MORABANC

2022

CONSOLIDATED FINANCIAL STATEMENTS

MORABANC

MORABANC GROUP
2022 Consolidated Financial Statements

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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 (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated statements of financial position at December 31, 2022, the consolidated income statement, the consolidated statement of comprehensive income, the total statement of changes in the consolidated net equity, 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 consolidated equity and the consolidated financial position of the Group at December 31, 2022, and of its consolidated results 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 2022 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.

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

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

- 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.

ERNST & YOUNG, S.L.

Roberto Diez Cerrato

March 31, 2023

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of 31 December 2022 and 2021, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

ASSETS

	Note	31/12/2022	31/12/2021(*)
Cash, cash balances in central banks and other sight deposits	**9**	**252,332**	**346,674**
Financial assets held for trading	**7, 10**	**87,914**	**89,100**
Derivatives		30,985	44,813
Equity instruments		15,626	20,431
Debt securities		41,303	23,856
Non-trading financial assets mandatorily measured at fair value through profit or loss	**7, 12**	**257,895**	**394,068**
Equity instruments		189,938	250,059
Debt securities		67,957	144,009
Financial assets at fair value through other comprehensive income	**7, 13**	**736,108**	**1,052,545**
Equity instruments		30,130	38,081
Debt securities		705,978	1,014,464
Financial assets at amortised cost	**6, 7 and 14**	**2,886,548**	**2,489,978**
Debt securities		1,225,937	673,274
Loans and advances		1,660,611	1,816,704
Credit institutions		122,947	166,689
Clients		1,537,664	1,650,015
Derivatives - hedge accounting	**7, 15**	**28,442**	**2,706**
Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging	**15**	**-**	**2,076**
Investments in subsidiaries, joint ventures and associates	**4, 16**	**5,224**	**5,205**
Associated institutions		5,224	5,205
Assets covered by insurance and reinsurance contracts	**22**	**27,787**	**33,296**
Tangible assets	**17**	**102,360**	**102,630**
Fixed assets		71,997	69,335
Property investments		30,363	33,295
Intangible assets	**18**	**28,843**	**25,467**
Goodwill		11,784	11,784
Other intangible assets		17,059	13,683
Tax assets	**41**	**9,255**	**7,342**
Current tax assets		2,741	2,458
Deferred tax assets		6,514	4,884
Other assets	**19**	**2,702**	**3,634**
Non-current assets and disposable groups of items held for sale	**20**	**3,185**	**3,288**
TOTAL ASSETS		**4,428,595**	**4,558,009**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.4)

The attached Notes 1 to 46 form an integral part of the consolidated statement of financial position as of 31 December 2022.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of 31 December 2022 and 2021, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

LIABILITIES

	Note	31/12/2022	31/12/2021(*)
Financial liabilities held for trading	**10**	**34,003**	**42,241**
Derivatives		34,003	42,241
Financial liabilities designated at fair value through profit or loss	**12**	**246,854**	**364,696**
Other financial liabilities		246,854	364,696
Financial liabilities at amortised cost	**21**	**3,642,297**	**3,606,290**
Deposits		3,604,583	3,524,946
Other financial liabilities		37,714	81,344
Derivatives - hedge accounting	**15**	**346**	**6,179**
Changes in the fair value of the hedged items with interest rate risk	**15**	**3,629**	**-**
Liabilities covered by insurance and reinsurance contracts	**22**	**81,843**	**75,430**
Provisions	**23**	**19,910**	**23,123**
Pensions and other post-employment defined benefit obligations		8,954	11,966
Other remuneration for long-term employees		1,101	1,309
Procedural issues and litigation for pending taxes		3,332	3,316
Commitments and guarantees granted		2,752	2,379
Other provisions		3,771	4,153
Tax liabilities	**41**	**7,224**	**7,677**
Current tax liabilities		6,585	6,874
Deferred tax liabilities		639	803
Other liabilities	**19**	**25,184**	**27,626**
TOTAL LIABILITIES		**4,061,290**	**4,153,262**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.4)

The attached Notes 1 to 46 form an integral part of the consolidated statement of financial position as of 31 December 2022.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of 31 December 2022 and 2021, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

NET EQUITY

	Note	31/12/2022	31/12/2021(*)
Capital	**25**	**44,022**	**42,407**
Issue premium		**18,462**	-
Other comprehensive accumulated income	**15, 26**	**(27,393)**	**(11,444)**
Items which will not be reclassified to profit or loss		**(16,923)**	**(13,140)**
Fair value changes in equity instruments valued at fair value through other comprehensive income		(16,923)	(13,140)
Items which can be reclassified in profit or loss		**(10,470)**	**1,696**
Cash flow hedges (effective part)		930	1,245
Financial assets at fair value through other comprehensive income		(11,400)	451
Accumulated profit	**25**	**323,352**	**311,681**
Other reserves	**25**	**(31,252)**	**(24,515)**
Profit or loss attributable to the owners of the controlling company		**40,118**	**34,046**
Minority interests (non-controlling interests)	**27**	**(4)**	**52,572**
Other Accumulated Comprehensive Income		-	**(171)**
Other items		(4)	52,743
TOTAL NET EQUITY		**367,305**	**404,747**
TOTAL NET EQUITY AND LIABILITIES		**4,428,595**	**4,558,009**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.4)

The attached Notes 1 to 46 form an integral part of the consolidated statement of financial position as of 31 December 2022.

CONSOLIDATED INCOME STATEMENTS

Financial years ending on 31 December 2022 and 2021, in thousands of euros

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

	Note	2022	2021 (*)
Interest income	**33**	**49,405**	**34,277**
Interest expenses	**33**	**(4,142)**	**(4,108)**
Dividend income		**507**	**369**
Commission income	**34**	**90,657**	**83,050**
Commission expenses	**34**	**(19,776)**	**(15,856)**
Profit or loss of institutions valued by the holding method	**36**	**575**	**596**
Results of financial operations	**35**	**7,910**	**21,984**
For financial instruments not valued at fair value with changes in profit or loss		2,432	5,362
For financial assets and liabilities held for trading		4,158	2,954
For other financial instruments at fair value with changes in profit or loss (net)		(1,400)	11,761
Profits or (-) losses resulting from hedge accounting, net		147	136
Exchange differences (net)		2,573	1,771
Other operating income	**37**	**6,624**	**6,260**
Other operating expenses	**37**	**(609)**	**(515)**
Net operating profit/loss		**131,151**	**126,057**
Administrative expenses		**(82,056)**	**(64,628)**
Labour expenses	**38**	(43,761)	(36,816)
Other general administrative expenses	**39**	(38,295)	(27,812)
Amortisation	**17 and 18**	**(7,435)**	**(7,318)**
Provisions (net)	**23**	**(2,665)**	**(4,827)**
Impairment of financial assets not recognised at their fair value with changes in profit or loss (net)	**40**	**3,110**	**(2,322)**
At fair value through other comprehensive income		274	(142)
At amortised cost		2,836	(2,180)
Impairment of non-financial assets (net)		**-**	**(8,465)**
Tangible assets		-	(8,465)
Profits or (-) losses on derecognition of non-financial assets and holdings (net)		**(15)**	**(27)**
Profits or losses from non-current assets on sale not classified as discontinued operations	**20**	**1,472**	**(185)**
Pre-tax profit (loss)		**43,562**	**38,285**
Income tax	**41**	**(3,444)**	**(3,747)**
Profit or loss for the financial year from continuing operations		**40,118**	**34,538**
Profit/loss for the financial year		**40,118**	**34,538**
Attributable to the owners of the controlling company		**40,118**	**34,046**
Attributable to the minority interests		-	492

(*) Submitted solely and exclusively for comparative purposes (see Note 2.4)

The attached Notes 1 to 46 form an integral part of the consolidated income statement for the financial year ending on 31 December 2022.

CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY (I)

Financial years ending on 31 December 2022 and 2021, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

Consolidated Statement of Comprehensive Income

	2022	2021 (*)
PROFIT/LOSS FOR THE PERIOD	**40,118**	**34,538**
OTHER COMPREHENSIVE INCOME	**(15,949)**	**(10,356)**
Items which will not be reclassified to profit or loss	**(3,783)**	**(7,465)**
Fair value changes in equity instruments valued at fair value through other comprehensive income	**(4,164)**	**(8,292)**
Income tax related to items which will not be reclassified to profit or loss	**381**	**827**
Items which may be reclassified to profit or loss	**(12,166)**	**(2,891)**
Cash flow hedges	**(315)**	**(167)**
Profits (losses) by valuation	(315)	(167)
Financial assets at fair value through other comprehensive income	**(13,186)**	**(2,439)**
Profits (losses) by valuation	(11,018)	3,519
Amounts transferred to the profit and loss account	(2,168)	(5,958)
Income tax related to items which can be reclassified in profit or loss	**1,335**	**(285)**
OVERALL PROFIT/LOSS FOR THE PERIOD	**24,169**	**24,182**
Attributable to the owners of the controlling company	**24,169**	**23,690**
Attributable to the minority interests	**-**	**492**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.4)

The attached Notes 1 to 46 form an integral part of the consolidated statement of comprehensive income for the financial year ending on 31 December 2022.

CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY (II)

As of 31 December 2022 and 2021, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

Total Statement of Changes in the Consolidated Net Equity

	Capital	Issue premium	Other comprehensive accumulated income	Accumulated profit	Other reserves	Profit or loss attributable to the owners of the controlling company	Minority interests: Other comprehensive accumulated income	Minority interests: Other items	Total
Balance at 31 December 2020	**42,407**	**-**	**(1,088)**	**289,863**	**(24,024)**	**30,098**	**-**	**(4)**	**337,252**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-
Balance at 1 January 2021	**42,407**	**-**	**(1,088)**	**289,863**	**(24,024)**	**30,098**	**-**	**(4)**	**337,252**
Distribution of the 2020 profit	-	-	-	30,098	-	(30,098)	-	-	-
Other increases or decreases in net equity (Note 25)	-	-	-	-	(491)	-	(171)	52,255	**51,593**
Distribution of dividends (Note 5)	-	-	-	(8,280)	-	-	-	-	**(8,280)**
Total overall profit/loss in the financial year	-	-	(10,356)	-	-	34,046	-	492	**24,182**
Balance at 31 December 2021	**42,407**	**-**	**(11,444)**	**311,681**	**(24,515)**	**34,046**	**(171)**	**52,743**	**404,747**
Distribution of the 2021 profit	-	-	-	34,046	-	(34,046)	-	-	-
Other increases or decreases in net equity (Note 25)	1,615	18,462	-	(6,466)	(6,737)	-	171	(52,747)	**(45,702)**
Distribution of dividends (Note 5)	-	-	-	(15,909)	-	-	-	-	**(15,909)**
Total overall profit/loss in the financial year	-	-	(15,949)		-	40,118	-	-	**24,169**
Balance at 31 December 2022	**44,022**	**18,462**	**(27,393)**	**323,352**	**(31,252)**	**40,118**	**-**	**(4)**	**367,305**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.4)

The attached Notes 1 to 46 form an integral part of the consolidated statement of changes in net equity of the financial year ending on 31 December 2022.

CONSOLIDATED CASH FLOW STATEMENT

As of 31 December 2022 and 2021, in thousands of euros

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

	Euros (thousands)	
	2022	2021(*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(85,797)**	**157,774**
Profit/loss for the financial year	**40,118**	**34,046**
Adjustments to obtain the cash flows from the operating activities	**4,707**	**13,413**
Amortisation	7,435	7,318
Other adjustments	(2,728)	6,095
Net increase/(decrease) in the operating assets	**42,626**	**(232,025)**
Financial assets held for trading	1,187	38,033
Financial assets at fair value with changes in profit or loss	136,174	24,140
Financial assets at fair value through other comprehensive income	18,662	(83,907)
Financial assets at amortised cost	(94,419)	(210,777)
Other operating assets	(18,978)	486
Net (increase)/decrease in the operating liabilities	**(173,248)**	**342,340**
Financial liabilities held for trading	(8,238)	(16,202)
Financial liabilities at fair value with changes in profit or loss	(127,229)	(11,356)
Financial liabilities at amortised cost	41,260	393,640
Other operating liabilities	(75,597)	(23,216)
Collections/payments for tax on profits	(3,444)	(526)
B) CASH FLOWS FROM INVESTMENT ACTIVITIES	**4,791**	**29,792**
Payments:	**(13,758)**	**(74,805)**
Tangible assets	(6,419)	(2,289)
Intangible assets	(7,339)	(4,506)
Other payments related to investment activities	-	(68,010)
Collections:	**18,549**	**104,597**
Tangible assets	-	1,749
Non-current assets and liabilities which have been classified as held for sale	103	3,088
Other charges/payments related to investment activities	18,446	99,760
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(15,909)**	**(35,822)**
Payments:	**(15,909)**	**(35,822)**
Dividends	(15,909)	(8,280)
Acquisition of issued financial instruments	-	(27,542)
D) EFFECT OF CHANGES IN EXCHANGE RATES	**2,573**	**1,771**
E) NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS (A+B+C+D)	**(94,342)**	**153,515**
F) CASH AND EQUIVALENTS AT THE START OF THE PERIOD	**346,674**	**193,159**
G) CASH AND EQUIVALENTS AT THE END OF THE PERIOD (E+F)	**252,332**	**346,674**
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD		
Cash	27,282	42,257
Cash equivalent balances in central banks	-	-
Other Financial Assets	225,050	304,417
TOTAL CASH AND EQUIVALENTS AT THE END OF THE PERIOD	**252,332**	**346,674**

(*) Submitted solely and exclusively for comparative purposes (see Note 2.4)

The attached Notes 1 to 46 form an integral part of the consolidated Cash Flow Statement for the financial year ending on 31 December 2022.

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ending on 31 December 2022

MORA BANC GRUP, SA AND COMPANIES COMPRISING THE MORABANC GROUP

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 has a duty 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 investments in associated institutions.

On July 15, 2021, MoraBanc, as the purchasing party, and Banco de Sabadell, S.A., as the selling party (hereinafter, Banco de Sabadell), entered into a share purchase agreement relating to all the shares held by the selling party in BancSabadell d'Andorra, SA (hereinafter, BancSabadell d'Andorra and the Transaction, respectively). Subsequently, during 2022 MoraBanc acquired an additional 33.85% stake from the shareholders of Banc Sabadell d'Andorra, which increased the total percentage of MoraBanc's stake in Banc Sabadell d'Andorra to 84.82%.

On 11 November 2022, following the subsequent approval by the AFA, the technological and legal merger of the two financial institutions and their respective subsidiaries took place (see Note 2.3).

The consolidated financial statements of the MoraBanc Group for the 2022 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 2021 financial year were approved by the General Meeting of Shareholders held on 27 April 2022.

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 drawn up in accordance with the International Financial Reporting Standards (hereinafter, the IFRS) approved by Andorra by virtue of the Decree published on 22 December 2016, amended by the Decrees published on 19 December 2018, 27 March 2019, 29 July 2020 and 24 February 2021 and 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 2022 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 valuation criteria outlined in Note 3, in such a way that they reflect the true and fair view of the equity and result of the operations, the changes in its net equity and the consolidated cash flows which occurred in the 2022 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 valuation 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 2022 financial year are as follows:

IFRS 4 - "Extension to the temporary exception for the application of IFRS 9"

With regard to IFRS 4 - "Insurance contracts" and the date of application of IFRS 9 in the case of institutions that must apply this standard, the IASB has decided to delay its entry into force until financial years that begin on 1 January 2023.

Amendments to IAS 8 - Definition of Accounting Estimates

In these amendments the IASB has introduced a new definition of "accounting estimate" to clarify the differences between changes in accounting estimates, changes in accounting policies and error corrections.

These amendments are effective for periods beginning on or later than 1 January 2023.

Amendments to NIC 1 and the IFRS 2 Practice Document - Information to be Disclosed on Accounting Policies

In these amendments the IASB has included guidance and examples for applying judgement in identifying accounting policies which 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 materiality to decide which accounting policies are actually material.

These amendments are effective for periods beginning on or later than 1 January 2023.

Amendments to NIC 1 - Presentation of financial statements: classification of financial liabilities as current and non-current.

In January 2020, the IASB issued its amendments to paragraphs 69 to 76 of IAS 1 - Presentation of financial statements "2022 amendment" to clarify the requirements to be applied in the classification of liabilities as current and non-current. Subsequently, in October 2022, the IASB published the "2022 amendment", which is additional to the "2020 amendment". The main changes between the current IAS 1 and the changes introduced in the two amendments are as follows:

- Right to defer a settlement. Despite the existence of future covenants, the institution is entitled to defer payment even if these covenants are not completed on the closing date.
- Expected deferrals. The amendments clarify that the classification of a liability is unaffected by the likelihood of the institution exercising its right to defer payment at least 12 months after the end of the financial year.
- Settlement by means of equity instruments. The amendments clarify that there is an exception to the requirements to settle liabilities by means of equity instruments that has an impact on the classification of the liability.
- Breakdowns. The amendments require additional breakdowns for loan contracts, which are classified as non-current liabilities, and the institution's right to defer payment depends on future covenants in the next 12 months.

The amendments will be effective for annual financial years beginning on or later than 1 January 2024 (IASB) and they will be applied retroactively in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

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

The proposed amendments will require an institution to recognise deferred taxes in the initial recognition of specific transactions, insofar as the transaction gives rise to equal amounts of deferred tax assets and liabilities. The proposed amendments will apply to specific transactions for which an institution recognises an asset and a liability, such as leases and decommissioning obligations.

These amendments are effective for periods beginning on or later than 1 January 2023.

2.3. Business combinations and merger processes

On 15 July 2021, MoraBanc, as the purchasing party, and Banco de Sabadell, S.A., as the selling party (hereinafter, Banco de Sabadell), entered into a share purchase agreement relating to all the shares held by the selling party in BancSabadell d'Andorra, SA (hereinafter, BancSabadell d'Andorra and the Transaction, respectively). In this contract, MoraBanc undertook to offer to purchase the shares of the minority shareholders of Banco Sabadell d'Andorra at the same price as that which would be paid to Banco Sabadell, S.A.

The formalisation of the transfer of the shares was subject to the prior authorisation of the Andorran Financial Authority (AFA), in accordance with the applicable regulations.

On 1 October 2021 the AFA authorized the Transaction and, on 5 October 2021, MoraBanc and Banco de Sabadell formalised before a notary, within the framework of the prior authorisation granted, the purchase and sale of the holding in the share capital of BancSabadell d'Andorra, S.A. held by the selling party, consisting of 255,000 shares and representing 51.61% of the share capital, not counting the treasury shares. The overall purchase price was set at 68,010,000 euros, with the fair value of the difference between the assets and liabilities acquired totalling 56,226,000 euros.

Banc Sabadell d'Andorra, which changed its name to BSA Banc, S.A., as approved by its Board of Directors on 29 November 2021, was the parent company of a group comprising three companies, a management company for collective investment undertakings, BSA INVERSIONS, SGOIC, SAU and the ASSEGURANCES SEGUR VIDA, S.A. insurance company, both companies domiciled in the Principality of Andorra and regulated and supervised by the Andorran Financial Authority.

Subsequently, two minority share buyback windows were established in 2022; these were concluded in May 2022 and recorded in a deed before a notary in June 2022, with a resulting 84.82% holding in BSA Banc for MoraBanc after the recording of said buybacks in a deed.

On 22 March 2022, the joint merger projects were approved by the two companies with the retroactive date of 1 January 2022.

On 11 November 2022, following the subsequent approval by the AFA, the technological and legal merger of the two financial institutions and their respective subsidiaries took place.

Accounting of the business combination

The 2021 financial statements included the provisional registration of this business combination and, for accounting purposes, 1 October 2021 was taken as the reference date for the registration.

The carrying amount and fair value of the assets and liabilities of the BSA Banc, S.A. Group on 1 October 2021 was:

Thousands of euros	Initial Value	Fair value adjustments	Other adjustments	Fair value
Total assets	**1,172,217**	**1,489**	**1,277**	**1,174,983**
Total liabilities	**1,064,110**	**662**	**1,277**	**1,066,049**
Total net equity	**108,107**	**827**	**-**	**108,934**
Acquisition percentage				51.61%
Remuneration delivered				68,010
Goodwill				**11,784**

The calculation of this amount is definitive once the estimate of all reasonable values has been reviewed and, in accordance with IFRS 3, one year after the acquisition. There have been no significant changes with respect to this amount.

The valuations were reviewed by independent experts applying different valuation methods depending on each type of asset and liability.

- For the financial instruments, depending on each type of asset, they have been valued mainly at market prices and the valuations have been cross-checked by verifying the prices with the different counterparties.

- The fair value of the property asset portfolio has been obtained by taking into account the updated valuations and applying the Group's accounting policy in accordance with their use.

- Any tangible assets that have been deemed to be discontinued have been derecognised.

- As for the intangible assets, any that have not been assigned any market value have been derecognised.

- The valuation differences arising from the application of the Group's accounting hedging policy have been recognised.

- As for any fair value adjustments identified in the PPA that have generated temporary differences between the accounting cost and the tax cost, the corresponding deferred tax asset or liability has been recorded.

2.4. Comparison of the information

The figures for the 2021 financial year are presented for comparison purposes only.

It is worth highlighting that, as the takeover of Banco Sabadell d'Andorra took place in early October 2021, the consolidated income statement for this financial year includes only the income and expenses of Banco Sabadell d'Andorra in the last quarter of the year. This same statement for the 2022 financial year includes the entire year, given that the merger was carried out with accounting effects on 1 January 2022.

2.5. 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 actuarial assumptions used in the calculation of the liabilities for insurance contracts and post-employment commitments (Note 24).
- The valuation of the provisions necessary for the hedging of occupational, legal, fiscal and other contingencies (Note 23).
- The expenditure on income 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.

2.6. 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.

2.7. Error correction and changes in accounting policies

In the drawing up of the 2022 consolidated financial statements, no error has been detected leading to the restatement of the amounts included in the 2021 consolidated financial statements.

2.8. 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.

2.8.1. Public debt

In compliance with this coefficient, the Group, as of 31 December 2022, underwrote 186,900,000 euros in Public Debt of the Principality of Andorra, as outlined below:

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

In 2021, this amount was 79,924,000 euros invested in an issuance on 15 March 2017. This debt matures on 30 March 2022 and accrues interest at a rate of 0.75%, with a rate schedule established upon its issue.

The amount underwritten by the Group for this issue is recorded under the heading "Financial assets at amortised cost – Debt securities" of the attached consolidated statement of financial position (see Note 14).

2.8.2. 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 2022 and 2021, accounted for the respective amounts of 2,087,000 euros and 2,518,000 euros, respectively, and are recorded under the heading "Financial assets at amortised cost – Loans and advances" of the attached consolidated statement of financial position.

2.8.3. Guarantee reserves

Deposit Guarantee Fund
The General Council of the Principality of Andorra, in its session on 13 September 2018, enacted Law 20/2018, of 13 September, 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 euros per depositor and per institution is maintained. Additional coverages are incorporated in exceptional cases that provide guarantees up to a limit of 300,000 euros.

– 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 euros.

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 obliges banking institutions authorised to operate in the Andorran financial system to maintain investments in liquid and safe assets as a counterpart of an unavailable reserve, affected by 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 totalled 32,055,000 euros as of 31 December 2022 (32,055,000 euros in 2021). 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 INAF 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 2022, 1,934,000 euros have been provided (2,296,000 euros in 2021) and the total amount of the provision constituted is 2,160,000 euros (1,953,000 euros in 2021), which is recorded under the heading "Provisions-Other provisions". 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.

2.8.4. 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 2022 financial year under the heading "Provisions (net)" of the attached consolidated results statements, for the amount of 1,354,000 euros (see Note 23), 1,159,000 euros in 2021. During 2022 and 2021, the same amount was settled at the FAREB.

3. Consolidation principles, accounting policies and valuation criterio

In the drawing up of the Group's consolidated financial statements for the 2022 financial year, the following principles, accounting policies and valuation 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 designated 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. Principles of consolidation

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 is 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 2022 and 2021, the Group maintains 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 2022 and 2021, the Group maintained its 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 separately 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.

Registration 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 (HTC) contractual cash flows:** 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 being the most frequent and of the highest 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. A reclassification of titles was carried out in 2022 (see Note 14); no reclassifications between business models were carried out in 2021.

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 receive 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 receiving 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 in the statement of financial position, the amount of change in value recorded under "Other comprehensive accumulated 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 with changes in 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. Also considered financial assets held for trading are the derivative instruments that do not meet the definition of a financial guarantee contract and have not been designated as hedge accounting instruments.

- 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 covered 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 statement of income 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 cost. 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, without deducting any transaction costs for its 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, taking into account 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 for the calculation of 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 taken into account 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 for the calculation of the probability of default, as well as its severity, comes from Credit Default Swaps, applying that of the institution in cases in which it exists. 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, changes 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 changes in value. The latter are recorded, for their net amount, in the corresponding section of the result of financial operations, and are classified in accordance with the corresponding portfolio of the consolidated statement of income.

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 comprehensive accumulated 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 comprehensive accumulated 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 comprehensive accumulated 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 comprehensive accumulated 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 changes 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 loan loss coverage 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, calculating it again 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 with changes in profit or loss (in other words, a derivative found implicit in a financial asset or liability measured at fair value with changes in 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 buyback 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 with changes in 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 2022 and 2021, the Group presents in its consolidated statement of financial position the net value of the subordinate liabilities issued, discounting the value of the issues buybacked from clients.

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 those loans that have amounts overdue for more than 30 days, or those loans that have unpaid balances owing for more than 30 days on three occasions in the same financial year, which must remain in this classification, being able to be removed from this stage when, during this period, they have attended without incident to the corresponding quotas.

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 instalments have been paid 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 liquidation phase of the creditors' settlement 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 others, 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 course 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 the enforcement of the guarantee. 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 contrasts 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 on the 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.

Similarly, it should be considered that the hedging percentages as an alternative solution, as established in the Guide, represent 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.

In the case of awarded property assets, their value is determined upon the basis of the latest valuation available on the date of the consolidated statement of financial position, taking into account the application of discounts on valuation (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

Insurance contracts entail the transfer of a determined and quantifiable risk in exchange for a regular or one-off premium. The effects on the Group's cash flows will result from a deviation from the expected payments, the insufficiency of the established premium, or both.

The section titled "Assets used for insurance and reinsurance contracts" includes the amounts the consolidated institutions have the right to receive originating in their reinsurance contracts with third parties and, more specifically, the share of the reinsurance in the technical provisions established by the consolidated insurance institutions.

On an annual basis, at least, it is analysed whether these assets are impaired (if there is objective evidence resulting from an event occurring after the initial recognition of this asset, in which case the Group may not receive the contractually established amounts and this non-received amount can be reliably quantified); in this case, the corresponding loss is recorded in the consolidated income statement, with the impairment of said assets.

The section entitled "Liabilities used for insurance and reinsurance contracts" includes the technical provisions recorded by consolidated institutions to cover claims arising from insurance contracts which remain in force at the end of the financial year.
The profit or loss of the insurance companies for their insurance activity are recorded in accordance with their nature in the corresponding sections of the consolidated income statement.

In accordance with the generally accepted accounting practices used in the insurance sector, the consolidated insurance institutions apply to profit or loss the amounts of the premiums they issue and charge the cost of the claims they have to pay out when their final settlement is made. At the end of each financial year, these accounting practices oblige insurance companies to accrue/defer both the amounts paid into their results statements and those not accrued on this date and the incurred costs not charged to the results statements.

At the end of each financial year, at least, it is verified whether the valuation of the liabilities from insurance contracts recognised in the consolidated statement of financial position is appropriate, calculating the difference between the following amounts:

- The current calculations of future cash flows as a result of the insurance contracts of the consolidated institutions. These calculations include all the contractual and related cash flows, such as claim processing costs; and

- the value recognised in the consolidated statements of financial position of their liabilities from insurance contracts, net of any deferred acquisition expense or related intangible asset, such as the amount paid for the acquisition, in the event of a purchase by the institution, of the economic rights resulting from a set of policies in its portfolio in favour of a mediator.

If a positive amount is obtained in this calculation, this shortfall is charged to the consolidated income statement. In cases in which unrealised profits or losses concerning the assets of the Group's insurance companies affect the measurements of the liabilities from insurance contracts and/or deferred acquisition costs associated with them, and/or associated intangible assets, these capital gains or impairments are directly recognised in the consolidated equity. The corresponding adjustment to the liabilities from insurance contracts (or deferred acquisition costs or intangible assets) is recognised in the same way in the consolidated equity.

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 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 adjusted as depreciation in proportion to their adjusted carrying value and their new remaining useful life, in the event that it is necessary to perform a recalculation 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 its depreciation 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 results 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:

- Pension funds 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 to 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 matters, this item includes provisions for 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 recoding, 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 similar 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 outstanding returns.

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 it is necessary 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 commissions generated by this activity are recognised in the section titled "Commission 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 "Labour 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:
The cost of the services is recognised in the consolidated income statement and includes the following components:

- 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.

- 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.

- 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.

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:

- 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.

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

- 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. Income tax

In accordance with Law 95/2010 of 29 December on income tax, Law 17/2011 of 1 December, on the amendment of Law 95/2010 and the Regulation on the application of Law 95/2010 on income tax, the creation of a income tax is institutionalised. On 6 May 2015, the legislative Decree of 29 April 2015 on the publication of the consolidated text of Law 95/2010, of 29 December, on income tax was published in the Official Gazette of the Principality of Andorra (BOPA), in which all the amendments made were included. Similarly, on 20 October 2017, the General Council approved Law 17/2017, of 20 October, on the tax system for business reorganisation operations, whose purpose, among other things, was to introduce certain amendments to Law 95/2010, of 29 December, on income tax.

The standard rate of the income 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 income 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 income 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 changes 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 income 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 income 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. Other assets for deferred taxes (negative tax bases and deductions pending compensation) 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.

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 Total Net 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 2022 and 2021 financial years were the following:

- During the 2021 financial year, Mora Banc Grup, SA acquired a majority holding of 255,000 shares consisting of 51.61% of the share capital of BSA Banc, S.A. (See Note 2.3).
- On 11 November 2022, following approval by the AFA, Mora Banc Grup, S.A. carried out the technological and legal merger of BSA Banc, S.A. and its respective subsidiaries (see Note 2.3).
- In the 2022 financial year, the capital increase of Mora Wealth Management España, AV was performed in the amount of 2,000,000 euros.
- In the 2022 financial year, 67 shares of Serveis i Mitjans de Pagament XXI, S.A. were sold. The sale of said shares increased the direct holding in the institution to 33.33% as of 31 December 2022.
- In the 2022 financial year, Casa Rodona, SLU was liquidated and dissolved.
- In the 2022 financial year, the Amura Onix and Burna SICAVs were liquidated and dissolved.
- In the 2021 financial year, the capital increase of Casa Vicens-Gaudi, S.A. was performed in the amount of 3,000,000 euros.
- In the 2021 financial year, the Amura Capital (Emerald) SICAV was liquidated and dissolved.
- In the 2021 financial year, the issuance of the preferential shares of BIBM Preferents, Ltd was fully amortised and the company was deconsolidated in the Group's perimeter (see Note 21).

The most significant data used in the consolidation process relating to subsidiary institutions and associates consolidated as of 31 December 2022 and 2021 are listed below:

2022 financial year			Thousands of euros						
			Details of the investee						
Company	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
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	345,059	329,296	15,763	2,341
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.	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, SAU	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

2021 financial year			Thousands of euros						
			Details of the investee						
Company	Registered Address	Activity	Percentage of direct participation	Percentage of indirect participation	Net value in carrying value (*)	Assets 31/12/2021	Liabilities 31/12/2021	Equity 31/12/2021	Profit/Loss 31/12/2021
Consolidated by global integration:									
BSA Banc, SA and Subsidiaries	Andorra	Banking	51.61%	-	68,010	1,192,590	1,082,846	109,744	11,301
BSA Inversions, SGOIC, SAU	Andorra	Manager of investment agencies and management mandates	-	100.00%	802	2,454	860	1,594	241
Assegurances Segur Vida, SAU	Andorra	Insurance company	-	100.00%	300	52,217	51,489	728	186
Mora Gestió d'Actius, SAU	Andorra	Investment fund management	100.00%	-	2,101	7,776	610	7,166	1,254
Mora Assegurances, SAU	Andorra	Insurance	100.00%	-	6,503	403,769	389,855	13,914	2,173
Boreal Capital Management, AG	Switzerland	Equity management	100.00%	-	3,020	3,000	2,016	984	308
Boreal Capital Holdings USA, LLC	United States	Equity	100.00%	-	10,874	20,023	541	19,482	(27)
Boreal Capital Management, LLC	United States	Equity management	-	99.99%	-	7,174	6,577	597	427
Boreal Capital Securities, LLC	United States	Security brokering	-	100.00%	-	5,104	1,149	3,955	721
SICAV Amura (Onix)	Andorra	Investment company	100.00%	-	20,300	20,435	109	20,326	11,477
Casa Rodona, SLU	Andorra	Investment company	100.00%	-	12,070	13,087	69	13,018	(11)
Casa Vicens-Gaudí S.A.	Spain	Property	49.79%	50.21%	8,339	29,437	1,978	27,459	(516)
SICAV Burna	Andorra	Investment company	100.00%	-	1,651	3,072	-	3,072	-
Mora Wealth Management Espanya A.V.	Spain	Securities Agency	100.00%	-	2,500	1,771	369	1,402	(484)
Other holdings	Andorra	Investment company	51.00%	-	2,968	3,516	447	3,069	-
Consolidated by equity method:									
Serveis i Mitjans de Pagament XXI, SA	Andorra	Payment methods	20.00%	20.00%	12	1,638	1,216	422	186
Societat Financera Pyrénées, SAU	Andorra	Financial	25.00%	-	4,500	39,068	32,419	6,649	2,220

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

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 2022, the Company managed collective investment undertakings and SICAVs with equity totalling 1,225,515,000 euros.

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 incorporated in 2011 as a limited liability company and received a broker dealer licence in May 2012.

Casa Vicens-Gaudi SA is a public limited company governed by Spanish law, domiciled in Barcelona and established on 25 September 2013, whose corporate purpose is the acquisition and promotion of property assets and the use thereof for cultural purposes.

Mora Wealth Management Espanya A.V., S.A. 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, SAU 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 proposed distribution of the profits in respect of the 2022 financial year of Mora Banc Grup, SA, the parent company of the MoraBanc Group, as at the date of the preparation of these consolidated financial statements, to be submitted by the Board of Directors to the General Meeting of Shareholders for approval, is as follows:

In thousands of euros	2022	2021
Profit/loss for the financial year	**38,679**	**31,818**
Dividends	**19,340**	**15,909**
Reserves	**19,340**	**15,909**
Unavailable reserves communiqué 228/12	1,178	1,178
Voluntary reserves	18,162	14,731
Total distribution proposal	**38,679**	**31,818**

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 2022 and 2021, 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 2022 and 2021 financial years:

In thousands of euros	2022	2021
Numerator of the earning per share (thousands of euros)	**40,118**	**34,046**
Profit (loss) attributed to the controlling company (thousands of euros)	40,118	34,046
Denominator of the earning per share (thousands of shares)	**732**	**7,056**
Number of outstanding shares (see Note 25.1)	732	7,056
Basic earning per share in ongoing activities (euros per share)	**54.770**	**4.825**
Diluted profit per share in ongoing activities (euros per share)	**54.770**	**4.825**

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.

During the 2022 financial year, the health crisis arising from COVID-19 has stabilised, having previously posed a challenge to the Institution's risk management, given the importance it has always had for the Institution.

However, due to Russia's invasion of Ukraine, there has been a slowdown in economic growth and an increase in inflationary pressures and the benchmark interest rate. In this environment of uncertainty, the Group has continued to efficiently manage the various aspects related to the economic situation, which has not had a significant impact on the Group's financial statements:

- Supervision of the liquidity in the capital markets and the volatility of the financial markets.
- Continued monitoring of the financial and operational needs of clients arising from the different phases of the COVID-19 health crisis.
- In relation to Russia's invasion of Ukraine, a validation exercise has been carried out to check that the repayment sources of the credit operations and positions in listed securities existing in our portfolio are not being directly affected by this situation.

With regard to the increase in the inflationary pressure and the benchmark interest rate, families' financial exertions are being continuously monitored without any material impact on the quality of the assets being detected.

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 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.
- Existence of management policies 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 articulate the policies and measure the risks.

- Tolerance levels in place set by the Board of Directors for the main risks, defined in the Risk Appetite Framework document (hereinafter, the RAF). Ranges of tolerance, limit and alert are established for each of the risks, including protocols if they are exceeded. Based on these levels, the Institution's Board of Directors determines the risk type and 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 Area, the second by the Risks Area and Regulatory Compliance Area and the third by the Internal Audit Area.
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, the exclusive powers of the General Meeting and the Articles of Association.
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, taking into account 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 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 by virtue of which 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 Chairman or Chairwoman of the said Committee, either on his/her own initiative or at the request of the Chairman or Chairwoman of the Board of Directors or two (2) members of the Committee itself. It can also be convened at the request of the Chief Executive Officer / Chief Executive 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 of more than 8,000,000 euros.
- 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 euros, 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 of more than 20,000,000 euros.
- Credit facilities of any amount provided to Board Members.
- - Credit facilities provided to the Bank's shareholders who exercise significant influence and the persons linked 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 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.

The secretary of the Risk Committee must convene the meeting as well as file the minutes and documentation submitted to the Committee.

The Risk Committee is validly constituted when a majority of its members is present, in person or via proxy. Resolutions shall be adopted by a majority of the concurrent members, present or represented, and minutes shall be taken of the resolutions adopted at each meeting.

The members of this committee may attend the meetings by video conference or conference call. Meetings may also be held by a circular resolution if all its members unanimously accept and approve it.

Through its chairman, the Risk Committee shall report to the Board on its activity and the work that has been 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 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.

This Committee's meetings are convened by the Chairperson, on his/her own initiative or at the request of the Chairperson of the Board of Directors or of two members of the Committee itself. The members of this committee may attend the meetings by video conference or conference call. Meetings may also be held by circular resolution if all its members unanimously accept and approve it.

The members of the Company's management team or staff are obliged to attend the Audit and Compliance Committee's meetings and cooperate with it, providing access to the information available to them when the Committee so requests. In addition, the Committee may request the Company's auditors and external collaborators and/or external advisers to attend its meetings, where necessary on a permanent basis.

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 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 Institution, 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 the performance of 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 their adequacy, sufficiency and completeness, and verifying that the Senior Management takes into account the conclusions and recommendations of their reports. In this regard, the Internal Audit and Regulatory Compliance areas 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, designation and replacement of its head following a prior report from the Appointments and Remuneration Committee.

With regard to the head of the Regulatory Compliance department, the Chief Executive will propose his/her appointment and dismissal to the Committee for the latter's approval, following the corresponding prior report from the Appointments and Remuneration Committee.

(v) 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.

(vi) 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 legislation 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.

(vii) 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.

(viii) Review the Company's accounts and inform the Board of Directors in advance about the financial information that the Company must periodically make public 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.

(ix) Monitor compliance with the regulations regarding related transactions and inform the Board of Directors of these transactions in advance.

(x) 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.

(xi) 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.

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

(xiii) 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.

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 or Chairwoman of the Committee (either on his/her own initiative or at the request of two (2) members of the Committee itself and it shall be held whenever the Board or its Chairman or Chairwoman 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.

B) Changes in remuneration:

(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 Appointments and Remuneration Committee may use such resources as 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 meeting must be convened by letter, telegram, fax, email or any other means in which proof of receipt can be verified. The secretary of the Committee shall be in charge of convening the meeting as well as filing the minutes and documentation submitted to the Committee.

Minutes shall be taken of the resolutions adopted at each meeting, which shall be reported to the full Board and the said minutes shall be made available to all Board Members and to the secretary; however, they may not be remitted or delivered for reasons of discretion, unless the chairman of the Committee decides otherwise.

The Committee is validly constituted when a majority of its members, in person or through representatives, are present, and the resolutions are adopted by a majority of concurrent, present or represented members.

The members of this committee may attend the meetings by video conference or conference call. Meetings may also be held by a circular resolution if all its members unanimously accept and approve it.

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.

Executive Committee

a) Composition

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 the current regulatory restrictions, the managing director or CEO 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/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) Meetings

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; and
d. The exercise of the right to preemptive acquisition and other matters relating to the purchase and sale of shares of Mora Banc Grup, S.A.

(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 shall elect its chairman from among the Directors who form part of it and a secretary may also be appointed. If the Committee does not specifically appoint one, 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.

The meeting must be convened by letter, telegram, fax, email or any other means in which proof of receipt can be verified.

The secretary of the Committee must convene the meeting as well as file the minutes and documentation submitted to the Committee.

In any case, the documentation submitted must be sent at least 3 working days in advance.

Minutes shall be taken of the resolutions adopted at each meeting, which shall be reported to the full Board and the said minutes shall be made available to all Board Members and to the secretary; however, they may not be remitted or delivered for reasons of discretion, unless the chairman of the Committee decides otherwise.

The Committee is validly constituted when a majority of its members, in person or through representatives, are present, and the resolutions must be adopted by a majority of the concurrent, present or represented members.

The members of this committee may attend the meetings by video conference or conference call. Meetings may also be held by a circular resolution if all its members unanimously accept and approve it.

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:

a) 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, separately 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.

The TIISC must be convened by the Chairperson of the 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. The meeting must be convened by letter, telegram, fax, email or any other means in which proof of receipt can be verified.

The secretary of the TIISC must convene the meeting as well as file the minutes and documentation submitted to the Committee.

The TIISC is validly constituted when a majority of its members, in person or through representatives are present. Resolutions shall be adopted by a majority of the concurrent members, present or represented, and minutes shall be taken of the resolutions adopted at each meeting.

The members of this committee may attend the meetings by video conference or conference call. Meetings may also be held by a circular resolution if all its members unanimously accept and approve it.

Through its chairman, 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 MoraBanc. The RAF management framework establishes protocols for the violation of thresholds, distinguishing between two lines of action that depend 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, 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 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 the 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.

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.

In this regard, the Group has an organisational structure allowing streamlined decision-making while ensuring direct and indirect coordination and participation between the different areas 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 Areas), 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 adequacy 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 MoraBanc's business strategy and model and take into account 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 Audit and Regulatory Compliance Committee, the delegated body of the Board of Directors, to which it reports.

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 2022 and 2021 are concentrated in the headings "Financial assets held for trading", "Non-trading financial assets necessarily valued at fair value with changes in 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 accompanying 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 2022 and 2021 is submitted below:

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	705,978	1,225,937	-	2,041,175
Loans and advances	-	-	-	1,660,611	-	1,660,611
Credit institutions	-	-	-	122,947	-	122,947
Clients	-	-	-	1,537,664	-	1,537,664
Total	**72,288**	**67,957**	**705,978**	**2,886,548**	**28,442**	**3,761,213**

2021 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	44,813	-	-	-	2,706	47,519
Debt securities	23,856	144,009	1,014,464	673,274	-	1,855,603
Loans and advances	-	-	-	1,816,704	-	1,816,704
Credit institutions	-	-	-	166,689	-	166,689
Clients	-	-	-	1,650,015	-	1,650,015
Total	**68,669**	**144,009**	**1,014,464**	**2,489,978**	**2,706**	**3,719,826**

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 loan transaction. 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 2022 and 2021 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 2022 and 2021:

	Loans and advances to clients		Loans and advances to credit institutions		Debt securities		Commitments and guarantees granted	
In thousands of euros	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Financial assets held for trading and calculated at fair value with changes in profit or loss	-	-	-	-	**109,260**	**167,865**	-	-
Financial assets at amortised cost								
Stage 1	1,462,324	1,550,394	123,020	166,750	1,226,269	673,680	-	-
Stage 2	73,384	93,465	-	-	-	-	-	-
Stage 3	40,850	48,992	-	-	-	-	-	-
Gross carrying value	**1,576,558**	**1,692,851**	**123,020**	**166,750**	**1,226,269**	**673,680**	-	-
Provision for impairment	(38,894)	(42,836)	(73)	(61)	(332)	(406)	-	-
Net carrying value	**1,537,664**	**1,650,015**	**122,947**	**166,689**	**1,225,937**	**673,274**	-	-
Financial assets at fair value through other comprehensive income								
Stage 1	-	-	-	-	706,175	1,014,896	-	-
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
Gross carrying value	-	-	-	-	**706,175**	**1,014,896**	-	-
Provision for impairment	-	-	-	-	(197)	(432)	-	-
Net carrying value	-	-	-	-	**705,978**	**1,014,464**	-	-
Loan commitments granted	-			-	-			
Stage 1	-	-	-	-	-	-	420,150	406,972
Stage 2	-	-	-	-	-	-	7,719	8,680
Stage 3 (subjective)	-	-	-	-	-	-	1,584	1,341
Gross carrying value	-	-	-	-	-	-	**429,453**	**416,993**
Provision for impairment	-	-	-	-	-	-	(1,752)	(1,234)
Net carrying value	-	-	-	-	-	-	**427,701**	**415,759**
Financial guarantees granted								
Stage 1	-	-	-	-	-	-	120,060	135,510
Stage 2	-	-	-	-	-	-	834	207
Stage 3 (subjective)	-	-	-	-	-	-	92	135
Gross carrying value	-	-	-	-	-	-	**120,986**	**135,852**
Provision for impairment	-	-	-	-	-	-	(997)	(759)
Net carrying value	-	-	-	-	-	-	**119,989**	**135,093**

Below appear greater details of the Group's bad loans and non-impaired and impaired financial assets as of 31 December 2022 and 2021:

	Loans and advances to clients		Loans and advances to credit institutions		Debt securities		Derivatives		Commitments and guarantees granted	
In thousands of euros	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Stage 1										
High Credit Quality (AAA;AA-)	-	-	760	18,330	212,114	73,032	136	196		-
Adequate Credit Quality (A+;BBB)	-	-	122,001	139,668	1,650,167	1,379,969	35,835	17,898		-
(BBB-)	-	-	259	8,752	142,297	349,381	713	119		-
(BB+;B+)	-	-	-	-	22,674	39,481	-	-		-
(B;CCC)	-	-	-	-	1,631	1,881	-	-		-
(D)	-	-	-	-	-	-	-	-		-
Other classification	1,462,324	1,550,394	-	-	12,821	12,697	22,743	29,306	540,210	542,482
Gross carrying value	**1,462,324**	**1,550,394**	**123,020**	**166,750**	**2,041,704**	**1,856,441**	**59,427**	**47,519**	**540,210**	**542,482**
Provision for impairment	(6,797)	(7,961)	(73)	(61)	(529)	(838)	-	-	(1,343)	(1,114)
Net carrying value	**1,455,527**	**1,542,433**	**122,947**	**166,689**	**2,041,175**	**1,855,603**	**59,427**	**47,519**	**538,867**	**541,368**
Stage 2										
see details of categories by days										
<= 30 days	66,533	92,004	-	-		-	-	-	8,553	8,582
<= 60 days	2,730	911	-	-		-	-	-	-	6
<= 90 days	3,796	44,561	-	-		-	-	-	-	-
> 90 days	325	-	-	-		-	-	-	-	299
Gross carrying value	**73,384**	**93,465**	**-**	**-**	**-**	**-**	**-**	**-**	**8,553**	**8,887**
Provision for impairment	(13,331)	(13,490)	-	-	-	-	-	-	(1,282)	(821)
Net carrying value	**60,053**	**79,975**	**-**	**-**	**-**	**-**	**-**	**-**	**7,271**	**8,066**
Stage 3										
see details of categories by days										
Doubtful transactions for reasons other than default	11,385	2,477	-	-	-	-	-	-	1,676	1,141
> 90 days	29,465	46,515	-	-	-	-	-	-	-	335
Gross carrying value	**40,850**	**48,992**	**-**	**-**	**-**	**-**	**-**	**-**	**1,676**	**1,476**
Provision for impairment	(18,766)	(21,385)	-	-	-	-	-	-	(124)	(58)
Net carrying value	**22,084**	**27,607**	**-**	**-**	**-**	**-**	**-**	**-**	**1,552**	**1,418**
Total exposure to credit risk	**1,537,664**	**1,650,015**	**122,947**	**166,689**	**2,041,175**	**1,855,603**	**59,427**	**47,519**	**547,690**	**550,852**
Accumulated Bad Loans	46,575	46,148	-	-	-	-	-	-	-	-
Total exposure to credit risk with bad loans	**1,584,239**	**1,696,163**	**122,947**	**166,689**	**2,041,175**	**1,855,603**	**59,427**	**47,519**	**547,690**	**550,852**

The following is a summary of the movements between stages of loans and advances to clients as of 31 December 2022 and 2021:

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**

2021	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	**8,636**	**1,838**	**426**	**1,027**	**431**	**378**

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 2022 and 2021:

	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**

	Thousands of euros		
	Financial assets at amortised cost		
	Stage 1	Stage 2	Stage 3
Balance at 1 January 2021	**4,453**	**8,408**	**13,629**
Increases for origin and acquisition	**5,701**	**6,564**	**10,912**
Decrease due to account derecognition	**(859)**	**(184)**	**(4,969)**
Changes for credit risk variation	**(1,383)**	**(795)**	**1,736**
Other movements	**49**	**(503)**	**77**
Balance at 31 December 2021	**7,961**	**13,490**	**21,385**

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:
        i. Money deposits.
        ii. Debt securities.
        iii. Shares listed on stock markets.
        iv. 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 real property as security of the Group's financial assets of the group as of 31 December 2022 and 2021:

			Real Guarantees					
	Financial assets at amortised cost to Clients		Money Guarantees, Securities and other financial guarantees (*)		Mortgage Guarantee		Without any Real Guarantee	
In thousands of euros	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Stage 1								
Gross carrying value	**1,462,322**	**1,550,394**	**479,554**	**566,609**	**659,394**	**681,978**	**323,374**	**301,807**
Expected loss	(6,797)	(7,961)	(27)	(750)	(3,299)	(3,493)	(3,471)	(3,718)
B.V. Net of Guarantees and Provisions	**1,455,525**	**1,542,433**	**479,527**	**565,859**	**656,095**	**678,485**	**319,903**	**298,089**
Stage 2								
Gross carrying value	**73,385**	**93,465**	**4,189**	**4,957**	**39,873**	**59,458**	**29,323**	**29,050**
Expected loss	(13,331)	(13,490)	(433)	(402)	(9,127)	(9,452)	(3,771)	(3,636)
B.V. Net of Guarantees and Provisions	**60,054**	**79,975**	**3,756**	**4,555**	**30,746**	**50,006**	**25,552**	**25,414**
Stage 3								
Gross carrying value	**40,851**	**48,992**	**200**	**1,635**	**36,212**	**43,771**	**4,439**	**3,586**
Provision for impairment	(18,766)	(21,385)	-	(30)	(14,834)	(18,419)	(3,932)	(2,936)
Net carrying value	**22,085**	**27,607**	**200**	**1,605**	**21,378**	**25,352**	**507**	**650**
Total exposure to credit risk	**1,537,664**	**1,650,015**	**483,483**	**572,019**	**708,219**	**753,843**	**345,962**	**324,153**

(*) 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 2022 and 2021:

-	Debt securities		Fair value against Profit and Loss		Fair value against other comprehensive profit/loss		At amortised cost	
In thousands of euros	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Public Debt and Central Banks								
AAA	72,527	48,649	2,977	-	18,511	21,004	51,039	27,645
From AA+ to AA-	75,664	7,308	-	-	994	-	74,670	7,308
From A- to A+	715,849	482,842	339	224	225,416	404,523	490,094	78,095
BBB+ or lower	228,598	470,219	-	1,613	53,531	156,934	175,067	311,672
not available	-	-	-	-	-	-	-	-
Gross carrying value	**1,092,638**	**1,009,018**	**3,316**	**1,837**	**298,452**	**582,461**	**790,870**	**424,720**
Provision for Credit Risk	(136)	(267)	-	-	(32)	(110)	(104)	(157)
B.V. Net of Provisions	**1,092,502**	**1,008,751**	**3,316**	**1,837**	**298,420**	**582,351**	**790,766**	**424,563**
Credit institutions								
AAA	37,242	2,514	-	1,513	37,242	-	-	1,001
From AA+ to AA-	17,750	5,475	7,775	5,475	6,805	-	3,170	-
From A- to A+	342,880	297,565	47,773	58,445	186,906	171,268	108,201	67,852
BBB+ or lower	247,984	259,903	21,571	68,146	91,384	108,829	135,029	82,928
not available	-	1,817	-	1,817	-	-	-	-
Gross carrying value	**645,856**	**567,274**	**77,119**	**135,396**	**322,337**	**280,097**	**246,400**	**151,781**
Provision for Credit Risk	(129)	(409)	-	-	(104)	(226)	(25)	(183)
B.V. Net of Provisions	**645,727**	**566,865**	**77,119**	**135,396**	**322,233**	**279,871**	**246,375**	**151,598**
Other Companies								
AAA	419	1,273	228	1,273	-	-	191	-
From AA+ to AA-	8,511	7,813	1,678	2,278	-	2,692	6,833	2,843
From A- to A+	82,760	39,956	7,351	3,243	22,607	25,714	52,802	10,999
BBB+ or lower	198,699	220,227	17,574	22,896	56,713	118,641	124,412	78,690
not available	12,821	10,880	1,994	942	6,066	5,291	4,761	4,647
Gross carrying value	**303,210**	**280,149**	**28,825**	**30,632**	**85,386**	**152,338**	**188,999**	**97,179**
Provision for Credit Risk	(264)	(162)	-	-	(61)	(96)	(203)	(66)
B.V. Net of Provisions	**302,946**	**279,987**	**28,825**	**30,632**	**85,325**	**152,242**	**188,796**	**97,113**
Total exposure to credit risk	**2,041,175**	**1,855,603**	**109,260**	**167,865**	**705,978**	**1,014,464**	**1,225,937**	**673,274**

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, taking into account 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 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 not less 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.

Below appears the information on refinancing and restructuring transactions as of 31 December 2022 and 2021:

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	29,847	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	23,899	18,437	204	5,258	(5,864)
Total	**87**	**29,847**	**24,385**	**204**	**5,258**	**(8,331)**

31/12/2021						
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)	106	37,809	23,604	78	14,127	(975)
Including: financing for construction and property development (including land)	1	1,376	1,376	-	-	(5,105)
Remaining housing and others	105	36,434	22,228	78	14,127	4,130
Total	**106**	**37,810**	**23,604**	**78**	**14,127**	**(975)**

6.2.3 Risk concentration

Below appear the respective risk concentrations by sector and geographical area for loans and advances to clients as of 31 December 2022 and 2021:

In thousands of euros	Loans, advances to clients		Of those at Stage 2		Of those at Stage 3		Provision for Credit Risk	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Concentration by Sector								
M.I. Government	**956**	**753**	-	-	-	-	**(5)**	**(4)**
Common	**21,763**	**23,706**	-	-	-	-	**(104)**	**(118)**
Other public sectors	**7,050**	**2,913**	-	-	-	-	**(35)**	**(14)**
Financial	**89,791**	**91,997**	-	**301**	-	**114**	**(269)**	**(260)**
Non-financial companies	**688,273**	**738,028**	**64,989**	**80,916**	**35,403**	**37,731**	**(34,129)**	**(34,345)**
Primary	2,062	1,890	-	-	13	12	(25)	(31)
Tourism	70,250	80,196	7,098	2,105	3,463	5,625	(2,568)	(2,111)
Property	220,338	226,756	17,426	30,178	24,870	16,655	(18,091)	(13,731)
Construction	55,308	51,827	6,330	5,398	5,550	5,364	(7,191)	(6,388)
Commercial	103,106	92,029	8,113	13,116	606	700	(1,405)	(2,370)
Others in secondary sector	39,033	23,434	1,900	177	54	1	(1,123)	(176)
Others in tertiary sector	198,176	261,896	24,122	29,942	847	9,374	(3,726)	(9,538)
Individuals	**768,725**	**835,454**	**8,395**	**12,248**	**5,447**	**11,147**	**(4,352)**	**(8,095)**
Total exposure to credit risk	**1,576,558**	**1,692,851**	**73,384**	**93,465**	**40,850**	**48,992**	**(38,894)**	**(42,836)**
Geographic Concentration								
Andorra	**1,261,326**	**1,306,030**	**55,326**	**71,067**	**34,213**	**46,509**	**(33,741)**	**(38,339)**
Spain	**217,357**	**266,573**	**10,621**	**22,222**	**5,080**	**923**	**(2,993)**	**(3,358)**
Other	**97,875**	**120,248**	**7,437**	**176**	**1,557**	**1,560**	**(2,160)**	**(1,139)**
Total exposure to credit risk	**1,576,558**	**1,692,851**	**73,384**	**93,465**	**40,850**	**48,992**	**(38,894)**	**(42,836)**

In addition, below appear the respective risk concentrations by sector and geographical area for debt securities as of 31 December 2022 and 2021:

In thousands of euros	Debt securities		Provision for Credit Risk	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Concentration by Sector				
Public Sector	1,106,993	1,009,018	(136)	(266)
Credit Institutions	645,816	567,274	(129)	(409)
Other Companies	288,895	280,149	(264)	(162)
Total exposure to credit risk	**2,041,704**	**1,856,441**	**(529)**	**(838)**
Geographic Concentration				
Andorra	202,785	274,269	-	(106)
EU	1,500,491	1,270,676	(479)	(616)
Other	338,428	311,496	(50)	(116)
Total exposure to credit risk	**2,041,704**	**1,856,441**	**(529)**	**(838)**

Below appear the respective risk concentrations by sector and geographical area for loans and advances to credit institutions as of 31 December 2022 and 2021:

In thousands of euros	Loans and advances to credit institutions		Provision for credit risk	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Geographic Concentration				
Spain	38,753	40,577	-	-
Others	84,267	126,173	(73)	(61)
Gross carrying value	**123,020**	**166,750**	**(73)**	**(61)**

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.

In 2022 there have been no significant negative impacts on the Group's liquidity position. The high levels of liquid assets and liquidity ratios well above the required minimums and the constant monitoring of the liquidity levels have mitigated any potential difficulties.

6.3.1 Liquidity risk management

MoraBanc 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 management unit of the statement of financial position, manages 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 measures and controls 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 lines 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 collateralised 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.
- Continuing to reduce the commercial gap.
- 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 (Credit Investment/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 (Client 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 demanding 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 contractual maturity dates of the balances of the Group's financial assets and liabilities as of 31 December 2022 and 2021, 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 2022						
Financial Assets (Inputs)						
-						
Cash, cash balances in central banks and other at sight deposits	252,332	-	-	-	-	**252,332**
Loans and advances	318,718	192,137	267,464	403,582	478,710	**1,660,611**
Credit Institutions	122,785	162	-	-	-	**122,947**
Clients	195,933	191,975	267,464	403,582	478,710	**1,537,664**
Debt securities	380,926	66,591	209,936	1,039,665	344,057	**2,041,175**
Carrying value	**951,976**	**258,728**	**477,400**	**1,443,247**	**822,767**	**3,954,118**
Financial Liabilities (Outgoings)						
Central banks	71,362	48,028	24,832	17,714	1,926	**163,862**
Deposits of credit institutions	38,887	-	-	-	-	**38,887**
Client Deposits	930,719	84,056	425,202	1,466,988	494,869	**3,401,834**
Carrying value	**1,040,968**	**132,084**	**450,034**	**1,484,702**	**496,795**	**3,604,583**
Difference in Assets less Liabilities	**(88,992)**	**126,644**	**27,366**	**(41,455)**	**325,972**	**349,535**

In thousands of euros	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 December 2021						
Financial Assets (Inputs)						
-						
Cash, cash balances in central banks and other at sight deposits	346,674	-	-	-	-	**346,674**
Loans and advances	385,104	173,200	291,793	434,583	532,024	**1,816,704**
Credit Institutions	152,106	7,284	7,299	-	-	**166,689**
Clients	232,998	165,916	284,494	434,583	532,024	**1,650,015**
Debt securities	473,519	132,818	160,948	664,417	423,901	**1,855,603**
Carrying value	**1,205,297**	**306,018**	**452,741**	**1,099,000**	**955,925**	**4,018,981**
Financial Liabilities (Outgoings)						
Central banks	79,310	29,674	36,087	25,243	5,832	**176,146**
Deposits of credit institutions	18,464	-	-	-	-	**18,464**
Client Deposits	1,006,482	80,518	369,706	1,409,555	464,075	**3,330,336**
Carrying value	**1,104,256**	**110,192**	**405,793**	**1,434,798**	**469,907**	**3,524,946**
Difference in Assets less Liabilities	**101,041**	**195,826**	**46,948**	**(335,798)**	**486,018**	**494,035**

The above table shows the non-discounted cash flows of the Group's financial assets and liabilities based on their contractual maturities, without taking into account 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 masses in the different terms, in accordance with a historical study that takes into account the clients' variations 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 Institution has a cushion of highly liquid assets which is sufficient to cope with a scenario of considerable stress over 30 calendar days.

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 2022 financial year, the LCR ratio was 294.14% (307.2% in 2021).

The Group's CSR ratio has permanently and stably stood at well above 100% in 2022 and 2021.

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.

Below appears the composition of the high-quality liquid assets used in the calculation of the Group's LCR ratio as of 31 December 2022 and 2021:

	31/12/2022		31/12/2021	
Thousands of euros	**Market value**	**Weighted value**	**Market value**	**Weighted value**
Level 1 Assets	1,006,028	1,003,203	986,548	986,548
Level 2A Assets	9,273	7,882	4,477	3,805
Level 2B Assets	198,489	99,244	178,525	89,263
Total High-Quality Liquid Assets	**1,213,790**	**1,110,329**	**1,169,550**	**1,079,616**

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%.

MoraBanc 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 2022, the ratio has always been above 100%. It is calculated as defined in Law 35/2018, discussed in the previous point. At the close of the 2022 financial year, the NSFR ratio was 161.73% (in 2021 it was 153.4%).

In summary, the management and liquidity model enable MoraBanc 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 establishes 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 1 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.

   Below appears 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 trading portfolio:

As of 31 December 2022		As of 31 December 2021	
Scenario	**% Variation Market Value**	**Scenario**	**% Variation Market Value**
Base Scenario	100.00%	Base Scenario	100.00%
Zero Coupon + 100 bps	98.96%	Zero Coupon + 100 bps	98.42%
Spot FX - 5%	102.70%	Spot FX - 5%	102.79%
Spread Curve + 50 bps	99.76%	Spread Curve + 50 bps	99.61%
Equity - 10%	99.97%	Equity - 10%	99.40%
Volatilities + 10%	99.99%	Volatilities + 10%	99.88%
Total	**100.28%**	**Total**	**100.02%**

   All the scenarios are homogeneous shocks in all the categories mentioned. In other words, a 10% negative equity shock would represent a negative variation of 0.03% of the market value of the variable income risk component held in the Group's trading portfolio in the consolidated income statement. 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:

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**

2021	**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	-	9	110	-	-
Interest Rate VaR	19	50	120	18	25
Credit VaR	46	65	189	9	10
Variable Income VaR	9	62	135	23	53
Diversification Effect	(27)	(80)	(287)	(16)	(33)
Total VaR	**47**	**106**	**267**	**34**	**55**

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 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 variations 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 at the request of the Risks Area, which independently performs the measurement and control of the interest rate risk.

The Group's financial area is responsible for calculating, analysing, simulating and reporting the interest risk to the COAP on a monthly basis, following its validation by the risk department.

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 masses 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 date and their translation 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 2022 and 2021, with regard to the sensitive magnitudes of the consolidated statement of financial position of the MoraBanc Group:

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	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)	-
Total Net	**292,703**	**281,001**	**196,371**	**(403,970)**	**(214,930)**	**151,175**

In thousands of euros	Up to 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 December 2021						
Cash, cash balances in central banks and other at sight deposits	304,417	-	-	-	-	304,417
Loans and Advances	985,328	222,113	413,664	93,351	47,610	1,762,066
Credit Institutions	142,424	4,032	20,233	-	-	166,689
Clients	842,904	218,081	393,431	93,351	47,610	1,595,377
Debt securities	509,004	143,967	152,654	491,542	390,573	1,687,740
Total Assets	**1,798,749**	**366,080**	**566,318**	**584,893**	**438,183**	**3,754,223**
Deposits of Central Banks	79,310	29,674	39,174	25,243	2,745	176,146
Deposits of credit institutions	18,137	-	-	-	326	18,463
Client Deposits	1,153,220	67,913	319,481	1,321,615	468,107	3,330,336
Subordinated Liabilities	-	-	-	-	-	-
Total Liabilities	**1,250,667**	**97,587**	**358,655**	**1,346,858**	**471,178**	**3,524,945**
Derivative Effects Hedges Interest Rate Risk	85,726	105,372	6,616	1,726	(199,440)	-
Total Net	**633,808**	**373,865**	**214,279**	**(760,239)**	**(232,435)**	**229,278**

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 +/- 100 and 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
31/12/2022	15.00%	-12.50%
31/12/2021	30.4%	-8.2%

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 taken into account 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 2022 the average sensitivity of the Economic Value lay within the following range: [+6.38%; -4.82%], below the current approved limit (in the 2021 financial year, the data were equal to [+6.55%; -0.20%]).

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, MoraBanc 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 2022 and 2021 as follows:

In thousands of euros	EUR	USD	Others
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	257,283	612	-
Financial assets at fair value through other comprehensive income	624,029	101,807	10,272
Financial assets at amortised cost	2,673,027	205,346	8,175
Derivatives - Hedge accounting	28,442	-	-
Changes in the FV of the elements hedged by a portfolio with interest rate risk hedging	-	-	-
Remaining Assets	175,981	3,579	(204)
Total Assets	**3,947,403**	**416,014**	**65,178**
Liabilities			
Financial liabilities held for trading	24,967	8,949	87
Financial liabilities at fair value through profit or loss	246,854	-	-
Financial Liabilities at amortised cost	3,165,320	407,552	69,425
Central banks	122,885	37,937	3,040
Deposits of credit institutions	38,546	341	-
Client deposits	2,974,566	361,136	66,131
Debt securities	-	-	-
Other financial liabilities	29,323	8,138	254
Derivatives - Hedge accounting	346	-	-
Remaining Liabilities and net equity	509,916	(488)	(4,333)
Total Liabilities and net equity	**3,947,403**	**416,013**	**65,179**

In thousands of euros	EUR	USD	Others
31 December 2021			
		-	-
Assets			
Cash, cash balances in central banks and other sight deposits	220,777	97,170	28,727
Financial assets held for trading	63,647	36,055	(10,602)
Non-trading financial assets mandatorily measured at fair value through profit or loss	265,495	117,700	10,873
Financial assets at fair value through other comprehensive income	877,179	158,354	17,012
Financial assets at amortised cost	2,300,877	171,345	17,756
Derivatives - Hedge accounting	2,658	48	-
Changes in the FV of the elements hedged by a portfolio with interest rate risk hedging	2,076	-	-
Remaining Assets	179,712	1,130	20
Total Assets	**3,912,421**	**581,802**	**63,786**
Liabilities			
Financial liabilities held for trading	32,150	9,850	241
Financial liabilities at fair value through profit or loss	236,792	117,929	9,977
Financial Liabilities at amortised cost	3,082,364	454,490	69,436
Central banks	137,721	35,786	2,639
Deposits of credit institutions	18,463	-	1
Client deposits	2,865,170	412,499	52,666
Debt securities	-	-	-
Other financial liabilities	61,010	6,205	14,130
Derivatives - Hedge accounting	6,003	176	-
Remaining Liabilities and net equity	555,112	(643)	(15,867)
Total Liabilities and net equity	**3,912,421**	**581,802**	**63,786**

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 Areas.

6.6. Other risks

6.6.1 Reputational risk

Reputational risk is regarded as that which results from a negative receiving among clients, counterparties, shareholders, investors, regulators and/or the market 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 materialised, could have a reputational impact on the Institution. In addition, in order to measure the level of reputational risk to which the Group is subjected, an annual assessment of the main endogenous and exogenous risk factors is conducted.

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 corresponding risk management policies, regularly supervises their compliance and adopts the appropriate measures to remedy 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 Body regularly monitors and evaluates the adequacy 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. The topics covered include:

- The Group's Code of ethics and conduct
- The stock market's code of conduct
- Investor protection policies (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 variations 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 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 Amendment in the value of the envisaged management expenses of commitments entered into on the basis 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 others) 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, during the 2018 financial year, this activity was reinforced by a Technical Security Office (OTS) consisting mainly of the professional services of Deloitte. From this OTS, Deloitte supports MoraBanc 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 MoraBanc in cybersecurity, through, among others, the contribution of methodology, procedures, frameworks and best practices.

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.

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. MoraBanc measures the 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 2021 and 2020, these instruments consisted mainly of loans and advances, some financial instruments classified in the portfolio at "Financial assets at fair value with changes in profit or loss" and "Non-trading financial assets held mandatorily measured at fair value with changes in 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. Below appears the fair value of the financial instruments as of 31 December 2022 and 2021, as well as their corresponding carrying value:

In thousands of euros	31/12/2022		31/12/2021	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Financial assets held for trading	87,914	87,914	89,100	89,100
Non-trading financial assets mandatorily measured at fair value through profit or loss	257,895	257,895	394,068	394,068
Financial assets at fair value through other comprehensive income	736,108	736,108	1,052,545	1,052,545
Financial assets at amortised cost	2,886,548	2,921,232	2,489,978	2,504,094
Hedging derivatives	28,442	28,442	2,706	2,706
Total Assets	**3,996,907**	**4,031,591**	**4,028,397**	**4,042,513**

In thousands of euros	31/12/2022		31/12/2021	
	Carrying value	Fair value	Carrying value	Fair value
Liabilities				
Financial liabilities held for trading	34,003	34,003	42,241	42,241
Financial liabilities designated at fair value through profit or loss	246,854	246,854	364,696	364,696
Financial liabilities at amortised cost	3,642,297	3,642,297	3,606,290	3,606,290
Hedging derivatives	346	346	6,179	6,179
Total Liabilities	**3,923,500**	**3,923,500**	**4,019,406**	**4,019,406**

Whose fair value is classified by the levels as of 31 December 2022 and 2021:

In thousands of euros	31/12/2022			31/12/2021		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets						
Financial assets held for trading	41,388	46,526	-	24,787	64,313	-
Non-trading financial assets mandatorily measured at fair value through profit or loss	254,942	1	2,952	351,772	37,970	4,326
Financial assets at fair value through other comprehensive income	711,485	12,193	12,430	1,004,147	31,451	16,947
Financial assets at amortised cost	1,065,975	40,000	1,815,257	548,935	129,029	1,826,130
Hedging derivatives	-	28,442	-	-	2,706	-
Total Assets	**2,073,790**	**127,162**	**1,830,639**	**1,929,641**	**265,469**	**1,847,403**

In thousands of euros	31/12/2022			31/12/2021		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Liabilities						
Financial liabilities held for trading	22	33,981	-	-	42,241	-
Financial liabilities designated at fair value through profit or loss	246,854	-	-	364,696	-	-
Financial liabilities at amortised cost	-	-	3,642,297			3,606,290
Hedging derivatives	-	346	-	-	6,179	-
Total Liabilities	**246,876**	**34,327**	**3,642,297**	**364,696**	**48,420**	**3,606,290**

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 taken into account. 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*:** This is devoted to 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

Activitat asseguradora, 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 2022 and 2021 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	
	2022	**2021**
Banking Activity	33,766	28,915
Insurance Activity	2,341	2,173
Asset and holding management	4,011	2,958
TOTAL	**40,118**	**34,046**

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 2022 and 2021 is as follows:

In thousands of euros	31/12/2022	31/12/2021
Cash	27,282	42,257
Other sight deposits	225,050	304,417
Total	**252,332**	**346,674**

10. Financial assets and liabilities held for trading

The list of financial assets and liabilities held for trading as of 31 December 2022 and 2021 was as follows:

	31/12/2022		31/12/2021	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
Trading derivatives	30,985	34,003	44,813	42,241
Equity instruments	15,626	-	20,431	-
Debt securities	41,303	-	23,856	-
TOTAL	**87,914**	**34,003**	**89,100**	**42,241**

The list of assets other than the financial derivatives of the trading portfolio as of 31 December 2022 and 2021 was as follows:

In thousands of euros	31/12/2022	31/12/2021
Equity instruments	**15,626**	**20,431**
Listed instruments	15,626	20,431
Debt securities	**41,303**	**23,856**
Public debt	-	352
Issues of financial institutions	30,529	18,870
Other issues	10,774	4,634
Total	**56,929**	**44,287**

Below appears the list of derivative financial assets and liabilities as of 31 December 2022 and 2021:

In thousands of euros	31/12/2022		31/12/2021	
	Assets	Liabilities	Assets	Liabilities
Interest rates	2,868	2,162	14,131	12,068
Currencies	3,418	4,317	2,312	2,103
Credit	1,331	1,551	1,702	1,321
Equity Instruments	23,368	25,973	26,668	26,749
Others	-	-	-	-
Total	**30,985**	**34,003**	**44,813**	**42,241**

As of 31 December 2022 and 2021 the Group did not have short positions on securities.

11. Financial assets and liabilities designated at fair value with changes in profit or loss

In accordance with the provisions of the rule, financial assets or liabilities, other than those classified as held for trading and not necessarily measured at fair value through profit or loss, may be designated by the Group from initial recognition at fair value through profit or loss if doing so eliminates or significantly reduces any measurement or recognition inconsistency (sometimes called "accounting asymmetry") that would otherwise arise from using different criteria for measuring assets and liabilities, or for recognising gains and losses therein on different bases.

As of 31 December 2022 and 2021 the Group did not have any positions in this portfolio.

12. Financial assets and liabilities not held for trading mandatorily measured at fair value through profit or loss

Below appears a breakdown, by type of product, of the balances of this heading of the consolidated statement of financial position as of 31 December 2022 and 2021:

In thousands of euros	31/12/2022		31/12/2021	
	Assets	Liabilities	Assets	Liabilities
Equity instruments	189,938	-	250,059	-
Debt securities	67,957	-	144,009	-
Others	-	246,854	-	364,696
TOTAL	**257,895**	**246,854**	**394,068**	**364,696**

The details of the assets and liabilities as of 31 December 2022 and 2021 are as follows:

Assets

In thousands of euros	31/12/2022	31/12/2021
Equity instruments	**189,938**	**250,059**
Linked to insurance products in which the policyholder assumes the risk	186,985	245,949
Others	2,953	4,110
Debt securities	**67,957**	**144,009**
Linked to insurance products in which the policyholder assumes the risk	24,286	90,203
Other issues	43,671	53,806
Total assets	**257,895**	**394,068**

Liabilities

Other financial liabilities	**246,854**	**364,696**
Life insurance in which the policyholder assumes the risk	246,854	364,696
Total liabilities	**246,854**	**364,696**

Non-trading financial assets held mandatorily measured at fair value through profit or loss linked to insurance products in which the policyholder assumes the risk

They correspond to investments related to life insurance product operations when the investment risk is assumed by the policyholder. These products are marketed through Mora Assegurances, SAU.

Financial liabilities at fair value through profit or loss linked to insurance products in which the policyholder assumes the risk

They relate exclusively to the mathematical provisions maintained by Mora Assegurances, SAU in respect of life insurance products.

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 2022 and 2021, based on the nature of the transactions, was as follows:

In thousands of euros	Fair value 31/12/2022	Fair value 31/12/2021
Equity instruments	**30,130**	**38,081**
Shares of non-listed companies	48,517	52,664
Adjustments (gains or losses)	(18,387)	(14,583)
Sub-total	**30,130**	**38,081**
Debt securities	**705,978**	**1,014,464**
Foreign public debt	305,161	577,758
Issued by financial institutions	328,917	294,035
Other issues	88,943	144,099
Valuation adjustments (valuation gains or losses)	(16,845)	(1,017)
Impairment loss	(198)	(411)
Sub-total	**705,978**	**1,014,464**
Total	**736,108**	**1,052,545**

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 2022 financial year:

In thousands of euros	2022	2021
Balance at the beginning of the financial year	**411**	**124**
Plus:		
Provisions to the fund	373	405
Less:		
Other adjustments	61	-
Recoveries of the fund	(647)	(118)
Balance at the end of the financial year	**198**	**411**

14. Financial assets at amortised cost

The details of financial assets at amortised cost as of 31 December 2022 and 2021 in the consolidated financial position statements, taking into account the valuation adjustments, is as follows:

In thousands of euros	31/12/2022	31/12/2021
Debt securities	**1,200,387**	**669,357**
Loans and advances	**1,699,578**	**1,857,790**
Credit institutions	123,020	166,686
Clients	1,576,558	1,691,104
Adjustments for valuation	**(13,418)**	**(37,169)**
Impairment losses	(39,298)	(43,303)
Accrued interests and commissions	5,729	3,890
Hedging and other derivatives	20,152	2,244
Total	**2,886,548**	**2,489,978**

14.1 Debt securities and loans and advances to credit institutions

The list of debt securities and loans and advances as of 31 December 2022 and 2021 of the consolidated statements of financial position, considering the valuation adjustments, was as follows:

In thousands of euros	31/12/2022	31/12/2021
Debt securities	**1,200,387**	**669,357**
Andorran public debt	190,928	117,149
Foreign public debt	576,488	241,889
Issues of financial institutions	245,070	206,607
Other issues	187,901	103,712
Loans and advances to financial institutions	**123,020**	**166,686**
Sight deposit accounts	-	-
Term deposits	123,020	166,686
Temporary acquisition of assets	-	-
Adjustments for valuation	**25,477**	**3,920**
Impairment losses	(404)	(439)
Interest accrued	5,729	2,115
Hedging and other derivatives	20,152	2,244
Net carrying value	**1,348,884**	**839,963**

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 2022 and 2021 financial years:

In thousands of euros	31/12/2022	31/12/2021
Balance at the beginning of the financial year	**439**	**204**
Plus:		
Provisions to the fund	12	171
Transfers	-	234
Less:		
Recoveries of the fund	(47)	(170)
Balance at the end of the financial year	**404**	**439**

As indicated in Note 2.3, in October 2021 MoraBanc obtained control of Banco Sabadell d'Andorra with the purchase of 51.61% of the capital.

As a direct result of this acquisition, in order to strengthen the Institution's solvency position and reduce the volatility of the equity, the Institution made the decision to reduce investments in portfolios at fair value through other accumulated comprehensive income of the sub-portfolio of debt securities with specific maturities.
The Group considered that the best option to maintain adequate levels of solvency and recover the investment held in these assets is not the immediate sale. These assets will therefore be managed under a model that maintains the assets to obtain the contractual cash flows.
As of the date of the transfer, in accordance with IFRS 9, the assets to be transferred had an accounting value of 93.7 million euros and they were recorded as if they had always been accounted for at amortised cost. Therefore, the fair value of the assets to be transferred on this date has been adjusted by the accumulated profits or losses of this portfolio recorded in the net equity plus, as appropriate, the amounts recorded as assets or liabilities for deferred taxes. As a result, there has been no impact on results.

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 2022 and 2021, considering the valuation adjustments, was as follows:

In thousands of euros	31/12/2022	31/12/2021
Loans and advances to clients (gross)	**1,576,558**	**1,692,851**
Debtors with money guarantees and securities	480,291	573,201
Mortgages	755,296	776,752
Public sector	29,769	16,634
Without any Real Guarantee	311,202	326,264
Provision for impairment	**(38,894)**	**(42,836)**
Total	**1,537,664**	**1,650,015**

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 2022 and 2021:

In thousands of euros	31/12/2022	31/12/2021

Balance at the beginning of the financial year	**42,836**	**26,490**
Plus:		
Provisions to the fund	1,086	21,389
Less:		
Applications of the fund	-	(583)
Recoveries of the fund	(5,028)	(4,460)
Balance at the end of the financial year	**38,894**	**42,836**

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

Below appears the list of hedging derivatives of the interest rate risk held by the Group as of 31 December 2022 and 2021 in the consolidated statements of financial position:

In thousands of euros	31/12/2022		
	Assets	**Liabilities**	**Nominal**
Fair value accounting micro-hedges			
Interest rate risk	28,442	346	66,314

In thousands of euros	31/12/2021		
	Assets	**Liabilities**	**Nominal**
Fair value accounting micro-hedges			
Interest rate risk	2,706	6,179	178,497

As of the closure of the 2022 and 2021 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 2022 and 2021 financial years, the Group determined whether hedges are effective by performing an effectiveness test on them.

15. 2 Items hedged

The MoraBanc Group performs fixed-rate micro-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 2022 and 2021, the changes in the fair value of the hedged positions were:

In thousands of euros	31/12/2022	
	Assets	**Liabilities and Net Equity**
Changes in the fair value of hedged items in hedges of interest rate risk	-	7,807

In thousands of euros	31/12/2021	
	Assets	**Liabilities and Net Equity**
Changes in the fair value of the elements of a portfolio with interest rate risk hedging	2,076	1,342

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 institutions and joint ventures" for the years ending on 31 December 2022, the Mora Banc Group has a direct stake corresponding to 33.33% of Societat Serveis i Mitjans de Pagament XXI, SA (an associated institution); as of 31 December 2021 the Group's holding totalled 20% directly and 20% indirectly (see Note 2.3 and Note 4). In addition, as of 31 December 2022 and 2021 the Group has a 25% stake in Financera Pyrénées, SAU (a joint venture) (see Note 4).

The main data of the companies as of 31 December 2022 and 2021 are as follows:

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, SAU	25%	5,001	60	4,550	2,002	-	6,612

31/12/2021 (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	40%	96	60	176	186	-	422
Societat Financera Pyrénées, SAU	25%	5,025	60	4,489	2,100	-	6,649

As of 31 December 2022 and 2021, 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 2022 and 2021, there were no contingent liabilities in relation to investments in subsidiaries, joint ventures or associates.

During the 2022 and 2021 financial years there was no evidence of significant impairment in the Group's associate holdings.

17. Tangible assets and property investments

The movement of the tangible fixed assets for own use accounts and property investments in the 2022 and 2021 financial years was as follows:

In thousands of euros	Own use and property investments							
	Land and building	Furniture and installations	Hardware	Others	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)**
Transfers	-	-	-	-	-	-	-	**-**
Exchange and other differences	-	-	-	-	-	-		**-**
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**
Transfers	-	-	-	-	-	-	-	**-**
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 registrations from the business combination (see Note 2.3).

In thousands of euros	Own use and property investments							
	Land and building	Furniture and installations	Hardware	Others	Total	Property investments	Leased property rights of use (*)	Total
Cost								
Balance at 31 December 2020	**62,818**	**29,033**	**17,467**	**415**	**109,733**	**77,707**	**2,904**	**190,344**
Recognitions	10,178	1,268	779	190	12,415	4,256	463	**17,134**
Derecognitions	-	-	(35)	(93)	(128)	-	(51)	**(179)**
Sales	-	-	-	-	-	(764)	-	**(764)**
Transfers	-	73	-	(73)	-	480	-	**480**
Exchange and other differences	-	-	-	-	-	-		**-**
Balance at 31 December 2021	**72,996**	**30,374**	**18,211**	**439**	**122,020**	**81,679**	**3,316**	**207,015**
Impairment and accumulated amortisation								
Balance at 31 December 2020	**(10,099)**	**(25,499)**	**(16,094)**	**(320)**	**(52,012)**	**(39,785)**	**(976)**	**(92,773)**
Additions	(698)	(995)	(647)	(27)	(2,367)	(8,465)	(712)	**(11,544)**
Derecognitions	-	-	35	47	82	-	-	**82**
Sales	-	-	-	-	-	-	-	**-**
Transfers	-	-	-	-	-	(134)	-	**(134)**
Exchange and other differences	-	(16)	-	-	(16)	-	-	**(16)**
Balance at 31 December 2021	**(10,797)**	**(26,510)**	**(16,706)**	**(300)**	**(54,313)**	**(48,384)**	**(1,688)**	**(104,385)**
Carrying value as of 31 December 2020	**52,719**	**3,534**	**1,373**	**95**	**57,721**	**37,922**	**1,928**	**97,571**
Carrying value as of 31 December 2021	**62,199**	**3,864**	**1,505**	**139**	**67,707**	**33,295**	**1,628**	**102,630**

(*) 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 2022 financial year, there were sales of foreclosed assets classified as "Tangible Assets - Property Investments" that were recorded at a net carrying value of 2,894,000 euros, generating a net profit of 1,313,000 euros.

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 recognized 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 30,363,000 euros (33,295,000 euros in 2021).

During the 2022 financial year the Group did not reclassify any assets to the heading "Tangible assets - Property investments" During the 2021 financial year this amount was 346,000 euros net.

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 main assumptions regarding cash flow discounting for the 2022 and 2021 financial years were:

- Projection of expected cash flows over the next 5 years.
- Expected CPI of 8.90%.
- Discount rate of 6.77% (6.78% in 2021).

18. Intangible fixed assets

The breakdown of movements of the intangible assets as of 31 December 2022 and 2021 is as follows:

In thousands of euros	Computer applications	Others	Goodwill	Total
Cost				
Balance at 31 December 2021	**115,337**	**611**	**11,784**	**127,732**
Recognitions	7,326	13	-	7,339
Derecognitions	(42)		-	(42)
Exchange and other differences			-	-
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	-	-	-	-
Exchange and other differences	-	-	-	-
Balance at 31 December 2022	**(105,598)**	**(588)**	**-**	**(106,186)**
Carrying value as of 31 December 2022	**17,023**	**36**	**11,784**	**28,843**

In thousands of euros	Computer applications	Others	Goodwill	Total
Cost				
Balance at 31 December 2020	**110,840**	**599**	**-**	**111,439**
Acquisitions (*)	4,559	12	11,784	16,355
Derecognitions	(62)	-	-	(62)
Exchange and other differences	-	-	-	-
Balance at 31 December 2021	**115,337**	**611**	**11,784**	**127,732**
Accumulated amortisation				
Balance at 31 December 2020	**(97,461)**	**(565)**	**-**	**(98,026)**
Additions	(4,229)	(10)	-	(4,239)
Derecognitions	-	-	-	-
Exchange and other differences	-	-	-	-
Balance at 31 December 2020	**(101,690)**	**(575)**	**-**	**(102,265)**
Carrying value as of 31 December 2021	**13,647**	**36**	**11,784**	**25,467**

18.1 Goodwill

The amount recorded in this heading of the consolidated balance sheet is 11,784,000 euros. Said goodwill was generated by the purchase of a majority stake in BSA Banc, SA on 1 October 2021 (see Note 2.3). On 11 November 2022, following approval by 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 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 2022 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 in accordance with the above-mentioned 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 2022, 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).

Sensibility 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 2022 and 2021 is as follows:

In thousands of euros	31/12/2022	31/12/2021
Accruals and deferrals	2,502	2,975
Other assets	200	659
Total remaining assets	**2,702**	**3,634**
Accruals and deferrals	25,102	20,410
Other liabilities	82	7,216
Total remaining liabilities	**25,184**	**27,626**

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 2022 and 2021 were as follows:

In thousands of euros	31/12/2022	31/12/2021
Fixed assets	**3,185**	**3,288**
From awards	1,707	1,810
Others	1,478	1,478
Total	**3,185**	**3,288**
Value corrections	-	-
Total Net	**3,185**	**3,288**

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 2022 and 2021 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 at 31 December 2021	**1,810**	**1,478**	**3,288**
Recognitions	35	-	35
Derecognitions	-	-	-
Sales	(138)	-	(138)
Transfers	-	-	-
		-	
Balance at 31 December 2022	**1,707**	**1,478**	**3,185**
Impairment losses			
Balance at 31 December 2021	**-**	**-**	**-**
Recognitions	-	-	-
Derecognitions	-	-	-
Sales	-	-	-
Transfers	-	-	-
Balance at 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**

In thousands of euros	From credit transactions	Other	Total
Cost			
Balance at 31 December 2020	**1,273**	**-**	**1,273**
Recognitions	5,565	1,478	7,043
Derecognitions	-	-	-
Sales	(4,548)	-	(4,548)
Transfers	(480)	-	(480)
		-	
Balance at 31 December 2021	**1,810**	**1,478**	**3,288**
Impairment losses			
Balance at 31 December 2020	**(131)**	**-**	**(131)**
Recognitions	-	-	-
Derecognitions	131	-	131
Sales	-	-	-
Transfers	-	-	-
Balance at 31 December 2021	**-**	**-**	**-**
Carrying value as of 31 December 2020	**1,142**	**-**	**1,142**
Carrying value as of 31 December 2021	**1,810**	**1,478**	**3,288**

20.3 Information relating to assets classified as held for sale

Breakdown by type of asset

Below appears the distribution of the assets from awards and foreclosures as of 31 December 2022 and 2021, depending on the nature of the asset, taking into account their impairment fund.

In thousands of euros	%	amount	%	amount
Assets for residential use	45%	1,446	47%	1,543
Asset for industrial or commercial use	46%	1,473	45%	1,479
Lands	8%	266	8%	266
Total	**100%**	**3,185**	**100%**	**3,288**

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 2022 and 2021 was as follows:

In thousands of euros	31/12/2022	31/12/2021
Deposits	3,604,583	3,524,946
Central banks and credit institutions	202,749	194,610
Clients	3,401,834	3,330,336
Other financial liabilities	37,714	81,344
Total	**3,642,297**	**3,606,290**

21.2 Deposits with central banks

The composition of the deposits with central banks as of 31 December 2022 and 2021 is as follows:

In thousands of euros	31/12/2022	31/12/2021
At sight	69,644	103,646
Term deposits	94,218	72,500
Total deposits in Central Banks	**163,862**	**176,146**

21.3 Deposits of credit institutions

The list of deposits of credit institutions as of 31 December 2022 and 2021 is as follows:

In thousands of euros	31/12/2022	31/12/2021
At sight	6,237	5,087
Term deposits	32,650	13,377
Total	**38,887**	**18,464**

21.4 Client deposits

The list of client deposits as of 31 December 2022 and 2021, based on the currency and the period until maturity, is as follows:

In thousands of euros	31/12/2022	31/12/2021
By currency:	**3,401,834**	**3,330,336**
In euros	2,990,567	2,858,124
In currency	411,267	472,212
Deposits by type	**3,401,834**	**3,330,336**
At sight	2,980,013	2,848,983
Term deposits	421,821	481,353
Total client deposits	**3,401,834**	**3,330,336**

21.5 Debt securities issued

As of 31 December 2022 and 2021 the Group did not have any debt securities issued.

21.6 Other financial liabilities

The list of other financial liabilities as of 31 December 2022 and 2021 is as follows:

In thousands of euros	31/12/2022	31/12/2021
Obligations payable	29,521	77,567
Guarantees received	2,788	1,875
Special accounts	3,751	610
Other items	1,654	1,292
Total	**37,714**	**81,344**

22. Assets and liabilities covered by insurance and reinsurance contracts

The breakdown of the balance of assets and liabilities covered by insurance and reinsurance contracts as of 31 December 2022 and 2021 is as follows:

In thousands of euros	31/12/2022	31/12/2021
Provisions for non-consumed premiums	1,132	1,098
Life insurance provisions	23,627	28,676
Deposits received for transferred reinsurance	329	366
Debts for reinsurance transactions	2,699	3,156
Total assets	**27,787**	**33,296**

In thousands of euros	31/12/2022	31/12/2021
Provisions for non-consumed premiums	3,244	3,212
Life insurance provisions	76,863	70,398
Deposits received for transferred reinsurance	1,598	1,463
Debts for reinsurance transactions	138	357
Total liabilities	**81,843**	**75,430**

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	31/12/2022	31/12/2021
Pensions and other post-employment defined benefit obligations	8,954	11,966
Other remuneration for long-term employees	1,101	1,309
Provisions for legal and tax litigation	3,332	3,316
Commitments and guarantees granted	2,752	2,379
Other provisions	3,771	4,153
Total	**19,910**	**23,123**

Below appears a brief description of the nature of the obligations contracted, as well as the movements which occurred during the 2022 and 2021 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 3.17).

Provisions for commitments and guarantees granted
This fund corresponds to the impairment recorded during the 2022 and 2021 financial years, of the contingent commitments for credit transactions amounting to 2,752,000 euros and 2,379,000 euros, 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 3.17).
The balance includes the provisions to be settled in the Andorran Deposit Guarantee Fund ("FAGADI") for 2,160,000 euros, and the provisions constituted to hedge risks arising from the Group's operation of financial distribution and intermediation (see Note 2.8.4).

23.2 Changes in provisions

The changes in provisions for pensions and obligations of post-employment benefits and similar during the 2022 and 2021 financial years were as follows:

	2022	2021
Balance at the beginning of the financial year	**11,966**	**12,579**
Plus:	**67**	**1,552**
Provision to the fund charged to labour expenses	12	-
Extraordinary provision charged to profit or loss	-	1,488
Return on assets affected by the fund (financial cost)	55	64
Other movements	-	-
Less:	**(3,079)**	**(2,165)**
Recoveries of the fund	(1,066)	(14)
Applications of the fund	(2,013)	(2,151)
Balance at the end of the financial year	**8,954**	**11,966**

During 2022 and 2021 the balance of the other long-term remuneration of employees had the following movement:

	2022	2021
Balance at the beginning of the financial year	**1,309**	**1,144**
Plus:	**15**	**165**
Provision to the fund	15	56
Other movements	-	109
Less:	**(223)**	**-**
Recoveries of the fund	(199)	
Applications of the fund	(24)	-
Balance at the end of the financial year	**1,101**	**1,309**

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 2022 and 2021 financial years:

	2022	2021
Balance at the beginning of the financial year	**3,316**	**2,193**
Plus:	**16**	**1,123**
Provision to the fund	16	726
Other movements	-	397
Less:	**-**	**-**
Recoveries of the fund	-	-
Applications of the fund	-	-
Balance at the end of the financial year	**3,332**	**3,316**

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 2022 and 2021 is set out below:

	2022	2021
Balance at the beginning of the financial year	**2,379**	**1,410**
Plus:	**725**	**985**
Provisions to the fund	725	426
Transfers	-	559
Less:	**(352)**	**(16)**
Recoveries of the fund	-	(16)
Applications	(352)	-
Balance at the end of the financial year	**2,752**	**2,379**

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 2022 and 2021 financial years was as follows:

	2021	2020
Balance at the beginning of the financial year	**4,153**	**4,863**
Plus:	**3,296**	**2,853**
Provision to the fund	3,296	2,337
Other movements	-	516
Less:	**(3,678)**	**(3,563)**
Recoveries of the fund	(134)	(176)
Applications of the fund	(2,546)	(3,387)
Transfers	(998)	-
Balance at the end of the financial year	**3,771**	**4,153**

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 2022 and 2021, 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	31/12/2022	31/12/2021
Obligations for defined benefit pensions and other defined benefit obligations	4,205	5,374
Obligations for early retirements	4,749	6,592
Other long-term remuneration	1,101	1,309
Total	**10,055**	**13,275**

24.2 Defined benefit plans

Movement of the provisions for defined benefit commitments

The movements which occurred in the 2022 and 2021 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 at 31 December 2020	**5,713**	**6,866**	**12,579**
Total impacts on the results statement	**49**	**1,526**	**1,575**
Costs for past services	14	1,499	1,513
Net interest income	35	27	62
Other impacts	**(388)**	**(1,800)**	**(2,188)**
Benefits paid	(388)	(1,800)	(2,188)
Balance at 31 December 2021	**5,374**	**6,592**	**11,966**
Total impacts on the results 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 at 31 December 2022	**4,202**	**4,752**	**8,954**

24.3 Details of actuarial hypotheses

Below appear the main actuarial hypotheses used in the valuation of the commitments as of 31 December 2022 and 2021:

In thousands of euros	**2022**	**2021**
Financial hypotheses		
Discount rate	AA corporate bond curve (in €)	AA corporate bond curve (in €)
Nominal rate update	2.5-2.5%	0.5-0.5%
Increase in CPI	2%	1%
CASS salary increase	2%	1%
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 2022 and 2021 financial years:

Current Actuarial Value (CAV) as of 31/12/2022	Beneficiaries caused	People taking early retirement
CAV central scenario: (in thousands of euros)	4,202	*4,528*

Variation of hypothesis	Variation	Beneficiaries caused				*People taking early retirement*			
		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)

Current Actuarial Value (CAV) as of 31/12/2021	Beneficiaries caused	People taking early retirement
CAV central scenario: (in thousands of euros)	5,371	*6,383*

Variation of hypothesis	Variation	Beneficiaries caused				People taking early retirement			
		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	(510)	(9.49)	290	5.40	*(156)*	*(2.45)*	*81*	*1.27*
Discount rate	50% Basis Points	(266)	(4.95)	290	5.40	*(79)*	*(1.24)*	*81*	*1.27*
Variation in Inflation	50% Basis Points	-	-	-	-	-	-	-	-
Mortality Rate	1 year	33	0.61	(33)	(0.61)	*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 2007, 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 133,000 euros (388,000 euros in the 2021 financial year) were made in 2022.

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 2022 and 2021 financial years, ordinary contributions to the internal pension fund were not made; in any case, they would be recorded under the heading "Administration expenses - Labour expenses" and the part in respect of the capitalisation of the internal funds maintained would be recorded under the heading "Interest Expenses - Other Liabilities" in the consolidated results statements.

24.6 Obligations to personnel with early retirement

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 accompanying consolidated results statement (see Notes 3.21 and 23) together with the updating of all commitment in salaries and social benefits acquired in previous financial years by analogous processes.

During the 2022 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 results statement (see Notes 3.21 and 23).

In addition, in the 2022 financial year payments for this item were made for the amount of 1,669,000 euros (1,800,000 euros in 2021).

25. Capital and reserves

25.1 Share capital

The share capital appearing in these consolidated financial statements is that of Mora Banc Grup, SA, which is represented by 732,479 shares, each with a nominal value of 60.10 euros, fully subscribed and paid up. The 2021 financial year was represented by 7,056,000 shares, each with a nominal value of 60.01 euros, fully subscribed and paid up. During the 2022 financial year, the nominal value of the shares increased from 6.01 to 60.10 euros.

On 11 November 2022, Mora Banc Grup, SA performed a capital increase in order to make the exchange of BSA Banc shares due to the merger agreement between the two institutions effective. This increase, amounting to 1,615,000 euros of capital and an issue premium of 18,462,000 euros, was made effective for a total of 26,879 MoraBanc Group shares, each with a nominal value of 60.10 euros.

The Bank does not have treasury stock either directly or indirectly through any of its subsidiaries.

The share capital of the Bank belongs mainly to an Andorran family group and there are restrictions on the transferability of the shares.

There are no current capital increases in the Bank. Neither is there any 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 2022 and 2021 was:

In thousands of euros	31/12/2022	31/12/2021
Accumulated profit	**323,352**	**311,681**
Legal reserve	10,672	10,202
Guarantee reserves	32,055	32,055
Voluntary reserves	280,625	269,424
Other reserves	**(31,252)**	**(24,515)**
Reserves for the first application	(41,426)	(31,707)
Reserves of consolidated companies by the full consolidation method	9,522	6,712
Reserves of companies integrated by the equity method	652	480
Total	**292,100**	**287,166**

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 financial year to constitute the legal reserve, until it reaches an amount equal to twenty per cent of the share capital. As of 31 December 2022 and 2021, 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 heading "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, of 13 September, 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 as of December 2022 totalling 32,055,000 euros (see Note 2.8.3) (32,055,000 euros in 2021).

Voluntary reserves

Voluntary reserves can be distributed without restriction (see Note 18.1).

First application reserves

As of 31 December 2022 and 2021, 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.

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).

Composition of the consolidation reserves

Consolidation reserves

The consolidation reserves, including conversion differences, are those of the following companies:

In thousands of euros	2022	2021
Integrated globally (*):		
Mora Gestió d'Actius, SAU	5,848	4,630
Mora Assegurances, SAU	5,998	4,392
Boreal Capital Management, AG	(2,136)	(2,345)
Boreal Capital Holdings USA, LLC	2,311	2,212
Boreal Capital Management, LLC	(4,436)	(4,434)
Boreal Capital Securities, LLC	2,908	2,040
Casa Rodona	-	(1,988)
SICAV Amura (Onix)	-	(121)
Vicens - Gaudi SOCIMI SA	(348)	1,529
SICAV Burna	-	1,421
Mora Wealth Management Espanya A.V.	(1,118)	(619)
Other holdings	536	95
Integrated by the equity method:		
Serveis i Mitjans de Pagament XXI, SA	86	35
Societat Financera Pyrénées	525	445
Total consolidation Reserves	**10,174**	**7,192**

(*) 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.

26. Other comprehensive accumulated income

The statements of comprehensive income for the 2022 and 2021 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 01/01/2022	Amounts transferred to the income statement	Amounts transferred to reserves	Balance at 31/12/2022
Items which cannot be reclassified in profit/loss	**(13,140)**	-	**(3,783)**	**(16,923)**
Fair value changes in equity instruments valued at fair value through other comprehensive income	(13,140)	-	(3,783)	(16,923)
Items which can be reclassified in profit or loss	**1,696**	**(2,432)**	**(9,734)**	**(10,470)**
Cash flow hedges	1,245	-	(315)	930
Financial assets at fair value through other comprehensive income	451	(2,432)	(9,419)	(11,400)
Total	**(11,444)**	**(2,432)**	**(13,517)**	**(27,393)**

Other comprehensive accumulated income	Balance at 01/01/2021	Amounts transferred to the income statement	Amounts transferred to reserves	Balance on 31/12/2021
Items which cannot be reclassified in profit/loss	**(5,675)**	-	**(7,465)**	**(13,140)**
Fair value changes in equity instruments valued at fair value through other comprehensive income	(5,675)	-	(7,465)	(13,140)
Items which can be reclassified in profit or loss	**4,587**	**5,362**	**2,471**	**1,696**
Cash flow hedges	1,412	-	(167)	1,245
Financial assets at fair value through other comprehensive income	3,175	(5,362)	2,638	451
Total	**(1,088)**	**5,362**	**(4,994)**	**(11,444)**

27. Minority interests

The minority interest results for the financial year ended on 31 December 2022 come from the subsidiary Boreal Capital Management, LLC. As of 31 December 2021 these results came from the subsidiaries BSA Banc, SA (see Note 2.3) and Boreal Capital Management LLC, the balances of which are as follows:

(In thousands of euros)	2022	2021
Accumulated reserves	-	52,251
Other comprehensive accumulated income	-	(171)
Results assigned to Minority Interests	(4)	492
Total	**(4)**	**52,572**

28. Equity and capital management

28.1 Equity

As of 31 December 2022 and 2021, 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 2022, the Group has a CET 1 capital ratio of 18.47% and a CET 1 (fully loaded) ratio of 18.06%, and one of 18.38% in 2021, thus complying with the minimum 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 MoraBanc, 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 2022 and 2021 was as follows:

In thousands of euros	2022	2021
Commitments granted	**550,439**	**552,845**
Loan commitments granted	429,453	416,993
Guarantees granted	120,914	135,692
Documented credits	72	160
Financial guarantees granted and other commitments	**(2,749)**	**(1,993)**
Impairment losses	(2,749)	(1,993)
Total	**547,690**	**550,852**

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 2022 and 2021 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 35,851,000 euros at the end of the year (27,928,000 euros on 31 December 2021).
- As of 31 December 2022 and 2021, the company had no guarantees with financial brokers to cover existing commitments.

31. Purchase and sale commitments

As of 31 December 2022 and 2021, 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 and Miami.

The list of the main variables reflected in the Group's business volume during 2022 and 2021 was as follows:

In thousands of euros	31/12/2022	31/12/2021
Loans and receivables of clients	**1,537,664**	**1,650,015**
Client deposits in cash	**3,403,436**	**3,330,336**
Financial instruments held	**3,946,172**	**4,693,334**
Those managed by the Group	3,946,172	4,693,334
Discretionary portfolios	763,113	945,519
Collective Investment Undertakings	2,093,018	1,373,778
Other individual clients	1,090,041	2,374,037
Off-balance sheet client assets under management not held	**2,860,943**	**3,232,082**
Total	**11,748,215**	**12,905,767**

33. Net income from interest

This section of the consolidated results 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 rate method, as well as product rectifications as a result of hedge accounting.

The list of the respective income and expenses from interests in the 2022 and 2021 financial years was as follows:

In thousands of euros	2022	2021
Interest income and similar returns		
Financial assets at fair value through other comprehensive income	3,891	3,888
Financial assets at amortised cost	45,514	30,389
Derivatives - Hedge accounting, interest rate risk	-	-
Total interest income	**49,405**	**34,277**
Interest expenses		
Financial liabilities at amortised cost	(2,993)	(1,966)
Derivatives - Hedge accounting, interest rate risk	(1,033)	(2,025)
Other liabilities	(116)	(117)
Total interest expenses	**(4,142)**	**(4,108)**
Net income from interest	**45,263**	**30,169**

34. Net income from commissions

The most significant income and expenses recorded as commissions in the attached results statements for the years ending on 31 December 2022 and 2021 as functions of the nature of the non-financial service which gave rise to them were as follows:

In thousands of euros	2022	2021
Commission income		
Security services	72,360	69,545
Commissions for credit transactions and client maintenance	11,907	9,240
Other commissions for services provided	6,390	4,265
Total income from commissions	**90,657**	**83,050**
Commission expenses		
Commissions accrued for services received (-)	(19,776)	(15,856)
Total commission expenses	**(19,776)**	**(15,856)**
Net income from commissions	**70,881**	**67,194**

35. Income from financial operations

The breakdown of the balance in this section of the consolidated results statements accrued during the 2022 and 2021 financial years is as follows:

In thousands of euros	2022	2021
Profits or losses due to derecognition of unrealised financial assets and liabilities at fair value with changes in results, net	2,432	5,362
Profits or losses due to derecognition on account of financial assets and liabilities held for trading, net	4,158	2,954
Profits or losses on derecognition of account of non-trading financial assets and liabilities mandatorily valued at fair value with changes in profit or loss, net	(1,400)	11,761
Profits or losses resulting from hedge accounting, net	147	136
Exchange differences [profit or loss], net	2,573	1,771
Total result from Financial Operations	**7,910**	**21,984**

36. The profit/loss of the investees integrated by the equity method

The profits/losses of the investee companies integrated by the equity method are as follows:

In thousands of euros	2022	2021
Serveis i Mitjans de Pagament XXI, SA	74	41
Societat Financera Pyrénées	501	555
Total	**575**	**596**

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 results statements is:

In thousands of euros	2022	2021
Other operating income	**6,624**	**6,260**
Profit/loss from assets and liabilities covered by insurance contracts	3,531	4,262
Fixed assets income	2,301	1,193
Others	792	805
Other operating expenses	**(609)**	**(515)**
Various client charge-backs	(36)	(71)
Other	(573)	(444)
Net profit/loss	**6,015**	**5,745**

During the 2022 and 2021 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.

38. Labour expenses

The breakdown of the labour expenses for the financial years ending on 31 December 2022 and 2021 was as follows:

In thousands of euros	2022	2021
Wages and salaries	35,814	30,554
Social Security	5,050	3,809
Contributions to Defined Contribution Pension Funds	647	561
Other labour expenses	2,250	1,892
Total labour expenses	**43,761**	**36,816**

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 2022 and 2021 financial years are set out below:

	no. employees	
Average workforce	**2022**	**2021**
Directors	36	33
Middle management	89	66
Technicians	228	189
Administrative staff	108	89
Total	**461**	**377**

39. Other administrative expenses

The breakdown of the balance of this section of the consolidated results statements accrued during the 2022 and 2021 financial years is as follows:

In thousands of euros	2022	2021
Administrative and operational expenses	18,823	13,960
Taxes	2,675	1,789
Technical and technological services and information systems	13,375	10,618
Other expenses	3,422	1,445
Total other expenses	**38,295**	**27,812**

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 results statements consisting of the 2022 and 2021 financial years is shown in the following table:

In thousands of euros	2022	2021
Financial assets at amortised cost	**2,836**	**(2,179)**
Loans and Items for Clients	2,825	(2,178)
Credit institutions	(11)	(5)
Debt securities	22	4
Financial assets at fair value through other comprehensive income	**274**	**(143)**
Equity instruments	-	-
Debt securities	274	(143)
Total	**3,110**	**(2,322)**

41. Income 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 legislation 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 financial years ending on 31 December 2022 and 2021 is as follows:

(In thousands of euros)	2022	2021
Profit/loss for the financial year attributable to the Group before taxes (*)	46,167	39,100
Permanent differences	1,761	367
Tax base	**47,928**	**39,467**
Tax rate	10%	10%
Gross tax payable	**4,793**	**3,947**
Deductions and allowances	(1,093)	(867)
Net assessed amount	**3,700**	**3,080**
Payments on account	(1,719)	-
Differential amount	**1,981**	**3,080**

*This result corresponds to the sum of the individual accounting results of the Group companies subject to the Corporation Tax Act in Andorra

Below appears a breakdown of the permanent differences consisting of items which are not for fiscal expenses or income consisting of the financial years ending on 31 December 2022 and 2021:

In thousands of euros	2022	2021
Elimination of dual taxation for profit-sharing	(3,976)	-
Provisions and losses for insolvencies of Group companies	-	30
Impairment losses on the value of the equity elements	4,296	(2,087)
Provisions for liabilities and pension funds	242	1,538
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	1,093	693
Elimination of dual internal and international taxation	-	174
Donations and ex gratia payments	107	19
Total permanent differences	**1,761**	**367**

The breakdown of the deductions and allowances applied as of 31 December 2022 and 2021 is as follows:

In thousands of euros	2022	2021
Elimination of international dual taxation	-	(174)
Municipal tax on lessee income, establishment of commercial activities, entrepreneurs and professionals	(1,093)	(693)
Job creation in Andorra	-	-
Total deductions and allowances	**(1,093)**	**(867)**

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 the 2022 and 2021 financial years:

(In thousands of euros)	2022 Before of Income	2022 Profit (expense) tax	2022 Net of Income	2021 Before of Income	2021 Profit (expense) tax	2021 Net of Income
Items which cannot be reclassified to the income statement	**(18,803)**	**1,880**	**(16,923)**	**(14,600)**	**1,460**	**(13,140)**
Fair value changes in equity instruments valued at fair value through other comprehensive income	(18,803)	1,880	(16,923)	(14,600)	1,460	(13,140)
Items which may be reclassified to profit or loss	**(11,633)**	**1,163**	**(10,470)**	**1,884**	**(188)**	**1,696**
Financial assets at fair value through other comprehensive income	1,033	(104)	929	501	(51)	450
Cash flow hedges	(12,667)	1,267	(11,400)	1,383	(137)	1,246
Total	**(30,437)**	**3,043**	**(27,393)**	**(12,716)**	**1,272**	**(11,444)**

41.3 Reconciliation of effective tax rate

Below appears the reconciliation between the income tax expenditure accounted for in the consolidated results statements for the 2022 and 2021 financial years and the result before taxes of the said financial years applying the tax rate in force in Andorra:

(In thousands of euros)	2022 Effective rate	2022 Amount	2021 Effective rate	2021 Amount
Pre-tax profit (loss)	-	**46,167**	-	**39,100**
Income tax at the local tax rate	10%	(4,617)	10%	(3,910)
Effect of tax rates abroad		-		(17)
Non-deductible expenses		(574)		(19)
Non-taxable income		398		-
Deductions and allowances		1,093		866
Other effects		256		(667)
Calculation of companies outside the tax perimeter		-		-
Total tax expenditure		**(3,444)**		**(3,747)**

41.4 Composition of deferred tax assets and liabilities

In accordance with the current tax regulations, in the 2022 and 2021 financial years there were certain temporary differences to be taken into account when calculating the corresponding income tax expenditure.

The balance at 31 December 2022 and 2021 for deferred tax assets and liabilities was as follows:

	2022		2021	
(In thousands of euros)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Tangible and intangible assets	1,524	8	1,546	8
Financial assets at fair value through other comprehensive income	3,452	346	1,755	397
Fair value hedging	-	-	-	-
Insolvencies	1,092	77	1,092	77
Tax losses to be offset in the future	434	-	366	-
Due to change in fair value	-	2	-	2
Others	12	206	125	319
Net assets (liabilities)	**6,514**	**639**	**4,884**	**803**

In accordance with the information available as of 31 December 2022, 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

Similarly, the origins and movements of deferred tax assets/liabilities recorded in the consolidated statement of financial position as of 31 December 2022 and 2021 were as follows:

(In thousands of euros)	Balance at 01/01/2022	Recognised in profit/loss	Recognised in others profit/loss 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**

(In thousands of euros)	Balance at 01/01/2021	Recognised in profit/loss	Recognised in others profit/loss income	Balance at 31/12/2021
Tangible and intangible assets	1,594	(56)	-	1,538
Financial assets at fair value through other comprehensive income	278	(278)	1,358	1,358
Fair value hedging	-	-	-	-
Insolvencies	914	101	-	1,015
Tax losses to be offset in the future	-	366	-	366
Due to change in fair value	3	(5)	-	(2)
Other	-	(194)	-	(194)
Total	**2,789**	**(66)**	**1,358**	**4,081**

42. Related parties

Below appear the most significant balances held as of 31 December 2022 and 2021 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. The amounts recorded in the income statement are also listed as a result of the transactions carried out:

	2022			
In thousands of euros	**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 thousands of euros	2021			
	Shareholders	**Subsidiary and associated institutions**	**Executive directors and senior management**	**Other related parties**
Assets				
Loans and advances	6,486	23,728	785	43,961
Credit institutions	-	-	-	-
Clients	6,486	23,728	785	43,961
Investments in subsidiaries, joint ventures and associates	-	5,205	-	-
Liabilities				
Deposits	42,498	200	5,277	26,038
Deposits of credit institutions	-	-	-	-
Client deposits	42,498	200	5,277	26,038
Debt securities issued	-	-	-	-
Order accounts				
Loan commitments granted	5,471	2,065	40	15,161
Financial guarantees granted	296	39	3	752
Resources held	130,737	-	7,425	48,528
Profits and Losses				
Net income from interest	82	397	6	614
Dividend income	-	-	-	-
Net income from commissions	857	9	34	287
Other operating income and expenses	-	-	(2,849)	-
Net impairment of investments in joint ventures or associates	-	(5,500)	-	-

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 2022 financial year by the Board of Directors, the Senior Management and the other management committee amounts to 4,604,000 euros (4,374,000 euros in 2021).

As of 31 December 2022 and 2021 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 stringent 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 was amended by Decree 431/2022, of 26 October 2022, transposing 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 hedging 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 euros, 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 2021 and 2020 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 demanding international standards, the Group has estimated its equity ratios under the requirements established by the Basel Committee of Banking Supervision in 2010 (Basel III).

As of 31 December 2022, the Group has a CET 1 capital ratio of 18.47% and a CET 1 (fully loaded) ratio of 18.06%, which reflects a very comfortable situation with respect to the regulatory minimum requirements.

At the end of the 2022 financial year, the LCR ratio was 294.14% (307.2% in 2021).

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 7.25% leverage ratio for the Group over its ordinary tier-1 capital (CET 1), above the regulatory minimum of 3% (11.0% in 2021).

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 functioning conditions of the operating institutions of the financial system, investor protection, market abuse, financial guarantee agreements and operations with OTC derivative instruments 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 institutions 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 institutions, 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 virtue of 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 the transparency of securities financing and reuse transactions

(known as the "SFTR" Regulation) and its amendment by virtue of 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 and 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 institutions and their operations, as well as to the prudential supervision of these institutions, 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 institutions as new operating institutions 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, 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 euros per depositor and per institution is maintained. Additional coverages are incorporated in exceptional cases that provide guarantees up to a limit of 300,000 euros.

– 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 euros.

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 euros per holder, above the level of coverage of 20,000 euros 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 euros.

– 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 2022 was 32,055,000 euros.

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 12 April 2017, Legislative Decree of 5 April 2017 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, amending 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 thereof, "Fifth Supplementary Provision. 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 2022 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.

Income tax law

In accordance with Law 95/2010 of 29 December on income tax, Law 17/2011 of 1 December, on the amendment of Law 95/2010 and the Regulation on the application of Law 95/2010 on income tax, the creation of a income tax is institutionalised. Similarly, on 20 October 2017, the General Council approved Law 17/2017, of 20 October, on the tax system for business reorganisation operations, whose purpose, among other things, was to introduce certain amendments to Law 95/2010, of 29 December, on income tax. On 8 August 2018, the Legislative Decree of 1 August 2018 was published in the BOPA of the consolidated text of Law 95/2010, of 29 December, on income tax where all the modifications contributed were included.

The standard rate of the income 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, S.A. is the participating institution of the tax Group.

During 2022 the Group fulfilled all the fiscal obligations resulting from said law, settling the consolidated income tax for the 2021 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, enacted Law 94/2010 on income tax for non-residents, which taxes the income obtained in Andorra by persons and institutions 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 in effect 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 BOPA, in which all the amendments made were included.

During the 2022 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

In accordance with Law 5/2014, of 24 April, on personal income tax and the Regulation implementing the above-mentioned Law, the creation of personal income tax was institutionalised. In addition, on 20 October 2017 the General Council enacted Law 17/2017, of 20 October, on the tax system of business reorganisation operations, whose purpose, among other aims, was to introduce amendments to Law 5/2014, of 24 April, on personal income tax. On 8 August 2018, the Legislative Decree of 1 August 2018, was published in the BOPA, of the publication of the consolidated text of Law 5/2014, of 24 April, on the income tax for natural persons, where all the amendments made were included.

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 2022 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.

Andorran Financial Authority (AFA) law

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 becomes 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, the INAF was enacted, the main purpose of which is to grant INAF 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 provisions

This Law seeks to implement an instrument that endows the Principality of Andorra with greater resilience in the event of a liquidity shock in the financial sector and structures a lender of last resort mechanism based on international reserves.
The mechanism implemented by this Law is fully compatible with the one to be found within the international context and, 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 any de facto 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 MoraBanc's economic, social and environmental development over the last year.

The 2022 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 2022 integrated annual report has been prepared in accordance with GRI standards, as its essential compliance option.

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: MoraBanc 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: MoraBanc 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: MoraBanc 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. MoraBanc prioritises internal promotion, equality policies and training in a safe and healthy space.
- Ethical and responsible conduct: MoraBanc 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

No subsequent events worthy of mention have taken place since 31 December 2022.

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:

Standards and interpretations	Title	Application mandatory for financial years already begun, starting from:
Approved for application in the EU and not Andorra		
IFRS 17	Insurance contracts and amendments thereto	1 January 2024

Standards and interpretations	Title	Application mandatory for financial years already begun, starting from:
Not approved for application		
Amendments to IAS 1	Classification with respect to the presentation of liabilities as current or non-current and breakdown of the accounting policies	1 January 2023
Amendments to IAS 8	Definition of estimates and accounting errors	1 January 2023
Modification of IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

It is not expected that any of these rules, modifications and interpretations will have a material effect on the Company's financial statements.

IFRS 17 – Insurance contracts

IFRS 17-Andorra will be applicable to annual financial years beginning on 1 January 2024 (date of first application), in accordance with Decree 553/2022, of 22 December 2022, approving certain international financial reporting standards approved by the European Union (IFRS-EU) and amending the Decree of 22 December 2016. However, the MoraBanc Group has decided to apply this standard early, on 1 January 2023, the date of the entry into force of IFRS 17-EU. Moreover, the consolidated annual accounts for the 2023 financial year restate the balances for 2022, as the standard will have to be applied retrospectively and the transition date will be 1 January 2022. Thus, the consolidated financial statements for the 2023 financial year (together with the comparative information for the 2022 financial year):

- Will identify, recognise and value all the insurance contracts issued by the Consolidated Group in accordance with the provisions of IFRS 17.
- Will cancel the valuation of the insurance contracts under the current regulations.
- The consolidated equity will retroactively record the net differences of the tax impact resulting from it on 1 January 2022.

This standard replaces IFRS 4, a standard which allowed the continued use of local accounting practices, causing insurance contracts to be accounted for differently in each jurisdiction. Unlike the previous standard, the implementation of IFRS 17 will entail the consistent accounting of all insurance contracts based on a valuation model using calculation assumptions that are updated at each closing date (e.g. the discount rate, actuarial assumptions and other financial variables).

The Group has undertaken a project to implement the standard with the aim of applying the new financial disclosure standard applicable to insurance contracts as of 1 January 2023.

The main policies applied to the Group are listed below:

Transition

With regard to the restatement of the balances for the 2022 financial year, the standard provides that, in the event that retrospective application is impracticable for some groups of contracts, the following may be used, without distinction:

- The modified retroactive approach, which allows some simplifications with respect to the general method, as long as reasonable and sustainable information is available (e.g. level of aggregation or cash flows or discount rates).
- The fair value approach: the Contractual Service Margin (CSM) or the loss component of the liability for the remaining hedge is estimated as the difference between the fair value, in accordance with the requirements of IFRS 13, and the cash flows resulting from the compliance of the group of contracts from this date onwards.

It has been concluded that reasonable and sustainable information was not available to apply the full retroactive method to calculate the liability for the remaining hedging of contracts valued under the General Model (i.e. 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, in order to apply them, the historical data of origin are not available with the necessary granularity and the cost of obtaining them is significant and requires efforts much greater than those considered reasonable.

In the case of products valued under the Premium Allocation Approach (PAA) and for the liability for the claims incurred, as they are products with contractual limits equal to or less than a year and without an implicit future benefit (contractual service margin), respectively, it is deemed appropriate to perform their assessment as of the date of 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 there was no reasonable and sustainable information available to make the division into annual cohorts. Measurement as of the transition date

Discount rates
When determining the discount rates as of the date of the initial recognition, the Group intends to use the discount rates as of the transition date.

Definition of insurance risk and segregation of components

The Group has concluded from the analysis of the guarantees that, with the exception of the Pension Plans and Profiled Pensions and the Pension Plans and Guaranteed Pensions, which will be valued under IFRS 9, the remaining products are insurance contracts under IFRS 17.

The Group assesses its products to determine whether some of these components are different from insurance and need to be separated and accounted for by applying other standards.

The Group has identified components liable for segregation, in such a way that all the components will be accounted for under IFRS 17.

Non-segregable investment components
Considering that the investment component is "the amount that an insurance contract requires the institution to reimburse to the holder under any circumstance, regardless of whether the insured event has occurred", the existence of a non-segregable investment component for the savings business and a Linked Unit has been determined. Therefore, these investment components will be accounted for under IFRS 17.

Aggregation

The Group identifies portfolios by adding insurance contracts that are subject to similar risks and managed jointly upon the basis of the characteristics of the main and complementary guarantees of the product and factors such as risk management and the claims management and liquidation policy, among others.

Upon the initial recognition, the Group segregates the contracts upon the basis on their issuance, i.e. into annual cohorts.

At the same time, each portfolio is then 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

The Group determines whether the cash flows are within the contractual limits when substantive rights and obligations arise during the reporting period under which the Group can oblige the policyholder to pay premiums or the Group has a substantive obligation to provide services to the policyholder. The substantive obligation to provide services ends when:

- the Group has the practical ability to reassess the risks of a particular policyholder and, as a result, reassess the premium charged or the level of benefits provided by the premium to fully reflect the new level of risk; or
- the Group has the practical ability to reassess the portfolio premium to fully reflect the risk of all the policyholders and the setting of the Group's premiums does not take into account risks beyond the next reassessment date.

The standard, fulfilling the purpose of homogenising international insurance accounting practices, provides for three valuation methods for insurance contracts:

a) Valuation model for contracts other than the Premium Allocation Approach

a.1) General Model (Building Block Approach, hereinafter, BBA), the method applicable by default. This method will encompass:

- compliance cash flows, which will include:
  - present value of expected future cash flows corresponding to inflows and outflows that will occur throughout the term of the contract;
  - an adjustment to reflect the temporary value of the money and other financial risks, such as liquidity and exchange rate risks;
  - an explicit risk adjustment for non-financial risks; and

- the Contractual Service Margin, which will represent the result to be obtained (unearned profit) from the contract. If this result is negative, the contract will be considered onerous and the balance CSM will be zero, and the loss will be recorded in the income statement upon the initial registration of the contract, as established by the standard.

It should be noted that the general model (BBA) applies to contracts whose contractual limits exceed one year and do not have any direct participation. It should be highlighted that, for contracts with indirect participation, which, in the case of the Group, are the *Ahorro Matching* and *Ahorro no Matching* portfolios, the modified BBA method to meet the conditions of paragraph B101 of the standard will apply.

a.2) Variable Fee Approach, hereinafter, VFA: this method is a variant of the general model (BBA) and must be applied to contracts with direct participation components. It applies to the *Unit Linked* ones, which meet the conditions of direct participation contracts.

Discount rate

IFRS 17 does not establish a specific curve to discount of insurance liabilities, but it indicates the characteristics that the discount rates to be used should have:

(a) they will reflect the temporary value of money, the cash flow characteristics and the liquidity characteristics of insurance contracts;
(b) they will be consistent with current observable market prices (as appropriate) for financial instruments with cash flows whose characteristics are consistent with those of insurance contracts, in terms of, for example, the calendar, currency and liquidity, and
(c) they will exclude the effect of factors that influence these observable market prices but do not affect the future cash flows of insurance contracts.

Moreover, it allows two approaches to obtain these rates:

- Bottom-up approach: the discount rates will be determined by adjusting a liquidity risk-free yield curve to reflect the differences between the liquidity characteristics of the underlying financial instruments at market-observed rates and the liquidity characteristics of insurance contracts.

- Top-down approach: a yield curve reflecting the current market rates of the return implicit in the fair value measurement of a reference portfolio of assets will be used as a basis while adjusting this yield curve to remove any factors that are not relevant to insurance contracts, but it is not necessary to adjust the yield curve owing to differences in the liquidity characteristics of insurance contracts and the benchmark portfolio.

In order to obtain the present value of the discounted flows, the Institution has used a top-down methodology, constructing the discount rate by considering that the Overnight Indexed Swap (OIS) risk-free discount curve will be applicable to the portfolios valued under BBA and VFA, with the exception of the matching portfolio, which is valued at the OIS RFR curve plus a liquidity premium or Volatility Adjustment.

Risk adjustment for non-financial risk

The Group measures the compensation required to bear the uncertainty of the amount and possibility of cash flows arising from insurance contracts other than financial risk ones separately as a non-financial risk adjustment. To estimate the liability (asset) risk adjustment for the remaining coverage, the Group plans to use the Cost of Capital method.

Contractual service margin (CSM)

The CSM is a component of the total amount of a group of insurance contracts that 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, resulting in the amount of the liability for the group being equal to the cash flows arising from its fulfilment and, thus, a zero CSM.

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

The release pattern for products valued under the BBA and VFA methods, with the exception of income, which is based on the expected duration, is based on the death capitals and the capitals of the various guarantees included in the product (insurance service), as well as the redemption values (investment service), taking into account the expected term of the contracts and the expectation of falls, as appropriate.

b) Valuation model for contracts measured under the Premium Allocation Approach (hereinafter, PAA).

The Group mainly applies the Premium Allocation Approach to products whose coverage period is one year or less and, exceptionally, those whose valuation under

the Premium Allocation Approach (PAA) and the General Model (BBA) does not differ significantly and significant variability in flows is not expected.

Upon the initial recognition, the Group measures the liability (asset) for the remaining coverage as the amount of the premiums collected. It should be noted that the accounting policy option of accounting acquisition costs when they have been incurred has been chosen. By applying the premium allocation approach, the insurance income is measured by the allocated amount of the expected premium receipts, excluding any investment component. The allocation is performed upon the basis of the passage of time, unless the expected pattern of release of the risk differs significantly from the passage of time, in which case it is recognised at the expected moment of the losses and benefits incurred.

Interaction IFRS 9 and IFRS 17

On the date of the initial application of IFRS 17, in accordance with the provisions of the regulations, an institution that 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 objective is achieved by obtaining contractual cash flows and selling financial assets.

Therefore, the Group has 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 purpose of eliminating any additional volatility from the income statement transparently and consistently while maximising comparability.
The OCI option allows insurance-related financial income or expenditure to be disaggregated between the income statement and other accumulated comprehensive income to reduce accounting asymmetries instead of recognising it only in the income statement. The "other accumulated comprehensive income" option has been chosen for portfolios valued under BBA after the transition.

Taking into account all the methodological aspects listed above, the Group estimates that the entry into force of the standard will not have a significant impact on the Group's equity. In any event, the Group is currently completing its estimate of the impact.

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 accompanying 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 the latter two jurisdictions, its activity is limited to providing investment services.

The following is the consolidated information for the 2022 financial year:

In thousands of euros

	Business volume	No. of full-time equivalent workers	Gross result before taxes	Tax on profits
Andorra	112,948	405	42,785	(3,476)
Switzerland	4,733	9	(169.0)	(2)
United States	9,909	32	1,054	-

For the purposes of this information, the gross margin of the consolidated income statement for December 2022 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 2022 financial year.

Additionally, the Group owns the Casa Vicens in Spain, the first house built by Gaudí, which has been restored and converted into a museum. In 2022 it had a turnover of 1,965,000 euros, 7 employees and a profit of 129,000 euros.
During the 2020 financial year, Mora Wealth Management España AV, SAU commenced trading in Spain, with a turnover of 1,596,000 euros and 9 employees and losses amounting to 203,000 euros at the end of 2022.

As of 31 December 2022, the Group's return on assets, calculated as the quotient of the consolidated profit for the financial year and the total average annual assets, is 0.89%. The Group has a CET 1 capital ratio of 18.47% and a fully loaded CET 1 ratio of 18.06% as of 31 December 2021.

During the 2022 and 2021 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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