Audit Report on Financial Statements
issued by an Independent Auditor

BANCO COOPERATIVO ESPAÑOL, S.A.
Annual Accounts and Directors' Report
for the year ended
December 31, 2023.

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

To the shareholders of BANCO COOPERATIVO ESPAÑOL, S.A.:

Report on the financial statements

Opinion

We have audited the financial statements of Banco Cooperativo Español, S.A. (the Company), which comprise the balance sheet as at December 31, 2023, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2023 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 1 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

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Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Estimation of impairment losses for credit risk of the loan and advance portfolio to customers at amortized cost

Description	The loan and advance portfolio to customers at amortized cost of the Company as of December 31, 2023, presents a net value, after valuation adjustments, of 1,339,630 thousand euros, including impairment corrections for credit risk amounting to 12,569 thousand euros (see note 10 of the accompanying financial statements). The estimation of impairment losses for credit risk of the loan and advance portfolio is a significant and complex estimation. Note 2.e) of the accompanying financial statements details the principles and criteria applied by the Company for estimating these impairment losses, which are carried out either individually or collectively. The methods used for estimating impairment losses have a high component of judgment, incorporating elements such as the classification of transactions based on their risk, the identification and classification of impaired exposures or those with a significant increase in risk, the realizable value of associated collateral, and, in the case of individual estimations, the assessment of the borrowers' repayment capacity based on the future evolution of their businesses. In this context, the Company uses, for collective analysis, the impairment loss estimation model established in Circular 4/2017 of the Bank of Spain, based on the experience and information that the Bank of Spain has of the sector, as well as specific calculation methodologies for estimating individual impairments. Additionally, the Company is exposed to risks derived from the macroeconomic and geopolitical environment, which have been heightened by various factors in recent years, increasing the uncertainty around the variables considered by the Company in quantifying impairment losses, such as the future performance of its clients' businesses, the realizable value of collateral associated with granted operations, or the macroeconomic variables considered. Consequently, as described in note 10, the Company has recorded the adverse effects arising from this situation by supplementing the impairment losses resulting from the model established in Circular 4/2017 of the Bank of Spain with the amounts deemed necessary to reflect the particular characteristics of certain exposures. For all these reasons, the estimation of impairment losses for credit risk of the loan and advance portfolio to customers at amortized cost has been considered a key matter in our audit.

Our response Our audit approach included the analysis and evaluation of the internal control environment associated with the processes of estimating impairment losses for credit risk, as well as performing substantive procedures for both individually and collectively estimated losses.

Our procedures related to the analysis and evaluation of the internal control environment focused on performing, among others, the following procedures:

- Evaluating the adequacy of the various policies and procedures to applicable regulatory requirements.
- Reviewing the procedures established in the loan approval process to assess the collectability of loans and advances based on the debtor's payment capacity and financial information.
- Reviewing the procedures established for the periodic monitoring of credit operations, mainly those related to the updating of financial information, periodic review of the debtor's file, and monitoring alerts established by the Company to identify credit operations under special surveillance or impaired.
- Evaluating the design of relevant controls established for the management and valuation of collateral associated with credit operations.

Additionally, we performed, among others, the following substantive procedures:

- Regarding the estimation of individually determined impairment losses, we reviewed a sample of operations to evaluate their proper classification and the assumptions used by Management to identify and quantify impairment losses, including the financial situation of the debtor, forecasts of future cash flows, and, where applicable, the valuation of collateral.
- Regarding the estimation of collectively determined impairment losses, we reviewed a sample of operations to evaluate the segmentation and classification of such operations, by verifying certain attributes included in the databases, such as the age of overdue payments, the existence of refinancing, or the value of collateral, among others, considering the effects that may have resulted from the economic downturn. In addition to the above, we recalculated the estimation of collectively determined credit risk losses, replicating the model that considers coverage percentages according to the segmentation and classification of operations established by the Company, and, where applicable, the discounts to be applied to the value of associated collateral as established in Circular 4/2017 of the Bank of Spain.
- Regarding the estimation of additional impairment losses required by the model established in Circular 4/2017 of the Bank of Spain, we reviewed the control framework implemented by Management for estimating such impairment losses and performed checks on the criteria and assumptions used by Management for making this estimate.

In addition to the above, we assessed whether the information detailed in the notes to the accompanying annual financial statements is adequate, in accordance with the criteria established in the financial reporting framework applicable to the Company.

Valuation of Financial Instruments at Fair Value

Description	As of December 31, 2023, the Company has financial assets and liabilities recorded at fair value on the balance sheet amounting to 3,371,258 thousand euros and 2,468,919 thousand euros, respectively, of which 2,020,417 thousand euros and 2,468,919 thousand euros, respectively, have been valued by the Bank using various valuation techniques due to the lack of a quoted market price in an active market, as described in note 2.c) of the accompanying financial statements. These financial assets and liabilities for which there is no available market price are classified, for valuation purposes, in levels 2 and 3 of the fair value hierarchy as defined in note 24 of the accompanying financial statements. The valuation techniques used include the use of mathematical valuation models that take into account the specific characteristics of the asset or liability being valued and the various types of risks associated with the asset or liability. However, the inherent limitations of the developed valuation models and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or liability not exactly matching the price at which the asset or liability could be delivered or settled on the valuation date. As far as possible, the valuations thus obtained are cross-checked with other sources such as valuations obtained by business teams and/or other market participants. We have considered the estimation of the fair value of financial assets and liabilities for which there is no available market price as a key audit matter because it involves a high degree of judgment by Management, whether in determining the model and/or in estimating the assumptions and parameters used.
Our response	Our audit approach included the analysis and evaluation of the internal control environment associated with the processes for estimating the fair value of financial instruments, as well as performing detailed testing. Our procedures related to the analysis and evaluation of the internal control environment focused on performing, among others, the following procedures: ▶ We obtained an understanding of the processes established by Management for the valuation of these financial instruments. ▶ We have assessed the design and implementation of the relevant controls established by the Company in the above process and their operating effectiveness. As for the detailed tests, they mainly consisted of the following: ▶ We evaluated the reasonableness of the most significant valuation models used by the Company, as well as the significant assumptions applied, especially those inputs that are not directly observable in the market, such as interest rates, issuer credit risk, volatility, and correlations, among others. For this purpose, we involved our financial instrument valuation specialists.

- For a sample of financial instruments valued at fair value for which there is no available market price, we evaluated their appropriate classification for valuation purposes in the fair value hierarchy, the adequacy of the applied valuation criterion, and the reasonableness of their valuation by comparing it with an independent valuation performed by our financial instrument valuation specialists. In the case of derivatives and debt instruments, we compared the assumptions used with those estimated independently by our valuation specialists.

We evaluated whether the information detailed in the notes to the financial statements is adequate, in accordance with the criteria established in the financial reporting framework applicable to the Company.

Automated Financial Information Systems

Description	The continuity of the Company's business processes is highly dependent on its technological infrastructure, which is outsourced to a service provider. Access rights to the various systems are granted to the Company's employees to enable the development and fulfillment of their responsibilities. These access rights are relevant as they are designed to ensure that changes in applications are authorized, monitored, and implemented appropriately, and constitute key controls to mitigate the potential risk of fraud or error resulting from changes in the applications.
Our response	In the context of our audit, with the collaboration of our IT specialists, we have evaluated the general controls of the information systems relevant to the preparation of financial information. In this regard, our work has primarily involved testing general controls over system access, change management and application development, as well as their security, along with application controls established in key processes for financial reporting. Among other procedures, we have reviewed the Independent Service Auditor's Report on controls description, design, and operational effectiveness in the technological environment (ISAE 3402) for the year 2023, issued by an independent expert, from whom we have obtained confirmation regarding their qualifications, technical competence, and independence.

Other matters

On April 28, 2023, other auditors issued their audit report on the financial statements for the fiscal year 2022, in which they expressed a favorable opinion.

Other information: management report

The other information solely comprises the management report for the year 2023, which is the responsibility of the Company's management and is not an integral part of the annual financial statements.

Our audit opinion on the annual financial statements does not cover the management report. Our responsibility regarding the management report, as required by the regulatory standards governing audit activities, consists of:

a. Verifying only that the non-financial information statement has been provided in the manner required by applicable regulations, and reporting any deviations from this requirement.

b. Evaluating and reporting on the consistency of the remaining information included in the management report with the financial statements, based on our knowledge of the entity obtained during the audit of those financial statements. We also evaluate and report whether the content and presentation of this part of the management report comply with the applicable regulatory requirements. If, based on our work, we conclude that there are material misstatements, we are obligated to report them.

Based on the work performed as described above, we have verified that the information mentioned in point (a) above is provided in the manner required by applicable regulations. Furthermore, we have confirmed that the remaining information contained in the management report is consistent with the financial statements for the year 2023, and its content and presentation comply with the applicable regulatory requirements.

Responsibilities of the directors and the audit committee for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 1 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain 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 of users taken on the basis of these financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 for one resulting 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 the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 director's 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee of the Company 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 committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on April 25, 2024.

Term of engagement

The annual general shareholders' meeting held held on June 22, 2023, appointed us as auditors for a period of 3 years, starting from the fiscal year ending on December 31, 2023.

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under No. S0530)

(Signature on the original in Spanish)

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Héctor Martín Díaz
(Registered in the Official Register of Auditors under No. 21679)

April 25, 2024

Banco Cooperativo Español, S.A.

Annual accounts and directors’ report for the year ended 31 December 2023

(Free translation from the original in Spanish.
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BANCO COOPERATIVO ESPAÑOL, S.A.

Balance Sheets at 31 December 2023 and 2022

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

ASSETS	NOTE	Thousands of Euros 2023	2022
Cash, cash balances at central banks and other demand deposits	5	**3,289,434**	**263,399**
Financial assets held for trading	6	**1,808,651**	**1,739,503**
Derivatives		1,755,067	1,674,294
Equity instruments		3,070	3,158
Debt securities		50,514	62,051
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		-	*36,943*
Non-trading financial assets mandatorily at fair value through profit or loss	7	**1,134**	**3,320**
Equity instruments		1,128	745
Debt securities		5	31
Loans and advances		1	2,544
Customers		1	2,544
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		-	-
Financial assets designated at fair value through profit or loss	8	**-**	**137,366**
Debt securities		-	137,366
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		-	*24,794*
Financial assets at fair value through other comprehensive income	9	**1,471,312**	**3,892,321**
Equity instruments		60,756	53,555
Debt securities		1,410,556	3,838,766
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		*578,311*	*1,157,778*
Financial assets at amortised cost	10	**7,000,518**	**6,289,380**
Debt securities		3,247,860	2,741,829
Loans and advances		3,752,658	3,547,551
Credit institutions		2,413,028	2,571,353
Customers		1,339,630	976,198
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		*1,796,350*	*702,389*
Derivatives - hedge accounting	16	**90,161**	**168,449**
Investments in subsidiaries, joint ventures and associates	11	**6,749**	**6,749**
Subsidiaries		6,749	6,749
Tangible assets	12	**1,900**	**2,922**
Property, plant and equipment		1,900	2,922
For own use		1,900	2,922
Memorandum item: Acquired under a lease		*69*	*1,076*
Intangible assets	13	**2,422**	**2,049**
Other intangible assets		2,422	2,049
Tax assets	21	**25,451**	**71,355**
Current tax assets		-	3,442
Deferred tax assets		25,451	67,913
Other assets	15	**6,423**	**19,974**
Other assets		6,423	19,974
Non-current assets and disposal groups classified as held for sale	10	**-**	**1,176**
TOTAL ASSETS		**13,704,155**	**12,597,963**

BANCO COOPERATIVO ESPAÑOL, S.A.

Balance Sheets at 31 December 2023 and 2022

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

LIABILITIES	**NOTE**	**Thousands of Euros**	
		2023	**2022**
Financial liabilities held for trading	6	**1,747,898**	**1,665,817**
Derivatives		1,747,898	1,665,817
Financial liabilities at amortised cost	14	**10,475,912**	**9,393,335**
Deposits		9,191,095	8,098,828
Central banks		55,423	897,387
Credit institutions		6,806,447	5,641,740
Customers		2,329,225	1,559,701
Debt Securities		29,480	-
Other financial liabilities		1,255,337	1,294,507
Memorandum item: subordinated liabilities		-	-
Derivatives - hedge accounting	16	**721,021**	**808,317**
Provisions	17	**2,784**	**2,750**
Pensions and other post-employment defined benefit obligations		-	-
Pending legal issues and tax litigation		1,966	1,978
Commitments and guarantees given		818	772
Tax liabilities	21	**9,645**	**42,258**
Current tax liabilities		2,127	1,023
Deferred tax liabilities		7,518	41,235
Other liabilities	15	**28,595**	**35,143**
TOTAL LIABILITIES		**12,985,855**	**11,947,620**

BANCO COOPERATIVO ESPAÑOL, S.A.

Balance Sheets at 31 December 2023 and 2022

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

EQUITY	**NOTE**	**Thousands of Euros**	
		2023	**2022**
Own funds	**19**	**713,645**	**665,013**
Share capital	19.1	154,070	144,735
Paid-in capital		154,070	144,735
Share premium	19.2	85,972	85,972
Retained earnings	20	432,429	397,877
Revaluation reserves	20	-	-
Other reserves	20	(6,039)	(7,469)
Profit for the year	3	47,213	43,898
(-) Interim dividends	3	-	-
Accumulated other comprehensive income	18	**(4,655)**	**(14,670)**
Items that will not be reclassified to profit or loss		6,906	1,831
Fair value changes of equity instruments measured at fair value through other comprehensive income		6,906	1,831
Items that may be reclassified to profit or loss		(2,251)	(16,501)
Hedging derivatives. Cash flow hedges reserve [effective portion]		1,394	1,274
Fair value changes of debt instruments measured at fair value through other comprehensive income		(3,645)	(17,775)
TOTAL EQUITY		**718,300**	**650,343**
TOTAL LIABILITIES AND EQUITY		**13,704,155**	**12,597,963**

MEMORANDUM ITEM: Off-balance sheet exposures

Loan commitments given	22	650,157	793,744
Financial guarantees given	22	44,925	17,503
Other commitments given	22	274,076	278,635

BANCO COOPERATIVO ESPAÑOL, S.A.
Income Statements for the years ended
31 December 2023 and 2022

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	NOTE	Thousands of Euros 2023	2022
Interest income	25.a)	461,514	129,783
Financial assets at fair value through other comprehensive income		66,009	25,128
Financial assets at amortised cost		187,011	44,308
Other interest income		208,494	60,347
(Interest expenses)	25.b)	(403,979)	(77,418)
INTEREST MARGIN		**57,535**	**52,365**
Dividend income	26	9,817	9,697
Fee and commission income	27	32,946	35,008
(Fee and commission expenses)	27	(16,449)	(19,086)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	28	(768)	(114)
Other financial assets and liabilities		(768)	(114)
Gains or (-) losses on financial assets and liabilities held for trading, net	28	10,928	14,257
Other gains or (-) losses		10,928	14,257
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	28	(2,739)	(2,241)
Other gains or (-) losses		(2,739)	(2,241)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		1,662	(2,923)
Gains or (-) losses from hedge accounting, net	28	109	948
Exchange differences [gain or (-) loss], net	28	1,547	1,050
Other operating income	29	5,682	5,665
(Other operating expenses)	29	(4,072)	(5,108)
GROSS MARGIN		**96,198**	**89,518**
(Administrative expenses)	30	(31,301)	(29,749)
(Personnel expenses)		(20,480)	(19,307)
(Other administrative expenses)		(10,821)	(10,442)
(Depreciation and amortisation)	12 and 13	(3,138)	(2,957)
(Provisions or (-) reversal of provisions)	31	(124)	189
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification losses or (-) gains, net)	32	1,689	1,097
(Financial assets at fair value through other comprehensive income)		(493)	(1,242)
(Financial assets at amortised cost)		2,182	2,339
Gains or (-) losses on derecognition of non-financial assets, net	11	-	1
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations		(452)	(6)
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**62,872**	**58,093**
(Tax expense or (-) income related to profit or loss from continuing operations)	21	(15,659)	(14,195)
PROFIT FOR THE YEAR	3	**47,213**	**43,898**
EARNINGS PER SHARE (in Euros)			
Basic	3	18.42	18.23
Diluted	3	18.42	18.23

BANCO COOPERATIVO ESPAÑOL, S.A.

Statements of Recognised Income and Expense for the years ended 31 December 2023 and 2022

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Thousands of Euros	
	2023	**2022**
Profit for the year	**47,213**	**43,898**
Other comprehensive income	**19,325**	**(29,273)**
Items that will be reclassified to profit or loss	5,076	(1,298)
Actuarial gains or (-) losses on defined benefit pension plans	-	-
Non-current assets and disposal groups held for sale	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	6,954	(1,854)
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	(1,878)	556
Items that may be reclassified to profit or loss	14,249	(27,975)
Hedge of net investments in foreign operations [effective portion]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Translation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	83	1,604
Valuation gains or (-) losses taken to equity	83	1,604
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments [not designated elements]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	20,186	(41,568)
Valuation gains or (-) losses taken to equity	19,461	(41,598)
Transferred to profit or loss	725	30
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	(6,020)	11,989
Total comprehensive income for the year	**66,538**	**14,625**

BANCO COOPERATIVO ESPAÑOL, S.A.

Statements of Total Changes in Equity
for the years ended 31 December 2023 and 2022

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Thousands of Euros										
	Share capital	**Share premium**	**Equity instruments issued other than capital**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(-) Own shares**	**Profit for the year**	**(-) Interim dividends**	**Accumulated other comprehensive income**	**Total**
Balance at 31 December 2022	**144,735**	**85,972**	**-**	**397,877**	**-**	**(7,469)**	**-**	**43,898**	**-**	**(14,670)**	**650,343**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2023	**144,735**	**85,972**	**-**	**397,877**	**-**	**(7,469)**	**-**	**43,898**	**-**	**(14,670)**	**650,343**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**47,213**	**-**	**19,325**	**66,538**
Other changes in equity	**9,335**	**-**	**-**	**34,552**	**-**	**1,430**	**-**	**(43,898)**	**-**	**-**	**1,419**
Issuance of ordinary shares	9,335	-	-	(9,335)	-	-	-	-	-	-	-
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	(11)	-	-	-	-	-	-	(11)
Transfers among components of equity	-	-	-	43,898	-	-	-	(43,898)	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	1,430	-	-	-	-	1,430
Balance at 31 December 2023	**154,070**	**85,972**	**-**	**432,429**	**-**	**(6,039)**	**-**	**47,213**	**-**	**4,655**	**718,300**

BANCO COOPERATIVO ESPAÑOL, S.A.

Statements of Total Changes in Equity
for the years ended 31 December 2023 and 2022

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Thousands of Euros										
	Share capital	**Share premium**	**Equity instruments issued other than capital**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(-) Own shares**	**Profit for the year**	**(-) Interim dividends**	**Accumulated other comprehensive income**	**Total**
Balance at 31 December 2021	**137,009**	**85,972**	**-**	**367,671**	**-**	**(6,088)**	**-**	**38,068**	**-**	**14,603**	**637,235**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2022	**137,009**	**85,972**	**-**	**367,671**	**-**	**(6,088)**	**-**	**38,068**	**-**	**14,603**	**637,235**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**43,898**	**-**	**(29,273)**	**14,625**
Other changes in equity	**7,726**	**-**	**-**	**30,206**	**-**	**(1,381)**	**-**	**(38,068)**	**-**	**-**	**(1,517)**
Issuance of ordinary shares	7,726	-	-	(7,726)	-	-	-	-	-	-	-
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	(136)	-	-	-	-	-	-	(136)
Transfers among components of equity	-	-	-	38,068	-	-	-	(38,068)	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	(1,381)	-	-	-	-	(1,381)
Balance at 31 December 2022	**144,735**	**85,972**	**-**	**397,877**	**-**	**(7,469)**	**-**	**43,898**	**-**	**(14,670)**	**650,343**

BANCO COOPERATIVO ESPAÑOL, S.A.

Statements of Cash Flows for the years ended 31 December 2023 and 2022

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

	NOTE	Thousands of Euros	
		2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		**(3,006,078)**	**(5,626,543)**
Profit for the year		47,213	43,898
Adjustments to obtain cash flows from operating activities		17,109	16,055
Depreciation and amortisation	12 and 13	3,138	2,957
Other adjustments		13,971	13,098
Net increase in operating assets		1,881,013	(239,066)
Financial assets held for trading		(69,148)	(8,117)
Non-trading financial assets mandatorily at fair value through profit or loss		2,186	1,899
Financial assets designated at fair value through profit or loss		137,366	56,238
Financial assets at fair value through other comprehensive income		2.,441,768	(1,674,498)
Financial assets at amortised cost		(709,449)	1,553,264
Other operating assets		78,290	(167,852)
Net (increase)/decrease in operating liabilities		1,077,360	(5,433,570)
Financial liabilities held for trading		82,081	(198,666)
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities at amortised cost		1,082,576	(5,282,053)
Other operating liabilities		(87,297)	47,149
Income tax paid		(16,617)	(13,860)
CASH FLOWS USED IN INVESTING ACTIVITIES		**58,140**	**(44,930)**
Payments		(2,489)	(44,930)
Tangible assets	12	(712)	(592)
Intangible assets	13	(1,777)	(933)
Investments in subsidiaries, joint ventures and associates		-	-
Other business units		-	-
Non-current assets and liabilities classified as held for sale	12	-	(1,176)
Other payments related to investing activities		-	(42,229)
Receipts		60,629	-
Tangible assets		-	-
Intangible assets		-	-
Investments in subsidiaries, joint ventures and associates		-	-
Other business units		-	-
Non-current assets and liabilities classified as held for sale		1,176	-
Other receipts related to investing activities		59,453	-
CASH FLOWS FROM FINANCING ACTIVITIES		**(38,183)**	**23,702**
Payments		(38,183)	(140)
Dividends		(16)	(140)
Subordinated liabilities		-	-
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities		(38,167)	-
Receipts		-	23,842
Subordinated liabilities		-	-
Issuance of own equity instruments		-	-
Disposal of own equity instruments		-	-
Other receipts related to financing activities		-	23,842
EFFECT OF EXCHANGE RATE FLUCTUATIONS			
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,026,035**	**(5,647,771)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**263,399**	**5,911,170**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**3,289,434**	**263,399**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT YEAR END			
Cash	5	475	604
Cash equivalents at central banks	5	3,249,873	211,325
Other financial assets	5	39,086	51,470
Less: Bank overdrafts repayable on demand		-	-

BANCO COOPERATIVO ESPAÑOL, S.A.

Notes to the financial statements
31 December 2023

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

1. Introduction, Basis of Presentation and Other Information

a) *Introduction*

Banco Cooperativo Español, S.A. (hereinafter the Bank or the Entity) is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bank was incorporated on 31 July 1990 and operates from its office located at Calle Virgen de los Peligros No. 4, in Madrid.

At 31 December 2023 and 2022, the Bank forms part of the Grucajrural Group (hereinafter the Group), the parent of which is Grucajrural Inversiones, S.L. Until 31 December 2017, the Bank was the parent of a group of financial institutions whose activity it controlled directly or indirectly, and together with which it formed the Banco Cooperativo Español Group, which is currently a financial sub-group of the Grucajrural Group.

The Bank contributes to the Deposit Guarantee Fund for Credit Institutions regulated by Royal Decree-Law 16/2011 of 14 October 2011. It has been entered in Banco de España's Special Registry of Banks and Bankers with number 0198.

b) *Basis of presentation of the annual accounts*

The accompanying annual accounts for 2023 have been prepared in accordance with Banco de España Circular 4/2017 of 27 November 2017 and other provisions of the financial reporting framework applicable to the Bank, to give a true and fair view of the equity and financial position of the Bank at 31 December 2023 and the results of its operations and its cash flows for the year then ended.

Banco de España Circular 4/2017 to credit institutions on public and confidential financial reporting rules and formats came into force on 1 January 2018. The publication of Circular 4/2017 brought Circular 4/2004 and subsequent amendments up to date. The purpose of this Circular was to adapt the accounting regime of Spanish credit institutions to the changes in European accounting legislation derived from the adoption of two new International Financial Reporting Standards (IFRS), namely "IFRS 15 Revenue from Contracts with Customers" and "IFRS 9 Financial Instruments".

The publication of Banco de España Circular 2/2018 of 21 December 2016 updates Circular 4/2017 to reflect the latest developments in banking regulation, while remaining entirely compatible with the IFRS-EU accounting framework.

The Bank has opted to present separate statements, one reflecting the components of profit or loss, entitled the "income statement", and another reflecting the components of other comprehensive income for the year, based on profit or loss for the year, entitled the "statement of recognised income and expense", using the name given by Banco de España Circular 4/2017.

The Bank's annual accounts have been prepared by the Board of Directors to give a true and fair view of the Bank's equity and financial position at 31 December 2023 and the results of its operations and its cash flows for the year then ended.

The annual accounts have been prepared on the basis of the individual accounting records of the Entity. The Board of Directors considers that the annual accounts for 2023 will be approved by the Shareholders at the Annual General Meeting without significant changes.

The annual accounts for 2022 were approved by the Shareholders at the Annual General Meeting held on 22 June 2023.

c) Significant accounting principles

The generally accepted accounting principles and measurement criteria described in note 2 "Significant Accounting Policies" were applied in the preparation of the annual accounts. There are no mandatory accounting principles which have not been applied that would have a significant effect on the preparation of the annual accounts.

However, the operations of the Entity and the rest of the Grucajrural Inversiones, S.L. Group are managed on a consolidated basis, irrespective of the individual allocation of the corresponding assets and liabilities. Consequently, the individual annual accounts of Banco Cooperativo Español, S.A. at 31 December 2023 and 2022 do not reflect changes in equity resulting from the application of consolidation or equity accounting criteria, as applicable, to financial investments corresponding to subsidiaries, or transactions carried out within the Group, which are reflected in the consolidated annual accounts.

d) Responsibility for information and estimates

The information contained in the annual accounts of Banco Cooperativo Español, S.A. is the responsibility of the Directors of the Entity.

The Bank's annual accounts for 2023 and 2022 include estimates made by Senior Management, which were later ratified by the Directors, to quantify certain assets, liabilities, income, expenses and commitments reported therein. These estimates basically refer to the following:

- Impairment losses on certain assets (see notes 9 and 10).
- The assumptions used in the actuarial calculation of post-employment benefit liabilities and commitments (see note 2 (r)).
- The useful lives of tangible and intangible assets (see notes 12 and 13).
- The fair value of certain financial assets not quoted on organised markets (see notes 6, 7, 8 and 9).
- Estimates used in the calculation of other provisions (see note 17).
- The calculation of income tax and deferred tax assets and liabilities (see note 21).

The above-mentioned estimates are based on the best information available at 31 December 2023 regarding the events analysed. However, future events may require these estimates to be significantly increased or decreased in subsequent years. Any such changes would be applied prospectively in accordance with the provisions of Banco de España Circular 4/2017, recognising the effects of the change in estimates in the related income statement.

e) Comparative information

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

The information at 31 December 2022 contained in these annual accounts is presented solely for the purpose of comparison with the information at 31 December 2023, and therefore does not constitute the Bank's annual accounts for 2022.

f) Capital management objectives, policies and processes

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, came into force on 1 January 2014. These two sets of legislation constitute the transposition to European regulations of the new Basel III (BIS III) solvency framework, and regulate solvency levels and the composition of eligible capital with which credit institutions must operate.

On 5 February 2014, the Official State Gazette ("BOE") published Banco de España Circular 2/2014 of 31 January 2014 on various regulatory alternatives provided for in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions, which was subsequently amended by Banco de España Circular 3/2014 of 30 July 2014. The Circular aimed to establish which of the EU Regulation's alternatives available to national authorities must be complied with by consolidable groups of credit institutions and Spanish credit institutions immediately following the entry into force of the new solvency regulatory framework, and their scope of application.

In the same year, Law 10/2014 of 26 June 2014 on the organisation, supervision and solvency of credit institutions was published, with the main aim of adapting Spanish legislation to regulatory changes at EU and international level, continuing the transposition initiated in Royal Decree 14/2013 of 29 November 2013. This legislation combines the main organisational and disciplinary regulations for credit institutions in a single text.

The next step in this legislative process was the publication of Royal Decree 84/2015 of 13 February 2015, implementing Law 10/2014. The purpose of this Royal Decree was not only to complete the regulatory development of the aforementioned Law but also to combine in a single text all regulations pertaining to organisational and disciplinary regulations for credit institutions. To this end, the provisions regarding credit institutions contained in Royal Decree 216/2008 of 15 February 2008 on own funds of financial institutions, which should continue to apply following the entry into force of Regulation (EU) No 575/2013, and the duly adapted content of Royal Decree 1245/1995 of 14 July 1995 on the formation of banks, cross-border activity and other issues relating to the legal regime for credit institutions, were combined in a single text.

Furthermore, Banco de España Circular 2/2016 of 2 February 2016 on supervision and solvency was published on 9 February 2016 and completes the adaptation of Spanish legislation to Directive 2013/36/EU and Regulation (EU) No 575/2013, with respect to the alternatives not addressed in Banco de España Circulars 2/2014 and 3/2014. In addition, Circular 2/2016 expanded upon certain aspects of the transposition of Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 as regards additional supervision by the competent authority, i.e. the European Central Bank or Banco de España depending on the assignment and distribution of competencies established in Regulation (EU) No 1024/2013 and in Regulation (EU) No 468/2014 of 16 April 2014 of the European Central Bank.

On 2 November 2017, the Official State Gazette ("BOE") published Banco de España Circular 3/2017 of 24 October 2017, which amends Circular 2/2014, bringing the content thereof into line with the guidelines issued by the European Central Bank under the framework of prudential supervision of credit institutions and availing of the permanent and transitional options attributed to the pertinent authorities by Regulation (EU) No 575/2013.

On 26 April 2019, Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures entered into force. Banco de España Circular 3/2019 of 22 October 2019, whereby the power conferred by Regulation (EU) 575/2013 for defining the materiality threshold for past-due credit obligations was exercised, was published on 1 November 2019.

On 7 June 2019, Regulation (EU) 2019/876 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, was published in the Official Journal of the European Union. On that same date, Directive (EU) 2019/878 of the European Parliament and of the Council amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures, was also published.

On 26 June 2020, Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) No 2019/876 as regards certain adjustments in response to the COVID-19 pandemic was published in the Official Journal of the European Union.

On 23 December 2021, Banco de España Circular 5/2021 of 22 September 2021 was published in the Official State Gazette (BOE). This Circular implements the new macroprudential tools introduced into Spanish legislation for credit institutions: a sector-specific countercyclical capital buffer (CCyB), sector concentration limits, and limits and conditions for the granting of loans and other transactions.

On 6 April 2022, Banco de España Circular 3/2022 of 30 March 2022 was published. As regards the supervision and solvency of credit institutions, this Circular introduced changes in the reporting obligations and thresholds for application of the principle of proportionality in the remuneration policy and when exercising the regulatory options contained in Circular 2/2014.

Lastly, on 31 October 2023, Circular 3/2023 was published, which, among other aspects, amends Circular 2/2016 in relation to the reporting obligations to the Bank of Spain in terms of remuneration for credit institutions.

The above-mentioned enactments constitute the legislation that regulates, at the end of the 2023 reporting period, the minimum own funds of Spanish credit institutions, how such own funds should be determined, the different capital and liquidity self-assessment processes to be implemented by the institutions and the public information these institutions should submit to the market.

The minimum solvency ratio under the current regulations is calculated as the eligible own funds held by the Banco Cooperativo Español, S.A. divided by its risk-weighted assets. The highest quality own funds are known as CET1 (Common Equity Tier 1 capital) and essentially comprise capital and reserves, from which several items are deducted, mainly intangible assets and a certain amount of investments in financial sector entities, as well as deferred tax assets that rely on future profitability.

Ranking behind CET1, AT1 (Additional Tier 1 Capital) essentially comprises certain instruments with a high capacity for loss absorption as they are ranked only ahead of Shareholders in the event of liquidation or resolution.

Lastly, T2 (Tier 2 capital) comprises loss-absorbing instruments, only ranking behind Tier 1 capital but subordinate to ordinary creditors, as well as provision surpluses eligible as Tier 2 capital under Regulation (EU) No. 575/2013.

Risk-weighted assets are determined according to the exposure of Banco Cooperativo Español, S.A. to credit and dilution risk (based on the assets, commitments and other off-balance sheet items associated with these risks, and in line with their amounts, characteristics, counterparties, guarantees, etc.), counterparty risk, position and settlement risk relating to items held for trading, currency risk and gold position risk (based on the global net position in foreign currency and the net position in gold), operational risk, and so-called credit valuation adjustment (CVA) risk.

This legislation imposes stringent capital requirements on institutions, including the following:

- It sets minimum requirements (Pillar 1), establishing three levels of own funds: Common Equity Tier 1 capital, Tier 1 capital and total capital, for which minimum ratios of 4.5%, 6% and 8%, respectively, are demanded.

- A capital conservation buffer and a countercyclical capital buffer. Following on from the Basel III regulatory framework with a view to mitigating the procyclical effects of financial regulations, and stipulating to this end the obligation to maintain a capital conservation buffer of 2.5% of Common Equity Tier 1 capital for all financial institutions, and an institution-specific countercyclical capital buffer in a percentage of Common Equity Tier 1 capital dependent on each institution's exposure.

- A systemic risk buffer and a systemically important institutions buffer, the latter being applicable to institutions that are systemically important on a worldwide scale as well as other systemically important institutions, for the purpose of mitigating existing systemic or macroprudential risks, in order to protect the financial system from shocks that could have serious adverse consequences within the system and in the real economy of a Member State.

- In addition, specific tasks are conferred upon the European Central Bank with respect to the policies on prudential supervision of credit institutions. The regulation allows the pertinent authorities to impose capital requirements in addition to the minimum capital requirements under Pillar 1, so as to mitigate risks not covered by the latter. These are known as Pillar 2 capital requirements (P2R), and are supplemented by Pillar 2 Guidance (P2G) which is intended to cover any additional unexpected losses under stress conditions.

- The requirement for financial institutions to calculate and publish a leverage ratio, defined as an institution's Tier 1 capital divided by its total non-risk-adjusted exposure, which aims to prevent institutions from holding assets in a proportion that is excessive with respect to their level of capital. The minimum mandatory level of this ratio is 3%.

Within this context, and pursuant to article 68.2.a) of Law 10/2014, following the Supervisory Review and Evaluation Process (SREP) carried out by the pertinent authority, Banco de España announced its decision regarding the prudential capital requirements applicable to the Grucajrural Inversiones Group, of which Banco Cooperativo Español forms part. This decision requires that a total phase-in capital ratio of no less than 9.375% of the amount of its total risk exposure be maintained from 1 January 2024 onwards (same percentage as that required in 2023 of 9.125%), to which the capital buffers – which at 31 December 2023 stood at 2.74% of total risk exposure – should be added. In addition to this quantitative minimum capital ratio requirement, a qualitative requirement (composition of capital) demands that a CET 1 capital ratio of no less than 5.14% and a Tier 1 capital ratio of 6.85% or more should be maintained. The buffers should also be covered by CET 1 capital.

On 24 February 2020 the Banco de España Executive Committee agreed to grant Banco Cooperativo Español exemption from compliance with the individual obligations set out in article 6.1 of Regulation (EU) no. 575/2013, because it is a subsidiary of a mixed financial holding company (Grucajrural Inversiones, S.L.). For the granting of this exception, which encompasses capital requirements, large exposures and leverage, the Banco de España has particularly taken into account the Bank's and its Parent's willingness to restore the Bank's capital if required and not change its business model.

The principle established by the Directors of Banco Cooperativo Español for managing capital consists of operating at a level of solvency above that stipulated in the applicable regulations, and which is appropriate for the risks inherent in its business and the environment in which it operates. The objective is to maximise capital management efficiency so that capital consumption can be considered, alongside other return and risk variables, as a fundamental parameter in analyses associated with the Group's investment decisions.

The Bank has implemented a number of capital management policies and processes to meet this objective, with the following main characteristics:

- The Directors and Senior Management take an active role in the strategies and policies that affect the Group's capital management. The objective is to maintain robust solvency ratios of an appropriate quality that are consistent with the Group's risk profile and business model.

- The Group has a comprehensive risk management unit that monitors and controls solvency ratios to guarantee compliance with applicable legislation and the consistency of decisions made by the different areas and units of the Entity with the objectives set, to ensure that minimum capital requirements are met. Contingency plans are in place to ensure compliance with the limits stipulated in the applicable legislation.

- The impact of the Group's decisions on its eligible capital and the risk-return ratio is considered a key decision-making factor in the Group's strategic and commercial planning and in the analysis and monitoring of Group transactions.

- Pursuant to the provisions of the solvency regulations, the Group has a capital and liquidity self-assessment process in place. This process comprises a set of solid, comprehensive strategies and procedures that, inter alia, enable the Group to continuously assess and maintain the amounts, types and allocation of capital to cover all the risks to which it is or may be exposed, according to their nature and level.

As part of its risk management, the Group continuously identifies, measures, monitors and mitigates the risks to which its activity is exposed, incorporating the findings into the capital self-assessment process. This process entails estimating current and future eligible capital and capital requirements (under different scenarios) according to the risks inherent in its business, the economic environment in which it operates, risk governance, management and control systems, its strategic business plan, the quality or composition of available capital and actual opportunities for raising additional capital, should this prove necessary. To that end, once the Group has calculated its minimum capital under Basel's Pillar 1, it reviews and assesses the other risks and factors not considered therein which should be taken into account due to their importance, and it estimates the capital needed to cover all of the risks while maintaining an adequate buffer with respect to the regulatory minimum capital under Pillar 1.

This process ensures an adequate relationship between the risk profile of the entities making up the Group and the capital they effectively hold, both in absolute terms and in terms of the composition and distribution among the various legally separate entities, and is formally recorded in the following documents (subject to review at least once a year), which have been approved by the Boards of Directors of the Bank and of the Group's Parent:

- Risk Appetite Framework, which defines the Group's appetite vis-à-vis the risks it is prepared to assume in conducting its activity. Besides the capital and leverage targets, this document determines the risk tolerance, i.e. the maximum deviation from the targets defined that the Group considers acceptable.

- Capital Contingency Plan, which outlines the plan of action with respect to potential adverse effects in the event of a capital shortfall, when capital falls below the threshold stipulated in the Risk Appetite

Framework. The Capital Contingency Plan aims to facilitate the return to a robust capital position within the Group in the event of a potential moderate crisis wherein the threshold is surpassed. In this respect, the Board of Directors of the Bank and/or of the Group's Parent considers the application of extraordinary measures that would enable the desired levels to be recovered.

- Recovery Plan, which sets the solvency and leverage indicator levels below the Group's risk tolerance before the occurrence of any possible regulatory non-compliance, which would entail the implementation of corrective measures for crisis situations. The plan also defines the range of measures and the enforceability of each one.

The Bank's eligible own funds at 31 December 2023 and 2022 and the related capital and leverage ratios are shown in the following table:

	Thousands of Euros	
	2023	**2022**
Capital	154,071	144,735
Share premium	85,972	85,972
Reserves	426,389	390,408
Profit/(loss) for the year	47,213	43,898
Valuation adjustments	4,655	(14,670)
Deductions	(7,463)	(10,077)
Temporary adjustments	-	4,462
Common Equity Tier 1 (CET 1) capital	**710,837**	**644,728**
Additional Tier 1 items	-	-
Tier 1 capital	**710,837**	**644,728**
Tier 2 items	-	-
Tier 2 capital	-	-
Total eligible own funds	**710,837**	**644,728**
Credit, counterparty, dilution and delivery risk	114,749	121,192
Price, currency and commodity position risk	10,223	10,456
Operational risk	14,168	13,262
Credit valuation adjustment risk	13,684	6,653
Total own funds requirement	**152,824**	**151,563**
Surplus	**558,013**	**493,165**
Capital ratio (%)	**37.21**	**34.03**
Tier 1 capital (%)	**37.21**	**34.03**
Leverage exposure	9,723,497	9,729,110
Leverage ratio* (%)	**7.31**	**6.63**

At 31 December 2023 and 2022, and during both years, the Bank's eligible own funds exceeded the requirements of the regulations and of the pertinent authority availing of its powers of supervision of credit institutions.

Lastly, a reconciliation of the Bank's regulatory capital and its book equity is as follows:

	Thousands of Euros			
	2023		**2022**	
	Regulatory capital	**Book equity**	**Regulatory capital**	**Book equity**
Capital	154,071	154,071	144,735	144,735
Share premium	85,972	85,972	85,972	85,972
Reserves	426,389	426,389	390,408	390,408
Profit for the year	47,213	47,213	43,898	43,898

Valuation adjustments	4,655	4,655	(14,670)	(14,670)
Deductions	(7,463)	-	(10,077)	-
Temporary adjustments	-	-	4,462	-
Common Equity Tier 1 (CET 1) capital	**710,837**	**718,300**	**644,728**	**650,343**

On 25 April 2023, as part of the process of drawing up the resolution plan for the Grucajrural Group in order to comply with article 44 of Law 11/2015, Banco de España, in its role as preventive resolution authority, issued a formal notification to the Bank stipulating the minimum requirement for own funds and eligible liabilities (MREL).

Under the aforementioned article, the Bank is required to maintain a MREL of no less than 5.65% of the leverage ratio exposure and 17.93% of the total risk exposure. Pursuant to transitional provision three of Royal Decree 1012/2015, this target must be achieved by 1 January 2024 at the latest. From that date onwards the requirement must be met at all times. Previously, to ensure linear fulfilment of the MREL target, a binding interim target of 5.54% and 17.90%, respectively, was set at 1 January 2022, with which the Bank complied.

At 31 December 2023, the Bank's eligible liability items for MREL purposes are composed of the regulatory capital and other eligible liabilities (Euros 710,837 thousand and Euros 400,112 thousand, respectively). The latter basically comprise deposits placed by the Bank's Parent amounting to Euros 400,000 thousand (classified under "Deposits - Customers" on the balance sheet - see note 14) with indefinite maturity, which can be totally or partially cancelled by giving notice of one year and five days.

g) Deposit Guarantee Fund for Credit Institutions, National Resolution Fund and Single Resolution Fund

<u>Deposit Guarantee Fund for Credit Institutions</u>

The Bank contributes to the Deposit Guarantee Fund for Credit Institutions (hereinafter DGFCI). In 2023 and 2022 the expense incurred for ordinary, additional and extraordinary contributions to this fund amounted to Euros 107 thousand and Euros 106 thousand, respectively, and was recognised under "Other operating expenses" in the accompanying income statement. (see note 29).

With respect to ordinary contributions, Royal Decree 1012/2015 of 6 November 2015, which develops Law 11/2015 of 18 June 2015 on the recovery and resolution of credit institutions and investment firms, was published on 7 November 2015. This legislation amends Royal Decree 2606/1996 of 20 December 1996 on deposit guarantee funds for credit institutions. The amendments include a change in the definition of assets of the DGFCI, indicating that the Management Committee will determine the annual contributions of the institutions that participate in the fund based on the criteria established in Article 6 of Royal Decree-Law 16/2011 of 14 October 2011 on the formation of the DGFCI.

In accordance with IFRIC 21, the contributions are recognised when the payment obligation arises, which in this case is 31 December each year.

The calculation bases for the amounts to be contributed by the institutions to each sub-fund are as follows:

- In the case of contributions to the deposit guarantee sub-fund, the deposits covered by the guarantee as defined in Article 4.1 of Royal Decree 2606/1996.

- In the case of contributions to the securities guarantee sub-fund, 5% of the list price on the corresponding secondary market on the last trading day of the year of the securities covered by the guarantee and held at the end of the year, as defined in Article 4.2. When these include securities and financial instruments not traded on secondary markets, either in Spain or abroad, the calculation basis will be their par value or redemption value, whichever is more appropriate for the type of financial instrument, unless a more relevant value is known or published for the purposes of its deposit or recognition.

Single Resolution Fund

Article 67 of Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 provides for the creation of the Single Resolution Fund as a key component of the Single Resolution Mechanism (SRM), initiated in Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014.

This Fund began to operate on 1 January 2016 and is managed by the Single Resolution Board, which is also in charge of calculating the contributions to be made by the credit institutions and investment firms defined in Article 2 of the Regulation. The contributions are to be calculated in accordance with the rules defined in Commission Delegated Regulation (EU) 2015/63 of 21 October 2014, which completes Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to the financing mechanisms of the resolution.

In accordance with Article 103 of Directive 2014/59/EU, the available financial means to be taken into account to reach the target level for the Single Resolution Fund may include irrevocable payment commitments which are fully backed by collateral of low-risk assets unencumbered by any third-party rights, at the free disposal and earmarked for exclusive use by the resolution authorities for the purposes specified in the Directive. The share of irrevocable payment commitments shall not exceed 30% of the total amount of ex ante contributions raised.

In 2023, the Bank's contribution amounted to Euros 4,381 thousand, of which Euros 3,419 thousand was recognised under “Other operating expenses” in the accompanying income statement (see note 29) and Euros 962 thousand took the form of an irrevocable commitment to the Banque de France (2022: contribution of Euros 3,712 thousand and constitution of deposit by irrevocable commitment of Euros 636 thousand).

As of December 31, 2023, the total amount constituted with the Central Bank of France by irrevocable commitment amounts to Euros 4,720 thousand and would be recorded under the heading "Financial assets at amortized cost – Loans and advances to credit institutions" of the balance sheet (2022: Euros 3,759 thousand).

On 11 December 2015, the FROB notified the Bank in writing that in view of the Single Resolution Fund (SRF) coming into operation on 1 January 2016, as of that date the Single Resolution Board (SRB) would be responsible both for administering that Fund and for calculating the contributions thereto.

On 1 February 2016, through the FROB, the Bank informed the SRB in writing of the items and balances vis-à-vis its shareholder rural savings banks which the Bank considered should be taken into account (i.e. should be eliminated) when determining its ex ante contribution to the SRF for 2016.

On 26 April 2016, the Bank received notice, through the FROB, of the SRB's decision in relation to the Bank’s ex ante contribution to the SRF for 2016, which amounted to Euros 8,857 thousand (Euros 7,529 thousand paid directly on 23 June 2016 and Euros 1,328 thousand as irrevocable payment commitments).

As balances whose elimination was requested in the Bank's written request of 1 February 2016 were not taken into account in calculating this contribution, on 29 June 2016 the Bank lodged an appeal with the Court of Justice of the European Union's General Court in Luxembourg requesting annulment of the SRB's decision regarding the settlement for the Bank's ex ante contribution for 2016. On 28 November 2019 the European General Court (EGC) passed judgment annulling, with regard to Banco Cooperativo Español, S.A., the decision of the SRB in its executive session of 15 April 2016 on the 2016 ex ante contributions to the Single Resolution Fund ((SRB/ES/SRF/2016/06).

On 19 March 2020 the SRB issued a decision whereby it determined a new settlement for the Bank for the ex ante contribution to the SRF for 2016, for the same amount as the cancelled contribution and making it effective retroactively to 2016. This new settlement was appealed on 10 August 2020 before the European General Court. The Court has yet to hand down its decision at the date of these annual accounts.

In relation to the ex ante contribution to the SRF for 2019, on 9 July 2019 the Bank filed an appeal for annulment before the European General Court as it understood that in the calculation of this contribution the SRB should have applied rules for Institutional Protection Schemes (IPS), as in 2018 the Bank was already included in an IPS together with various shareholder rural savings banks. The Court has yet to hand down its decision at the date of these annual accounts.

The Bank also filed an appeal for judicial review with the Central Economic-Administrative Tribunal in connection with the levy on the activity carried out by the FROB, as the resolution authority, for 2016, inasmuch as the calculation basis for this levy was the ex ante contribution to the SRF settled by the Bank in 2016. On dismissal of this appeal for judicial review, the Bank filed an appeal via the Judicial Review Chamber of the Spanish High Court on 28 May 2020. This appeal for judicial review is yet to be resolved at the date of these annual accounts.

h) Minimum reserve ratio

At 31 December 2023, and throughout 2023, the Bank complied with the minimum reserve ratio stipulated in applicable legislation, Regulation (EC) No 1745/2003 of the European Central Bank of 12 September 2003.

i) Environmental impact

In light of its activity, the Entity does not have any liabilities, expenses, assets, provisions or contingencies of an environmental nature that could be significant with respect to its equity, financial position or financial performance. Therefore, no specific disclosures relating to environmental issues are included in the notes to the accompanying annual accounts.

The Group's consolidated directors' report includes the Consolidated Non-financial Information Statement, which provides information on environmental, personnel and human rights issues, as well as due diligence and sustainability topics.

j) Institutional protection scheme

On 29 December 2017 the rural savings banks affiliated with the Spanish Association of Rural Savings Banks (hereinafter the Savings Banks) entered into a Framework Agreement with the aforementioned Association, the Bank's Parent (Grucajrural Inversiones, S.L.) and the Bank, the purpose of which was to set up a "cooperative institutional protection scheme" (hereinafter IPS) within the Caja Rural Group, as well as certain other arrangements. These agreements envisaged, among others, the following milestones:

- Promote the advancement of the statutory and conventional framework of the Association, so as to modernise and reinforce it, replacing the support mechanisms currently in place with an institutional protection scheme (IPS) as envisaged in article 113.7 of Regulation (EU) No 575/2013 (CRR). The IPS shall be formed by the 29 Savings Banks affiliated with the Association at the date of the Framework Agreement, Grucajrural Inversiones, S.L. and Banco Cooperativo Español, S.A. (hereinafter the IPS members).

- Constitute a fund to provide any financial support that may be addressed through the IPS, which shall be sustained by contributions from the IPS members. This fund shall be administered and controlled by the Association, directly or indirectly, through one or more vehicles.

On 1 March 2018 the Spanish Association of Rural Savings Banks ("AECR") held its general assembly, during which all of the affiliated Savings Banks approved the creation of the IPS. To this end, they also approved the AECR's new statutes, the IPS regulation, the IPS disciplinary regime, certain technical notes relating to measurement of the solvency and liquidity of the IPS members, the general risk policy, and a new agreement regulating economic relations within the Caja Rural Group.

For the purposes envisaged in (i) article 113.7 of the CRR and (ii) in the legislation regulating contributions to the Deposit Guarantee Fund, Banco de España acknowledged the IPS as an institutional protection scheme meeting the definition provided in article 113.7 of the CRR on 23 March 2018.

Creation of the aforementioned IPS required recognition of the commitment undertaken to constitute the fund created to provide any financial support that may be addressed through the IPS. This entailed an expense of Euros 385 thousand for 2023 (Euros 1,750 thousand at 31 December 2022), which has been recorded in "Other operating expenses" in the accompanying income statement (see note 29).

k) Late payments to suppliers. "Reporting requirement", additional provision three of Law 15/2010 of 5 July 2010

Pursuant to Law 15/2010 of 5 July 2010, which amends Law 3/2004 of 29 December 2004 containing measures to combat late payments in commercial transactions, as developed by the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 on disclosures in the notes to the annual accounts on the average supplier payment period in commercial transactions, in view of the activities in which the Bank is engaged, the information on late payments essentially reflects payments to service providers and sundry suppliers, rather than payments to depositors and holders of securities issued by the Bank, which have been settled in strict compliance with the legal and contractual terms established in each case, for both on-demand and deferred payments.

- Details of late payments to suppliers by the Bank are as follows:

	2023	**2022**
	Days	
Average supplier payment period	21.25	21.83
Transactions paid ratio	21.02	20.28
Transactions payable ratio	89.22	168.15
	Thousands of Euros	
Total payments made	68,064	63,878
Total payments outstanding	229	677

- Information on invoices paid within the maximum period stipulated by legislation on late payments is as follows:

	2023	**2022**
Monetary volume paid in Euros (thousands of Euros)	63,866	61,164
As a percentage of total monetary payments to suppliers	93.8%	95.8%
Number of invoices paid	8,750	6,981
As a percentage of total number of invoices paid to suppliers	89.5%	89.0%

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

- In view of the activities in which the Bank is engaged, the information on late payments essentially reflects payments to service providers and sundry suppliers, rather than payments to depositors and holders of securities issued by the Bank, which have been settled in strict compliance with the legal and contractual terms established in each case, for both on-demand and deferred payments.

The "average supplier payment period" is understood as the time elapsed between the delivery of goods or the provision of services by the supplier and the effective payment of the operation.

l) Seasonal nature of income and expenses

The most significant operations conducted by the Bank are fundamentally the activities typically befitting financial institutions. Therefore, its operations are not significantly affected by seasonal factors within the year.

m) Events after the reporting period

Notwithstanding the matters mentioned in these notes to the annual accounts, between 31 December 2023 and the date on which the Board of Directors of the Bank authorised the annual accounts for issue, no significant events occurred that must be included in the annual accounts in order to give a true and fair view of the Bank's equity, financial position and financial performance, as well as its cash flows.

n) Guarantee of the Parent Company

At its meeting on 27 September 2018, the Board of Directors of Grucajrural Inversiones, S.L. (hereinafter, the Parent) resolved that, should Banco Cooperativo Español, S.A. be declared definitively insolvent as a result of either a final court resolution handed down within insolvency proceedings or a final administrative resolution, the Company would undertake to meet payment of any of the outstanding creditor claims of Banco Cooperativo Español, S.A.

For these purposes, definitive insolvency is understood to be the declaration of liquidation of Banco Cooperativo Español, S.A. as a result of a court or administrative resolution.

The effectiveness of the guarantee is subject to the condition subsequent that the competent authority may withdraw at any time and under any circumstances the exemption from the obligation to comply with individual capital requirements and the limits to large exposures on an individual basis, as provided in Article 7.2 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

o) Regulatory changes

During 2023, no amendments to Circular 4/2017 have entered into force with an impact on the Bank's annual accounts.

2. Significant Accounting Policies

The following accounting policies and measurement criteria have been applied in the preparation of the annual accounts:

a) Going concern

The Bank has prepared these annual accounts for 2023 on a going concern basis.

b) Accruals principle

The accompanying annual accounts, except for the statement of cash flows, have been prepared on an accruals basis, irrespective of collections and payments.

c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and to a financial liability or equity instrument of another entity.

I. Initial recognition of financial instruments

Financial instruments are initially recognised in the balance sheet when the Bank becomes party to the contract that generates them, in accordance with the terms therein. Specifically, debt instruments such as loans and cash deposits are recognised from the date that a legal right to receive or a legal obligation to pay cash arises, respectively. Derivatives are generally recognised from the trade date.

A regular way purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net, such as stock market contracts or forward currency sale and purchase contracts, are recognised on the date from which the rewards, risks, rights and duties attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date. In particular, cash transactions in currency markets are recognised at the settlement date; equity instruments traded on Spanish secondary securities markets are recognised at the trade date, and debt securities traded on Spanish secondary securities markets are recognised at the settlement date.

II. Derecognition of financial instruments

A financial asset is derecognised from the balance sheet when any of the following circumstances arise:

- The contractual rights over the cash flows have expired; or

- The financial asset and substantially all the risks and rewards associated therewith are transferred, or although these are neither substantially transferred nor retained, control over the financial asset is transferred.

A financial liability is derecognised from the balance sheet when the obligations arising therefrom have expired or when it is redeemed by the Bank with the intention either to resell it or to cancel it.

III. Fair value and amortised cost of financial instruments

The fair value of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep market (quoted price or market price).

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, based on proven valuation techniques used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risks associated with it.

In particular, the fair value of derivatives traded on an organised, transparent and deep market included in the trading portfolios is equivalent to their daily quotation price and if, for exceptional reasons, the quotation price on a given date cannot be established, methods similar to those used to measure derivatives not traded on organised markets are applied.

The fair value of derivatives not traded on organised markets or traded on organised but less deep and transparent markets, is equivalent to the sum of future cash flows originating from the instrument, discounted at the measurement date ("present value" or "notional close"), using methods recognised by the financial markets: "net present value" (NPV), option pricing models, or others.

Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments, and plus or minus, as appropriate, the cumulative amortisation (as reflected in the income statement), using the effective interest method, of the difference between the initial cost and the maturity amount of these financial instruments. The amortised cost of financial assets also includes any impairment losses.

The effective interest rate is the discount rate that exactly matches the initial value of a financial instrument to all of its estimated cash flows for all items over its remaining life. For fixed rate financial instruments, the effective interest rate is the same as the contractual interest rate established on the acquisition date, adjusted, where applicable, to reflect the fees and transaction costs that should be included in the calculation of the effective interest rate in accordance with Banco de España Circular 4/2017. For variable interest financial instruments, the effective interest rate is calculated in a manner similar to that for fixed interest financial instruments, and is recalculated at each date of review of the contractual rate, taking into account any changes in future cash flows from the transaction.

A summary of the different valuation techniques used by the Bank to measure financial instruments categorised as "Financial assets held for trading", "Non-trading financial assets mandatorily at fair value through profit or loss", "Financial assets designated at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Derivatives – Hedge accounting" under balance sheet assets, and "Financial liabilities held for trading", "Financial liabilities designated at fair value through profit or loss" and "Derivatives – Hedge accounting" under balance sheet liabilities, at 31 December 2023 and 2022 is as follows:

	%			
	2023		**2022**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Quoted price in active markets	40.1	-	68.4	-
Internal pricing models	59.9	100.0	31.6	100.0
	100.0	**100.0**	**100.0**	**100.0**

The main techniques used in the internal pricing models are as follows:

- The present value method is used to measure financial instruments that enable static hedging (mainly forwards and swaps).
- The Black-Scholes model is applied to certain plain vanilla derivative products (calls, puts, caps/floors).
- The Monte Carlo simulation method is used for the remaining derivative financial instruments.

- The effect of credit risk on fair value is calculated based on the credit curves for issuers with different credit ratings and economic sectors.

Credit Valuation Adjustments (hereinafter "CVA") and Debit Valuation Adjustments (hereinafter "DVA") are included in the measurement of both asset and liability derivative products to reflect the impact on fair value of counterparty credit risk and an entity's own credit risk, respectively.

The adjustments to be performed are calculated by estimating exposure at default, the probability of default and loss given default for all derivative products with any underlying, by legal entity (i.e. all counterparties under the same ISDA/CMOF contract) to which the Bank is exposed.

In general, the CVA is calculated by multiplying expected positive exposure by the counterparty's probability of default. The DVA is calculated by multiplying the expected negative exposure by the probability of default, then multiplying the result by the Bank's loss given default. Both calculations encompass the entire duration of the potential exposure.

The information required to calculate the probability of default and the loss given default is obtained from credit markets (credit default swaps or iTraxx indices), applying the Entity's own information if available. If information is not available, a process based on sector, rating and location is applied to assign both probabilities of insolvency and expected losses in the event of insolvency, calibrated directly to market or through the adjustment to market of the probabilities of insolvency and historical expected losses.

The Bank's Directors consider that the financial assets and financial liabilities in the balance sheet and gains and losses on these financial instruments are reasonable and reflect their market value (see note 24).

IV. Classification and measurement of financial assets and financial liabilities

Circular 4/2017 includes three main categories for the classification of financial assets: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss.

- A financial asset shall be measured at amortised cost if both of the following conditions are met:

  - The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

  - The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest, the latter basically being consideration for the time value of money and the credit risk associated with the borrower.

- A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

  - The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- A financial asset shall be classified as mandatorily at fair value through profit or loss when it is not held in either of the two preceding portfolios, in view of the business model under which it is managed or the characteristics of its contractual cash flows.

Within the portfolio of financial assets mandatorily at fair value through profit or loss, financial assets held for trading shall include all assets that meet any of the following characteristics:

- They are originated or acquired with the purpose of selling them in the near term.

- They are part of a group of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking.

- They are derivatives that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments.

However, an entity may make an irrevocable election at initial recognition to include investments in equity instruments that should not be classified as held for trading and which would be classified as financial assets mandatorily at fair value though profit or loss in the portfolio of financial assets at fair value through other comprehensive income. This election shall be made on an instrument-by-instrument basis.

Similarly, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

<u>Business model for managing financial assets</u>

In relation to the foregoing, 'business model' refers to how an entity manages its financial assets in order to generate cash flows. In particular, the business model may entail holding the financial assets with the objective of collecting contractual cash flows therefrom, selling the assets, or both.

The business model is determined considering how groups of financial assets are managed together to achieve a particular business objective. In other words, the business model does not depend on the Entity's intentions for an individual instrument, but rather should be determined for a group of instruments.

<u>Characteristics of contractual cash flows of the financial assets</u>

Similarly, a financial asset should be classified at initial recognition in one of the following categories, depending on the characteristics of its contractual cash flows:

a) Financial assets whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Other financial assets.

All financial assets are initially recognised at fair value plus, in the case of financial instruments not classified at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Except in the case of trading derivatives that are not financial hedges or hedge accounting, all changes in value of financial assets due to the accrual of interest and similar items are recognised as "Interest income" in the income statement for the period in which such amounts were accrued. Dividends received from companies other than subsidiaries, joint ventures or associates are recognised as "Dividend income" in the income statement for the period in which the right to receive them is established.

Changes in value subsequent to initial recognition due to reasons other than those mentioned in the preceding paragraph are treated as described below, based on the category in which the financial assets have been classified.

- Financial assets included in the financial assets at amortised cost category are measured at amortised cost. Amortised cost is the amount at which the financial instrument was initially measured, minus principal repayments, plus or minus the cumulative amortisation (as reflected in the income statement by the effective interest method) of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

- Financial assets recorded in the financial assets at fair value through other comprehensive income category are measured at fair value. Subsequent gains or losses on this measurement are temporarily recognised (net of any tax effect) under “Accumulated other comprehensive income” on the balance sheet. The amounts recognised in this line item remain in the Entity’s equity until the asset giving rise to them is derecognised, or until the financial instrument is considered to be impaired.

  When a debt instrument at fair value through other comprehensive income is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss for the period, under “Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net” in the income statement. However, when an equity instrument at fair value through other comprehensive income is derecognised, the gain or loss recognised in accumulated other comprehensive income is not reclassified to profit or loss, but instead to reserves.

  Financial assets that are equity instruments whose fair value cannot be reliably measured and derivatives that have those instruments as their underlying and are settled by delivery of those instruments, are measured at cost, net of any impairment, calculated using the criteria described.

- Subsequent to their acquisition, financial assets recognised under “Non-trading financial assets mandatorily at fair value through profit or loss”, “Financial assets designated at fair value through profit or loss” and “Financial assets at fair value through other comprehensive income” are measured at fair value. Changes in fair value are recognised directly in the income statement, distinguishing, for non-derivative instruments, between the part attributed to accrued returns of the instrument, which are recorded as interest or as dividends depending on its nature, and the rest, which is recognised as gains or losses on financial transactions. Interest accrued on debt instruments is calculated using the effective interest method.

- Liabilities through profit or loss. This financial liability portfolio is divided into two parts:

  - Financial liabilities held for trading: financial liabilities issued with the intention of repurchasing them in the near term, short positions and derivatives not designated as hedging instruments.

  - Financial liabilities designated at fair value through profit or loss: hybrid financial liabilities not held for trading that must be measured entirely at fair value.

- Financial liabilities at amortised cost: this financial instrument category comprises financial liabilities not included in any of the above categories.

  Liabilities issued by the Bank which, having the legal nature of capital, do not qualify as equity, are classified as financial liabilities at amortised cost, except those designated by the Bank as financial liabilities at fair value through profit or loss, if the pertinent conditions are met.

Financial liabilities included in this category are initially measured at fair value, adjusted to reflect transaction costs directly attributable to the issue of the financial liability, which are taken to the income statement until maturity using the effective interest method, as defined in Banco de España Circular 4/2017. These liabilities are subsequently measured at amortised cost, calculated using the effective interest method defined in the aforementioned Circular.

Interest accrued on these securities, calculated using the effective interest method, is recognised under "Interest expense" in the income statement. Exchange differences on securities denominated in currencies other than the Euro that are included in this portfolio are recognised following the criteria described in note 2.n. Financial liabilities included in this category subject to fair value hedges are recognised following the criteria described in note 2.d.

Nevertheless, financial instruments which should be considered as non-current assets and disposal groups classified as held for sale in accordance with Rule 34 of Banco de España Circular 4/2017 are recognised in the annual accounts applying the criteria described in note 2.e.

d) Derivatives and hedge accounting

Derivatives are instruments that allow all or part of the credit and/or market risks associated with balances and transactions to be transferred to third parties, using interest rates, certain indices, prices of certain securities, different currency cross rates or other similar references as underlying items.

All derivatives are recognised in the balance sheet at fair value from the trade date. If the fair value is positive they are recognised as an asset, and if the fair value is negative they are recognised as a liability. Unless there is evidence to the contrary, the fair value on the trade date is deemed to be the transaction price. Changes in the fair value of derivatives after the trade date are recognised under "Gains or losses on hedge accounting, net" in the income statement. In particular, the fair value of standard derivatives included in the trading portfolios is equivalent to their daily quotation price and if, for exceptional reasons, the quotation price on a given date cannot be established, methods similar to those used to measure over-the-counter (OTC) derivatives are applied. The fair value of OTC derivatives is equivalent to the sum of future cash flows originating from the instrument, discounted at the measurement date ("present value" or "notional close"), using methods recognised by the financial markets: "net present value" (NPV), option pricing models, or others.

Derivatives that have equity instruments as their underlying whose fair value cannot be determined in a sufficiently objective manner and which are settled by delivery of those instruments are measured at cost of acquisition.

I. <u>Hedge accounting</u>

Hedge accounting may only be applied to a derivative if the following three conditions are met:

- One of the following three types of risks is hedged:

  - Changes in the value of assets and liabilities due to fluctuations in the interest rate and/or exchange rate applicable to the position or balance to be hedged ("fair value hedge").

  - Variability in the estimated cash flows deriving from financial assets and liabilities and highly probable transactions forecast to be carried out by an entity ("cash flow hedge").

  - The net investment in a foreign operation ("hedges of a net investment in a foreign operation"), which in practice equates to a cash flow hedge.

- A significant part of the risk inherent in the hedged item or position during the entire term of the hedge is effectively eliminated, which means that:

  - Upon arrangement the hedge is expected, under normal conditions, to be highly effective ("prospective effectiveness").

  - There is sufficient evidence that the hedge was actually effective throughout the life of the hedged item or position ("retrospective effectiveness").

- And lastly, there must be adequate documentation of the derivative having been arranged for the specific purpose of hedging certain balances or transactions, and the manner in which the hedge was to be achieved, which must be consistent with the Bank's management of its own risks.

The Bank designates operations as hedges on inception of the hedge or the hedged instruments, and duly documents the hedging transaction. Documentation on these hedging transactions should adequately identify the hedged instrument or instruments and the hedging instrument or instruments, in addition to the nature of the risk to be hedged; as well as the criteria or methods followed by the Bank to evaluate the effectiveness of the hedge throughout its duration, taking into account the risk it intends to hedge.

The Bank only considers operations that are deemed highly effective throughout their duration as hedging transactions. A hedge is considered highly effective if during the expected term of the hedge changes in fair value or cash flows attributable to the hedged risk are virtually fully offset by changes in the fair value or cash flows, as applicable, of the hedging instrument or instruments.

To measure the effectiveness of hedging transactions defined as such, the Bank analyses whether from inception to expiration of the hedge it can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost completely offset by changes in the fair value or cash flows, as applicable, of the hedging instrument or instruments and, retrospectively, whether gains or losses on the hedging transaction are within a range of 80% to 125% of the results of the hedged item.

The Bank has arranged fair value hedges, that is, hedges of exposure to changes in the fair value of financial assets and liabilities or unrecognised firm commitments, or an identified portion of these assets, liabilities or firm commitments, attributable to a particular risk and provided that these changes could affect the income statement; and cash flow hedges, that is, hedges of variability in the estimated cash flows deriving from financial assets and liabilities and highly probable transactions forecast to be carried out by an entity (see note 16).

With respect to financial instruments designated as hedged items and that qualify for hedge accounting, changes in value of both the hedging instruments and the hedged items – as regards the type of hedged risk – are recognised in profit or loss.

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation of a hedge.

When, in accordance with the preceding paragraph, fair value hedging is discontinued, adjustments to the value of hedged items measured at amortised cost resulting from the aforementioned hedge accounting are taken to the income statement until the hedged items expire, using the effective interest rate recalculated on the date the hedging transaction is discontinued.

The Bank holds certain derivatives for the purpose of mitigating certain risks inherent in its activity, and which do not qualify for hedge accounting. In particular, the Bank has arranged swaps to hedge the interest rate risk on the associated transactions. The Bank accounts for these instruments as trading derivatives.

On the basis of its analysis, the Bank continues to apply Circular 4/2004 for its hedge accounting, as permitted by the regulations.

e) Impairment of financial assets

The carrying amounts of financial assets are generally adjusted with a charge to the income statement when there is objective evidence that an impairment loss has occurred, i.e.:

1. In the case of debt instruments, understood as loans, advances other than loans and debt securities, when, after their initial recognition, a single event or the combined effect of several events causes a negative impact on their future cash flows.

2. In the case of equity instruments, when, as a result of an event or the combined effect of several events after initial recognition, their carrying amount will not be able to be recovered.

The potential situations the Bank considers as objective evidence that a financial instrument could be impaired, and which give rise to a specific analysis of the financial instrument in question to determine the amount of any possible impairment, include those enumerated in Rule 29 of Banco de España Circular 4/2017. The situations which for the Bank constitute objective evidence of possible impairment of a financial instrument include the following:

a) Significant financial difficulty of the issuer or the borrower.

b) The disappearance of an active market for that instrument because of financial difficulties of the issuer.

c) Significant changes in the performance of the issuer compared with budgets, business plans or milestones.

d) Significant changes in expectations that the issuer’s technical product milestones will be achieved.

e) Significant changes in the market for the issuer’s equity instruments or its products or potential products.

f) Significant changes in the global economy or the economic environment in which the issuer operates.

g) Significant changes in the technological or legal environment in which the issuer operates.

h) Significant changes in the performance of comparable entities, or in the valuations implied by the overall market.

i) Internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.

The mere decline in the fair value of the instrument below its carrying amount may indicate impairment, but is not necessarily objective evidence of an impairment loss. Objective evidence of impairment shall be deemed to exist when there is a significant or prolonged decline in the fair value of the instrument below its carrying amount.

Objective evidence of impairment shall also be deemed to exist when the issuer has been declared or will probably be declared bankrupt.

In the case of debt instruments measured at amortised cost, as well as other exposures entailing credit risk, such as loan commitments, financial guarantees, and other commitments given, the amount of the impairment loss is equal to the negative difference between the carrying amount and the present value of estimated future cash flows. For quoted debt instruments, market value may be used instead of the present value of future cash flows, provided that it is sufficiently deep to be considered as representative of the amount that would be recovered by the Bank.

Impairment losses on debt instruments at amortised cost are recognised in an allowance account that reduces the carrying amount of the asset, while impairment losses on debt instruments at fair value through other comprehensive income are recognised in equity of the Entity. Impairment losses on exposures entailing credit risk other than debt instruments are recognised as a provision under liabilities on the balance sheet. Impairment losses for the period are recognised as an expense in the income statement.

Subsequent reversals of previously recognised allowances and provisions for impairment are recognised immediately as income in the income statement for the period in which the amount is recovered.

Objective evidence of impairment is determined individually for all non-performing debt instruments that are individually significant, and collectively for groups of debt instruments that are not individually significant. When a specific instrument cannot be included in any group of assets with similar credit risk characteristics, it is analysed solely on an individual basis to determine whether it is impaired and, if so, to estimate the impairment loss. Impairment is therefore broken down as follows, depending on how it is calculated:

- Specific impairment allowances for financial assets, estimated individually: the cumulative amount of allowances recorded to cover non-performing assets, estimated individually.

- Specific impairment allowances for financial assets, estimated collectively: the cumulative amount of collective impairment calculated for debt instruments of immaterial amounts classified as non-performing, for which impairment has been determined individually, and for which the Entity uses the specific allowance applying percentages for collective allowances based on the age of the past-due amounts, in accordance with Annex 9 of Banco de España Circular 4/2017 and subsequent amendments.

- Collective impairment allowances for losses incurred but not reported: the general allowance or provision estimated collectively for debt instruments classified as performing exposures or performing exposures under special monitoring.

Collective assessment of a group of financial assets to estimate impairment losses is carried out as follows:

- Debt instruments are included in groups with similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due, both principal and interest, according to the contractual terms. The credit risk characteristics to be taken into account for grouping assets are, among others: instrument type, the debtor's industry, geographical location, type of guarantee or collateral, age of past-due amounts and any other factor relevant to the estimation of future cash flows.

- The future cash flows from each group of debt instruments are estimated for instruments with credit risk characteristics similar to those in the respective group.

- The impairment loss of each group is the difference between the carrying amount of all the debt instruments in the group and the present value of the estimated future cash flows.

Debt instruments not included in financial assets held for trading and off-balance sheet exposures are classified, based on the insolvency risk attributable to the customer and the transaction, in the following categories: performing exposures (Stage 1), performing exposures under special monitoring (Stage 2), non-performing as a result of borrower arrears (Stage 3), non-performing for reasons other than borrower arrears (Stage 3), and total write-off. For individually significant debt instruments that are not classified as performing exposures or performing exposures under special monitoring, based on the past experience of the Entity and the sector, specific allowances or provisions for impairment estimated individually are determined taking into account the age of the past-due amounts, the guarantees or collateral provided and the economic situation of the customer and, if applicable, the guarantors. Given that the Bank has not developed internal methods, for the remaining debt instruments it collectively estimates the specific or general allowances and provisions in accordance with the parameters set forth in Annex 9 of Banco de España Circular 4/2017 (alternative solutions), which contemplate the type of collateral securing the exposure, the credit risk segment in question and the age of the amounts past due.

The Entity classifies transactions whose credit risk has not increased significantly since their initial recognition as performing exposures. The allowance or provision for impairment shall be equal to the 12-month expected credit losses. Interest income shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.

The Entity classifies transactions whose credit risk has increased significantly since their initial recognition, but for which there is no related default event, as performing exposures under special monitoring. The allowance or provision for impairment shall be equal to the lifetime expected credit losses. Interest income shall be calculated applying the effective interest rate to the gross carrying amount of the transaction. All borrowers declared subject to bankruptcy proceedings which do not qualify for classification as non-performing exposures, insofar as they have paid at least 25% of the credit that is affected by the bankruptcy proceedings or because two years have elapsed since the creditors' agreement was approved, provided that this agreement is being faithfully performed and there are no doubts regarding full repayment of all debts, are also classified as performing exposures under special monitoring.

The Entity uses the indicators in Annex 9 of Banco de España Circular 4/2017 to determine a significant increase in credit risk for transactions classified as performing exposures under special monitoring.

The classification of refinanced or restructured transactions takes into account the payment history over a long period of time, any grace periods granted, any new effective guarantees or collateral provided and the ability to generate resources, amongst other factors, which determine their classification as non-performing exposures or performing exposures under special monitoring.

The refinancing or restructuring of transactions in arrears does not interrupt their classification as non-performing, unless there is reasonable certainty that the customer can make payment on schedule, or unless new effective guarantees or collateral are provided and, in both cases, unless at least the current interest receivable is paid.

The amount of financial assets that would have been impaired had their terms not been renegotiated is not significant with respect to the annual accounts taken as a whole. The purpose of the transactions identified by the Bank as refinancing or restructuring transactions is essentially to improve the allowance or provision for such operations by providing additional guarantees or collateral. With respect to these transactions, for 2023 and 2022 there are no significant differences between the carrying amount of the derecognised assets and the fair value of the new assets. Furthermore, the aforementioned transactions do not delay or reduce the allowance or provision that would have been required had they not been modified, inasmuch as at the modification date, impairment had already been recognised thereon where necessary and before arranging this type of transaction the Bank recognises the pertinent allowances and provisions for insolvency.

Similarly, debt instruments not measured at fair value through profit or loss and off-balance sheet exposures, whosoever the customer, are analysed to determine the associated credit risk attributable to country risk. Country risk is understood as the risk associated with customers resident in a specific country due to circumstances other than normal commercial risk.

In addition to the previously mentioned specific allowances or provisions for impairment estimated individually or collectively, the Entity recognises a general allowance or provision estimated collectively for losses incurred but not reported, in respect of the losses inherent in other debt instruments not measured at fair value through profit or loss and in off-balance sheet exposures classified as performing exposures or performing exposures under special monitoring. Given that the Bank has not developed internal methods for collective estimates, it uses the alternative solutions set out in Annex 9 of Banco de España Circular 4/2017, which contemplate the type of collateral securing the exposure, the credit risk segment in question and the age of the amounts past due.

Impairment of the carrying amount of debt instruments at amortised cost is recognised with a charge to the income statement for the period in which the impairment becomes evident, and any reversals of previously recognised impairment losses are recognised in the income statement for the period in which the impairment is reversed or reduced. Balances are derecognised from the balance sheet when the possibility of their recovery is considered remote, without prejudice to any initiatives of the Entity to recover such amounts before the collection right expires by becoming time-barred, through debt forgiveness or for other reasons. The remaining amount of transactions with amounts derecognised (partial derecognition) is classified in full in the category corresponding to it on the basis of the credit risk attributable to the borrower.

The amount of the impairment losses incurred on debt securities and equity instruments included under “Financial assets at fair value through other comprehensive income” is the positive difference between their cost of acquisition, net of any principal repayment, and their fair value.

When there is objective evidence that the decline in fair value is due to impairment, the unrealised losses recognised directly as “Accumulated other comprehensive income” in equity are recorded immediately in the income statement. If all or part of the impairment losses are subsequently recovered, the amount is recognised in the income statement for the period in which the recovery occurred in the case of debt securities, and as “Accumulated other comprehensive income” in equity in the case of equity instruments.

In the case of debt instruments and equity instruments classified as “Non-current assets and disposal groups classified as held for sale”, losses previously recorded in equity are considered to be realised, and are therefore recognised in the income statement on the date they are so classified.

f) Acquisition and sale of assets with a resale or repurchase agreement

Purchases (sales) of financial instruments with an obligatory resale (repurchase) commitment at a determined price are recognised as financing granted (received) under “Financial assets at amortised cost” (“Financial liabilities at amortised cost”), in line with the nature of the borrower (lender).

The difference between the purchase and sale prices is recognised as interest over the life of the contract.

g) Investments in subsidiaries, joint ventures and associates

I. Group companies

Group companies are those entities over which the Bank has control. An entity controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

To be considered a subsidiary, all of the following must occur:

- Power: an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns.

- Returns: an investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or wholly positive and negative.

- Link between power and returns: an investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.

Investments in Banco Cooperativo Español, S.A. Group companies are presented in these annual accounts under "Investments in subsidiaries, joint ventures and associates" in the balance sheet and are measured at cost of acquisition, net of any possible impairment losses.

Dividends accrued in the year on these investments are recognised under "Dividend income" in the income statement.

At 31 December 2023 and 2022 there are no significant restrictions on the ability of the Banco Cooperativo Español, S.A. Group companies to transfer funds to the parent in the form of dividends or repayments of loans or advances.

II. Associates

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control, usually because it holds 20% or more of the voting rights of the investee.

Investments in associates are presented in these annual accounts under "Investments in subsidiaries, joint ventures and associates" in the balance sheet and are measured at cost of acquisition, net of any possible impairment losses.

Dividends accrued in the year on these investments are recognised under "Dividend income" in the income statement.

Relevant information on Banco Cooperativo Español, S.A. Group companies is provided in Appendix I.

III. Calculation of impairment

The Bank estimates and recognises impairment losses on the equity instruments that constitute investments in Group companies and associates, which for the purposes of preparing these annual accounts are not considered financial instruments, as follows: when, in accordance with Circular 4/2017, there is evidence of impairment of these investments, the amount of this impairment is estimated as the negative difference between their recoverable amount (calculated as the higher of the fair value of the investment, less costs to sell, and its value in use, which is defined as the present value of the cash flows expected to be received from the investment as dividends and proceeds from its sale or other disposal) and their carrying amount.

Impairment losses on these investments and possible reversals thereof are recognised as a charge or credit, respectively, in “Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates” in the income statement.

h) Tangible assets

Property, plant and equipment for own use are measured at cost of acquisition, revalued as permitted by specific legislation and the new accounting standards, less accumulated depreciation and any impairment losses.

Depreciation of property, plant and equipment is provided on a straight-line basis over their estimated useful lives. The land on which the buildings and other structures stand is deemed to have an indefinite life and, therefore, is not depreciated.

The annual depreciation charge is recognised in the income statement and is calculated using the following rates, based on the average years of estimated useful life of the different groups of assets:

	% annual	**Estimated useful life (years)**
Buildings	2	50
Furniture and fixtures	6-10	16.7-10
IT equipment	16-33	6.3-3

The Bank reviews the depreciation method and useful life of each tangible asset at least at each year end.

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

i) Intangible assets

Intangible assets are identifiable non-monetary assets with no physical substance, arising as a result of a legal transaction or which have been developed internally by the Bank. Intangible assets are only recognised when their cost can be reasonably and objectively estimated and when the Bank considers it probable that future economic benefits will be obtained.

Intangible assets are recognised initially at cost of acquisition or production and are subsequently measured at cost less any accumulated amortisation and impairment losses.

j) Leases

I. Finance leases

Finance leases are leases that transfer to the lessee substantially all the risks and rewards incidental to ownership of the leased asset.

When the Bank acts as the lessor of an asset, the sum of the present values of the lease payments receivable from the lessee plus the guaranteed residual value, which is generally the exercise price of the purchase option available to the lessee at the end of the lease term, is recognised as financing to third parties and is therefore included under “Financial assets at amortised cost” in the balance sheet.

When the Bank acts as the lessee, it recognises the cost of the leased assets in the balance sheet according to the nature of the asset that is the subject matter of the contract, and simultaneously recognises a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present values of the lease payments to be made to the lessor, plus the exercise price of the purchase option, where applicable). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

In both cases, the finance income and finance cost arising from these contracts is credited or debited, respectively, to the income statement so as to achieve a constant rate of return over the life of the lease contracts.

II. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the Bank acts as the lessor, it recognises the acquisition cost of the leased assets under “Tangible assets” in the balance sheet. The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use and income from operating leases is recognised in the income statement on a straight-line basis.

On 1 January 2019 Banco de España Circular 2/2018 entered into force and includes amendments to lessee accounting. The single lessee accounting model requires a lessee to recognise assets and liabilities for all leases. The standard sets out two exceptions to the recognition of lease assets and liabilities, that can be applied in the case of short-term contracts and those for which the underlying asset is of low value.

The lessee must recognise a right-of-use asset that represents its right to use the leased asset and which is recognised under “Tangible assets - Property, plant and equipment - For own use” on the balance sheet (see note 12) and a lease liability that represents its obligation to make lease payments that are recognised under “Financial liabilities at amortised cost - Other financial liabilities” on the balance sheet (see note 14).

At the commencement date, the lease liability represents the present value of the lease payments that are not paid at that date. Liabilities recognised in this balance sheet item are measured after initial recognition at amortised cost, which is determined using the effective interest method.

Right-of-use assets are initially recognised at cost. The cost of the right-of-use asset includes the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, all initial direct costs incurred; and an estimate of costs to be incurred by the lessee such as costs relating to dismantling and removing the underlying asset. The assets recognised in this balance sheet item are measured after their initial recognition at cost less:

- Any accumulated depreciation and any accumulated impairment losses; and

- Any remeasurement of the corresponding lease liability.

Interest on the lease liability is recognised under “Interest expenses” in the income statement (see note 25 (a)). Variable lease payments not included in the initial measurement of the lease liability are recognised under “Administrative expenses - Other administrative expenses” (see note 30).

Depreciation is calculated on a straight-line considering the acquisition cost of the assets over the lease term. Depreciation of tangible assets is recognised under “Depreciation and amortisation” in the income statement (see note 12).

If the lessee elects one of the two exceptions to not recognise the corresponding right-of-use asset and liability on the balance sheet, the lease payments associated with the corresponding leases are recognised in the income statement over the lease term or on a straight-line basis or any other basis that is more representative of the pattern of the lessee’s benefit, under other “Operating expenses - Other operating expenses” (see note 29).

Income from sub-leases and operating leases is recognised under “Other operating income” in the income statement (see note 29).

The new standard substantially carries forward the lessor accounting requirements from the previous standard. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The lessor accounting model requires that, from the commencement date, leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Leases that are not finance leases are considered to be operating leases.

In operating leases, if the entities act as lessors, they recognise the acquisition cost of the leased assets under “Tangible assets - Property, plant and equipment - Leased out under operating leases” on the balance sheet (see note 12). The depreciation policy for these assets is consistent with that for similar property, plant and equipment for own use and income and expenses from operating leases are recognised in the income statement on a straight-line basis under “Other operating income” and “Other operating expenses”, respectively (see note 29).

In the case of sale and leasebacks at fair value, profit or loss on the sale is recognised, for the part effectively transferred, in the income statement at the transaction date.

k) Exchanges of assets

An “exchange of assets” is understood to be the acquisition of tangible and intangible assets in exchange for the conveyance of other non-monetary assets or a combination of monetary and non-monetary assets. For the purpose of the accompanying annual accounts, foreclosures of assets in settlement of amounts due to the companies from third parties do not constitute an exchange of assets.

Items received in an exchange of assets are measured at fair value, provided that this exchange operation could be understood to have commercial substance, as defined in applicable regulations, and when the fair value of the asset received, or the asset given up, can be estimated reliably. The fair value of the instrument received is determined as the fair value of the asset given up, plus, where applicable, the fair value of any monetary consideration given, except when there is much clearer evidence of the fair value of the asset received.

In exchanges of assets that do not meet the requirements described above, the asset received is recognised at the carrying amount of the asset given up, plus any monetary consideration paid or committed on acquisition.

l) Offsetting of balances

Receivables and payables may only be used to offset each other (and are therefore presented in the balance sheet at the net amount) if they derive from transactions in which this possibility is specified in the contract or in compliance with a legal obligation, and provided that the balances will be settled on a net basis or the asset realised and the liability settled simultaneously.

m) Financial guarantees and related provisions made

A contract is considered a financial guarantee if it requires an entity to pay specific amounts on behalf of a third party in the event that the latter is unable to do so, irrespective of the manner in which the obligation is instrumented: security deposit, bank guarantee, irrevocable documentary credit issued or confirmed by the entity, etc.

In accordance with Banco de España Circular 4/2017 and as a general rule, the Bank considers financial guarantee contracts given to third parties as financial instruments.

On initial recognition, the Bank records financial guarantees given under liabilities at fair value plus directly attributable transaction costs, which is generally equivalent to the premium received plus the present value of any fees and commissions and similar income to be received throughout the term of these contracts, with a balancing entry under assets in the amount of fees and commissions and similar income collected at the outset of the transactions and the present value of fees and commissions and similar income receivable. Subsequently, these contracts are recognised under liabilities at the higher of the following amounts:

- The amount determined in accordance with Circular 4/2017. In this respect, financial guarantees, irrespective of the holder, arrangement or any other circumstances, are analysed periodically to determine the credit risk to which they are exposed and, where applicable, to estimate the provisions required. This amount is calculated by applying criteria similar to those used to quantify impairment losses arising on debt instruments measured at amortised cost.

- The amount at which these instruments are initially recognised, less amortisation, which is charged to the income statement on a straight-line basis over the term of these contracts.

Provisions made for these instruments, are recorded as “Provisions – Commitments and guarantees given” under liabilities in the balance sheet. Allowances for and reversals of these provisions are recognised with a balancing entry under “Provisions or (-) reversal of provisions” in the income statement.

In the event that, pursuant to the foregoing, a provision were required for these financial guarantees, unaccrued fees and commissions on these transactions, which are recognised under “Financial liabilities at amortised cost – Other financial liabilities”, are reclassified to the corresponding provision.

n) Foreign currency transactions

I. Functional currency

The Bank's functional currency is the Euro. Therefore, all balances and transactions denominated in currencies other than the Euro are deemed to be denominated in foreign currency.

II. Translation of foreign currency balances

Foreign currency balances are translated as follows:

- Monetary assets and liabilities, at the average exchange rate in force on the Spanish spot foreign exchange market at year end.

- Income and expenses, at the exchange rate on the transaction date.

III. Recognition of exchange differences

Exchange differences arising on the translation of foreign currency balances are recognised in the income statement (see notes 28 and 35.5).

o) Own equity instruments

Instruments issued by the Bank are only considered as own equity when the following conditions are met:

- They do not include any contractual obligation for the issuer:

    - to deliver cash or another financial asset to a third party; or

    - to exchange financial assets or financial liabilities with third parties under conditions that are potentially unfavourable for the Entity.

- They will or may be settled in the issuer's own equity instruments and are:

    - a non-derivative that includes no obligation for the issuer to deliver a variable number of its own equity instruments; or

    - a derivative that will be settled by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

A financial instrument that does not meet the conditions stipulated in the two preceding paragraphs, even if it is a derivative financial instrument that may or must be settled by the future delivery or receipt of the issuer's own equity instruments, is not an equity instrument.

Transactions involving own equity instruments, including their issuance and redemption, are recognised directly in equity of the Entity, and no profit or loss thereon may be recognised. The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect.

Changes in the value of instruments classified as own equity instruments are not recorded in the financial statements. Consideration received or paid in exchange for such instruments is directly added to or deducted from equity of the Entity.

p) Recognition of income and expenses

The most significant criteria used by the Bank to recognise income and expenses are summarised as follows:

I. Interest income and expenses and similar items

As a general rule, interest income, interest expenses and similar items are recognised on an accruals basis using the effective interest method. Dividends received from other companies are recognised as income when the Bank's right to receive them is established.

II. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the income statement using criteria that vary according to their nature. The main criteria are as follows:

- Those relating to financial assets and financial liabilities at fair value through profit or loss are recognised upon collection.

- Those originating from transactions or services carried out over an extended period are deferred over the term of the transactions or services.

- Those relating to the provision of a service in a single act are recognised when the single act is carried out.

III. Non-finance income and expenses

These items are recognised on an accruals basis.

q) Assets under management

Assets owned by third parties and managed by Banco Cooperativo Español, S.A. Group companies are not disclosed in the balance sheet. Details of the third-party assets managed by the Banco Cooperativo Español, S.A. Group at 31 December 2023 and 2022 are disclosed in note 23.

r) Post-employment benefits

The Bank recognises the present value of defined benefit pension commitments, net of the fair value of the plan assets and the past service cost, the recognition of which is deferred as explained below, in "Provisions - Pensions and other post-employment defined benefit obligations" under liabilities, or in "Other assets - Insurance contracts linked to pensions" under assets, depending on whether the difference is negative or positive, and provided that the recognition criteria set out in Banco de España Circular 5/2013 are met.

Plan assets are assets linked to a specific defined benefit commitment that will be used to directly settle these obligations. They have the following characteristics: they are not owned by the Bank, but rather by a legally separate third party not related to the Bank; they are only available to settle or finance post-employment benefits payable to employees; they can only be returned to the Bank when the remaining plan assets are sufficient to meet all obligations of the plan or of the Entity relating to current or former employee benefits or to reimburse employee benefits already settled by the Bank.

If the Bank is able to demand payment from an insurer of part or all of the disbursement required to settle the defined benefit obligation, and it is practically certain that the insurer will reimburse some or all of the disbursements required to settle the obligation, but the insurance policy does not qualify as a plan asset, the Bank recognises this reimbursement right in “Insurance contracts linked to pensions”, under assets in the balance sheet. This right is treated as a plan asset in all other respects.

Actuarial gains and losses are deemed to be those arising from differences between previous actuarial assumptions and what has actually occurred in the plan and from changes in the actuarial assumptions used.

The Bank recognises any actuarial gains and losses arising on post-employment commitments with employees in the year in which they are generated or incurred, with a credit or debit to the income statement.

The past service cost, incurred due to modifications to existing post-employment benefits or on the introduction of new benefits, is recognised in the income statement on a straight-line basis over the period between the date the new commitments arise and the date these benefits are vested.

Post-employment benefits are recognised in the income statement as follows:

- The current service cost, defined as the increase in the present value of the obligations resulting from employee service in the current period, is recognised under “Administrative expenses - Personnel expenses”.

- The interest cost, defined as the increase during the year in the present value of the obligations as a result of the passage of time, is recognised under “Interest expenses”. When obligations are presented under liabilities net of plan assets, the cost of the liabilities recognised in the income statement is only that relating to the obligations recorded under liabilities.

- The expected return on plan assets and gains or losses on the value of the plan assets, less any plan administration costs and any applicable taxes, is recorded under “Interest income”.

Under the collective labour agreement currently in force, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability, death of spouse or death of parent, and other benefits.

In accordance with Royal Decree 1588/1999, in 2000 the Bank externalised its pension commitments through an insurance contract with Seguros Generales Rural, S.A. de Seguros y Reaseguros.

Details of the present value of the Bank’s post-employment benefit obligations at the 2023 and 2022 reporting dates are as follows:

	Thousands of Euros	
	2023	**2022**
Present value of obligations	(1,124)	(1,528)
Fair value of plan assets	1,124	1,652
Positive/(Negative) difference	**-**	**124**
		(Note 15)

The amount of the obligations was determined by independent actuaries applying, the following criteria:

1. *Calculation method*: projected unit credit method, which considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. *Actuarial assumptions used*: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2022	**2022**
Annual technical interest rate	3.47%	3.47%
Mortality tables	PERMF2020	PERMF2020
Expected rate of return on plan assets	3.47%	3.47%
Annual salary increase rate	N/A	3.97%
Annual Social Security pension increase rate	N/A	0.00%

In 2014, the Bank implemented a defined contribution Supplementary Social Security System through a pension plan signed with the insurance company Seguros Generales Rural, S.A., de Seguros y Reaseguros, as established in Article 45.6 of the XXIV Banking Collective Bargaining Agreement, in favour of employees a contribution of Euros 550 for 2023 and taking into account the amendment of RD 668/2023 of 18 July The same shall be made for all employees with one month's seniority and economic rights in favour of the employee in the event of leave for reasons other than retirement."

s) Termination benefits

In accordance with current legislation, the Bank pays compensation to those employees whose services are discontinued without just cause. Termination benefits are accounted for as a provision for pensions and similar obligations and as personnel expenses when the Entity has clearly undertaken a commitment to dismiss an employee or group of employees before their retirement date or to compensate an employee or group of employees to encourage their voluntary departure from the company.

t) Income tax

The income tax expense for the year is recognised in the income statement, except when it results from a transaction recognised directly in equity, in which case the related tax effect is also recognised in equity.

The income tax expense is determined by the tax payable on the taxable profit for the year after taking account of any changes in that year due to temporary and permanent differences, tax credits for tax deductions and benefits, and tax loss carryforwards.

Deferred tax assets and liabilities include temporary differences, identified as the amounts expected to be paid or recovered in respect of the difference between the carrying amount of the assets and liabilities and their tax base (tax value).

Deferred tax assets, credits and deductions and loss carryforwards are only recognised when it is considered likely that the Bank will generate sufficient future taxable profit against which they can be utilised.

Deferred tax assets and liabilities are measured by applying to the relevant temporary difference or credit the tax rate at which they are expected to be realised or settled.

Deferred tax liabilities are always recognised, except when goodwill is recognised or when they arise on accounting for investments in subsidiaries, associates or joint ventures where the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the future. Nevertheless, deferred tax assets and liabilities are not recognised if they arise from the initial recognition of an asset or liability other than a business combination that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognised are reassessed at year end to determine whether they still exist, and the appropriate adjustments are made based on the findings of the analyses performed.

Income and expenses recognised directly in equity are accounted for as temporary differences.

u) Statement of cash flows

The Bank reports its cash flows applying the indirect method, using the following expressions and classification criteria:

- Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments subject to a low risk of changes in value.

- Operating activities: typical activities of credit institutions and other activities that cannot be classified as investing or financing.

- Investing activities: the acquisition, sale or other disposal of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and liabilities and that are not operating activities.

When preparing the statement of cash flows, “Cash, cash balances at central banks and other demand deposits” have been considered as cash and cash equivalents.

v) Statement of recognised income and expense

This statement comprises income and expenses generated or incurred by the Bank during the year in the ordinary course of business, distinguishing between amounts recognised in the income statement for the year and those recognised directly in equity, in accordance with current legislation.

Accordingly, this statement presents:

a) Profit or loss for the year.

b) Net income and expenses recognised temporarily as valuation adjustments in equity.

c) Net income and expenses recognised permanently in equity.

d) Accrued income tax payable or recoverable in respect of the items listed in points b) and c) above.

e) Total recognised income and expenses, calculated as the sum of the preceding points.

The changes in income and expenses recognised in equity as valuation adjustments are as follows:

a) Valuation gains (losses): income, net of expenses incurred during the year, recognised directly in equity. Amounts recognised in this line item during the year continue to be carried in this line item at the initial value of other assets or liabilities, even when they are transferred to the income statement in the same year, or they are reclassified to another line item.

b) Amounts transferred to the income statement: valuation gains or losses previously recognised in equity, even in the same period, which are accounted for in the income statement.

c) Amounts transferred to the initial value of hedged items: valuation gains or losses previously recognised in equity, even in the same period, which are accounted for in the initial value of assets or liabilities as a result of cash flow hedges.

d) Other reclassifications: transfers between valuation adjustments during the year in accordance with criteria established under current legislation.

The amounts disclosed in these items are presented gross, and the related tax effect is recognised under "Income tax".

w) Statement of total changes in equity

This statement presents all changes in equity, including those arising from changes in accounting criteria and the correction of errors. This statement therefore shows a reconciliation of the opening and closing carrying amounts of all items that make up equity, grouping movements according to their nature, as follows:

a) Adjustments for changes in accounting criteria and correction of errors: changes in equity due to the retrospective restatement of balances in the financial statements as a result of changes in accounting criteria or the correction of errors.

b) Income and expenses recognised during the year: the aggregate amount of all of the aforementioned items recorded in the statement of recognised income and expense.

c) Other changes in equity: the remaining items recognised in equity, such as increases or decreases in share capital, distribution of profit or application of losses, transactions with own equity instruments, equity-settled payments, transfers among components of equity and any other increases or decreases in equity.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

3. Distribution of Profit and Earnings per Share

Distribution of profit

The proposed distribution of the Bank's profit for 2023, prepared by the board of directors and pending approval by the Shareholders at their Annual General Meeting is as follows:

	Thousands of Euros
Profit for 2023	47,213
Distribution:	
Interim dividend	-
Reserves:	47,213
Legal	1,867
Voluntary	45,346

The distribution of the Bank's profit for 2022, approved by the shareholders at their annual general meeting held on 22 June 2023, was as follows:

	Thousands of Euros
Net profit for 2022	43,898
Distribution:	
Dividends	-
Reserves:	43,898
Legal	1,545
Voluntary	42,353

Earnings per share

Earnings per share are calculated by dividing the net profit by the number of ordinary shares outstanding during the year.

	2023	**2022**
Net profit (thousands of Euros)	47,213	43,898
Number of ordinary shares outstanding (note 19)	2,563,567	2,408,237
Earnings per share (Euros)	18.42	18.23

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

4. Information on Directors and Senior Management

Remuneration of Directors

Details of gross remuneration received by members of the Bank's Board of Directors for allowances in 2023 and 2022 are as follows:

	Thousands of Euros		
Directors	**2023**	**2022**	
Mr. Ignacio Arrieta del Valle (Chairman)	13	13	
Mr. José Luis García-Lomas Hernández (Vice-chairman)	-	8	Director until 04/10/2022
Mr. Carlos Martínez Izquierdo	13	12	
Mr. Cipriano García Rodríguez (1)	14	12	
Ms. Dagmar Werner	12	10	
Mr. Fernando Berge Royo	13	12	
Mr. Manuel Antonio Ruíz Escudero	15	12	
Mr. Gerónimo Luque Frías	13	10	
Mr. Jose Luis García-Palacios Álvarez	11	11	
Mr. Fernando Martínez Rodríguez	11	12	
Mr. Jesús María Hontoria Ramos	11	12	
Mr. Pedro Palacios Gómez	13	12	
Mr. Antonio Aguilar-Amat Caballero	35	33	
Mr. Francisco López Luque	32	32	
Mr. Jochen Philipp	12	11	
Mr. Juan Nuñez Pérez	5	-	Director since 22/06/2023
Total	**223**	**212**	

(1) Allowances received by Caja Rural de Zamora, SCC

Public liability insurance

The Directors and Executives of the Bank have a public liability insurance policy, for which the premium is borne by the Spanish Association of Rural Savings Banks. In 2023 and 2022, this item had no impact on the Bank's income statement.

Loans

The Group has extended no loans to the Bank's Directors at 31 December 2023 or 2022.

Conflicts of interest concerning the Directors

The Directors of the Bank and their related parties have had no conflicts of interest requiring disclosure in accordance with articles 228 and 229 of the Revised Spanish Companies Act, amended by Law 31/2014 of 24 December 2014.

Remuneration of Senior Management

For the purposes of preparing the accompanying annual accounts, senior management comprises the 11 members of the Bank's steering committee in 2023 and 2022, considered to be key management personnel within the Bank.

The following table details the remuneration received by Senior Management personnel in 2023 and 2022:

	Thousands of Euros					
	Remuneration received		Deferred remuneration during the year (*)		Total	
	2023	2022	2023	2022	2023	2022
Senior Management personnel	2,127	2,159	183	740	2,310	2,899

(*) This remuneration accrued during 2023 and 2022 is payable at 31 December 2023 and 2022.

The characteristics of the variable remuneration model approved by the remuneration committee and board of directors include the following:

- Under no circumstances may the variable component of the remuneration exceed 100% of the fixed component. Any increase in the maximum ratio described above will require the express approval of the shareholders at their general meeting and must comply with applicable legislation at any given time.

- The Bank does not guarantee the payment of variable remuneration.

- In addition to business performance, qualitative criteria that act as an incentive to work in the customer's interest will also be taken into consideration when determining variable remuneration, such as compliance with regulatory requirements in terms of standards for conduct, an equitable treatment of customers and customer satisfaction ratings, among others.

- The remuneration system must be sufficiently flexible so that implementation of the remuneration policy will enable the Bank to withhold variable remuneration.

- There will be no direct link between remuneration and the sale of certain financial instruments or specific product categories. The remuneration policy of Banco Cooperativo Español, S.A. is designed to discourage employees from furthering their own personnel interests or those of the Bank over those of the customer.

- The remuneration policy takes into consideration the impact that variable remuneration may have on the Bank's capital, and assesses the impact of remuneration flows on the Bank's capital planning and capital measurement, by determining that total variable remuneration does not impinge on the Bank's capacity to strengthen its capital base.

- Ex-post adjustments enable the Bank to reduce (malus clauses) or recover (clawback clauses) variable remuneration in the event of a "significant increase in the Bank's capital requirements, or those of the business unit in which the person belonging to the identified group carries out his/her activity, that had not been foreseen when the exposures were generated", as per that set forth in rule 39.5 of Circular 2/2016.

- The applicable remuneration policy has been designed to create a balanced and efficient ratio between the fixed and variable pay components.

- The annual variable remuneration components are tied to achieving the following objectives, among others:

    - Professional development objectives.

    - Quantitative objectives.

    - Qualitative objectives, including those relating to projects and quality. In this regard, the quality objectives are specific to each area or department.

    - Performance assessment, in which factors such as customer focus, results, leadership and cooperation, proactivity and excellence will be measured.

  Additionally, all risks to which the Bank's activity is exposed are taken into account when accruing the variable remuneration, and compliance with the risk parameters pertaining to each area is mandatory. In the event of non-compliance with any of the risk parameters, the annual variable remuneration is adjusted in line with the severity of the non-compliance event, which may lead to the loss of the variable remuneration linked to achievement of the objective.

<u>Deferral</u>

40% of the variable remuneration is deferred over a period of four years, the payment schedule being as follows ("Deferred Variable Remuneration"):

- One fourth is payable one year after the scheduled date for employees and management of the Bank ("General Payment Date") in general. 50% cash and 50% share-based with a retention period of one year.

- One fourth is payable two years after the general payment date. 50% cash and 50% share-based with a retention period of one year.

- One fourth is payable three years after the general payment date. 50% cash and 50% share-based with a retention period of one year.

- One fourth is payable four years after the general payment date. 50% cash and 50% share-based with a retention period of one year.

The remaining 60% of variable remuneration shall be paid as follows:

- 50% in cash at the general payment date.

- 50% as share-based payment with a one-year retention period, i.e. it shall not be effective earlier than one year after the general payment date.

Instruments

- The remuneration policy includes a clause whereby Banco Cooperativo Español will pay at least 50 per cent of the variable remuneration, both deferred and non-deferred, by way of an instrument linked to the positive or negative performance of total own funds of Banco Cooperativo Español and subsidiaries. The purpose is to link variable remuneration to the positive or negative results of the Bank, thereby aligning the Bank's remuneration policy with the requirements of applicable legislation on the remuneration of credit institutions.

- In this regard, as set forth in the remuneration policy, the equity instrument provided to members of the identified group as part of their variable remuneration, whether deferred or non-deferred, will be withheld for a period of one year.

Principle of proportionality

Article 32.1 of the Law on the organisation, supervision and solvency of credit institutions (hereinafter LOSS) includes the express possibility of applying remuneration requirements at credit institutions "that are commensurate with their size, internal organisation and the nature, scope and complexity of their activities" (the principle of proportionality).

Royal Decree-Law 7/2021 was published on 28 April 2021 to transpose the CRD V into Spanish law, amending the LOSS and including in article 34.2 thereof the transposition of the principle of proportionality in practically the same terms as are set out in CRD V:

"By way of derogation from paragraph 1, the requirements set out in points (l) and (m) and in the second paragraph of point (ñ) of that paragraph shall not apply to:

a) an institution that is not a large institution as defined in point (146) of Article 4(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 and the value of the assets of which is on average and on an individual basis in accordance with this Directive and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 equal to or less than Euros 5 billion over the four-year period immediately preceding the current financial year, or since its incorporation if it has existed for fewer than four years

b) a staff member whose annual variable remuneration does not exceed Euros 50 000 and does not represent more than one third of the staff member's total annual remuneration".

Gender distribution of the Board of Directors

At 31 December 2023 the board of directors was composed of 14 men and 1 woman (13 men and 1 woman at 31 December 2022).

5. Cash, Cash Balances at Central Banks and Other Demand Deposits

Details at 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	2022
Cash	475	604
Cash balances at central banks		
Banco de España		
Current account	3,249,873	211,325
Other demand deposits	39,086	51,470
	3,289,434	**263,399**

Details of residual maturity and the interest rate repricing matrix for the items comprising the balances in this balance sheet caption, as well as information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category, are provided under Risk Management (see note 35).

6. Financial Assets and Financial Liabilities Held for Trading

Details of these balance sheet items, by type of instrument, at 31 December 2023 and 2022, are as follows:

	Thousands of Euros	
	2023	2022
Assets		
Derivatives	1,755,067	1,674,294
Equity instruments	3,070	3,158
Debt securities	50,514	62,051
Total assets	**1,808,651**	**1,739,503**
Liabilities		
Derivatives	1,747,898	1,665,817
Total liabilities	**1,747,898**	**1,665,817**

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category, as well as details of the distribution of the carrying amount of the most significant financial assets disclosed, based on geographical area and activity segment is provided under Risk Management in note 35, and certain information on the fair value of these assets is provided in note 24.

Financial assets and financial liabilities held for trading. Trading derivatives

The derivatives portfolio arises from the Bank's need to manage the risks to which it is exposed in the ordinary course of business, and the need to market these products to customers. At 31 December 2023 and 2022, derivatives were mainly arranged on OTC markets, the counterparties were credit institutions and other non-financial corporations, and they were associated with currency, interest rate and share risk

Details, by type of risk and type of product or market, of the fair value as well as notional amounts relating to financial derivatives recognised on the balance sheets, differentiating between official and OTC market arrangements, at 31 December 2023 and 2022, are as follows:

	Thousands of Euros					
	31.12.2023			31.12.2022		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Interest rate	**1,726,895**	**1,720,944**	**33,509,283**	**1,653,621**	**1,647,087**	**30,800,679**
OTC options	123	123	24,274	744	744	329,862
OTC other	1,726,772	1,720,821	33,447,609	1,652,877	1,646,343	30,456,117
Organised market options	-	-	-	-	-	-
Organised market other	-	-	37,400	-	-	14,700
Equity instruments	**7,255**	**7,403**	**3,816,626**	**9,891**	**9,944**	**2,534,772**
OTC options	3,573	3,572	29,020	2,271	2,260	33,101
OTC other	3,682	3,831	3,787,606	7,620	7,684	2,501,671
Organised market options	-	-	-	-	-	-
Organised market other	-	-	-	-	-	-
Foreign exchange and gold	**20,917**	**19,551**	**379,694**	**10,782**	**8,786**	**295,745**
OTC options	2	2	480	17	17	2,344
OTC other	20,915	19,549	379,214	10,765	8,769	293,401
Organised market options	-	-	-	-	-	-
Organised market other	-	-	-	-	-	-
Credit	-	-	-	-	-	-
Credit default swaps	-	-	-	-	-	-
Credit spread options	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
Other	-	-	-	-	-	-
Commodities	-	-	-	-	-	-
Other	-	-	-	-	-	-
Derivatives	**1,755,067**	**1,747,898**	**37,705,603**	**1,674,294**	**1,665,817**	**33,631,196**
Of which: OTC - Credit institutions	*1,462,418*	*987,059*	*21,037,954*	*1,411,074*	*896,979*	*16,159,045*
Of which: OTC - Other financial corporations	*289,270*	*758,067*	*16,550,842*	*249,474*	*764,755*	*17,334,616*
Of which: OTC - Other	*3,379*	*2,772*	*79,407*	*13,746*	*4,083*	*137,535*

Financial assets held for trading. Equity instruments

Details at 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	2022
Other financial corporations	3,070	3,158
Total	**3,070**	**3,158**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Financial assets held for trading. Debt securities

Details of balances of debt securities by counterparty are as follows:

	Thousands of Euros	
	2023	**2022**
General governments	46,636	53,325
Credit institutions	2,073	254
Other financial corporations	-	5,326
Non-financial corporations	1,805	3,146
Total	**50,514**	**62,051**

As of December 31, 2023, the Bank had no securities lent or collateralized (as of December 31, 2022, 36,943 thousand of Euros).

7. Non-trading Financial Assets Mandatorily at Fair Value through Profit or Loss

A breakdown of this item by type of instrument at 31 December 2023 and 2022 is as follows:

	Thousands of Euros	
	2023	**2022**
Instrument		
Equity instruments	1,128	745
Debt securities	5	31
Loans and advances	1	2,544
Total	**1,134**	**3,320**

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category, as well as details of the distribution of the carrying amount of the most significant financial assets disclosed, based on geographical area and activity segment is provided under Risk Management in note 35, and certain information on the fair value of these assets is provided in note 24.

A breakdown of this item by geographical area and category of counterparty at 31 December 2023 and 2022 is as follows:

	Thousands of Euros	
	2023	**2022**
Geographical area		
Spain	1,134	3,320
Rest of European Union	-	-
Other	-	-
	1,134	**3,320**
Counterparty		
Other financial corporations	1,128	745
Non-financial corporations	6	2,575
Total	**1,134**	**3,320**

8. Financial Assets Designated at Fair Value through Profit or Loss

A breakdown of financial assets designated at fair value through profit or loss, by type of instrument and counterparty, at 31 December 2023 and 2022, is as follows:

	Thousands of Euros	
	2023	**2022**
Debt securities		
General governments	-	89,105
Credit institutions	-	39,016
Other financial corporations	-	9,245
Total	**-**	**137,366**

As of December 31, 2023, the Bank had no securities lent or collateralized (24,794 thousand of Euros as of December 31, 2022).

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category, as well as details of the distribution of the carrying amount of the most significant financial assets disclosed, based on geographical area and activity segment is provided under Risk Management in note 35, and certain information on the fair value of these assets is provided in note 24.

9. Financial Assets Designated at Fair Value through Other Comprehensive Income

Details of this item, by instrument and counterparty, are as follows:

	Thousands of Euros	
	2023	**2022**
Equity instruments	**60,756**	**53,555**
Shares in Spanish companies	60,756	53,555
Credit institutions	3,922	3,152
Other financial corporations	16,203	14,336
Non-financial corporations	40,631	36,067
Shares in foreign companies	-	-
Debt securities	**1,410,556**	**3,838,766**
Central banks	-	-
General governments	608,519	3,304,631
Credit institutions	415,623	271,206
Other financial corporations	141,808	79,883
Non-financial corporations	247,302	185,413
Impairment losses	(2,696)	(2,367)
	1,471,312	**3,892,321**

Loaned or pledged securities amounted to Euros 578,311 thousand at 31 December 2023 (Euros 1,157,778 thousand in 2022).

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category, as well as details of the distribution of the carrying amount of the most significant financial assets disclosed according to geographical areas and activity segment, are provided under Risk Management in note 35, and certain information on the fair value of these assets is provided in note 24.

Past-due impaired assets

Allowances and provisions for debt instruments were recognised in the income statement in 2023 in an amount of Euros 494 thousand (provision for impairment of Euros 1,242 thousand in 2022) (see note 32).

Details of movement in changes in the value of financial assets classified in this category are provided in note 18 "Accumulated Other Comprehensive Income".

10. Financial Assets at Amortised Cost

Details of the balances of this item at 31 December 2023 and 2022, based on the nature of the financial instrument giving rise to them, are as follows:

	Thousands of Euros	
	2023	**2022**
Debt securities	**3,247,860**	**2,741,829**
Of which: Impairment losses	-	-
Loans and advances to credit institutions	**2,413,028**	**2,571,353**
Of which: Impairment losses	*(702)*	*(409)*
Loans and advances to customers	**1,339,630**	**976,198**
General governments	75,444	199,142
Other financial corporations	687,401	87,712
Non-financial corporations	481,882	575,137
Households	94,903	114,207
Of which: Impairment losses	*(12,569)*	*(15,889)*
Total	**7,000,518**	**6,289,380**

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category, as well as details of the distribution of the carrying amount of the most significant financial assets disclosed, based on geographical area and activity segment is provided under Risk Management in note 35, and certain information on the fair value of these assets is provided in note 24.

Financial assets at amortised cost. Debt securities

Details at 31 December 2023 and 2022, by instrument, are as follows:

	Thousands of Euros	
	2023	**2022**
General governments	3,227,540	2,721,781
Other financial corporations	20,320	20,048
	3,247,860	**2,741,829**
Impairment losses	-	-
Total	**3,247,860**	**2,741,829**

During the 2023 financial year, fixed income securities were reclassified from the fair value portfolio with changes in other comprehensive income to the amortized cost portfolio for a nominal value of Euros 332 million, whose fair value at the date of reclassification amounted to Euros 421,035 thousand and their gross valuation adjustments negative to Euros 2,980 thousand (December 31, 2022: gross valuation adjustments: negative Euros 5,395 thousand).

No securities in this portfolio matured in 2023 or 2022.

At 31 December 2023 and 2022 there were no assets in this portfolio which could have individually been considered impaired due to credit risk.

Loaned or pledged securities amounted to Euros 1,796,350 thousand at 31 December 2022 (Euros 702,389 thousand at 31 December 2022).

Financial assets at amortised cost. Loans and advances to credit institutions

Details by instrument are as follows:

	Thousands of Euros	
	2023	**2022**
Credit card debt	18	12
Reverse repurchase loans	754,257	151,253
Other term loans	181,085	482,102
Advances other than loans	1,477,668	1,937,986
Total	**2,413,028**	**2,571,353**
Of which:		
Impairment losses	*(702)*	*(409)*

Financial assets at amortised cost. Loans and advances to customers

Details by instrument and transaction status are as follows:

	Thousands of Euros	
	2023	**2022**
On demand, short notice (current account)	3,792	796
Credit card debt	797	760
Commercial loan portfolio	132,317	121,074
Finance leases	5,291	4,435
Other term loans	1,145,201	818,062
Advances other than loans	52,232	31,071
Total	**1,339,630**	**976,198**
Of which:		
Impaired assets	*3,912*	*2,127*
Impairment losses	*(12,569)*	*(15,889)*

Impacts of the macroeconomic situation on credit risk hedges

The social and political developments that have taken place over the past three years are having a variety of impacts on the global macroeconomic environment. The war in Ukraine and the sanctions imposed against Russia caused significant disruption, instability and volatility in global markets, as well as a significant increase in inflation, mainly due to an increase in the price of energy. In the euro area, with the main objective of containing this inflation, the European Central Bank, since mid-2022, has been gradually raising interest rates to levels not seen since 2008. Although uncertainty is high, it is most likely that key interest rates (the interest rates on refinancing operations in the case of the ECB) will remain at high levels over the coming months.

The current uncertainty about the evolution of the economy makes it necessary to persist the recommendations of accounting regulators and banking supervisors, aimed at adopting specific measures in order to mitigate the effects that this situation could have both on the calculation of the expected losses under the applicable standard and on solvency. urging banks to evaluate all available information, giving greater weight to long-term forecasts against the short-term economic situation.

The common denominator of all the recommendations is that, considering the high degree of uncertainty regarding the depth, duration and scope of the present crisis, the difficulty of preparing reliable macroeconomic forecasts, the transitory nature of the economic shock and the need to incorporate the effect of the mitigation measures of governments, it is advisable and necessary to exercise extreme caution and take all measures that allow the Bank to anticipate and minimize the risks of the crisis. impacts of the crisis on your balance sheet and profit and loss account.

In this regard, the Bank considers these recommendations in the calculation of expected losses due to credit risk under the applicable rule in Annex 9 of Circular 4/2017, considering the impact of the current situation of high energy and raw material costs and, since the second half of 2022, the rise in interest rates, They are having on the profitability of the different sectors of activity of the Spanish economy, so for the calculation of these losses, the following recommendations have been considered, among others:

- Identify those sectors or groups of borrowers that are most vulnerable in their field of action to the general rise in costs, both operational and financial, with the aim of actively managing their risks and prudently recognising impairment provisions in order to achieve conservative coverage levels.

- Keeping the appraisals of collateral and foreclosed assets up to date, taking into account the new circumstances of the real estate market and quantifying the possible impacts in the event of falls in real estate prices.

Considering the above, as of December 31, 2023 and 2022, the Bank maintained, for this reason, an impairment for credit risk in addition to that required in Annex 9 of Circular 4/2017, of Euros 7,936 thousand and Euros 9,589 thousand, respectively, mainly associated with exposures to sectors that could be more affected by the increases in energy and raw material costs and the significant increase in financing costs.

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

The balance of this asset line item at 31 December 2023 and 2022 is as follows:

	Thousands of Euros	
	2023	**2022**
Foreclosed tangible assets	-	1,211
Impairment allowances	-	(35)
Total	**-**	**1,176**

The fair value of the foreclosed assets calculated by independent appraisers does not differ significantly from their carrying amount.

Details of movement in these balance sheet line items in 2023 and 2022 are as follows:

	Thousands of Euros
Balance at 31 December 2021	**-**
Additions	1,211
Disposals	-
Balance at 31 December 2022	**1,211**
Additions	-
Disposals	(1,211)
Balance at 31 December 2023	**-**

In 2023 and 2022 movement in impairment of the Bank’s non-current assets and disposal groups classified as held for sale is as follows:

	Thousands of Euros	
	2023	**2022**
Opening balance	**(35)**	**-**
Allowances	(326)	(35)
Reversals	-	-
Applications	361	-
Closing balance	**-**	**(35)**

11. Investments in Subsidiaries, Joint Ventures and Associates

Details at 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Rural Informática, S.A.	2,603	2,603
Rural Inmobiliario, S.L.	3,486	3,486
BCE Formación, S.A.	60	60
Rural Renting, S.A.	600	600
Total	**6,749**	**6,749**

None of the securities included in this item at 31 December 2023 and 2022 are quoted on official markets.

Appendix I includes certain relevant information on the Bank's investees.

12. Tangible Assets

Movement in 2023 and 2022 is as follows:

	Thousands of Euros			
	Buildings/ Right-of-use assets	**Furniture and fixtures**	**IT equipment**	**Total**
Cost				
Balances at 31 December 2021	3,912	4,448	5,080	13,440
Additions	98	61	433	592
Disposals	-	-	-	-
Balances at 31 December 2022	4,010	4,509	5,513	14,032
Additions	88	155	469	712
Disposals	-	-	-	-
Balances at 31 December 2023	4,098	4,664	5,982	14,744
Accumulated depreciation				
Balances at 31 December 2021	(2,168)	(3,393)	(4,146)	(9,707)
Allowances	(766)	(194)	(443)	(1,403)
Reversals	-	-	-	-
Balances at 31 December 2022	(2,934)	(3,587)	(4,589)	(11,110)
Allowances	(1,095)	(188)	(451)	(1,734)
Reversals	-	-	-	-
Balances at 31 December 2023	(4,029)	(3,775)	(5,040)	(12,844)
Net tangible assets				
Balances at 31 December 2022	**1,076**	**922**	**924**	**2,922**
Balances at 31 December 2023	**69**	**889**	**942**	**1,900**

At 31 December 2023 and 2022 the cost of fully depreciated tangible assets for own use amounts to Euros 6,806 thousand and Euros 5,657 thousand, respectively.

During the 2023 financial year, the Bank recognised Euros 88 thousand (Euros 98 thousand in 2022) in respect of right-of-use assets for leases (see note 2 (j)).

At 31 December 2023 and 2022, the Bank has no items of property, plant and equipment on which there are any ownership restrictions, or which are pledged as collateral. Neither does it have any commitments to acquire property, plant and equipment from third parties. No compensation or indemnities for the impairment or decline in value of property, plant and equipment for own use were received from third parties in those years, nor are they expected to be received.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

13. Intangible Assets

Movement in 2023 and 2022 is as follows:

	Thousands of Euros
	Other intangible assets
Cost	
Balances at 31 December 2021	20,545
Additions	934
Disposals	-
Balances at 31 December 2022	21,479
Additions	1,777
Disposals	(12)
Balances at 31 December 2023	23,244
Accumulated amortisation	
Balances at 31 December 2021	(17,875)
Allowances	(1,555)
Reversals	-
Balances at 31 December 2022	(19,430)
Allowances	(1,404)
Reversals	12
Balances at 31 December 2023	(20,822)
Net intangible assets	
Balances at 31 December 2022	**2,049**
Balances at 31 December 2023	**2,422**

At 31 December 2023 and 2022 the cost of fully amortised intangible assets for own use in service amounts to Euros 21,496 thousand and Euros 13,874 thousand, respectively.

14. Financial Liabilities at Amortised Cost

Details at 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Deposits		
Deposits from central banks	55,423	897,387
Deposits from credit institutions	6,806,447	5,641,740
Deposits from customers	2,329,225	1,559,701
Debt securities	29,480	-
Other financial liabilities	1,255,337	1,294,507
Total	**10,475,912**	**9,393,335**

Details of residual maturity and the interest rate repricing matrix for the items comprising the balances in this balance sheet caption are provided under Risk Management (see note 35). Note 24 includes information on the fair value of financial instruments included in this caption.

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Deposits from central banks and from credit institutions

Details at 31 December 2023 and 2022, by nature, are as follows:

	Thousands of Euros					
	Deposits from central banks		**Deposits from credit institutions**		**Total**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Current accounts / overnight deposits	-	-	4,429,498	4,045,166	4,429,498	4,045,166
Deposits redeemable at notice	55,423	897,387	919,018	928,170	974,441	1,825,557
Repurchase agreements	-	-	1,457,931	668,404	1,457,931	668,404
Total	**55,423**	**897,387**	**6,806,447**	**5,641,740**	**6,861,870**	**6,539,127**

"Deposits from central banks" on the balance sheet at 31 December 2023 solely comprise time deposits taken from the European Central Bank through Banco de España. The amount recorded includes drawdowns from the European Central Bank's TLTRO III facilities, amounting to Euros 55,423 thousand and Euros 897,387 thousand at 31 December 2023 and 2022, respectively.

On 18 February 2020 the Bank, together with 16 credit cooperatives, set up a "TLTRO Group" for targeted longer-term refinancing operations (TLTRO III), as regulated by the Decision of the ECB of 22 July 2019 (ECB/2019/21) and on the basis of the Decision of the Governing Council of the European Central Bank of 29 January 2021.

On 25 August 2020, Banco de España announced its approval for the composition of the "TLTRO Group" to be modified, and it was thus reduced to Banco Cooperativo Español, S.A. as the lead institution and 15 credit cooperatives.

On 30 April 2020 the European Central Bank made certain modifications to the terms and conditions of the TLTRO III facilities in order to support the continued access of companies and households to bank credit in the face of the disruptions and temporary funding shortages associated with the COVID-19 pandemic. Financial institutions whose rate for eligible net loans and receivables is more than 0% in the period from 1 March 2020 to 31 March 2021 will pay an interest rate of 0.5% below the average rate on deposit facilities in the period from 24 June 2020 to 23 June.

On 10 December 2020 the European Central Bank prolonged support for banks via targeted lending operations (TLTRO). In this respect, it resolved to extend by an additional 12 months, until June 2022, the period of favourable interest rates for banks whose eligible net lending between 1 October 2020 and 31 December 2021 reaches the lending performance threshold. The borrowing allowance was also raised to 55% of eligible loans (50% previously). The applicable interest rate for drawn down facilities is therefore -1%, provided that the financing objectives are met as per the terms and conditions of the European Central Bank.

The Bank had met these financing objectives at 31 December 2021. Consequently, the interest rate reduction associated with the COVID-19 pandemic was recognised for accounting purposes in the period from 24 June 2020 to 31 December 2021 and continued to be recognised until June 2022.

The positive remuneration currently being generated by the drawdowns of the TLTRO III facilities are recognised in "Deposits from central banks" under "Interest income" in the income statement (see note 25 (a)).

In its monetary policy decision of 27 October 2022, the ECB decided to adjust the TLTRO III interest rates from 23 November 2022 onwards and to offer credit institutions additional voluntary early repayment dates for these transactions. Thus, until 23 November 2022, apart from the special periods, the interest rate applied to each drawdown was the average rate for deposit facilities from the start of each drawdown up to 23 November 2022. From 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate on TLTRO III operations is indexed to the average applicable key ECB interest rates over this period. Banco Cooperativo Español made its first repayment of the TLTRO III programme in December 2022, in an amount of approximately Euros 187 million. During the 2023 financial year, approximately Euros 856 million was amortized, which, considering the amount of unexpired accrued interest, resulted in the disbursement of Euros 854,098 thousand. During the 2023 financial year, these deposits generated interest amounting to Euros 5,969 thousand.

Deposits from customers

Details at 31 December 2023 and 2022, by nature, are as follows:

	Thousands of Euros	
	2023	**2022**
Current accounts / overnight deposits	1,288,836	1,015,933
Deposits redeemable at notice	467,829	449,194
Repurchase agreements	572,560	94,574
Total	**2,329,225**	**1,559,701**

Likewise, details by type of counterparty are as follows:

	Thousands of Euros	
	2023	**2022**
General governments	614,087	487,687
Other financial corporations	1,336,370	831,091
Non-financial corporations	254,926	124,492
Households	123,842	116,431
Total	**2,329,225**	**1,559,701**

Other financial liabilities

Details are as follows:

	Thousands of Euros	
	2023	**2022**
Payment obligations	2,384	1,186
Collateral received	1,190,885	1,154,789
Tax collection accounts	7,135	4,404
Special accounts	20,360	99,055
Financial guarantees	138	208
Other items	34,435	34,865
Total	**1,255,337**	**1,294,507**

At 31 December 2023, "Collateral received" includes collateral received as security for derivative transactions, in accordance with the clearing agreements entered into with various credit institutions, amounting to Euros 1,170,222 thousand (Euros 1,114,992 thousand at 31 December 2022).

At 31 December 2023 and 2022 there were no outstanding balances in respect of securities sales.

At 31 December 2023 and 2022 "Other" includes the liability associated with the right-of-use asset derived from lease contracts recognised by the Bank applying the rule on leases under Banco de España Circular 2/2018 (see notes 2 (j) and 12). In addition, at 31 December 2023 and 2022 this item mainly includes temporary balances relating to the offset of credit and debit cards to be settled, which were settled at the start of 2023 and 2022, respectively.

15. Other Assets and Liabilities

Details at 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	Other assets	
	2023	2022
Prepayments	5,531	16,474
Net assets in pension plans (note 2 (r))	-	124
Operations in transit	-	-
Other assets	892	3,376
Total assets	**6,423**	**19,974**

	Other liabilities	
	2023	2022
Accruals	22,177	28,881
Operations in transit	-	1
Other liabilities	6,418	6,261
Total liabilities	**28,595**	**35,143**

"Other assets" at 31 December 2023 and 2022 mainly comprise direct debit payments to be returned.

Other liabilities mainly include balances payable to suppliers at 31 December 2023 and 2022.

16. Hedging Derivatives

At 31 December 2023 and 2022, the Bank's main hedged positions and the derivatives designated to hedge those positions were as follows:

- Fair value hedges: fixed-rate debt securities recorded in the financial assets portfolio at fair value through other comprehensive income available for sale. The risk is hedged with interest rate derivatives (fixed-for-floating swap).

- Cash flow hedges: hedged assets are inflation-indexed assets recorded in the financial assets portfolio at fair value through other comprehensive income. This risk is hedged with inflation swaps and interest rate swaps.

Details, by product and market type, of the fair value and notional amount of the hedging derivatives recognised on the accompanying balance sheets are as follows:

	Thousands of Euros					
	2023		2022		Notional amount	
	Assets	Liabilities	Assets	Liabilities	2023	2022
Interest rate	17,070	633,354	46,838	671,255	6,393,483	7,172,283
OTC options	-	-	-	-	-	-
OTC other	17,070	633,354	46,838	671,255	6,393,483	7,172,283
Organised market options	-	-	-	-	-	-
Organised market other	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-
Foreign exchange and gold	-	-	-	-	-	-
Credit	-	-	-	-	-	-
Commodities	-	-	-	-	-	-
Other	-	-	-	-	-	-
Fair value hedges	**17,070**	**633,354**	**46,838**	**671,255**	**6,393,483**	**7,172,283**
Interest rate	-	8,308	-	8,716	20,000	20,000
Equity instruments	-	-	-	-	-	-
Foreign exchange and gold	73,091	79,359	121,611	128,346	73,141	124,336
Commodities	-	-	-	-	-	-
Other	-	-	-	-	-	-
Cash flow hedges	**73,091**	**87,667**	**121,611**	**137,062**	**93,141**	**144,336**
Derivatives - hedge accounting	**90,161**	**721,021**	**168,449**	**808,317**	**6,486,624**	**7,316,619**
Of which: OTC - Credit institutions	*24,418*	*499,457*	*75,066*	*593,380*	*2,235,583*	*3,196,178*
Of which: OTC - Other financial corporations	*65,743*	*221,564*	*93,383*	*214,937*	*4,251,041*	*4,120,441*

Gains or losses on hedging instruments and the hedged item attributable to the hedged risk are not significant in 2023 and 2022 and are recognised under "Gains or losses on hedge accounting, net" (see note 28).

Note 24 includes information on the fair value of financial instruments included in this caption.

Details of hedging instruments in force at 31 December 2023 and 2022, presented at their fair value on a net basis, are as follows:

	Thousands of Euros			
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
	Nominal amount		Fair value	
Fair value hedges				
Fixed income EUR	6,393,483	7,172,283	(616,284)	(624,417)
Loan	-	-	-	-
	6,393,483	**7,172,283**	**(616,284)**	**(624,417)**
Cash flow hedges				
Fixed income EUR	20,000	20,000	(8,307)	(8,716)
Currency	73,141	124,336	(6,268)	(6,735)
	93,141	**144,336**	**(14,575)**	**(15,451)**

Details of hedged items at 31 December 2023 and 2022 are as follows:

	Thousands of Euros					
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
	Carrying amount		Accumulated hedge adjustment		Recognised hedge adjustments	
Fair value hedges						
Fixed income EUR	4,144,883	5,229,785	58,041	26,638	31,624	(336,171)
Cash flow hedges						
Fixed income EUR	27,960	27,327	-	-	-	-

Details of the maturity of the fair value and cash flows hedges at 31 December 2023 and 2022 are as follows:

	2023				
	Thousands of Euros				
	Nominal amount				
	Up to 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Fair value hedges					
Fixed income EUR	3,486,683	49,800	1,895,600	961,400	6,393,483
Loan	-	-	-	-	-
	3,486,683	49,800	1,895,600	961,400	6,393,483
Cash flow hedges					
Fixed income EUR	-	-	20,000	-	20,000
Exchange rate GBP	-	-	16,110	33,089	49,199
Exchange rate KRW	-	23,942	-	-	23,942
	-	23,942	36,110	33,089	93,141

	2022				
	Thousands of Euros				
	Nominal amount				
	Up to 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Fair value hedges					
Fixed income EUR	3,866,900	627,083	1,786,300	892,000	7,172,283
Loan	-	-	-	-	-
	3,866,900	627,083	1,786,300	892,000	7,172,283
Cash flow hedges					
Fixed income EUR	-	-	20,000	-	20,000
Exchange rate GBP	-	-	-	48,207	48,207
Exchange rate KRW	50,592	-	25,538	-	76,130
	50,592		45,538	48,207	144,337

17. Provisions

This item comprises provisions for contingent exposures and commitments, legal issues and litigation. Movement during 2023 and 2022 is as follows:

	Thousands of Euros	
	2023	2022
Opening balance	**2,750**	**3,218**
Additions (note 2 (r) and 31)	-	47
(-) Amounts used	(2)	-
(-) Unused amounts reversed during the period (note 31)	(46)	(236)
Other movements	82	(279)
Closing balance	**2,784**	**2,750**

The Bank has recognised provisions of Euros 1,967 thousand and Euros 1,978 thousand at 31 December 2023 and 2022, respectively, for pending legal issues and tax litigation. The Directors consider that these provisions are sufficient to cover any eventuality as regards these items.

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18. Accumulated Other Comprehensive Income (Equity)

Accumulated other comprehensive income in the balance sheets includes the amounts, net of the related tax effect, of adjustments to the assets and liabilities recognised temporarily in equity through the statement of total changes in equity until they are realised or extinguished, whereupon they are recognised definitively in equity through the income statement.

This item reflects the net amount of unrealised changes in the fair value of assets included, for measurement purposes, as financial assets at fair value through other comprehensive income, and those arising from cash flow hedging derivatives.

Movement during 2023 and 2022 is as follows:

	Thousands of Euros			
	Financial assets at fair value through other comprehensive income - equity instruments	**Financial assets at fair value through other comprehensive income - debt instruments**	**Cash flow hedges**	**Total**
2022 opening balance	**3,129**	**11,323**	**151**	**14,603**
Effects of changes in accounting policies	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(1,854)	-	-	(1,854)
Net valuation gains/(losses)	-	(41,598)	1,604	(39,994)
Amounts transferred to the income statement	-	30	-	30
Income tax	556	12,470	(481)	12,545
2022 closing balance	**1,831**	**(17,775)**	**1,274**	**(14,670)**
Effects of changes in accounting policies	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	6,954	-	-	6,954
Net valuation gains/(losses)	-	19,460	83	19,543
Amounts transferred to the income statement	-	725	-	725
Income tax	(1,879)	(6,055)	37	(7,897)
2023 closing balance	**6,906**	**(3,645)**	**1,394**	**4,655**

19. Share Capital and Share Premium

Details of changes in this item in 2023 and 2022 are shown in the Bank's statement of total changes in equity for those years.

19.1 Share Capital

At their ordinary general meeting held on 26 May 2022 the Bank's shareholders agreed to increase capital with a charge to voluntary reserves (total amount of Euros 7,726 thousand), with an option for the Bank to acquire the free assignment rights (scrip dividend), and the board of directors being delegated to take all the necessary measures for its implementation and formalisation.

On 22 June 2022 capital was increased by 128,559 shares of Euros 60.10 par value. This increase was executed in a public deed and charged to voluntary reserves. Consequently, at 31 December 2022 share capital was represented by 2,408,237 shares, subscribed and fully paid.

At their ordinary general meeting held on 22 June 2023 the Bank's shareholders agreed to increase capital with a charge to voluntary reserves (total amount of Euros 9,335 thousand), with an option for the Bank to acquire the free assignment rights (scrip dividend), and the board of directors being delegated to take all the necessary measures for its implementation and formalisation.

On 7 July 2023 capital was increased by 155,330 shares of Euros 60.10 par value. This increase was executed in a public deed and charged to voluntary reserves. Consequently, at 31 December 2023 share capital was represented by 2,563,567 shares, subscribed and fully paid.

Shareholders holding more than 10% of share capital at 31 December 2023 and 2022 are as follows:

	% ownership	
Entity	**2023**	**2022**
Grucajrural Inversiones, S.L.	87.946	87.946
DZ Bank AG	12.027	12.027

On 29 December 2017, the member Savings Banks of the Spanish Association of Rural Savings Banks, and which are Shareholders of the Bank, entered into a Framework Agreement encompassing the following agreements (see note 1 j)):

– The shares held by the Savings Banks in Banco Cooperativo and RGA Seguros General Rural, S.A. de Seguro y Reaseguros (hereinafter RGA) were to be grouped in Grucajrural Inversiones, S.L. (hereinafter Grucajrural), a vehicle set up by the Association, as the founding partner, on 1 December 2017. This grouping was to follow the 29 Savings Banks' acquisition of the equity investments in Grucajrural held by the Association as founding partner, and the subsequent transfer to this company, as a non-monetary contribution, of the shares held by the 29 Savings Banks in BCE and RGA, thereby increasing its capital, with newly issued equity investments in Grucajrural being delivered to the contributing Savings Banks.

  At their General Meeting held on 29 December 2017, the Shareholders of Grucajrural agreed to the aforementioned capital increase through a non-monetary contribution.

  On 23 February 2018 the European Central Bank and the Spanish National Securities Market Commission notified of its decision not to oppose the transfer of the shares to Grucajrural in the capital increase, which was executed in a public deed on 9 March 2018.

  The Bank held no own shares at 31 December 2023 or 2022.

19.2 Share Premium

This item reflects the amount disbursed by the Shareholders over the par value of the shares when subscribing the share capital. At 31 December 2023 and 2022 the share premium amounts to Euros 85,972 thousand.

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20. Retained Earnings, Capitalisation Reserve and Other Reserves

Details of these items at 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	2022
Legal reserve	28,947	27,402
Capitalisation reserve	34,514	30,417
Other reserves	362,929	332,589
	426,390	**390,408**

Movement

Details of changes in this item in 2023 and 2022 are shown in the Bank's statement of total changes in equity for those years.

Legal reserve

Under the Revised Spanish Companies Act, entities must transfer 10% of profit for each year to their legal reserve until such reserve reaches an amount equal to 20% of the share capital of the entity. The legal reserve can be used to increase share capital provided that the remaining reserve balance is at least equal to 10% of the nominal value of the total share capital after the increase.

Except for the aforementioned purpose, unless the legal reserve exceeds 20% of the share capital it may only be used to offset losses if no other reserves are available.

At 31 December 2023 and 2022, the Bank has appropriated amounts of Euros 28,947 thousand and Euros 27,402 thousand, respectively, to this reserve.

Capitalisation reserve

The capitalisation reserve has been appropriated in accordance with article 25 of the Spanish Corporate Income Tax Law, which requires that an amount equal to the reduction in taxable income for the year be appropriated to the reserve. The amount by which taxable income may be reduced is equal to 10% of the increase in equity, as defined in the aforementioned article. In no case may the amount of the reduction exceed 10% of the taxable income for the tax period prior to the reduction, before the integration referred to in article 11.12 of the Law and before offsetting tax loss carryforwards. However, if the reduction cannot be applied due to insufficient taxable income, the outstanding amounts may be applied in the tax periods ending in the two years immediately after the end of the tax period in which the reduction entitlement was generated, together with any reduction applicable in that period, subject to the limit indicated. The reserve is restricted and the increase in equity must be maintained for a five-year period from the end of the tax period in which the reduction is generated, unless accounting losses are incurred (see note 21).

At 31 December 2023 and 2022, the Bank has appropriated amounts of Euros 34,514 thousand and Euros 30,417 thousand, respectively, to this reserve.

21. Taxation

Tax assets and liabilities

Details at 31 December 2023 and 2022 are as follows:

	Thousands of Euros			
	Current		**Deferred**	
	2023	**2022**	**2023**	**2022**
Tax assets				
Temporary differences	-	-	25,451	67,913
Value added tax	-	161	-	-
Other items	-	3,281	-	-
Total	**-**	**3,442**	**25,451**	**67,913**
Tax liabilities				
Temporary differences	-	-	7,518	41,235
Income tax	942	-	-	-
Value added tax	749	952	-	-
Other items	436	71	-	-
Total	**2,127**	**1,023**	**7,518**	**41,235**

The balance of tax assets reflects the amounts to be recovered within the next 12 months ("Tax assets-current") and the tax to be recovered in future years, including amounts arising from unused tax credits and deductions ("Tax assets - deferred"). Tax liabilities include all tax liabilities, which are broken down between current and deferred.

Royal Decree-Law 14/2013 on urgent measures to adapt Spanish law to European Union legislation on the supervision and solvency of financial institutions introduced certain measures aimed at allowing for some deferred tax assets to continue to be classed as capital, in line with legislation in force in other European Union member states. These include Law 27/2014 of 27 November 2014 (for 2015 and subsequent years), which establishes a regime aimed at allowing for certain deferred tax assets to continue to be classed as prudential capital within the global regulatory framework for more resilient banks and banking systems (the Basel III Accord), pursuant to the implementing legislation of this Accord, i.e. Regulation (EU) No 575/2013 and Directive 2013/36/EU, both dated 26 June 2013 (hereinafter CRD IV).

The regulations on prudential requirements provide that deferred tax assets the use of which is contingent upon obtaining future profits should be deducted from regulatory capital, although consideration must be given to whether they are derived from tax losses and deductions or from temporary differences. Deferred tax assets arising from temporary differences, including those derived from loan losses, foreclosures, obligations for pensions and early retirement, are not considered to be contingent upon obtaining future profits, as under certain circumstances they may be converted into receivables from the taxation authorities and, therefore, they are not deducted from regulatory capital (hereinafter monetisable tax assets).

The regulations on monetisable tax assets generated prior to 2016 were completed in 2015 through the introduction of a financial contribution that could entail an annual payment of 1.5% to retain the right to monetise. This 1.5% financial contribution will be applied to the amount of monetisable tax assets generated between 2008 and 2015 that exceeds the aggregate amount of income tax payable for 2008 to 2015.

The Bank has estimated an amount of Euros 4,062 thousand and Euros 4,932 thousand at 31 December 2023 and 2022, respectively, which could be considered receivables from the taxation authorities. If the aggregate income tax payable for 2008 to 2015 exceeds the amount of monetisable tax assets, the Bank will not be required to pay the 1.5% financial contribution in order for the tax assets to be considered monetisable as provided for in articles 11.12, 130, additional provision 13 and transitional provision 33 of Corporate Income Tax Law 27/2014.

For these purposes, deferred tax assets and liabilities at 31 December 2023 and 2022 are as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2023	2022	2023	2022
Temporary differences				
Pension obligations	384	384	-	-
Impairment losses on bad debts	3,678	4,548	-	-
Other items	9,955	9,971	-	40
Temporary differences recognised under equity - Financial instruments	11,434	53,010	7,518	41,195
Total tax assets/liabilities	**25,451**	**67,913**	**7,518**	**41,235**

Movement in deferred tax assets and liabilities in 2023 and 2022 is as follows:

	Thousands of Euros	
	Assets	Liabilities
Balance at 31 December 2021	**39,994**	**25,376**
Recognised	34,791	21,638
Derecognised	(6,872)	(5,779)
Balance at 31 December 2022	**67,913**	**41,235**
Recognised	5,992	1,483
Derecognised	(48,454)	(35,200)
Balance at 31 December 2023	**25,451**	**7,518**

Deferred tax assets recognised mainly include non-deductible charges to cover pension obligations, portfolio impairment, asset valuation adjustments, the tax effect due to the fall in value of the portfolio at fair value through equity and other non-deductible provisions.

Deferred tax assets derecognised reflect the reversal of non-deductible provisions for bad debts and pension obligations, the reversal of amortisation/depreciation considered non-deductible for tax purposes, the reversal of impairment, the reversal of asset valuation adjustments, other non-deductible provisions and income that is not eligible for tax purposes deriving from prepaid fees and commissions.

Deferred tax liabilities recognised mainly reflect the tax effect of increases in the value of liabilities at fair value through equity. Those derecognised essentially reflect the tax effect of decreases in the value of liabilities at fair value through equity.

As indicated in note 2, the Bank recognises deferred tax assets because their future recovery is deemed probable based on existing forecasts of future taxable profits. Following an analysis of the likelihood that taxable profits will be generated in the future against which deferred tax assets can be utilised, based on the business plan for the coming years the Bank's Directors envisage the generation of taxable profit against which to offset these assets.

Income tax

Profits, determined in accordance with tax legislation, are subject to tax at a rate of 30%, pursuant to Corporate Income Tax Law 27/2014 and the Revised Income Tax Law previously in force, which may be reduced by certain credits.

A reconciliation of accounting profit for 2023 and 2022 with the taxable income that the Bank expects to declare after approval of the annual accounts is as follows:

	Thousands of Euros	
	2023	**2022**
Accounting profit for the year before tax	62,872	58,093
Permanent differences		
Donations and non-deductible expenses	82	72
Exemption for double taxation on dividends	(6,796)	(7,139)
Capitalisation reserve	(4,097)	(3,695)
Taxable accounting income	52,061	47,331
Temporary differences		
Provision for bad debts and pension obligations	(785)	(235)
Portfolio impairment, amortisation/depreciation and other	662	(1,378)
Other adjustments to the tax base with no effect on the income tax expense	(2,076)	(1,967)
Taxable income	49,862	43,751
Tax at 30%	14,959	13,125
Withholdings and payments on account	(13,824)	(13,860)
Deductions and credits with effect on the income tax expense	(226)	(244)
Other deductions with no effect on the income tax expense	33	-
Payable / (Recoverable) income tax	**942**	**(959)**

Permanent differences in taxable income reflect expenses for:

- Donations to non-profit entities and the non-deductible amount (per article 15.m of Corporate Income Tax Law 27/2014) of the accrued expense in respect of stamp duty arising on loans with mortgage guarantee in which the taxpayer is the lender (second paragraph of article 29 of Royal Legislative Decree 1/1993 approving the Revised Transfer Tax and Stamp Duty Law).

- Exemption for double taxation on dividends of entities in which the share in their capital is higher than 5%, under the terms of article 31 of Corporate Income Tax Law 27/2014. In order to apply this exemption, dividends have been reduced by 5% in respect of management fees, under the terms regulated in article 21.10 of the Corporate Income Tax Law.

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- Reduction in the taxable base due to the allocation to the Capitalization Reserve recognized in article 25 of the LIS, corresponding to the increase in equity for the financial year 2023 derived from the application of the result for the financial year 2022 approved by the General Shareholders' Meeting on June 22, 2023. The amount of the increase in equity for the year 2023 amounted to Euros 40,971 thousand, therefore, within the limit of 10% of the increase in equity, a reduction in the taxable base of up to Euros 4,097 thousand would be appropriate.

Temporary differences primarily reflect the reversal of tax adjustments to the provision for performing exposures and performing exposures under special monitoring, due to application of Banco de España Circular 4/2017, the reversal of the accrual of fees and commissions on first-time adoption of Circular 4/2004, those deriving from pension obligations, adjustments and reversals of portfolio impairment adjustments, the reversal of adjustments derived from the limit on the tax deductibility of amortisation and depreciation expenses in 2013 and 2014, and adjustments and reversals of adjustments to other non-tax-deductible provisions.

Other adjustments include an amount of Euros 662 thousand for the inclusion in taxable income of the amount charged to reserves, which arose from the transfer of financial assets at fair value through other comprehensive income, under the terms of article 17.1 of Corporate Income Tax Law 27/2014.

The reductions in income tax payable influencing the income tax expense are due to deductions for international double taxation and donations to non-profit entities.

The income tax expense for 2023 and 2022 is calculated as follows:

	Thousands of Euros	
	2023	**2022**
Income tax expense for the year:		
Taxable accounting income at 30%	15,618	14,199
Credits and deductions	(202)	(224)
Prior years' tax adjustments	10	1
Income tax expense	**15,426**	**13,976**
Foreign tax expense	233	219
Total	**15,659**	**14,195**

Prior years' tax adjustments reflect differences between accounting balances recorded at 31 December each year and the tax returns filed, owing to adjustments.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected by the taxation authorities or before the inspection period of four years has elapsed. At 31 December 2022 the Bank has open to inspection by the taxation authorities all the main applicable taxes since 2019, inclusive.

Due to the various possible interpretations of the tax regulations applicable to the operations performed by the Bank, certain contingent tax liabilities could arise for the years pending inspection that cannot be objectively quantified. However, the Bank's Directors consider that the likelihood of these contingent liabilities materialising as a result of a future inspection is remote and that, in any case, the tax debt which could be incurred as a result would not significantly affect these annual accounts.

The different tax benefits applied in the calculation of income tax payable of Banco Cooperativo Español, S.A. for 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Tax relief		
Deductions for international double taxation	197	219
Deduction for donations	5	5
Total	**202**	**224**

Independently of income tax recognised in the income statement, the Bank has recognised taxes relating to valuation adjustments to financial assets at fair value through other comprehensive income directly in equity, until such time as these assets are sold. Tax assets in this respect amount to Euros 11,435 thousand and Euros 53,010 thousand at the 2023 and 2022 reporting dates, respectively. Tax liabilities in the same respect amount to Euros 7,518 thousand and Euros 41,195 thousand at the 2023 and 2022 reporting dates, respectively.

22. Commitments and Guarantees Given

Off-balance sheet items comprise rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions entered into by the Bank although they may not impinge on their net assets.

Details at 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Contingent commitments given	**650,157**	**793,744**
Central banks	-	-
General governments	500,000	650,000
Credit institutions	105	112
Other financial corporations	2,214	497
Non-financial corporations	138,569	134,397
Households	9,269	8,738
Financial guarantees given	**44,925**	**17,503**
Central banks	-	-
General governments	-	-
Credit institutions	5	807
Other financial corporations	5,000	-
Non-financial corporations	38,890	15,678
Households	1,030	1,018
Other commitments given	**274,076**	**278,635**
Central banks	-	-
General governments	7,720	9,759
Credit institutions	61,324	63,139
Other financial corporations	2,015	37,916
Non-financial corporations	198,672	163,045
Households	4,345	4,776

A significant part of these amounts will expire without generating any obligations for the Bank, and therefore the total balance of these commitments cannot be considered a requirement for future financing or cash to be extended to third parties.

This item includes transactions under which the Bank guarantees the obligations of a third party and which result from financial guarantees granted by the Bank or from other types of contract. This item also includes amounts payable by the Bank on behalf of third parties as a result of the commitments undertaken in the ordinary course of business, if the parties that are originally liable to pay fail to do so.

Income from guarantee instruments is recognised under Fee and commission income in the income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee (see note 27).

23. Off-Balance Sheet Funds under Management

Details of off-balance sheet funds managed by the Banco Cooperativo Español, S.A. Group at the 2023 and 2022 reporting dates are as follows:

	Thousands of Euros	
	2023	**2022**
Investment companies and mutual funds	8,070,176	6,905,479
Customer portfolios managed on a discretionary basis	1,126,146	1,243,713
Total	**9,196,322**	**8,149,192**

24. Assets and Liabilities (Financial and Non-financial): Fair Value

a) Fair value of financial assets and financial liabilities

At 31 December 2023 and 2022 the fair value of the Bank's financial instruments measured at fair value, by type of financial asset and financial liability and level, is as follows:

- Level 1: Financial instruments with fair value based on their quoted price in active markets, without making any modifications to these assets.

- Level 2: Financial instruments with fair value estimated on the basis of their quoted price in organised markets for similar instruments or through other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

- Level 3: Instruments with fair value estimated through valuation techniques in which certain significant input is not based on observable market data.

Input is considered significant if it is important in determining the fair value as a whole.

	Thousands of Euros					
	2023					
Financial assets	**Financial assets held for trading**	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets designated at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Derivatives - hedge accounting**	**Total**
Level 1:						
Equity instruments	2,906	-	-	49,281	-	52,187
Debt securities	48,441	-	-	1,250,213	-	1,298,654
Level 2:						
Derivatives	1,746,441	-	-	-	-	1,746,441
Equity instruments	-	-	-	954	-	954
Debt securities	2,073	-	-	158,903	-	160,976
Level 3:						
Derivatives	8,626	-	-	-	90,161	98,787
Equity instruments	164	1,128	-	10,521	-	11,813
Debt securities	-	5	-	1,440	-	1,445
Loans and advances	-	1	-	-	-	1
	1,808,651	**1,134**	**-**	**1,471,312**	**90,161**	**3,371,258**

	Thousands of Euros					
	2022					
Financial assets	**Financial assets held for trading**	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets designated at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Derivatives - hedge accounting**	**Total**
Level 1:						
Equity instruments	2,789	-	-	43,075	-	45,864
Debt securities	62,051	-	137,366	3,821,479	-	4,020,896
Level 2:						
Derivatives	1,661,831	-	-	-	168,449	1,830,280
Equity instruments	-	-	-	785	-	785
Debt securities	-	-	-	16,704	-	16,704
Level 3:						
Derivatives	12,463	-	-	-	-	12,463
Equity instruments	369	745	-	9,695	-	10,809
Debt securities	-	31	-	583	-	614
Loans and advances	-	2,544	-	-	-	2,544
	1,739,503	**3,320**	**137,366**	**3,892,321**	**168,449**	**5,940,959**

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	Thousands of Euros		
	2023		
Financial liabilities	**Financial liabilities held for trading**	**Derivatives - hedge accounting**	**Total**
Level 2:			
Derivatives	1,739,517	721,021	2,460,538
Deposits	-	-	-
Level 3:			
Derivatives	8,381	-	8,381
	1,747,898	**721,021**	**2,468,919**

	Thousands of Euros		
	2022		
Financial liabilities	**Financial liabilities held for trading**	**Derivatives - hedge accounting**	**Total**
Level 2:			
Derivatives	1,654,467	808,317	2,462,784
Deposits	-	-	-
Level 3:			
Derivatives	11,350	-	11,350
	1.665.817	**808,317**	**2,474,134**

The fair value and carrying amounts of financial assets and liabilities carried at amortised cost at 31 December 2023 and 2023 and 2022 are as follows:

	Thousands of Euros			
	2023		**2022**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets at amortised cost				
Debt securities	3,247,860	3,256,054	2,741,829	2,775,542
Loans and advances				
Credit institutions	2,413,028	2,415,649	2,571,353	2,589,381
Other customers	1,339,630	1,354,178	976,198	955,728
Total	**7,000,518**	**7,025,881**	**6,289,380**	**6,320,651**

	Thousands of Euros			
	2023		**2022**	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair Value**
Financial liabilities at amortised cost				
Deposits				
Central banks and credit institutions	6,861,870	6,867,625	6,539,127	6,585,908
Customers	2,329,225	2,254,569	1,559,701	1,436,569
Debt securities	29,481	29,481	-	-
Other financial liabilities	1,255,336	1,255,336	1,294,507	1,294,507
Totals	**10,475,912**	**10,407,011**	**9,393,335**	**9,316,984**

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, it is a market-based measurement, not an entity-specific measurement.

All financial instruments, whether assets or liabilities, are initially recognised at fair value which, at that point, is the same as the transaction price, unless there is evidence to the contrary in an active market. Depending on the nature of the financial instrument, it may subsequently continue to be recognised at amortised cost or fair value through profit or loss or equity.

Insofar as possible, the fair value is determined as the market price of the financial instrument. However, for certain financial assets and liabilities, particularly derivatives, no market price is available. In such cases, the fair value must be estimated based on recent transactions involving similar instruments or, in the absence thereof, using mathematical pricing models that have been tried and tested in the international financial community. These models take into consideration the specific features of the asset or liability to be measured and, particularly, the various types of associated risk. However, the inherent limitations of the valuation techniques used and possible inaccuracies in the assumptions and parameters required by these models may result in a fair value of a financial asset or liability that does not exactly match the price at which the asset could be delivered or the liability settled at the measurement date.

The methodology used to calculate the fair value of each class of financial asset and financial liability is as follows:

Trading derivatives and hedging derivatives

- The fair value of a financial derivative traded on an organised, transparent and deep market is equivalent to its daily quotation price and if, for exceptional reasons, its quotation price on a given date could not be established, methods similar to those used to measure derivatives not traded on organised markets are applied.

- The fair value of derivatives not traded on organised markets, or traded on organised but less deep and transparent markets, is equivalent to the sum of future cash flows originating from the instrument, discounted at the measurement date ("present value" or "notional close"); using methods recognised by the financial markets: "net present value" (NPV), option pricing models, etc., specifically:

  - Interest rate derivatives: for financial instruments besides options, primarily swaps, the fair value has been determined by discounting future cash flows using implicit money market curves and the swap curve, while in the case of interest rate options it has been determined using generally accepted valuation techniques based on Black-Scholes and implied volatility matrices.

  - Derivatives on equity instruments or stock market indices and currency derivatives: the fair value is determined using the Monte Carlo method, which consists of random sampling of underlying inputs, taking into account their probability distribution. The factors used in the simulation are: price of underlying asset, currency interest rates, currency exchange rates, dividends paid out by the underlying asset, its volatility and the level of correlation.

- Credit Valuation Adjustments (hereinafter "CVA") and Debit Valuation Adjustments (hereinafter "DVA") are included in the measurement of both asset and liability derivative products to reflect the impact on fair value of counterparty credit risk and the Group's own risk, respectively.

  The adjustments to be performed are calculated by estimating exposure at default, the probability of default and loss given default for all derivative products with any underlying, by legal entity (i.e. all counterparties under the same ISDA/CMOF contract) to which Banco Cooperativo Español is exposed.

  In general, the CVA is calculated by multiplying expected positive exposure by the counterparty's probability of default. The DVA is calculated by multiplying the expected negative exposure by the probability of default, then multiplying the result by the Bank's loss given default. Both calculations encompass the entire duration of the potential exposure.

  The information required to calculate the probability of default and the loss given default is obtained from credit markets (Credit Default Swaps or iTraxx indices), applying the Bank's own information if available. If information is not available, a process based on sector, rating and location is applied to assign both probabilities of insolvency and expected losses in the event of insolvency, calibrated directly to market or through the adjustment to market of the probabilities of insolvency and historical expected losses.

  At 31 December 2023 and 2022 the Bank held positions in OTC derivatives, primarily interest rate swaps, equity options and securities swaps, mainly as a result of services provided to rural savings banks involving intermediation between the banks and market counterparties and asset securitisation funds (back-to-back operations). These instruments do not offer predetermined cash flows, but rather their cash flows depend upon the performance of certain market risk factors (interest rates, exchange rates, share prices, etc.) leading to changes in their fair value which could, at any time, fluctuate between a positive value (exposure to counterparty risk) or a negative value (exposure to own credit risk).

According to the Bank's calculations, the net impact of the measurement of credit risk through derivative positions, under both assets ("Credit Valuation Adjustment" - CVA) and liabilities ("Debt Valuation

Adjustment" - DVA), is net income of Euros 3,312 thousand in 2023 (Euros 3,066 thousand in 2022), which has been recognised under "Gains or (-) losses on financial assets and liabilities designated at fair value held for trading" in the accompanying income statement (see note 28).

Debt securities

- Quoted debt instruments: the fair value of these instruments has been determined on the basis of the quoted price in official markets, or using the prices obtained from information service providers, primarily Bloomberg, Reuters and Iberclear, based on the prices notified to these agencies by contributors.

- Unquoted debt instruments: the fair value of these instruments has been determined in the same way as the value of loans and receivables.

Equity instruments

- Quoted equity instruments: the fair value of these instruments has been determined taking into account the quoted price on official markets.

- Unquoted equity instruments: the fair value of these instruments has been determined taking into consideration independent expert valuations based, amongst other factors, on the following:

  - Discounted cash flows (operating free cash flow or dividends), brought up to date using a discount rate associated with the operational and financial risk of each investee, calculated on the basis of the risk-free rate, including a market-adjusted risk premium.

  - Multiples of comparable listed companies (EV/EBITDA, PER, price-to-book ratio, Price/Premium), less an illiquidity discount.

  - Adjusted net asset value (NAV): obtained by adding gains, calculated as the difference between the assets' market value and their carrying amount, to own funds as per the accounts. In the case of venture capital firms, the NAV has been calculated by the management company, and the estimate generally takes into account European Private Equity and Venture Capital Association (EVCA) standards and the provisions of Spanish National Securities Market Commission (CNMV) Circular 5/2000 of 19 September 2000.

  - The price obtained through market transactions conducted or purchase offers received at a time close to the valuation date.

Loans and advances - Loans to customers

The fair value of these instruments has been obtained by applying the discounted cash flow model, using interest rates based on directly or indirectly observable market data when calculating the discount rate, and inputs that are not observable in the market, such as credit risk associated with the portfolio, when estimating future cash flows.

Financial liabilities at amortised cost

The fair value of these liabilities has been obtained by applying the discounted cash flow model, using interest rates based on directly or indirectly observable market data.

25. Interest Margin

This item comprises the interest accrued in the year on all financial assets and liabilities with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value. Interest income is recognised gross, without deducting any tax withheld at source.

- Interest and similar income

Details of the source of interest income recognised in the accompanying income statements during 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Deposits from central banks	1,730	7,014
Deposits from credit institutions	20	25,777
Deposits from other financial corporations	6	3,199
Deposits from non-financial corporations	-	3
Loans and advances to central banks	16,117	4,081
Loans and advances to general governments	2,209	3,460
Loans and advances to credit institutions	95,379	7,098
Loans and advances to other financial corporations	3,805	1,763
Loans and advances to non-financial corporations	19,170	7,643
Loans and advances to households	3,315	1,890
Debt securities	114,798	44,406
Rectification of income originating from hedge accounting	73,027	2,267
Other interest	131,938	21,182
	461,514	**129,783**
Of which:		
Financial assets at fair value through other comprehensive income	*66,009*	*25,128*
Financial assets at amortised cost	*187,011*	*44,308*
Derivatives - hedge accounting	*73,027*	*2,267*
Other assets and liabilities	*135,467*	*58,079*

Other interest in 2023 and 2022 mainly reflects interest from simultaneous transactions.

- Interest expenses

Details in 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	2022
Deposits from central banks	5,978	652
Deposits from general governments	408	-
Deposits from credit institutions	298,295	38,749
Deposits from other financial corporations	57,244	4,953
Deposits from non-financial corporations	2,103	37
Deposits from households	1,360	49
Loans and advances from general governments	50	175
Loans and advances to credit institutions	1,082	4,353
Loans and advances to other financial corporations	-	57
Loans and advances to central banks	-	3,586
Other financial liabilities	34,310	2
Debt securities	692	11,635
Rectification of costs originating from hedge accounting	1,728	5,578
Other interest	729	7,592
	403,979	**77,418**

Other interest in 2023 and 2022 mainly reflects interest from simultaneous transactions.

26. Dividend Income

This item reflects the dividends and remuneration from equity instruments deriving from profits generated by investees after the acquisition of the equity interest.

Details in 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	2022
Financial assets held for trading	927	728
Non-trading financial assets mandatorily measured at fair value through profit or loss	3	-
Financial assets designated at fair value through profit or loss	1,900	1,932
Investments in subsidiaries, joint ventures and associates	6,987	7,037
	9,817	**9,697**

27. Fee and Commission Income and Expenses

This item comprises the amount of all fees and commissions accrued in the year, except those forming an integral part of the effective interest rate on financial instruments.

Details of fee and commission income in 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Securities	322	727
Asset management	9,719	13,249
Custody	12,234	10,715
Payment services	2,958	3,381
Customer resources distributed but not managed	581	573
Loan commitments given	141	159
Financial guarantees given	6	8
Loans granted	178	299
Foreign exchange	454	475
Other	6,353	5,422
	32,946	**35,008**

Details of fee and commission expenses in 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Fees and commissions assigned to other entities and correspondents	11,697	14,514
Fee and commission expenses on securities transactions	4,584	4,567
Other	168	5
	16,449	**19,086**

28. Gains (Losses) on Financial Assets and Liabilities and Exchange Gains (Losses)

This item includes valuation adjustments to financial instruments, except those attributable to interest accrued as a result of applying the effective interest method and to impairment of assets recognised in the income statement, as well as gains or losses on the sale and purchase of financial instruments.

Details of this item for 2023 and 2022 by type of instrument are as follows:

	Thousands of Euros	
	2023	**2022**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(768)	(114)
Gains or losses on financial assets and liabilities held for trading, net	10,928	14,257
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(2,739)	(2,241)
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	1,662	(2,923)
Gains or losses from hedge accounting, net	109	948
	9,192	**9,927**
Exchange gains	1,547	1,050
	10,739	**10,977**

Exchange gains include gains on the purchase and sale of foreign currencies and differences arising from the conversion of the different monetary items in the balance sheet from foreign currency to Euros (see note 35.5).

Details for 2023 and 2022, based on the nature of the financial instruments giving rise to these balances, excluding exchange gains/losses, are as follows:

	Thousands of Euros	
	2023	**2022**
Debt securities	7,346	(8,343)
Equity instruments	123	(144)
Loans and advances to customers	(2,762)	(2,325)
Trading derivatives and hedge accounting	4,437	20,743
Other	48	(4)
	9,192	**9,927**

The amount recognised under gains or losses on hedge accounting, net, reflects fair value hedges, distinguishing between hedging instruments and the hedged item. Gains and losses recognised in 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Fair value changes of the hedging instrument including discontinued operations	(31,624)	337,218
Fair value changes of the hedged item attributable to the hedged risk	31,733	(336,270)
	109	**948**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

29. Other Operating Income and Expenses

Details of other operating income in the accompanying income statements for 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	2022
Sales and income from the provision of non-financial services	5,356	5,390
Costs included in assets	160	169
Other recurring income	28	36
Other non-recurring income	138	70
	5,682	**5,665**

Details of other operating expenses in the accompanying income statements for 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	2022
Contribution to the Deposit Guarantee Fund and SRF (note 1 (g))	3,579	3,275
Contribution to the Institutional Protection Scheme (note 1 (j))	385	1,750
Other items	108	83
	4,072	**5,108**

30. Administrative Expenses

Personnel expenses

Personnel expenses comprise all remuneration of permanent and temporary personnel on the payroll, irrespective of their duties or activity, accrued during the year for all items, including the current service cost for pension plans.

Details for 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	2022
Salaries and wages	16,460	15,421
Social Security	3,618	3,473
Transfers to defined benefit plans	16	22
Transfers to defined contribution plans	124	99
Termination benefits	36	-
Other personnel expenses	226	292
	20,480	**19,307**

The Bank's average headcount, distributed by professional category and type of contract, during 2022 and 2021, as well as that existing at the related reporting dates, is as follows:

	2023			**2022**		
	Male	**Female**	**Average**	**Male**	**Female**	**Average**
Management team	8	2	11	10	1	11
Directors	18	13	32	20	12	31
Department managers	18	18	33	15	14	30
Technicians	100	102	194	89	97	182
	144	135	270	134	124	253
By type of contract						
Indefinite	144	135	270	134	124	253
Temporary	-	-	-	-	-	-
	144	135	270	134	124	253

At 31 December 2023 and 2022, five Bank employees had a disability.

<u>Other administrative expenses</u>

Details for 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Property, fixtures and materials	677	617
Information technology	2,861	3,026
Communications	2,002	2,035
Advertising and publicity	8	-
Legal and lawyer expenses	138	171
Technical reports	1,381	1,209
Security and armoured cash transport services	242	247
Insurance premiums	277	258
Governing and control bodies	248	232
Entertainment and staff travel expenses	370	216
Association membership fees	272	342
Outsourced administrative services	1,234	1,196
Contributions and taxes	874	710
Other	237	183
	10,821	**10,442**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Ernst & Young, S.L. was the auditor of the Bank's individual accounts in 2023 and KPMG Auditores, S.L. was the auditor of the Bank's individual accounts in 2022.

The amounts for audit and related service fees accrued by the aforementioned audit firms during the years ended 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Audit services	40	33
Other audit-related services	21	37
	61	**70**

The amounts detailed in the above table include the total fees for the 2023 and 2022 audits, irrespective of the invoice date.
Other audit-related services provided by Ernst & Young, S.L. to the Bank during the year ended December 31, 2023 correspond, fundamentally, to the Auditor's Independent Report on Client Asset Protection (IPAC) and the Agreed Procedures Report on the information prepared for the ex ante contributions to the Single Resolution Fund.

Other companies in the Ernst & Young group. S.L. has not invoiced the Bank for other services during the 2023 financial year.

Other audit-related services provided by KPMG Auditores, S.L. to the Bank during the year ended December 31, 2023 correspond, fundamentally, to the Auditor's Independent Report on the Protection of Client Assets (IPAC), the Report on Agreed Procedures on the Information Prepared for Ex Ante Contributions to the Single Resolution Fund and the Special Report on Agreed Procedures on Certain Procedures on Certain Audits. information included in the TLTRO III Filing Forms.

Other companies of the KPMG Auditores, S.L. group invoiced the Bank for Euros 176 thousand for other professional services during the year ended 31 December 2022.

31. Provisions or Reversal of Provisions

In 2023 and 2022 net charges (reversals) reflected in this income statement item were as follows:

	Thousands of Euros	
	2023	**2022**
Commitments and guarantees given (note 17)	(46)	50
Other provisions	(78)	139
	(124)	**189**

32. Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss

Net impairment (reversals of impairment) on financial assets, disclosed by nature, for 2023 and 2022, recognised in the accompanying income statements are as follows:

	Thousands of Euros	
	2023	**2022**
Financial assets designated at fair value through other comprehensive income (note 9)	493	1,242
Financial assets at amortised cost (note 35.1.6)	(2,182)	(2,339)
	(1,689)	**(1,097)**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

33. Related Party Transactions

In addition to the information provided in note 4 on remuneration received, details of balances in the balance sheet at 31 December 2023 and 2022 and in the income statements for 2023 and 2022, originating from transactions with related parties are as follows:

	Thousands of Euros					
	Subsidiaries		Senior management personnel		Other related parties	
Assets	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Loans and advances to customers	7,355	99,499	1,586	1,998	21,061	20,594
Derivatives	6,748	-	-	-	-	24,142
Other assets	-	6,748	-	-	-	-
Liabilities						
Deposits from customers	968	3,937	2,624	1,549	429,026	454,270
Derivatives	-	-	-	-	-	9,645
Other						
Guarantees given	-	-	-	-	-	-
Contingent commitments given	1,245	4,601	210	310	521	414
Profit and loss						
Interest income	1,587	1,629	20	6	1,200	747
Interest expenses	-	-	42	4	13,160	1,152
Dividend income	6,987	7,037	-	-	-	-
Fee and commission income	3,208	1,705	1	-	126	78
Administrative expenses	612	1,081	-	-	-	-

34. Customer Service Department

In accordance with Article 17 of Ministry of Economy Order ECO/734/2004 of 11 March 2004 on customer service departments and the financial institution ombudsman, the 2022 Annual Report presented by the head of the service to the Board of Directors at their meeting held on 25 January 2023.

During 2023 the Customer Service Department received 19 complaints, 16 of which were admitted. All complaints admitted were resolved in 2022, 2 in favour of the customer and 17 in favour of the Bank. None of the complaints received were lodged by a legal entity.

During 2022 the Customer Service Department received 19 complaints, 16 of which were admitted. From the total number of complaints admitted, 2 were resolved in favour of the customer and 17 in favour of the Bank. Only two of the complaints received were lodged by a legal entity.

Details of complaints received are as follows:

	Number	
	2023	**2022**
Loans	14	5
Deposits	1	2
Investment services	-	1
Collection and payment services	1	1
Other	2	7
	18	**16**

The number of complaints resolved during 2023 and 2022, by autonomous region, is as follows:

	Number	
	2023	**2022**
Castile and León	2	-
Community of Valencia	1	1
Aragon	-	1
Madrid	12	14
Basque Country	1	-

35. Risk Management

The Bank has a strategic risk framework, the purpose of which is to ensure the control and proactive management of all risks to which the Group is exposed. This framework is partly instrumented through a Risk Appetite Framework (RAF), which stipulates the quantity and diversity of risks sought and tolerated by the Bank to achieve its business objectives, while preserving a balance between risk and return.

The RAF is composed of quantitative metrics, which enable objective monitoring of risk management, and complementary qualitative aspects. Risk management and control is configured as a far-reaching set of principles, policies, procedures and advanced valuation methodologies, integrated to form an efficient decision-making structure under a risk governance framework that is compliant with the legislation in force.

For each relevant risk to which the Bank is exposed, the RAF details the main parties involved, their functions, policies, methods and procedures, as well as the monitoring and control mechanisms. It also specifies the organisation of the risk function, indicating the roles and responsibilities of the different risk departments and committees and their control systems, which are tailored to the activities of the business units, including the function of granting loans and credit.

The main financial risks to which the Bank is exposed are capital risk, excessive leverage, liquidity risk, profitability risk, operational risk, interest rate risk, credit risk, concentration risk and market risk. The most relevant of these is credit risk.

The main non-financial risks to which the Bank is exposed are operational risk, tax risk and regulatory compliance risk.

35.1 Credit risk

Credit risk is the risk of one party to a contract that meets the definition of a financial instrument ceasing to comply with its obligations, resulting in a financial loss for the other party.

Credit risk therefore represents the risk of loss assumed by the Bank in the event that a customer or any counterparty fails to comply with its contractual payment obligations. This risk is inherent in traditional products of banking entities (loans, credit facilities, financial guarantees given, etc.), as well as in other types of financial assets (fixed-income securities of the Bank, derivatives, etc.).

Credit risk affects financial assets carried at amortised cost and assets recognised at fair value in the financial statements. The Bank applies the same credit risk control policies and procedures to these financial assets irrespective of the recognition criteria used.

The Bank's credit risk control policies and objectives have been approved by the Board of Directors. The Risk Committee, together with the Assets and Liabilities Committee, is in charge of implementing the Bank's risk policies that enable compliance with the objectives set by the board. The risk control unit (under the General Audit and Risks Department and, therefore, independent of the business units in charge of implementing policies defined by the Entity) is responsible for establishing the control procedures required to continuously monitor the levels of risk assumed by the Entity as well as strict compliance with the objectives set by the Bank with respect to credit risks. Together with the Internal Audit Department (under the Internal Audit Committee), the risk control unit also monitors compliance with the Bank's risk control policies, methods and procedures, ensuring that these are sufficient, implemented effectively and reviewed regularly, and providing the information required by higher-level governing bodies to implement the necessary corrective measures, where applicable.

The control unit monitors, on an ongoing basis, risk concentration levels, the default rate and the different warning systems in place that enable it to keep an eye on credit risk trends at all times. Any deviations from the forecast performance of any of these parameters are analysed to determine the causes. Once the causes of these deviations are known, they are analysed by the control unit which submits the corresponding reports to the Bank's management bodies so that the necessary corrective measures may be taken; for example, defining or correcting established control mechanisms which may not have functioned satisfactorily, or amending policies and limits agreed by the Bank. In particular, a more exhaustive analysis will be performed of operations which, for different reasons, have resulted in late payment or default, to determine the effectiveness of the hedges arranged by the Entity, in order to take any necessary measures to improve the Bank's acceptance policies and credit risk analysis mechanisms.

35.1.1 Maximum credit risk exposure level

The following table shows the maximum credit risk exposure level assumed by the Bank at 31 December 2023 and 2022 for each type of financial instrument, without deducting collateral or any other guarantees received to ensure repayment by borrowers:

	Thousands of Euros						
	2023						
Type of instrument	**Cash, cash balances at central banks and other demand deposits**	**Financial assets held for trading**	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets designated at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**	**Total**
Debt instruments							
Loans and advances to central banks	3,249,873	-	-	-	-	-	3,249,873
Loans and advances to credit institutions	39,086	-	-	-	-	2,413,028	2,452,114
Loans and advances to customers	-	-	1	-	-	1,327,061	1,327,062
Debt securities	-	50,514	5		1,410,556	3,247,861	4,708,936
Total debt instruments	**3,288,959**	**50,514**	**6**	**-**	**1,410,556**	**6,987,950**	**11,737,985**
Equity instruments	**-**	**3,070**	**1,128**	**-**	**60,756**	**-**	**64,954**
Guarantees and commitments given							
Financial guarantees given	-	-	-	-	-	44,925	44,925
Other commitments given	-	-	-	-	-	274,076	274,076
Total guarantees and commitments given	**-**	**-**	**-**	**-**	**-**	**319,001**	**319,001**
Other exposures							
Derivatives	-	1,755,067	-	-	-	-	1,755,067
Contingent commitments given	-	-				650,157	650,157
Total other exposures	**-**	**1,755,067**	**-**	**-**	**-**	**650,157**	**2,405,224**
Maximum credit risk exposure level	**3,288,959**	**1,808,651**	**1,134**	**-**	**1,471,312**	**7,957,108**	**14,527,164**

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	Thousands of Euros						
	2022						
Type of instrument	**Cash, cash balances at central banks and other demand deposits**	**Financial assets held for trading**	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets designated at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**	**Total**
Debt instruments							
Loans and advances to central banks	211,325	-	-	-	-	-	211,325
Loans and advances to credit institutions	51,470	-	-	-	-	2,571,353	2,622,823
Loans and advances to customers	-	-	2,544	-	-	960,308	962,852
Debt securities	-	62,051	31	137,366	3,838,766	2,741,830	6,780,044
Total debt instruments	**262,795**	**62,051**	**2,575**	**137,366**	**3,838,766**	**6,273,491**	**10,577,044**
Equity instruments	**-**	**3,158**	**745**	**-**	**53,555**	**-**	**57,458**
Guarantees and commitments given							
Financial guarantees given	-	-	-	-	-	17,503	17,503
Other commitments given	-	-	-	-	-	278,635	278,635
Total guarantees and commitments given	**-**	**-**	**-**	**-**	**-**	**296,138**	**296,138**
Other exposures							
Derivatives	-	1,674,294	-	-	-	-	1,674,294
Contingent commitments given	-	-				793,744	793,744
Total other exposures	**-**	**1,674,294**	**-**	**-**	**-**	**793,744**	**2,468,038**
Maximum credit risk exposure level	**262,795**	**1,739,503**	**3,320**	**137,366**	**3,892,321**	**7,363,373**	**13,398,678**

The following should be taken into consideration in relation to the information shown in the above tables:

- Debt instruments recognised under assets in the balance sheet are reflected at their carrying amount, excluding valuation adjustments (impairment losses, deferred interest, arrangement costs and similar commissions pending deferral, etc.).

- Contingent commitments given comprise available balances bearing no conditions for debtors.

- Guarantees given are recognised at the maximum amount guaranteed by the Bank. In general, most of these balances are estimated to reach maturity without requiring any actual financing by the Entity (see note 22).

- Information on other credit risk exposures, such as counterparty risk related to the contracting of derivative financial instruments, is stated at the carrying amount.

Details of loans and advances, by counterparty and product (see note 7 and 10), and net of impairment losses, classified in the different asset categories at 31 December 2023 and 2022 are as follows:

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

	31 December 2023					
	Central banks	**General governments**	**Credit institutions**	**Other financial corporations**	**Non-financial corporations**	**Households**
On demand, short notice (current account)	3,249,873	-	39,085	3	4	2
Credit card debt	-	-	18	22	124	646
Trade receivables	-	1,625	-	-	132,051	-
Finance leases	-	-	-	-	5,292	18
Reverse repurchase loans	-	-	754,382	-	-	-
Other term loans	-	73,801	180,961	77,808	342,478	94,123
Advances other than loans	-	18	1,477,668	609,568	1,932	114
Loans and advances	**3,249,873**	**75,444**	**2,452,114**	**687,401**	**481,881**	**94,903**
Of which: loans secured by real estate collateral	-	-	-	-	26,276	*69,505*
Of which: other secured loans	-	-	754,385	-	15,417	*21,969*
Of which: consumer credit	-	-	-	-	-	5,114
Of which: home purchase loans	-	-	-	-	-	74,327
Of which: project finance loans	-	-	-	-	16,729	-

	31 December 2022					
	Central banks	**General governments**	**Credit institutions**	**Other financial corporations**	**Non-financial corporations**	**Households**
On demand, short notice (current account)	211,325	-	51,470	795	-	1
Credit card debt	-	-	12	8	99	653
Trade receivables	-	-	-	-	121,074	-
Finance leases	-	-	-	-	4,415	20
Reverse repurchase loans	-	-	151,253	-	-	-
Other term loans	-	199,118	482,102	72,344	435,789	113,355
Advances other than loans	-	24	1,937,986	14,565	16,305	177
Loans and advances	**211,325**	**199,142**	**2,622,823**	**87,712**	**577,682**	**114,206**
Of which: loans secured by real estate collateral	-	-	-	-	27,996	*78,685*
Of which: other secured loans	-	-	151,256	168	12,949	*31,664*
Of which: consumer credit	-	-	-	-	-	5,932
Of which: home purchase loans	-	-	-	-	-	90,054
Of which: project finance loans	-	-	-	-	-	-

35.1.2 Credit rating of credit risk exposures

The Bank uses advanced models to measure credit risk. The credit rating of public entities, financial institutions and corporate customers is measured through rating systems, while the credit rating of the retail banking portfolio (individual customers, small companies and freelance professionals) is measured using scoring systems.

The distribution of risk at 31 December 2023 and 2022, based on ratings (external or internal, in line with the credit rating models developed by the Entity) is as follows:

	2023		2022	
Credit rating	**Thousands of Euros**	**%**	**Thousands of Euros**	**%**
AAA	3,654,108	25.8	569,770	4.1
AA+	35,358	0.2	36,344	0.3
AA	570,027	4.0	1,023,289	7.4
AA-	437,348	3.1	183,345	1.3
A+	565,290	4.0	563,101	4.1
A.	6,909,301	48.7	7,894,508	57.5
A-	16,910	0.1	312,736	2.3
BBB+	210,652	1.5	433,577	3.2
BBB	627,432	4.4	1,391,930	10.1
BBB-	49,675	0.4	80,217	0.6
BB+	25,417	0.2	12,550	0.1
BB	14,690	0.1	24,381	0.2
BB-	31,863	0.2	26,705	0.2
B+	16,561	0.1	15,110	0.1
B	27,074	0.2	12,555	0.1
B-	27,951	0.2	14,385	0.1
Below BB	52,593	0.4	64,717	0.5
Below B-	914,142	6.4	1,066,929	7.8
Not rated	4,202	0.0	2,455	0.0
Total	**14,190,594**	**100.0**	**13,728,603**	**100.0**

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35.1.3 Loans and advances to customers. Details by counterparty and collateral received

Details of loans and advances to customers by activity and type of collateral, excluding advances other than loans, at 31 December 2023 and 2022 are as follows:

	2023							
	Thousands of Euros							
				Secured loans. Loan to value				
	Total	Of which: Real estate collateral	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	Loan to value More than 100%
General governments	**75,427**	-	-	-	-	-	-	-
Other financial institutions	**77,833**	-	-	-	-	-	-	-
Non-financial corporations and sole proprietorships	**480,545**	**26,409**	**15,766**	**20,842**	**7,440**	**9,806**	**3,712**	**375**
Real estate construction and property development	8,052	7,532	521	6,033	845	1,175	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes	472,493	18,877	15,245	14,809	6,595	8,631	3,712	375
Large corporations	396,430	1,849	4,165	1,920	75	2,523	1,496	-
SMEs and sole proprietorships	76,063	17,028	11,081	12,888	6,522	6,108	2,216	375
Other household loans	**94,194**	**69,372**	**21,607**	**23,666**	**31,670**	**27,379**	**5,662**	**2,602**
Housing	74,327	63,319	10,671	19,043	25,173	24,123	5,067	584
Consumer	5,114	69	3,559	2,031	938	55	-	604
Other purposes	14,753	5,984	7,377	2,592	5,559	3,201	595	1,414
TOTAL	**727,999**	**95,781**	**37,373**	**44,508**	**39,110**	**37,185**	**9,374**	**2,977**
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations (net of specific provisions)	699	-	-	-	-	-	-	-

	2022							
	Thousands of Euros							
				Secured loans Loan to value				
	Total	Of which: Real estate collateral	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	Loan to value More than 100%
General governments	**199,118**	-	-	-	-	-	-	-
Other financial institutions	**73,147**	-	-	-	-	-	-	-
Non-financial corporations and sole proprietorships	**561,973**	**28,162**	**13,296**	**17,861**	**12,417**	**6,210**	**4,016**	**954**
Real estate construction and property development	10,968	8,026	840	3,964	4,902	-	-	-
Construction of civil works	668	-	-	-	-	-	-	-
Other purposes	550,337	20,136	12,456	13,897	7,515	6,210	4,016	954
Large corporations	345,804	2,841	2,253	2,840	127	519	1,608	-
SMEs and sole proprietorships	204,553	17,295	10,203	11,057	7,388	5,691	2,408	954
Other household loans	**113,433**	**78,520**	**31,291**	**26,725**	**37,326**	**39,608**	**5,375**	**777**
Housing	90,054	72,941	16,715	23,198	27,884	33,497	4,300	777
Consumer	5,932	74	3,336	17	2,187	1,206	-	-
Other purposes	17,447	5,505	11,240	3,510	7,255	4,905	1,075	-
TOTAL	**947,671**	**106,682**	**44,587**	**44,586**	**49,743**	**45,818**	**9,391**	**1,731**
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations (net of specific provisions)	3,010	1,972	-	1,972	-	-	-	-

Refinancing and restructuring policy

The Bank's refinancing and restructuring policy is defined in accordance with the specifications laid down in the Banco de España regulation.

Its objective is to recover all amounts owed and it reflects the need to immediately recognise amounts deemed irrecoverable.

The transaction refinancing policy includes:

- An individual up-to-date analysis of the financial position and payment capacity of the borrowers and guarantors.

- The status and effectiveness of guarantees provided.

- Experience with the borrower: sufficiently extensive repayment history or, in the absence thereof, a repayment on the loan principal of equal value.

- Interruption of arrears. Refinancing or restructuring of transactions in arrears does not interrupt those arrears or lead to their reclassification.

The following definitions are used for the purposes of Banco de España regulations:

- Refinancing transaction: a transaction which, irrespective of the borrower or collateral/guarantees, is granted or used for economic or legal reasons relating to the borrower's/s' current or foreseeable financial difficulties, either to settle one or several transactions granted by the entity itself or by others in its group to the borrower/s or to one or more other companies in its/their economic group, or to bring these transactions wholly or partially up to date in payment, in order to facilitate debt payments by borrowers whose transactions are terminated or refinanced (principal and interest) because they are, or will foreseeably become, unable to comply with the terms and conditions on time and in due form.

- Refinanced transaction: a transaction which is brought wholly or partially up to date in payment as a result of a refinancing transaction carried out by the entity itself or by another entity in its economic group.

- Restructured transaction: a transaction in which, for economic or legal reasons relating to the borrower's/s' current or foreseeable financial difficulties, the financial terms and conditions are changed in order to facilitate payment of the debt (principal and interest) because the borrower is or will foreseeably become unable to comply with those terms and conditions on time and in due form, even if that change was envisaged in the contract. In any event, transactions are considered to be restructured when a debt reduction takes place, assets are received to reduce the debt or their terms and conditions are changed to extend their maturity, change the repayment table to reduce instalments in the short term or reduce their frequency, or establish or extend the principal repayment and/or interest grace period, except when it can be demonstrated that the terms and conditions were changed for reasons other than the borrowers' financial difficulties and are similar to those applying in the market on the date of change on transactions with borrowers of a similar risk profile.

- Novation transaction: a transaction entered into to replace another transaction previously granted by the entity in which a borrower does not have financial difficulties and is not expected to have them in future; thus, a transaction entered into for reasons other than refinancing.

- Renegotiated transaction: a transaction in which the financial conditions are amended although the borrower does not have financial difficulties and is not expected to have them in future; thus, a transaction in which conditions are amended for reasons other than restructuring.

Unless there is evidence to the contrary, transactions shall be deemed to be a restructuring or refinancing in the following circumstances:

- When some or all of the payments of the modified transaction have been due for more than 30 days (without being classified as non-performing) at least once in the three months preceding its modification, or would be due for more than 30 days without said modification.

- When, simultaneously or nearly simultaneously with the granting of additional financing by the entity, the borrower has made payments of interest on another transaction with it, on which some or all of the payments have been due for more than 30 days at least once in the three months prior to the refinancing.

- When the entity approves the use of implicit restructuring or refinancing clauses in relation to borrowers with outstanding amounts 30 days past-due or more than 30 days past-due if such clauses have not been exercised.

This classification may not be changed until all the following requirements are met:

a) That, following an exhaustive review of the borrower’s financial situation, it has been concluded that it is not foreseeable that the borrower will encounter financial difficulties, and that it is therefore highly probable that it will be able to comply with its obligations to the entity in due time and form.

b) That a minimum of two years has elapsed since the later of the date of entry into the restructuring or refinancing transaction or the date of reclassification from the category of non-performing exposures.

c) That the borrower has paid the accrued instalments of principal and interest since the later of the date of entry into the restructuring or refinancing transaction or the date of reclassification from the category of non-performing. Additionally, the borrower must have settled, by means of regular payments, an amount equal to all the amounts (principal and interest) that were past-due or written down at the time of the restructuring or refinancing transaction. Therefore, the existence of contract terms that extend the repayment period, such as grace periods for the principal, will mean that the transaction remains identified as a performing exposure under special monitoring until the amounts described have been repaid by means of regular payments.

d) That the borrower does not have any other transactions with amounts more than 30 days past-due at the end of the probation period.

Transaction restructuring or refinancing entails an up-to-date analysis of the economic and financial situation of the borrower and guarantors, of their ability to pay under the new financial conditions, and of the effectiveness of the (new and original) collateral/guarantees provided. Transactions are classified, on the basis of insolvency risk, in one of the following categories:

- Performing exposures (Stage 1). Refinancing refinanced or restructured transactions that do not meet the requirements to be classified in other categories.

- Performing exposures under special monitoring (Stage 2). Refinancing, refinanced or restructured transactions that present weaknesses that may lead to the incurrence of losses exceeding those on other similar transactions classified as performing exposures.

When classifying transactions in this category, the following signs relating to the circumstances of the borrower will first of all be taken into account:

a) High debt levels.

b) A drop in turnover or, in general, in recurring cash flows.

c) Narrowing of operating margins or in disposable recurring income.

Additionally, the Bank analyses other signs of possible weakness relating to operations, such as:

a) A fall in the price of the main product.

b) Difficulties accessing markets or deteriorating financing conditions.

c) Significant increases in the debt-service ratio, defined as the ratio of debt to operating cash flows.

d) A slowdown in business or unfavourable trend in the borrower's operations, indicating potential weaknesses in its financial position, without yet having endangered its debt service.

e) For transactions secured with collateral, a worsening of the ratio of their amount to the value of the collateral, due to unfavourable developments in the value of the collateral, or no change or an increase in the outstanding amount due to the payment terms established (such as extended principal payment grace periods, rising or flexible instalments, extended terms).

f) Economic or market volatility that may have a negative impact on the borrower.

g) Unfavourable developments in the borrower's sector of economic activity.

h) The borrower's belonging to a group in difficulties, such as residents of a specific geographical area at sub-country level.

i) Pending legal action that may significantly affect the borrower's financial position.

j) Market trends, such as interest-rate increases or higher requirements for collateral/guarantees, affecting similar transactions causing them to deviate significantly from the conditions originally established for the transaction or group of transactions.

k) Transaction granted at below cost.

l) Amounts more than 30 days past-due in the transaction.

- Non-performing exposures as a result of borrower arrears (Stage 3). Refinancing, refinanced or restructured transactions, any part of whose principal, interest or contractually agreed expenses is more than 90 days past-due, unless such instruments should be classified as being written off.

  This category also includes guarantees given if the guaranteed party has fallen into arrears in the guaranteed transaction.

- Non-performing exposures for reasons other than borrower arrears (Stage 3). Refinancing, refinanced or restructured transactions meeting any of the following criteria:

  – They are supported by inadequate payment plans. The situations in which it will be considered that there is no adequate payment plan shall include, inter alia, the repeated failure to comply with the payment plan, its modification to avoid breaches, or its resting on expectations that are not supported by macroeconomic forecasts.

  – They include contract terms that extend the time for the regular repayment instalments on the transaction, such as grace periods of more than two years for the repayment of the principal.

  – They include amounts derecognised due to being irrecoverable that exceed the allowances and provisions resulting from applying the percentages established for the corresponding risk segment in the alternative solutions included in the new Annex 9 of Circular 4/2017.

- Total write-off. Refinancing, refinanced or restructured transactions for which the entity, after analysing them individually, considers the possibility of recovery to be remote due to manifest and irreversible deterioration of the solvency of the transaction or borrower. Classification in this category entails the writing-off of the full gross carrying amount of the transaction and its total derecognition from assets.

At 31 December 2023 the Bank's outstanding refinanced balance totals Euros 3,032 thousand (Euros 4,545 thousand at 31 December 2022). This figure includes loans classified as performing exposures and performing exposures under special monitoring, and as non-performing exposures, representing 0.23% of total loans and advances to customers (0.5% in 2022). Details are as follows:

	2023							
	Thousands of Euros							
	Credit institutions	**General governments**	**Other financial corporations and sole proprietorships (financial business)**	**Non-financial corporations and sole proprietorships (non-financial business)**	***Of which: financing of real estate construction and property development (including land)***	**Other household loans**	**Total**	**Additional information: financing classified as non-current assets and disposal groups held for sale**
Unsecured								
Number of loans	-	-	-	14	-	4	**18**	-
Gross carrying amount	-	-	-	1,877	-	20	**1,897**	-
Secured								
Number of loans	-	-	-	-	-	-	**-**	-
Gross carrying amount	-	-	-	-	-	-	**-**	-
Impairment allowances	-	-	-	(1,197)	-	(1)	**(1,198)**	-
Of which: non-performing exposures								
Unsecured								
Number of loans	-	-	-	*13*	-	-	***13***	-
Gross carrying amount	-	-	-	*1,137*	-	-	***1,137***	-
Secured								
Number of loans	-	-	-	-	-	-	-	-
Gross carrying amount	-	-	-	-	-	-	-	-
Specific allowance or provision	-	-	-	*(1,126)*	-	-	***(1,126)***	-
TOTAL								
Number of loans	-	-	-	14	-	4	**18**	**-**
Gross carrying amount	-	-	-	1,877	-	20	**1,897**	-
Impairment allowances	-	-	-	(1,197)	-	(1)	**(1,198)**	-

	2022							
	Thousands of Euros							
	Credit institutions	**General governments**	**Other financial corporations and sole proprietorships (financial business)**	**Non-financial corporations and sole proprietorships (non-financial business)**	***Of which: financing of real estate construction and property development (including land)***	**Other household loans**	**Total**	**Additional information: financing classified as non-current assets and disposal groups held for sale**
Unsecured								
Number of transactions	-	-	-	12	-	5	**17**	-
Gross carrying amount	-	-	-	1,889	-	27	**1,916**	-
Secured								
Number of transactions	-	-	-	4	-	-	**4**	-
Gross carrying amount	-	-	-	2,629	-	-	**2,629**	-
Impairment allowances	-	-	-	(1,530)	-	(3)	**(1,533)**	-
Of which: non-performing exposures								
Unsecured								
Number of transactions	-	-	-	*11*	-	*1*	***12***	-
Gross carrying amount	-	-	-	*1,074*	-	*1*	***1,075***	-
Secured								
Number of transactions	-	-	-	-	-	-	-	-
Gross carrying amount	-	-	-	-	-	-	-	-
Specific allowance or provision	-	-	-	-	-	-	-	-
TOTAL								
Number of transactions	-	-	-	16	-	5	**21**	**-**
Gross carrying amount	-	-	-	4,518	-	27	**4,545**	-
Impairment allowances	-	-	-	(1,530)	-	(3)	**(1,533)**	-

35.1.4 Credit risk on real estate construction and property development

Details of financing earmarked for real estate construction and property development by category of asset at 31 December 2023 and 2022 are as follows:

	Thousands of Euros			
	Coste	**Depreciation**	**Impairment**	**31.12.2023**
Non-trading financial assets mandatorily at fair value through profit or loss	2,544	-	(2,544)	-
Financial assets at amortised cost	19,762	(11,697)	(13)	8,052
	22,305	**(11,697)**	**(2,557)**	**8,052**
Of which: non-performing	-	-	-	-

	Coste	**Depreciation**	**Impairment**	**31.12.2022**
Non-trading financial assets mandatorily at fair value through profit or loss	5,188	-	(2,644)	2,544
Financial assets at amortised cost	22,954	(3,192)	-	19,762
	28,142	**(3,192)**	**(2,644)**	**22,305**
Of which: non-performing	-	-	-	-

Details of provisions for and/or impairment of loans and advances earmarked for real estate construction and property development at 31 December 2023 and 2022 are as follows:

	Thousands of Euros				
	31.12.2021	**Charges to (reversal of) provisions for the year**	**31.12.2022**	**Charges to (reversal of) provisions for the year**	**31.12.2023**
Financial assets at amortised cost	436	(68)	368	(355)	13
	436	**(68)**	**368**	**(355)**	**13**
Of which: non-performing	-	-	-	-	-

The figures above reflect financing extended for real estate construction and property development. Consequently, following Banco de España instructions, the purpose of the transaction has been taken into account, rather than the debtor's activity. Loans in this table are classified in line with their purpose and not in accordance with the National Classification of Economic Activities (CNAE) assigned to the debtor. As a result, if the debtor is: (a) a real estate company but uses the financing for a purpose other than real estate construction or property development, the loan will not be included in these tables, and (b) if the company's principal activity is not real estate construction or development but it uses the loan to finance property development, it will be included in these tables.

Details of loans and advances to customers excluding general governments at 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	**2022**
Total loans and advances to customers excluding general governments	652,573	748,553
Total assets	13,704,155	12,597,963
Impairment and provisions for exposures classified as performing and performing under special monitoring	(14,789)	(17,523)

Details of credit risk on real estate construction and property development by type of related guarantee are as follows:

	Thousands of Euros	
	Gross amount	
	2023	**2022**
1. Unsecured	521	22,305
2. With mortgage guarantee	7,545	-
2.1. Finished buildings	-	-
2.1.1 Housing	-	-
2.1.2 Other	-	-
2.2. Buildings under construction	-	-
2.2.1 Housing	-	-
2.2.2 Other	-	-
2.3. Land	7,545	-
2.3.1 Developed land	7,545	-
2.3.2 Other land	-	-
Total	**8,066**	**22,305**

Details of home purchase loans extended to individuals are as follows:

	Thousands of Euros			
	2023		**2022**	
	Gross amount	**Of which: non-performing**	**Gross amount**	**Of which: non-performing**
Home purchase loans	73,383	-	88,804	-
Unsecured	10,841	-	16,748	-
With mortgage guarantee	62,542	-	72,056	-

The following table shows a breakdown of mortgage loans extended to acquire homes at 31 December 2023 and 2022 by percentage of total risk on the latest available appraisal value (LTV):

	Thousands of Euros					
	2023					
	LTV bracket					
	LTV < 40%	**40% < LTV < 60%**	**60% < LTV < 80%**	**80% < LTV < 100%**	**LTV > 100%**	**Total**
Gross amount	16,619	19,237	19,716	6,380	589	62,541
Of which: non-performing	-	-	-	-	-	-

	Thousands of Euros					
	2022					
	LTV bracket					
	LTV < 40%	**40% < LTV < 60%**	**60% < LTV < 80%**	**80% < LTV < 100%**	**LTV > 100%**	**Total**
Gross amount	19,186	22,646	25,452	4,154	618	72,056
Of which: non-performing	-	-	-	-	-	-

At 31 December 2023, the Bank has foreclosed assets on its balance sheet (at 31 December 2022 it had no foreclosed assets in this category) (see note 10).

35.1.5 Past-due unimpaired financial assets

Details of past-due unimpaired financial assets at 31 December 2023 and 2022, classified on the basis of the time elapsed since maturity, by nature of the financial instrument and by counterparty, are as follows:

	31.12.2023			
	Thousands of Euros			
	≤ 30 days	**> 30 days ≤ 60 days**	**> 60 days ≤ 90 days**	**Total**
Debt securities	-	-	-	-
Loans and advances				
General governments	-	-	-	-
Other financial corporations	3	-	-	3
Non-financial corporations	502	142	1,827	2,471
Households	5	13	45	63
Total	**510**	**155**	**1,872**	**2,537**

	31.12.2022			
	Thousands of Euros			
	≤ 30 days	**> 30 days ≤ 60 days**	**> 60 days ≤ 90 days**	**Total**
Debt securities	-	-	-	-
Loans and advances				
General governments	-	-	-	-
Other financial corporations	813	-	-	813
Non-financial corporations	39	81	84	204
Households	17	18	17	52
Total	**869**	**99**	**101**	**1,069**

35.1.6 Non-performing financial assets and impairment allowances

Details of financial assets at amortised cost, by nature of the financial instrument and by counterparty, and of impairment allowances, indicating whether these have been calculated on an individual or collective basis, are as follows:

	Thousands of Euros					
	2023					
	Gross carrying amount	***Of which: non-performing***	**Allowances and provisions for financial assets in Stage 1**	**Allowances and provisions for financial assets in Stage 2**	**Allowances and provisions for financial assets in Stage 3**	**Total**
Debt securities	3,247,860	-	-	-	-	3,247,860
Loans and advances	3,765,930	*4,010*	(10,855)	(442)	(1,975)	3,752,658
Central banks	-	-	-	-	-	-
General governments	75,444	-	-	-	-	75,444
Credit institutions	2,413,730	-	(702)	-	-	2,413,028
Other financial corporations	689,656	-	(2,255)	-	-	687,401
Non-financial corporations	491,468	*3,325*	(7,808)	(441)	(1,338)	481,881
Households	95,632	*685*	(90)	(1)	(637)	94,904
Total	**7,013.,790**	***4,010***	**(13,688)**	**(442)**	**(1,975)**	**7,000,518**

	Thousands of Euros					
	2022					
	Gross carrying amount	***Of which: non-performing***	**Allowances and provisions for financial assets in Stage 1**	**Allowances and provisions for financial assets in Stage 2**	**Allowances and provisions for financial assets in Stage 3**	**Total**
Debt securities	2,741,829	-	-	-	-	2,741,829
Loans and advances	3,563,849	*2,151*	(13,688)	(865)	(1,745)	3,547,551
Central banks	-	-	-	-	-	-
General governments	199,142	-	-	-	-	199,142
Credit institutions	2,571,761	-	(409)	-	-	2,571,352
Other financial corporations	89,826	-	(2,063)	(50)	-	87,712
Non-financial corporations	587,619	*1,063*	(10,971)	(813)	(698)	575,138
Households	115,501	*1,088*	(245)	(2)	(1,047)	114,207
Total	**6,305,678**	***2,151***	**(13,688)**	**(865)**	**(1,745)**	**6,289,380**

Impaired assets are analysed periodically. The main factors considered when evaluating impairment on each asset are as follows:

a) Analysis of the financial statements
b) Analysis of the customer's income statements and payment capacity
c) Analysis of cash flow forecasts
d) Movements in customer capitalisation
e) Changes in debt
f) History and analysis of cost structure
g) Amounts of guarantees and variation therein
h) Any present or future event that could affect the customer's payment capacity

Details of financial assets at amortised cost by type of financial instrument and counterparty, and their classification as performing exposures (Stage 1), performing exposures under special monitoring (Stage 2) and non-performing exposures (Stage 3), are presented below at their gross carrying amount:

	Thousands of Euros					
	31.12.2023			31.12.2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Debt securities	3,247,860	-	-	2,741,829	-	-
Loans and advances	3,743,248	18,770	3,912	3,555,375	6,347	2,127
Central banks	-	-	-	-	-	-
General governments	75,444	-	-	199,141	-	-
Credit institutions	2,413,730	-	-	2,571,762	-	-
Other financial corporations	689,656	-	-	88,659	1,167	-
Non-financial corporations	469,489	18,752	3,228	581,403	5,153	1,063
Households	94,929	18	684	114,410	27	1,064
Total	**6,991,108**	**18,770**	**3,912**	**6,297,204**	**6,347**	**2,127**

In 2023 and 2022, movements of loans and advances to customers between the different risk stages were as follows:

	Thousands of Euros	
	2023	2022
Transfers between Stage 1 and Stage 2		
From Stage 1 to Stage 2	17,185	1,851
From Stage 2 to Stage 1	10	-
Transfers between Stage 2 and Stage 3		
From Stage 2 to Stage 3	90	15
From Stage 3 to Stage 2	-	3
Transfers between Stage 1 and Stage 3		
From Stage 1 to Stage 3	2,079	373
From Stage 3 to Stage 1	-	2

Movements in impairment allowances recognised to cover credit risk related to financial assets at amortised cost and designated at fair value through other comprehensive income in 2023 and 2022 were as follows:

	Thousands of Euros			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 31 December 2021	**(16,587)**	**(475)**	**(1,887)**	**(18,949)**
Of which:				
Estimated individually	-	*(126)*	*(170)*	*(296)*
Estimated collectively	*(16,587)*	*(349)*	*(1,717)*	*(18,653)*
Origination increases	(8,431)	(63)	(18)	(8,512)
Decreases due to derecognition	7,264	38	103	7,405
Changes due to variations in credit risk	(3,849)	(359)	(405)	(4,613)
Changes due to modifications without derecognition	-	-	-	-
Reduction in the allowance account due to write-offs	-	-	467	467
Other	5,713	(6)	(170)	5,537
Balance at 31 December 2022	**(15,890)**	**(865)**	**(1,910)**	**(18,665)**
Of which:				
Estimated individually	-	-	*(508)*	*(508)*
Estimated collectively	*(15,890)*	*(865)*	*(1,402)*	*(18,157)*
Origination increases	(1,739)	-	-	(1,739)
Decreases due to derecognition	2,054	764	12	2,830
Changes due to variations in credit risk	(7,227)	(238)	(502)	(7,967)
Changes due to modifications without derecognition	-	-	-	-
Reduction in the allowance account due to write-offs	-	-	386	386
Other	9,252	(103)	39	9,188
Balance at 31 December 2023	**(13,550)**	**(442)**	**(1,975)**	**(15,967)**
Of which:				
Estimated individually	-	*(324)*	*(1,002)*	*(1,326)*
Estimated collectively	*(13,550)*	*(118)*	*(973)*	*(14,641)*

35.1.7 Movement in impairment losses

Movement in impairment losses recognised by the Bank, except for the category of "Non-trading financial assets mandatorily at fair value through profit or loss" in 2023 and 2022 by type of financial asset is as follows:

	Thousands of Euros					
	2023					
	Balance at 31 December 2021	Increases during the year due to charges for expected credit losses	Changes due to variations in credit risk	Decreases for amounts applied/released, charged to valuation adjustments	Transfers between valuation adjustments and other adjustments	**Balance at 31 December 2022**
Specific impairment allowances for financial assets, estimated individually	**(508)**	**-**	**(336)**	**-**	**(157)**	**(1,001)**
Debt securities	-	-	-	-	165	-
Loans and advances	(508)	-	(336)	-	(322)	(1,001)
Specific impairment allowances for financial assets, estimated collectively	**(18,157)**	**(1,739)**	**(7,632)**	**3,217**	**9,345**	**(14,966)**
Debt securities	(2,202)	-	-	-	(494)	(2,696)
Loans and advances	(15,955)	(1,739)	(7,632)	3,217	9,839	(12,270)
Total	**(18,665)**	**(1,739)**	**(7,968)**	**3,217**	**9,188**	**(15,967)**

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	Thousands of Euros					
	2022					
	Balance at 31 December 2020	Increases during the year due to charges for expected credit losses	Changes due to variations in credit risk	Decreases for amounts applied/released, charged to valuation adjustments	Transfers between valuation adjustments and other adjustments	**Balance at 31 December 2021**
Specific impairment allowances for financial assets, estimated individually	**(296)**	**(165)**	**(216)**	**-**	**169**	**(508)**
Debt securities	-	(165)	-	-	-	(165)
Loans and advances	(296)	-	(216)	-	169	(343)
Specific impairment allowances for financial assets, estimated collectively	**(18,653)**	**(8,512)**	**(4,397)**	**7,405**	**6,000**	**(18,157)**
Debt securities	(1,124)	-	-	-	(1,078)	(2,202)
Loans and advances	(17,529)	(8,512)	(4,397)	7,405	7,078	(15,955)
Total	**(18,949)**	**(8,677)**	**(4,613)**	**7,405**	**6,169**	**(18,665)**

35.1.8 Impaired and derecognised financial assets

Movement in 2023 and 2022 in the Bank's impaired financial assets, which have not been recognised as the probability of their recovery is considered remote, although the Bank continues its efforts to collect the amounts receivable, is as follows:

	Thousands of Euros	
	2023	**2022**
Opening balance	**7,984**	**11,110**
Charges	438	518
Application of accumulated impairment losses	384	465
Direct write-down in the income statement	31	12
Contractually payable interest	23	41
Derecognitions	(2)	(3,644)
Collection of principal from counterparties in cash	(2)	(1,319)
Collection of interest from counterparties in cash	-	(1)
Pardoning of debt	-	-
Other concepts	-	(2,324)
Closing balance	**8,420**	**7,984**

35.2 Liquidity risk

Liquidity risk management consists of ensuring that the Bank always has sufficient liquidity to meet its payment commitments associated with the settlement of its liabilities on their respective maturity dates without compromising its capacity to respond rapidly to strategic market opportunities. This function includes obtaining financing in wholesale markets at the lowest possible cost in the medium and long term, with a view to maintaining an optimum level of liquid assets in keeping with the Bank's policy of prudence.

In this context, the key to resolving liquidity problems resides in anticipating them and implementing preventive management techniques. The Bank is aware of this and therefore considers both aspects its first line of defence against the potential adverse effects of liquidity shortages on its results, reputation and creditworthiness.

To enable early identification, the Bank continually monitors its liquidity position in the short, medium and long term and the performance of the main monetary and capital markets in which it operates. To this end it relies on: (i) a wide range of quantitative and qualitative indicators, (ii) limits and alerts defined on the basis of maximum tolerance to liquidity risk and (iii) the human, technical and operational support required to properly incorporate these indicators as a strategic and risk management input.

With regard to preventive management, the Asset and Liability Committee (ALCO) focuses structural liquidity management on: (i) the balance between positive and negative cash flows over a long time horizon, (ii) the diversification of uses and sources of funding and (iii) the protection of the Bank's ability to finance its growth and meet its payment obligations on the date and in the manner established in the contract at a reasonable cost and without affecting its reputation.

Finally, in terms of anticipation, the Entity has a buffer of liquid assets free of encumbrances that enable it to comfortably cope with situations of severe stress. The quality, relative liquidity and suitability as collateral of the assets that make up the buffer are periodically verified and these assets are subjected to stress tests to determine their ability to cope with extreme situations.

The main metrics currently used to control liquidity and the results of applying them at 31 December 2023 and 2022 are:

- *Daily liquidity controls*: the Bank continually monitors its intraday liquidity, the eligibility of securities to be pledged as collateral to obtain financing from Banco de España (credit facility) and the sufficiency of its headroom (buffer of available liquid assets) in dealing with short-term cash outflows, among other indicators. This analysis also envisages further stress tests on its portfolio of eligible assets (those pledged as collateral for the Banco de España credit facility and others), subjecting the securities to scenarios of a reduction in their market value, downgrades in rating and loss of eligibility.

- *Liquidity gap*: provides information on cash inflows and outflows in order to detect timing differences between collections and payments. Very conservative behavioural criteria and assumptions have been established for unknown contractual maturities.

The liquidity gap at 31 December 2023 and 2022 was as follows:

	2023							
	Thousands of Euros							
	Demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Undetermined maturity**	**Total**
Assets								
Cash, cash balances at central banks and other demand deposits (note 5)	3,289,434	-	-	-	-	-	-	3,289,434
Loans to credit institutions (note 10)	-	785,371	108,652	33,514	5,820	1,479,671	-	2,413,028
Loans and advances to customers (notes 7 and 10)	-	57,728	82,273	149,747	335,310	713,572	-	1,339,630
Fixed income portfolio (notes 6, 7, 8, 9 and 10)	-	63,584	24,326	896,225	2,537,292	1,187,508	-	4,708,935
Other assets	-	-	-	21,802	1,781,284	42,142	107,900	1,953,128
Total assets	**3,289,434**	**906,683**	**216,251**	**1,101,288**	**4,659,706**	**3,422,893**	**107,900**	**13,704,155**
Liabilities								
Deposits from central banks and credit institutions (note 14)	4,405,973	2,292,118	74,383	82,506	6,022	868	-	6,861,870
Deposits from customers (note 14)	1,727,455	-	34,847	463,232	30,020	73,671	-	2,329,225
Other liabilities	-	-	-	301,441	1,373,479	1,984,884	853,256	4,513,060
Total liabilities	**6,133,428**	**2,292,118**	**109,230**	**847,179**	**1,409,521**	**2,059,423**	**853,256**	**13,704,155**
Simple gap	(2,843,994)	(1,385,435)	107,021	254,109	3,250,185	1,363,470	(745,356)	-
Accumulated gap	(2,843,994)	(4,229,429)	(4,122,408)	(3,868,299)	(618,114)	745,356	-	-

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	2022							
	Thousands of Euros							
	Demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Undetermined maturity**	**Total**
Assets								
Cash, cash balances at central banks and other demand deposits (note 5)	263,399	-	-	-	-	-	-	263,399
Loans to credit institutions (note 10)	-	186,709	77,349	357,406	24,312	1,924,197	1,380	2,571,353
Loans and advances to customers (notes 7 and 10)	-	72,702	82,689	333,970	318,405	160,991	9,985	978,742
Fixed income portfolio (notes 6, 7, 8, 9 and 10)	-	182,670	168,189	2,282,780	2,854,749	1,291,656	-	6,780,044
Other assets	-	-	-	432,977	202,521	1,207,245	161,682	2,004,425
Total assets	**263,399**	**442,081**	**328,227**	**3,407,133**	**3,399,987**	**4,584,089**	**173,047**	**12,597,963**
Liabilities								
Deposits from central banks and credit institutions (note 14)	4,035,685	1,416,113	51,147	957,747	77,034	1,401	-	6,539,127
Deposits from customers (note 14)	782,510	128,479	70,992	95,742	442,289	39,689	-	1,559,701
Other liabilities	-	-	-	581,331	271,913	2,775,680	870,212	4,499,135
Total Liabilities	**4,818,195**	**1,544,591**	**122,140**	**1,634,820**	**791,235**	**2,816,769**	**870,212**	**12,597,963**
Simple gap	(4,554,796)	(1,102,510)	206,087	1,772,313	2,608,752	1,767,320	(697,165)	-
Accumulated gap	(4,554,796)	(5,657,306)	(5,451,219)	(3,678,907)	(1,070,155)	697,165	-	-

As part of its liquidity management, the Bank monitors the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the required information to the regulator on a monthly and quarterly basis, respectively.

Liquidity measurement based on these metrics forms part of the liquidity risk control system implemented by the Bank.

- *Short-term liquidity coverage ratio (LCR):* under the stress scenario defined in Basel III, the 30-day liquidity ratio at 31 December 2023 stood at 256.80% (197.44% at 31 December 2022), both levels far above minimum regulatory requirements.

- *Net Stable Funding Ratio (NSFR):* the Bank maintains a balanced structure in its long-term financing that is adapted to its liquidity profile. At 31 December 2023, the net stable funding ratio was 224.20% (192.27% at 31 December 2022), higher than the regulatory minimum.

Moreover, the Bank has activated a number of alerts and thresholds that are continually monitored, enabling it to foresee any potential liquidity stress and, where necessary, automatically convene the ALCO for an extraordinary or crisis meeting, depending on the situation.

The latter initiative is considered in the liquidity risk contingency plan, the Bank's second line of action against potential adverse effects of liquidity shortages. Essentially, this is an action plan with a practical focus that enables the Bank to optimise the timing, cost and form of its response to high-exposure or critical situations and mitigate possible disturbances and impacts on business continuity during such episodes.

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35.3 Interest rate risk

To support management of interest rate risk, the Assets and Liabilities Committee uses the repricing gap to analyse the overall time difference between maturity and repricing of assets and liabilities. The repricing gap is calculated by grouping assets and liabilities by their carrying amount based on interest rate repricing dates or by maturity considering the outstanding principal. In the case of callable liabilities for which there is no contractual maturity date, the repricing structure is in line with the historical stability of the balances. The maximum period for demand balances with returns under 0.5% is 2.5 years.

The repricing gaps at 31 December 2023 and 2022 are as follows:

	2023						
	Thousands of Euros						
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Undetermined maturity**	**Total**
Assets							
Cash, cash balances at central banks and other demand deposits (note 5)	3,289,434	-	-	-	-	-	3,289,434
Loans to credit institutions (note 10)	2,265,900	107,323	34,005	5,315	485	-	2,413,028
Loans and advances to customers (notes 7 and 10)	726,553	214,039	183,884	178,019	37,135	-	1,339,630
Fixed income portfolio (notes 6, 7, 8, 9 and 10)	3,719,928	349,335	313,684	236,849	89,139	-	4,708,935
Other assets	-	-	21,802	1,781,284	42,142	107,900	1,953,128
Total assets	**10,001,815**	**670,697**	**553,375**	**2,201,467**	**168,901**	**107,900**	**13,704,155**
Liabilities							
Deposits from central banks and credit institutions (note 13)	6,752,116	20,854	82,897	5,517	486	-	6,861,870
Deposits from customers (note 13)	1,727,711	34,954	463,073	29,816	73,671	-	2,329,225
Other liabilities	1,190,885	-	301,441	1,373,479	793,999	853,256	4,513,060
Total liabilities	**9,670,712**	**55,808**	**847,111**	**1,408,812**	**868,156**	**853,256**	**13,704,155**
Off-balance sheet operations							
Simple gap	331,103	614,889	(294,036)	792,655	(699,255)	(745,356)	-
Accumulated gap	331,103	945,992	651,956	1,444,611	745,356	-	-

	2022						
	Thousands of Euros						
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Undetermined maturity**	**Total**
Assets							
Cash, cash balances at central banks and other demand deposits (note 5)	263,399	-	-	-	-	-	263,399
Loans to credit institutions (note 10)	2,462,635	77,842	25,128	3,467	901	1,380	2,571,353
Loans and advances to customers (notes 7 and 10)	164,712	171,841	374,891	181,624	75,689	9,985	978,742
Fixed income portfolio (notes 6, 7, 8, 9 and 10)	3,502,809	818,457	2,061,420	274,156	123,202	-	6,780,044
Other assets			432,977	202,521	1,207,245	161,682	2,004,425
Total assets	**6,393,555**	**1,068,140**	**2,894,416**	**661,768**	**1,407,037**	**173,047**	**12,597,963**
Liabilities							
Deposits from central banks and credit institutions (note 13)	6,362,233	51,740	120,364	3,888	901	-	6,539,127
Deposits from customers (note 13)	910,989	71,224	495,740	42,062	39,686	-	1,559,701
Other liabilities	1,154,789	-	581,331	271,913	1,620,891	870,212	4,499,135
Total liabilities	**8,428,011**	**122,964**	**1,197,434**	**317,863**	**1,661,478**	**870,212**	**12,597,963**
Off-balance sheet operations	-	-	-	-	-	-	-
Simple gap	(350,856)	1,331,144	2,688,764	(762,446)	(2,209,441)	(697,165)	-
Accumulated gap	(350,856)	980,288	3,669,052	2,906,606	697,165	-	-

The average interest rates of financial instruments in 2023 and 2022 were as follows:

	Percentage (%)	
	2023	**2022**
Cash, cash balances at central banks and other demand deposits	3.23	0.34
Financial assets held for trading	1.70	0.10
Non-trading financial assets mandatorily at fair value through profit or loss	0.52	0.55
Financial assets designated at fair value through profit or loss	-	0.11
Financial assets designated at fair value through other comprehensive income	2.10	0.63
Financial assets at amortised cost		
Credit institutions	3.43	0.45
Customers	2.97	0.20
Financial liabilities at amortised cost		
Credit institutions	3.19	0.38
Customers	2.60	0.25

To measure interest rate risk, the risk control unit simulates the financial margin over a 12-month period under different interest rate scenarios, assuming certain historical conditions relating to growth, spreads, repricing periods, stability of receivables on demand, etc. At 31 December 2023 and 2022, the sensitivity of the financial margin to a 100-basis point parallel displacement of the interest rate curve over a 12-month period is as follows:

	%	
	2023	**2022**
Sensitivity of the financial margin		
+ 100 b.p.	2.38	(9.07)
- 100 b.p.	(3.42)	(9.00)

The interest rate risk is also analysed considering the economic value of equity measured as the effect of changes in the interest rate on the net present value of future expected flows from balance sheet items. The sensitivity of the Bank's economic value to a hypothetical positive 200-basis point parallel displacement of the interest rate curve at 31 December 2023 and 2022 is as follows:

	%	
	2023	**2022**
Sensitivity of equity	(2.82)	(5.18)

35.4 Market risk

Market risk is managed through the value at risk methodology (VaR), which limits losses incurred as a result of adverse changes in market prices. Value at risk is calculated on a daily basis for the treasury and capital market area as a whole.

The maximum and average VaR are as follows:

	Thousands of Euros	
	2023	**2022**
Average VaR	9,269	9,287
Maximum VaR	14,168	11,860

35.5 Currency risk

Details of the assets and liabilities recognised in the Bank's balance sheet in the most significant currencies at 31 December 2023 and 2022 are as follows:

	Thousands of Euros			
	2023		2022	
	Assets	Liabilities	Assets	Liabilities
US Dollar	190,039	189,415	148,102	156,372
Pound Sterling	68,311	81,609	68,601	78,812
Swiss Franc	1,566	1,204	1,603	1,357
Norwegian Krone	-	-	384	363
Swedish Krona	-	-	88	124
Canadian Dollar	-	-	1,104	1,070
Danish Krone	-	-	274	91
Japanese Yen	1,381	1,161	993	684
Other	30,178	29,391	75,721	75,542
Total	**291,475**	**302,780**	**296,870**	**314,415**

A breakdown of the main foreign currency balances, based on the nature of the items, is as follows:

	Thousands of Euros	
	2023	2022
Assets		
Cash	47	35
Loans and advances to credit institutions	184,343	137,927
Loans and advances to customers	13,498	13,817
Debt securities	82,095	132,579
Other assets	11,492	12,547
Total	**291,475**	**296,870**
Liabilities		
Deposits from credit institutions	177,445	145,236
Deposits from customers	27,495	27,149
Derivatives	97,737	142,025
Other liabilities	103	5
Total	**302,780**	**314,415**

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35.6 Risk concentration

Risk concentration is defined as a risk that could affect the Bank's income statement and its equity as a result of holding financial instruments of similar characteristics, which could therefore be similarly affected by economic or other types of changes.

The Bank has established policies to limit the Bank's exposure to certain risks. These policies are defined in coordination with other risk management policies and as part of the Entity's strategic plan. Risk concentration is measured and limits established considering the different risks to which the Bank is exposed, taking into account the nature and rating of the different financial instruments of the Bank, analysed at different levels (entity, bank, sector, country, etc.).

The carrying amount of the different financial instruments is used to measure risk concentration.

The distribution of the carrying amount of the Bank's most significant financial assets (cash balances at central banks and other demand deposits, loans and advances, debt securities, equity instruments, trading and hedging derivatives, investments in subsidiaries, joint ventures and associates, guarantees given) at 31 December 2023 and 2022, broken down by geographical area, segment of activity, counterparty and purpose of the financing extended, is as follows:

	2023				
	Thousands of Euros				
	Total	**Spain**	**Rest of European Union**	**Americas**	**Rest of world**
Central banks and credit institutions	7,690,788	5,810,347	962,337	189,388	728,716
General governments	3,965,711	3,461,043	478,565	468	25,635
Central government	3,889,264	3,386,628	478,565	468	23,603
Other general governments	76,448	74,416	-	-	2,032
Other financial corporations	1,210,726	201,806	411,286	472,402	125,232
Non-financial corporations and sole proprietorships	1,019,245	801,450	175,179	24,124	18,492
Real estate construction and development	64,391	64,391	-	-	-
Construction of civil works	44,777	44,777	-	-	-
Other purposes	910,076	692,282	175,178	24,124	18,492
Large corporations	778,278	564,454	171,208	24,124	18,492
SMEs and sole proprietorships	131,798	127,828	3,970	-	-
Other household loans	98,663	98,203	147	10	303
Housing	74,327	73,872	147	10	298
Consumer	5,114	5,109	-	-	5
Other purposes	19,222	19,222	-	-	-
TOTAL	**13,985,133**	**10,372,849**	**2,027,514**	**686,392**	**898,378**

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	2022				
	Thousands of Euros				
	Total	**Spain**	**Rest of European Union**	**Americas**	**Rest of world**
Central banks and credit institutions	4,709,811	2,527,412	822,408	55,025	1,304,966
General governments	6,377,283	5,701,672	600,525	425	74,660
Central government	6,287,521	5,616,603	595,832	425	74,660
Other general governments	89,762	85,069	4,693	-	-
Other financial corporations	580,633	172,325	315,123	6,744	86,441
Non-financial corporations and sole proprietorships	1,001,761	846,806	115,982	20,309	18,664
Real estate construction and development	83,312	83,312	-	-	-
Construction of civil works	12,268	12,268	-	-	-
Other purposes	906,181	751,226	115,982	20,309	18,664
Large corporations	669,868	533,316	108,720	17,851	9,981
SMEs and sole proprietorships	236,313	217,910	7,262	2,458	8,683
Other household loans	118,384	115,622	230	2,127	406
Housing	90,054	87,295	230	2,127	402
Consumer	5,932	5,929	-	-	4
Other purposes	22,398	22,398	-	-	-
TOTAL	**12,787,872**	**9,363,837**	**1,854,268**	**84,630**	**1,485,137**

The classification by geographical area and business segment in Spain at 31 December 2023 and 2022 is presented below:

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RISK CONCENTRATION BY BUSINESS SEGMENT AND GEOGRAPHICAL AREA AT 31 DECEMBER 2023

	Thousands of Euros									
	Total	Andalusia	Aragon	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castile and Leon	Catalonia
Credit institutions	5,810,347	206,373	169,366	110,527	10,789	152,572	22,940	690,331	223,682	-
General governments	3,461,043	5,878	-	1,702	-	19,662	-	1,927	21,156	-
Central government (*)	3,386,628	-	-	-	-	-	-	-	-	-
Other	74,415	5,878	-	1,702	-	19,662	-	1,927	21,156	-
Other financial institutions	201,806	-	5,000	-	-	-	-	-	1,413	1,986
Non-financial corporations and sole proprietorships	801,450	8,472	20,127	19,496	11,003	350	5,143	10,911	14,544	21,229
Real estate construction and property development	64,391	124	-	-	-	-	-	-	60	-
Construction of civil works	44,777	-	-	16,296	-	-	5,000	-	-	-
Other purposes	692,282	8,348	20,127	3,200	11,003	350	143	10,911	14,484	21,229
Large corporations	564,454	6,670	16,926	530	11,003	-	141	6,267	537	20,135
SMEs and sole proprietorships	127,828	1,678	3,201	2,670	-	350	2	4,644	13,947	1,094
Other household loans and non-profit institutions serving households	98,204	1,239	90	81	4	369	-	1,628	637	1,026
Housing	73,873	535	71	70	-	343	-	404	625	611
Consumer	5,109	8	19	1	4	26	-	26	8	10
Other purposes	19,222	696	-	10	-	-	-	1,198	4	405
TOTAL	**10,372,850**	**221,962**	**194,583**	**131,806**	**21,796**	**172,953**	**28,083**	**704,797**	**261,432**	**24,241**

(*) Balance not attributable to any specific Autonomous Region

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RISK CONCENTRATION BY BUSINESS SEGMENT AND GEOGRAPHICAL AREA AT 31 DECEMBER 2023 (Continued)

	Thousands of Euros								
	Extremadura	**Galicia**	**Madrid**	**Murcia**	**Navarre**	**Community of Valencia**	**Basque Country**	**La Rioja**	**Ceuta and Melilla**
Credit institutions	11,870	42,969	3,434,819	2,197	112,636	408,773	210,503	-	-
General governments	3,530	5,557	5,866	1,837	-	7,300	-	-	-
Central government	-	-	-	-	-	-	-	-	-
Other	3,530	5,557	5,866	1,837	-	7,300	-	-	-
Other financial institutions	-	-	193,407	-	-	-	-	-	-
Non-financial corporations and sole proprietorships	-	16,994	570,431	5,087	4,861	19,243	73,333	226	-
Real estate construction and property development	-	-	38,712	-	-	404	25,091	-	-
Construction of civil works	-	2,000	16,146	-	-	5,335	-	-	-
Other purposes	-	14,994	515,573	5,087	4,861	13,504	48,242	226	-
Large corporations	-	14,254	431,058	4,560	4,833	1,792	45,748	-	-
SMEs and sole proprietorships	-	740	84,515	527	28	11,712	2,494	226	-
Other household loans and non-profit institutions serving households	6	172	88,166	1,038	-	1,828	1,440	480	-
Housing	-	172	68,166	-	-	956	1,440	480	-
Consumer	5	-	4,989	-	-	13	-	-	-
Other purposes	1	-	15,011	1,038	-	859	-	-	-
TOTAL	**15,406**	**65,692**	**4,292,689**	**10,159**	**117,497**	**437,144**	**285,276**	**706**	**-**

RISK CONCENTRATION BY BUSINESS SEGMENT AND GEOGRAPHICAL AREA AT 31 DECEMBER 2022

	Thousands of Euros									
	Total	**Andalusia**	**Aragón**	**Asturias**	**Balearic Islands**	**Canary Islands**	**Cantabria**	**Castilla-La Mancha**	**Castile and León**	**Catalonia**
Credit institutions	2,527,412	249,283	75,952	159,448	-	132,139	-	360,381	121,668	-
General governments	5,701,672	4,147	1,788	1,703	2,895	17,972	-	2,834	19,187	-
Central government (*)	5,616,603	-	-	-	-	-	-	-	-	-
Other	85,069	4,147	1,788	1,703	2,895	17,972	-	2,834	19,187	-
Other financial institutions	172,325	-	-	-	-	-	-	-	1,124	103
Non-financial corporations and sole proprietorships	846,806	8,399	25,288	3,835	2,394	97	5,499	12,955	1,475	29,852
Real estate construction and property development	83,312	125	10	630	-	-	-	-	91	-
Construction of civil works	12,268	-	-	-	-	-	5,000	-	-	-
Other purposes	751,226	8,274	25,278	3,205	2,394	97	499	12,955	1,384	29,852
Large corporations	533,316	5,222	23,938	648	2,394	-	496	8,810	615	27,102
SMEs and sole proprietorships	217,910	3,052	1,340	2,557	-	97	3	4,145	769	2,750
Other household loans and non-profit institutions serving households	115,622	1,570	167	85	374	694	-	1,725	696	1,964
Housing	87,295	641	149	73	353	630	-	437	673	1,098
Consumer	5,929	29	17	3	21	64	-	70	15	43
Other purposes	22,398	900	1	9	-	-	-	1,218	8	823
TOTAL	**9,363,837**	**263,399**	**103,195**	**165,071**	**5,663**	**150,902**	**5,499**	**377,895**	**144,150**	**31,919**

(*) Balance not attributable to any specific Autonomous Region

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

RISK CONCENTRATION BY BUSINESS SEGMENT AND GEOGRAPHICAL AREA AT 31 DECEMBER 2022 (Continued)

	Thousands of Euros								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Community of Valencia	Basque Country	La Rioja	Ceuta and Melilla
Credit institutions	145,735	100,058	571,920	3,626	80,318	442,386	84,498	-	-
General governments	416	5,557	10,694	3,907	523	13,446	-	-	-
Central government	-	-	-	-	-	-	-	-	-
Other	416	5,557	10,694	3,907	523	13,446	-	-	-
Other financial institutions	-	-	162,413	-	-	-	8,685	-	-
Non-financial corporations and sole proprietorships	-	15,784	641,134	9,255	7,242	19,886	63,711	-	-
Real estate construction and property development	-	-	56,931	-	-	405	25,120	-	-
Construction of civil works	-	1,668	1,841	1,659	-	2,100	-	-	-
Other purposes	-	14,116	582,362	7,596	7,242	17,381	38,591	-	-
Large corporations	-	13,623	401,741	6,484	7,215	1,298	33,730	-	-
SMEs and sole proprietorships	-	493	180,621	1,112	27	16,083	4,861	-	-
Other household loans and non-profit institutions serving households	12	158	104,361	1,061	-	1,966	609	178	2
Housing	-	153	81,281	-	-	1,022	608	177	-
Consumer	12	4	5,598	3	-	48	-	-	2
Other purposes	-	1	17,482	1,058	-	896	1	1	-
TOTAL	**146,163**	**121,557**	**1,490,522**	**17,849**	**88,083**	**477,684**	**157,503**	**178**	**2**

35.7 Sovereign debt risk

As a rule, the Bank considers sovereign risk to be exposure through transactions with the central bank, issuer risk of the Treasury or Republic, and exposure through transactions with general government entities having the following characteristics: their funds derive solely from State budgets, they are legally acknowledged as entities that directly form part of the "State" sector, and they conduct activities of a non-trade nature.

Details of sovereign risk by country at 31 December 2023 and 2022 are as follows:

	Thousands of Euros				
	2023				
	Held for trading	**At fair value through profit or loss**	**At fair value through other comprehensive income**	**At amortised cost**	**Total**
Spain	46,636	-	370,109	2,963,165	**3,379,910**
Italy	-	-	214,192	264,374	**478,566**
Mexico	-	-	468	-	**468**
Republic of Korea	-	-	23,132	-	**23,132**
Andorra	-	-	471	-	**471**
Total	**46,636**	**-**	**608,372**	**3,227,539**	**3,882,547**

	Thousands of Euros				
	2022				
	Held for trading	**At fair value through profit or loss**	**At fair value through other comprehensive income**	**At amortised cost**	**Total**
Spain	53,234	89,105	2,892,208	2,458,225	**5,492,772**
Italy	-	-	332,277	263,555	**595,832**
Mexico	-	-	425	-	**425**
Republic of Korea	-	-	74,119	-	**74,119**
Andorra	91	-	450	-	**541**
Total	**53,325**	**89,105**	**3,299,479**	**2,721,780**	**6,163,689**

35.8 Regulatory risks

IBOR reform

In the framework of regulatory risks, the global benchmark interest rate reform is a key aspect to be monitored by the Bank. Interbank offered rates (IBORs) are key benchmarks underpinning many contracts within the financial sector globally. Following the Financial Stability Board (FSB) recommendations in 2014, the authorities of various countries have been promoting initiatives so that the financial system reduces its dependence on IBORs and makes a transition to alternative risk-free interest rates (RFR) for the end of 2021. These RFRs have been designed to overcome the pitfalls of IBORs, in particular to minimise reliance on expert judgement and ensure a better level of transparency and understanding in how they are formed. Transitions can be carried out from the rate used historically as a benchmark to the new RFR (i.e. transition from EONIA to €STR in Europe, or the transition from Dollar LIBOR to SOFR in the USA) or by developing the methodology used for the existing rate, both in cases of overnight or term rates.

In 2021 Banco de España Circular 6/2021 came into force, amending Circular 4/2017 in order to address various aspects related to the interest rate benchmark reform, and to bring standards into line with the FINREP and EBA requirements, among others (see note 1(p)).

As a result of the benchmark rate reform, certain interest rates have been discontinued and replaced by new risk-free benchmark rates, in line with legislative requirements.

The Bank has a large number of financial assets and liabilities, the contracts for which are pegged to IBORs. The EURIBOR can be identified as the most relevant benchmark rate and is used for loans and deposits, as well as an underlying in derivatives. The EONIA's presence is lower in the banking book but it is used as an underlying rate in derivative instruments in the trading book and for the treatment of collateral.

This transition to new benchmark rates has a clear impact on financial instruments and the Bank's information technology systems, which must be adapted to take into account the new rates. The transition therefore exposes the Bank to various risks: accounting and price risks due to the change in benchmark rates, operational risks due to modifications to the information technology systems, and legal risks due to necessary amendments to contracts with customers.

To this end, the Bank created a working group made up of personnel from various areas of the organisation (Finance, Treasury, etc.) and tasked with managing the transition. The working group meets on a regular basis in order to monitor the stage of completion of the project, as well as to define the lines of action required to transition the contracts pegged to the benchmark rates affected by the reform. This could involve addenda to the contracts, the adoption of standard industry protocols or communications with the customer.

In this regard, financial derivatives held by the Bank have been affected by the change to the collateral yield, specifically those whose collateral yield was pegged to EONIA, given that the discount curve used to measure these contracts transitioned in 2021 to the new Euro short-term rate (€STR). Consequently, an agreement was reached with the clearing houses and bilateral counterparties that gave rise to compensation of approximately Euros 3 million, which is economically equivalent to the difference in the measurement between applying a collateral yield pegged to EONIA and one pegged to the €STR at the calculation date. The hedging derivatives affected are those disclosed in note 16 on hedge accounting. In any case, the official discontinuation of the EONIA rate was on 3 January 2022.

The Bank has assessed its fair value and cash flow hedges for interest rate risk in order to determine whether the change in the benchmark rates would require a restatement of the hedged exposure. The assessment determined that the modification was not substantial and, consequently, has not had a significant impact on hedge effectiveness.

Accordingly, given that the impact has been insignificant and that the purpose of the hedge and the interest rate risk management strategy remain unchanged, it has not been necessary to discontinue, re-design or review the definition of the hedging relationships.

36. Responsible Lending

Banco Cooperativo Español, S.A. has adopted best practices for responsible lending to consumers, and it has the related policies and procedures in place, thereby complying with the provisions of Ministry of Economy and Finance Order EHA/2899/2011 of 28 October 2011 on transparency and protection of banking services customers and responsible lending. Specifically, the policies on commercial banking risk and the specific regulations derived therefrom stipulate the policies, methods and procedures for responsible granting of consumer loans and credit.

Pursuant to Banco de España Circular 3/2014 of 30 July 2014, a summary of the aforementioned policies adopted by Banco Cooperativo Español, S.A. on commercial banking risk is provided below:

- The need to tailor payment plans to revenue sources;
- for evaluating payment capacity;
- The need to take into account the borrower's foreseeable level of income at retirement;
- The need to consider existing financial payment obligations;
- Where appropriate for commercial reasons or due to the type of rate/currency, offering to include hedging clauses or arrange interest and exchange rate hedges in transactions with borrowers;
- The need, when collateral is pledged, to establish a prudent relationship between the amount of the loan and potential extensions, and the value of the collateral pledged, without taking into account any revaluations of the latter;
- The need to exercise extreme prudence in the use of appraisal values for credit transactions in which real estate assets are pledged as collateral in addition to the borrower's personal guarantee;
- The periodic review of the value of collateral pledged to secure the loans granted;
- Several management elements to ensure the appraisal company's independence;
- The need to warn customers of the potential consequences of persistent non-payment in terms of late payment interest and other expenses;
- The criteria for debt renegotiation (refinancing and restructuring);
- The minimum documentation required in transactions for the granting thereof and during the period they are current.

Banco Cooperativo Español, S.A. has the following mechanisms in place to control the effective monitoring of the aforementioned policies:

- Computer validation and controls incorporated into the workflow for analysis, decision-making and arrangement of transactions for the purpose of embedding these management principles;
- Alignment of product catalogue specifications and responsible lending policies;
- Different penalties to ensure appropriate levels of contrasting of decisions in accordance with the complexity of the transaction;
- A reporting framework for monitoring the correct application of responsible lending policies

Appendix I

BANCO COOPERATIVO ESPAÑOL, S.A.

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Subsidiaries

31.12.2023

Company	Registered office	Activity	% ownership Direct	% ownership Indirect	Thousands of Euros: Amount of interest	Capital and reserves	Total assets	Profit/ (loss)	Other dividends	Interim dividend	Revenues
Rural Informática, S.A.	Madrid	IT services	99.8	0.2	2,600	3,243	4,649	6,894	-	6,600	8,559
Gescooperativo, S.A., S.G.I.I.C.	Madrid	Collective investment undertakings manager	-	100	1,893	3,288	11,653	8,191	-	7,400	14,308
Rural Inmobiliario, S.L.	Madrid	Real estate holding company	100	-	3,486	8,317	15,190	(40)	-	-	1,095
BCE Formación, S.A.	Madrid	Training services	100	-	60	111	249	423	-	400	1,134
Rural Renting, S.A.	Madrid	Financial services	100	-	600	648	1,175	(54)	-	-	27

31.12.2022

Company	Registered office	Activity	% ownership Direct	% ownership Indirect	Thousands of Euros: Amount of interest	Capital and reserves	Total assets	Profit/ (loss)	Other dividends	Interim dividend	Revenues
Rural Informática, S.A.	Madrid	IT services	99.8	0.2	2,603	3,225	61,767	4,598	-	-	9,433
Gescooperativo, S.A., S.G.I.I.C.	Madrid	Collective investment undertakings manager	-	100	1,893	2,962	9,940	6,079	-	-	12,905
Rural Inmobiliario, S.L.	Madrid	Real estate holding company	100	-	3,486	8,157	47,934	(93)	-	-	1,552
BCE Formación, S.A.	Madrid	Training services	100	-	60	84	317	335	-	-	1,205
Rural Renting, S.A.	Madrid	Financial services	100	-	600	680	1,506	(25)	-	-	29

Appendix I forms an integral part of note 11 to the annual accounts for 2023, in conjunction with which it should be read.

BANCO COOPERATIVO ESPAÑOL, S.A.

Directors' Report

2023

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

This directors' report summarises the activity carried out by Banco Cooperativo Español from 1 January to 31 December 2023, the Bank's thirty-second year since its incorporation in July 1990.

1. Position of the Entity

1.1 Description

Banco Cooperativo Español is a financial group that performs the role of banking headquarters for its associated rural savings banks. As such, considering the particular characteristics of the business activity carried out and the varying requirements of its customers, a segmented structure has been adopted that facilitates business activities while increasing the quality of services and improving cost efficiency. The shareholder savings banks engage in traditional banking activities and, therefore, the main objective of Banco Cooperativo Español is to assist these savings banks in achieving a leading position in the market, taking advantage of synergies and the competitive advantage derived from their association.

At 31 December 2023 the Bank had assets totalling Euros 13,704 million, own funds of Euros 714 million and 279 employees.

Within the Bank's organisational structure, the Board of Directors has the greatest decision-making power and the most extensive authority in managing the Entity, except in matters to be approved by the Shareholders. Its main function is oversight of the Group and it delegates routine management tasks to the executive bodies and the management team.

The members of the Board of Directors do not have executive powers.

The Bank primarily operates in Spain and its activities are structured into the following business areas:

- **Treasury and Capital Markets Area**:

  - The particular characteristics of the Bank as a provider of wholesale services mean that the Money Markets and Foreign Currency Area generates the greatest volume of business and is where the Bank makes its presence felt.

  - The Capital Markets Area is responsible for the design, structure and placement of fixed and variable income securities transactions both in Spain and abroad, flotations and privatisations, syndicated loans in Spain and abroad and balance sheet hedging operations of the rural savings banks.

- **Retail Banking**: provides financial services to individuals and businesses with the basic aim of meeting their requirements through a comprehensive offering of products and services, providing the possibility of arranging services and performing operations through various means (branch offices, online banking, telephone banking, mobile banking, ATMs, etc.). As these products and financial services are the cornerstone of our savings banks' relationships with their customers, the Bank has focused the activity of the various units engaged in retail banking on developing, promoting and fostering these products in order to increase the volume and profitability of their business and of Banco Cooperativo Español itself through its two branch offices in Madrid.

- **Corporate Banking**: the Bank follows two basic lines of action in the provision of services to active companies and institutions: commercial support; arranging contracts with customers either individually or in conjunction with the savings banks; and acting as advisor or promoter for the development of new products, commercial undertakings or any initiatives to improve the commercial capacity of this customer segment.

- **Private Banking**: comprises two distinct business lines:

  - Own business: this area renders services to the Bank's own private banking customers and engages in attracting new customers.

  - Savings Bank business: the main aim is to provide support to the shareholder rural savings banks.

- **International Area**: facilitates access by the Rural Savings Banks and the Bank itself to international payment systems and to cooperation and service provision agreements that enable access to the global economy.

The Bank also has various support units such as Human Resources, Organisation and Technology, General Secretaries' Offices and Legal Advisory, Operations, Analysis Services, General Audit and Risks and Internal Audit.

1.2 Business model

The basic pillars of Banco Cooperativo's business model are as follows:

- Banco Cooperativo, as head of banking services for Rural Savings Banks, aims to achieve sustained and profitable growth with the basic objectives of rendering quality services to its shareholder savings banks, strengthening its business and focusing its own activity on the wholesale and corporate banking areas.

- The global risk profile of Banco Cooperativo is low. Most notably it has high capital ratios, estimated profit volatility at the lower end of available benchmarks, low risk exposure (derived mainly from its activity in capital markets) and a robust liquidity position.

- Commercial focus on shareholder Savings Banks and final customers, professional and swift decision-making and extensive use of information technology.

- Active management of intellectual capital, training, motivation and development of employees. The employees of the Banco Cooperativo Group are a cornerstone of the business model.

The Group's activity is subject to the same risks as that of other financial institutions, which can give rise to adverse consequences. Activity is conditioned by other factors such as strong competition, market volatility, the cyclical nature of certain business activities, losses due to litigation and other factors that impact negatively on the Group's profitability and solvency.

A description of these and other specific risks related to banking activity, such as credit, liquidity, market risks, etc., is provided in note 34.

2. Business performance

	Thousands of Euros	
	2023	**2022**
Balance sheet		
Total assets	13,704,155	12,597,963
On-balance sheet customer funds	2,329,225	1,559,701
Other funds managed (*)	9,196,322	8,149,192
Loans and advances to customers	1,339,630	978,742
Own funds	713,645	665,013
Profits		
Gross margin	96,198	89,518
Profit before income tax	62,872	58,093
Profit for the year	47,213	43,898
Significant ratios (%). Consolidated data		
Administrative expenses/gross margin	32.54	36.54
Net profit/average equity (ROE)	6.94	6.80
Net profit/average total assets (ROA)	0.31	0.26
Solvency ratio	37.2	34.0

(*) Off-balance sheet figures managed by the Banco Cooperativo Español, S.A. Group

2.1 Economic environment

At the beginning of 2023, there were fears about the possibility of a recession (albeit a mild one), both in the euro area and in the US, which ultimately did not happen, so we could conclude that the year evolved better than expected. For the year as a whole, GDP in Spain rose by 2.5% (still a provisional figure), clearly above the average level for the euro area, as the euro area's GDP grew by barely 0.5%, hurt by the stagnation in Germany, whose GDP has contracted by just over one tenth of a percentage point in the year as a whole. And, on the other side of the Atlantic, real GDP growth in the US would have been similar to that of Spain, close to 2.5%. In nominal terms, due to high inflation rates, growth has been much higher; Suffice it to take the example of Spain, with real GDP growth of 2.5%, but rising to 8.6% in nominal terms. This fact greatly helps to reduce debt-to-GDP ratios, since it is calculated with both series in nominal terms.

The great resilience, widespread in the Western world, of labour markets is remarkable. In Spain, 2023 has been a good year in terms of job creation, with an increase in Social Security affiliation in the year of 2.7%, some 550,000 more affiliated people. The unemployment rate closed at 11.8%, compared to 12.8% a year earlier. In the euro area, the unemployment rate stood at 6.4%, its lowest on record, three tenths below the previous year. And in the U.S., job creation has been continuous throughout the year, with the unemployment rate near its lowest in decades, closing the year at 3.7%, although it had reached 3.4% by the middle of the year.

The behaviour of financial markets during 2023 was marked by official interest rate hikes, a movement that began as early as 2022. Central Banks have continued to raise interest rates throughout 2023 to try to combat sky-high levels of inflation. In the euro area, the ECB raised its official interest rates six times, for a total amount of 200 bps; the last hike took place in September, when it left its main benchmark rate at 4.50%, with the Marginal Deposit Facility at 4%. For its part, the US Fed raised its official interest rates four times, for a total of 100 bps; The last hike was in July, bringing its fed funds to 5.50%.

Despite these increases in official rates, returns in the financial markets, both in the stock market and in fixed-income assets, were very positive. The vast majority of stock indices more than recovered what was lost in the previous year. Gains were in the order of 20% in the case of the Ibex 35, Eurostoxx 50 or S&P 500, and more than 50% in the tech-heavy Nasdaq. Technology has been the big winner of the year, with the theme of "Artificial Intelligence" as the great revulsive of the year. In the debt markets, despite the significant increases in official rates by the Central Banks, there were price gains in all segments (public debt, investment grade companies and high yield companies), as a result of the level of "yield" that assets have presented since the beginning of the year; However, unlike what happened with equities, in most of these segments, the gains made in the year did not compensate for the very strong losses of the previous year. The yield on the ten-year Spanish bond closed the year at 3.00%, compared to the previous year's closing level of 3.66%, and an annual average of 3.45%. The risk premium against Germany closed the year at 97 bps, in a quiet year in this regard, moving between 90 bps and 115 bps. The one-year Euribor stood at 3.51% at the end of 2023, when a year earlier it stood at 3.29%, although it reached a maximum of 4.23% in September. Meanwhile, in the US, the ten-year bond closed the year at 3.90%, slightly above the previous year's close, but clearly below the peaks of 5.0% reached in the autumn. The credit rating agency Fitch cut the rating of the United States from AAA to AA+ in a surprise warning to navigators in the summer, due to the fiscal deterioration experienced in recent years, reflected in a high volume of public debt to GDP and in the absence of policies aimed at straightening out this fiscal imbalance.

It should be noted that the pace of increase in official interest rates in 2022 and part of 2023 has been the highest in the last 40 years and that there is a lag in the impact of these increases on the real economy, but the tightening of financial conditions had its implications. During the month of March, in the US there were a series of "failures" of several American regional banks, led by Silicon Valley, while in Europe there was the "fall" of Credit Suisse, with the purchase by UBS. The most surprising and significant thing about the merger between Credit Suisse and UBS was the controversial decision of the Swiss National Bank (SNB) to alter the "natural" order of priority in the losses incurred, since the shareholders of the Swiss bank did not lose everything (they received just over €3 billion compared to €8 billion before the bankruptcy) but, however, the riskier bondholders, the AT1 (Additional Tier 1 or Cocos) lost all their money. This was something very particular to the Swiss market and this forced the European authorities to come out to confirm that the "usual" order of priority for banks in the euro area would be respected and, therefore, bondholders would be above shareholders when it came to collecting their debts.

On the inflation side, there was a notable decline in inflation throughout 2023. If the headline CPI ended 2022 in the euro area at 9.2% (it peaked in October 2022, at 10.6%), at the end of 2023 it was already at 2.9%. Regarding the core rate, the decline from the end of 2022 to the end of 2023 was from 5.2% to 3.4%, having peaked at 5.7% in March-23. In Spain, the headline CPI closed 2023 at 3.1%, compared to 5.7% a year earlier. The decline in inflation levels gives rise to confidence that Central Banks (in this case the ECB) will be able to make some rate cuts in 2024, as discounted by market expectations, given that the level reached by monetary policy at the end of 2023 is described by the Central Bank itself as a "restrictive" level.

In other areas, it should be noted that the world lived with two worrying wars. On the doorstep of Europe, the war in Ukraine (which pits this country against its aggressor, Russia) was completing its second year, with no solution in sight in the short term. And in the Middle East, in October, after brutal Hamas attacks that killed more than a thousand Israelis, a bloody conflict began in the Gaza Strip between Palestinians and Israelis, with an obvious imbalance of forces, which is provoking protests from third countries in the face of the Israeli reaction (some accuse it of genocide). Although from a human perspective both conflicts are being terrible, it is surprising that the price of oil has hardly changed. Brent was trading at $77/barrel at the end of the year, down from $86/barrel a year earlier (although it reached $95/barrel following the outbreak of the war in Gaza). This is particularly relevant for European economies, as there is hardly any domestic production and there is an almost total dependence on imports for oil and natural gas.

Overall, for 2024, the baseline scenario implies positive economic growth on both sides of the Atlantic, but below the potential level. The expected reductions in official interest rates should contribute to this positive scenario. It also highlights a fact of a political nature: half of the world's population will go to the polls, and that will give some uncertainty in the markets, especially with the American elections on November 5, where it is foreseeable that Trump and Biden will face each other again.

2.2 Balance sheet

- Total assets increased by 8.8% to Euros 13,704,155 thousand.
- Loans and advances to customers amounted to Euros 1,339,630 thousand at 31 December 2023, up 37.2% compared to the 2022 year-end figure.
- Deposits from customers grew by 20.6% to Euros 6.806.447 thousand.
- Deposits from credit institutions and central banks increased by 4.9% to Euros 6,861,870 thousand.
- Own funds increased by 7.3% to Euros 713,645 thousand.

2.3 Income statement

- The interest margin was Euros 57,535 thousand, representing growth of 9.9% on 2022.
- The gross margin climbed 7.5% to stand at Euros 96,198 thousand.
- Administrative and personnel expenses grew by 5.2% to Euros 31,301 thousand. Depreciation and amortisation totalled Euros 3,138 thousand (up 6.1%). In 2023 the sum of provisions and impairment losses on assets led to a credited amount of Euros 1,565 thousand. Consequently, profit before tax stood at Euros 62,872 thousand (up 8.2% compared to 2022).
- Profit for the year amounted to Euros 47,213 thousand, 7.6% higher than in 2022.

2.4 Business areas

The results of the different business segments comprising Banco Cooperativo Español, S.A. and subsidiaries and their performance in 2023 and 2022 are summarised below.

	Thousands of Euros									
	Commercial banking		**Asset management**		**Markets**		**Corporate activities**		**Total Group**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Gross margin	25,013	19,479	25,030	20,356	22,409	33,884	34,647	25,456	107,099	99,175
Administrative expenses and depreciation/amortisation	11,222	9,429	5,149	5,518	4,592	9,101	17,608	13,304	38,571	37,352
Provisions and impairment losses on financial assets	1,235	826			211				1,446	826
Results from operating activities	12,556	9,224	19,881	14,838	17,606	24,783	17,040	12,152	67,082	60,997
Other income							125	29	125	29
Profit/(loss) before income tax	12,556	9,225	19,881	14,838	17,606	24,873	16,915	12,181	66,957	61,026
Income tax	3,767	2,768	5,964	4,451	5,282	7,435	3,492	2,053	18,505	16,707
Consolidated profit/(loss) for the year	**8,789**	**6,458**	**13,917**	**10,387**	**12,324**	**17,348**	**13,422**	**10,128**	**48,452**	**44,319**

3. Liquidity and capital

3.1 Liquidity

Liquidity risk management consists of ensuring that the Group always has sufficient liquidity to meet its payment commitments associated with the settlement of its liabilities on their respective maturity dates without compromising its capacity to respond rapidly to strategic market opportunities. This function includes obtaining financing in wholesale markets at the lowest possible cost in the medium and long term, with a view to maintaining an optimum level of liquid assets in keeping with a policy of prudence.

In this context, the key to resolving liquidity problems resides in anticipating them and implementing preventive management techniques. The Bank is aware of this and therefore considers both aspects its first line of defence against the potential adverse effects of liquidity shortages on its results, reputation and creditworthiness.

To enable early identification, the Group continually monitors its liquidity position in the short, medium and long term and the performance of the main monetary and capital markets in which it operates. To this end it relies on: (i) a wide range of quantitative and qualitative indicators, (ii) limits and alerts defined on the basis of maximum tolerance to liquidity risk and (iii) the human, technical and operational support required to properly incorporate these indicators as a strategic and risk management input.

With regard to preventive management, the Asset and Liability Committee (ALCO) focuses structural liquidity management on: (i) the balance between positive and negative cash flows over a long time horizon, (ii) the diversification of uses and sources of funding and (iii) the protection of the Bank's ability to finance its growth and meet its payment obligations on the date and in the manner established in the contract at a reasonable cost and without affecting its reputation.

Finally, in terms of anticipation, the Bank has a buffer of liquid assets free of encumbrances that enable it to comfortably cope with situations of severe stress. The quality, relative liquidity and suitability as collateral of the assets that make up the buffer are periodically verified and these assets are subjected to stress tests to determine their ability to cope with extreme situations.

The main metrics currently used to control liquidity and the results of applying them at 31 December 2023 are:

- ***Daily liquidity controls***: the Bank continually monitors its intraday liquidity, the eligibility of securities to be pledged as collateral to obtain financing from Banco de España (credit facility) and the sufficiency of its headroom (buffer of available liquid assets) in dealing with short-term cash outflows, among other indicators. This analysis also envisages further stress tests on its portfolio of eligible assets (those pledged as collateral for the Banco de España credit facility and others), subjecting the securities to scenarios of a reduction in their market value, downgrades in rating and loss of eligibility.

- ***Liquidity gap***: provides information on cash inflows and outflows in order to detect timing differences between collections and payments. Very conservative behavioural criteria and assumptions have been established for unknown contractual maturities.

- ***Short-term liquidity coverage ratio (LCR):*** under the stress scenario defined in Basel III, the 30-day liquidity ratio at 31 December 2023 stood at 256.6%, which is above minimum regulatory requirements for that date (100%).

- ***Net stable funding ratio (NSFR):*** the Bank maintains a balanced structure in its long-term financing that is adapted to its liquidity profile. At 31 December 2023 the net stable funding ratio was 254.2%, higher than the regulatory minimum of 100%.

Moreover, the Bank has activated a number of alerts and thresholds that are continually monitored, enabling it to foresee any potential liquidity stress and, where necessary, automatically convene the ALCO for an extraordinary or crisis meeting, depending on the situation. The latter initiative is considered in the liquidity risk contingency plan, the Bank's second line of action against potential adverse effects of liquidity shortages. Essentially, this is an action plan with a practical focus that enables the Bank to optimise the timing, cost and manner of its response to high-exposure or critical situations and mitigate possible disturbances and impacts on business continuity during such episodes.

Further information on residual maturities and the Bank's financing structure can be found in note 35 to the annual accounts.

3.2 Capital

Capital management seeks to guarantee the solvency of the Entity and ensure compliance with internal capital targets and regulatory requirements, and is a fundamental decision-making tool.

The Entity's target capital is defined as the capital which the Entity considers necessary to hold both now and in the future as per its capital planning and which is in keeping with the risks inherent to its activity, the economic environment in which it operates, the governance, management and risk control systems, the strategic business plan, the quality of available capital, regulatory requirements (current and future requirements insofar as the latter are known) and the real possibilities of obtaining more capital if so required.

Eligible capital amounts to Euros 710,837 thousand, while capital requirements are Euros 152,824 thousand, giving rise to a surplus of Euros 558,013 thousand.

All eligible capital comprises common equity tier capital (CET 1).

The most significant figure in eligible capital corresponds to credit, counterparty, dilution and delivery risks, which stand at Euros 114,749 thousand and represent 75.1% of total capital requirements calculated in accordance with Banco de España regulations.

As a result, the solvency ratio and the Tier I capital ratio stood at 37.21%.

	Thousands of Euros	
	2023	**2022**
Capital	154,071	144,735
Share premium	85,972	85,972
Reserves	426,389	390,408
Profit/(loss) for the year	47,213	43,898
Valuation adjustments	4,655	(14,670)
Deductions	(7,463)	(10,077)
Temporary adjustments	-	4,462
Common Equity Tier 1 (CET 1) capital	**710,837**	**644,728**
Additional Tier 1 items	-	-
Tier 1 capital	**710,837**	**644,728**
Tier 2 items	-	-
Tier 2 capital	-	-
Total eligible own funds	**710,837**	**644,728**
Credit, counterparty, dilution and delivery risk	114,749	121,192
Price, currency and commodity position risk	10,223	10,456
Operational risk	14,168	13,262
Credit valuation adjustment risk	13,684	6,653
Total own funds requirement	**152,824**	**151,563**
Surplus	**558,013**	**493,165**
Capital ratio (%)	**37.21**	**34.03**
Tier 1 capital (%)	**37.21**	**34.03**
Leverage exposure	9,723,497	9,729,110
Leverage ratio* (%)	**7.31**	**6.63**

4. Risks

A summary of the principles governing risk management at Banco Cooperativo is as follows:

- A risk profile adapted to strategic objectives, which include a high level of solvency.
- Involvement of Senior Management.
- Segregation of duties, guaranteeing the independence of the control function and comprehensive management of risks by the areas giving rise to them.
- Clear focus on supporting the business, without prejudice to the foregoing principle and maintaining the quality of risk in line with the Group's risk profile.
- Power allocation policies and control mechanisms structured and adapted to the various phases of the risk circuit, thereby ensuring adequate risk management and a risk profile that is in keeping with the parameters defined by the Board of Directors and Senior Management.
- Use of appropriate systems for the identification, measurement, control and monitoring of risks.
- Policies and procedures to reduce risks through mitigation techniques.
- Allocation of capital that is adapted to the level of risk assumed and the economic environment in which the Entity operates.

These principles are reflected in internal policies related to the approval, monitoring and control of risks and are set forth in the corresponding manuals and monitored on an ongoing basis, as explained further on.

The Bank has a strategic risk framework, the purpose of which is to ensure the control and proactive management of all risks to which the Group is exposed. This framework is partly instrumented through a Risk Appetite Framework (RAF), which stipulates the quantity and diversity of risks sought and tolerated by the Bank to achieve its business objectives, while preserving a balance between risk and return.

The RAF is composed of quantitative metrics, which enable objective monitoring of risk management, and complementary qualitative aspects. Risk management and control is configured as a far-reaching set of principles, policies, procedures and advanced valuation methodologies, integrated to form an efficient decision-making structure under a risk governance framework that is compliant with the legislation in force.

For each relevant risk to which the Group is exposed, the RAF details the main parties involved, their functions, policies, methods and procedures, as well as the monitoring and control mechanisms. It also specifies the organisation of the risk function, indicating the roles and responsibilities of the different risk departments and committees and their control systems, which are tailored to the activities of the business units, including the function of granting loans and credit.

The main financial risks to which the Bank is exposed are capital risk, excessive leverage, liquidity risk, profitability risk, operational risk, interest rate risk, credit risk, concentration risk and market risk. The most relevant of these is credit risk.

The main non-financial risks to which the Group is exposed are operational risk, tax risk and regulatory compliance risk.

4.1 Credit risk

Credit risk is the risk of one party to a contract that meets the definition of a financial instrument ceasing to comply with its obligations, resulting in a financial loss for the other party.

Credit risk therefore represents the risk of loss assumed by the Bank in the event that a customer or any counterparty fails to comply with its contractual payment obligations. This risk is inherent in traditional products of banking entities (loans, credit facilities, financial guarantees given, etc.), as well as in other types of financial assets (fixed-income securities of the Group, derivatives, etc.).

The credit risk affects financial assets carried at amortised cost and assets recognised at fair value in the consolidated financial statements. The Bank applies the same credit risk control policies and procedures to these financial assets irrespective of the recognition criteria used.

The Bank's credit risk control policies and objectives have been approved by the Board of Directors. The Risk Committee, together with the Assets and Liabilities Committee, is in charge of implementing the Bank's risk policies that enable compliance with the objectives set by the board. The risk control unit (under the General Audit and Risks Department and, therefore, independent of the business units in charge of implementing policies defined by the Entity) is responsible for establishing the control procedures required to continuously monitor the levels of risk assumed by the Entity as well as strict compliance with the objectives set by the Bank with respect to credit risks. Together with the Internal Audit Department (under the Internal Audit Committee), the risk control unit also monitors compliance with the Bank's risk control policies, methods and procedures, ensuring that these are sufficient, implemented effectively and reviewed regularly, and providing the information required by higher-level governing bodies to implement the necessary corrective measures, where applicable.

The control unit monitors, on an ongoing basis, risk concentration levels, the default rate and the different warning systems in place that enable it to keep an eye on credit risk trends at all times. Any deviations from the forecast performance of any of these parameters are analysed to determine the causes. Once the causes of these deviations are known, they are analysed by the control unit which submits the corresponding reports to the Bank's management bodies so that the necessary corrective measures may be taken; for example, defining or correcting established control mechanisms which may not have functioned satisfactorily, or amending policies and limits agreed by the Bank. In particular, a more exhaustive analysis will be performed of operations which, for different reasons, have resulted in late payment or default, to determine the effectiveness of the hedges arranged by the Entity, in order to take any necessary measures to improve the Bank's acceptance policies and credit risk analysis mechanisms.

4.2 Market risk

Market risk management is carried out on a two-tier basis:

a) Positions derived from trading activity, which includes portfolios held to benefit from gains on short-term price variations

b) Balance sheet positions, namely financial instruments and portfolios which are generally used to manage the overall risk structure, as well as structural fixed-income positions which are accrued in the margin.

The basic functions of the risk analysis and control unit include measuring, controlling and monitoring market risks, evaluating exposure and adapting that exposure to the limits assigned, as well as contrasting, implementing and maintaining tools.

The market risk limit structure is based on the value at risk (VaR) calculation, stop-loss limits, comparative tests and stress-testing and limits on the size of positions.

Management of this risk is geared towards limiting losses on positions stemming from adverse changes in market prices. Potential losses are estimated using a value at risk model, which is the main control and measuring tool employed in trading operations.

VaR is calculated using the parametric model, with a 99% confidence level for a time period of one day. Value at risk is obtained using historical or Monte Carlo simulations for those portfolios or unusual products with special characteristics for which the covariations model cannot be used.

VaR is calculated centrally on a daily basis for the treasury and capital market activity as a whole, irrespective of the nature of the portfolios.

The objectives of this risk valuation methodology are:

- To establish a benchmark for defining the structure of limits.

- To provide the Group with a unique and standard multi-level measure of market risk, and to provide the regulator with a global measure of market risk assumed by the Entity.

In addition to monitoring market risk, the risk control tools are also complemented by warning systems called stop-loss orders. The reason behind establishing warning systems is to limit maximum trading strategy losses to the desired level by automatically closing positions where allowable losses have been exceeded.

The measurement and control of market risk are complemented by contrast tests which involve comparing the theoretical generation of daily profits and losses under the assumption that positions have remained unchanged, i.e. in the absence of daily trading and using the estimates created by the risk model. Back-testing is used to determine whether the number of times losses exceed estimated VaR is consistent with the expected results according to the 99% confidence level applied in the model. The application of this technique shows that risk measurements fall within generally accepted validation standards.

To further supplement market risk measurement and control, stress estimates are performed in order to quantify the maximum decline in value of a portfolio when faced with extreme risk factor movements. Stress-testing analysis includes the application of historical financial market crisis scenarios as well as extreme values of market variables.

The market risk limit structure is completed with specific limits to the size of positions on certain operations individually approved, analysed and monitored by the Bank's Assets and Liabilities Committee.

4.3 Interest rate risk

Interest rate risk on the overall balance sheet is measured using the gap calculation and the sensitivity of the financial margin and net worth to interest rate fluctuations.

- The interest rate gap is based on analyses of variations in the maturities or repricing profile of different bundles of assets and liabilities over various time intervals.

- Financial margin sensitivity is estimated by projecting the financial margin to twelve months using the expected interest rate scenario and certain behaviour of the balance sheet bundles.

- Net worth sensitivity provides an overview of the long-term interest rate risk assumed by the Entity. Through the concept of duration, the effect of interest rate fluctuations on the economic value of the Entity can be approximated.

To manage interest rate risk, the Assets and Liabilities Committee analyses the overall time difference between maturity and repricing of assets and liabilities. In the case of liabilities with no contractual maturity date, assumptions based on the historical stability of these balances are used.

Each month the financial margin over a 12-month period is simulated under certain scenarios, such as growth of each balance sheet item, spread renewal assumptions, repricing periods for each type of operation, as well as different interest rate scenarios.

Interest rate risk is also analysed considering the economic value, measured as the effect of changes in the interest rate on the present value of the Entity, discounting expected future flows.

4.4 Counterparty risk

Control of counterparty risk is carried out in real time using an integrated system which allows the line of credit available with any counterparty, in any product and period and for each market area, to be known at any given time.

Lines of credit are approved following established authorisation procedures, as are any instances when credit limits are surpassed.

Counterparty risk is measured using the present value of each position plus the estimated increase in market value until maturity. Future variations in market prices are based on a hypothetical worst-case scenario considering the term of the operation and the risk factors to which the operation is exposed.

With respect to counterparty risk of derivative positions, credit risk is offset on positions where the counterparty is a financial institution that is party to the financial operations framework agreement, which allows parties to offset positions with negative market values against positions with positive market values in the same entity. At 31 December 2023 offset agreements have been implemented with 62 institutions (60 institutions at 31 December 2022).

The risk analysis unit continuously monitors the level of credit risk concentration by country, sector or counterparty. The Bank's Assets and Liabilities Committee reviews the appropriate exposure limits in order to adequately manage the level of credit risk concentration.

Note 34 to the annual accounts contains detailed information on the risks to which the Group's activity is exposed, including credit risk, market risk, interest rate risk, refinancing risk, currency risk and risk concentration.

5. Outlook

In 2024, the Bank will design and launch new areas of business, allowing it to enhance its market presence and that of the shareholder rural savings banks, reinforce control of the different activities and improve the quality of services rendered.

6. Research, development and innovation activities

The Bank has continued to develop technological applications to save costs and increase the quality of the services rendered to our customers, and so as to address new requirements to update technological and functional areas. The main work carried out has allowed the Bank to continue with its policy to make the most of resources, leading to improved efficiency and the streamlining of processes.

7. Acquisition and sale of own shares

No transactions were carried out with own shares in 2023.

8. Other relevant information

The rating agencies commissioned all highlighted the Bank's low risk profile due to its robust levels of capitalisation, estimated profit volatility at the lower end of the benchmarks applied and low estimated exposure to various risks as a result of its policies and practices.

At the date of this report, the ratings assigned to the Bank are as follows:

Fitch	BBB
DBRS	BBB (high)

9. Non-financial information statement

Pursuant to Law 11/2018 of 28 December 2018, amending, among other things, article 49.5 of the Spanish Code of Commerce, the Non-Financial Information Statement, which forms part of the Directors' Report of the consolidated Group and which contains non-financial information for the fiscal year ended 31 December 2023, may be consulted on the Caja Rural Group website, www.grupocajarural.es/, under the heading "Sustainability".

BANCO COOPERATIVO ESPAÑOL, S.A.

APPROVAL BY THE BOARD OF DIRECTORS OF THE ANNUAL ACCOUNTS FOR 2023

In accordance with article 253 of the Revised Spanish Companies Act, the members of the board of directors of Banco Cooperativo Español, S.A., whose names are provided below, subscribe to and countersign these annual accounts of Banco Cooperativo Español, S.A. for the year ended 31 December 2023, which were authorised for issue at the board of directors' meeting held in Madrid on 20 March 2024 and comprise the balance sheet, income statement, statement of recognised income and expense, statement of total changes in equity, statement of cash flows, notes thereto comprising 129 pages (pages 9 to 138) and one appendix (page 139), as well as a directors' report of 11 pages (pages 140 to 151).

All pages have been initialled by the Secretary and this page and the following page have been signed by the Directors

Madrid, 20 March 2024.

Mr. Ignacio Arrieta del Valle
- Chairman -

Mr. Antonio Aguilar Amat-Caballero
- Director -

Mr. Fernando Bergé Royo
- Director -

Mr. Cipriano García Rodríguez
- Director -

Mr. José Luis García Palacios Álvarez
- Director -

Mr. Jesús María Hontoria Ramos
- Director –

Mr. Francisco López Luque
- Director -

Mr. Gerónimo Simeón Luque Frías
- Director -

Mr. Carlos Martínez Izquierdo
- Director -

Mr. Fernando Martínez Rodríguez
-Director-

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Mr. Pedro Palacios Gómez
- Director-

Mr. Jochen Philip
- Director -

Mr. Manuel Ruíz Escudero
-Director-

Mrs. Dagmar Werner
-Director-