 2023 and 2022, the Group maintained the holding in Serveis i Mitjans de Pagament XXI, SA as an associate institution in its consolidated statement of financial position (see Note 16 and Note 36).

Changes in the levels of holdings in subsidiary companies

Acquisitions and disposals which do not give rise to a change in control are recognised as equity transactions, without the recognition of a loss or profit in the consolidated income statement and without revaluing the initially recognised goodwill. The difference between the consideration given or received and the respective decrease or increase in the minority interests is recognised in reserves.

Transactions eliminated in the consolidation

Balances and transactions between consolidated institutions and the income or expenses (except for the profits or losses from transactions in foreign currencies) from transactions between consolidated institutions are eliminated during the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised profits, but only insofar as there is no evidence of impairment.

Fund management

The Group manages and administers assets held in mutual investment funds and other means of investment on behalf of investors. The financial statements of these institutions are not included in these consolidated financial statements, except when the Group controls the institution, as they do not fulfil the regulations of IFRS 10, as they are regarded as controlled institutions.

3.3. Definitions and classification of financial instruments

Definitions

A financial instrument is a contract which gives rise to a financial asset in an institution and, simultaneously, a financial liability or equity instrument in another institution.

A capital or net equity instrument is a legal transaction which demonstrates a residual holding in the assets of the institution which issues it, once all its liabilities have been deducted.

A derivative is a financial instrument or another contract which fulfils the following three characteristics:

- Its value changes in response to the changes in a specified interest rate, the price of a financial instrument or that of a quoted raw material, an exchange rate, a price index or interest rates, a credit rating or index or in accordance with any other variable which, in the case of being non-financial, is not specific to any of the parts of the contract (sometimes referred to as "underlying" in this variable);

- it does not require a net initial investment or only requires a net initial investment lower than that required for other types of contracts in which a similar response could be expected in the event of changes in the market conditions; and

- it will be settled at a future date.

Hybrid financial instruments are contracts which simultaneously include a principal contract other than a derivative together with a financial derivative, known as an implicit derivative, which is not individually transferable, leading to some of the cash flows of the hybrid contract varying in the same way as the implicit derivative considered in isolation would vary.

Composite financial instruments are contracts which simultaneously generate a financial liability and an equity instrument for the issuer (such as convertible bonds granting their holder the right to convert them into equity instruments of the issuing institution).

Preferential shares issued whose remuneration is not discretionary are accounted for by the Group as debt securities.

The transactions listed below are not regarded as financial instruments for accounting purposes:

- Holdings in associate and jointly-controlled institutions.

- Rights and obligations arising as a result of employee benefit plans.

- Rights and obligations arising from insurance contracts.

Recording and classification of financial assets for valuation purposes

Generally speaking, all financial instruments are initially recorded at their fair value which, unless otherwise stated, is the same as the transaction cost. For financial instruments not recognised at fair value through profit or loss, the fair value is adjusted by adding or deducting transaction costs directly attributable to their acquisition or issue.

For financial instruments at fair value through profit or loss, directly attributable transaction costs are recognised immediately in the consolidated income statement. As a general rule, purchases and sales of financial assets are generally recognised in the Group's consolidated statement of financial position applying the date of the transaction.

Changes in the value of financial instruments arising from the accrual of interest and similar items are recognised in the consolidated income statement. Dividends of other companies are registered in the consolidated income statement for the financial year at the time the right to receive them comes about.

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

Variations in the valuations that occur after the initial registration for causes other than those mentioned above are treated based on the classification of financial assets and liabilities for the purpose of their valuation, which is generally made on the basis of following aspects:

- The business model for managing financial assets, and

- The characteristics of contractual cash flows of financial assets.

Business model

The business model is the way financial assets are managed to generate cash flows, and is determined by considering how financial asset groups are managed together to achieve a specific objective. Therefore, the business model does not depend on the intentions of the Group for an individual instrument, but is determined for a set of instruments.

The following are the business models that the Group has in place:

- Held to receive contractual cash flows (HTC): under this model, financial assets are managed to collect their contractual cash flows. However, disposals prior to the maturity of assets are allowed in certain circumstances. Sales that may be consistent with a model of holding assets to receive contractual cash flows include: infrequent or insignificant, near-maturity assets, those with an increased credit risk and those carried out to manage concentration risk.

- Held for sale (HTS): under this model, financial assets are originated or acquired with the aim of short-term realisation.

- Combination of the two previous business models (HTC & S) : this business model involves sales, these being essential to the business model but also being the most frequent and of higher value than in the model of maintaining assets to receive contractual cash flows.

  If the Group decides to change its business model for financial asset management, it will reclassify all the affected financial assets in accordance with the requirements of IFRS 9. Such reclassification will be performed prospectively from the date of reclassification.

  Pursuant to IFRS 9, business model changes generally occur infrequently. Financial liabilities may not be reclassified from portfolio. No reclassifications were made between business models during 2023. A reclassification of bonds was carried out during 2022.

The characteristics of contractual cash flows of financial assets

A financial asset shall be initially classified into one of the following two categories:

- Those assets in which the contractual terms give rise to cash flows which consist solely of interest and principal payments on the principal amount outstanding.

- Rest of financial assets.

For the purpose of this classification, the principal of a financial asset is its fair value at the time of initial recognition, which may change over the life of the financial asset (if there are principal repayments, for example). Interest is also understood to mean the sum of the consideration for the temporary value of the money, the costs of financing and the structure, and the credit risk associated with the principal outstanding amount during a particular period, plus a profit margin.

Portfolios of classification of financial instruments for the purpose of their valuation

Financial assets are classified for the purposes of their valuation in the following portfolios, based on the aspects described above:

- **Financial assets at amortised cost** . This category includes financial assets that meet the following two conditions:

  - A business model whose purpose is to hold them in order to perceive their contractual cash flows (HTC), and

  - Contractual conditions that give rise to cash flows on specified dates, which are only interest and principal payments and on the outstanding principal amount.

This category includes the loan book, the deposits lent to other institutions, whatever their legal instrument, the debt securities that fulfil the two conditions mentioned above, as well as the debts incurred by the buyers of goods or users of services that form part of the Group's business.

- **Financial assets at fair value through other comprehensive income.** This category includes financial assets that meet the following two conditions:

  - They are managed with a business model in which the objective combines the receipt of their contractual cash flows and their sale (HTC & S), and

  - For debt securities, contractual terms give rise to cash flows on specific dates that are interest and principal payments only on the principal amount outstanding.

In addition, the Group may, irrevocably and at the time of initial recognition, choose to include in the portfolio of financial assets at fair value through other comprehensive income investments in equity instruments that must not be classified as held for trading and would otherwise be classified as financial assets at fair value through profit or loss. This option is carried out on an instrument by instrument basis and at the moment of initial recognition.

Losses on impairment of debt instruments or gains on subsequent recovery are recognised in the consolidated statement of comprehensive income and, in the case of equity instruments, in other comprehensive income. The remaining changes in value are reported in other comprehensive income.

When a debt instrument at fair value through other comprehensive income is derecognised, the amount of change in value recorded under "Other accumulated comprehensive income" in the consolidated net equity is reclassified to the consolidated income statement. However, when a fair value instrument with changes in other comprehensive income is derecognised, this amount is not reclassified to the consolidated income statement but to an item of reserves.

- **Financial assets mandatorily at fair value through profit or loss** . A financial asset is classified in the financial assets portfolio mandatorily at fair value through profit or loss, provided that it is not appropriate to classify it by the group's management business model or by the nature of its contractual cash flows in any of the portfolios described above.

This portfolio is also subdivided into:

- Financial assets held for trading. Financial assets held for trading are those acquired with the purpose of short-term equity transactions or those that are part of a portfolio of jointly identified and managed financial instruments for which recent actions have been taken to obtain short-term profit. Derivative instruments that do not meet the definition of a financial guarantee contract and have not been designated as hedge accounting instruments are also considered financial assets held for trading.

- Non-trading financial assets necessarily measured at fair value through profit or loss. This portfolio includes the rest of the financial assets mandatorily held at fair value through profit or loss.

Classification of the financial assets for presentation purposes

Financial assets are included, for the purposes of their presentation, in accordance with their nature in the consolidated statement of financial position, in the following items:

- **Derivatives:** these include the fair value on behalf of the Group of financial derivatives which do not form part of accounting hedges, including implicit derivatives segregated from hybrid financial instruments.

- **Equity instruments** : financial instruments issued by other institutions, such as shares, which have the nature of equity instruments for the issuer, except for holdings in subsidiaries, jointly-controlled and associate companies. This item also includes investments in investment funds.

- **Debt securities**: obligations and other securities which recognise a debt for their issuer, earning remuneration consisting of interest, implemented in securities or account entries.

- **Loans and advances** : debit balances of all the credits and loans granted by the Group, except for those implemented in securities, collection rights on financial leasing operations, as well as other debit balances of a financial nature on behalf of the Group. They are classified in accordance with the institutional sector to which the debtor belongs:

  - Credit institutions: loans of any nature, including deposits (except sight deposits, which are recorded under *"Cash, cash balances in central banks and other sight deposits"*) and monetary market operations on behalf of credit institutions.

  - Clients: includes the outstanding receivables.

- **Derivatives - Hedge accounting:** includes the fair value on behalf of the Group of the derivatives designated as hedge accounting instruments.

- **Changes in the fair value of the items hedged by a portfolio with interest rate risk hedging:** amounts paid to the consolidated statement of income originating in the valuation of the portfolios of financial instruments which are effectively hedged from interest rate risk by means of derivatives resulting from fair value hedges.

Classification of the financial liabilities for valuation purposes

Financial liabilities are submitted grouped together, firstly within the different categories into which they are classified for the purpose of their management and valuation, unless they are submitted as "Non-current liabilities and disposable groups of items classified as held for sale", correspond to "Cash, cash balances in central banks and other sight deposits", "Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging" or "Derivatives - Hedge accounting", which are displayed independently.

Financial liabilities are included for the purpose of their valuation in any of the following portfolios:

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

- Financial liabilities at fair value:

  - Designated at fair value through profit or loss: financial liabilities are included in this category when more relevant information is obtained, either because this significantly eliminates or reduces inconsistencies in the recognition or valuation (also known as accounting asymmetries) which would arise in the valuation of the liabilities or through the recognition of their profits or losses with different criteria, or because there is a group of financial assets which are managed and their return is evaluated upon the basis of their fair value, in accordance with a risk management strategy or documented investment and information is provided on this group, also upon the basis of the fair value, to the key personnel in Group Management. Liabilities may only be included in this portfolio on the date of their issue or creation.

  - Financial liabilities (held for trading): financial liabilities issued, incurred or assumed, with the aim of benefiting in the short term from the variations the prices undergo or the differences between their purchase and sale prices, as well as financial derivatives which are not regarded as hedge accounting, and financial liabilities resulting from the firm sale of financial assets temporarily acquired or received on loan (short security positions).

Classification of the financial liabilities for presentation purposes

Financial liabilities are included, for the purposes of their presentation, in accordance with their nature in the consolidated statement of financial position, in the following items:

- Derivatives: includes the fair value of the financial derivatives not forming part of accounting hedges, including implicit derivatives segregated from hybrid financial instruments.

- Short positions: amount of the financial liabilities resulting from the firm sale of financial assets acquired temporarily or received as loans.

- Deposits: includes the amounts of the reimbursable balances received in cash by the institution, except for instruments which have the nature of subordinated liabilities. It also includes the deposits and consignments in cash received, the amount of which can be freely invested. The deposits are classified in accordance with the institutional sector to which the creditor belongs, in:

  - Deposits of central banks and credit institutions: deposits of any nature, including credits received and monetary market transactions on behalf of credit institutions.

- AFA: deposits of any nature, including credits received and monetary market transactions on behalf of the AFA.

- Client deposits: includes the remaining deposits.

- Other financial liabilities: includes the amount of the obligations payable with the nature of financial liabilities not included in other items and liabilities for financial guarantee contracts, unless they have been classified as doubtful.

- Debt securities issued: amount of the financing received which, for the purposes of credit ranking, is positioned behind the common creditors. Similarly, it includes the amount of financial instruments issued by the Group which, having the legal nature of equity, do not meet the requirements to qualify as net equity, such as certain preferential issued shares.

- Derivatives – Hedge accounting: includes the fair value of the derivatives designated as hedging instruments in accounting hedges.

- Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging: amounts charged to the consolidated income statement originating in the valuation of the portfolios of financial instruments which are effectively hedged by the interest rate risk by means of derivatives of fair value hedges.

3.4. Valuation and recording of profits/losses from financial assets and liabilities

Generally speaking, financial assets and liabilities are initially recorded at their fair value which, unless otherwise stated, is the transaction price. For non-valued instruments at their fair value through profit or loss, the latter is adjusted to the transaction costs.

Subsequently, on each accounting closure, they are valued in accordance with the following criteria:

Valuation of the financial assets

Financial assets, except those classified as "Financial assets at amortised cost" are stated at fair value, less any transaction costs on their sale.

The fair value of a financial instrument on a given date is regarded as the price which would be received for the sale of an asset or which would be paid to transfer a liability by means of an orderly transaction between market participants acting in conditions of mutual independence. The most objective and usual reference for the fair value of a financial instrument is the price which would be paid for it in an active, transparent and deep market (listed price or market price).

When there is no market price for a particular financial instrument, its fair value is estimated upon the basis of valuation models sufficiently approved by the financial community, considering the specific characteristics of the instrument to be valued and, in particular, the different types of risk associated with the instrument in question.

All the derivatives are recorded in the consolidated statement of income at their fair value on the date they are contracted. If their fair value is positive, they are recorded as assets and, if it is negative, they are recorded as liabilities. On the contracting date, it is understood that, unless proven otherwise, their fair value is equal to the transaction cost.

Any changes in the fair value of the derivatives following the contracting date are recorded with their balancing entry in the consolidated income statement. Specifically, the fair value of financial derivatives traded in organised markets included in the trading portfolios is equal to their daily price and if, for exceptional reasons, the price cannot be established on a given date, they are valued by means of methods similar to those used to value derivatives traded in non-organised markets. The fair value of derivatives not admitted to trading is equal to the sum of the future cash flows originating in the instrument, discounted on the valuation date (current value or theoretical closure), using methods in the valuation process recognised by the financial markets: current net value, models to determine prices of options, etc.

Changes in fair value, as well as the profit from of the sale of these instruments, are recognised directly in the consolidated income statement.

The assets included in the section titled "Financial assets at amortised cost" are valued at their amortised cost, using the effective interest rate method in their determination. Amortised cost means the cost of acquiring a corrected financial asset or liability (increased or decreased, as applicable) for repayments of the principal and the part systematically attributed to the consolidated income statement by means of the effective interest rate method, the difference between the initial cost and the corresponding repayment value upon maturity. In the case of financial assets, the amortised cost includes, in addition, any corrections to their value caused by the impairment they have undergone. In the loans and accounts receivable hedged in fair value hedging operations, the variations which occur in their fair value related to the risk or risks hedged in these hedging operations are recorded.

In addition, the amortised cost shall be reduced by any reduction in value through impairment recognised directly as a decrease in the amount of the asset or through an allowance account or offsetting amount.

The effective interest rate is the updated rate which exactly matches the initial value of a financial instrument to all of its cash flows calculated for all the purposes throughout its remaining life.

Valuation of financial liabilities

Financial liabilities are generally measured at amortised cost, as defined above, except for those measured at fair value which may be included in:

- "Financial liabilities held for trading"
- "Financial liabilities designated at fair value through profit or loss" and,
- Financial liabilities designated as hedged items at fair value (or as hedging instruments) that are measured at fair value.

Valuation techniques

Financial instruments at fair value which are determined upon the basis of price listings published in active markets (**Level 1**) include public debt, private debt, derivatives traded in organised markets and equity instruments.

In cases in which price quotations cannot be observed, the management performs its best estimate of the price that the market would set by means of the use of internal models. In most cases, these internal models use data based on observable market parameters, directly or indirectly, as significant inputs or prices quoted in active markets for similar instruments (**Level 2**), and sometimes use significant non-observable inputs in market data (**Level 3**).

Transfers between levels

In accordance with the international regulations, the classification levels established in accordance with the observability and significance of the inputs employed in the methodology to calculate the fair value must be regularly reviewed. There have been no transfers between levels during the current financial year. For the following financial years, the criterion applied for the revaluation of the portfolio will be reviewed at least quarterly, and two circumstances may arise:

- Improvements in the level of valuation of the financial instruments as a result of having obtained prices published by market price contributors or because the quality of the published price has improved.
- Worsening of the level of valuation of the financial instruments as a consequence of the market price contributors having ceased to publish prices or because the quality of the published price has worsened.

Adjustment to the risk assessment of the counterparty or non-compliance

The Credit Valuation Adjustment (CVA) is an adjustment to the valuation of OTC (Over The Counter) derivatives as a result of the risk associated with the credit exposure assumed with each counterparty.

The calculation of the CVA is made taking into account the potential exposure with each counterparty in each future period. The CVA for a given counterparty is equal to the sum of the CVA for all the periods. The following inputs are considered to calculate it:

- Expected exposure: including, for each loan, the current market value (MTM), as well as the future potential risk (Add-on) in each period. Mitigating factors such as collaterals and netting contracts, as well as the temporary decline factor for derivatives with intermediate payments, are taken into account.

- Severity: percentage of the final loss assumed in the event of credit/default of the counterparty determined in accordance with the priority of the security in the event of the counterparty's default.

- Probability of non-payment/default: in cases in which there is no market information, estimates generated from companies with CDS (Credit Default Swaps) are used, quoted in the same sector and with the same external valuation as the counterparty.

In the case of implicit derivatives, the Probability of Default (PD) used is calculated internally on the basis of the counterparties' credit quality.

The Debt Valuation Adjustment (DVA) is a valuation adjustment similar to the CVA, but in this case as a result of the Group's risk assumed by its counterparties in OTC derivatives.

The data necessary to calculate the probability of default, as well as its severity, comes from credit markets (Credit Default Swaps), applying that of the institution in cases in which there is one. In cases in which this information is not available, the Group performs an exercise which considers, among other factors, the sector and rating of the counterparty in order to assign the probability and severity, calibrated directly in the market or with market adjustment factors for the probability of default and expected historical losses.

Valuations obtained by means of the internal models may be different if other methods or other assumptions have been applied to the interest risk, in the differentials of credit risk, market risk or exchange risk or their corresponding correlations and volatilities. Notwithstanding the above, the directors of the Group consider that the fair value of the financial assets and liabilities recorded in the consolidated statement of financial position, as well as the profits generated by these financial instruments, are fair.

Recording of profits

As a general rule, variations in the carrying value of the financial assets and liabilities are recorded with a balancing entry in the consolidated income statement, distinguishing between those which have their origin in the accrual of interest and similar purposes (which are recorded in the section titled "Interest income") and those consisting of variations in value. The latter are recorded, for their net amount, in the corresponding section of the profit from financial operations, and are classified in accordance with the corresponding portfolio of the consolidated income statement.

Adjustments for changes in the fair value have a recording method which differs according to their origin:

- Debt securities at fair value through other comprehensive income are temporarily recognised in the equity heading: "Other accumulated comprehensive income - Items that can be reclassified to profit or loss - Financial assets at fair value through other comprehensive income", unless they come from exchange rate differences. In the case of exchange rate differences originating in monetary financial assets, they are recognised in the section titled "Exchange rate differences (net)" of the consolidated income statement.

- Equity instruments at fair value through other comprehensive income are temporarily recognised in the equity heading: "Other accumulated comprehensive income - Items that cannot be reclassified to profit or loss - Fair value changes of equity instruments valued at fair value through other comprehensive income", unless they arise from exchange rate differences. In the case of exchange rate differences originating in monetary financial assets, they are recognised in the section titled "Exchange rate differences (net)" of the consolidated income statement.

– The items charged or credited to the heading "Other accumulated comprehensive income - Items that can be reclassified to profit or loss" and consisting of debt securities, remain part of the Group's consolidated net equity until there is no impairment or derecognition in the consolidated statement of financial position, at which time the impact is recorded against the consolidated income statement. In the case of debt instruments, any gain or loss arising from the derecognition of the assets is recognised as a charge or credit in the heading "Result of financial operations- For financial instruments not valued at fair value through profit or loss" in the consolidated statement of financial position.

– The valuation gains or losses not implemented on the assets classified as "Non-current assets and disposable groups of items classified as held for sale" to be part of a disposal group or a discontinued operation are recognised with a balancing entry in the heading "Other accumulated comprehensive income - Items that can be reclassified to profit or loss" of the consolidated net equity.

Hedging activities

The Group can use financial derivatives for the following purposes:

- to provide these instruments to clients who request them in their risk management,
- to use them in the risk management of the positions of the Group institutions and their assets and liabilities (hedging derivatives), and
- to take advantage of any alterations these derivatives (trading derivatives) undergo in their fair value.

Any financial derivative which does not meet the conditions for it to be regarded as hedging is treated for accounting purposes as a trading derivative.

The MoraBanc Group individually hedges the market risk associated with the procured derivatives and proceeds to record both in the trading portfolio. Thus, the positional risk or market risk generated by these operations is not significant.

For a financial derivative to be considered hedging, it must necessarily:

- Be included in one of the following three models:
  - Fair value hedging: this is hedging of exposure to changes in the fair value of assets or liabilities recognised in the consolidated statement of financial position and unrecognised firm commitments, or an identified portion of said assets, liabilities or firm commitments attributable to a particular risk which may affect the profit or loss of the financial year.
  - Cash flow hedging: this is hedging of the exposure to cash flow variations attributed to a particular risk associated with a previously recognised asset or liability (such as the entirety or some of the future interest payments of a variable interest debt) or to a highly probable planned transaction which may affect the consolidated profit or loss of the financial year.
  - Net investment of a business abroad: a business abroad is any subsidiary or associated institution, joint venture or branch of the institution whose activities are based or carried out in a country or currency different from those of the reporting institution.
- The effective elimination of any inherent risk to the hedged item or position throughout the whole envisaged hedging period, which means that:

1) At the moment of procuring the hedging, it is expected that, under normal conditions, the latter will act with a high degree of efficiency, within the established limits of effectiveness of hedging in accordance with the current regulations (with a minimum of 85% and a maximum of 125% in relation to the hedging ratio).

2) There exists sufficient evidence that the hedging is really effective throughout the life of the hedged item or position (retrospective efficiency).

- When it is suitably documented that the procurement of the financial derivative takes place specifically to serve as hedging of certain balances or transactions and the way in which it is intended to achieve and measure this hedging is demonstrated, provided that this form is in keeping with the risk management performed by the Group.

Differences in the valuation of the accounting hedges are recorded in accordance with the following criteria:

- In fair value hedging, the differences arising in both the hedging elements and the hedged items (in terms of the type of risk hedged) are directly recognised in the consolidated income statement.

- In the hedges of the fair value of the interest rate risk of a portfolio of financial instruments, the profits or losses which arise when valuing the hedging instruments are directly recognised in the consolidated income statement, while the profits or losses due to variations in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the consolidated income statement using as a balancing entry the heading titled "Profit or losses resulting from hedge accounting, net".

- In cash flow hedging, the effective part of the variation in the value of the hedging instrument is temporarily recorded under the heading "Other comprehensive income - Items which can be reclassified in profit or loss - Hedging derivatives - Hedging of cash flows (effective part)" of the consolidated net equity, until the moment at which the planned transactions take place, then recorded in the consolidated income statement, unless it is included in the cost of the non-financial assets or liabilities, in the event that the planned transactions are recognised as non-financial assets or liabilities.

- In hedges of net investments in businesses abroad, the differences in the valuations arising in the effective hedging part of the hedging items are temporarily recorded under the heading "Other comprehensive income - Items which can be reclassified in profit or loss - Hedging of net investments in foreign business (effective part)" of the net equity, until the profits or losses of the hedged item are recorded in the results.

- The differences in valuation of the hedging instrument consisting of the ineffective part of the cash flow hedging operations and net investments in foreign operations are directly due to the consolidated income statement, under the section titled "Results of financial operations- Profits or losses resulting from hedge accounting, net".

If a derivative assigned as a hedge, due to its purpose or ineffectiveness or for any other reason, does not meet the requirements indicated above for accounting purposes, this derivative becomes regarded as a trading derivative.

When the fair value hedging is discontinued, the adjustments previously recorded in the hedged item are recognised in profit or loss by using the effective interest rate method, recalculating it on the date when the hedging matures, when its amortisation must be completed upon maturity.

When the cash flow hedges are discontinued, the accumulated result of the hedging instrument recognised in equity will continue to be recognised in this section until the hedged transaction takes place, when it will be recorded in profit or loss, unless it is envisaged that the transaction will not be carried out, in which case they are immediately recorded in results.

Derivatives implicit in hybrid financial instruments

Derivatives implicit in other financial instruments or other main contracts are recorded separately as derivatives when, and only when, the following circumstances occur:

- The hybrid contract is not a financial asset within the scope of IFRS 9.
- The economic characteristics and risks inherent in the implicit derivative are not closely related to those in respect of the initial contract;
- a separate instrument with the same conditions as the implicit derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value through profit or loss (in other words, a derivative found implicit in a financial asset or liability measured at fair value through profit or loss for the period will not be separated).

3.5. Derecognition of financial assets and liabilities in the consolidated statement of financial position

The accounting treatment of transfers of financial assets is conditioned by the degree and way in which the risks and benefits associated with the transferred assets or liabilities are passed on to third parties:

- If the risks and benefits are substantially transferred to third parties - as in the case of unconditional sales, sales with repurchase agreements for their fair value on the repurchase date, sales of financial assets with an acquired purchase option or a sale issued deeply out of the money, securitisations of assets in which the transferor does not retain subordinated financing or grant any type of credit enhancement to the new owners and other similar cases - the transferred financial asset is derecognised in the consolidated statement of financial position, simultaneously recognising any right or obligation retained or created as a result of the transfer.
- If the risks and benefits associated with the transferred financial asset are substantially retained - as in the cases of sales of financial assets with a repurchase agreement for a fixed price or for the sale price plus interest, security loan contracts in which the borrower is obliged to return the same or similar assets and other similar cases - the transferred financial asset is not derecognised in the consolidated statement of financial position and continues to be valued by means of the same criteria used before the transfer. In contrast, the following are recognised in the accounting:
    - A financial liability associated for an amount equal to that of the consideration received, which is subsequently valued at its amortised cost, unless it meets the requirements to be classified as other liabilities at fair value through profit or loss.
    - Both the income of the transferred (but not derecognised) financial asset and the expenses of the new financial liability, without offsetting them.

- If the risks and benefits associated with the transferred financial asset are not transferred or substantially retained, a distinction is made between the following:

    - If the transferring institution does not retain control of the transferred financial asset, it is derecognised in the consolidated statement of financial position and any right or obligation retained or created as a result of the transfer is recognised.

    - If the transferring institution retains control of the transferred financial asset, it continues to recognise it in the consolidated statement of financial position for an amount equal to its exposure to the changes in value it may undergo and recognises a financial liability associated with the transferred financial asset. The net amount of the transferred asset and associated liabilities will be the amortised cost of the rights and obligations retained, if the transferred asset is measured at its amortised cost, or the fair value of the rights and obligations retained, if the asset transferred is measured at its fair value.

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

3.6. Offsetting of financial instruments

Financial assets and liabilities are subject to offsetting, in other words, to presentation in the consolidated statement of financial position for their net amount, only when the Group has both the legally required right to offset the amounts recognised in the above-mentioned instruments and the intention to settle the net amount, or to realise the asset and proceed to the payment of the liabilities simultaneously. As of 31 December 2023 and 2022, there were no offset balances in this regard.

3.7. Value impairment and classification of financial assets by credit risk

Accounting classification depending on insolvency credit risk

The Group has established criteria that allow it to identify financial assets that have a significant increase in risk or objective evidence of impairment and classify them according to their credit risk.

Classification category definitions

Credit exposures, as well as off-balance sheet exposures, are classified according to their credit risk in the following stages:

- **Stage 1:** loans that do not meet the requirements for classification into other categories.

- **Stage 2:** loans that do not meet the criteria to be individually classified as stage 3 or bad loans, present significant increases in credit risk from initial recognition. This category includes operations that have amounts overdue for more than 30 days, or operations that have unpaid balances owing for more than 30 days on three occasions in the same financial year, which must remain in this classification.
Loans that have been classified as doubtful and subsequently return to their defaulted position, will remain in this classification for a minimum of 3 months, as well as any refinanced loan classified as stage 2, will remain in this classification for a minimum of 2 years. After these deadlines, these loans may be classified in another stage, provided that all stipulated quotas have been met in a timely manner in said period.

- Stage 3: includes debt instruments, overdue or otherwise, in which, without the circumstances to classify them in the category of default risk, there are reasonable doubts about their full repayment (principal and interest) by the holder, as well as off-balance sheet exposures whose payment the Group is likely to have to pay and whose recovery is considered doubtful.

- Due to the holder's default: including the total amount of the debt instruments, whatever their holder and guarantee may be, which have any overdue amount for the principal, interests or expenses contractually agreed upon, more than 90 days old, unless it is appropriate to classify them as bad loans.

- The refinancing or restructuring of loans which are in arrears does not interrupt their default, nor does it result in their reclassification as stage 1, unless there is reasonable certainty that the client can make the payment in accordance with the new repayment schedule, or that they can provide new effective guarantees. In any case, loans in which more than one refinancing or restructuring has been applied due to the borrower's difficulties in meeting the instalments, are considered stage 3 by the Group.

- However, loans that arise from the so-called drag effect are classified as stage 3 for reasons of default. This effect is applied to a borrower when loans with amounts overdue for more than 90 days exceed 20% of the amounts pending collection.

- In stage 1, operations in which, as a result of the collection of part of the overdue amounts, the reasons leading to their classification as a doubtful risk disappear and the holder does not have overdue amounts exceeding 90 days on the reclassification date are reclassified as normal risks. Previously, in some cases it is possible for these operations to be temporarily classified in stage 2.

- For reasons other than the holder's default: including debt instruments, overdue or otherwise, in which, without the circumstances to classify them in the categories of bad loans or stage 3 due to the client's default, there are reasonable doubts as to their full repayment, principal and interest, in the terms contractually agreed upon.

- Bad loan risk: in this category, debt instruments, overdue or otherwise, whose recovery is remote are classified in this category and assets are derecognised, without detriment to the actions which may be carried out to attempt to ensure their payment until their rights have been definitively terminated, by statute of limitations, write-offs or other causes.

Unless there is evidence to the contrary, all debts are included in this category, except for amounts covered with sufficient effective guarantees, when the borrowers experience a noticeable and irrecoverable impairment to their solvency or when the settlement phase of the creditors' agreement has been declared.

Significant increase in risk

Significant increase in risk is considered to be present when the client's risk is increased at some point relative to when the risky loan was granted.

To analyse if there is a significant increase in risk, the Group has an alert system for both legal and natural persons.
Some situations of significant increase in risk could be, for example:

- Adverse changes in financial position, such as a significant increase in debt levels, significant drops in turnover or a significant narrowing of operating margins.

- Adverse changes in the economy or market indicators, such as a significant fall in share price or a decrease in the price of debt issues. In the case of sovereign debt issues, the price differentials with respect to the German reference bond (risk premium) are also analysed.

- Actual or expected significant decrease in the internal credit rating of the loan or the holder or a decrease in the behavioural score attributed to the internal monitoring of the credit risk.

- For loans with a real property as security, worsening of the relationship between its amount and the value of the loan security, due to an unfavourable evolution of the value of the security, or the maintenance or increase of the amortisation amount due to the payment terms set.

- Significant increase in credit risk or evidence of impairment of other loans to the same holder, or in related institutions of the holder's risk group.

- Probability of the borrower going into bankruptcy: In cases where there is a high probability that the borrower could go into bankruptcy or restructuring, the solvency of the issuers or debtors is significantly affected, which can lead to a loss event depending on the impact on future flows to be received.

- The disappearance of an active market for financial assets due to financial difficulties: the suspension of financial assets issued by the obligor or issuer can mean a compromised financial-economic situation and therefore a low capacity to meet their obligations.

Objective Evidence of Impairment

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

In the case of debt instruments, including credits and debt securities, a negative impact on the future cash flows calculated at the time the transaction is formalised, due to the materialisation of a credit risk.

- In the case of off-balance sheet exposures that carry a credit risk, the expected cash flows will be less than the contractual cash flows, in the case of disposition of the commitment or the payments expected to be made, in the case of financial guarantees granted.

- In the case of investments in associate and joint ventures, their carrying value will not be recoverable.

Loan classification criteria

The Group applies a variety of criteria to classify borrowers and loans into different categories according to their credit risk. Amongst these, are:

- Automatic criteria;
- Specific criteria for refinancing; and
- Criteria based on indicators.

In order to allow a first identification of the significant increase in risk or weaknesses and the impairment of loans, the Group establishes a series of indicators, based on the days of non-payment, on refinancing and restructuring indicators, and on indicators of bankruptcy status and significant increase in risk, among Other, differentiating between significant and non-significant borrowers.

Loans classified as stage 3 are reclassified to stages 1 or 2 when, as a result of total or partial collection of the unpaid risks in the case of loans classified as stage 3 due to default, or for having exceeded the recovery period in the case of loans classified in stage 3 for reasons other than default, the causes that once motivated their classification in stage 3 no longer apply, unless there are other reasons that recommend they be kept in this category.

Individual classification

The Group has established a threshold in terms of exposure to consider borrowers as significant, based on levels in accordance with the Exposure at Default parameter (EAD). Similarly, exposures of borrowers in respect of the main risk groups, as well as those of borrowers that are not associated with a homogeneous group of risk, are considered individually, as a result of which their classification and hedging cannot be estimated collectively.

For significant borrowers, a system of indicators is established that allows the identification of a significant increase in risk, weaknesses or signs of impairment. The trigger system covers signs of impairment or weakness by defining:

- Specific indicators that indicate a significant increase in risk;
- Specific indicators that indicate signs of impairment;
- Indicators that allow the identification of the increase in risk and signs of impairment, according to different pre-alert thresholds.

A team of expert risk analysts analyses the borrowers with activated indicators to conclude whether there is a significant increase in risk or objective evidence of impairment and, in the case of evidence of impairment, whether this event or causal events of the loss have an impact on the estimated future cash flows of the financial asset or its group.

The system of indicators of significant borrowers is automated and takes into account the specifics of differentiated segments of the loan portfolio. The following are the aspects that the indicator system seeks to identify:

- Significant financial difficulties of the issuer or obligor, indicative of a significant increase in risk or an impairment event, insofar as, due to their significant nature, they limit the capacity of the issuer or obligor to meet their financial obligations normally.
In this regard, in order to identify a significant increase in risk or impairment event, both variables that indicate a worsening or a bad economic and financial situation must be considered variables that are potential causes of or predictors of this impairment.

Debt instruments and off-balance sheet exposures

Impairment losses on debt instruments and other off-balance sheet credit exposures are recognised as an expense in the consolidated income statement for the financial year in which the impairment is estimated and the reversals of previously recognised losses, if any, are recognised in the consolidated income statement for the financial year in which the impairment disappears or decreases.

The calculation of the impairment of financial assets is calculated based on the type of instrument and other circumstances that may affect them, taking into account the effective guarantees received. For debt instruments measured at amortised cost, the Group recognises both allowance accounts, when provisions for insolvencies to cover impairment losses, as well as direct write-offs against assets, when recovery is estimated to be remote. For debt instruments at fair value through other comprehensive income, impairment losses are recognised in the consolidated statement of comprehensive income with a balancing entry in the "Financial assets at fair value through other comprehensive income" statement in the consolidated statement of financial position. Impairment loss hedges on off-balance sheet exposures are recognised in the liabilities statement of consolidated statement of financial position as a provision.

In order to determine impairment losses, the Group monitors individual debtors, at least for all those that are significant, and collectively, for financial asset groups with similar credit risk characteristics measures indicative of the debtors' ability to pay the outstanding amounts. When a particular instrument cannot be included in any group of assets with similar risk characteristics, it is analysed solely on an individual basis to determine if it is impaired and, if applicable, to estimate the impairment loss.

The Group has policies, methods and procedures in place to estimate the losses it may incur as a result of the credit risks it has, both due to the insolvency attributable to the counterparties as well as country risk. These policies, methods and procedures are applied to the granting, study and formalisation of the debt instruments and off-balance sheet exposures, as well as to the identification of their impairment and, as appropriate, the calculation of the amounts necessary to hedge their expected losses.

Determination of hedges

The Group applies the criteria described above to calculate the hedging of losses due to credit risk. The amount of the hedges due to impairment loss is calculated based on whether or not a significant increase in credit risk has occurred since the initial recognition of the transaction, and whether or not a default event occurred. Thus, the hedging of losses due to impairment of loans is equal to:

- Credit losses expected in twelve months, when the risk of a default event has not increased significantly since initial recognition (assets classified as stage 1).

- Credit losses expected in the life of the loan, when the risk of a default event has increased significantly since initial recognition (assets classified as stage 2).

- Expected credit losses when a default event occurred in the loan (assets classified as stage 3).

The following sections describe the different methodologies applied by the group in determining the hedges for losses due to impairment:

Individualised estimates of hedges

The following are subject to individualised estimation:

- Hedging of the loans classified in stages 2 and 3 of the individually significant borrowers.

- If applicable, the loans or borrowers whose characteristics do not allow a collective calculation of impairment.

- Hedges of loans identified as without appreciable risk classified in stage 3.

The Group has developed a methodology for estimating these hedges, calculating the difference between the gross carrying value of the transaction and the present value of the estimated expected cash flows, discounted using the effective interest rate. This takes into account the effective guarantees received.

There are three methods for calculating recoverable value at individually assessed assets:

- Cash flow discounting approach: debtors for which it is estimated that they are able to generate future cash flows with the course of their own business, allowing, through the development of the company's economic and financial structure, the repayment of part or all of the debt contracted. It involves the estimation of cash flows obtained by the borrower in the development of their business.

- Real collateral recovery approach: Debtors unable to generate cash flows through the course of their own business, being forced to liquidate assets to pay their debts. It involves estimating cash flows on the basis of collateral execution. In order to estimate the value of real estate collateral for the purposes of calculating hedges, the Group applies discounts on valuations which aim to reflect the deviation observed in the Andorran market in expert assessments and market prices. The Group cross-checks the applied haircuts based on the information extracted from the history of foreclosed property sales. In estimating the hedging of individually significant loans of stages 2 and 3, the Group applies a correction factor (upward) to these haircuts in order to obtain the effect of increasing risk and immediacy of the potential award process.

- Mixed approach: debtors that are estimated to be capable of generating future cash flows and also have extra-functional assets. Such cash flows may be supplemented by potential sales of non-functional assets, to the extent that they are not required for the purpose of carrying out their activity and, consequently, for the generation of said future cash flows.

Collective hedge estimates

When calculating the loss due to collective impairment, the Bank takes into account all the credit exposures and uses the hedging methods and percentages established by the AFA in the Supervisory Guide related to the application of IFRS 9 (hereinafter, the Guide), based on data and statistical models that add up the average behaviour of the banking sector institutions in Andorra.

Thus, the AFA, based on its experience as a supervisor of the Andorran financial system and taking into account the information available to the banking institutions in relation to historical data on defaults, the credit losses of banking institutions and based on an estimate of the future evolution of the main macroeconomic variables, has estimated hedging rates as an alternative solution for operations classified as normal, normal with significant increase in risk and doubtful loans, which are detailed in said Guide.

In addition, it should be considered that the hedging percentages as an alternative solution, as established in the Guide, constitute a reliable estimate of the expected losses of all the banking institutions on the loans granted to economic agents of the Principality of Andorra.

The Group performs an exercise to compare and contrast figures each year to ensure that these alternative solutions reflect the creditworthiness of its loan portfolio and therefore guarantee an adequate accounting provision.

Classification and hedging for credit risk due to country risk

Country risk is considered to be the risk that counterparties resident in a particular country have due to circumstances other than the usual commercial risk (sovereign risk, transfer risk or risks arising from international financial activity). The group classifies transactions with third parties into different groups based on the economic evolution of the countries, their political situation, regulatory and institutional framework, and their capacity and experience of payments.

Off-balance sheet debt instruments or exposures with final liabilities resident in countries that have difficulty in coping with their debt service, considering the possibility of their recovery to be doubtful, are classified in stage 3, unless they have to be classified as bad loan risks.

3.8. Temporary acquisition (transfer) of assets

Purchases (sales) of financial instruments with the commitment of their non-optional recoil at a given price (repurchase agreements or repos) are recorded in the consolidated statement of financial position as financing granted (received) in accordance with the nature of the corresponding debtor (creditor), under the headings "Financial liabilities at amortised cost" of the assets of the consolidated statement of financial position (Financial liabilities at amortised cost - Deposits" in the case of liabilities).

The difference between the purchase and sale prices is recorded as financial interests throughout the life of the contract.

3.9. Recognition of income

The most significant criteria used by the Group for the recognition of its income and expenses are summarised below:

Interest income and expenses

The income and expenses for interest and comparable items are, in general, recognised in accounting terms on an accrual basis by applying the effective interest rate method.

Dividends

Dividends of other companies are recognised as income in the consolidated income statement at the moment the rights to receive them are created by the institutions.

Commissions

Income and expenses for commissions are recognised in the consolidated income statement with different criteria, in accordance with their nature and accounting classification:

- Income and expenses related to financial assets and liabilities valued at fair value through profit or loss are recognised at the time of their collection/payment.
- Income and expenses arising from transactions or services that extend over time are recognised during the lifetime of these transactions or services.
- Income and expenses arising from transactions or services that do not extend over time are recognised when the act causing them occurs.

The financial commissions (basically, the opening and study commissions) which arise during the formalisation of financial instruments considered in the calculation of the effective interest rate (EIR) are accrued/deferred and recorded in profit or loss throughout the expected life of the financial instrument.
These commissions form part of the effective rate of the financial instruments.

Non-financial income and expenses

Non-financial income and expenses are recognised in accordance with the accrual criterion.

Deferred collections and payments

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

3.10. Non-current held-for-sale assets and liabilities associated with non-current held-for-sale assets

The heading "Non-current assets and disposable groups of items classified as held for sale" includes the carrying value of the individual items or those integrated into a set (disposal group) or which form part of a business unit intended to be disposed of (discontinued operations), the sale of which is highly likely to occur, under the conditions in which these assets are currently available, within a specified period of one year from the date to which the consolidated statement of financial position refers. Therefore, the recovery of the carrying value of these items (which may be of a financial and non-financial nature) will foreseeably occur at the price obtained in their disposal.

Specifically, real estate assets or other non-current assets received for the fulfilment of total or partial payment obligations against them by debtors are considered non-current assets held for sale, unless it has been decided to make continued use of these assets or their sale is not highly probable in the short term. In this regard, in order for them to be taken into account in the initial recognition of these assets, the Group obtains, at the moment of the award, the fair value of the corresponding asset by means of requesting valuations from external rating agencies and applies a "haircut" if applicable. Likewise, in the case of an asset initially classified as "Non-current assets and disposable groups of held-for-sale items" for more than 3 years without being sold, the Group classifies it under the heading "Tangible assets - Property investments" of the asset (see Note 3.12).

Symmetrically, the heading titled "Liabilities included in disposable groups of items classified as held-for-sale" includes the credit balances resulting from the assets or disposal groups and the discontinued operations.

Non-current held-for-sale assets are valued, initially and subsequently, for the lower amount between their fair value less the costs of sale and their carrying value on the assignation date. Non-current held-for-sale assets are not depreciated while in this category. The valuations of these assets are periodically updated.

The initial recognition of foreclosed property assets is determined as the lower value between the net carrying value of the credit transaction at the time of the asset allocation and the fair value (less costs of sale) of the real property asset. The subsequent valuations are determined by updating their value on the basis of the latest assessment available on the date of the consolidated statement of financial position, taking into account the application of discounts on appraisal values (haircuts), equal to those applied to collateral in credit risk operations.

Losses due to the impairment of an asset or disposal group, owing to reductions in their carrying value to their fair value (less the sales costs) are recognised under the heading "Profits or losses from non-current assets on sale not classified as discontinued operations" in the consolidated income statement. The profits of a non-current asset on sale after subsequent increases in the fair value (less the sales costs) increase their carrying value and are recognised in the consolidated income statement up to an amount equal to that of the previously recognised impairment losses.

3.11. Assets from reinsurance and liabilities from insurance contracts

Definition of insurance risk and separation of components

The Group has concluded by analysing the guarantees of the products, which will be valued under IFRS 9; the other products are insurance contracts under IFRS 17.

The Group evaluates its products at each closing to determine whether any of these components are different from insurance ones and need to be separated and accounted for by applying other standards.

The Group has identified the components susceptible to separation, in such a way that all the components are accounted for under IFRS 17.

Aggregation

The Group has identified the different portfolios, adding insurance contracts that are subject to similar risks and managed jointly, depending on the characteristics of the main and complementary guarantees of the product and factors such as the risk management or management policy for claims and settlements, among others.

In the initial recognition, the Group has separated the contracts by their issuance, in other words, in annual cohorts.

In turn, each portfolio has been broken down into three groups of contracts: (i) contracts that are onerous upon the initial recognition, (ii) contracts which, upon the initial recognition, are not significantly likely to become onerous later and (iii) the remaining contracts in the portfolio.

Recognition and limits of the contract

Following the standard and complying with the purpose of homogenising insurance accounting practices in the international field, the Group has classified the contracts using the three commonly accepted valuation methods, Building Block Approach or BBA, Variable Fee Approach or VFA and Premium Allocation Approach or PAA.

Discount rate

IFRS 17 does not establish a specific curve for discounting insurance liabilities and establishes the characteristics that the discount rates to be used must have.

In order to obtain the present value of the discounted flows, the Group has used a top-down methodology.

Risk adjustment due to non-financial risk

The Group measures the set-off required to bear the uncertainty of the amount and possibility of cash flows stemming from insurance contracts, unlike financial risk and separately as a non-financial risk adjustment. To estimate the liability (asset) risk adjustment for the remaining hedging, the Group has used the cost of capital method.

Contractual service margin (CSM)

The CSM is a component of the total amount of a group of insurance contracts which represents the unearned profit that the Group will recognise as it provides insurance contract services throughout the coverage period. If a group of contracts is onerous, the Group recognises a loss upon the initial recognition.

Upon the initial recognition, the Group determines the group's coverage units and allocates the group's CSM in accordance with the coverage units provided in the period.

Interaction IFRS 9 and IAS 17

The OCI option can disaggregate the insurance-related financial income or expenses between the profit and loss account and another accumulated global result in order to reduce accounting asymmetries, instead of charging them solely to the profit and loss account. The Group has opted for "the option of another global result" for the portfolios valued under the BBA method after the transition.

3.12. Tangible assets

Including the amount of the property, land, furniture, vehicles, computer equipment and other facilities owned by the consolidated institutions or acquired under a leasing scheme. The assets are classified in accordance with their purpose in:

Tangible fixed assets for own use

Tangible fixed assets for own use (which includes, among other things, material assets received by the consolidated institutions for the total or partial settlement of financial assets constituting payment entitlements against third parties of which continued and own use is expected to be made, as well as those which are acquired under a financial leasing scheme) are posted at their acquisition cost, less the corresponding accumulated depreciation and, if applicable, the estimated losses resulting from comparing the net value of each item with its corresponding

recoverable amount.

The depreciation is calculated by applying the linear method to the cost of the acquisition of the assets, less their residual value, on the understanding that the land on which the buildings and other constructions stand has an indefinite life and is therefore not subject to depreciation.

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

Fixed assets	Depreciation percentage (annual)
Property	2%
Machines, furniture and facilities	10%-33%
Vehicles	20%
Computer equipment	33%

On the occasion of each accounting closure, the consolidated institutions analyse whether there are indications that the net value of the elements of their material assets exceed their corresponding recoverable amount. When, as a result of this analysis, it is demonstrated that impairment exists, the carrying value of the asset in question is reduced to its recoverable amount and the future charges are adapted as amortisation in proportion to their adjusted carrying value and their new remaining useful life, in the event that it is necessary to perform a new calculation thereof.

Similarly, when there are indications that the value of a material asset has been recovered, the consolidated institutions record the reversal of the impairment loss recorded in previous periods and adjust the future charges by way of their amortisation accordingly. On no account may the reversal of the loss through the impairment of an asset result in an increase in the carrying value above that which would have occurred if impairment losses had not been recognised in previous years.

The estimated useful life of the elements of the tangible fixed assets for own use are regularly checked in order to detect significant changes in them which, if there are any, are adjusted by means of the corresponding correction of the charge to the consolidated income statements in future years of their depreciation charge, by virtue of the new useful lives.

The expenses for the conservation and maintenance of the material assets are charged to the profit/loss of the financial year in which they occur, as they do not increase the useful life of the assets.

Property investments

The heading titled "Property investments" includes the net values of the lands, buildings and other constructions maintained, either to operate them on a rental basis or to obtain a valuation gain from their sale as a result of the increases in their respective market prices which occur in the future. In addition, foreclosed property is recognised under this heading, although it is not rented and the Group intends to sell such real estate, if more than 3 years have elapsed since it was awarded and the Group expects to recover its carrying value through its sale.

The criteria applied for the recognition of the cost of acquisition of property investments for their amortisation, the calculation of their respective useful lives and the recording of their potential impairment losses are those outlined in relation to tangible assets for own use.

The Group, as established in IAS 40, uses the cost model to record the assets regarded as property investments.

3.13. Leases

With regard to leases, the Group recognises in its assets a right of use that represents its right to use the leased asset, which is recognised under the heading “Tangible assets - fixed assets” and “Tangible assets - Real estate investments” in the statement of financial position and a liability for leases that represents the obligation to make the payment of the lease, which is recognised under the heading “Financial liabilities at amortised cost - Other financial liabilities” in the consolidated statement of financial position. For the purposes of the consolidated statement of financial position, the amortisation of the right of use shall be recorded under the heading “Amortisation” and the financial cost associated with the liability for leases under the heading “Interest expenses”.

3.14. Intangible assets

These are identifiable non-monetary assets (liable to be separated from other assets) without any physical appearance, arising as a result of a legal transaction or carried out by the Group’s institutions. Only assets whose cost can be reliably calculated and whereby the consolidated institutions consider it likely to obtain future economic profits are recognised in accounting terms.

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

Goodwill

The goodwill is initially valued at the time of the acquisition at its cost, which is the excess of the cost of the business combination with respect to the percentage of the fair value of the identifiable assets acquired consisting of the Group, less that of the liabilities assumed.

The goodwill is not amortised. Instead, the cash-generating units or groups of units to which the goodwill has been allocated on the acquisition date are subject, at least annually, to verification of their possible impairment, proceeding, as appropriate, to the registration of the corresponding valuation correction for impairment.
The valuation adjustments for impairment of the goodwill may not be reversed in subsequent financial years.

Other intangible assets

This item includes the amount of the identifiable intangible assets, among other items, acquired client lists and computer programs.

They may have an indefinite useful life (when, based on the analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period during which they are expected to generate net cash flows on behalf of the consolidated institutions) or a defined useful life (in other cases).

Intangible assets with an indefinite useful life are not amortised, although, on the occasion of each accounting closure or whenever there are indications of impairment, the consolidated institutions review their respective remaining useful lives in order to ensure that they continue to be indefinite or, otherwise, proceed accordingly.

Intangible assets with a defined useful life are amortised in accordance with the latter, applying criteria similar to those adopted for the depreciation of tangible assets. The depreciation rates determined based on the years of estimated final life, for computer programs are between 10% and 20%, as an average of the different elements.

In both cases, the Group recognises accounting for any loss that may have occurred in the recorded value of these assets from their impairment, using the balancing entry "Net impairment of non-financial assets (net) - intangible assets" in the consolidated income statement. The criteria for the recognition of losses due to the impairment of these assets and, as applicable, the recoveries of the losses due to impairment recorded in previous years are similar to those applied to tangible assets.

3.15. Remaining assets

All the assets not classified in the previous categories are included in this section.

3.16. Provisions and contingent liabilities (assets)

At the moment of formulating the statement of financial position, the Group distinguishes between:

- Provisions: credit balances which cover obligations present as at the date of the consolidated statement of financial position arising as a result of past events resulting in equity losses for the consolidated institutions, regarded as likely in terms of their occurrence, specific as to their nature but indeterminate in terms of their amount and/or moment of cancellation.

- Contingent liabilities: potential obligations arising as a result of past events, the materialisation of which is contingent on the occurrence of one or more future events, independent of the will of the consolidated institutions. They include the current obligations of the consolidated institutions whose cancellation is unlikely to result in a decrease in resources incorporating economic benefits.

- Contingent assets: potential assets arising as a result of past events whose existence is conditional, and it must be confirmed when events beyond the control of the Group occur or otherwise. Contingent assets are not recognised in the consolidated statement of financial income or in the consolidated income statement, although they are reported in the notes in the financial statements, whenever an increase in resources incorporating economic benefits for this reason is likely.

The Group's consolidated statement of financial position includes all the significant provisions with respect to which it is calculated that the likelihood of the obligation being met is greater than otherwise. In accordance with the accounting regulations, contingent liabilities must not be recorded in the consolidated statements of financial position and must be reported.

Provisions (which are quantified by taking into account the best available information on the consequences of the event to which they are related and recalculated on the occasion of each accounting closure) are used to meet the specific obligations for which they are originally recognised, and they are totally or partially reversed when these obligations cease to exist or decrease.

Provisions are classified in accordance with the obligations covered in:

- Provisions for pensions and similar obligations and other long-term employee remuneration; these include the amount of all the provisions established to cover post-employment and long-term remuneration, including the commitments made with early retired personnel and similar obligations.

- Provisions for taxes, other legal contingencies and other provisions: these include the amount of the provisions established for the coverage of contingencies of a fiscal and legal nature, litigation and the remaining provisions established by the consolidated institutions. Among other provisions, this item includes restructuring and environmental actions, if applicable.

- Provisions for contingent risks and commitments: these include the amount of the provisions established for the hedging of contingent risks, regarded as operations in which the institution guarantees the obligations of a third party arising as a result of granted financial guarantees or other types of contracts, and contingent commitments, regarded as irrevocable commitments which may give rise to the recognition of financial assets.

- Remaining provisions: other provisions which are not included in the other categories are recorded here.

3.17. Remaining liabilities

All the liabilities not classified in the previous categories are included in this section.

3.18. Equity instruments

Equity instruments are regarded as those which meet the following conditions:

- They do not include any kind of obligation for the issuing institution which entails: (i) issuing cash or any other financial asset to a third party or (ii) exchanging financial assets or liabilities with third parties in potentially unfavourable conditions for the institution.

- If they could be, or will be, settled with the equity instruments of the issuing institution: (i) when it is a non-derivative financial instrument which will not entail an obligation to issue a variable number of its equity instruments or (ii) when it is a derivative, provided it is settled for a fixed amount of cash, or another financial asset, in exchange for a fixed number of its equity instruments.

Business conducted with equity instruments, including their issuance and redemption, are directly recorded in the consolidated net equity.
Changes in the value of instruments classified as equity instruments are not recognised in the consolidated statement of financial position; consideration received or given in exchange for such instruments is directly added to or deducted from consolidated net equity.

3.19. Financial guarantees

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

At the moment of their initial registration, the Group accounts for the financial guarantees provided in the liabilities of the consolidated statement of financial position at their fair value, which, in general terms, is equivalent to the current value of the commissions and returns to be received for these contracts throughout their duration, the balancing entry being the amount of the commissions and assimilated returns collected at the beginning of the operations and a credit to the assets of the consolidated statement of financial position for the current value of the commissions and returns pending payment.

On the date of this report, the Group had no registered financial guarantees other than contingent commitments.

Financial guarantees, irrespective of their owner, implementation or other circumstances, are regularly analysed in order to determine the credit risk to which they are exposed and, if necessary, to calculate the need to establish a provision for them, which is determined by the application of criteria similar to those established to quantify impairment losses undergone by debt instruments valued at their amortised cost, as explained above.

The provisions constituted for these transactions are accounted for under the heading "Provisions - Commitments and guarantees granted" in the liabilities of the consolidated statement of financial position. The allocation and recovery of these provisions is recorded with a balancing entry under the heading "Provisions or reversal of provisions - Commitments and guarantees granted" in the consolidated income statement.

In the event that the need arises to establish a specific provision for financial guarantees, the corresponding commissions pending accrual recorded under the heading "Financial liabilities at amortised cost - Other financial liabilities" of the liabilities of the consolidated statement of financial position are reclassified in the corresponding provision.

3.20. Assets under management and investment and pension funds managed by the Group

Assets, investment funds and pension funds managed by consolidated companies owned by third parties are not included in the consolidated statement of financial position. The fees generated by this activity are recognised in the section titled "Fee income" in the consolidated income statement.

3.21. Post-employment benefits

Post-employment commitments maintained by the Group with its employees are regarded as defined contribution commitments, when contributions of a predetermined nature are made to a separate institution, without there being a legal or effective obligation to make additional contributions if the separate institution cannot meet the employee remuneration related to the services provided in the current and previous financial years. Post-employment commitments which do not meet the above conditions are regarded as defined benefit commitments.

Defined contribution schemes

The contributions made for this purpose in each financial year are recorded in the section titled "Personnel expenses" of the consolidated income statement. The outstanding amounts to be contributed at the end of each financial year are recorded, at their current value, under the heading "Provisions" of the liabilities of the consolidated statement of financial position.

Defined benefit schemes

The Group records, under the heading "Provisions or reversal of provisions" of the liabilities of the consolidated statement of financial position, the current value of the defined benefit post-employment commitments, net of the fair value of the scheme's assets.

Scheme assets are regarded as those with which the obligations are directly settled and meet the following conditions:

- They are not the property of the consolidated institutions, but of a legally separate third party, without having the nature of a related party of the Group.

- They are only available to pay for or finance post-employment remuneration and cannot return to the consolidated institutions, except when the assets remaining in this scheme are sufficient to fulfil all the obligations of the scheme or institution related to the benefits of current or past employees or to reimburse the employee benefits already paid by the Group.

Post-employment remuneration is recognised in the following manner:

1. The cost of the services is recognised in the consolidated income statement and includes the following components:

2. The cost of the services for the current period (regarded as the increase in the current value of the obligations arising as a result of the services provided during the financial year by the employees) is recognised in the section titled "Personnel expenses" of the consolidated income statement.

3. The cost of past services, originating in amendments made to existing post-employment remuneration or the introduction of new benefits and including the cost of reductions, is recognised in the section titled "Commitments and guarantees granted" of the consolidated income statement.

4. Any profit or loss stemming from a settlement of the scheme is recorded in the section titled "Commitments and guarantees granted" in the consolidated income statement.

5. The net interest on the net liabilities (assets) of defined benefit commitments (understood as the change during the financial year in the net liabilities (assets) for defined benefits arising over the course of time) is recognised under the heading "Interest income" of the consolidated income statement.

The revaluation of the net liabilities (assets) for defined benefits is recognised in the net equity section titled "Valuation adjustments" and includes:

1. The actuarial losses and profits generated during the financial year originating in the differences between prior actuarial hypotheses and the reality and the changes in the actuarial hypotheses used.

2. The return on the assets related to the scheme, excluding the amounts included in the net interest on the liabilities (assets) for defined benefits.

3. Any change in the effects of the limit of the asset, excluding the amounts included in the net interest on the liabilities (assets) for defined benefits.

3.22. Other long-term remuneration

In this section the Group records the other long-term remuneration of employees, excluding that mentioned above (see Note 23).

3.23. Severance payments

Severance payments are recorded when a formal and detailed scheme is available to identify the basic amendments to be made, provided that this scheme is already being implemented, a public announcement of its main features has been made or objective facts regarding its implementation have been set out.

3.24. Corporation tax

The revised text of Law 95/2010 of 29 December on corporation tax and its implementing regulations (Decree 595/2023 of 29 December 2023) establish the tax framework applicable to fiscal companies residing in the Principality of Andorra in relation to the income resulting from their activity.

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

Article 25 of Law 95/2010 regulates the special fiscal consolidation system. In this regard, Mora Banc Grup, SA is the participating institution of the tax-paying Group, the investee institutions being Mora Gestió d'Actius, SAU and Mora Assegurances, SAU.

The expenses for Andorran corporation tax and taxes of a similar nature applicable to foreign consolidated institutions are recognised in the consolidated income statement, except when they are the result of a transaction whose profit or loss is directly recorded in the consolidated net equity. In this case, their corresponding tax effect is recorded in net equity.

The expenses for corporation tax in the financial year are calculated by means of the sum of the current tax resulting from the application of the corresponding rate to the taxable income for the year (after applying the fiscally eligible deductions and allowances) and the variations in the assets and liabilities for deferred taxes recognised in the consolidated income statement.
Assets and liabilities for deferred taxes include temporary differences identified as those amounts expected to be payable or recoverable for the differences between the carrying value of the equity elements and their corresponding tax bases, as well as negative tax bases pending offsetting and the credits for tax deductions not fiscally applied. These amounts are recorded by applying to the corresponding temporary difference the tax rate at which they are expected to be recovered or settled.

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

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

Liabilities for deferred taxes, in cases of taxable temporary differences associated with investments in subsidiary institutions, associates or holdings in joint ventures, are recognised in the consolidated income statement, except when the Group is able to control the moment of the reversal of the temporary difference and, moreover, it is unlikely to be reversed in the foreseeable future.

As for assets for deferred taxes identified as temporary differences, they are only recognised in the event that the Group is considered likely to have sufficient taxable profits in the future for which it is able to make them effective and they do not originate in the initial recognition (except in a business combination) of other assets and liabilities in an operation not affecting either the fiscal profit/loss or the accounting profit/loss. Remaining assets for deferred taxes (negative tax bases and deductions pending set-off) are only recognised in the event that the Group is considered likely to have sufficient taxable profit in the future against which it will be able to make them effective.

The income or expenses directly recorded in the consolidated net equity are accounted for as temporary differences.

The deferred taxes, both assets and liabilities, are regularly checked in order to verify whether it is necessary to make amendments to them in accordance with the results of the analyses performed.

3.25. Business combinations

Business combinations in which the Group acquires control of one or more businesses by means of the merger or spin-off of several companies or the acquisition of all the assets of a company or a part that constitutes one or more businesses are recorded by means of the acquisition method, which involves recognising, on the acquisition date, the identifiable assets acquired and the liabilities assumed at their fair value, provided that this can be measured reliably.

At the same time, this method requires an estimation of the cost of the business combination, which will normally correspond to the consideration delivered, defined as the fair value, on the date of acquisition, of the assets delivered, the liabilities incurred and the equity instruments. issued, as appropriate, by the acquiring institution.

The difference between the cost of the business combination and the value of the identifiable assets acquired less that of the liabilities assumed is recorded as goodwill, in the event that it is positive, or as an income in the profit and loss account, in the event that it is negative. Business combinations for which the valuation process required to apply the acquisition method has not been completed at the end of the financial year are accounted for using provisional values. These values must be adjusted within a maximum period of one year following the date of acquisition. The adjustments that are recognised to complete the initial accounting are performed retroactively, in such a way that the resulting values are those that would be derived from having initially had this information, thus adjusting the comparative figures. The minority interests in the acquired institution are valued upon the basis of the proportional percentage of the identified net assets of the acquired institution. In the case of purchases and disposals of these minority interests, they are accounted for as capital transactions when they do not result in a change of control, no loss or profit is recognised in the consolidated profit and loss account and the goodwill initially recognised is not valued again. Any difference between the consideration delivered or received and the respective decrease or increase in the minority interests is recognised in the reserves of the Group’s net equity.

3.26. Cash Flow Statement

The items used in the presentation of the cash flow statement are as follows:

- Cash and cash equivalents, cash balances in central banks and other at-sight deposits: It includes the coins and notes owned by the Group and the on demand balances to be cashed which are deposited in central banks and credit institutions.

- Cash flows: inflows and outflows of cash and cash equivalents, in other words, short-term investments with great liquidity and a low risk of changes in their value.

- Operating activities: the indirect method is used for the presentation of the cash flows from operating activities, reflecting the flow from the typical activities of credit institutions, as well as other activities that cannot be classified as investment or financing ones.

- Investment activities: the acquisition, alienation or disposal by any other means of long-term assets, such as investees and strategic investments and other investments not included in cash and cash equivalents.

- Financing activities: activities that lead to changes in the composition of the net equity and liabilities that do not form part of the operating activities.

3.27. Statement of Changes in the Net Equity.

Consolidated Statement of Recognised Income and Expenses

This statement presents the income and expenses recognised as a result of the Group's activity during the year, distinguishing between those recorded as results in the consolidated income statement and the other income and expenses directly recognised in net equity.

Total Statement of Changes in the Net Equity

This statement presents all the changes in the Group's net equity, including those resulting from changes in the accounting criteria and error corrections. The statement presents a reconciliation of the carrying value at the beginning and end of the financial year of all the items that make up the net equity, grouping the movements together according to their nature. In particular, the "Accumulated profit" and "Other reserves" headings include:

- The "Accumulated profit" equity heading includes, at the end of the financial year, the undistributed profits resulting from the distribution of the profits of the institutions in the consolidating group and the results of the sale of the investments classified as "Assets financial instruments at fair value with changes in other comprehensive income - Equity instruments", among others.

- The "Other reserves" equity heading includes, at the end of the financial year, the impacts of the first application of the accounting regulations and the distribution of the profits of institutions that consolidate using the equity method, net of distributed dividends to institutions in the consolidated group, among others.

4. Scope of consolidation

The consolidation process has applied the full consolidation method for all the subsidiary institutions and the equity procedure for the associated institutions and joint ventures.

All the significant balances and transactions between the consolidated companies have been eliminated during the consolidation process.

In the case of subsidiary institutions consolidated by means of the full consolidation method and not fully owned by the Group, the minority interests belonging to other investors are included in the statement of financial position to reflect the rights of the minority shareholders over the Net Total assets. In addition, the minority interests are submitted in the consolidated income statement as part of the consolidated profit each year in respect of the minority shareholders.
The significant changes in the scope of consolidation during the 2023 financial year were as follows:

- During the 2023 financial year, after the authorisation by the AFA, the capital increase of Mora Wealth Management, AV was carried out for the amount of €20,000,000.
- During the third quarter of the 2023 financial year, Mora Wealth Management, AV initiated the procedures to expand its activity and become a securities company after receiving the corresponding authorisation from the CNMV. The procedures are completed as of the date of the drawing up of these consolidated annual accounts.

The most significant data used in the consolidation process relating to subsidiary institutions and associates consolidated as of 31 December 2023 and 2022 are listed below:

2023 financial year

Society	Registered Address	Activity	Thousands of euros – Details of the investee: Percentage of direct participation	Percentage of indirect participation	Net value in carrying value (*)	Assets 31/12/2023	Liabilities 31/12/2023	Equity 31/12/2023	Profit/Loss 31/12/2023
Consolidated by global integration:									
Mora Gestió d'Actius, SAU	Andorra	Investment fund management	100.00%	-	2,400	9,452	639	8,813	1,232
Mora Assegurances, SAU	Andorra	Insurance	100.00%	-	7,305	339,198	323,611	15,587	2,566
Boreal Capital Management, AG	Switzerland	Equity management	100.00%	-	4,432	3,639	1,655	1,984	3
Boreal Capital Holdings USA, LLC	United States	Equity	100.00%	-	11,125	20,365	748	19,617	(333)
Boreal Capital Management, LLC	United States	Equity management	-	99.99%	-	8,106	5,639	2,467	175
Boreal Capital Securities, LLC	United States	Security brokering	-	100.00%	-	7,165	663	6,502	1,712
Casa Vicens-Gaudí S.A.U.	Spain	Property	100.00%	-	20,472	29,032	682	28,350	762
Mora Wealth Management Espanya S.V.	Spain	Securities Agency	100.00%	-	24,500	26,281	3,560	22,721	(419)
Other holdings	Andorra	Investment company	51.00%	-	2,770	3,368	3	3,365	-
Consolidated by equity method:									
Serveis i Mitjans de Pagament XXI, SA	Andorra	Payment methods	33.33%	-	61	3,439	2,553	886	262
Societat Financera Pyrénées, SA	Andorra	Financial	25.00%	-	4,500	40,182	34,569	5,613	563

(*) Balance of the individual statement of financial position of Mora Banc Grup, SA

2022 financial year (**)

Society	Registered Address	Activity	Percentage of direct participation	Percentage of indirect participation	Net value in carrying value (*)	Assets 31/12/2022	Liabilities 31/12/2022	Equity 31/12/2022	Profit/Loss 31/12/2022
			Thousands of euros						
			Details of the investee						
Consolidated by global integration:									
Mora Gestió d'Actius, SAU	Andorra	Investment fund management	100.00%	-	2,400	11,378	2,597	8,781	1,671
Mora Assegurances, SAU	Andorra	Insurance	100.00%	-	7,305	344,973	329,296	15,677	2,254
Boreal Capital Management, AG	Switzerland	Equity management	100.00%	-	3,163	2,382	1,525	857	(170)
Boreal Capital Holdings USA, LLC	United States	Equity	100.00%	-	11,504	21,171	578	20,593	(15)
Boreal Capital Management, LLC	United States	Equity management	-	99.99%	-	9,538	7,165	2,373	249
Boreal Capital Securities, LLC	United States	Security brokering	-	100.00%	-	6,026	1,035	4,991	821
Casa Vicens-Gaudí S.A.U.	Spain	Property	100.00%	-	20,472	28,830	1,243	27,587	129
Mora Wealth Management Espanya A.V.	Spain	Securities Agency	100.00%	-	4,500	4,264	1,066	3,198	(203)
Other holdings	Andorra	Investment company	51.00%	-	2,836	3,368	3	3,365	-
Consolidated by equity method:									
Serveis i Mitjans de Pagament XXI, SA	Andorra	Payment methods	33.33%	-	61	3,843	3,179	664	222
Societat Financera Pyrénées, SA	Andorra	Financial	25.00%	-	4,500	38,469	31,857	6,612	2,002

(*) Balance of the individual statement of financial position of Mora Banc Grup, SA

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

Mora Gestió d'Actius, SAU is an Andorran company incorporated on 27 November 1997, whose purpose is the activities set forth in the Act as those appropriate to companies managing collective investment undertakings. In addition, it may conduct discretionary and individualised portfolio management activities, consultancy in matters of investment and the administration and safekeeping of the holdings of investment bodies. As of 31 December 2023 and 2022, the Company managed collective investment undertakings and SICAVs with equity totalling €1,373,431,000 and €1,225,515,000 respectively.

Mora Assegurances, SAU is an Andorran company incorporated on 27 January 1992 whose corporate purpose is the carrying out of all kinds of insurance, reinsurance and risk hedging activities in the branches of life, accidents, personal injury, illness and civil liability, with the exception of the provision of services.

Boreal Capital Management, AG is a company domiciled in Switzerland and founded on 25 September 2008, whose corporate purpose is the management of assets and financial consultancy.

Boreal Capital Holdings USA, LLC is a company domiciled in the United States which acts as the head of the other North American companies: Boreal Capital Management, LLC, acquired on 9 July 2009, whose corporate purpose is equity management and financial consultancy, and Boreal Capital Securities, LLC, which was established in 2011 as a limited liability company and received a broker dealer licence in May 2012.

Casa Vicens-Gaudí S.A.U. is a public limited company governed by Spanish law, domiciled in Barcelona and incorporated on 25 September 2013, whose corporate purpose is the acquisition and development of property assets and the use thereof for cultural purposes.

Mora Wealth Management Espanya S.V., S.A.U. A single-shareholder company, domiciled in Barcelona, incorporated on 4 December 2019, which began its activity in 2020 and with the corporate purpose of providing brokerage activities in operations with securities and other assets.

Serveis i Mitjans de Pagament XXI, SA is a company domiciled in Andorra and incorporated on 17 August 2012, whose corporate purpose is the provision of services linked to the use of credit and debit cards and other means of payment, especially by means of the leasing, assignment and maintenance of technical equipment.

Sociedad Financera Pyrénées, SA is a company domiciled in Andorra, incorporated on 12 October 1992, whose corporate purpose is the business of financing sales of term sales, including the conclusion of financial leases and leasing, management deferred payment purchases, purchase and management of invoice collections, and similar activities.

Significant restrictions
The Group has no significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to maintain certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other proportions.

5. Shareholder remuneration

5.1 Proposal for the distribution of the profits

The profit distribution proposal in respect of the 2023 financial year that the Board of Directors has decided to make at the General Meeting of Shareholders, as well as the distribution approved for 2022 of Mora Banc Grup, SA, parent institution of the MoraBanc Group, is presented below.

In thousands of euros	2023	2022
Profit/loss for the financial year	**49,534**	**38,679**
Dividends	**24,767**	**19,340**
Reserves	**24,767**	**19,340**
Unavailable reserves announced 228/12 (See Note 25)	1,178	1,178
Voluntary reserves	23,589	18,162
Total distribution proposal	**49,534**	**38,679**

5.2 Earning assigned per share

The basic profit per share is determined as the quotient between the consolidated net profit attributable to the controlling institution in the period and the weighted average number of outstanding shares during this period, excluding the average number of shares held throughout said period.
In order to calculate the diluted profit per share, both the amount of the result attributable to the ordinary shareholders and the weighted average of the outstanding shares, net of the treasury shares, are adjusted for all the purposes of dilution inherent in the potential ordinary shares (options on shares, warrants and debt which is not necessarily convertible). As of 31 December 2023 and 2022, there were no share-based commitments to employees.

Below appears the calculation of the basic and diluted profit per share, taking into account the consolidated profit of the MoraBanc Group attributable to the controlling company, in respect of the 2023 and 2022 financial years:

In thousands of euros	2023	2022
Numerator of the earning per share (thousands of euros)	51,423	40,033
Result attributed to the parent company (thousands of euros)	51,423	40,033
Denominator of the earning per share (thousands of shares)	732	732
Average weighted number of outstanding shares (see Note 25.1)	732	732
Basic earnings per share in ongoing activities (euros per share)	70.204	54.654
Diluted earnings per share in ongoing activities (euros per share)	70.204	54.654

6. Risks

6.1 Introduction and overview

Proper risk management is essential for the business of credit institutions which conduct their activity in an increasingly complex environment with more and more risk factors. Accordingly, this report has included the climate and environmental risk management that is being carried out by the Institution in response to the growing regulatory expectations to ensure that financial institutions continue with the procedure of integrating ESG factors into the key risk management processes.

Inflationary pressures in the world economy weakened in 2023 as a result of the restrictive monetary policies initiated by the various Central Banks in 2022. However, although the world economy showed a degree of dynamism during 2023, the uncertainty remains high, due to the geopolitical tensions that have increased in recent months as at the date of the drawing up of this report. These tensions may have on impact on the price of oil, with lower economic growth and inflation on the rise, once the main Central Banks have given indications of closing the cycles of interest rate rises. Within this context of uncertainty, the Group is continuing to efficiently manage the different matters related to the economic situation, which has not had a negative impact on its financial statements. As can be seen in the following sections in which the management of the different types of risk is explained, the liquidity in the capital markets and the volatility of the financial markets are constantly monitored.

With regard to potential rises in the inflationary pressure and the benchmark interest rate, continuous monitoring of the amount of effort made by families continues, without any material impact on the quality of the assets being detected.

Emphasis is also being placed on the monitoring of the sectors most sensitive to the economic cycles to ensure the sufficiency of the guarantees and repayment capacity at all times.

6.1.1 Corporate risk culture

Risk management constitutes a fundamental aspect of the MoraBanc Group's strategy. This is why a corporate culture has been developed in an integrated manner to involve the entire Group, instilling risk management in all areas of the Institution and leading all the participants in the Group's activities to take responsibility for it.

The Board of Directors has overall responsibility for the approval and supervision of the implementation of the strategic objectives, risk control framework and corporate culture. Under the direction and supervision of the Board of Directors, the Senior Management runs the Group's activity in a manner in keeping with the business strategy, risk tolerance limits, remuneration and other approved policies. The most significant pillars of this function are listed below:

- The fundamental elements governing the Group's risk management system and establishing the criteria designed to maintain the risk profile within the risk tolerance levels are based on the structure of the control environment, in accordance with the three lines of defence model.

- Management policies in place established by the Board of Directors for each of the relevant risks that define the general operation of the activities, which aim to control and manage the risks at a corporate level.

- Procedures, methodologies and tools to implement the policies and measure the risks.

- Existence of tolerance levels set by the Board of Directors for the main risks, defined in the Risk Appetite Framework document (hereinafter the RAF). For each of the risks, ranges of tolerance, limit and alert are established, including protocols if they are exceeded. Based on these levels, the Institution's Board of Directors determines the type and risk thresholds that it is prepared to accept in pursuit of the Group's strategic and profitability goals.

6.1.2 Structure of governance and organisation

The MoraBanc Group organises risk management by means of a structure of Committees and Commissions to ensure the control of all risks regarded as significant. Each of these bodies has policies specifying the scope of its functions, its composition and the organisational and operational requirements.
Similarly, in accordance with the best practices and in keeping with the recommendations of the European Central Bank (hereinafter, the ECB), the European Banking Authority (hereinafter, the EBA) and the Basel regulatory framework, the Group's internal governance model is based on focusing on three lines of defence, the first constituted by the Business Department, the second by the Risks Department and Regulatory Compliance Department and the third by the Internal Audit Department.

The organisational structure for risks is clearly defined, facilitating its governance and the performance of its functions within the Group.

6.1.3 Corporate governance

The governing bodies are the General Meeting of Shareholders and the Board of Directors. Within its powers, the Board determines and monitors the business model and strategy, establishes the Corporate Risk Map, defines the level of Risk tolerance and is responsible for the internal governance policies and risk management and control, supervising the organisation for its implementation and monitoring.

Board of Directors

The Board of Directors has the broadest powers of governance, control, administration and representation to govern the Company and act on its behalf, without any other limits than those arising from the law and the Articles of Association and the exclusive powers of the General Meeting.
The Company's Board of Directors must actively participate in the management of all substantial risks, ensuring that the appropriate resources are allocated as well as being obliged to participate in the valuation of assets, in the use of external credit ratings and in internal models relating to these risks.

The Board of Directors has at least the following key duties in the establishment and monitoring of:

a) The Group's overall business strategy within its legal and regulatory framework, considering the long-term financial interests of the Company and its solvency; the annual budgets; setting performance goals with regard to the profit and loss results; the control of the institution's plan and the results obtained by the institution, and the monitoring of large-scale disbursements of capital, acquisitions and divestments.

b) The general risk strategy and risk policy of the Company and the Group that it heads, where applicable, including its tolerance and appetite for risk and the risk management framework.

c) The amounts, types and distribution of both the capital and equity required to hedge the Company and the Group's risks.

d) The effective operation of the existing Committees and the action of the delegated bodies.

e) The coherent and transparent corporate and organisational structure, with clear and effective lines of responsibility and communication channels; as well as the guiding principles of communication systems, including the matter of information security, internal communication agreements and a procedure for reporting and communicating possible breaches within the organisation.

f) The operating structure, which must be robust and efficient, including the human and material resources necessary for the correct operation of the institution in areas such as administration, accounting, computer systems and subcontracting.

g) The appointment policy and succession plans for people with key functions within the institution. In this regard, it must establish suitability criteria when selecting members of the Board of Directors and of General Management and it must actively and critically monitor the execution of the Board of Directors' strategies by the General Management, including their monitoring and achievement in relation to the reference criteria established by the Board of Directors.

h) The long-term remuneration framework for the main directors and members of the Board of Directors, which must be in line with the interests of the Company and its shareholders and with the Company's risk strategy. In this regard, the Board of Directors must actively monitor the design and operation of the remuneration system of both the institution and the Group, verifying that it has the appropriate incentives, prudently assuming the risks and periodically reviewing and amending it as soon as any deficiencies are identified.

i) The principles of governance and the corporate values of the institution, through its code of ethics and conduct, a deontological code of ethics or a similar document, including the management of conflicts of interest.

j) The internal control framework, which must be fit for purpose, proportionate and effective and which must include the establishment of competent, robust and independent risk functions, as well as compliance and internal audit functions that ensure an appropriate environment for the drafting of accounting and financial information.

k) The principles applicable to management, the business continuity plan and crisis management.

l) To draw up the financial statements for submission to the General Meeting.

It is also the Board's duty to (i) define, supervise and be responsible for the implementation of governmental agreements that ensure the sound and prudent management of the Company, including the separation of duties within the organisation and the prevention of conflicts of interest; (ii) periodically monitor and evaluate the effectiveness of the Company's governance system, and (iii) take appropriate measures to address any deficiencies.

In addition, the Board must also approve the code of ethics and conduct, the internal control policies and the regulatory compliance policies, regularly monitor the compliance and take the appropriate measures to remedy any deficiencies.

In accordance with the current Companies Act and the Articles of Association of Mora Banc Grup, SA, the Board of Directors may delegate its powers to an executive committee or a managing director. The Board of Directors may also create such committees as it deems appropriate, in order to better exercise its powers and strengthen the transparency of its management.

In particular, in order to guarantee the performance of the functions of the Board of Directors, in accordance with the current Companies Act and the Company's Articles of Association, the executive committees of the Board of Directors required for good governance and the better administration, management and control of the Company may be created. The Board of Directors will approve the operational regulations whereby the functioning of said collegiate bodies will be regulated.

Risk Committee

The Risk Committee is made up of members of the Board of Directors with the appropriate capacity, experience and knowledge to fully understand and control the Company's risk strategy and risk appetite, in the number determined by the Board of Directors and with a minimum of three (3) and a maximum of six (6) members. At least one third of these members must be external or independent directors.
The Risk Committee must appoint its chairman from among its members, who must be an independent or external director, and a secretary may also be appointed. In the absence of the latter appointment, the secretary of the Board shall perform this role or, if this is not possible, one of the vice secretaries of the Board, if there are any.

This Committee meets at least ten (10) times a year or as often as is necessary to carry out its functions. The Risk Committee is convened by the Chairperson of the said Committee, either on his/her own initiative or at the request of the Chairperson of the Board of Directors or two (2) members of the Committee itself. It can also be convened at the request of the managing director / CEO or the Director of the Risk Department. The meeting must be convened by letter, telegram, fax, email or any other means in which proof of receipt can be verified.

- Functions

Without prejudice to the other duties assigned to it by Law, the Company's Articles of Association or Other that may be assigned to it by the Board of Directors, the Risk Committee must perform the following basic functions:

(i) Advise the Board of Directors on the Company's current and future global risk appetite as well as its strategy in this regard, report on the risk appetite framework; assist in monitoring the implementation of this strategy; ensure that the Group's

actions are consistent with the previously decided level of risk tolerance; and monitor the degree of adequacy of the risks assumed in the established profile.

(ii) To propose the Group's risk policy to the Board, identifying, in particular:
- The different types of risk (credit, market, liquidity, default, operational, reputational, structural, among Other) faced by the Company, including the financial and economic risks the contingent liabilities and other off-balance sheet risks.
- The information and internal control systems which will be used to control and manage the above-mentioned risks.
- Setting the risk level deemed acceptable by the Company.
- The measures envisaged to mitigate the impact of the identified risks, in the event that they materialise.
- The regular review of the Bank's portfolio.

(iii) To determine, together with the Board of Directors, the nature, amount, format and frequency of the information on risks to be received by the Board of Directors and to establish that which the Committee should receive.

(iv) To regularly review exposures and concentrations with the main clients, economic sectors of activity, geographical areas and types of risk.

(v) Examine the Group's risk information and control processes, as well as the information systems and indicators, which must allow it to:
- Have a knowledge of the suitability of the structure and functionality of risk management throughout the Group.
- Have a knowledge of the Group's exposure to risk to assess whether it fits the profile set by the Company.
- Have sufficient information to accurately know the risk exposure in order to be able to make decisions.
- Ensure the proper functioning of policies and procedures that mitigate operational risks.

(vi) Within the scope of its function, it must integrate the indirect monitoring of the risk of non-compliance with regulations, which is directly overseen by the Audit and Compliance Committee.

(vii) Report on new products and services or significant changes to existing ones, in order to determine:
- The risks faced by the Company with the issuance of these products and their marketing within the markets, as well as significant changes in existing ones.
- The information and internal control systems to manage and control these risks.
- The corrective measures to limit the impact of the identified risks, in the event that they materialise.
- The appropriate means and channels for marketing them, with the aim of minimising reputational and defective marketing risks.

(viii) Ensure the sufficiency, suitability and effectiveness of the functioning of the area responsible for the Group's risk management.

(ix) Authorise and sanction the following credit operations and credit facilities:
- Credit facilities with a personal guarantee for more than €8,000,000.
- Credit facilities with personal guarantee and a maturity of more than 10 years.
- Credit facilities with collateral (mortgage, monetary or securities), which account for 50% within the aforementioned limit and without considering the term involved.
- Risk transactions outside Andorra for an amount of €1,000,000, regardless of their maturity and the overlapping guarantees.

(x) Authorise and sanction, so that they can be decided on or ratified by the Board of Directors:
- Credit facilities with a personal guarantee for more than €20,000,000.
- Credit facilities of any amount provided to Board Members.

Credit facilities provided to the Bank's shareholders who exercise significant influence and the persons related to them which are not delegated to the Credit Committee or the Risk Admission Department, due to their amount and risk profile.

- Credit facilities of any amount provided to members of the Bank's Executive Committee, General Management or the Bank's Senior Management.

- Transactions with the media.
- Transactions with political parties.
- Proposals for reports to the Board on any risk area.

(xi) Collaborate with the Appointments and Remuneration Committee to establish rational remuneration policies and practices. To this end, without prejudice to the functions of the Appointments and Remuneration Committee, the Risk Committee must examine whether the incentive policy provided for in the remuneration systems takes the risk, capital, liquidity and the probability and opportunity of profits into account.

(xii) Review the pricing policy of assets and liabilities offered to clients to ensure that it is in line with the institution's business model and risk strategy.

(xiii) Any other function vested in it in accordance with the Law, the Articles of Association, this agreement and any other regulatory requirements applicable to the Company.

In order to properly carry out its functions, the Company must ensure that the Risk Committee can easily access information on the Company's risk situation and, if necessary, specialist external advice, including external auditors and regulatory bodies.

The Risk Committee may request that some people, within the organisation, who carry out tasks related to the Risk Committee's functions and who have been provided with the necessary advice to form a judgement on matters within their remit, attend the meetings, which must be processed through the Board's secretary.

This Committee must inform and report to the Board of Directors about its operations, highlighting the main incidents, where applicable, in relation to its own functions. In addition, it must also inform the Board of Directors on matters of major importance. This information will be used by the Board, where necessary, to evaluate the Committee and its members. In addition, when the Committee deems it appropriate, it must make proposals for improvement to the Board.

Audit and Compliance Committee

The Audit and Compliance Committee is made up exclusively of non-executive directors, in the number determined by the Board of Directors, between a minimum of three (3) and a maximum of six (6). The majority of the members of the Audit and Compliance Committee are independent and most of them are appointed taking into account their knowledge and experience in accounting, auditing or both, as well as in internal control and regulatory compliance.

The aim of the Committee is to assist the Board of Directors in supervising both the financial statements and the exercise of the control and compliance function of the MoraBanc Group;
The Audit and Compliance Committee shall meet at least six (6) times a year and as often as necessary to carry out its functions and to review the mandatory financial information to be submitted to the financial authorities; as well as to review the information that the Board of Directors must approve and include in its annual public documentation.

a) Implementation of the recommendations issued

The Committee not only monitors the degree of implementation of Internal Audit's recommendations, but also those of the external audits, inspections of the Regulator and specific consultancies. All the recommendations related to the different areas of supervision are thus covered.

b) Functions

Without prejudice to any other task that may be assigned to it at any time by the Board of Directors, the Audit and Compliance Committee must carry out the following basic non-executive functions:

(i) To inform the General Meeting of Shareholders of the issues raised in matters lying

within the Committee's purview.

(ii) Submit to the Board of Directors, for perusal by the General Meeting of Shareholders, the proposals for the selection, appointment, re-election and replacement of the external auditor in accordance with the regulations applicable to the Company, along with the conditions of the auditor's contract, the scope of the auditor's professional mandate and to regularly request information from the auditor on the audit plan and its execution, in addition to preserving the auditor's independence in performing his/her duties.

(iii) Serve as a communication channel between the Board of Directors and external auditors, to evaluate the results of each audit and the responses of the management team to its recommendations, and intervene in the event of disagreements between them and the latter regarding the criteria applicable in the drafting of the consolidated financial statements, as well as examining the circumstances, if any, that may have led the auditor to resign.

(iv) Supervise the Internal Audit and Regulatory Compliance services, checking the suitability, sufficiency and completeness, and verifying that the Senior Management takes into account the conclusions and recommendations of their reports.

(v) In this regard, the Internal Audit and Regulatory Compliance departments will regularly report to the Audit and Compliance Committee. In particular, the Audit and Compliance Committee is responsible for validating the annual Internal Audit and regulatory compliance plans, the degree of implementation of these plans and the degree of implementation of the recommendations that may be issued.

The Internal Audit department reports to the chairman of the Audit and Compliance Committee, without prejudice to the fact that the Chief Executive Officer must be informed so that he/she can carry out his/her duties properly. In accordance with the above, the Committee will agree on the selection, appointment and replacement of its manager, following a prior report by the Appointments and Remuneration Committee.

In relation to the head of the Regulatory Compliance Department, the Chief Executive Officer will propose his/her appointment and dismissal to the Committee for it to evaluate it and, if appropriate, agree to it, subject to a subsequent favourable report by the Appointments and Remuneration Committee. The latter committee will be responsible for submitting and informing the Board of the agreed appointment and dismissal.

(vi) Supervise the work of the auditors on the preparation and presentation process for the required financial information, as well as the regulatory reports which must be issued, and the effectiveness of the Company's internal control systems, including fiscal ones; as well as discussing with the auditor any significant weaknesses of the internal control system which may be detected during the course of the audit. All this, however, must be carried out while respecting the auditor's independence.

(vii) Establish the appropriate relationships with the accounts auditor in order to receive information on matters that may jeopardise the latter's independence, so it can be considered by the Audit and Compliance Committee, as well as any other information related to the process of auditing the accounts, and any other communications provided for in the current audit legislation and standards.
In any case, the Audit and Compliance Committee must receive an annual declaration from the external auditors of their independence in relation to the Company or institutions that are directly or indirectly related thereto; as well as information on any additional services (of any kind), which they provide and the corresponding fees received by the external auditor in question from the institution or the people or institutions related thereto, in accordance with the provisions set forth in the law on auditing accounts.

In addition, prior to the issuance of the Audit Report, the Audit and Compliance Committee must annually issue a report expressing an opinion on the independence of the accounts audit. In all cases, this report must contain the valuation of the provision of the additional services referred to in the previous paragraph, considered individually and as a whole and which are different from the legal audit and in relation to the independence rules and/or the auditing regulations.

(viii) Monitor the compliance with the audit contract, ensuring that the opinion on the annual accounts and the main contents of the audit report are drafted in a clear and precise manner.

(ix) Review the Company's accounts and inform the Board of Directors in advance about the financial information that the Company must periodically disclose in the markets and disclose to its supervisory bodies and, in general, ensure compliance with the legal requirements in this matter to ensure the correct application of the generally accepted accounting principles. In addition, it must also report on proposals for changes in accounting principles and criteria suggested by Management to guarantee the integrity of the accounting and financial information systems, including the financial and operational control and compliance with applicable law in this regard.

(x) Supervise and evaluate the process of drawing up and submitting the non-financial information and the effectiveness of the internal control systems.

(xi) Supervise compliance with regulations regarding related operations.

(xii) Supervise compliance with the internal rules on conduct and ethics, monitors and ensures compliance with and respect for the Law and, in general, the rules of corporate governance. In particular, the Audit and Compliance Committee must carry out the following duties: (a) monitor compliance with applicable national and international regulations in matters related to money laundering and terrorist financing, stock market behaviour, data protection as well as ensuring that the information requirements and action taken by the competent official bodies and regulators on these matters shall be addressed in the appropriate time and manner; (b) ensure that the internal codes of ethics and conduct, applicable to the Group's staff, comply with the regulatory requirements and that they are appropriate for the respective institutions throughout the Group; and (c) monitor, in particular, fulfilment of the provisions contained in these regulations.

(xiii) Consider the suggestions made by the chairman of the Board of Directors, the board members, directors and shareholders of the Company, and establish and monitor a mechanism that allows employees of the Company, or the group to which they belong, to be able to report (confidentially, and if appropriate, anonymously) any potentially important irregularities, especially in the field of finance and accounts, which may come to their attention within the company.

(xiv) Receive information and, where appropriate, issue a report on the disciplinary measures to be taken against members of Senior Management of the Company.

(xv) Fulfil the other duties assigned to it in accordance with the Law, the Articles of Association, these regulations or other regulatory requirements applicable to the Company.

The provisions set forth under sections (ii) to (vi) of the previous section are understood to be without prejudice to the regulations governing the auditing of accounts.

The Audit and Compliance Committee must meet at least six (6) times a year or as often as is necessary to carry out its functions.

Appointments and Remuneration Committee

a) Composition

The Appointments and Remuneration Committee is made up of directors who do not exercise executive functions, in the number determined by the Board of Directors, with a minimum of three (3) and a maximum of five (5) members and always with a predominance of independent or external directors. In addition, it must also be composed of members that allow it to form a competent and independent judgement on remuneration policies and practices and on the incentives created to manage risk, capital and liquidity.

The Committee shall elect its chairman from among the external and independent directors who form part of it and a secretary may also be appointed. In the event that the Committee does not specifically appoint a secretary, the secretary of the Board or, if this is not possible, any of the vice secretaries of the Board, if there are any, may act in this capacity.

b) Meetings

This Committee meets at least two (2) times a year or as often as is necessary to carry out its functions.

Whenever it is appropriate to ensure that its functions are carried out properly, and without prejudice to the foregoing, it shall have meetings to be convened by the Chairman of the Committee (either on his/her own initiative or at the request of two (2) members of the Committee itself) and shall be held whenever the Board or its Chairman requests the issuance of a report or adoption of a proposal.

c) Functions

Without prejudice to other functions that may be assigned to it by the Board of Directors, the Appointments and Remuneration Committee has the following basic responsibilities:

A) With regard to appointments:

(i) Analyse and propose to the Board of Directors the assessment of the skills, knowledge and experience required from the members of the Board of Directors and Senior Management personnel.
(ii) Submit to the Board of Directors the proposals for the appointment of independent and external directors to be appointed by co-opting with the General Meeting of Shareholders or to submit the decision to the Board, as well as the proposals for the General Meeting of Shareholders to re-elect or remove these directors.
(iii) Report the proposals for appointments and, as appropriate, the removal of the secretary and vice secretaries for their submission for approval from the Board of Directors.
(iv) Assess the profiles of the most suitable people to be members of the various committees, in accordance with their knowledge, skills and experience, and submit the corresponding proposals to the Board.
(v) Inform the Board of Directors of the proposals for the Chief Executive of the Company, of the appointment or removal of senior executives, with the power to make such proposals directly in the case of senior executives in respect of whom, in view of their control functions or in support of the Board or its committees, the Committee considers that it should take this initiative. In addition, if it deems it appropriate, propose basic conditions in the contracts of senior executives, other than aspects concerning remuneration, and inform them once they have been established.
(vi) In collaboration with the chairman of the Board of Directors, to examine and organise the said chairman's succession as well as that of the Chief Executive of the Company, and, where appropriate, make proposals to the Board of Directors so that this succession occurs in an orderly and planned way.
(vii) Regularly assess, at least once a year, the structure, size, composition and actions of the Board of Directors and its committees, its chairman, the managing director and the secretary, making recommendations to the latter with regards to any potential

changes.

(viii) Assess, as often as is required by the regulations, the suitability of the different members of the Board of Directors and the latter as a whole, and to inform the Board accordingly.

(ix) Consider the suggestions made by the chairman, members of the Board, directors or shareholders of the Company;

(x) Supervise and control the smooth running of the Company's corporate governance system, making the proposals it deems necessary to improve it, where applicable.

(xi) Control the independence of the external and independent directors;

(xii) Assess the balance between knowledge, capacity, diversity and experience on the Board of Directors and prepare a description of the functions and skills necessary for a specific appointment, calculating the amount of time required to perform the duties.

(xiii) Set an objective for the representation of the under-represented gender on the Board of Directors, which should develop guidelines on how this objective can be achieved.

<u>B) Changes in remuneration:</u>

(i) Prepare decisions regarding remuneration and, in particular, inform and propose to the Board of Directors the remuneration policy, the system and the annual remuneration amounts of directors and senior executives, as well as the individual remuneration of the executives and the Chief Executive Officer of the Company as well as the other conditions in their contracts. The preparation of these decisions must be made taking into account the long-term interests of shareholders, investors and other stakeholders in the Company, as well as the public interest.

(ii) Directly monitor the remuneration of Senior Management and those responsible for risk management and regulatory compliance tasks.

(iii) Ensure the observance of the remuneration policy by Board Members and senior executives and report on the basic conditions established in their contracts and their compliance.

(iv) Analyse, formulate and periodically review remuneration schemes, assessing their suitability and performance and ensuring that they are being complied with.

(v) Consider the suggestions made by the chairman, members of the Board, directors or shareholders of the Company.

The Committee must inform the Board of Directors about its proceedings, highlighting the main incidents, where applicable, related to its own functions. In addition, it must also inform the Board on matters of major importance. Where applicable, this information should serve as a basis, among other information, for the evaluation of the Board of Directors. In addition, when the Committee deems it appropriate, the report will include proposals for improvement.

<u>Executive Committee</u>

a) <u>Composition</u>

The Executive Committee is made up of members of the Board of Directors, in the number determined by the Board of Directors and with a minimum of five (5) and a maximum of seven (7) members. The chairman of the Board of Directors is a member of this Committee. Due to current regulatory restrictions, the CEO or Managing Director will attend with the right to address the board and without a vote, unless at some point the supervisor's express authorisation is obtained so that he or she can be a full member.
The chairman of the Executive Committee is appointed from among the directors who form part of this Committee and, preferably, the appointment of the same chairman as the one on the Board of Directors should be avoided.

b) <u>Meetings</u>

This Committee must meet at least four (4) times a year and as often as necessary to carry out its functions.

c) Functions

Without prejudice to other functions that may be assigned to it by the Board of Directors, the Executive Committee has the following basic responsibilities:

(i) Make recommendations and suggestions to the Board of Directors to improve the Company's profitability that of the Group's business.

(ii) Monitor and ensure proper management of investments in the real economy or private equity.

(iii) Reflect, analyse, evaluate, work on and, where appropriate, prepare proposals for the Board of Directors on equity matters, including, by way of example and without limitation, the following:

a. Relevant corporate operations;
b. Dividends and distribution of profits;
c. Liquidity mechanisms for shareholders;
d. The exercise of the right of pre-emption and other matters relating to the purchase and sale of the shares of Mora Banc Grup, SA.

(iv) Where necessary, review and approve relevant, off-budget investment proposals, delegated by the Board of Directors.

To this end, the Board has given the Executive Committee the power to decide on the following matters:

a. Decisions on investment and divestment in non-core assets (private equity) with an amount above 2.5% of Mora Banc Group's own funds;

b. Acquisitions of financial, banking or insurance activities with an amount of between 5 and 10% of Mora Banc Group's own funds;

c. Capital increases and restructuring in subsidiaries with an amount of between 5% and 10% of Mora Banc Group's own funds.

The Executive Committee may use the resources it deems appropriate to carry out its functions, including obtaining external advice, and will have the appropriate budget available to be able to do so.

The Committee must inform the Board of Directors and report on its proceedings, highlighting the main incidents that arise, as appropriate, related to its functions. This information will serve as a basis, among others, as appropriate, for the evaluation of the Board of Directors. In addition, when the Committee deems it appropriate to do so, the report will include proposals for improvement.

Innovation, Technology and Information Security Committee

a) Composition:

The Technology, Innovation and Information Security Committee (hereinafter, TIISC) is made up of a minimum of three (3) members who are appointed from among the members by the Board of Directors, who will also nominate its chairman. For these purposes, the Board of Directors takes into consideration the knowledge and experience in technology, information systems and cybersecurity.

In the event that the chairman is unable to attend, his or her duties shall be carried out by the most senior member of the TIISC in the Committee and, in the event of two or more coinciding in this regard, by the oldest member.

The TIISC may appoint a secretary. If the Committee does not appoint one, the secretary of the Board or, if this is not possible, one of the vice secretaries of the Board, if any, shall act in this capacity.

b) Reunions:

This Committee must meet at least four (4) times a year and as often as necessary to carry out its functions.

c) Functions:

Without prejudice to other duties that may be assigned to it by the Board of Directors, the TIISC must perform the following functions:

The TIISC aims to assist the Board in:

Maintaining knowledge of the main infrastructures and technological developments, as well as making proposals to the Board and monitoring the Group's technological and innovation strategy as well as its alignment with its general strategy.

b) Gaining knowledge of and understanding the Group's main technological and information security and cybersecurity risks, as well as monitoring the management of these areas at Group level in order to mitigate these risks.

c) Ensuring that the Group has sufficient plans and policies as well as the necessary and appropriate ways of managing these matters and in making proposals to the Board of Directors.
All of this is without prejudice to any other functions that the Board may assign to it at any time, always related to its main areas of responsibility.

a) In the field of infrastructure and technological developments:

- Study the plans and actions related to technology and report them to the Board, assisting it in the evaluation of the quality and strategic suitability of the technological service. By way of example, but not limited to: the infrastructure, architecture, information systems and application development and integration; investments in computer equipment and technological transformation, service quality improvement programmes and measurement procedures, as well as relevant technology projects.

b) In the field of technological and innovation strategy:

- Study the innovation plans and actions, and report them to the Board, assisting it in the evaluation of the capacities and conditions for innovation at a Group level, as well as identifying the main threats. By way of example, but not limited to: adopting new business models, technologies, systems and platforms, associations, business relations and investments, and relevant innovation projects.
- Where appropriate, it must keep itself informed of technological trends that may affect the Group's strategic plans, including monitoring the general trends in the sector.

c) In the field of information security and cybersecurity:

- Assist the Board in gaining knowledge on and understanding the risks, regulations and compliance in the monitoring of the Group's main risks and technological and security infrastructure, including information security and cybersecurity risks.
- Study the contingency plans for business continuity regarding technology and technological infrastructure issues and report them to the Board.
- In addition, the Committee must keep informed of the relevant events that have taken place in the field of information security and cybersecurity, gaining an understanding of those that, in isolation or as a whole, could significantly impact or damage the Group's

equity, profit and loss results or its reputation. In all cases, when discovered, these events will be reported to the chairman of the Committee.

In general, to inform the Board of Directors and, where applicable, the delegated Committees decided by the Board on relevant matters related to information technology that fall within its scope.

In order to carry out its duties in the best way possible, the appropriate coordination systems must be established with the Board, as well as with its Committees (especially with the Audit and Compliance Committee and the Risk Committee) in matters that are the responsibility of this committee and affect matters relating to or connected with their respective responsibilities.

The TIISC may request the attendance at the meetings of people within the organisation who have assignments related to its functions. In addition, the TIISC can request the help of the external advisers that are necessary to form a judgement on the questions within its scope; this must be processed through the Board's secretary.

Through its chairperson, the TIISC must report to the Board on its activity and the work carried out, on the meetings scheduled for this purpose or the one to be held immediately after if the chairman deems it necessary.

This Committee must inform the Board of Directors about its operations, highlighting the main incidents, where applicable, related to its own functions.

In addition, it must also inform the Board of Directors on matters of major importance. This information will be used by the Board, where necessary, to evaluate the Committee and its members. In addition, when the Committee deems it appropriate, it must make proposals for improvement to the Board.

6.1.4 Risk control and management

The Mora Banc Group develops the Risk Appetite Framework (RAF), which is a fundamental element in the management and control of risks. This management tool describes, for each risk category, in both qualitative and quantitative terms, the level that the Group wants to achieve in order to achieve its business objectives. In this regard, the RAF allows the Board of Directors to:

- Formalise the Group's risk tolerance statement.
- Formalise the risk monitoring and surveillance mechanism, in order to ensure compliance with the RAF.
- Strengthen the Group's risk culture.

The RAF is considered key in risk management because it establishes a complete vision of the Group's target levels, alert, limit and risk capacity, comparing them with its risk profile. These thresholds are calibrated based on the traffic light approach methodology established by the EBA. This methodology takes into account:

- Risk capacity: the maximum level of risk the Group can assume, taking into account the current level of resources, without affecting its capital and liquidity needs.
- Risk Tolerance/Objectives: level and type of risk that the Institution is prepared to assume in the course of its activity, within its capacity, to fulfil its strategic and business objectives.
- Early Warnings Indicators (EWI): risk level with the aim of early detection if the risk profile is deteriorating and approaching the limit, signalling the need to raise a preventive action plan to avoid exceeding the tolerance level.
- Risk limits: The maximum level of risk that the Group considers acceptable and does not wish to exceed. Risk limits should be supported by predetermined protocols with guidelines for action if the established thresholds are exceeded. These must be periodically reviewed to comply with the Group's risk tolerance level.

The process of reviewing and updating the RAF is carried out on an annual basis in order to calibrate its thresholds in accordance with the Institution's risk tolerance.

The Institution monitors the risk indicators monthly in order to detect potential deviations in the different risk thresholds set by Mora Banc.

The RAF management framework establishes protocols for the violation of thresholds, distinguishing between two lines of action depending on the threshold that has been exceeded (alert or limit).

In addition, it is validated that the RAF thresholds are not exceeded in the different scenarios developed in the Capital and Liquidity Self-Assessment Report (IACL), which also takes into account the short and long-term strategies and the institution business plan.

The current environment for the development of the financial system and the transformation of the regulatory framework has highlighted the increasing importance of the assessment of risks and their control environment.

The Bank has a Risk Management Policy and Management Framework approved by the Board of Directors for the identification, measurement, monitoring, control and reporting of risks. The Management Framework and the different Risk Management Policies are annually reviewed by the Board of Directors.

The main risks to which the Bank is exposed in the carrying out of its usual operations are the following:

Credit and counterparty risk: this stems from the likelihood of incurring losses resulting from the total or partial non-compliance of the financial obligations entered into with the Bank by its clients or counterparties, caused by changes in the debtor's ability or intention to pay.

Market risk: this is defined as the possibility of losses in the value of a portfolio as a result of the unfavourable evolution of prices in the financial markets, affected by changes in interest rates, credit spreads, exchange rates and market prices of financial assets.

Operational risk: this is defined as the risk of losses resulting from shortcomings in internal processes, human resources or systems, as well as losses caused by external circumstances.

Liquidity risk: this stems from the possibility that the Bank cannot meet its payment commitments or that, in order to attend to them, it must resort to the obtaining of funds in unfavourable market conditions.

IRRBB risk: the IRRBB or "interest rate risk in the banking book" is the current or future risk for the Bank's equity or profits due to adverse fluctuations in interest rates affecting the positions of its investment portfolio.

Solvency risk: this is the risk generated by a possible lack of regulatory capital putting the Bank's operations at risk. To mitigate solvency risk, the Bank establishes capital requirements weighting assets and items not included in the statement of financial position depending on the degree of risk, in accordance with the regulatory requirements for lack of capital.

Reputational risk: this is defined as risk associated with a negative perception of the financial institution (well-founded or otherwise) among clients, counterparties, shareholders, investors, debt ranges, market analysts and other relevant market participants (known as stakeholders), adversely affecting the ability of the financial institution to maintain its existing commercial relationships or establish new ones or continue accessing sources of funding.

Concentration risk: this is defined as the possibility of material losses arising as a result of risk concentration in a certain borrower or a small Bank of inter-connected borrowers.

Leverage risk: this is a risk stemming from excessive leverage by the Bank, if the interest rate is higher than the interests of the investments in the leveraged amount, shifting from a profit scenario to a loss scenario.

Money laundering and financing of terrorism risk: this consists of a lack or absence of solid management of the money laundering and financing of terrorism risk, generating serious damage to the Bank, especially in matters of reputational, operational, compliance and concentration risks.

Strategic and business risk: this is defined as the risk of suffering material losses as a result of a lack of knowledge of the market in which the Bank operates, which could threaten the viability and sustainability of its business model.

Business continuity risk: this is the risk of not having the necessary alarms and contingency plans to recover and restore interrupted critical functions within a reasonable time following an unwanted interruption or disaster.

Systemic risk: this is the risk of disruption in the financial system entailing serious damage to the financial system and the real economy, resulting from the occurrence of a series of correlated bankruptcies of financial institutions over a short period of time leading to a drastic reduction in liquidity and an increase in negative sentiment within the financial system as a whole.

Actuarial risk: this is the risk resulting from a significant increase in the payments necessary to cover defined benefit insurance products contracted for Bank employees, stemming from an adverse variation in interest rates related to the actuarial calculations of the regular contributions the Bank has undertaken.

Securitisation risk: this is defined as the possibility of material losses resulting from the fact that it is impossible to recover the value of a securitisation position. It can be generated due to the non-compliance of the counterparty or impairment of the instrument on the financial market.

Technological risk: this refers to potential losses for damages, interruptions, alterations or failures in the functioning or operation, resulting from the use of or dependence on equipment, applications, products or other technological resources.

Climate and environmental risk: this consist of the possibility of incurring losses due to climate changes or events that may generate an impact on traditional financial risks.

Residual risk: this is the remaining risk for the Bank after mitigating or eliminating all the identified risks linked to the Bank's operations and the legal nature of the institution and its environment.

6.1.5 Internal control framework - Three lines of defence model

The Group's internal control framework provides a reasonable degree of security in the achievement of the Group's objectives.

In accordance with the best practices and in keeping with the recommendations of the ECB, EBA and AFA, the Group's internal governance model is based on the three lines of defence approach, abiding by the principle of proportionality, given the Group's size, activity and structure.

The purpose of these practices and recommendations is to provide transparent structures for financial institutions in order to facilitate their supervision and understanding of the decision-making processes of the different governing bodies. Similarly, they define the scope of action of the three lines of defence by means of the establishment of the organisation, functions, roles and responsibilities of the various governing bodies involved in the risk management and control.

It provides independent assurance of proper risk management and monitors and evaluates compliance with the Group's risk tolerance limits in a comprehensive manner, ensuring their alignment with the Group's current and expected risk profiles.

Thus, by means of the three lines of defence system, the Group guarantees that its operations are carried out in accordance with the applicable regulations, the internal policies and procedures established by the institution and taking into account the risk tolerance levels set by the Group through the RAF. Similarly, it offers an effective way of improving communication within the Group, chiefly in the risk control management, while establishing the essential functions and duties of each line and the differing relationships with each other. This model provides an approach to the operations which ensures effective risk management from the beginning of any exposure.

Accordingly, the Group has an organisational structure that allows streamlined decision-making while ensuring direct and indirect coordination and participation between the different departments involved in the risk management and control, with an approach which is both bottom-up and top-down.

First line of defence - Business and Support Areas

MoraBanc's first line of defence is made up of the front-office business units and the risk-taking areas (hereinafter, the Departments), which have to consider the risk tolerance level declared by the Group in its decisions. Additionally, the first line of defence on the back-office side establishes the primary controls, monitoring of risk metrics, and detection and reporting of deviations from the goals set by the Group.

Second line of defence - Risk Management and Control Framework

Monitoring the Group's global and independent risks, while ensuring the suitability of the risk management processes and control processes carried out by the 1st Line of Defence, without taking part in the business decision-making process.

In keeping with the applicable regulations, the MoraBanc Group has a risk control framework enabling it to measure, manage and control all its risks, in order to minimise exposure to them and maximize the profitability of its needs.

The Group's risk management model is a key factor in the achievement of its strategic objectives.

The risk activity is governed by the following basic principles, which are aligned with Mora Banc's business strategy and model and consider the recommendations of the supervisory bodies and regulators and the best practices in the market:

- A risk culture integrated into the whole organisation. This includes a series of attitudes, values, skills and guidelines for action to combat risks integrated into all the processes, including decision-making, change management and strategic and business planning. The risk control framework is intended to establish a corporate culture instilling risk management into all the areas of the Group, with all the participants in the Group's activities assuming responsibility for it.
- Independence of the risk function, covering all the risks and providing a suitable separation between the risk-generating units and those responsible for their control. It has sufficient authority and direct access to the management and governing bodies responsible for setting and monitoring the strategy and risk policies.
- The comprehensive consideration of all the risks as a goal for their suitable management and control. The ability to create a fully comprehensive vision of the assumed risks is regarded as essential, as is understanding the relationships between them and facilitating their joint assessment, without detriment to the differences in nature and degree of evolution and the real possibilities of management and control of each type of risk, adapting the organisation, processes, reports and tools to the characteristics of each of them.
- An organisational and governance model which assigns management and control officers to all the risks, preserving the principle of independence, with clear and coherent reporting mechanisms throughout the Group's perimeter.
- The decision-making is implemented by means of powers and functions for each risk management unit regarded as an effective instrument to facilitate a suitable analysis and different perspectives to be taken into account in the risk management.

The risk control framework is implemented in a series of policies, procedures and manuals used by the Group to identify, quantify, monitor and report, among other issues, the risks it assumes throughout the course of its economic activity.
In this regard, the second line of defence must be involved in the identification of current risks and future threats, as well as defining the control policies within the Group, supervising their proper implementation and providing training and advice for the first line. Essentially, one of its main roles is to monitor and question the control activity conducted by the first line of defence.

Regulatory compliance function

Moreover, in keeping with the best regulatory practices and in relation to the second line of defence, there is the Compliance function, which constitutes one of the pillars upon which the Group reinforces the Board's commitment to conduct all its activities and businesses in accordance with strict ethical precepts, facilitating a working environment in compliance with the current regulatory framework. In line with the principles established, the Regulatory Compliance Area's activity surrounds the development and implementation of a programme that incorporates: policies and procedures, dissemination and training in this area, and the identification, evaluation and mitigation of possible risks.

The Regulatory Compliance Area is the body which acts with functional independence and carries out the supervision, monitoring and verification of permanent and effective compliance with the legal and regulatory obligations of the ethical and behavioural standards, as well as the Group's internal policies to protect its clients, with the aim of reducing risks.

The department is hierarchically dependent on the Chief Executive Officer and reports to the Audit and Regulatory Compliance Committee, the delegated body of the Board of Directors.

Third line of defence - Internal Audit

The purpose of the internal audit function is the objective and independent assessment of internal control systems and processes, compliance with external and internal regulations, risk management and the governance of the MoraBanc Group. From its position of independence, it provides assurance to the Board of Directors and the Senior Management.

The department is hierarchically dependent on the Audit and Compliance Committee, the delegated body of the Board of Directors, to which it reports.

A charter defines its functions, dependence, governing and methodological principles, organisation and relational framework. The charter is published on the database on internal regulations, available to the whole organisation.

Its tasks include continuous auditing, consisting of the regular monitoring of alerts previously defined by the department, whose purpose is to detect and minimise the risk of internal and external credit and operational fraud affecting the Group.

6.2 Credit risk

Credit risk is the risk of financial losses faced by the Group if a client or counterparty in a financial instrument does not meet its contractual obligations.

Proper risk management is essential for the business of credit institutions which conduct their activity in an increasingly complex environment with more risk factors.

Credit risk is the most significant in the consolidated statement of financial position of the Mora Banc Group and it results from its banking and insurance commercial activity and treasury operations.

6.2.1 Exposure to credit risk

The main risks held by the Group as of 31 December 2023 and 2022 are concentrated in the headings “Financial assets held for trading”, “Non-trading financial assets necessarily valued at fair value through profit or loss”, “Financial assets at fair value through other comprehensive income” and “Financial assets at amortised cost”, “assets covered by insurance and reinsurance contracts”, “cash and cash equivalents” and “derivatives - hedge accounting” of the assets of the attached consolidated statements of financial position.

To reduce the credit risk associated with operations with other institutions, the Group follows a conservative policy with regard to the assessment and diversification of its exposure limits and counterparties. The Group, taking into account the rating of the rating agencies’ reports, as well as the Credit Default Swaps (CDS) curve of the counterparty and its country, sets the limits for each of the counterparties. The subsequent risk control is performed by means of an integrated system in real time, in such a way that the available exposure limit with any counterparty per product and period can be identified at any time.

The Group's exposure to credit risk as of 31 December 2023 and 2022, excluding the off-balance sheet positions that are broken down later, is outlined below:

2023

In thousands of euros	Financial assets held for trading	Non-trading financial assets mandatorily measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives from hedge accounting	Total
Derivatives	18,217	-	-	-	22,238	40,455
Debt securities	12,448	53,687	309,407	1,325,268	-	1,700,810
Loans and advances	-	-	-	1,557,688	-	1,557,688
Credit institutions	-	-	-	125,567	-	125,567
Clients	-	-	-	1,432,121	-	1,432,121
Total	**30,665**	**53,687**	**309,407**	**2,882,956**	**22,238**	**3,298,953**

2022 (*)

In thousands of euros	Financial assets held for trading	Non-trading financial assets mandatorily measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives from hedge accounting	Total
Derivatives	30,985	-	-	-	28,442	59,427
Debt securities	41,303	67,957	746,561	1,184,129	-	2,039,950
Loans and advances	-	-	-	1,660,885	-	1,660,885
Credit institutions	-	-	-	122,947	-	122,947
Clients	-	-	-	1,537,948	-	1,537,948
Total	**72,288**	**67,957**	**746,561**	**2,845,024**	**28,442**	**3,760,272**

(*) Submitted solely and exclusively for comparative purposes. The balances in respect of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Note 2.3 and 47)

6.2.2 Credit risk life cycle

The full credit risk management cycle covers the entire duration of the transaction, including the feasibility analysis and the acceptance of the risk in accordance with established criteria, the monitoring of the borrower's solvency and the profitability of the operation and, where applicable, the recovery of the impaired assets.

6.2.2.1 Risk Admission

The Group has a unit exclusively devoted to the acceptance of credit risk with clients. It is responsible for the analysis of the risk operations exceeding the delegation established by the business areas and is responsible for conveying the importance of having well-documented files that reflect in-depth knowledge of the client. They study loan transactions upon the basis of the client’s solvency and ability to repay the debt.

Once this analysis has been performed and when it is demonstrated that the generation of resources is sufficient to meet the commitments made to the Group, it assesses whether the guarantees provided are suited to the risk of the operation. In the event that the transaction is not a delegation at this level, it transfers them to the corresponding level.

6.2.2.2 Limits to major risks

As part of the acceptance process, the Group monitors and controls compliance with the regulatory limits established by Law 35/2018 on solvency, liquidity and prudential supervision of banks and investment companies.

During the 2023 and 2022 financial years there were no non-compliances with regard to the defined thresholds.

6.2.2.3 Risk classification

Below we show the Group’s exposure to credit risk by risk category as of 31 December 2023 and 2022:

In thousands of euros (*)	Loans and advances to clients		Loans and advances to credit institutions		Debt securities		Commitments and guarantees granted	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Financial assets held for trading and calculated at fair value through profit or loss	-	-	-	-	66,135	109,260	-	-
Financial assets at amortised cost								
Stage 1	1,357,359	1,462,608	125,610	123,020	1,325,535	1,225,044	-	-
Stage 2	76,455	73,384	-	-	-	-	-	-
Stage 3	35,753	40,850	-	-	-	-	-	-
Gross carrying value	**1,469,567**	**1,576,842**	**125,610**	**123,020**	**1,325,535**	**1,225,044**	-	-
Provision for impairment	(37,446)	(38,894)	(43)	(73)	(267)	(332)	-	-
Net carrying value	**1,432,121**	**1,537,948**	**125,567**	**122,947**	**1,325,268**	**1,224,712**	-	-
Financial assets at fair value through other comprehensive income								
Stage 1	-	-	-	-	309,480	706,175	-	-
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
Gross carrying value	-	-	-	-	**309,480**	**706,175**	-	-
Provision for impairment	-	-	-	-	(73)	(197)	-	-
Net carrying value	-	-	-	-	**309,407**	**705,978**	-	-
Loan commitments granted	-			-	-			
Stage 1	-	-	-	-	-	-	418,788	420,150
Stage 2	-	-	-	-	-	-	4,785	7,719
Stage 3 (subjective)	-	-	-	-	-	-	255	1,584
Gross carrying value	-	-	-	-	-	-	**423,828**	**429,453**
Provision for impairment	-	-	-	-	-	-	(765)	(1,752)
Net carrying value	-	-	-	-	-	-	**423,063**	**427,701**
Financial guarantees granted								
Stage 1	-	-	-	-	-	-	120,434	120,060
Stage 2	-	-	-	-	-	-	722	834
Stage 3 (subjective)	-	-	-	-	-	-	170	92
Gross carrying value	-	-	-	-	-	-	**121,326**	**120,986**
Provision for impairment	-	-	-	-	-	-	(1,137)	(997)
Net carrying value	-	-	-	-	-	-	**120,189**	**119,989**

Below appear in greater detail the Group's bad loans and non-impaired and impaired financial assets as of 31 December 2023 and 2022:

	Loans and advances to clients		Loans and advances to credit institutions		Debt securities		Derivatives		Commitments and guarantees granted	
In thousands of euros (*)	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Stage 1										
High Credit Quality (AAA;AA-)	-	-	35,854	760	307,901	212,114	368	136	-	-
Adequate Credit Quality (A+;BBB)	-	-	89,756	122,001	1,220,764	1,648,939	27,621	35,835	-	-
(BBB-)	-	-	-	259	113,538	142,297	1,155	713	-	-
(BB+;B+)	-	-	-	-	18,801	22,674	-	-	-	-
(B;CCC)	-	-	-	-	817	1,631	-	-	-	-
(D)	-	-	-	-	-	-	-	-	-	-
Other classification	1,357,359	1,462,608	-	-	39,328	12,821	11,311	22,743	539,222	540,210
Gross carrying value	**1,357,359**	**1,462,608**	**125,610**	**123,020**	**1,701,149**	**2,040,476**	**40,455**	**59,427**	**539,222**	**540,210**
Provision for impairment	(5,495)	(6,797)	(43)	(73)	(339)	(529)	-	-	(1,323)	(1,343)
Net carrying value	**1,351,864**	**1,455,811**	**125,567**	**122,947**	**1,700,810**	**2,039,947**	**40,455**	**59,427**	**537,899**	**538,867**
Stage 2										
see details of categories by days										
<= 30 days	67,831	66,533	-	-			-	-	5,507	8,553
<= 60 days	5,303	2,730	-	-			-	-	-	-
<= 90 days	3,219	3,796	-	-			-	-	-	-
> 90 days	102	325	-	-			-	-	-	-
Gross carrying value	**76,455**	**73,384**	**-**	**-**	**-**	**-**	**-**	**-**	**5,507**	**8,553**
Provision for impairment	(16,173)	(13,331)	-	-	-	-	-	-	(426)	(1,282)
Net carrying value	**60,282**	**60,053**	**-**	**-**	**-**	**-**	**-**	**-**	**5,081**	**7,271**
Stage 3										
see details of categories by days										
Doubtful transactions for reasons other than default	13,709	11,385	-	-	-	-	-	-	425	1,676
> 90 days	22,044	29,465	-	-	-	-	-	-	-	-
Gross carrying value	**35,753**	**40,850**	**-**	**-**	**-**	**-**	**-**	**-**	**425**	**1,676**
Provision for impairment	(15,778)	(18,766)	-	-	-	-	-	-	(153)	(124)
Net carrying value	**19,975**	**22,084**	**-**	**-**	**-**	**-**	**-**	**-**	**272**	**1,552**
Total exposure to credit risk	**1,432,121**	**1,537,948**	**125,567**	**122,947**	**1,700,810**	**2,041,175**	**40,455**	**59,427**	**543,252**	**547,690**
Accumulated Bad Loans	49,495	46,575	-	-	-	-	-	-	-	-
Total exposure to credit risk with bad loans	**1,481,616**	**1,584,239**	**125,567**	**122,947**	**1,700,810**	**2,041,175**	**40,455**	**59,427**	**543,252**	**547,690**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The following is a summary of the movements between stages of loans and advances to clients as of 31 December 2023 and 2022:

2023	Movements between Stage 1 and Stage 2		Movements between Stage 2 and Stage 3		Movements between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Loans and advances	19,156	11,313	983	865	3,400	72

2022	Movements between Stage 1 and Stage 2		Movements between Stage 2 and Stage 3		Movements between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Loans and advances	21,801	15,039	4,963	206	558	144

The following is a summary of the movement of impairment losses on loans and advances to clients during the financial years ending on 31 December 2023 and 2022:

	Thousands of euros		
	Financial assets at amortised cost		
	Stage 1	Stage 2	Stage 3
Balance at 1 January 2023	6,797	13,331	18,766
Increases for origin and acquisition	1,973	323	604
Decrease due to account derecognition	(2,247)	(1,219)	(4,734)
Changes for credit risk variation	(824)	4,309	819
Other movements	(204)	(571)	323
Balance at 31 December 2023	5,495	16,173	15,778

	Thousands of euros		
	Financial assets at amortised cost		
	Stage 1	Stage 2	Stage 3
Balance at 1 January 2022	7,961	13,490	21,385
Increases for origin and acquisition	4,588	77	85
Decrease due to account derecognition	(953)	(1,399)	(2,786)
Changes for credit risk variation	(109)	3,157	7,115
Other movements	(4,690)	(1,994)	(7,033)
Balance at 31 December 2022	6,797	13,331	18,766

6.2.2.4 Mitigation of the credit risk (guarantees)

Credit risk mitigation is achieved (in many cases) by means of the provision of additional guarantees to that of the borrower. In addition, the Group specifies the criteria to determine the effectiveness of the guarantees and the methodology for their valuation and monitoring. The following classes of guarantees may be regarded as effective:

- Real property as security:
  - Mortgage guarantees of property assets (flats, premises, etc.).
  - Bank guarantees.
  - Pledge guarantees:
    1. Money deposits.
    2. Debt securities.
    3. Shares listed on stock markets.
    4. Other pledge guarantees.

- Other non-real property as security Personal guarantees which reinforce the capacity of repayment of the transaction:
  - Endorsement of natural persons.
  - Endorsement of legal persons.
  - Endorsement of Public Entities (Government or Common).
  - Other personal guarantees.

- Other types of guarantees:
  - Pledging of contracts which reinforce the capacity for repayment in the event of an incident.

Below is a breakdown of the balance recorded under the heading "Loans and advances - Clients", based on the secured guarantees of the Group's financial assets of the group as of 31 December 2023 and 2022:

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In thousands of euros	Financial assets at amortised cost to Clients		Real Guarantees: Money Guarantees, Securities and other financial guarantees (*)		Real Guarantees: Mortgage Guarantee		Real Guarantees: Without any Real Guarantee	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Stage 1								
Gross carrying value	1,357,359	1,462,606	358,484	479,554	600,099	659,394	398,776	323,658
Expected loss	(5,495)	(6,797)	(18)	(27)	(1,533)	(3,299)	(3,944)	(3,471)
B.V. Net of Provisions	1,351,864	1,455,809	358,466	479,527	598,566	656,095	394,832	320,187
Stage 2								
Gross carrying value	76,455	73,385	10,185	4,189	47,112	39,873	19,158	29,323
Expected loss	(16,173)	(13,331)	(308)	(433)	(10,161)	(9,127)	(5,704)	(3,771)
B.V. Net of Provisions	60,282	60,054	9,877	3,756	36,951	30,746	13,454	25,552
Stage 3								
Gross carrying value	35,753	40,851	419	200	29,705	36,212	5,629	4,439
Provision for impairment	(15,778)	(18,766)	-	-	(11,238)	(14,834)	(4,540)	(3,932)
B.V. Net of Provisions	19,975	22,085	419	200	18,467	21,378	1,089	507
Total exposure to credit risk	1,432,121	1,537,948	368,762	483,483	653,984	708,219	409,375	346,246

(*) Other Financial Guarantees include hedged transactions with bonds, financial guarantees, insurance contracts and credit derivatives.

Below is a breakdown of the credit quality of the debt securities as of 31 December 2023 and 2022:

-	Debt securities		Fair value against Profit and Loss		Fair value against other comprehensive profit/loss		At amortised cost	
In thousands of euros	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Public Debt and Central Banks								
AAA	75,861	72,527	438	2,977	22,622	18,511	52,801	51,039
From AA+ to AA-	207,009	75,664	3,571	-	11,682	994	191,756	74,670
From A- to A+	523,788	714,621	512	339	38,259	265,999	485,017	448,283
BBB+ or lower	240,289	228,598	5,105	-	41,016	53,531	194,168	175,067
not available	-	-	-	-	-	-	-	-
Gross carrying value	**1,046,947**	**1,091,410**	**9,626**	**3,316**	**113,579**	**339,035**	**923,742**	**749,059**
Provision for Credit Risk	(199)	(136)	-	-	(34)	(32)	(165)	(104)
B.V. Net of Provisions	**1,046,748**	**1,091,274**	**9,626**	**3,316**	**113,545**	**339,003**	**923,577**	**748,955**
Credit institutions								
AAA	194	37,242	-	-	-	37,242	194	-
From AA+ to AA-	15,153	17,750	93	7,775	13,758	6,805	1,302	3,170
From A- to A+	219,321	342,880	23,541	47,773	88,078	186,906	107,702	108,201
BBB+ or lower	172,653	247,984	2,933	21,571	45,994	91,384	123,726	135,029
not available	4,444	-	1,768	-	2,676	-	-	-
Gross carrying value	**411,765**	**645,856**	**28,335**	**77,119**	**150,506**	**322,337**	**232,924**	**246,400**
Provision for Credit Risk	(31)	(129)	-	-	(10)	(104)	(21)	(25)
B.V. Net of Provisions	**411,734**	**645,727**	**28,335**	**77,119**	**150,496**	**322,233**	**232,903**	**246,375**
Other Companies								
AAA	177	419	177	228	-	-	-	191
From AA+ to AA-	10,083	8,511	3,332	1,678	-	-	6,751	6,833
From A- to A+	52,545	82,760	1,540	7,351	8,991	22,607	42,014	52,802
BBB+ or lower	149,853	198,699	7,988	17,577	30,195	56,713	111,670	124,412
not available	29,780	12,821	15,137	1,994	6,209	6,066	8,434	4,761
Gross carrying value	**242,438**	**303,210**	**28,174**	**28,828**	**45,395**	**85,386**	**168,869**	**188,999**
Provision for Credit Risk	(110)	(264)	-	-	(29)	(61)	(81)	(203)
B.V. Net of Provisions	**242,328**	**302,946**	**28,174**	**28,828**	**45,366**	**85,325**	**168,788**	**188,796**
Total exposure to credit risk	**1,700,810**	**2,039,947**	**66,135**	**109,263**	**309,407**	**746,561**	**1,325,268**	**1,184,126**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

6.2.2.5 Monitoring of credit risk

The Group has a unit responsible for monitoring defaults, overdrafts and overdue payments, as well as for checking that the loan and credit guarantees are sufficient. One of its main functions, together with the Business Area, is to anticipate and prevent clients from entering arrears. Once the client is in arrears or in default, the appropriate measures must be taken in cooperation with Risk Admission and the Legal Service.

6.2.2.6 Refinancing and restructuring of transactions

Within the field of refinancing and restructuring transactions, the aim is to identify or define the most appropriate option for the institution, enabling it to anticipate and maximise collection, regardless of the accounting treatment the transactions need to receive.

In this regard, the Group has defined two types of approach, considering the different situations in which a client may find him/herself at the time of the restructuring or refinancing:

- Transactions which originate in a doubtful situation: these transactions refer to clients who, due to a change in their economic circumstances, find it difficult to meet their contractual obligations, and it is therefore anticipated that they may experience a potential reduction in their ability to pay. This contingency can be resolved by adapting the terms and conditions of the debt to the client's new ability to pay.
- Transactions which originate in a doubtful situation due to having exceeded three months of age since the beginning of the first non-payment: as defined in the recovery or arrears management procedure, any transaction which has been renegotiated, regardless of whether the guarantees have improved, will remain classified within the risk category used prior to their renegotiation for a prudential period of no fewer than 1 year, until, in accordance with the assessment of the ability to pay and in compliance with the obligations, they can be classified in a lower risk category.

  Any restructured or refinanced transaction is duly documented, and the analysis document is archived in the client's risk file. This document includes the debtor's ability to pay and the details of the new guarantees provided. Any problem detected in the fulfilment of the debtor's obligations will entail a change in the classification of the loan or credit in a higher risk category.

The information on refinancing and restructuring transactions as of 31 December 2023 and 2022 appears below:

31/12/2023						
TOTAL	Number of transactions	Gross carrying value	Distribution of guarantees			Impairment of the accumulated value
			Property guarantee	Other real property as security	Without guarantees	
Non-financial companies, individual companies (non-financial business activity and individuals)	81	27,935	24,320	106	3,509	(7,732)
Including:	-	-	-	-	-	-
financing for construction and property development (including land)	2	5,949	5,949	-	-	(2,646)
Remaining housing and others	79	21,986	18,371	106	3,509	(5,086)
Total	**81**	**27,935**	**24,320**	**106**	**3,509**	**(7,732)**

31/12/2022						
TOTAL	Number of transactions	Gross carrying value	Distribution of guarantees			Impairment of the accumulated value
			Property guarantee	Other real property as security	Without guarantees	
Non-financial companies, individual companies (non-financial business activity and individuals)	87	29,848	24,385	204	5,258	(8,331)
Including:	-	-	-	-	-	-
financing for construction and property development (including land)	2	5,948	5,948	-	-	(2,467)
Remaining housing and others	85	23,900	18,437	204	5,258	(5,864)
Total	**87**	**29,848**	**24,385**	**204**	**5,258**	**(8,331)**

6.2.3 Risk concentration

The respective risk concentrations by sector and geographical area for loans and advances to clients as of 31 December 2023 and 2022 appear below:

	Loans, advances to clients		Provision for Credit Risk	
In thousands of euros	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Concentration by Sector				
Government bodies	18,738	29,769	(88)	(144)
Financial	39,016	89,791	(262)	(269)
Non-financial companies	780,610	688,273	(33,958)	(34,129)
Primary	7,209	2,062	(54)	(25)
Tourism	56,609	70,250	(2,016)	(2,568)
Property and construction	309,158	275,646	(21,866)	(25,282)
Commercial Bank	136,671	103,106	(2,356)	(1,405)
Others in secondary sector	50,851	39,033	(439)	(1,123)
Others in tertiary sector	220,112	198,176	(7,227)	(3,726)
Individuals	631,203	769,009	(3,138)	(4,352)
Total exposure to credit risk	1,469,567	1,576,842	(37,446)	(38,894)

	Loans, advances to clients		Of those at Stage 2		Of those at Stage 3		Provision for Credit Risk	
In thousands of euros	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Geographic Concentration								
Andorra	1,122,455	1,261,610	63,384	55,326	30,490	34,213	(30,384)	(33,741)
Spain	232,681	217,357	6,018	10,621	5,064	5,080	(2,532)	(2,993)
Other	114,431	97,875	7,053	7,437	199	1,557	(4,530)	(2,160)
Total exposure to credit risk	1,469,567	1,576,842	76,455	73,384	35,753	40,850	(37,446)	(38,894)

In addition, the respective risk concentrations by sector and geographical area for debt securities as of 31 December 2023 and 2022 appear below:

	Debt securities		Provision for Credit Risk	
In thousands of euros (*)	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Concentration by Sector				
Public Sector	1,049,930	1,106,993	(198)	(136)
Credit Institutions	413,738	645,816	(31)	(129)
Other Companies	237,481	287,670	(110)	(264)
Total exposure to credit risk	1,701,149	2,040,479	(339)	(529)
Geographic Concentration				
Andorra	239,860	202,785	-	-
EU	1,147,386	1,499,266	(123)	(479)
Other	313,903	338,428	(216)	(50)
Total exposure to credit risk	1,701,149	2,040,479	(339)	(529)

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The respective risk concentrations by sector and geographical area for loans and advances to credit institutions as of 31 December 2023 and 2022 appear below:

	Loans and advances to credit institutions		Provision for credit risk	
In thousands of euros (*)	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Geographic Concentration				
Spain	90,587	38,753	(36)	-
Other	35,023	84,267	(7)	(73)
Gross carrying value	125,610	123,020	(43)	(73)

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

6.3 Liquidity risk

The liquidity risk is the risk of the Group experiencing difficulties or limitations in its ability to access market financing in order to fulfil the obligations associated with financial liabilities settled by delivering cash, another financial asset or regulatory requirements.

There have been no significant negative impacts on the Group's liquidity position in 2023. The high levels of liquid assets and liquidity ratios well above the required minimums and the constant monitoring of the liquidity levels have mitigated potential difficulties.

6.3.1 Liquidity risk management

Mora Banc manages liquidity with the aim of maintaining at all times levels of liquidity that allow payment commitments to be met in a timely manner and that will not be able to prejudice the investor's activity due to lack of loanable funds, staying at all times within the risk tolerance levels set in the Group's Risk Appetite Framework (RAF)and of the current regulatory requirements.

In the short term, resorting to obtaining funds under onerous conditions that damage the image or reputation of the Institution is avoided.

In the mid term, the aim is to ensure the adequacy of the Group's financial structure and its evolution within the framework of the economic situation, the markets and regulatory changes.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when they mature, both under normal conditions and in situations of liquidity tension, without incurring unexpected losses or putting the Group's security at risk. In addition, the above is based on ensuring the obtaining of financial resources at a reasonable cost to fulfil the investment plans established in the annual budget, as well as to cover potential liquidity imbalances resulting from the different levels of enforceability of the assets and liabilities in the consolidated statement of financial position.

The management of the Group's asset and liability maturity structure has enabled it to enjoy a privileged position, leading it to have a competitive advantage in conducting its activity in a more demanding environment in terms of liquidity requirements.

The decisions regarding all the structural risks, including the liquidity risk, are made by the institution's Assets and Liabilities Committee (COAP, from its initials in Catalan).

The Group, through the investment department, manages the liquidity and financing, as well as the analysis of stress and the report to the COAP, in accordance with the policies set by the Board of Directors, at the proposal of the Risk Department, which independently performs the measurement, control and stress analysis of the liquidity risk.
For the insurance business, the management of the liquidity resulting from the commitments (liabilities) arising from insurance contracts, mainly for life and savings, marketed by the MoraBanc Group through Mora Assegurances, is performed by means of the actuarial financial estimate of the cash flows resulting from said contracts. In addition, financial immunisation techniques are applied upon the basis of the estimated actuarial financial maturity, in other words, not necessarily the contractual maturity, and the financial assets affected.

6.3.2 The Group's liquidity strategy

In order to comply with the above principles, the following strategic liquidity management strategies have been defined:

- Maintenance of liquidity levels within the risk tolerance levels defined in the Group's RAF, allowing it to meet its payment obligations in a timely manner, without prejudicing the investment activity due to a lack of loanable funds and permitting compliance with the regulatory requirements.
- Active liquidity management, which consists of the continuous monitoring of the liquid assets and the balance sheet structure.
- Management of the intraday liquidity risk.
- Short-term liquidity risk management by means of the LCR ratio.
- Management of the sources of financing and their long-term stability by means of the NSFR ratio.
- Management of the liquid assets, ensuring that they are always maintained at optimal and sufficient levels with high credit and liquid quality to deal with stressful situations.
- Management of demineralised assets.
- Rapid detection of a potential liquidity crisis situation by means of constant monitoring of the metrics with alert levels that provide a warning starting at a certain threshold (Early Warnings).
- Minimisation of the negative effects of the beginning of a crisis situation on the liquidity position.
- Liquidity management focused on overcoming a potential liquidity crisis situation. At this point, it is essential to have a Stress Testing framework and a Liquidity Contingency Plan to guarantee the management of the liquidity risk in situations of moderate and severe crisis.
- Monitoring of the provision of credit facilities.

6.3.3 Exposure to liquidity risk

By means of systematic and continuous monitoring mechanisms, the Group uses a series of indicators that provide advance warnings of any impairment in the quality of the liquid assets and sources of financing:

- Liquidity Coverage Ratio (LCR): this indicates whether there are enough high-quality liquid assets to deal with unexpected outcomes in the short term (30 days).
- Net Stable Funding Ratio (NSFR): this indicates whether there is sufficient and stable longer-term financing (1 year).
- Other ratios used:
    - Loan to Depo (loan book / Total client deposits)
    - Highly liquid assets / Total client deposits
    - Highly liquid assets / Total statement of financial position

The Institution also closely monitors the different maturities in the consolidated statement of financial position and the intra-day liquidity risk over time.

Finally, liquidity is analysed using Stress Test scenarios, with different levels of adversity, entailing outflows from our main source of financing (Customer Deposits) and other outflows (contingent assets) caused by hypothetical declines in the Institution's Credit quality (Ratings).

Through these simulations, the behaviour of our liquidity can be observed and the Institution's survival horizon under these adverse circumstances can be calculated.

MoraBanc has defined a Liquidity Contingency Plan (LCP) which lists the procedures and measures that will restore the Group's financial strength and viability in potential situations of liquidity stress when the Institution may have difficulties in fulfilling its obligations in terms of payments in due time and form.

Both the scenarios and the LCP are regularly updated, at least on an annual basis.

The use of these ratios, with the help of monitoring of the short and long-term liquidity, of the simulations carried out in different stress and defined LCP scenarios, enables the Group to achieve better management of liquid assets and sources of financing. It should be noted that, internally, the Group has tolerance levels, defined in the RAF, which are more rigorous than those stipulated by relevant regulations.

Potential situations of liquidity tensions can thus be detected in time, minimising the possible negative effects.

6.3.4 Analysis of the maturity of financial assets and liabilities

Details of the periods of the contractual maturities of the balances of the Group's financial assets and liabilities as of 31 December 2023 and 2022, within a scenario of normal market conditions in the context of the residual maturity of the transactions, are outlined below:

In thousands of euros	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 December 2023						
Financial Assets (Inputs)						
Cash, cash balances in central banks and other at-sight deposits	181,454	-	-	-	-	181,454
Loans and advances	238,517	172,716	203,753	484,941	457,761	1,557,688
Credit Institutions	112,006	13,561	-	-	-	125,567
Clients	126,511	159,155	203,753	484,941	457,761	1,432,121
Debt securities	116,623	116,354	92,885	1,019,809	355,139	1,700,810
Carrying value	536,594	289,070	296,638	1,504,750	812,900	3,439,952
Financial Liabilities (Outgoings)						
AFA	96,488	26,785	40,785	7,297	794	172,149
Deposits of credit institutions	32,220	-	-	-	-	32,220
Client Deposits	791,431	164,189	385,938	1,109,381	363,389	2,814,328
Debt securities	-	-	-	-	-	-
Carrying value	920,139	190,974	426,723	1,116,678	364,183	3,018,697
Difference in Assets less Liabilities	(383,545)	98,096	(130,085)	388,072	448,717	421,255

In thousands of euros	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 December 2022 (*)						
Financial Assets (Inputs)						
Cash, cash balances in central banks and other at-sight deposits	252,332	-	-	-	-	252,332
Loans and advances	319,002	192,137	267,464	403,582	478,710	1,660,895
Credit Institutions	122,785	162	-	-	-	122,947
Clients	196,217	191,975	267,464	403,582	478,710	1,537,948
Debt securities	379,701	66,591	209,936	1,039,665	344,057	2,039,950
Carrying value	951,035	258,728	477,400	1,443,247	822,767	3,953,177
Financial Liabilities (Outgoings)						
AFA	79,649	48,028	24,832	17,714	1,926	172,149
Deposits of credit institutions	30,600	-	-	-	-	30,600
Client Deposits	930,719	84,056	425,202	1,466,988	494,869	3,401,834
Debt securities	-	-	-	-	-	-
Carrying value	1,040,968	132,084	450,034	1,484,702	496,795	3,604,583
Difference in Assets less Liabilities	(89,933)	126,644	27,366	(41,455)	325,972	348,594

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The above table shows the non-discounted cash flows of the Group's financial assets and liabilities based on their contractual maturities, without considering any scenario for the renewal of the assets and/or liabilities. In the case of sight the deposit accounts, without a defined contractual maturity, the Institution's internal model of behaviour is applied to distribute the magnitudes in the different terms, in accordance with a historical study that takes into account the clients' changes and specificities. In addition, in the analysis of these tables, it is necessary to bear in mind that the clients' sight deposit accounts have a high degree of stability.

LCR Ratio (Liquidity Coverage Ratio)

The LCR is a regulatory metric whose aim is to ensure that the Group has a cushion of highly liquid assets which is sufficient to cope with a scenario of considerable stress over 30 calendar days.

High-quality liquid assets are assets which can be easily sold to meet liquidity requirements. They must be listed in organised markets with a large volume of issues, substantial market depth, stable daily market prices and low volatilities.

The ratio, defined in Law 35/2018 on the solvency, liquidity and prudential supervision of banking institutions and investment companies, approved on 20 December 2020, and in the Regulations implementing said Law, which regulates the solvency, liquidity and prudential supervision requirements of banking institutions and investment firms in great detail, must be greater than or equal to 100%.

The metric is calculated as stipulated in the country's regulations.

At the end of the 2023 financial year, the LCR ratio was 299.08% (it stood at 294.14% in 2022).

The Bank's CSR ratio has permanently and stably stood at well above 100% in 2023 and 2022.

The composition of the high-quality liquid assets used in the calculation of the Group's LCR ratio as of 31 December 2023 and 2022 appears below:

	31/12/2023		31/12/2022	
	Market value	Weighted value	Market value	Weighted value
Level 1 Assets	943,615	943,615	1,006,028	1,003,203
Level 2A Assets	7,745	6,584	9,273	7,882
Level 2B Assets	149,414	74,707	198,489	99,244
Total High-Quality Liquid Assets	1,100,774	1,024,906	1,213,790	1,110,329

MoraBanc displays a comfortable liquidity position, with a significant presence of High-Quality Level Assets (HQLA).

NSFR (Net Stable Funding Ratio)

The NSFR is a regulatory metric that allows the long-term stability of the Institution's funding to be assessed.

This ratio is defined as the coefficient between the amount of stable financing available and the required stable financing and it must be greater than or equal to 100%.

Mora Banc benefits from the substantial weight of client deposits, which are more stable, with permanent liquidity requirements resulting from commercial activity financed by medium and long-term instruments and limited appeal in the short-term. This enables it to retain a balanced liquidity structure with high levels in the NSFR ratio.

During 2023 and 2022, the ratio has always been above 100%. It is calculated as defined in Law 35/2018, as discussed in the previous point. At the close of the 2023 financial year, the NSFR ratio was 164.07% (in 2022 it was 161.73%).

In summary, the management and liquidity model enable Mora Banc to anticipate the Group's fulfilment of the two metrics, well above the minimum (100%) required.

6.4 Market Risk

Market risk is the risk of potential adverse changes in market prices, such as interest rates, exchange rates, credit spreads and variable return/equity prices, affecting the profitability or value of the financial instruments held by the Group.

The aim of market risk management is to control exposures of portfolios subject to mark-to-market within reasonable parameters.

6.4.1 Market risk management

The Group has a market risk management unit, whose basic functions include measuring, controlling and monitoring market risks and assessing the exposure and suitability for the assigned limits, as well as comparing, implementing and maintaining the computer tools used. The supervision of these functions is the duty of the Assets and Liabilities Committee (COAP), which is a body made up, among Other, of members of the Group's General Management. This body meets at least once a month and is responsible for analysing the positions which generate market risk, as well as the definition of the strategies to be followed by the Group. The Bank's Board of Directors is regularly informed of the level of risk assumed and establish the absolute maximum limits of exposure to this risk.

6.4.2 Exposure to market risk - trading portfolios

The calculation of the potential losses in adverse market conditions is the key element in the measurement of market risk, which is why the VaR (Value at Risk) methodology is used, in its mode of VaR by historical simulation. Additionally, the Institution also calculates the VaR using the Parametric and Monte Carlo methodology.

The VaR methodology measures the maximum loss in the value of a portfolio which may occur as a result of changes in the general conditions of the financial markets, these changes being reflected in four risk factors: interest rate risk, exchange rate risk, credit risk and price risk in terms of variable return/equity prices and prices of goods.

Implicitly, the correlation risk and volatility risk for positions involving an option are also calculated.

The VaR is the basic methodology for measuring and controlling the market risk of the positions of the portfolios subject to mark-to-market.

The time scale used by the Group to calculate the VaR is one day, as they are trading operations in highly liquid markets.

The market risk is measured by means of different VaR methodologies (historical, parametric and Monte Carlo) for all its trading portfolio. The historical VaR is the one used by the Group to establish its controls.

VaR by historical simulation has advantages as a risk measurement, as it is based on market movements which have taken place in the past and, therefore, avoids making assumptions regarding the behaviour of market factors, as well as their correlations. Historical VaR is calculated upon the basis of a window of 250 days of daily data, assuming uniform weights for all the observations. This calculation is performed twice a day.

The current model of market risk limits consists of a VaR limit and sub-limit scheme, as well as stop-loss orders for some of the trading activities.

Given that the VaR by historical simulation also has limitations, basically its high sensitivity to the data window used and the impossibility of capturing plausible events which have not taken place within the historical range used, the Group mitigates these limitations by complementing it with:

1. Stress tests: estimates of the impact of extreme market movements on the positions maintained in the trading portfolio. The objective of performing stress tests, which may be regarded as a complementary tool to measuring the market risk by means of the VaR in a "normal" situation, is to identify the extent of the losses in "non-normal" or very low probability situations, with the aim of assessing the potential negative impacts on the value of the Group's trading portfolio.

   The expected impact of the stress test on the consolidated income statement in a multi-variant simulation of the risk factors which make up the portfolio appears below:

As of 31 December 2023			As of 31 December 2022		
Scenario		% Variation Market Value	Scenario		% Variation Market Value
Base Case		100.00%	Base Case		100.00%
Zero Coupon	+ 100 bps	97.65%	Zero Coupon	+ 100 bps	98.96%
Spot FX	- 5%	100.06%	Spot FX	- 5%	102.70%
Spread Curve	+ 50 bps	100.52%	Spread Curve	+ 50 bps	99.76%
Equity	- 10%	98.14%	Equity	- 10%	99.97%
Volatilities	+ 10%	99.80%	Volatilities	+ 10%	99.99%
Total		**99.23%**	**Total**		**100.28%**

   All the scenarios are homogeneous shocks in all the categories mentioned. In other words, a 10% negative equity shock would represent a negative change of 1.86% (0.03% in 2022) in the market value of the variable income risk component held in the Group's trading portfolio in the consolidated income statement. This impact is immaterial. The total corresponds to all the shocks applied simultaneously.

2. **Tail Risk**: in addition, as well as informing the VaR at 99% confidence with a one-day time period, the historical VaR methodology has incorporated the "VaR Shortfall" and "VaR Maximum" concepts, referring to the analysis of the magnitude of the losses in the critical region. In other words, it constitutes an analysis of the volume of the losses with very low probability (frequency lower than 1%). We can define them as follows:

   - VaR Shortfall: this represents the expected loss when the loss exceeds the VaR.
   - Maximum VaR: this represents the maximum loss, in other words, the worst-case scenario, that is, the worst scenario for the distribution.

Below are the average VaR amounts at 99% confidence for trading portfolio activity and the one-day time period attributable to the different risk factors:

2023	VaR at 99% 1 day Time Period				Expected Shortfall 99%
In thousands of euros	As of 31 December	Average	Maximum	Minimum	As of 31 December
Exchange Rate VaR	3	3	53	-	4
Interest Rate VaR	21	64	124	21	26
Credit VaR	7	23	53	7	15
Variable Income VaR	32	23	35	6	37
Diversification Effect	(29)	(36)	(134)	(2)	(39)
Total VaR	**34**	**77**	**131**	**32**	**43**

2022	VaR at 99% 1 day Time Period				Expected Shortfall 99%
In thousands of euros	As of 31 December	Average	Maximum	Minimum	As of 31 December
Exchange Rate VaR	-	10	57	-	-
Interest Rate VaR	68	104	158	30	77
Credit VaR	17	26	51	12	101
Variable Income VaR	5	24	59	4	8
Diversification Effect	(5)	(43)	(145)	2	(42)
Total VaR	**85**	**121**	**180**	**48**	**144**

Finally, a "backtesting" is performed on the results, constituting the key point in the analysis, as it provides validity for all the VaR calculations (ex-ante measurement) and permits conclusions on the over-valuation or under-valuation of the risk.

The ex-post or backtesting validation is based on a comparison between the regular results of the portfolio and the risk measurements provided by the established measurement system. The validity of a VaR model depends on the empirical reality of the results not contradicting those expected from the model. The model is regularly recalibrated under this premise.

6.4.3 Exposure to other market risks - Non-trading portfolios

6.4.3.1 Structural interest rate risk

The interest rate risk is defined as the change in the Group's financial margin or equity value associated with movements in the market interest rates affecting the Institution's assets, liabilities and off-balance sheet instruments not recorded in the trading portfolio (only the Banking Book is taken into account).

The measurement of this risk incorporates calculations of the sensitivity of the one-year financial margin and the economic capital to parallel movements of +/- 200 and 100 basis points in the market curves of the main currencies of the consolidated statement of financial position.

The management of the interest rate risk of the structural positions of the consolidated statement of financial position, which seeks to promote the stability of the financial margin and the equity value in the event of changes in the market interest rates, respecting the solvency and internal limits and complying with the current and future regulatory requirements, is the responsibility of the Assets and Liabilities Committee (COAP), complying with the risk profile guidelines defined by the Board of Directors as proposed by the Risks Department, which is responsible for calculating, analysing, simulating and monitoring the interest rate risk and reporting it to the COAP.

To obtain the data, different methodologies are followed: the static gap, the dynamic gap and the simulation of different scenarios. We thus obtain a broad spectrum of potential sensitivities to facilitate optimised management, in accordance with the risk tolerance level established by the Group's RAF.

With the static gap the magnitudes of the consolidated statement of financial position are obtained on a specific date (at the end of the month), depending on the maturities and natural renewals of the existing flows. We thus obtain a clear picture of the exposure to interest rate variations of the consolidated statement of financial position.

For the magnitudes without any contractual maturity, as is the case with sight deposit accounts, their sensitivity to interest rate changes is analysed by means of an internal model based on the historical behavioural study of these flows, allowing them to be distributed in accordance with the expected maturity term and their transfer speed. (Using Pass-Through Coefficients that calculate the level of impact produced by the changes in the market rates)

The following tables show, by means of a static gap, the distribution of maturities and revisions of interest rates as of 31 December 2023 and 2022, with regard to the sensitive magnitudes of the MoraBanc Group's consolidated statement of financial position:

In thousands of euros	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 December 2023						
Cash, cash balances in central banks and other at-sight deposits	158,938	-	-	-	-	158,938
Loans and Advances	699,872	244,413	398,972	77,651	83,591	1,504,499
Credit Institutions	112,006	13,561	-	-	-	125,567
Clients	587,866	230,852	398,972	77,651	83,591	1,378,932
Debt securities	132,321	108,937	78,052	971,262	344,102	1,634,674
Total Assets	**991,131**	**353,350**	**477,024**	**1,048,913**	**427,693**	**3,298,111**
Deposits of Central Banks and AFA	96,489	26,785	40,785	7,297	794	172,150
Deposits of credit institutions	32,220	-	-	-	-	32,220
Client Deposits	1,026,992	143,993	256,275	1,023,680	363,389	2,814,329
Subordinated Liabilities	-	-	-	-	-	-
Total Liabilities	**1,155,701**	**170,778**	**297,060**	**1,030,977**	**364,183**	**3,018,699**
Derivative Effects Hedges Interest Rate Risk	35,458	78,952	7,990	(29,105)	(93,296)	(1)
Net Total	**(129,112)**	**261,524**	**187,954**	**(11,169)**	**(29,786)**	**279,411**

In thousands of euros	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 December 2022						
Cash, cash balances in central banks and other at-sight deposits	225,050	-	-	-	-	225,050
Loans and Advances	769,121	248,950	442,416	66,329	73,577	1,600,393
Credit Institutions	122,786	162	-	-	-	122,948
Clients	646,335	248,788	442,416	66,329	73,577	1,477,445
Debt securities	386,399	60,867	174,655	990,108	319,887	1,931,916
Total Assets	**1,380,570**	**309,817**	**617,071**	**1,056,437**	**393,464**	**3,757,359**
Deposits of Central Banks and AFA	71,361	48,028	24,832	17,714	1,926	163,861
Deposits of credit institutions	38,887	-	-	-	-	38,887
Client Deposits	1,025,538	70,323	399,769	1,412,937	494,869	3,403,436
Subordinated Liabilities	-	-	-	-	-	-
Total Liabilities	**1,135,786**	**118,351**	**424,601**	**1,430,651**	**496,795**	**3,606,184**
Derivative Effects Hedges Interest Rate Risk	47,919	89,535	3,901	(29,756)	(111,599)	-
Net Total	**292,703**	**281,001**	**196,371**	**(403,970)**	**(214,930)**	**151,175**

With the dynamic gap, different hypotheses are added to obtain a more accurate forecast of how the Group's financial margin will vary. In this way, the data are projected within a scenario regarded as likely, taking into account the envisaged movements of the various magnitudes in the consolidated statement of financial position, in accordance with studies carried out based on a historical analysis of the behaviour of clients and the changes in the different magnitudes of the Group.
Finally, a stress simulation is carried out on the data obtained in the likely scenario, with parallel movements of +/- 200 basis points. Once the data have been obtained, it is verified that they comply with the risk tolerance levels defined by the Institution within its RAF.

The sensitivities of the financial margin obtained from parallel changes of the / -200 bp curve are displayed below:

	Financial Margin Sensitivity	
	+200 bp	-200 bp
31/12/2023	8.30%	-8.20%
31/12/2022	15.00%	-12.50%

This simulation follows the global standard of good practices for monitoring interest risk used by the vast majority of institutions worldwide, in accordance with the recommendations of the BIS (Bank for International Settlements) and the supervisory bodies.

The sensitivities are obtained from the difference between the data obtained in the stress scenario and those of the likely scenario. Both the forecast of the financial margin and the calculation of its sensitivity are made within a 12-month period. With the data obtained, it can be seen over a one-year period how they affect the extreme variations in the financial margin.

Alternative scenarios are also used on a regular basis, taking into account different developments in the macroeconomic data and the masses of the statement of financial position. A wide range of results is thus obtained that will be used to analyse all the possible situations and detect, in time, situations that could jeopardise the proper functioning of the Institution or lead to the exceeding of established thresholds.

Economic value is another important metric to be considered when monitoring interest rate risk. The value is calculated by discounting all the existing future flows in the consolidated statement of financial position. We thus obtain the Bank's current value, also known as the Institution's Economic Value or Current Equity Value. The variations in the curves of the interest rates will cause an impact on the Economic Value. This is why it is necessary to regularly monitor and calculate its sensitivity. Scenarios of parallel movements of +/- 100 basis points of the interest rate curves are used for the calculation of the sensitivity of the Economic Value. The sensitivity of the Economic Value is equivalent to the difference between the stressed value and the Current Value of the likely scenario. The sensitivities show us how the variations in the interest rates affect the current value of the Institution. The simulations carried out tell us within what ranges our Economic Value may vary in adverse situations and with market tensions. The data obtained must always abide by the risk tolerance levels established by the Group with its RAF.

During 2023 the average sensitivity of the Economic Value lay within the following range: [+1.55%; -1.62%], lower than the current approved limit. (in 2022 the data were equal to [+6.38%; -4.82%].

The sensitivity of the interest margin and the asset value are measures which complement each other and permit an overview of the structural risk, more focused on the short and mid terms in the former case and in the medium and long terms in the latter.

6.4.3.2 Structural exchange rate risk

The exchange rate risk represents exposure in the consolidated statement of financial position for movements in the exchange rates, which chiefly include any product with flows in a currency other than the euro or exchange rate derivatives.
In the consolidated statement of financial position, Mora Banc maintains assets and liabilities in foreign currencies, primarily as a result of its commercial activity, as well as assets and liabilities in foreign currencies resulting from the management performed by the Group to mitigate the exchange rate risk.
The total amount of the consolidated statement of financial position in foreign currencies presented by the Group as of 31 December 2023 and 2022 is as follows:

In thousands of euros	EUR	USD	Other
31 December 2023			
Assets		-	-
Cash, cash balances in central banks and other sight deposits	118,199	41,350	21,905
Financial Assets held for Trading	27,824	20,435	-
Non-trading financial assets mandatorily measured at fair value through profit or loss	242,304	743	-
Financial assets at fair value through other comprehensive income	275,464	44,720	12,195
Financial assets at amortised cost	2,664,853	199,410	18,693
Derivatives - Hedge accounting	22,238	-	-
Remaining Assets	167,741	3,381	(555)
Total Assets	**3,518,623**	**310,039**	**52,238**
Liabilities			
Financial Liabilities Held for Trading	21,138	3,091	334
Financial liabilities at fair value through profit or loss	10,090	-	-
Financial Liabilities at amortised cost	2,713,488	305,999	53,292
AFA	130,515	38,808	2,826
Deposits of credit institutions	31,242	131	848
Client deposits	2,505,141	259,087	49,618
Other financial liabilities	46,590	7,973	-
Derivatives - Hedge accounting	386	-	-
Remaining Liabilities and net equity	773,521	949	(1,388)
Total Liabilities and net equity	**3,518,623**	**310,039**	**52,238**

In thousands of euros	EUR	USD	Other
31 December 2022			
		-	-
Assets			
Cash, cash balances in central banks and other sight deposits	149,674	60,481	42,177
Financial Assets held for Trading	38,967	44,189	4,758
Non-trading financial assets mandatorily measured at fair value through profit or loss	257,230	612	-
Financial assets at fair value through other comprehensive income	664,612	101,807	10,272
Financial assets at amortised cost	2,631,500	205,346	8,175
Derivatives - Hedge accounting	28,442	-	-
Remaining Assets	176,383	3,579	(204)
Total Assets	**3,946,808**	**416,014**	**65,178**
Liabilities			
Financial Liabilities Held for Trading	24,967	8,949	87
Financial liabilities at fair value through profit or loss	8,337	-	-
Financial Liabilities at amortised cost	3,183,117	407,552	69,425
AFA	122,885	37,937	3,040
Deposits of credit institutions	38,546	341	-
Client deposits	2,992,363	361,136	66,131
Other financial liabilities	29,323	8,138	254
Derivatives - Hedge accounting	346	-	-
Remaining Liabilities and net equity	730,041	(487)	(4,334)
Total Liabilities and net equity	**3,946,808**	**416,014**	**65,178**

It can be observed that a large part of the consolidated statement of financial position is represented in euros. The remaining positions are usually in leading foreign currencies (US dollar, UK pound sterling, Japanese yen and Swiss franc).

For this reason, the Group’s exchange rate risk is mitigated and is not very high.

6.5 Operational risk

The Group defines operational risk in accordance with the Basel guidelines, such as the risk of losses resulting from shortcomings in the internal processes, human resources and systems, as well as losses caused by external circumstances. It includes legal risk and excludes strategic and reputational risk.
The Group's main objectives in matters of operational risk management are:

- To establish a permanent management model in order to identify operational risk events and their categorisation, measure the current and future impacts, implement action plans for their mitigation and monitor the evolution of the exposure to this risk.
- To regularly review this management model to ensure that it brings value to the Group.
- To integrate the operational risk management into the overall risk management.
- To comply with the current best practices and regulations in this area.
- To promote the culture of operational risk management throughout the Group.
- To establish the RAF's level of tolerance and submit it for the approval of the Board of Directors.

It is considered a risk inherent in any activity, which is why all the Group's areas, as the first line of defence, are also responsible for the identification of the risks lying within their scope of action, reporting to the operational risk unit any operational event which has been generated and collaborating in the mitigation action plans.
The stages of the operational risk management model are:

- Identification of the risks inherent in the Group's activities through a mapping of the processes, in which the existing controls are identified and the risk exposure is quantified.
- The mitigation of the main operational risks identified, from the implementation of action plans in collaboration with the areas involved
- Periodic assessment of operational risk by monitoring risk indicators, and
- Preparation of periodic reports on exposure to operational risk, addressed to senior management and the various area managers.

The Group has an operational risk database which contains the operational events of any activity the Group conducts. Their impact is measured and they are categorised in accordance with the parameters established by Basel. This tool is regarded as a key element in the process of identifying and quantifying this risk for the Group and provides useful management information for the management of the risk by the various Departments.

6.6. Other risks

6.6.1 Reputational risk

Reputational risk is regarded as that which results from a negative perception among clients, counterparties, shareholders, investors and market regulators which may adversely affect the Institution's ability to maintain its existence or establish new business relationships, thus entailing a potential economic loss and/or a loss of confidence in the environment.

Reputational risk may also affect the Institution's responsibilities, as market confidence and the Group's ability to conduct its business are closely related to its reputation.

The Regulatory Intervention and Control Committee, made up of members of senior management, meets to discuss, among other issues, any risks which, if they materialise, could have a reputational impact on the Institution.

6.6.2 Country risk

Country risk is the probability of financial losses due to macroeconomic circumstances, social policies or natural disasters in a given country.

Country risk is a component of credit risk, which incorporates all cross-border loan transactions, due either to ordinary commercial circumstances or financial investments.

The country risk management principles abide by the criterion of maximum prudence, in such a way that this risk is present when it comes to determining the guarantees and prices of the transactions.

As of today, the Group operates mostly in countries which belong to the OECD. In any case, any position with a country which is not a member of the OECD will be considered with a reinforced criterion of credit quality analysis. Similarly, the price and conditions of the transaction must reflect the country risk, in accordance with the income statement under analysis.

However, the total exposure to country risk is low and highly diversified in individual terms (except for countries which belong to the OECD).

6.6.3 Compliance and conduct risk

The Board of Directors of the parent Institution defines the level of risk the Group is willing to assume and approves the risk management policies, regularly supervises their compliance and adopts the appropriate measures to resolve any shortcomings.

The Compliance structure constitutes one of the pillars upon which the Institution reinforces the Board of Directors' commitment to conduct all its activities and businesses in accordance with strict ethical precepts, facilitating a working environment in keeping with the current regulatory framework. In line with the established principles, the Compliance department regularly monitors and evaluates the suitability and effectiveness of the policies and procedures created in order to detect any risk of legal or regulatory non-compliance, as well as the associated risks. It also evaluates and monitors the measures taken to mitigate the Group's potential deficiencies in meeting its obligations. In addition, it is an independent body that has the sufficient authority and the necessary technical and human resources to fulfil the advisory and monitoring mandate of advising the people responsible for the performance of the investment services and activities and supervision of compliance with current regulations. Among the matters it manages the following stand out:

- The Group's Code of ethics and conduct
- The stock market's code of conduct
- Investor protection polices (MiFID)
- Treatment and management of conflicts of interest
- Market Abuse Directive
- Prevention of money laundering and financing of terrorism

6.6.4 Actuarial risk

Subscription or actuarial risk is that which results from the contracting of life and complementary life insurance services with regard to potential hedged claims and the processes resulting from operating as an insurer. Within the banking institution, risks resulting from significant increases in the payments necessary to fulfil defined benefit insurance products resulting from adverse changes in interest rates are listed as significant.

At an individual level, the Bank has a residual exposure to actuarial risk, as it only has old defined benefit exposures which are in "run-off" and they are fully provisioned. The financial and risk areas regularly review the current exposure in order to assess new provisions in the event of an increase in the risk arising from a variation in the interest rates used in the contribution calculation. In addition, an expert report is requested once a year in order to update the value of the contracted obligation.

With regard to the activity conducted by the Group's insurer, the subscription or actuarial risk reflects the risk resulting from entering into insurance contracts. Bearing in mind the claims covered and the processes followed in operating, they can be distinguished in accordance with the breakdown set out below:

- Mortality risk : risk of a loss or an adverse Amendment in the value of insurance liabilities due to variations in the levels, trends and volatilities of mortality rates, provided that an increase in the mortality rate results in an increase in the value of the insurance liabilities.
- Longevity risk : risk of a loss or an adverse Amendment in the value of insurance liabilities due to variations in the levels, trends and volatilities of life expectancy.
- Disability and morbidity risk : risk of a loss or an adverse Amendment in the value of insurance liabilities due to variations in the levels, trends and volatilities of disability, illness and morbidity rates.
- Fall risk : risk of a loss or an adverse Amendment in the value of the expected future profits (reduction) or losses (increase) of commitments entered into by virtue of insurance policies taken out due to variations in the levels, trends and volatilities of policy discontinuity, cancellation, renewal and surrender fees.
- Expenditure risk : risk of a loss or an adverse modification in the value of the envisaged management expenses of commitments entered into by virtue of insurance policies taken out due to variations in the levels, trends and volatilities of expenses for the execution of insurance and reinsurance contracts.

The management of the actuarial risk cycle seeks long-term stable management determined by the management policies for this risk, which are, essentially, the following:

Subscription and establishment of reserves : each line of business (death, disability, accidents, medical expenses, sick leave, serious illness and Other) identifies parameters for the acceptance of the risk, its management, measurement, pricing and valuation, as well as the constitution of the reserves required by the subscription process. The procedures for the subscription and constitution of the above-mentioned reserves are also identified.

Reinsurance: this identifies the level of risk transfer, in accordance with the risks insured in direct contracts, considered suitable for the company's business, as well as the risk type and its functioning. The level of risk withholding in the Bank and its transfer to the reinsurers' chart is established in the reinsurance contracts in force in each financial year. It is understood, however, that, regardless of the level of reinsurance the Company has, the insurer is always contractually liable for the payment of all claims to direct insurance contract policyholders.

With respect to this activity, the Group has clear procedures to implement the reinsurance policy it has established:

- Specification of the types of reinsurance to be established and the conditions, terms and exposure added to each type of business.
- Establishment of limits with regard to the amounts and types of insurance: retention limits in surplus contracts, retention percentages in quota-share contracts, etc.
- Criteria established for the acquisition of coverage in optional reinsurance contracts.

The established limits are justified by the assessment of the risk profile and the cost of the reinsurance.

6.6.5 Technological risk

In relation to technological risk, the Group has an Information Security Department, whose main function is to protect the information managed, used and stored in the internal systems. In this regard, in accordance with the Group's strategic plan, the department applies and monitors compliance with the policies defined and approved by the Board of Directors in reference to the confidentiality, integrity and availability of the information.
Additionally, this activity was reinforced by a Technical Security Office (OTS) consisting mainly of the professional services of Deloitte. From this OTS, Deloitte supports Mora Banc in relation to information security management aspects, acting as an advisor for a set of initiatives defined by the Bank, in order to increase the level of maturity of Mora Banc in cybersecurity through, among others, the contribution of methodology, procedures, frameworks and best practices.

Along these lines, MoraBanc also has a training plan to ensure that all its employees are aware of the potential impact of these risks and understand the Institution's procedures. In addition, MoraBanc organises informative pills and customer-geared campaigns, which are published on the MoraBanc informative blog and social media and on the Digital Banking portal when new threats are detected.

With these resources, compliance with the most widely accepted security standards, such as the ISO 27000 family of standards, is guaranteed at any time of the year, on a 24/7 basis. This standard enables the Group to respond to any external or internal, normative and regulatory requirements, with regard to any type of information security risk.

6.6.6 Climate and environmental risk

With regard to the climate and environmental risk, MoraBanc has integrated the management of these risk factors into its strategy with the Board of Directors taking into consideration the ESG strategy and its master plan.

Based on the lines marked by the ESG Strategic Plan, MoraBanc has also approved a General ESG Policy drawn up by the Board of Directors and created a specific management to drive the integration of sustainability into the institution's value chain and all the business areas.

Finally, an exercise has been performed to analyse the materiality of the climate and environmental risks at the Institution in order to apply the best current practices. As a result of the analysis carried out on the set of impacts of the climate risks on MoraBanc, it has been concluded that the impacts are not material in the short term, but it will be systematically monitored.

The climate and environmental risk factors that have been considered include the physical effects of climate change generated by specific or chronic events and those resulting from the process of transition towards a reduction in emissions involving legislative, technological and behavioural changes in the economic agents.

7. Fair value of the financial instruments

The purpose of using valuation techniques to measure the fair value of financial instruments is to determine the price at which an asset can be exchanged between an experienced buyer and seller, or at which an obligation may be cancelled between an experienced debtor and creditor, when performing a free transaction. Mora Banc measures fair value by using the fair value hierarchy (see Note 3.4).

All the financial instruments are classified at levels in accordance with the methodology used to obtain their fair value; in this way, financial instruments at fair value determined by listings published in active markets **(Level 1)** include public debt, private debt, derivatives traded in organised markets and equity instruments.

In cases in which listings cannot be observed, the management makes its best estimate of the price the market would establish by means of the use of internal models.

On most occasions, these internal models use data based on observable market parameters as significant inputs (**Level 2**).

The Group has certain financial instruments whose fair value has been obtained using its own internal models with significant inputs not observable in market data (**Level 3**). At the end of financial years 2023 and 2022, these instruments consisted mainly of loans and advances, some financial instruments classified in the portfolio at "Financial assets at fair value through profit or loss" and "Non-trading financial assets held mandatorily measured at fair value through profit or loss", as well as financial liabilities at amortised cost from the Group's consolidated statement of financial position.

The valuation techniques used by the Group to measure the fair value of financial instruments include:

- Methods of the Present Net Value discounted with market curves.
- Black-Scholes model.
- Montecarlo.
- Other commonly accepted valuation methods.

The assumptions and inputs used in the valuation techniques include risk-free and reference interest rates, credit spreads and other premiums used to calculate discount rates, prices of goods and shares, currency exchange rates, prices of share indexes and shares and volatilities and correlations of expected prices.

The Group uses widely acknowledged valuation models to determine the fair value of common and simple financial instruments, such as interest and exchange rate swaps, using only observable market data which do not require a high evaluation and estimate. The model's observable prices and inputs are generally available on the market for listed debt and capital securities, derivatives traded in organised markets and simple OTC derivatives, such as interest rate swaps.

The availability of observable market prices and the model's inputs reduce the need for evaluations and estimates and also reduce the uncertainty associated with the measurement of the fair value. The availability of the prices and inputs observable on the market varies in accordance with the products and markets and is subject to changes based on specific events and general conditions in the financial markets. The fair value of the financial instruments as of 31 December 2023 and 2022, as well as their corresponding carrying value appear below:

In thousands of euros	31/12/2023		31/12/2022(*)	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Financial assets held for trading	48,259	48,259	87,914	87,914
Non-trading financial assets mandatorily measured at fair value through profit or loss	243,047	243,047	257,842	257,842
Financial assets at fair value through other comprehensive income	332,379	332,379	776,691	776,691
Financial assets at amortised cost	2,882,956	2,840,205	2,845,021	2,921,232
Hedging derivatives	22,238	22,238	28,442	28,442
Total Assets	3,528,879	3,486,128	3,995,910	4,072,121

In thousands of euros	31/12/2023		31/12/2022	
	Carrying value	Fair value	Carrying value	Fair value
Liabilities				
Financial liabilities held for trading	24,563	24,563	34,003	34,003
Financial liabilities designated at fair value through profit or loss	10,090	10,090	8,337	8,337
Financial liabilities at amortised cost	3,072,779	2,908,852	3,660,094	3,660,094
Hedging derivatives	386	386	346	346
Total Liabilities	3,107,818	2,943,891	3,702,780	3,702,780

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

Whose fair value is classified by the levels as of 31 December 2023 and 2022:

In thousands of euros	31/12/2023			31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Financial assets held for trading	13,365	34,894	-	41,388	46,526	-
Non-trading financial assets mandatorily measured at fair value through profit or loss	239,750	1	3,296	254,889	1	2,952
Financial assets at fair value through other comprehensive income	313,347	12,323	6,709	752,068	12,193	12,430
Financial assets at amortised cost	1,203,753	39,682	1,596,770	1,065,975	40,000	1,815,257
Hedging derivatives	-	22,238	-	-	28,442	-
Total Assets	1,770,215	109,138	1,606,775	2,114,320	127,162	1,830,639

In thousands of euros	31/12/2023			31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Liabilities						
Financial liabilities held for trading	61	24,502	-	22	33,981	-
Financial liabilities designated at fair value through profit or loss	10,090	-	-	8,337	-	-
Financial liabilities at amortised cost	-	-	2,908,852	-	-	3,660,094
Hedging derivatives	-	386	-	-	346	-
Total Liabilities	10,151	24,888	2,908,852	8,359	34,327	3,660,094

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47).

No significant capital gains or losses with respect to the Group's equity would arise from the consideration of the fair value of the transactions contracted, considering the accounting criteria applied and their maturities.

When the observable market transactions are not available, the fair value is calculated by using valuation models such as cash flow discount techniques. The inputs of the valuation techniques include expected credit losses throughout the life of the financial instrument, interest rates, early repayment rates and market spreads, both at the start of the transaction and subsequently.

As for impaired loans with guarantees, their fair value is measured in accordance with the value of the underlying guarantee.

The model's inputs may include data from external brokers whose business activity is carried out in OTC markets and information obtained from other market participants, including any main and secondary transactions observed.

To improve the accuracy of the estimates of the valuations of retail loans and small business loans, homogeneous loans are grouped together in portfolios with similar characteristics, such as age, the LTV (loan to value) ratio, the quality of the guarantee, the type of borrower and product, the early repayment and default rates and the probabilities of default.

The fair value of the deposits of credit institutions and clients is calculated by using cash flow discount techniques, using the discount rate of deposits with similar maturities and contractual conditions. The fair value of the sight deposits is the amount required on the reporting date.

8. Business areas

8.1 Business conditions

The objective of the information by business segments is the control, monitoring and internal management of the activity and results of the MoraBanc Group and is constructed in accordance with the different business lines established in keeping with the Group's structure and organisation.

In order to define the business areas, the inherent risks and management peculiarities of each of them are considered. Similarly, for the segregation by businesses of the activity and results, the basic business units for which accounting and management figures are available are used. The same general principles are applied as those used in the Group's management information and criteria for the measurement, valuation and accounting principles equivalent to those used in the drawing up of the consolidated financial statements, with no asymmetrical allocations.

The Mora Banc Group has three areas it reports on, as described below, in respect of the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different technologies and market strategies. For each of the strategic business units, the Board of Directors of the parent Institution reviews the internal administration reports on a monthly basis.

Each of the areas the Group must report on are listed below:

Banking activity

The Group's main activity; including the entire banking business (retail banking, company, corporate and institutional banking, treasury and markets and private banking) conducted basically in the territory of the Principality of Andorra through the branch network and other complementary channels. It includes both the activity and the results generated by the Group's clients (individuals, companies and institutions). It also incorporates the management of liquidity and income from financing other businesses. We distinguish between:

- *Corporate and institutional company banking* : It is engaged in offering products and services to companies, national businesses and public and private institutions with the aim of facilitating commercial activity and the financing of their operations.
- *Banking for individuals, retail* : An area specialising in the domestic client, developing a commercial segmentation in keeping with the needs of each group.
- *Private Banking:* This is the main activity of the MoraBanc Group, offering personalised services through specialised managers aimed at providing support and advice on issues related to the management of their assets.
- Insurance activity
- Mora Assegurances, SAU is MoraBanc's life insurance company. It seeks to offer all kinds of life insurance policies and health guarantees complementary to life insurance.
- Asset and holding management
- Mora Gestió d'Actius, SAU is the subsidiary of MoraBanc responsible for the activity of managing the group's collective investment bodies.

8.2 Information on the reportable areas and reconciliation of the information

The following are the Group's profit/loss for the 2023 and 2022 financial years by type of Group institutions, which is comparable to the different business areas in which the Group operates:

In thousands of euros	Profit/loss for the financial year	
	2023	2022(*)
Banking activity	43,159	33,766
Insurance company activity	2,565	2,256
Asset and holding management	5,699	4,011
TOTAL	51,423	40,033

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

9. Cash, cash balance in central banks and other sight deposits

The composition of the balance of cash and equivalents in the consolidated statement of financial position as of 31 December 2023 and 2022 is as follows:

In thousands of euros	31/12/2023	31/12/2022
Cash	24,160	27,282
Other sight deposits	157,294	225,050
Total	181,454	252,332

10. Financial assets and liabilities held for trading

The list of financial assets and liabilities held for trading as of 31 December 2023 and 2022 was as follows:

	31/12/2023		31/12/2022	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
Trading derivatives	18,217	24,563	30,985	34,003
Equity instruments	17,594	-	15,626	-
Debt securities	12,448	-	41,303	-
TOTAL	48,259	24,563	87,914	34,003

The list of assets other than the financial derivatives of the trading portfolio as of 31 December 2023 and 2022 was as follows:

In thousands of euros	31/12/2023	31/12/2022
Equity instruments	**17,594**	**15,626**
Listed instruments	17,594	15,626
Debt securities	**12,448**	**41,303**
Issues of financial institutions	10,118	30,529
Other issues	2,330	10,774
Total	**30,042**	**56,929**

The list of derivative financial assets and liabilities as of 31 December 2023 and 2022 appears below:

	31/12/2023		31/12/2022	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
Interest rates	2,055	3,204	2,868	2,162
Currencies	1,698	1,746	3,418	4,317
Credit	1,282	1,968	1,331	1,551
Equity Instruments	13,182	17,645	23,368	25,973
Total	**18,217**	**24,563**	**30,985**	**34,003**

As of 31 December 2023 and 2022 the Group did not have short positions on securities.

11. Financial liabilities designated at fair value through profit or loss

A breakdown, by product type, of the balances of this heading of the consolidated statement of financial position as of 31 December 2023 and 2022 appears below:

Liabilities

	31/12/2023	31/12/2022(*)
Other financial liabilities		
Life insurance in which the policyholder assumes the risk	10,090	8,337
Total liabilities	**10,090**	**8,337**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

These balances chiefly correspond to the products from the insurance company and individual and collective pension and provision plans classified under IFRS 9 and not under IFRS 17, as they do not have an insurance component.

12. Non-trading financial assets mandatorily measured at fair value through profit or loss

A breakdown, by product type, of the balances of this heading of the consolidated statement of financial position as of 31 December 2023 and 2022 appears below:

In thousands of euros	31/12/2023	31/12/2022(*)
Equity instruments	189,360	189,882
Debt securities	53,687	67,960
Other	-	-
TOTAL	**243,047**	**257,842**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The details of the assets and liabilities as of 31 December 2023 and 2022 are as follows:

In thousands of euros	31/12/2023	31/12/2022
Equity instruments	**189,360**	**189,882**
Linked to insurance products in which the policyholder assumes the risk	186,064	186,929
Other	3,296	2,953
Debt securities	**53,687**	**67,960**
Linked to insurance products in which the policyholder assumes the risk	41,777	24,286
Other issues	11,910	43,674
Total assets	**243,047**	**257,842**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

These amounts are of financial assets not intended for trading, compulsorily valued at fair value through profit or loss and linked to insurance products whose risk the policyholder assumes, which are linked to the operation of life insurance products. These products are marketed through Mora Assegurances, SAU.

13. Financial assets at fair value through other comprehensive income

The breakdown of the balance of this section of the consolidated statement of financial position as of 31 December 2023 and 2022, based on the nature of the transactions, was as follows:

In thousands of euros	Fair value 31/12/2023	Fair value 31/12/2022(*)
Equity instruments	22,972	30,130
Shares of non-listed companies	48,233	48,517
Adjustments (gains or losses)	(25,261)	(18,387)
Sub-total	22,972	30,130
Debt securities	309,407	746,561
Public debt	130,876	345,744
Issued by financial institutions	146,617	328,917
Other issues	38,577	88,943
Valuation adjustments (latent valuation gains or losses)	(6,589)	(16,845)
Impairment loss	(74)	(198)
Sub-total	309,407	746,561
Total	332,379	776,691

(*) See Note 2.3, Comparison of information

The carrying value recorded in the above table represents the exposure to credit risk of the MoraBanc Group in relation to the instruments included under this heading.
The following is the change in the balance of provisions that cover impairment losses on financial assets at fair value through other comprehensive income for the 2023 financial year:

In thousands of euros	2023	2022
Balance at the beginning of the financial year	198	411
Plus:		
Provisions to the fund	470	373
Less:		
Other adjustments	-	61
Recoveries of the fund	(594)	(647)
Balance at the end of the financial year	74	198

14. Financial assets at amortised cost

The details of financial assets at amortised cost as of 31 December 2023 and 2022 in the consolidated financial position statements, taking into account the valuation adjustments, is as follows:

In thousands of euros	31/12/2023	31/12/2022(*)
Debt securities	**1,303,197**	**1,159,135**
Loans and advances	**1,595,177**	**1,699,304**
Credit institutions	125,610	123,020
Clients	1,469,567	1,576,284
Adjustments for valuation	**(15,418)**	**(13,418)**
Impairment losses	(37,756)	(39,299)
Accrued interests and commissions	6,729	5,729
Hedging and other derivatives	15,609	20,152
Total	**2,882,956**	**2,845,021**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

14.1 Debt securities and loans and advances to credit institutions

The breakdown of debt securities and loans and advances to credit institutions as of 31 December 2023 and 2022 of the consolidated statements of financial position, including the valuation adjustments, was as follows:

In thousands of euros	31/12/2023	31/12/2022(*)
Debt securities	**1,303,197**	**1,159,135**
Andorran public debt	215,874	190,928
Foreign public debt	686,978	534,962
Issues of financial institutions	230,831	245,070
Other issues	169,514	188,175
Loans and advances to financial institutions	**125,610**	**123,020**
Sight deposit accounts	-	-
Term deposits	125,610	123,020
Temporary acquisition of assets	-	-
Adjustments for valuation	**22,028**	**25,477**
Impairment losses	(309)	(404)
Interest accrued	6,729	5,729
Hedging and other derivatives	15,608	20,152
Net carrying value	**1,450,835**	**1,307,632**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

Below appears the movement which occurred in the balance of the provisions covering impairment losses from debt securities and loans and advances to credit institutions in the 2023 and 2022 financial years:

In thousands of euros	31/12/2023	31/12/2022
Balance at the beginning of the financial year	**404**	**439**
Plus:		
Provisions to the fund	2	12
Less:		
Recoveries of the fund	(97)	(47)
Balance at the end of the financial year	**309**	**404**

14.2 Loans and advances to clients

The list of loans and advances to clients in the consolidated statements of financial position as of 31 December 2023 and 2022, considering the valuation adjustments, was as follows:

In thousands of euros	31/12/2023	31/12/2022(*)
Loans and advances to clients (gross)	**1,469,567**	**1,576,842**
Debtors with money guarantees and securities	369,088	480,575
Mortgages	676,916	755,296
Public sector	18,738	29,769
Without any Real Guarantee	404,825	311,202
Provision for impairment	**(37,446)**	**(38,894)**
Total	**1,432,121**	**1,537,948**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

Below are the changes which occurred in the balance of the provisions covering impairment losses from loans and advances to clients as of 31 December 2023 and 2022:

In thousands of euros	31/12/2023	31/12/2022
Balance at the beginning of the financial year	**38,894**	**42,836**
Plus:		
Provisions to the fund	3,864	1,086
Less:		
Applications of the fund	(2,665)	(1,117)
Recoveries of the fund	(2,647)	(3,911)
Bad loan recoveries	-	-
Balance at the end of the financial year	**37,446**	**38,894**

15. Hedging derivatives and changes in the fair value of elements hedged by a portfolio with interest rate risk hedging

The Group uses interest rate swaps to hedge its exposure to changes in the fair value of its mortgage loans and fixed-rate debt instruments.

15.1 Hedging derivatives

The list of hedging derivatives of the interest rate risk held by the Group as of 31 December 2023 and 2022 in the consolidated statements of financial position appears below:

In thousands of euros	31/12/2023		
	Assets	Liabilities	Nominal
Fair value accounting hedges			
Interest rate risk	22,238	386	69,531

In thousands of euros	31/12/2022		
	Assets	Liabilities	Nominal
Fair value accounting hedges			
Interest rate risk	28,442	346	66,314

As of the closure of the 2023 and 2022 financial years, all these derivatives relate to non-organised markets.

The nominal amount of the formalised contracts does not match the total risk assumed by the Group, as the net position of these financial instruments is determined by their composition and/or combination. The positions opened by the transactions indicated above do not pose a significant interest rate, exchange or market risk.

During the 2023 and 2022 financial years the Group determined whether hedges are effective by means of the realisation of an effectiveness test on them.

15.2 Items hedged

The MoraBanc Group performs fixed-rate hedges at fair value.
The hedging is performed by means of the transformation of the fixed-rate financial instrument to a variable rate, the nature of the hedged risk being the interest rate. The hedging instruments used are mainly interest rate swaps which transform the fixed-rate hedged element into one with a variable rate.

As of 31 December 2023 and 2022, the changes in the fair value of the hedged positions were:

In thousands of euros	31/12/2023	
	Assets	Liabilities and Net Equity
Changes in the fair value of the hedged items in hedges with interest rate risk	-	20,649

In thousands of euros	31/12/2022	
	Assets	Liabilities and Net Equity
Changes in the fair value of the hedged items in hedges with interest rate risk	-	7,807

15.3 Other derivatives held for risk management

The Group uses other derivatives which are not designated to any accounting hedge to manage its exposure to currency, interest rate and credit risks. The instruments used include interest rate swaps, cross currency swaps, term deposit contracts, futures, options and credit swaps.

16. Investments in joint ventures and associates

Under the heading "Investments in subsidiaries, joint ventures and associates – Associated entities and joint ventures" for the years ending on 31 December 2023 and 2022, the Mora Banc Group has a 33.33% holding in Societat Serveis i Mitjans de Pagament XXI, SA (associated entity) and a 25% stake in the company Financera Pyrénées, SAU (joint ventures and associates – Associated entities) (see Note 4).

The main data of the companies as of 31 December 2023 and 2022 are as follows:

31/12/2023 (In thousands of euros)	% holding	Carrying value	Capital	Reserves	Profit/loss for the financial year	Interim dividend	Total equity
Serveis i Mitjans de Pagament XXI, SA (*)	33%	61	60	564	262	-	886
Societat Financera Pyrénées, SA	25%	4,641	60	4,550	563	-	5,173

31/12/2022 (In thousands of euros)	% holding	Carrying value	Capital	Reserves	Profit/loss for the financial year	Interim dividend	Total equity
Serveis i Mitjans de Pagament XXI, SA (*)	33%	61	60	382	222	-	664
Societat Financera Pyrénées, SA	25%	5,001	60	4,550	2,002	-	6,612

(*) Direct or indirect percentage holding

As of 31 December 2023 and 2022, there was no agreement for financial support or any other type of contractual commitment involving the parent company or subsidiary institutions and the associated institutions not recognised in the consolidated financial statements.

As of 31 December 2023 and 2022, there were no contingent liabilities in relation to investments in subsidiaries, joint ventures or associates.

Every year the Group assesses the evidence of impairment of associated holdings and joint ventures. The tests have been carried out, without finding any signs of impairment.

17. Tangible assets and property investments

The movement of the tangible fixed assets for own use accounts and property investments in the 2023 and 2022 financial years was as follows:

	Own use and property investments							
In thousands of euros	Land and buildings	Furniture and fittings	Hardware	Other	Total	Property investments	Leased property rights of use (*)	Total
Cost								
Balance at 31 December 2022	73,010	31,445	19,467	439	124,361	78,721	7,178	210,260
Recognitions	4,445	937	1,190	-	6,572	17	1,131	7,720
Derecognitions	(2,386)	(2,503)	(288)	-	(5,177)	-	(543)	(5,720)
Sales	-	-	-	-	-	(330)	-	(330)
Balance at 31 December 2023	75,069	29,879	20,369	439	125,756	78,408	7,766	211,930
Impairment and accumulated amortisation								
Balance at 31 December 2022	(11,613)	(27,416)	(17,692)	(317)	(57,038)	(48,358)	(2,504)	(107,900)
Recognitions	(777)	(933)	(1,120)	-	(2,830)	(40)	(916)	(3,786)
Derecognitions	760	1,592	89	-	2,441	(4,036)	(200)	(1,795)
Sales	-	-	-	-	-	35	-	35
Balance at 31 December 2023	(11,630)	(26,757)	(18,723)	(317)	(57,427)	(52,399)	(3,620)	(113,446)
Carrying value as of 31 December 2022	61,397	4,029	1,775	122	67,323	30,363	4,674	102,360
Carrying value as of 31 December 2023	63,439	3,122	1,646	122	68,329	26,009	4,146	98,484

(*) As required by IFRS 16

In thousands of euros	Own use and property investments							
	Land and building	Furniture and fittings	Hardware	Other	Total	Property investments	Leased property rights of use (*)	Total
Cost								
Balance at 31 December 2021	72,996	30,374	18,211	439	122,020	81,679	3,316	207,015
Recognitions	14	1,071	1,472	-	2,557	-	3,862	6,419
Derecognitions	-	-	(216)	-	(216)	-	-	(216)
Sales	-	-	-	-	-	(2,958)	-	(2,958)
Balance at 31 December 2022	73,010	31,445	19,467	439	124,361	78,721	7,178	210,260
Impairment and accumulated amortisation								
Balance at 31 December 2021	(10,797)	(26,510)	(16,706)	(300)	(54,313)	(48,384)	(1,688)	(104,385)
Additions	(816)	(879)	(986)	(17)	(2,698)	(38)	(816)	(3,552)
Derecognitions	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	64	-	64
Exchange and other differences	-	(27)	-	-	(27)	-	-	(27)
Balance at 31 December 2022	(11,613)	(27,416)	(17,692)	(317)	(57,038)	(48,358)	(2,504)	(107,900)
Carrying value as of 31 December 2021	62,199	3,864	1,505	139	67,707	33,295	1,628	102,630
Carrying value as of 31 December 2022	61,397	4,029	1,775	122	67,323	30,363	4,674	102,360

(*) As required by IFRS 16

Includes the amount of the property, land, furniture, vehicles, computer equipment and other facilities owned by the consolidated institutions or acquired under a financial leasing scheme, if applicable.

During the 2023 and 2022 financial year, there were sales of foreclosed assets classified as “Tangible Assets - Property Investments” that were recorded at a net carrying value of €307,000 and €2,894,000 and a profit of €99,000 and €1,313,000 respectively.

During 2023, the value of the land classified as property investments has been updated with an endowment of €4,036,000.

The assets are classified in accordance with their purpose in:

17.1 Tangible fixed assets for own use

Tangible fixed assets for own use which are expected to be for permanent own use, are stated at acquisition cost, less the corresponding accumulated depreciation and, if applicable, the estimated losses that result from comparing the net value of each item with its corresponding recoverable amount.
Likewise, the rights to use the leased assets are amortised under this heading, which are amortised over the consolidated income statement.

17.2 Property investments

The heading “Property investments” includes the net values of land, buildings and other constructions kept in optimal conditions to be rented out or to obtain a capital gain from their sale as a result of the increases which may occur in the future in their respective market prices. Likewise, the assets recognised for more than 3 years in the consolidated statement of financial position are recognised under “Tangible assets - Property investments” (see Note 3.12).
At the end of the financial year, the total value of the property investments amounted to €26,009,000 (€30,363 in 2022).

During the 2023 and 2022 financial years the Group did not reclassify any assets in the “Tangible assets - Property investments” heading.

The Institution has estimated the fair value of its real estate investments using the discounted cash flow method or valuations of independent experts, which are updated annually, based on their use as a cultural or real estate operation.

The institution annually compares the value of the property asset in respect of Casa Vicens, a unique property built by Antoni Gaudí between 1883 and 1885, one of his first masterpieces and a UNESCO World Heritage Site since 2005, which it currently operates commercially as a museum.

As for the comparison exercise this year, the main assumptions regarding cash flow discounting for the 2023 and 2022 financial years were:

- Projection of expected cash flows expected over the next 5 years.
- Expected CPI of 2.09% in 2023.
- Discount rates of 6.80% and 6.77% for 2023 and 2022, respectively.

18. Intangible fixed assets

The list of movements of the intangible assets as of 31 December 2023 and 2022 was as follows:

In thousands of euros	Computer applications	Other	Goodwill	Total
Cost				
Balance at 31 December 2022	122,621	624	11,784	135,029
Acquisitions	3,047	4	-	3,051
Derecognitions	(4,461)	-	-	(4,461)
Balance at 31 December 2023	121,207	628	11,784	133,619
Accumulated amortisation				
Balance at 31 December 2022	(105,598)	(588)	-	(106,186)
Acquisitions	(3,665)	(14)	-	(3,679)
Derecognitions	1,182	-	-	1,182
Balance at 31 December 2022	(108,081)	(602)	-	(108,683)
Carrying value as of 31 December 2023	13,126	26	11,784	24,936

In thousands of euros	Computer applications	Other	Goodwill	Total
Cost				
Balance at 31 December 2021	115,337	611	11,784	127,732
Recognitions	7,326	13	-	7,339
Derecognitions	(42)		-	(42)
Balance at 31 December 2022	122,621	624	11,784	135,029
Accumulated amortisation				
Balance at 31 December 2021	(101,690)	(575)	-	(102,265)
Additions	(3,908)	(13)	-	(3,921)
Derecognitions	-	-	-	-
Balance at 31 December 2022	(105,598)	(588)	-	(106,186)
Carrying value as of 31 December 2022	17,023	36	11,784	28,843

18.1 Goodwill

On 31 December 2023 and 2022, the amount recorded in this heading of the consolidated statement of financial position is €11,784,000 euros. Said goodwill was generated by the purchase of a majority holding in BSA Banc, SA, on 1 October 2021. On 11 November 2022, following the approval of the AFA, the technological and legal merger of the two financial institutions and their respective subsidiaries took place.

This goodwill was attributed to the Cash Generating Unit (CGU) of the banking business for the purpose of calculating the impairment.

As set out in the reference regulatory framework, the Group conducted an analysis in the 2023 financial year to assess the potential existence of impairment of the goodwill.

In accordance with IAS 36, impairment occurs when the net carrying value exceeds the recoverable amount, which is the higher of the value in use and the fair value less the sales costs. In this case, the recoverable amount of the asset banking unit has been determined by the value in use, using cash flow projections based on the budgets approved by the Management. The main hypotheses used according to the aforementioned methodology are outlined below:

Projected period

As set out in paragraph 33 (b) of IAS 36, the projected period considered for estimating the future cash flows of the CGU is 5 years, in accordance with the budgets approved by the Group's Management for the next 5 years. We believe that this period is appropriate to reflect the current business plan projected by the CGU.

Discount rate

The discount rate reflects the Management's estimate of the specific risk to the CGU. This is the benchmark used by the Management to evaluate the operational development and the future investment proposals. The discount rate applied to calculate the value using the CGU on the valuation date is the cost of the equity and it has been determined in accordance with the Capital Asset Pricing Model (CAPM). This model is based on the risk-free (Rf) rate, which has been calculated as the 10-year (good) public debt yield in Europe as of 31 December 2023, plus the premium for the market risk, based on the publications of the studies referring to the applicable risk premiums (Rm), multiplied by the average beta coefficient of the financial sector.

Growth rate in perpetuity

For the calculation of the growth rate in perpetuity, the growth estimate of the studies published by the credit rating agencies in relation to Andorra has been used.

Sensitivity to changes in hypotheses

In order to ensure the soundness of its calculation, the Management has carried out a value sensitivity analysis using the analysed CGU with respect to variations in the main hypotheses affecting this calculation. To this effect, sensitivity analyses have been performed on the discount rate (Ke), the expected cash flows and the perpetual growth rate (g).

Sensitivity analysis

The Group has carried out a sensitivity analysis consisting of adjusting +/- 100 basis points for the discount rate and +/- 50 basis points for the growth rate in perpetuity.

The sensitivity analysis performed concludes that none of the scenarios defined in this analysis have a significant impact.

19. Other assets and liabilities

All the assets and liabilities not classified in the previous categories are included in this section. The composition of the balance of these headings of the consolidated statement of financial position as of 31 December 2023 and 2022 is as follows:

	31/12/2023	31/12/2022(*)
In thousands of euros		
Accruals and deferrals	3,868	2,505
Other assets	339	170
Total remaining assets	**4,207**	**2,675**
Accruals and deferrals	32,726	25,128
Other liabilities	185	82
Total remaining liabilities	**32,911**	**25,210**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

The balances accounted for in the remaining assets are in respect of expenses paid in advance by the Group and its subsidiary companies, within their ordinary activity.

With regard to the balances recorded in the remaining liabilities, accrued expenses not paid for obligations with third parties and employees are included.

20. Non-current assets and disposable groups of elements classified as held for sale

20.1 Composition of the balance

The details of the balance of non-current assets and disposable groups of elements classified as held for sale as of 31 December 2023 and 2022 were as follows:

In thousands of euros	31/12/2023	31/12/2022
Fixed assets	2,171	3,185
From awards	1,312	1,707
Other	859	1,478
Total	**2,171**	**3,185**
Value corrections	-	-
Total Net	**2,171**	**3,185**

This section of the consolidated statement of financial position mainly includes the assets from acquisitions in the process of regularising lending transactions that are not incorporated as assets for personal use, real estate investment or inventories.

20.2 Movement

The movements which took place in 2023 and 2022 financial years in the balance of this section of the statement of financial position are shown below:

In thousands of euros	From credit transactions	Other	Total
Cost			
Balance as of 31 December 2022	1,707	1,478	3,185
Sales	(395)	(619)	(1,014)
Balance as of 31 December 2023	1,312	859	2,171
Impairment losses			
Balance as of 31 December 2022	-	-	-
Balance as of 31 December 2023	-	-	-
Carrying value as of 31 December 2022	1,707	1,478	3,185
Carrying value as of 31 December 2023	1,312	859	2,171

In thousands of euros	From credit transactions	Other	Total
Cost			
Balance as of 31 December 2021	1,810	1,478	3,288
Recognitions	35	-	35
Sales	(138)	-	(138)
		-	
Balance as of 31 December 2022	1,707	1,478	3,185
Impairment losses			
Balance as of 31 December 2021	-	-	-
Balance as of 31 December 2022	-	-	-
Carrying value as of 31 December 2021	1,810	1,478	3,288
Carrying value as of 31 December 2022	1,707	1,478	3,185

20.3 Information relating to assets classified as held for sale

Breakdown by type of asset

The distribution of the assets from awards and foreclosures as of 31 December 2023 and 2022, depending on the nature of the asset, considering their impairment fund, appears below.

In thousands of euros	31/12/2023 %	31/12/2023 Amount	31/12/2022 %	31/12/2022 Amount
Assets for residential use	48%	1,050	45%	1,446
Asset for industrial or commercial use	39%	855	46%	1,473
Undeveloped land	12%	266	8%	266
Total	**100%**	**2,171**	**100%**	**3,185**

21. Financial liabilities at amortised cost

21.1. Composition of the balance

The composition of the balance of these sections of the consolidated statements of financial position in accordance with the nature of the financial liability as of 31 December 2023 and 2022 was as follows:

In thousands of euros	31/12/2023	31/12/2022(*)
Deposits	3,018,697	3,604,583
Central banks and credit institutions	204,369	202,749
Clients	2,814,328	3,401,834
Other financial liabilities	54,082	55,511
Total	**3,072,779**	**3,660,094**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

21.2 Deposits with central banks

The composition of the deposits with central banks as of 31 December 2023 and 2022 was as follows:

In thousands of euros	31/12/2023	31/12/2022
At sight	28,796	69,644
Term deposits	143,353	94,218
Total deposits in Central Banks (AFA)	**172,149**	**163,862**

21.3 Deposits of credit institutions

The list of deposits of credit institutions as of 31 December 2023 and 2022 was as follows:

In thousands of euros	31/12/2023	31/12/2022
At sight	8,560	6,237
Term deposits	23,660	32,650
Total	**32,220**	**38,887**

21.4 Client deposits

The list of client deposits as of 31 December 2023 and 2022, based on the currency and the period until maturity, was as follows:

In thousands of euros	31/12/2023	31/12/2022
By currency:	**2,814,328**	**3,401,834**
In euros	2,509,777	2,990,567
In other currencies	304,551	411,267
Deposits by nature (see note 32)	**2,814,328**	**3,401,834**
At sight	2,210,152	2,980,013
Term deposits	604,176	421,821
Total client deposits	**2,814,328**	**3,401,834**

21.5 Debt securities issued

As of 31 December 2023 and 2022, the Group has no issued debt securities.

21.6 Other financial liabilities

The list of other financial liabilities as of 31 December 2023 and 2022 was as follows:

In thousands of euros	31/12/2023	31/12/2022(*)
Obligations payable	48,235	47,318
Guarantees received	2,097	2,788
Special accounts	1,819	3,751
Other items	1,931	1,654
Total	**54,082**	**55,511**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

22. Assets from reinsurance contracts and liabilities from insurance contracts

The breakdown of the balance of assets and liabilities covered by insurance and reinsurance contracts as of 31 December 2023 and 2022 was as follows:

In thousands of euros	31/12/2023	31/12/2022(*)
Assets covered by reinsurance contracts	**26,088**	**27,358**
Liabilities covered by insurance contracts	**292,096**	**299,108**
Better estimate of liabilities	286,241	294,170
Risk adjustment	216	288
Contractual service margin	4,435	3,646
Liabilities for claims incurred	1,204	1,004

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

23. Provisions

23.1 Composition of the balance

The composition of the balance of this section of the attached consolidated statement of financial position, in accordance with the types of provisions originating it, is as follows:

In thousands of euros	31/12/2023	31/12/2022
Pensions and other post-employment defined benefit obligations (Note 24)	7,786	8,954
Other remuneration for long-term employees (Note 24)	948	1,101
Procedural issues and litigation for pending taxes	3,523	3,332
Commitments and guarantees granted (Note 29)	1,904	2,752
Other Provisions	4,175	3,771
Total	**18,336**	**19,910**

Below appears a brief description of the nature of the obligations contracted, as well as the movements which occurred during the 2023 and 2022 financial years in the balances of the components of the headings of this section:

Pensions and other post-employment defined benefit obligations

As described in Note 3.21, the Group finances defined contribution plans for retired employees. All the current defined benefit plans are in respect of retired personnel, closed to new hires.

The Group generates, and charges to profit or loss, the provisions necessary to meet all the salary and social obligations of a group of employees, which, when they meet certain characteristics, have taken early retirement carried out by the Group under an incentive scheme established during the year. These commitments have been added to those already provided in previous years and all have been updated based on an actuarial study by an independent expert.

Other remuneration for long-term employees

The balance recorded in this fund is in respect of the long-term remuneration of employees and is updated annually, this is an internal remuneration system in which the active, pre-retired and retired employees are beneficiaries.

Procedural issues and litigation for pending taxes

Corresponds in full to the funds that the Group allocates to meet the costs of litigation in court proceedings for third-party claims in progress (see Note 3.16).

Provisions for commitments and guarantees granted

This fund corresponds to the impairment recorded during the 2023 and 2022 financial years, of the contingent commitments for credit operations amounting to €1,904,000 and €2,752,000, respectively.

Other provisions

This section records other provisions for which the Group considers that there is a present obligation for a past event and considers that there is a high probability that this will result in an outflow of economic resources. (See Note 3.16).
The balance includes the provisions to be settled in the Andorran Deposit Guarantee Fund ("FAGADI") for €2,694,000, and the provisions constituted to hedge risks arising from the Group's operation of financial distribution and intermediation.

23.2 Changes in provisions

The changes in provisions for pensions and obligations of post-employment benefits and similar during the 2023 and 2022 financial years were as follows:

	2023	2022
Balance at the beginning of the financial year	**8,954**	**11,966**
Plus:	**585**	**67**
Provision to the fund charged to labour expenses	545	12
Return on assets affected by the fund (financial cost)	40	55
Less:	**(1,753)**	**(3,079)**
Recoveries of the fund	(108)	(1,066)
Applications of the fund	(1,645)	(2,013)
Balance at the end of the financial year	**7,786**	**8,954**

During 2023 and 2022 the balance of the other long-term remuneration of employees had the following movement:

	2023	2022
Balance at the beginning of the financial year	1,101	1,309
Plus:	**-**	**15**
Provision to the fund	-	15
Less:	**(153)**	**(223)**
Recoveries of the fund	(68)	(199)
Applications of the fund	(85)	(24)
Balance at the end of the financial year	**948**	**1,101**

The outflow of economic resources from this provision is estimated to take place in accordance with a calendar individually established, based on the years served by the employee within the Group.

Below appears the movement which occurred in the section titled "Procedural issues and litigation for pending taxes" of the liabilities of the attached consolidated statements of financial position in the 2023 and 2022 financial years:

	2023	2022
Balance at the beginning of the financial year	3,332	3,316
Plus:	**191**	**16**
Provision to the fund	191	16
Less:	**-**	**-**
Balance at the end of the financial year	**3,523**	**3,332**

The outflow of economic resources is uncertain and has been calculated upon the basis of likely events and is forecast individually, based on each of the legal or fiscal contingencies.

The movement which occurred in the section titled "Commitments and Guarantees Granted" of the liabilities of the attached consolidated statements of financial position in 2023 and 2022 appears below:

	2023	2022
Balance at the beginning of the financial year	2,752	2,379
Plus:	**(872)**	**725**
Provisions to the fund	(872)	725
Less:	**24**	**(352)**
Applications	24	(352)
Balance at the end of the financial year	**1,904**	**2,752**

The outflow of economic resources is foreseen upon the basis on the average life of the associated transactions.

The movement of the section titled "Other provisions" in the liabilities of the attached consolidated statements of financial position in the 2023 and 2022 financial years was as follows:

	2023	2022
Balance at the beginning of the financial year	**3,771**	**4,153**
Plus:	**3,018**	**3,296**
Provision to the fund	3,018	3,296
Less:	**(2,614)**	**(3,678)**
Recoveries of the fund	(129)	(134)
Applications of the fund	(2,484)	(2,546)
Transfers	(1)	(998)
Balance at the end of the financial year	**4,175**	**3,771**

Given the nature of these provisions, the calendar of outflows of economic resources is uncertain.

24. Post-employment remuneration and other commitments with employees

24.1 Composition of the balance

As of 31 December 2023 and 2022, the details of the current value of the obligations assumed by the Bank in matters of post-employment remuneration, depending on the way in which the commitments were covered and at the fair value of the assets of the plan allocated to its hedging, was as follows:

In thousands of euros	31/12/2023	31/12/2022
Obligations for defined benefit pensions and other obligations	3,790	4,205
Obligations for early retirements	3,996	4,749
Other long-term remuneration	948	1,101
Total	**8,734**	**10,055**

24.2 Defined benefit plans

Movement of the provisions for defined benefit commitments
The movements which occurred in the 2023 and 2022 financial years in obligations for pension commitments and other similar obligations are shown below:

In thousands of euros	Obligations for defined benefit pensions	Obligations for early retirements	Total
Balance as of 31 December 2021	5,374	6,592	11,966
Total impacts on the consolidated income statement	(1,039)	(171)	(1,210)
Costs for past services	(1,066)	(199)	(1,265)
Net interest income	27	28	55
Other impacts	(133)	(1,669)	(1,802)
Benefits paid	(133)	(1,669)	(1,802)
Balance as of 31 December 2022	4,202	4,752	8,954
Total impacts on the consolidated income statement	(87)	555	468
Costs for past services	(108)	535	427
Net interest income	21	20	41
Other impacts	(321)	(1,315)	(1,636)
Benefits paid	(321)	(1,315)	(1,636)
Balance as of 31 December 2023	3,794	3,992	7,786

24.3 Details of actuarial hypotheses

Below appear the main actuarial hypotheses used in the valuation of the commitments as of 31 December 2023 and 2022:

	2023	2022
Financial hypotheses		
Discount rate	AA corporate bond curve (in €)	AA corporate bond curve (in €)
Nominal rate of update	3-3%	2.5-2.5%
Increase in CPI	2%	2%
CASS salary increase	2%	2%
Demographic hypotheses		
Mortality tables	PERM/F 2020 col 1	PERM/F 2020 col 1
Disability tables	70% total disability (IASS-90)	70% total disability (IASS-90)
Retirement age	65	65

24.4 Analysis of the sensitivity of the main hypotheses

The variations of the main hypotheses can affect the calculation of the commitments. Below appears a table of sensitivities with the effect a variation would cause in the obligations in the main hypotheses for the 2023 and 2022 financial years:

Current Actuarial Value as of 31/12/2023	Beneficiaries affected	People taking early retirement
CAV central scenario: (in thousands of euros)	3,788	*3,763*

Variation of hypothesis	Change	Beneficiaries affected				*Early retirees*			
		CAV variation in the event of an Increase	%	CAV variation in the event of a Decrease	%	CAV variation in the event of an Increase	%	CAV variation in the event of a Decrease	%
Discount rate	100% Basis Points	(292)	(7.72)	339	8.94	(85)	(2.26)	89	2.37
Discount rate	50% Basis Points	(151)	(4.00)	163	4.30	(43)	(1.14)	44	1.17
Variation in Inflation	50% Basis Points	-	-	-	-	-	-	-	-
Mortality Rate	1 year	20	0.53	(20)	(0.54)	1	0.02	(1)	(0.02)

Current Actuarial Value as of 31/12/2022	Beneficiaries affected	People taking early retirement
CAV central scenario: (in thousands of euros)	4,202	*4,528*

Variation of hypothesis	Change	Beneficiaries affected				*Early retirees*			
		CAV variation in the event of an Increase	%	CAV variation in the event of a Decrease	%	CAV variation in the event of an Increase	%	CAV variation in the event of a Decrease	%
Discount rate	100% Basis Points	(342)	(8.14)	399	9.50	(103)	(2.27)	108	2.38
Discount rate	50% Basis Points	(177)	(4.22)	192	4.56	(52)	(1.15)	53	1.18
Variation in Inflation	50% Basis Points	-	-	-	-	-	-	-	-
Mortality Rate	1 year	23	0.55	(23)	(0.55)	1	0.02	(1)	(0.02)

The sensitivities have been determined on the date of the consolidated financial statements and correspond to the individual variation of each of the assumptions, keeping the rest constant, excluding potential combined effects.

24.5 Defined contribution plans

In 1977, the Group established a pension fund for employees whose purpose was to complement the benefits of the Andorran Social Security Fund.

In the 2007 financial year, it was proposed to employees to modify and transform this internal pension fund, replacing it with a pension scheme with a defined contribution model, implemented and managed through a collective insurance policy signed by Mora Banc Grup, SA, on behalf of the Group, with the institution Mora Assegurances, SAU, which transferred the policy to AXA Vida, SA, under reinsurance. Virtually all the employees accepted this transformation.

As a result of the outsourcing process, payments for the amount of €321,000 (€133,000 in the 2022 financial year) were made in 2023.

In addition, for former employees as well as for active ones who did not join the new pension scheme (without there being any currently active employees), an internal pension fund is maintained (see Note 24.2).

During the 2023 and 2022 financial years, ordinary contributions to the internal pension fund were not made; in any case, they would be recorded under the heading "Administration expenses - Personnel expenses" and the part corresponding to the capitalisation of the internal funds maintained would be recorded under the heading "Interest Expenses - Other Liabilities" in the consolidated income statements.

24.6 Obligations with early retiree staff

The Bank has established, charging them to profit and loss, the necessary provisions to meet all the salary and social commitments of a group of employees which, when meeting certain characteristics, was included in the early retirement process carried out by the Group under an incentive scheme.

The charge for this item has been recognised under "Allocations for provisions" in the attached consolidated income statement (see Notes 3.21 and 23) together with the updating of all commitment in salaries and social benefits acquired in previous years by analogous processes.

During the 2023 financial year, the Bank proceeded to update all the commitments in effect for this item and recorded the variation in the provision of the heading titled "Allocations to provisions" in the attached consolidated income statement (see Notes 3.21 and 23).

In addition, in the 2023 financial year payments for this item were made for the amount of €1,315,000 (€1,669,000 in 2022).

25. Capital and reserves

25.1 Share capital

The share capital appearing in these consolidated financial statements is that of Mora Banc Grup, SA as of December 2023 and 2022, which is represented by 732,479 shares, each with a nominal value of €60.10, fully subscribed and paid up.

The Bank does not have treasury stock either directly or indirectly through any of its subsidiaries.

The share capital of the Bank belongs to an Andorran family group and there are restrictions on the transferability of the shares.

There are no current capital increases in the Bank. There is no other type of bond which confers rights similar to those previously mentioned.

25.2. Nature and purpose of the reserves

Composition of the reserves

The composition of the reserves as of 31 December 2023 and 2022 was:

In thousands of euros	31/12/2023	31/12/2022(*)
Accumulated profit	**342,597**	**322,824**
Legal reserve	10,672	10,672
Guarantee reserves	32,055	32,055
Voluntary reserves	299,870	280,097
Other reserves	**(32,275)**	**(33,160)**
Reserves for the first application	(43,949)	(43,862)
Reserves of consolidated companies by the full consolidation method	10,934	10,050
Reserves of companies integrated by the equity method	740	652
Total	**310,322**	**289,664**

(*) Includes conversion differences

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

Legal reserve

In accordance with Law 20/2007 of 18 October on joint stock companies and limited liability companies, these companies must deduct ten per cent of the profit earned in each year to constitute the legal reserve, until it reaches an amount equal to twenty per cent of the share capital. As of 31 December 2023 and 2022, the legal reserve was fully constituted. The legal reserves of the consolidated companies are included in this section.

The legal reserve is presented separately under the headings "Legal reserve" to reflect its nature as restricted.

Guarantee reserves

The General Council of the Principality of Andorra, in its session on 13 September 2018, enacted Law 20/2018 regulating the Andorra Deposit Guarantee Fund and the Andorran investment guarantee system.

Law 20/2018 entails the adaptation to the EU regulations of the current regime of the deposit and investment guarantee system for Andorran banking institutions, regulated by Law 1/2011, of 2 February, on the creation of a guarantee system of deposits for banking institutions and the Regulation on the organisation and operation of the Management Commission, approved by the Decree of 9 May 2012.

In compliance with these laws, the Group has constituted a reserve in guarantee of its operational obligations at 31 December 2023 totalling €32,055,000 (€32,055,000 in 2022).

Voluntary reserves

The voluntary reserves are freely available, except for the corresponding part of the goodwill amounting to €11,784,000.

First application reserves

As of 31 December 2023 and 2022, within the heading "Other reserves - First application reserves" of the consolidated financial position statement are recorded:

- The effect of the necessary adjustments recorded in the 2017 financial year arising from the transition between the accounting criteria in force until 31 December 2016 and the new international regulations applicable from 1 January 2017 (IFRS - EU).
- The effect of the necessary adjustments recorded on 1 January 2018 for the first application of IFRS 9 that entered into force in 2018.
- The effect of the necessary adjustments recorded on 1 January 2022 for the first application of IFRS 17 that entered into force in 2022.

Reserves of consolidated companies by the global integration method

The consolidation reserves come from those companies integrated through the global integration method (see Note 4)

Reserves of companies consolidated by the equity method

These are consolidation reserves from the integrated Companies using the equity method and include the conversion differences (see Note 4).

Consolidation reserves

The consolidation reserves, including conversion differences, are those of the following companies:

In thousands of euros	2023	2022(**)
Integrated globally (*):		
Mora Gestió d'Actius, SAU	5,869	5,848
Mora Assegurances, SAU	6,584	6,526
Boreal Capital Management, AG	(2,384)	(2,136)
Boreal Capital Holdings USA, LLC	2,248	2,311
Boreal Capital Management, LLC	(3,943)	(4,436)
Boreal Capital Securities, LLC	3,570	2,908
Casa Vicens-Gaudí, S.A.U.	(220)	(348)
Mora Wealth Management Espanya S.V., S.A.U.	(1,286)	(1,118)
Other holdings	536	536
Integrated by the equity method:		
Serveis i Mitjans de Pagament XXI, SA	147	86
Societat Financera Pyrénées	553	525
Total consolidation Reserves	**11,674**	**10,702**

(*) As established in IFRS 10, the Institution has considered in the consolidation process only the part of the investee considered separately over which it holds control, and over which it has rights to the profits; the rest would be classified as minority interests.
(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

26. Other comprehensive accumulated income

The statements of comprehensive income for the 2023 and 2022 financial years display the movements which occurred in this section of the consolidated statement of financial position throughout these years, as summarised below:

Other comprehensive accumulated income	Balance at 01/01/2023	Amounts transferred to the income statement	Amounts transferred to reserves	Balance at 31/12/2023
Items which cannot be reclassified to profit or loss	(16,923)	-	(5,797)	(22,720)
Fair value changes in equity instruments valued at fair value through other comprehensive income	(16,923)	-	(5,797)	(22,720)
Items which can be reclassified to profit or loss	(6,170)	128	6,526	484
Cash flow hedges	930	-	(493)	437
Financial assets at fair value through other comprehensive income	(12,526)	128	8,761	(3,637)
Adjustments for valuation of insurance contracts	5,426	-	(1,742)	3,684
Total	(23,093)	128	729	(22,236)

Other comprehensive accumulated income	Balance at 01/01/2022	Amounts transferred to the income statement	Amounts transferred to reserves	Balance at 31/12/2022(*)
Items which cannot be reclassified in profit/loss	(11,388)	-	(5,535)	(16,923)
Fair value changes in equity instruments valued at fair value through other comprehensive income	(11,388)	-	(5,535)	(16,923)
Items which can be reclassified to profit or loss	1,696	(2,432)	(5,434)	(6,170)
Cash flow hedges	1,245	-	(315)	930
Financial assets at fair value through other comprehensive income	451	(2,432)	(10,545)	(12,526)
Adjustments for valuation of insurance contracts	-	-	5,426	5,426
Total	(9,692)	(2,432)	(10,969)	(23,093)

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

27. Minority interests

The minority interests resulting from the years ending on 31 December 2023 and 2022 come from the subsidiary Boreal Capital Management, LLC, whose balances are as follows:

(In thousands of euros)	2023	2022
Results assigned to Minority Interests	(4)	(4)
Total	(4)	(4)

28. Equity and capital management

28.1 Equity

As of 31 December 2023 and 2022, equity was calculated in accordance with the current regulations in force, regulating the minimum level of equity which must be held by Andorran credit institutions, both individually and as a consolidated group, and the way in which this equity must be determined; as well as the different processes of self-assessment of the capital which must be carried out (see Note 43.1).

As of 31 December 2023, the Group has a CET 1 capital ratio of 21.14% (fully loaded) and a CET 1 ratio of 21.21% (Phased in), complying with the established capital requirements in the applicable regulations.

28.2 Capital management

One of the Group's objectives is to maintain a comfortable capital adjustment to the risk profile it has assumed.

To this effect, the Board of Directors determines the Group's risk and capital policy. For its part, the Management Committee carries out its management at the highest level, in accordance with the strategies established by the Board of Directors.

The business model of Mora Banc, with its risk profile, allows it to operate with high levels of capital, well above the regulatory minimums required.

The strategic lines defined by the Group are the active management of the capital. The maintenance of a high level of solvency, endorsed by its risk profile, is one of the pillars of the institution's financial strength. In addition, it is supported and complemented by active management of the capital in order to optimise its use.

The institution also applies a series of procedures for the identification and measurement of risks, in such a way that, in addition to the minimum level of regulatory resources required, it maintains a sufficient reserve of internal capital suited to the management of all risks, depending on the economic environment in which it operates and the strategic business plan. In other words, it carries out an assessment of the sufficiency of the internal capital, which is not only governed from a regulatory point of view but also suited to the management.

29. Commitments and guarantees granted

The list of commitments and guarantees granted as of 31 December 2023 and 2022 was as follows:

In thousands of euros	2023	2022
Commitments granted	545,156	550,439
Loan commitments granted	423,830	429,453
Guarantees granted	120,958	120,914
Documented credits	368	72
Financial guarantees granted and other commitments	(1,904)	(2,749)
Impairment losses (Note 23.1)	(1,904)	(2,749)
Total	543,252	547,690

The Group is committed to providing funds to clients for available credit lines and other commitments, at the time it is requested to do so and subject to the fulfilment of certain conditions by the counterparties.
Similarly, in the case of financial guarantees, the Institution will only have to meet the amount of contingent risks if the guaranteed counterparty fails to fulfil its obligations at the time of the non-compliance.

In this regard, the Group calculates that a significant part of these amounts will reach their maturity without any obligation for the Group to pay materialising, so that the joint balance of these commitments cannot be considered a real future need for financing or liquidity to be granted to third parties by the Group.

30. Assets affected by other own and third-party obligations

As of 31 December 2023 and 2022 the assets owned by the Group affected by third-party obligations were as follows:

- The debt securities that cover the reserve requirements of Law 20/2018, of 13 September, regulating the Andorran Deposit Guarantee Fund and the Andorran investment guarantee system totalled €36,547,000 at the end of the financial year (€35,851,000 on 31 December 2022).

- As of 31 December 2023 and 2022, the company had no guarantees with financial brokers to cover existing commitments.

31. Purchase and sale commitments

As of 31 December 2023 and 2022, the Group had no financial assets sold with the commitment of their subsequent purchase.

32. Business volume

The MoraBanc Group is established in the Principality of Andorra and has subsidiaries abroad, specifically in Barcelona, Zurich, Miami and Madrid.

The list of the main variables reflected in the Group's business volume during 2023 and 2022 was as follows:

In thousands of euros	31/12/2023	31/12/2022
Loans and receivables of clients (Note 14.2)	**1,432,121**	**1,537,664**
Client deposits in cash (Note 21)	**2,814,328**	**3,403,436**
Financial instruments held	**4,834,038**	**3,946,172**
Those managed by the Group	4,834,038	3,946,172
Discretionary portfolios	737,497	763,113
Collective Investment Undertakings	2,779,298	2,093,018
Other individual clients	1,317,243	1,090,041
Off-balance sheet client assets under management not held	**3,365,772**	**2,860,943**
Total	**12,446,259**	**11,748,215**

33. Net income from interest

This section of the consolidated income statement includes the income and expenses for interest accrued during the year for financial assets and liabilities with either implicit or explicit return, which are obtained by applying the effective interest method, as well as product rectifications as a result of hedge accounting.

The list of the respective income and expenses from interest in the 2023 and 2022 financial years was as follows:

In thousands of euros	2023	2022(*)
Interest income and similar returns		
Financial assets at fair value through other comprehensive income	7,304	3,891
Financial assets at amortised cost	83,446	43,936
Derivatives - Hedge accounting, interest rate risk	3,736	-
Insurance interest income	2,105	1,154
Total interest income	**96,591**	**48,981**
Interest expenses		
Financial liabilities at amortised cost	(11,523)	(2,993)
Derivatives - Hedge accounting, interest rate risk	-	(1,033)
Other liabilities	(221)	(116)
Total interest expenses	**(11,744)**	**(4,142)**
Net income from interest	**84,847**	**44,839**

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

34. Net income from commissions

The most significant income and expenses recorded as commissions in the attached income statements for the years ending on 31 December 2023 and 2022 as functions of the nature of the non-financial service which gave rise to them were as follows:

In thousands of euros	2023	2022
Commission income		
Security services	63,576	72,360
Commissions for credit transactions and client maintenance	10,991	11,907
Other commissions for services provided	6,620	6,390
Total income from commissions	81,187	90,657
Commission expenses		
Commissions accrued for services received (-)	(17,893)	(19,776)
Total commission expenses	(17,893)	(19,776)
Net income from commissions	61,643	70,881

35. Income from financial operations

The breakdown of the balance in this section of the consolidated income statements accrued during the 2023 and 2022 financial years is as follows:

In thousands of euros	2023	2022
Profits or losses due to derecognition of unrealised financial assets and liabilities at fair value with changes in results, net	(128)	2,432
Profits or losses due to derecognition on account of financial assets and liabilities held for trading, net	4,153	4,158
Profits or losses on derecognition of account of non-trading financial assets and liabilities mandatorily valued at fair value through profit or loss, net	2,837	(1,400)
Profits or losses resulting from hedge accounting, net	278	147
Exchange differences [profit or loss], net	1,900	2,573
Total result from Financial Operations	9,040	7,910

36. The profit/loss of the investees integrated by the equity method

The profit/loss of the investee companies integrated by the equity method are as follows:

In thousands of euros	2023	2022
Serveis i Mitjans de Pagament XXI, SA	87	74
Societat Financera Pyrénées	142	501
Total	229	575

37. Other operating income and expenses

The breakdown of the balance of the sections titled "Other operating income" and "Other operating expenses" of the consolidated income statements is:

In thousands of euros	2023	2022
Other operating income	6,712	6,953
Profit/loss from assets and liabilities covered by insurance contracts	3,179	3,860
Income from fixed assets	3,419	2,633
Other	114	460
Other operating expenses	(994)	(609)
Various client charge-backs	(41)	(36)
Other	(953)	(573)
Net profit/loss	5,718	6,344

(*) Submitted solely and exclusively for comparative purposes. The balances as of 31 December 2022 have been restated due to the entry into force of IFRS 17 (see Notes 2.3 and 47)

During the 2023 and 2022 financial years, the income is collected under the heading "Other operating income", mainly as a result of the Group's insurance activity, the rental operation of real estate investments or for cultural purposes.

Due to the implementation of IFRS 17, part of the other operating income from the insurance activity has been reclassified under the heading of financial margin, interest income, for the amount of €2,105,000 in 2023 and €1,154,000 in 2022, the gross margin of the insurance activity being €5,284,000 in 2023 and €5,014,000 in 2022 (see note 33).

38. Labour expenses

The breakdown of the labour expenses for the years ending on 31 December 2023 and 2022 was as follows:

In thousands of euros	2023	2022
Wages and salaries	37,926	35,814
Social Security	4,688	5,050
Contributions to Defined Contribution Pension Funds	687	647
Other labour expenses	2,186	2,250
Total labour expenses	45,487	43,761

The amount in respect of other labour expenses chiefly refers to medical insurance and training expenses for Group employees. The details of the average workforce in 2023 and 2022 are set out below:

	No. of employees	
Average workforce	2023	2022
Directors	27	36
Middle management	87	89
Technical staff	249	228
Administrative staff	87	108
Total	450	461

39. Other administrative expenses

The breakdown of the balance of this section of the consolidated income statements accrued during the 2023 and 2022 financial years is as follows:

In thousands of euros	2023	2022
Administrative and operational expenses	23,383	18,823
Taxes	2,852	2,675
Technical and technological services and information systems	16,790	13,375
Other expenses	3,250	3,422
Total other expenses	46,275	38,295

40. Impairment of the value or reversal of the impairment of the value of financial assets not valued at their fair value through profit or loss

The balance of this section of the attached income statements consisting of the 2023 and 2022 financial years is shown in the following table:

In thousands of euros	2023	2022
Financial assets at amortised cost (Note 14)	**(1,153)**	**2,836**
Loans and Items for Clients	(1,217)	2,825
Credit institutions	(2)	(11)
Debt securities	66	22
Financial assets at fair value through other comprehensive income (Note 13)	**124**	**274**
Debt securities	124	274
Total	**(1,029)**	**3,110**

41. Corporation tax

41.1 Amount recognised in the income statement

The Andorran companies in the Group, in accordance with the provisions of the revised text of Law 95/2010, of 29 December, on the amount of 10% tax levied on companies (see Note 43.1).

Certain deductions from the tax rate may be made in accordance with the legislation in force at any given time. Foreign subsidiaries are taxed in accordance with the law in each country.

In the opinion of the Bank's directors, there are no significant tax contingencies that could arise in the event of an inspection from potential interpretations other than those of the current tax regulations.

The amount reflected in the Group's consolidated income statement in respect of the current tax of the financial year of Andorran companies in the Group consisting of the years ending on 31 December 2023 and 2022 is as follows:

(In thousands of euros)	2023	2022
Profit/loss for the financial year attributable to the Group before taxes (*)	57,885	46,167
Permanent differences	3,405	1,761
Tax base	**61,290**	**47,928**
Tax rate	10%	10%
Gross tax payable	**6,129**	**4,793**
Deductions and allowances	(939)	(1,093)
Net assessed amount	**5,190**	**3,700**
Payments on account	(1,327)	(1,719)
Differential amount	**3,863**	**1,981**

*This result corresponds to the sum of the individual accounting results of the Group companies subject to the Corporation Tax Act in Andorra

A breakdown of the permanent differences consisting of items which are not for fiscal expenses or income consisting of the years ending on 31 December 2023 and 2022 appears below:

In thousands of euros	2023	2022
Elimination of dual taxation for profit-sharing	(3,953)	(3,976)
Provisions and losses for insolvencies of Group companies	-	-
Impairment losses on the value of the equity elements	3,273	4,296
Provisions for liabilities and pension funds	465	242
Impairment losses on unlisted holdings	-	-
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	939	1,093
Elimination of dual internal and international taxation	-	
Donations and ex gratia payments	2,566	107
Other	115	-
Total permanent differences	**3,405**	**1,761**

The list of the deductions and allowances applied as of 31 December 2023 and 2022 was as follows:

In thousands of euros	2023	2022
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	(939)	(1,093)
Total deductions and allowances	**(939)**	**(1,093)**

41.2 Amount recognised in other comprehensive income

Apart from the taxes on companies recorded in the consolidated income statement, the Group posted in its consolidated net equity the following amounts for the following items during 2023 and 2022:

(In thousands of euros)	2023			2022		
	Before of Income	Profit (expense) tax	Net of Income	Before of Income	Profit (expense) tax	Net of Income
Items which cannot be reclassified to the income statement	**(25,244)**	**2,524**	**(22,720)**	**(20,054)**	**2,005**	**(18,049)**
Fair value changes in equity instruments valued at fair value through other comprehensive income	(25,244)	2,524	(22,720)	(20,054)	2,005	(18,049)
Items which may be reclassified to profit or loss	**538**	**(55)**	**483**	**(5,604)**	**560**	**(5,044)**
Financial assets at fair value through other comprehensive income	(4,041)	403	(3,638)	1,033	(104)	929
Cash flow hedges	486	(49)	437	(12,667)	1,267	(11,400)
Adjustments for valuation of insurance contracts	4,093	(409)	3,684	6,029	(603)	5,426
Total	**(24,707)**	**2,469**	**(22,237)**	**(25,659)**	**2,565**	**(23,093)**

41.3 Reconciliation of effective tax rate

Below appears the reconciliation between the corporation tax expenditure accounted for in the consolidated income statements for 2023 and 2022 and the result before taxes of the said financial years applying the tax rate in force in Andorra:

(In thousands of euros)	2023 Effective rate	2023 Amount	2022 Effective rate	2022 Amount
Pre-tax profit/loss		**57,885**		**46,167**
Corporation tax at the local tax rate	10%	(5,788)	10%	(4,617)
Effect of tax rates abroad		-		-
Non-deductible expenses		(736)		(574)
Non-taxable income		395		398
Deductions and allowances		939		1,093
Other effects		160		266
Calculation of the companies outside the fiscal perimeter				
Total tax expenditure		**(5,030)**		**(3,434)**

41.4 Composition of deferred tax assets and liabilities

In accordance with the current tax regulations, in 2023 and 2022 there were certain temporary differences to be considered when calculating the corresponding corporation tax expenditure.

The balance as of 31 December 2023 and 2022 for deferred tax assets and liabilities was as follows:

	2023		2022	
(In thousands of euros)	Assets	Liabilities	Assets	Liabilities
Tangible and intangible assets	1,306	8	1,524	8
Financial assets at fair value through other comprehensive income	3,028	180	3,452	346
Fair value hedging	-	-	-	-
Insolvencies	1,092	77	1,092	77
Tax losses to be offset in the future	593	-	434	-
Due to change in fair value	-	2	-	2
Other	785	1,078	870	1,261
Net assets (liabilities)	**6,804**	**1,345**	**7,372**	**1,694**

In accordance with the information available as of 31 December 2023, including the historical profit levels and the projections of profits available to the Group for the coming years, it is considered that sufficient positive tax bases will be generated for the recovery of the aforementioned deferred tax assets when they are deductible in accordance with the tax legislation.

41.5 Movement of deferred tax assets and liabilities

In addition, the origins and movements of deferred tax assets/liabilities recorded in the consolidated statement of financial position as of 31 December 2023 and 2022 were as follows:

(In thousands of euros)	Balance at 01/01/2023	Recognised in comprehensive	Recognised in other comprehensive income	Balance at 31/12/2023
Tangible and intangible assets	1,516	(218)	-	1,298
Financial assets at fair value through other comprehensive income	3,105	(3,105)	2,848	2,848
Fair value hedging	-	-	-	-
Insolvencies	1,015	-	-	1,015
Tax losses to be offset in the future	434	159	-	593
Due to change in fair value	(2)	-	-	(2)
Other	(193)	(100)	-	(293)
Total	**5,875**	**(3,264)**	**2,848**	**5,459**

(In thousands of euros)	Balance at 01/01/2022	Recognised in comprehensive	Recognised in other comprehensive income	Balance at 31/12/2022
Tangible and intangible assets	1,538	(22)	-	1,516
Financial assets at fair value through other comprehensive income	1,358	(1,358)	3,105	3,105
Fair value hedging	-	-	-	-
Insolvencies	1,015	-	-	1,015
Tax losses to be offset in the future	366	68	-	434
Due to change in fair value	(2)	-	-	(2)
Other	(194)	1	-	(193)
Total	**4,081**	**(1,311)**	**3,105**	**5,875**

42. Related parties

The most significant balances held as of 31 December 2023 and 2022 between the Bank and the associate companies and joint ventures (not eliminated in the consolidation process), as well as those maintained with Shareholders, Executive directors, Senior Management and other related parties appear below. The amounts recorded in the income statement are also listed as a result of the transactions carried out:

	2023			
In thousands of euros	Shareholders	Subsidiary and associated institutions	Executive directors and senior management	Other related parties
Assets				
Loans and advances	5,526	28,745	199	35,009
Credit institutions	-	-	-	-
Clients	5,526	28,745	199	35,009
Investments in subsidiaries, joint ventures and associates	-	4,998	-	-
Liabilities				
Deposits	32,897	471	2,206	18,974
Deposits of credit institutions	-	-	-	-
Client deposits	32,897	471	2,206	18,974
Debt securities issued	-	-	-	-
Order accounts				
Loan commitments granted	4,419	117	596	16,213
Financial guarantees granted	-	39	36	740
Resources held	130,934	-	12,894	56,939
Profits and Losses				
Net income from interest	527	632	(64)	2,497
Dividend income	-	553	-	-
Net income from commissions	3,041	18	145	559
Other operating income and expenses	-	-	(3,394)	-
Net impairment of investments in joint ventures or associates	-	-	-	-

In thousands of euros	2022			
	Shareholders	Subsidiary and associated institutions	Executive directors and senior management	Other related parties
Assets				
Loans and advances	8,795	26,889	528	44,100
Credit institutions	-	-	-	-
Clients	8,795	26,889	528	44,100
Investments in subsidiaries, joint ventures and associates	-	5,224	-	-
Liabilities				
Deposits	32,578	567	6,388	26,286
Deposits of credit institutions	-	-	-	-
Client deposits	32,578	567	6,388	26,286
Debt securities issued	-	-	-	-
Order accounts				
Loan commitments granted	3,088	1,952	1,040	11,316
Financial guarantees granted	194	39	38	359
Resources held	125,327	-	10,718	46,478
Profits and Losses				
Net income from interest	119	570	4	778
Dividend income	-	526	-	-
Net income from commissions	699	10	41	266
Other operating income and expenses	-	-	(2,921)	-
Net impairment of investments in joint ventures or associates	-	-	-	-

In accordance with the powers and rules of operation of the Board of Directors' Risk Committee, transactions involving risk with the members of the Board of Directors, as well as with the shareholders of the institution and related parties, must be authorised by the risk committee. These operations are subsequently ratified and/or approved by the Institution's Board of Directors, depending on the amount and guarantees of the transaction.

The remuneration received during the 2023 financial year by the Board of Directors, the Senior Management and the other management committees amounts to €4,395,000 (€4,604,000 in 2022).

As of 31 December 2023 and 2022 there was no evidence of impairment of the value of the financial assets or the guarantees and contingent commitments held with related parties.

43. Additional information

43.1 Regulatory compliance

Law on solvency, liquidity and prudential supervision of banks and investment companies

Pursuant to the Monetary Agreement signed between the Principality and the European Union, Andorra undertakes to implement in its legal system, among others, Directive 2013/36/EU of the European Parliament and Council of 26 June 2013 on licensing of banking institutions and the prudential supervision of banking institutions and investment companies, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as well as Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013 on the prudential requirements of banking institutions and investment companies, and amending Regulation (EU) 648/2012, as well as several delegated and implementing acts that implement in more detail certain aspects of this directive and regulation, the General Council, at a meeting on 20 December 2018, in order to adapt the Andorran legal system to regulatory changes which are imposed within the European Union in this matter, enacted Law 35/2018 on solvency, liquidity and prudential supervision of banks and investment companies.

This new law has led to a substantial change and a significant leap from the previous regulation, the Law governing the solvency and liquidity criteria of financial institutions of 29 February 1996, which has been in force until 23 January 2019 in the supervisory regime, the initial capital requirements, operating licence, corporate governance requirements and the disciplinary regime, all with the aim of strengthening the resilience of the Andorran banking and financial sector in a better position in the face of economic crises as well as ensuring that banking institutions continue to fund economic activity and economic growth with adequate own funds.

From a solvency perspective, this new regulatory framework highlights a differentiation between different capital elements in terms of their ability to absorb losses; more rigorous requirements when considering equity instruments as equity items; a significant increase in the total amount of exposure to the various risks to which financial institutions are exposed (credit and counterparty risk, market risk, operational risk, liquidation risk and adjusting risk for the resulting credit valuation of OTC derivative instruments); a capital cushion regime; the self-assessment of risk by each institution in liaison with the AFA, as well as the need to provide additional capital to cover risks not captured in the total amount of the exposure to the risk identified in the processes of review and supervisory evaluation; transparency in the market regarding the compliance with the solvency and liquidity requirements by the institutions and, finally, the obligations of the AFA to publish information in relation to financial regulation and supervision.

In relation to the calculation of the total amount of risk exposure, it is worth noting the greater sophistication of the regulations, which improves the credit and counterpart risk estimation mechanisms of the trading portfolio, as well as the position risk of the trading portfolio, interest rate risk, liquidation risk and commodity risk, although, except for the credit and counterpart risk of the trading portfolio, the latter were included in the calculation of the solvency ratio of 10% to be maintained by banks. This Law also entails calculating additional capital requirements for operational risk and the credit valuation adjustment risk resulting from OTC derivative instruments.

From the perspective of liquidity, this Law represents a significant improvement in refining the calculation of the short-term liquidity ratio, in order to ensure that sufficient liquid assets, or the liquidity cushion, are sufficient to cover the entire liquidity outflows minus liquidity inflows, in situations of tension, for a period of 30 days, with the aim of ensuring that financial institutions have sufficient liquidity cushions to deal with potential tensions in the markets as well as having a balance sheet structure that does not rely excessively on short-term financing.

By the Decree of 6 March 2019, the Government of Andorra approved the Regulation for the implementation of Law 35/2018, which regulates in detail the requirements for solvency, liquidity and prudential supervision of banking institutions and investment companies. This Regulation also includes up to 33 transitional provisions that regulate the gradual application of solvency requirements within different schedules between 4 and 8 years, depending on the new requirement type, in order to facilitate a gradual adaptation of capital requirements with the same calendar as European financial institutions had when the European Directive and Regulation was approved in 2014. This implementing Decree has been amended by Decree 431/2022 of 26 October 2022 to transpose Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019, amending Regulation (EU) no. 575/2013 on the minimum coverage of losses arising from doubtful exposures.

Decree 102/2021 of 31 March 2021 amended the regulatory capital requirements established in the Regulations for the implementation of Law 35/2018 applicable to institutions that act as originators, sponsors or investors in securitisation operations, in order to adequately reflect the specific characteristics of simple, transparent and standardised securitisations (STS).

Law 35/2018 and its implementing Regulations oblige banking institutions to maintain a capital ratio, based on the recommendations of the Basel Committee on Banking Regulation and Supervisory Practices, of at least 10%. It also requires maintaining a liquidity ratio of at least 40%.

Furthermore, in major exposures, the Institution must report any exposure of clients or groups of clients greater than or equal to 10% of the allowable capital. The limit will be equal to the higher between 25% of the allowable capital and €150 million, provided that the sum of the values of the exposures to all clients related to one another, which are not institutions, is less than 25% of the allowable capital. In the 2023 and 2022 financial years, the Group did not exceed said thresholds.
Beyond the applicable regulations and with the purpose of measuring itself by the highest and most rigorous international standards, the Group has estimated its equity ratios as per the requirements established by the Basel Committee of Banking Supervision in 2010 (Basel III).

As of 31 December 2023, the Group has a CET 1 capital ratio of 21.21% and a CET 1 (fully loaded) ratio of 21.14%, which reflects a very comfortable situation with respect to the regulatory minimum requirements.

At the end of the 2023 financial year, the LCR ratio was 299.08% (294.14% in 2022).

Additionally, the Group has calculated its leverage as established and defined in Law 35/2018 and its Implementing Regulations, discussed earlier under the aforementioned international regulations. The results reflect a 9.29% leverage ratio for the Group over its ordinary tier-1 capital (CET 1), above the regulatory minimum of 3% (7.25% in 2022).

Law on the prevention and fight against the laundering of money and monetary instruments and the financing of terrorism

Preventing and combating money laundering and terrorist financing has become a national priority, leading to the regular adoption of legislative initiatives in view of the evolution of the standards adopted by international bodies such as the FATF and Moneyval and the commitments to transpose European Union regulations deriving from the Monetary Agreement signed by the Principality of Andorra and the European Union on 30 June 2011.

In fulfilment of these commitments, at its session held on 22 June 2017, the General Council enacted Law 14/2017 on the prevention and combating of money laundering and the financing of terrorism, amended by Law 21/2019 of 28 November 2019, which implemented in Andorra Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for money laundering and the financing of terrorism, as well as Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying fund transfers.

In addition, in December, Law 37/2021 of 16 December amending Law 14/2017 of 22 June on the prevention and combating of money laundering and the financing of terrorism, effective from 4 January 2022, was approved, incorporating into the Andorran legal system the provisions of

Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018, amending Directive (EU) 2015/849 on the prevention of the use of the financial system for money laundering and terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (the 5th European Directive), as well as the FATF's recommendations and Moneyval's observations in the procedures for the regular evaluation of the Andorran system for the prevention of money laundering and terrorist financing. In particular, consideration has been given to updating FATF Recommendation 15 on measures to prevent money laundering and terrorist financing in the field of the new technologies, which took place following the approval of the 5th European Directive, extending the scope of the mandatory obligations for service providers linked to all kinds of virtual assets, without limitation to providers of virtual currency exchange services for fiat currencies and e-wallet custody services.

Both the community provisions and the FATF recommendations establish suitable risk management as a backbone of the system for the prevention of money laundering and financing of terrorism, which means that they should be adequately detected, evaluated and understood, in order to apply mitigation measures which are appropriate and proportionate to the risks. The Group has established a series of procedures for internal control and communication, in order to prevent and hinder transactions involving money laundering and the financing of terrorism. In addition, specific staff training programmes have been carried out.

Law on the organisational requirements and operating conditions of the institutions forming part of the financial system, investor protection, market abuse and financial guarantee agreements and operations with OTC derivatives and the financing of securities.

The General Council of the Principality of Andorra, at its session of 9 May 2013, enacted Law 8/2013, of 9 May, on the organisational requirements and operating conditions of the operating institutions of the financial system, investor protection, market abuse and financial guarantee agreements, with the intention of maintaining a structurally and functionally sound financial system. This law incorporates the basic administrative system of the operating institutions of the financial system which had previously been established in Law 14/2010, of 13 May, on the legal system of banking institutions and the basic administrative system of the operating institutions of the financial system. It also contains the requirements for investor protection, giving continuity to the provisions of Law 14/2010 which included the principles established in the EU Directive 2004/39 EEC, of the European Parliament and Council, of 21 April 2004 better-known as "Directive MiFID I".

Law 8/2013 has been amended on three occasions.

The first, on 20 December 2018, through a final provision of Law 35/2018 on solvency, liquidity and prudential supervision of banks and investment companies, with the purpose of, on the one hand, adapting the Andorran legal system to the provisions contained in Directive 2013/36/EU, of 26 June 2013, regarding access to the activity of credit institutions and the prudential supervision of credit institutions and investment companies, in the organisation and activity of financial system operating entities in areas such as corporate governance, with specific responsibilities for senior management, the creation of delegated committees of the board of directors with the presence and dedication of independent directors, evaluation of the Board of Directors' suitability requirements, a specific system of incompatibilities for them and the development of remuneration policies further aligned with the risks of the entities, among other issues. On the other hand, changes are made to the organisational requirements and the operating conditions derived from Directive 2004/39 (MIFID I) and some specific aspects of the Directive that succeeded it, Directive 2014/65/EU of 15 May 2014 on financial instrument markets, known as MiFID II.

The second amendment was implemented by means of Law 17/2019, of 15 February, amending Law 8/2013, with the purpose of making improvements in the blocks of classification to clients, duties of information to clients, incentives, evaluation of suitability and adequacy, management and execution of orders, conflicts of interest, protection of client assets, registries and markets

The third, by Law 35/2022 of 24 November, amending Law 8/2013, to incorporate the following European regulations into the Andorran legal system:

- Regulation (EU) no. 648/2012 of the European Parliament and of the Council of 4 July 2012,

relating to over-the-counter derivatives, central counterparties and transaction registers (known as the "EMIR" Regulation) and its amendment by virtue of delegated Regulation no. 1002/2013 of the Commission of 12 July 2013.

- Regulation (EU) no. 2015/2365 of the European Parliament and of the Council of 25 November 2015, on transparency of securities financing and reuse operations (known as the "SFTR" Regulation) and its amendment by Regulation (EU) 2019/834 of the European Parliament and of the Council of 20 May 2019.
- Regulation (EU) no. 2016/1011 of the European Parliament and of the Council of 8 June 2016 on the indices used as a reference in financial instruments and financial contracts or to measure the profitability of investment funds, amending directives 2008/48/EC and 2014/17/EU and Regulation (EU) no. 596/2014 (known as the "BMR" Regulation) and its amendment by virtue of Regulation (EU) 2021/168 of the European Parliament and of the Council of 10 February 2021.

The Group has established a series of control and communication procedures in order to comply with these organisational requirements.

Law on payment services and electronic money

Law 8/2018, of 17 May, on payment services and electronic money incorporates Directive 2007/64/EC of the European Parliament and Council, of 13 November 2007, on payment services in the internal market, into the Andorran legal system, and Directive 2009/110/EC of the European Parliament and Council, of 16 September 2009, on licensing of electronic money entities and their operations, as well as to the prudential supervision of these entities, in compliance with the commitments made under the Monetary Agreement signed between the Principality of Andorra and the European Union, to adapt the Andorran legal framework to the regulation of the European Union, among other matters, in its financial and banking legislation. Law 8/2008 aims to include payment and electronic money entities as new operating entities of the Andorran financial system, with their own legal system, and regulate the rights and obligations of suppliers and users in respect of the provision and use of payment services and the issuance of electronic money, establishing a standardised protection framework for consumers.

In the last quarter of 2018, Law 27/2018, of 25 October, amending Law 8/2018, of 17 May, on payment services and electronic money, was enacted. With this amendment, Directive 2015/2366 of the European Parliament and Council, of 25 November 2015, on payment services in the internal market, popularly known as PSD2, is incorporated for the purpose of facilitating and improving the security of the use of payment systems through the Internet, and strengthening the level of user protection against potential fraud and abuse, as well as promoting innovation in payment services through mobile devices and the Internet, in order to create an environment conducive to speeding up payment operations, common rules regarding their operation, a sufficiently wide range of payment options for users, and even more effective rules for the protection of users. Additionally, two new payment services are regulated: payment initiation services and account information services, and the establishment of a more protective regime for the rights of users of payment services in terms of security and transparency.

Law 8/2018 has also facilitated the operational application of payment instruments in euros within the single area of payment in euros, known as the "Single Euro Payments Area" (SEPA), promoting the accession of the Principality of Andorra to SEPA, having been a member of the geographical scope of SEPA schemes since 1 March 2019.

Automatic exchange of information in tax matters

The General Council of the Principality of Andorra, at its session on 21 February 2005, ratified the Agreement between the Principality of Andorra and the European Community regarding the establishment of measures equivalent to those provided for in Directive 2003/48/EC on taxation of savings income in the form of payment of interest. In addition, at its session held on 13 June 2005, it enacted Law 11/2005 on the application of the above-mentioned Agreement.

On 12 February 2016, the Government of Andorra signed the Protocol amending the above-mentioned Agreement between the European Community and the Principality of Andorra. The amendment of the Agreement entails the automatic exchange of information between the member states of the European Union and the Principality of Andorra with the application of the common standard of the Organisation for Economic Co-operation and Development (OECD) of the rules of communication and due diligence relative to the information on financial accounts (Common Reporting Standard OECD-CRS).

On 30 November 2016, the General Council enacted Law 19/2016 on the automatic exchange of information on fiscal matters, to apply the above-mentioned amending Protocol. This Law came into force on 1 January 2017 and repealed Law 11/2005 on the application of the Agreement between the Principality of Andorra and the European Community regarding the establishment of measures equivalent to those provided for in Council Directive 2003/48/EC on taxation of savings income in the form of payment of interest.

On 30 November 2017, the General Council enacted Law 29/2017 amending Law 19/2016 developing in the first section of the first final provision in order to incorporate the list of the states with which in 2018 it will automatically exchange information related to financial accounts, within the framework of the MCAA. The purpose of this law amending the law is to automatically exchange information for 2018 with 41 jurisdictions.

Also on 30 November 2017, the General Council enacted Law 30/2017 amending Law 19/2016 incorporating the list of the 32 states with which it will automatically exchange information regarding the financial statements in the framework of the MCCA in 2019. This law extends the list of jurisdictions with which Andorra will automatically exchange information regarding financial statements in 2019 to 73 jurisdictions, incorporating member states of the G20, the OECD, the Global Forum and several international financial markets.

As and from the 2017 financial year. the Group has fulfilled the objectives of establishing and providing the mechanisms necessary to properly apply, as of 1 January 2017 and successive years, the content established in Law 19/2016, in relation to the automatic exchange of information on fiscal matters.

Law on the Andorran Deposit Guarantee Fund and the Andorran Investment Guarantee System

In compliance with the Monetary Agreement signed between the Principality and the European Union, which requires the transposition of Directive 2014/49/EU, of 16 April 2014, on deposit guarantee systems and Directive 97/9/EC, of 3 March 1997, concerning investor compensation systems, both of the European Parliament and Council, the General Council of the Principality of Andorra, at its meeting of 13 September 2018, enacted Law 20/2018, of 13 September regulating the Andorran Deposit Guarantee Fund and the Andorran Investment Guarantee System. Law 20/2018 entails the adaptation to the EU regulations of the current regime of the deposit and investment guarantee system for Andorran banking institutions, regulated by Law 1/2011, of 2 February, on the creation of a guarantee system of deposits for banking institutions and the Regulation on the organisation and operation of the Management Commission, approved by the Decree of 9 May 2012.
Law 20/2018 regulates the Andorran Deposit Guarantee Fund (FAGADI) as a deposit guarantee system in the terms established by Directive 2014/49/EU with an additional cushion of financial resources for FAGADI to immediately have access to more resources than those required by the Directive.

The main features of the deposit guarantee system are as follows:

– The coverage regime of €100,000 per depositor and per institution is maintained. Additional coverages are incorporated in exceptional cases that provide guarantees up to a limit of €300,000.

– FAGADI's resources must reach 0.8% of the guaranteed deposits with a deadline of 30 June 2024, through the annual contributions of the banking institutions. Additionally, as and from this

date, banks must continue to make annual contributions to the Fund in order for this Fund to reach a level of 1.6% of financial resources within eight years from 2024, notwithstanding which the maximum FAGADI coverage limit for all beneficiaries cannot exceed €200 million.

Law 20/2018 maintains the Andorran Investment Guarantee System ("SAGI") as an ex post guarantee system in which the investment financial institutions, together with the banking institutions, which have been participating so far, participate and the management companies of collective investment institutions authorised to provide administration and custody of financial instruments.

The main regulatory features of the deposit guarantee system are as follows:

– The coverage scheme is kept at €100,000 per holder, above the level of coverage of €20,000 established in Directive 97/9/EC. This Law also establishes a total limit on the resources of the SAGI, which, for all beneficiaries, cannot exceed €50 million.

– The guarantee covers cases of impossible recovery of the securities due to the insolvency of the institution that provides the management and custody of securities. Losses arising from fluctuations in the value of investments are not guaranteed.

– It maintains the SAGI resources target of 1.5% of the calculation base for investments regulated by Law 1/2011.

The amount of the guarantee reserves set up by the Group as of 31 December 2023 was €32,055,000.

Indirect general tax law

In accordance with Law 11/2012, of 21 June, subsequently amended by Law 29/2012, of 18 October, came into force on 1 January 2013, the indirect general tax, repealing the previous Law on indirect taxation on the provision of banking services and financial services. On 19 June 2019, the legislative decree on the publication of the consolidated text of Law 11/2012 of 21 June on indirect general taxation was published in the Official Gazette of the Principality of Andorra, in which all the amendments included in the Law were included.

Indirect general tax is levied on the economic capacity displayed whenever the final consumption of an asset or service is produced. The tax rate which applies to the provision of banking and financial services is an incremental rate of 9.5%.
Law 10/2014, of 3 June, on the amendment of Law 11/2012, of 21 June, on indirect general taxation, amended by Law 29/2012, of 18 October, and by Law 11/2013, of 23 May, introduces, in Article 21 "Additional Provision Five. Special system of the financial sector", a restriction of the right to deduct fees imposed on financial institutions for a maximum annual amount equal to 10% of the contributions made at the tax rate of 9.5%, with the limit of the tax imposed on its activity subject to said tax. This restriction came into effect on 1 July 2014.
In the 2023 financial year the Group fulfilled all the obligations, in a timely and correct manner, resulting from the application of said law, submitting the corresponding monthly and annual settlements.

Law on corporation tax

The revised text of Law 95/2010 of 29 December on corporation tax and its implementing Regulation (Decree 595/2023 of 29 December 2023) establish the tax framework applicable to fiscal resident companies in the Principality of Andorra in relation to the income derived from their activity.

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

Article 25 of Law 95/2010 regulates the special fiscal consolidation system. In this sense, Mora Banc Grup, S.A. is the participating institution of the tax group.

During 2023 the Group fulfilled all the fiscal obligations resulting from said law, settling the consolidated corporation tax for the 2022 financial year in a one-off operation.

Income tax law for non-tax residents

The General Council of the Principality of Andorra, at its session on 29 December 2010, approved Law 94/2010 on income tax for non-residents, which taxes the income obtained in Andorra by persons and entities regarded by the law as non-residents for tax purposes. The Group is subject to the obligation to carry out withholdings and generally applies a 10% or 5% (canon) tax rate. This law has been applicable since 1 April 2011. On 1 December 2011, the General Council of the Principality of Andorra enacted Law 18/2011 amending Law 94/2010, effective since 1 January 2012. On 6 May 2015, Legislative Decree of 29 April 2015 on the publication of the consolidated text of Law 94/2010 of 29 December on income tax for non-tax residents was published in the Official Gazette of the Principality of Andorra, together with Decree 594/2023 of 29 December, approving the Regulation of the IRNR.

During the 2023 financial year, the Group fulfilled its fiscal obligations related to this tax, in a timely and correct manner, acting as withholder and payer to the Tax and Border Department of the Government of Andorra of the income obtained by non-tax residents in the Principality of Andorra.

Law on personal income tax

The revised text of Law 5/2014 of 24 April on personal income tax and its implementing regulations (Decree 596/2023 of 29 December) establishes the tax framework applicable to natural persons residing in the Principality of Andorra in relation to their incomes.

The general rate of personal income tax for taxable subjects, as determined by the Law, is 10%. The Law distinguishes between the general base and the savings base, depending on the type of taxable income.

During the 2023 financial year, the Group fulfilled its fiscal obligations related to this tax, in a timely and correct manner, acting as withholder and payer to the Tax and Border Department of the Government of Andorra of the income obtained by non-tax residents in the Principality of Andorra.

Law of the Andorran Financial Authority (AFA)

At its session on 23 May 2013, the General Council approved Law 10/2013 on the Andorran National Institute of Finance (INAF), repealing Law 14/2003 on the creation of the INAF.

With Law 12/2018, which will be discussed later, the INAF is transformed into the Andorran Financial Authority (AFA). The purpose of this law is to provide the Andorran financial system's supervisory authority with the means necessary to achieve its objectives, while extending them, taking into account the overall scope of its activity in a context of international expansion of the Andorran financial system, the evolution of financial markets internationally, and the commitments made by Andorra with the signing of the Monetary Agreement with the European Union.

In May 2018, Law 12/2018, of 31 May, amending Law 10/2013, of 23 May, of the INAF was enacted, the main purpose of which is to grant the AFA the powers, the powers and instruments required to assume the functions of the Supervisory Authority on insurance and reinsurance and act as the effective insurance and reinsurance supervisor.

Law 36/2022 of 24 November on the creation of international reserves and access of the financial system to assistance in the form of urgent liquidity provision

This Law seeks to implement an instrument that gives the Principality of Andorra greater resilience in the event of a liquidity shock in the financial sector and structures a lender of last resort mechanism based on the international reserves.
The mechanism implemented by this Law is fully compatible with what is to be found in the international context; in particular it replicates the emergency liquidity assistance (ELA) model of the European Central Bank.

Law 7/2021 of 29 April on the recovery and resolution of banking institutions and investment firms

This Law complements the incorporation of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, which establishes a framework for the restructuring and resolution of credit institutions and investment service companies and amends Council Directive 82/891/EEC and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU and regulations (EU) no. 1093/2010 and (EU) no. 648/2012 of the European Parliament and of the Council on the Andorran legal system in compliance with the transposition commitments resulting from the Monetary Agreement allowing the full harmonisation of the Andorran system with the member States of the European Union in matters of the recovery and resolution of banking institutions.
The Directive was already partially incorporated into Andorran legislation under Law 8/2015, of 2 April, on urgent measures to implement mechanisms for the restructuring and resolution of banking institutions.

In addition, this Law has transposed Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU in relation to the order of priority of unsecured debt instruments in the event of insolvency.

One of the main features of this new regulation concerns the planning of the recovery and the resolution not envisaged in the previous regulatory framework in advance, before there is such a significant deterioration in the financial position of the institution in the event of restructuring plans such as a situation of infeasibility in the event of resolution plans.

It should be added that the institutions must have a liability structure with sufficient capacity to absorb de facto any losses, maintaining at all times a sufficient aggregate amount of equity and liabilities with certain characteristics, expressed as a percentage of the total liabilities of the institution that are not regarded as equity. The aim is to ensure that, in the event of any difficulties, there is a sufficient buffer between the capital and the guaranteed deposits that can be used to recapitalise the institution from within, known as the MREL (Minimum Requirements for Eligible Liabilities); this is required of all institutions and it is an additional and complementary requirement to the capital, liquidity and leverage requirements.

Law 7/2021 maintains the State Agency for the Resolution of Banking Institutions (AREB) as the competent authority for the resolution of banking and financial institutions that provide investment services. In addition, in order to finance the measures agreed upon pursuant to this law, the FAREB (Andorran Fund for the Resolution of Banking Institutions) was created, an institution without legal status managed by the AREB.

43.2 Information on environmental issues

Given the Group's activity, there are no responsibilities, expenses, assets or provisions or contingencies of an environmental nature which might be significant in relation to the Group's equity, financial situation and profits. For this reason, specific breakdowns regarding information on environmental issues are not included in this report on the consolidated financial statements.

44. Value creation for our stakeholders

Mora Banc Grup, SA prepares a sustainability report each year with the aim of communicating the institution's activity to all stakeholders. Information is prepared related to Mora Banc's economic, social and environmental development over the last year.
The 2023 report has been prepared following the guidelines of the International Framework for Integrated Reporting <IR> of the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, regulation and standard issuers, professional accountants and non-governmental organisations, united with the objective of developing corporate reporting towards value creation in communication. We also maintain the focus on the sustainability of the report, following the international standard for preparing sustainability reports set by the Global Reporting Initiative (GRI), a leading international organisation in non-financial reporting. In this regard, the 2023 integrated annual report has been prepared in accordance with the GRI standards.
With the integrated report, the institution presents the integrated and connected information of the strategy, vision, mission and values, with the financial profits and the impact on stakeholders. The following sections explain what stakeholders really value (based on the materiality matrix carried out) and how the institution responds:

- Quality, excellence in banking practices and client protection: Mora Banc acts in the client's best interests, which are at the centre of everything, offering the best product with transparency. Clients are becoming more and more demanding and banking competition is strong, but the institution's asset is the knowledge of the client as well as a recognised and sound approach to banking. According to the institution, it acts impartially, professionally and taking into account the client's interest with the policies of execution and management of orders, protection of assets, conflicts of interest and privacy.
- Guarantee economic development and generate employment: Mora Banc is a responsible company and has a long-term sustainability strategy in place to radiate economic growth with job creation, loans and credits, inspiring trust among savers and setting an example in the sector.
- Combating corruption and the financing of terrorism: Mora Banc has set up good practices in combating corruption and countering terrorism and its financing, in compliance with current regulations, with procedures and continuous surveillance.
- Equal pay for men and women, diversity and equal opportunity: The institution promotes practices that are attractive and competitive in attracting and retaining talent. To achieve this, four goals have been set in people management: experiences of the worker; compensation and work/life balance; knowledge and development; and talent management. Mora Banc prioritises internal promotion, equality policies and training in a safe and healthy space.
- Ethical and responsible conduct: Mora Banc guarantees ethical and responsible conduct at all levels of the organisation to inspire greater trust among clients. For the institution, a strong corporate culture is a competitive advantage in the market. The codes of ethics, group conduct and stock market conduct, control and governance structures, code of conduct training, prevention of conflicts of interest, corporate integrity management committee, and the internal control and communication body, among others, ensure a secure system to guarantee ethical and responsible conduct. Moreover, MoraBanc is committed to the United Nations' Sustainable Development Goals.

45. Subsequent events

On 13 March 2024, MoraBanc reached an agreement for the acquisition of a majority holding in Tressis Sociedad de Valores, S.A. and, consequently, a majority of the capital of Tressis Gestión, SGIIC. This operation is subject to authorisation by the relevant authorities.

46. Standards and interpretations issued but not in force

As of the date of the formulation of these financial statements, the most significant standards which have been published by the IASB without entering into force, either because their effective date is later than the date of the financial statements or because they have still not been approved by the European Union or Andorra, are as follows:

Amendments to IAS 1 Presentation of financial statements: classification of financial liabilities as current or non-current

In January 2020 and October 2022, the IASB issued its amendments to paragraphs 69 to 76 of IAS 1 Presentation of financial statements to clarify the requirements to be applied in the classification of liabilities as current or non-current. Specifically, these amendments clarify the following concepts:

- Right to defer the settlement. If an institution's right to defer the settlement depends on future covenants, the institution has the right to defer the payment, even if it is not in compliance with the future covenants on the closing date.
- Expected differences. The classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer payment for at least 12 months after the end of the financial year.
- Settlement through equity instruments. There is an exception to the requirements to settle liabilities through equity instruments with an impact on the classification of the liability.

These amendments are effective for periods beginning on or after 1 January 2024 and must be applied retrospectively in accordance with IAS 8.

Amendments to IFRS 16: Lease liability in a sale with leaseback

In September 2022 the IASB issued an amendment to IFRS 16 Leases to specify the requirements that a seller-lessee must use to quantify the lease liability arising upon the sale and subsequent lease. This amendment is intended to ensure that the seller-lessee does not recognise any gain or loss related to the right of use it retains.

This amendment applies retroactively to annual periods beginning on or after 1 January 2024.

Amendments to IAS 7 and IFRS 7: Supplier financing agreements

In May 2023, the IASB issued its amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments; Disclosures to clarify the characteristics of financing arrangements and introduce new disclosures to help users of the financial statements to understand the effects of these arrangements on liabilities, cash flows and exposure to risk liquidity.

The amendments are effective for annual periods beginning on or after 1 January 2024

Amendments to IAS 21 Lack of exchangeability

The amendments clarify how institutions must assess whether a currency is convertible and how they must determine the spot exchange rate when there is no convertibility, as well as requiring breakdowns that allow the users of the financial statements to understand the impact of a currency not being convertible.

The amendments apply to annual periods beginning on or after 1 January 2025.

It is not expected that any of these rules, modifications and interpretations will have a material effect on the Company's financial statements.

47. First application of IFRS Regulation 17 insurance contracts

The Group has prepared these first financial statements in respect of the period ending on 31 December 2023 in accordance with the International Financial Reporting Standards and also submits, solely and exclusively for comparative purposes, the information in question as of 31 December 2022, but also the information in respect of the period of the financial year ending on the above-mentioned date. In the preparation of these annual accounts, the statement of financial position as of 1 January 2022 was regarded as the opening statement of financial position, as this is the date for the transition to the new accounting regulations.

Below appear, as required by IFRS 1, the main adjustments performed by the Group when restating the consolidated financial statements prepared in accordance with the local regulations as of 1 January 2022 and 31 December 2022, in accordance with the applicable regulations:

Accounting estimates:

The accounting estimates carried out by the Group on 1 January 2022 and 31 December 2022 are consistent with those carried out on the same data in accordance with the local regulations (without regard to the relevant adjustments to the differences in respect of the application of different accounting principles), as it is not necessary to make estimates, in accordance with the local regulations.

The estimates made by the Group in the submission in accordance with the International Financial Reporting Standards refer to the information available in each one in which the estimates were made.

Conciliation of balances between the different regulatory frameworks

Below appear the financial statements in accordance with the structure and classification established in the IFRS-EU regulations, distributed in the following columns:

- The “Previous accounting criteria” column relates to the balance audited on 31/12/2021, formulated in accordance with the valuation criteria and principles of the General Chart of Accounts of the Andorran Financial System (hereinafter, PGCA).

- The “Adjustments” column includes the impacts in respect of the difference in the scope and consolidation method between the different regulations. Note 3.11 in this report explains the new accounting policies and valuation criteria applied with the change in the accounting regulation.

- “Reclassifications” column, due to the new IFRS 17 regulations, the headings have been reclassified to obtain an initial financial position statement with the structure and classifications established in the new international regulations. These movements are included in the “Reclassifications” column of the consolidated statement of position displayed below.

The effects of the adoption of the IFRS 17on the statements of financial position for the year ending on 31 December 2022 are as follows:

STATEMENT OF FINANCIAL POSITION				As of 1 January 2022 (date of first application)				As of 31 December 2022
ASSETS	Previous accounting criteria	Adjustments	Reclassifications	Opening IFRS 17 balances	Previous accounting criteria	Adjustments	Reclassifications	NIIF 17 balances
Cash, cash balances in central banks and other sight deposits	**346,674**		**-**	**346,674**	**252,332**	**-**	**-**	**252,332**
Financial assets held for trading	**89,100**		**501**	**89,601**	**87,914**	**-**	**-**	**87,914**
Derivatives	44,813.00		-	44,813	30,985	-	-	30,985
Equity instruments	20,431.00		-	20,431	15,626	-	-	15,626
Debt securities	23,856		501	24,357	41,303	-	-	41,303
Non-trading financial assets mandatorily measured at fair value through profit or loss	**394,068**		**(13,438)**	**380,630**	**257,895**	**-**	**(53)**	**257,842**
Equity instruments	250,059		-	250,059	189,938	-	(56)	189,882
Debt securities	144,009		(13,438)	130,571	67,957	-	3	67,960
Financial assets at fair value through other comprehensive income	**1,052,545**	**1,946**	**41,027**	**1,095,518**	**736,108**	**(1,251)**	**41,834**	**776,691**
Equity instruments	38,081	-	-	38,081	30,130	-	-	30,130
Debt securities	1,014,464	1,946	41,027	1,057,437	705,978	(1,251)	41,834	746,561
Loans and advances	-		-	-	-	-	-	-
Financial assets at amortised cost	**2,489,978**	**-2,554**	**(24,942)**	**2,462,482**	**2,886,548**	**241**	**(41,768)**	**2,845,021**
Debt securities	673,274		(28,088)	645,186	1,225,937	-	(41,811)	1,184,126
Loans and advances	1,816,704	-2,554	3,146	1,817,296	1,660,611	241	43	1,660,895
Credit institutions	166,689	-	-	166,689	122,947	-	-	122,947
Clients	1,650,015	-2,554	3,146	1,650,607	1,537,664	241	43	1,537,948
Derivatives - hedge accounting	**2,706**		**-**	**2,706**	**28,442**	**-**	**-**	**28,442**
Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging	**2,076**		**-**	**2,076**	**-**	**-**	**-**	**-**
Investments in subsidiaries, joint ventures and associates	**5,205**		**-**	**5,205**	**5,224**	**-**	**-**	**5,224**
Assets covered by insurance and reinsurance contracts	**33,296**	**4,579**	**(3,156)**	**34,719**	**27,787**	**(429)**	**-**	**27,358**
Tangible assets	**102,630**		**-**	**102,630**	**102,360**	**-**	**-**	**102,360**
Fixed assets	69,335.00		-	69,335	71,997	-	-	71,997
Property investments	33,295.00		-	33,295	30,363	-	-	30,363
Intangible assets	**25,467**		**-**	**25,467**	**28,843**	**-**	**-**	**28,843**
Goodwill	11,784		-	11,784	11,784	-	-	11,784
Other intangible assets	13,683		-	13,683	17,059	-	-	17,059
Tax assets	**7,342**	**733**	**-**	**8,075**	**9,255**	**858**	**-**	**10,113**
Current tax assets	2,458	-	-	2,458	2,741	-	-	2,741
Deferred tax assets	4,884	733	-	5,617	6,514	858	-	7,372
Other assets	**3,634**	**46**	**-**	**3,680**	**2,702**	**102**	**(129)**	**2,675**
Non-current assets and disposable groups of items held for sale	**3,288**	**-**	**-**	**3,288**	**3,185**	**-**	**-**	**3,185**
TOTAL ASSETS	4,558,009	4,751	(9)	4,562,749	4,428,595	(479)	(116)	4,428,000

STATEMENT OF FINANCIAL POSITION

	As of 1 January 2022 (date of first application)				As of 31 December 2022			
LIABILITIES	Previous accounting criteria	Adjustments	Reclassifications	Opening IFRS balances	Previous accounting criteria	Adjustments	Reclassifications	IFRS balances
Financial liabilities held for trading	**42,241**		**-**	**42,241**	**34,003**	**-**	**-**	**34,003**
Derivatives	42,241		-	42,241	34,003	-	-	34,003
Financial liabilities designated at fair value with changes in profit or loss	**364,696**		**(357,277)**	**7,419**	**246,854**	**-**	**(238,517)**	**8,337**
Other financial liabilities	364,696		(357,277)	7,419	246,854	-	(238,517)	8,337
Financial liabilities at amortised cost	**3,606,290**	**-12**	**17,875**	**3,624,153**	**3,642,297**	**10**	**17,787**	**3,660,094**
Deposits	3,524,946	-	-	3,524,946	3,604,583	-	-	3,604,583
Deposits at central banks and credit institutions	18,464	-	-	18,464	202,749	-	-	202,749
AFA	176,146	-	-	176,146	-	-	-	-
Client deposits	3,330,336	-	-	3,330,336	3,401,834	-	-	3,401,834
Other financial liabilities	81,344	-12	17,875	99,207	37,714	10	17,787	55,511
Derivatives - hedge accounting	**6,179**		**-**	**6,179**	**346**	**-**	**-**	**346**
Changes in the fair value of the hedged items with interest rate risk	**-**		**-**	**-**	**3,629**	**-**	**-**	**3,629**
Liabilities covered by insurance and reinsurance contracts	**75,430**	**4,791**	**339,330**	**419,551**	**81,843**	**-3,324**	**220,589**	**299,108**
Provisions	**23,123**		**-**	**23,123**	**19,910**	**-**	**-**	**19,910**
Pensions and other post-employment defined benefit obligations	11,966		-	11,966	8,954	-	-	8,954
Other remuneration for long-term employees	1,309		-	1,309	1,101	-	-	1,101
Procedural issues and litigation for pending taxes	3,316		-	3,316	3,332	-	-	3,332
Commitments and guarantees granted	2,379		-	2,379	2,752	-	-	2,752
Other provisions	4,153		-	4,153	3,771	-	-	3,771
Tax liabilities	**7,677**	**656**	**-**	**8,334**	**7,224**	**1,056**	**(1)**	**8,279**
Current tax liabilities	6,874	20	-	6,894	6,585	-	-	6,585
Deferred tax liabilities	803	636	-	1,439	639	1,056	(1)	1,694
Share capital repayable at sight	-		-	-	-	-	-	-
Other liabilities	**27,626**	**-**	**62**	**27,687**	**25,184**	**-**	**26**	**25,210**
TOTAL LIABILITIES	4,153,262	5,435	(10)	4,158,687	4,061,290	-2,258	(116)	4,058,916

NET EQUITY	As of 1 January 2022 (date of first application)				As of 31 December 2022			
	Previous accounting criteria	Adjustments	Reclassifications	Opening IFRS balances	Previous accounting criteria	Adjustments	Reclassifications	Opening IFRS balances
Capital	**42,407**	**-**	**-**	**42,407**	**44,022**	**-**	**-**	**44,022**
Paid-up capital	42,407	-	-	42,407	44,022	-	-	44,022
Issuance premium	**-**	**-**	**-**	**-**	**18,462**	**-**	**-**	**18,462**
Other comprehensive accumulated income	**(11,444)**	**1,752**	**-**	**(9,692)**	**(27,393)**	**4,300**	**-**	**(23,093)**
Items which will not be reclassified to profit or loss	**(13,140)**	**1,752**	**-**	**(11,388)**	**(16,923)**	**-**	**-**	**(16,923)**
Fair value changes in equity instruments valued at fair value through other comprehensive income	(13,140)	1,752	-	(11,388)	(16,923)	-	-	(16,923)
Items which can be reclassified in profit or loss	**1,696**	**-**	**-**	**1,696**	**(10,470)**	**5,426**	**-**	**(56,170)**
Cash flow hedges (effective part)	1,245	-	-	1,245	930	-	-	930
Financial assets at fair value through other comprehensive income	451	-	-	451	(11,400)	(1,126)	-	(12,526)
Adjustments for valuation of insurance contracts	-	-	-	-	-	5,426	-	5,426
Accumulated profit	**311,681**	**-**	**-**	**311,681**	**323,352**	**-**	**-**	**323,352**
Revaluation reserves	**-**	**-**	**-**	**-**	**-**		**-**	**-**
Other reserves	**(24,515)**	**(2,436)**	**-**	**(26,951)**	**(31,252)**	**(2,436)**	**-**	**(33,688)**
Profit or loss attributable to the owners of the controlling company	**34,046**	**-**	**-**	**34,046**	**40,118**	**(85)**	**-**	**40,033**
Minority interests (non-controlling interests)	**52,572**	**-**	**-**	**52,572**	**(4)**	**-**	**-**	**(4)**
Other comprehensive accumulated income	(171)	-	-	(171)	-	-	-	-
Other items	52,743	-	-	52,743	(4)	-	-	(4)
NET TOTAL EQUITY	404,747	(684)	-	404,063	367,305	1,779	-	369,084
NET TOTAL EQUITY AND LIABILITIES	4,558,009	4,751	(9)	4,562,749	4,428,595	(479)	(116)	4,428,000

As of 31 December 2022

	Previous accounting criteria	Adjustments	IFRS balances
Interest income	49,405	424	49,801
Interest expenses	(4,142)	-	(4,142)
Dividend income	507	-	507
Commission income	90,657	-	90,657
Commission expenses	(19,776)	-	(19,776)
Profit or loss of institutions valued by the holding method	575	-	575
Results of financial operations	7,910	-	7,910
For financial instruments not valued at fair value through profit or loss	2,432	-	2,432
For financial assets and liabilities held for trading	4,158	-	4,158
For other financial instruments at fair value through profit or loss	(1,400)	-	(1,400)
Profits or (-) losses resulting from hedge accounting, net	147	-	147
Exchange differences (net)	2,573	-	2,573
Other operating income	6,624	329	6,953
Other operating expenses	(609)	-	(609)
Net operating profit/loss	131,151	(95)	131,056
Administrative expenses	(82,056)	-	(82,056)
Labour expenses	(43,761)	-	(43,761)
Other general administrative expenses	(38,295)	-	(38,295)
Depreciation	(7,435)	-	(7,435)
Provisions (net)	(2,665)	-	(2,665)
Impairment of financial assets not recognised at their fair value through profit or loss (net)	3,110	-	3,110
At fair value through other comprehensive income	274	-	274
At amortised cost	2,836	-	2,836
Net impairment of investments in joint ventures or associates	-	-	-
Impairment of non-financial assets (net)	-	-	-
Profits or (-) losses on derecognition of non-financial assets and holdings, (net)	(15)	-	(15)
Profits or losses from non-current assets on sale not classified as discontinued operations	1,472	-	1,472
Pre-tax profit/loss	43,562	(95)	43,467
Tax on profits	(3,444)	10	(3,434)
Profit or loss for the financial year from continuing operations	40,118	(85)	40,033
Profit or loss from interrupted operations (net)	-	-	-
Profit/loss for the financial year	40,118	(85)	40,033
Attributable to the owners of the controlling company	40,118	(85)	40,033
Attributable to the minority interests	-	-	-

ANNEX I. Annual report

Report for compliance with Article 90 of Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banks and investment companies.

This annex has been prepared in compliance with the provisions of Article 90 of Law 35/2018, of 20 December, on solvency, liquidity and prudential supervision of banks and investment companies.

Mora Banc Grup, SA is an Andorran company, with registered offices in Andorra la Vella, Avinguda Meritxell no. 96, its corporate purpose is to carry out all kinds of operations permitted to the banking institutions by the legislation in force at all times in the Principality of Andorra, and together with its subsidiaries, comprise the MoraBanc Group.

Information on the name, nature of activities and geographical location of its subsidiaries is available in note 4 of the attached financial statements. This note details the companies and the jurisdiction where they operate, including the name, geographical location and the nature of their activity for each of them. The Group basically carries out activities related to banking, management of collective investment bodies, insurance companies and investment services, in the Principality of Andorra and in Switzerland and the United States, although in these two jurisdictions, its activity is limited to providing investment services.

The following is the consolidated information for the 2023 financial year:

	Business volume	No. of full-time equivalent workers	Gross result before taxes	Tax on profits
Andorra	142,522	385	54,428	(4,906)
Switzerland	5,672	9	15	(12)
United States	9,504	32	1,555	-
Spain	5,862	24	455	(112)

For the purposes of this information, the gross margin of the consolidated income statement for December 2023 has been considered as turnover. The data for full-time equivalent employees were obtained from the workforce of the companies domiciled in each of the countries at the end of the 2023 financial year.

As of 31 December 2023, the Group's return on assets, calculated as the quotient of the consolidated profit for the year and the total average annual assets, is 1.24%. The Group has a CET 1 capital ratio of 21.21% and a fully loaded CET 1 ratio of 21.14% as of 31 December 2023.

During the 2023 and 2022 financial years, the institution did not receive public subsidies or grants directed towards the financial sector aimed at promoting the development of banking activity.

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