Banco Finantia

Report and Consolidated Accounts | 2022

21 April 2023

Banco Finantia

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KEY FIGURES

IFRS [1]

Euros million	2022	2021	Change
BALANCE SHEET			
Total assets	2.059,4	2.104,9	- 2 %
Fixed-income and loan portfolio	1.670,0	1.891,6	- 12 %
Customers' deposits	845,5	883,1	- 4 %
Shareholders' equity	423,2	482,3	- 12 %
INCOME STATEMENT			
Net interest income, net of hedging	40,5	37,0	+ 9 %
Operating income	52,5	53,0	- 1 %
Net profit	0,2	24,2	- 99 %
PROFITABILITY (%)			
Return on equity (ROE) [2]	0,1	5,0	- 4,9 pp
Return on assets (ROA) [2]	0,0	1,2	- 1,2 pp
CAPITAL ADEQUACY (BIS III, fully loaded) (%)			
CET1 Ratio	25,1	26,1	- 1,0 pp
Total Capital Ratio	25,1	26,1	- 1,0 pp
LIQUIDITY AND FUNDING INDICATORS (%)			
Liquidity Coverage Ratio (LCR) [3]	1.149	1.095	+ 53,9 pp
Net Stable Funding Ratio (NSFR) [4]	127	121	+ 6,0 pp
Regulatory Leverage Ratio [5]	20	21	- 0,7 pp
DATA PER SHARE (Euro)			
Net Profit	0,00	0,16	- 0,16 cts
Book Value	3,28	3,28	+ 0,00 cts
Weighted average no. of shares outstanding (million)	144	147	n.a.
Year end no. of shares outstanding (million)	129	147	n.a.

[1] International Financial Reporting Standards

[2] Amounts after tax

[3] High quality liquid assets (HQLA) / Total net cash outflows over the next 30 calendar days (average)

[4] Available stable funding / Required stable funding

[5] Common Equity Tier 1 / On-balance and off-balance sheet exposures (exposure measured according to Basel III)

Banco Finantia in Brief

Banco Finantia is an independent bank, with a national and international experience of over 35 years and is an important operator in Portugal in the areas of investment and private banking.

Banco Finantia has always presented a solid financial structure with capital ratios higher than the sector average.

At the end of 2022, Shareholders' Equity amounted to € 423 million. The Common Equity Tier 1 (CET1) ratio stood at 25.1%, one of the highest in the European Union.

The Bank operates in two important niche markets:

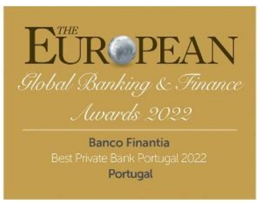
Corporate & Investment Banking – fixed-income products and capital market transactions for companies and investors; loans and financial restructurings; and financial advisory services focusing on Mergers and Acquisitions.

Private Banking – quality personalized services for affluent and wealthy customers.

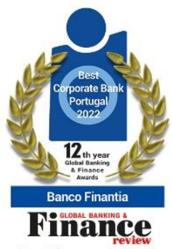
Banco Finantia has as its main operating units a bank in Portugal with a branch in Spain and broker dealers in the United Kingdom and in the United States.

Banco Finantia's performance, its success and the quality and professional competence of its team have been recognized over the years through the accumulation of a vast number of international awards.

Best Private Bank
Portugal 2022
Global Banking Finance Review



Best Private Banking
Portugal 2022
The European



Best Corporate Bank
Portugal 2022
Global Banking Finance Review

1. Macroeconomic Framework

1.1 World Economy

Russia's invasion of Ukraine dominated 2022, plunging Europe into an energy crisis, high inflation and tighter financial conditions, precisely at the moment when the pandemic was fading. This environment led to a slowdown in global economic growth in 2022 and negative prospects for 2023. The three largest economies in the world - the US, the Eurozone and China - were the main contributors to this slowdown.

The IMF estimates world growth of 3.2% in 2022, compared to 6.0% in 2021. For developed economies, the growth in 2022 is estimated at 2.4% (5.2% in 2021), while for developing countries it is 3.7% (6.6% in 2021). The US is estimated to have grown by 1.6% in 2022 (5.7% in 2021), the Eurozone by 3.1% (5.2% in 2021) and the UK by 3.6% (7.4 % in 2021). The Chinese economy is projected to grow by 3.2% in 2022 (8.1% in 2021), India by 6.8% (8.7% in 2021), Brazil by 2.8% (4.6% in 2021), Russia by -3.4% (4.7%) and Turkey by 5.0% (11.4% in 2021).

Persistent and widespread pressures on inflation led to a rapid, and global, tightening of monetary policies. The US dollar appreciated against most other currencies. Russia's invasion of Ukraine led to a severe energy crisis in Europe, which sharply increased the cost of living and hampered economic activity. Gas prices in Europe have quadrupled since 2021 as Russia cut supplies to less than 20% of their 2021 levels, raising the prospect of power shortages during the winter and beyond. The conflict has driven up food prices on world markets, which has caused serious hardship for the world's poorest households, particularly in low-income countries, despite recent relief following the Black Sea grain export agreement. In this context, the IMF expects global inflation to remain high for longer than expected, decreasing to around 4.3% by 2024.

The IMF projects a slowdown in global economic growth to 2.7% in 2023. Growth in the US is projected at 1.0% in 2023, in the Eurozone at 0.5% and in the UK at 0.3%. The Chinese economy is expected to grow 4.4% in 2023, India 6.1%, Brazil 1.0%, Russia -2.3% and Turkey 3.0%.

1.2 Iberian Peninsula

It is estimated that in 2022 Portuguese GDP growth has been 6.8%. The projection for 2023 is 1.5%. Growth in the first half of 2023 is expected to remain subdued, owing to global uncertainty, erosion in purchasing power, tighter financial conditions and weakening external demand. From the second half of 2023, the economy is expected to accelerate, reflecting expectations of improvement in energy markets, a gradual recovery in real household income, greater absorption of EU funds and an improvement in the external environment. Inflation is estimated to have reached 8.1% in 2022 and is expected to slow down to 5.8% in 2023. Public debt (as a percentage of GDP) at the end of 2022 stood at 114.7%, falling from 125.5% at the end of 2021. Employment in 2022 is estimated to have grown by 2.3%. Private consumption is expected to stabilize in 2023, after an increase of 5.9% in 2022. Investment is estimated to have slowed to 1.3% in 2022, with a projected growth of 2.9% in 2023. The current and capital account deficit stands at 0.6% of GDP in 2022, returning to a positive balance of 1.9%, on average, during the period 2023-25.

Regarding the Spanish economy, GDP is estimated to have grown by 4.6% in 2022, supported by a stronger than expected second half. The projection for 2023 is 1.3%, reflecting weaker external demand. Inflation in 2022 is estimated to have been 8.4%, and is expected to decrease to 4.9% in 2023. The fall in inflation in 2023 includes moderate wage increases and lower energy prices, as food prices have continued to accelerate, albeit at a progressively slower pace. Public debt (as a percentage of GDP) stood at 113.1% at the end of 2022 and the unemployment rate at 12.9%, with a marginal decrease to 12.7% expected for 2023.

2. Operating Activities

After the recovery observed in 2021, 2022 was a difficult period for the world economy. The eruption of the Russian/Ukrainian conflict, the surge of inflation and rising interest rates caused a slowdown in economic growth and had a significant impact on financial markets.

In this context, Banco Finantia's strategic posture remained conservative – consolidating its position in the markets where it operates, stabilizing asset and liability levels and continuing to accumulate an additional liquidity cushion.

The Russian/Ukrainian conflict and the devaluation of assets observed in the financial markets had a negative impact on the performance of the Bank’s own portfolio. However, this impact was mitigated by the quality of the assets in the portfolio, the degree of diversification and the policy of hedging interest and exchange rate risks.

Despite the volatility and adverse market conditions, the Capital Markets area managed to maintain its volume of transactions and improve the performance of the trading portfolio.

Worthy of note in the activity with Corporate customers is (i) in the fixed-income area, the participation in numerous issues of Eurobonds, Capital Call Facilities and syndicated loans in the Portuguese and international markets and of Pagarés in the Spanish market, and (ii) in the financial advisory area, an increase in activity, including the completion of a reference transaction in the M&A area in Portugal.

Finally, Private Banking successfully continued its policy of product diversification, increasing securities in customer portfolios and increasing commissions.

2.1 Corporate & Investment Banking

2.1.1 Capital Markets and Origination

2022 was marked by the actions of Central Banks, with sharp increases in reference interest rates, in an attempt to control the increase in inflation, which worsened after the start of the conflict between Russia and Ukraine. In this context of instability and higher interest rates, there was a decrease in the volume of issues in capital market, especially medium and long term, with issuers opting for shorter issues or resorting to bank credit.

Within the scope of commercial paper issues, Banco Finantia continued to reinforce its participation in the Pagarés market listed on the Mercado Alternativo de Renta Fija (MARF), both for Portuguese and Spanish companies. The total volume of Pagarés placed in 2022 reached € 131 million, an increase of more than 40% compared to the € 93 million placed in the previous year. The Bank was appointed as a placement entity for the € 150 million program of the Spanish renewable energies company Grenergy.

As regards the Portuguese market, Banco Finantia's participation in the placement syndicates of the Mota-Engil 2022-2027 Sustainability-Linked Bonds and Greenvolt 2022-2027 Green Bonds issues are to be highlighted. Both were aimed at the retail segment and carried out in the last quarter of 2022.

The Capital Markets department once again showed its resilience in periods of instability, attaining a transacted volume in excess of € 2.5 billion, in line with the previous year.

Despite the effects of the armed conflict, the Capital Markets area maintained its growth strategy based on the greater use of electronic platforms, which allowed it to maintain the volumes traded and increase the profitability per transaction. The focus on proximity to customers resulted in the consolidation of the Group's institutional customer base in the geographies where Banco Finantia is a reference partner.

The trading portfolio continued to be managed with extreme prudence, in a particularly complex macroeconomic context – rising energy prices, disruptions in industrial production chains, resurgence of inflation and changes in central banks' policies with generalized increases in reference rates. All these factors contributed to the volatility and increase in interest rates and credit spreads that were felt throughout the year, with the consequent impact on the valorisation of assets. Despite this adverse context, the performance of the trading portfolio presented an improvement of 60% over the result of the previous year, once again making an important contribution to the Bank's results.

2.1.2. Corporate Banking

In the area of Corporate Banking, and given its consolidated position in the financial market, the Bank maintains its support to the growth of businesses in geographies where Banco Finantia is a reference and has been operating for over 35 years, including Portugal and Spain.

Regarding the loan portfolio strategy, Banco Finantia remained active, both in the Portuguese and international markets, and once again showed its resilience in periods of instability.

In Portugal, it is worth highlighting two contracts signed with venture capital funds, Vallis Sustainable Investment II, FCR (managed by Vallis Capital Partners) and Horizon Equity Partners Follow-on Fund SCSp (managed by Horizon Equity Partners), under the form of Capital Call Facilities, with the Bank continuing to be leader in this market segment. In the international market, the Bank participated in a total of 7 transactions in the form of syndicated and bilateral loans, 4 of these were in the primary market. The Bank's performance as Lead Arranger in the syndicated loan of Forum Servicios Financieros S.A. (subsidiary of BBVA) is to be highlighted. In addition, the portfolio continued to rely on Credit Risk Insurance (CRI) to mitigate credit risk.

The decrease in the total number of closed transactions compared to the previous year reflects Banco Finantia's prudent risk management, in a context of macroeconomic instability. Banco Finantia ended the year with a loan portfolio nominal value of approximately € 170 million and has a robust pipeline of transactions for 2023, namely in Portugal, remaining EU countries, the Americas and Africa.

2.1.3. Corporate Finance

2022 was a year of consolidation for the Corporate Finance area. Banco Finantia benefited from its competitive advantages as an international and independent investment bank to further strengthen its strategic positioning in financial advisory and, in particular, in cross-border transactions.

The Bank's global geographic coverage, strengthened by its bilateral partnerships for business development in its key operational markets (Portugal and Spain) as well as its integration in the global investment bank network Terra Alliance, has materialized in increased opportunities and transactions.

Of note was the transaction as exclusive Financial Advisor of Sunenergy in the disposal of a 70% majority stake to Sorigué Group, one of the leading players in Spain in terms of construction, engineering, services and renewable energies. This was one of the reference operations in Portugal during 2022, both due to the sector (renewable energy solutions) and nature of the transaction (first direct investment by the Sorigué Group in Portugal).

Also in 2022, the Bank continued to strengthen its relationships with national and international investment funds, venture capital funds and asset managers.

The international activity is considered essential for the development of this business area and, as such, the Bank will continue to strengthen its team and its business partnerships with the objective of widening both the geographical coverage as well as the range of activities.

2.2 Private Banking

Despite the adverse environment during 2022, marked by the war and the devaluation of securities (impact of increases in inflation and interest rates), the Bank recorded a 41% increase in commissions obtained in this area and a stabilization in the value of assets under management. The overall volume of customer deposits at the end of the financial year amounted to € 845 million (-4% compared to the end of 2021). This evolution reflects the strategy of progressively transforming costumer deposits into other financial products.

In this context, given the increased aversion to risk seen in most customers, the Bank focused on controlling and minimizing impacts on their assets and taking advantage of the opportunities that gradually emerged in the financial markets, namely in the bond segment.

Private Banking, in Portugal and Spain, continued to implement its strategy of strengthening the value proposition and service provided to customers, with an emphasis on diversifying the products and services offered and on the objectives of increasing the volume of securities in customer portfolios and of growth in commissions from these activities, thus continuing to consolidate Finantia Private's presence in this business area.

Several factors converged to this evolution:

i. An experienced and highly qualified commercial team, focused on providing a high-quality service and capable of offering its customers personalized financial services tailored to their needs and objectives;

ii. The reinforcement of adequate training for the commercial team on the investment products and services provided;

iii. The progressive improvement of the order execution service and the 'Investment Consultancy' service, aligned with the risk profiles of customers;

iv. The positive evolution of the experience perceived by the customer, whether face-to-face or online. In this matter, the improvement and expansion of the Front-End application's features is worthy of note. This proved to be very important for understanding the needs and expectations of customers, allowing their growing interaction with the Bank through the APP and the increased use of transactional Homebanking;

v. The gradual adjustment of interest rates on deposits, aligned with the significant increase in market reference rates;

vi. The investment made in increasing awareness of the “Banco Finantia” brand and of our products and services.

In 2023, the Bank will pursue the strategy of strengthening the Private Banking activity, within the objective of boosting off-balance sheet businesses, generators of commissions and with lower capital requirements. In this context, the aim is to increase the weight of securities in the total assets of customers under management and gradually improve the service quality and the product range available, objectives which are based on a continuous upgrade of the digital means available. In short, to consolidate the image and reputation of a solid bank, focused on the excellence and discretion that have characterized it since its foundation.

3. Supporting Activities

3.1 Information and Development Systems

The financial year was marked by the implementation of various projects aimed at optimizing and simplifying the applicational architecture, strengthening the value proposition and the service provided to customers, boosting efficiency gains and ensuring greater quality, reliability and control in the Bank's Information Systems, namely in the management of data quality and integrity in the institution.

Following the creation of the branch in Spain, resulting from the merger by incorporation of Banco Finantia Spain into Banco Finantia, some developments continued to be implemented aimed at optimizing the applicational architecture and data flows and adequately guaranteeing all accounting and reporting obligations.

The “Front-End” project, applicable to some of the Bank's business areas, was continued, reinforcing the quality and reliability of processes and management information. The implementation of a system for monitoring money laundering alerts and a module for the contracting of time deposits is to be highlighted.

Online contracting of term deposits was made available to customers, via homebanking and the APP, for Portugal, and the digital onboarding project for customers and accounts was started.

We continued with the cross-sectional project related to data quality and integrity, with a view to implementing best practices in this area, in which scope an external consultant was hired to support the Bank in this project during the second half of the year.

The upgrade of our core system to the latest version was completed and relevant changes and improvements were made to several official reports.

A project was developed to improve the features of the Payment Management System.

A new computer application was created to optimize and strengthen the internal control system

3.2 Operations

2022 was marked by the continuity of the development strategy of the Bank's internal systems and by the follow-up of several projects started in 2021 in terms of Payment Systems (TARGET and SWIFT).

With the central focus on strengthening quality and responding to the evolution of regulatory compliance, the computerization of processes was reinforced, and the analysis of new requirements resulted in a total of 120 requests for application development being placed with the Development and Applicational Support Department.

The projects that stand out are:

i. Migration of the Bank's core application, Bank Fusion Midas, from version 2.0 to version 2.1;
ii. Monitoring of the process of harmonizing manuals and operational processes at the Headquarters and at the Branch of Banco Finantia in Spain; and
iii. Preparation of the evolution of the Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET) services and of the migration of the SWIFT system to the ISO 20022 XML standard, both postponed to 2023.

On the regulatory front, work began on implementing the reformulation of the current statistical reporting of payment systems and instruments to Banco de Portugal (Bank of Portugal), known as the PAY Project.

In 2023, the Operations Department will continue to focus on mitigating operational risk and on the continuous training of employees, in line with market standards and the strategy and objectives defined by the Bank.

3.3 Human Resources

At Banco Finantia, a culture of work and learning is privileged, ensuring the attraction, selection and development of all Bank employees, providing them with an experience of excellence.

Employee development is a critical factor in achieving the Bank's strategic objectives. Therefore, the career of each employee is considered unique, and their development is a personalized experience, based on their skills, self-awareness and accountability.

As at 31 December 2022, the Group, including the international offices, had a total of 240 employees, of which 170 in Portugal, 56 in the Branch in Spain and the remainder in other geographies (United Kingdom, United States of America and Malta).

The average age of employees is 45 years and around 73% have higher education (bachelor's /master's degrees).

Banco Finantia seeks to promote stable and lasting relationships. The average seniority of employees is 11 years and more than 98% are permanent employees.

Regarding gender distribution, at the end of 2022, 60% of the employees were male and 40% female. As for employee distribution by staff level, 38% of the Group's employees were senior staff, 53% mid-level staff and 9% technical and administrative staff.

Banco Finantia seeks to discover and develop talent. In this sense, an agile, sustained and collaborative selection process is privileged. In 2022, the selection process was reinforced with the inclusion of an external assessment, adjusted to the functions to be recruited, to complement the various interview phases.

The functional descriptions were also reviewed, adjusting them to the current challenges of each function and area, as well as the skills required by the business and market evolution.

Mobility is one of the evolution and professional development tools of the Group's employees, enabling them to reinforce their knowledge and skills. For this reason, there is a strong commitment to mobility, both internally and externally (internationally).

To ensure the sustained evolution of the business, investment is made in the continuous training of employees and in the promotion of learning throughout their entire professional career at the Bank.

Training is a key component in individual and group development: it promotes knowledge learning and sharing, creates space for initiative and enables easier and faster adaptation to changes, whether technological, organizational or regulatory. That is why efforts are made to build training courses adapted to the individual needs of each employee and to the various teams.

In 2022, the overall volume of training in Portugal was approximately 6 970 hours (corresponding to an average of 42 hours of training per employee). About 85% of the training hours were external, with 1 247 participations in a total of 305 training actions having been recorded.

A large part of the internal training was provided through the Online Platform: Academia Finantia, which in 2022 was strongly promoted and, simultaneously, made available to all Group employees (in the various geographies), enabling a greater and more uniform sharing of knowledge.

Banco Finantia Group employees are also covered by the Performance Management Cycle (Performance Appraisal and Management), which aim is to promote the sustained improvement of their performance, aligning individual skills with the Bank's strategic objectives.

Finally, in 2022, the standardization of Human Resources' procedures, practices and policies between the parent company (Portugal) and the other geographies, with an emphasis on Spain, was strengthened.

3.4 Treasury

The year 2022 was marked by a sharp worldwide increase in inflationary pressures and by a high degree of uncertainty at the geopolitical level. In this context of a sharp rise in inflation worldwide, the main central banks intensified their interventions in terms of monetary policy, with the European Central Bank (ECB) and the American Federal Reserve having, in the course of 2022, raised their reference rates by 2.50% and 4.25%, respectively. These factors contributed to the negative performance of the financial markets, with increased volatility, devaluation of the main stock market indices and a general increase in the costs of financing the economy.

In this challenging conjuncture, to ensure the normal functioning of the main business areas, Banco Finantia sought, through its Treasury Department, responsible for the liquidity management strategy implementation, to maintain a conservative and prudent approach. The success of this strategy allowed for the maintenance of a comfortable margin of highly liquid assets (HQLA), reflected in the increase in the average annual value of the liquidity coverage ratio (LCR) from 1095% to 1148%, 11x higher than the minimum regulatory requirement (100%) and, simultaneously, for the maintenance of a stable funding ratio (NSFR), above the regulatory minimum requirement (127% versus 100%).

Additionally, in the second half of the year, the ECB changed the remuneration conditions for long-term financing operations (TLTRO), as a measure to control the money supply existing in the financial system. These changes had no direct impact on Banco Finantia, as the Bank's policy is not to resort to these liquidity-providing operations, which remain, in any case, available for contingency scenarios.

The Treasury Department continued its efforts to deepen the relationship with several international financial institutions, reference entities in the main currency and foreign exchange markets, continuing its activity with its correspondents and counterparts, and maintaining the diversification levels of its sources of financing and their stability.

During 2022 and in keeping with the practice of previous years, the Bank was represented at the annual meetings of the IMF and World Bank, at IFTA and at SIBOS, having had more than sixty bilateral meetings.

In October, of note was the holding of the annual meeting, in London, of the Groupement Europèen de Banques (GEB) - an international cooperation banking group made up of small and medium-sized private European banks, of which Banco Finantia came to occupy the Presidency, for two years. Also under the auspices of the GEB, a meeting on environmental, social and corporate governance (ESG) sustainability was once again organized in December, during which ideas and experiences on initiatives and projects of the various banks related to this theme were debated.

4. Risk Management

The Bank's risk management model is based on an integrated set of processes, duly planned, reviewed and documented, focused on producing an appropriate understanding of the nature and magnitude of the risks underlying the Bank's activities, allowing for an adequate implementation of the respective strategy and attainment of the goals established.

This management is based on processes implemented to identify, assess, monitor and control all the risks inherent in the financial and non-financial activities, existing or potential. These processes are supported by clearly defined policies and procedures aimed at ensuring that the established goals are attained and that the necessary actions are taken to adequately respond to the risks.

The process of risk identification is based on matrices, which incorporate, among others, the mapping of the processes, of the risk factors and of the controls associated with the activity. These risk matrices serve as a basis for the identification, assessment, monitoring, and control processes of the various types of risk.

All these processes follow the principles recognized at the international and national level, in line with Banco de Portugal Notice no. 03/2020 and Instruction no. 18/2020, with the Guidelines on Internal Governance issued by the European Banking Authority (EBA/GL/2021/05), with Directive (EU) 2019/878 (CRDV) and with Regulation 2019/876 (CRR II).

The Bank's risk management model covers all the products, activities, processes and systems, taking into consideration all the risks inherent in its activities and considering its size, nature and complexity, as well as the nature and magnitude of the risks assumed.

The Bank recognizes that within the scope of its risk management model, the definition and evaluation of adequate capital levels to support the risk profile are essential elements for the implementation of a sustainable business strategy. Thus, the planning of the internal capital evolution and the maintenance of appropriate levels of capital in relation to the economic capital requirements (ascertained in the internal capital adequacy assessment process -

ICAAP) are crucial to ensure the continuous adequacy of the risk profile to the Bank's strategic objectives.

The Bank also recognizes the importance of integrating the risk management model into its culture and its decision-making process. In this manner, the risk management model has the active involvement of the entire Bank, including the management body, the supervisory body, the executive directors, the intermediate management bodies, and the Risk Department:

i. It is the responsibility of the Board of Directors (BoD) to prepare and maintain an internal control system that is adequate and efficient, through the approval and periodic review of the governance, the strategies and the policies related to the risk management model, and to regularly monitor the activity of the risk management function. The BoD is also responsible for the approval of the Risk Appetite Framework (RAF);

ii. The BoD's Executive Committee (EC) is, by delegation from the BoD, responsible for ensuring the implementation and maintenance of an adequate and effective internal control system, based on the governance, strategy and policies approved by the BoD related to the risk management model. It is incumbent upon the EC to monitor, on a regular basis, compliance with risk tolerance levels and risk management policies and procedures, assessing their effectiveness and continuous adequacy to Banco Finantia's activity, in order to enable the detection and correction of any weaknesses;

iii. The Audit Committee is responsible, among others, for the prior analysis, supported by opinions regarding various important matters in the risk management and internal control areas;

iv. The Risk Department is responsible, with total independence, for the management of all the risks of the Bank. In this scope, the Risk Department: (i) guarantees the effective application of the risk management model, through a continuous monitoring of its adequacy and effectiveness, as well as the adoption of measures to correct any weaknesses; (ii) provides advice to all management and supervisory bodies; (iii) leads the work involving the update of risk matrices and the performance of the risk assessment; (iv) prepares and presents periodic reports related to risk management; (v) actively participates in the business and capital planning; (vi) performs stress tests; (vii) is responsible for the ICAAP and ILAAP processes and actively engages in the preparation of the RAF; (viii) realizes an independent review of the ICAAP and ILAAP methodologies and results; and (ix) promotes the integration of the risk principles in the Bank's daily activities.

In summary, the risk management model ensures:

i. An adequate identification, assessment, monitoring and control of all the material risks to which the Bank is exposed, as well as the mitigation of same;

ii. The adequacy of the internal capital to the risk profile, business model, and strategic planning; and

iii. The integration of the risk management process in the Bank's culture and in its decision-making process.

Finally, to ensure a continuous improvement in the risk management model, the Bank attaches great importance to the development of the skills of its employees through general and specific training actions. Focused on best practices, the Risk Department, among many other control and risk mitigation issues, actively participates in the planning and structuring of training actions related to the risk management processes as well as the capital adequacy and liquidity assessments known, respectively, as ICAAP and ILAAP, among many other risk control and mitigation exercises, with special emphasis on the Risk Profile.

The risk profile covers all the risks the Bank is exposed to, both financial and non-financial, considering their materiality, the applicable legislation and the activity developed.

To do this, the Bank considers the following risk categories: Credit Risk, Market Risk, Exchange Rate Risk, Liquidity Risk, and Non-financial Risks (covering: Business Model/Strategy Risk; Internal Governance Risk; Operational Risk; and Other Risks including Reputational Risk, Compliance Risk and Money Laundering and Financing of Terrorism Risk).

Credit Risk

Credit risk arises from the possibility of a counterpart defaulting or the credit quality of a given financial instrument degrading. The Bank's objective is to maintain a high-quality asset portfolio, based on a prudent credit policy and a judicious analysis of all credit proposals. The Bank also has a constant concern to diversify its risky assets, as a form of mitigating credit concentration risk.

Market Risk

Market risk arises from the probability of negative impacts on results or capital, resulting from unfavourable movements in the value fluctuations of financial instruments in the portfolio, caused by fluctuations in interest rates and credit spreads. For the financial instruments (securities and loans) that make up the portfolio classified as Hold to Collect and Sell, this risk encompasses the two components mentioned above: i) the risk inherent in changes in the reference interest rate and ii) the risk inherent in credit spread fluctuations. The economic value of this portfolio (banking portfolio) is affected by changes in interest rates that determine the prices of assets recognized at fair value, whether these result from movements in reference interest rates or from movements in credit spreads. For financial instruments classified in the Hold to Collect portfolio, as well as for interest rate derivatives, market risk results from the impact on the economic value of changes in reference interest rates.

The Bank's strategy involves the adoption of measures to control and mitigate this risk, namely through the contracting of interest rate risk hedging instruments (e.g., IRS), thus reducing the potential for the negative impact of market risk. In addition, by adopting control measures through the monitoring of securities' spreads and the analysis of historical price series, it allows for the timely management of this risk, and reduces its impact on the Bank's risk profile.

Foreign Exchange Risk

Foreign exchange risk is characterized by the probability of the occurrence of a negative impact due to unfavourable fluctuations in foreign exchange rates and adverse changes in the foreign currency price of instruments.

It is the Bank's policy to transact only in assets and liabilities denominated in EUR and USD (the positions in other currencies are sporadic and immaterial).

The Bank's strategy is to minimize the foreign exchange risk associated with its assets and liabilities. Hence, foreign exchange risk is regularly hedged to ensure a comfortable margin of the exposure in foreign currency vis-à-vis pre-established limits, with said exposure - both the spot as well as the forward positions – being monitored daily.

For ICAAP, the Bank uses the VaR methodology for the allocation of economic capital to the exchange rate risk. The economic capital requirements for this risk are calculated through historical simulation, based on a fifteen-year rate history, a one-year holding period and a 99.9% confidence interval.

Liquidity Risk

Liquidity risk is defined as the possibility of a financial institution being unable to meet its obligations as they fall due, because of the inability, on a timely manner, to liquidate assets, obtain funding or refinance liabilities.

The Bank recognizes that within the scope of the risk management model, the definition and assessment of adequate liquidity levels to support the risk profile are essential elements for the implementation of a sustainable business strategy. In this way, the planning of the evolution of liquidity and the maintenance of appropriate levels of same in relation to the limits defined in the RAF (determined within the scope of the internal liquidity adequacy assessment process - ILAAP) are crucial to guarantee the continuous adequacy of the risk profile to the Bank's strategic objectives.

The Bank's objective is to guarantee a stable and robust liquidity position, through the holding of liquid assets, control of the liquidity gaps and maintenance of a buffer that permit responding to financial outflows, both under contractual and stress situations.

The management of this risk is carried out so as to maintain liquidity levels within pre-defined limits, through: (i) cash flow management, through the daily calculation of the financial flows and the treasury balances over an extended temporal horizon, permitting the maintenance of a liquidity buffer in both normal conditions as well as under unfavourable conditions; (ii) balance sheet management, with the daily calculation of liquidity metrics; and (iii) the maintenance and monitoring of liquidity buffers, permitting the maintenance of the main control indicators of this risk within the Bank's pre-defined limits.

The Treasury Department is responsible for the daily cash flow management and the evolution of the various components of the Bank's balance sheet. The Risk Department is responsible for the periodic analyses of the balance sheet management, preparing a monthly report.

The metrics used to measure liquidity risk in the scope of balance sheet management include the prudential ratios LCR (Liquidity Coverage Ratio), NSFR (Net Stable Funding Ratio), Total Liquidity Buffer Ratio, Restrict Liquidity Buffer Ratio as well as an extensive group of internal ratios related to: liquidity mismatches; concentration of the main counterparts; distribution of the reimbursement flows of the main liabilities; collateral of the repos transactions; liquidity characteristics of assets; and immediate liquidity.

The NSFR ratio, which supplements the LCR, and that has a wider temporal horizon (one year), was developed to benchmark a sustainable maturity structure of the assets and liabilities, aimed at promoting an adequate resilience over a longer temporal horizon, and as an additional incentive for banks to fund their activities with more stable sources of funding on a regular basis.

During 2022, several training actions were carried out, with an emphasis on specific training on ICAAP, valuation models and validation techniques. For 2023, the Bank will continue to favour the training component in this area.

Non-Financial Risks

Non-financial risks include business model/strategy, internal governance, operational and other risks (reputational, compliance, and money laundering and financing of terrorism risks). In general terms, these risks consist of the probability of the occurrence of negative impacts on the results or on the capital arising essentially from: (i) for business model/strategy risk - inadequate plans and strategic decisions, (ii) for internal governance - maladjustments and weaknesses in the internal governance system, in the organizational structure and in the corresponding delimitation of responsibilities; and (iii) for operational risk - operational failures, inadequacy of information and technology systems or model weaknesses.

The management of non-financial risks has been gaining an increasing relevance. In this context, advanced tools and methods have been developed, focused on the identification, assessment, monitoring and control of these types of risks. Among others, these tools include risk matrices and controls, heat-maps, and spider-charts, with inputs derived from an extensive and comprehensive process of self-assessment. This process serves as a basis for the definition of specific action plans for non-financial risks.

In addition to the maintenance of risk metrics, the Bank maintains an organized process for collecting and acting on the various categories of non-financial risks, as well as recording the resulting information in a specific database. This database includes, among others, the recording of: (i) events; (ii) eventual associated losses; and (iii) corrective and/or mitigating measures implemented.

In 2022, improvements were introduced in the mapping of the non-financial risk factors, optimizing its structure to permit a more efficient control over this type of risk.

For ICAAP, although there is no historical record of material losses, the Bank has been using the Basic Indicator Approach (BIA) methodology to quantify operational risk and has internally developed methodologies to quantify compliance, reputational and strategy risks.

During 2022, several training actions were carried out in the area of non-financial risks, of note being specific training on Prevention of Money Laundering and Information Security, among others. For 2023, the Bank will continue to focus on training as a form of contributing to the reduction of non-financial risks.

Climate and environmental risks are becoming increasingly important for the banking activity. Given the distinct characteristics from the traditional risk factors to which the banking system is exposed, and due to the uncertainty and the time horizon in which they may materialize, these risks require special attention from the banking system. In this sense, in 2022, with the help of a specialized consultant, an ESG risks diagnosis was carried out and a plan of action was drawn up with a view to incorporating the ESG (Environmental, Social, and Governance) risk component in the Bank, an aspect that will be given special attention in 2023 and in the coming years.

5 Financial Overview

5.1 Consolidated Results

Inflationary tensions and the cycle of rising interest rates initiated by central banks, aggravated by geopolitical tensions, led to the worst capital markets performance in several decades, which penalized the Bank's results in 2022.

Despite this adverse context, operating income amounted to € 52.5 million, similar to that of 2021 (€ 53.0 million). Net interest income, net of hedging, rose to € 40.5 million (€ 37.0 million in 2021). The result of financial operations, commissions and other income was € 12.0 million (€ 16.0 million in 2021). The caption “Impairment and provisions” reached € 32.6 million, conditioned by the negative performance in bond markets, in particular because of Russia-related risks.

Operating expenses amounted to € 24.0 million (€ 25.0 million in 2021). The efficiency ratio (cost-to-income) stood at 45.7% in 2022, slightly below the value of 47.1% in the previous year, thus maintaining a remarkable level of efficiency.

Net income amounted to € 0.2 million, which compares with € 24.2 million in 2021.

The summary of the consolidated income statement for the financial years ended 31 December 2022 and 2021, is as follows:

€ million	IFRS	
CONSOLIDATED INCOME STATEMENT	31.12.2022	31.12.2021
Net interest income	**49.8**	**54.2**
Interest rate & FX hedging	(9.3)	(17.2)
Net interest income, net of hedging	**40.5**	**37.0**
Financial transactions, commissions and other income	12.0	16.0
Operating income	**52.5**	**53.0**
Impairment and provisions	(32.6)	(1.0)
Operating expenses	(24.0)	(25.0)
Profit before tax	**(4.2)**	**27.0**
Net profit	**0.2**	**24.2**

5.2 Consolidated Balance Sheet

The Group's balance sheet decreased slightly when compared with 2021:

€ million	IFRS	
CONSOLIDATED BALANCE SHEET	31.12.2022	31.12.2021
Assets		
Cash and banks	166.0	166.9
Fixed-income and loan portfolio	1,670.0	1,891.6
Other assets and amounts receivable	223.4	46.4
Total assets	**2,059.4**	**2,104.9**
Liabilities		
Customers' deposits	845.5	883.1
MM takings and Repos	774.7	675.7
Other liabilities	16.0	63.8
Total liabilities	**1,636.2**	**1,622.6**
Total shareholders' equity	**423.2**	**482.3**
Total liabilities and shareholders' equity	**2,059.4**	**2,104.9**

The Bank's liquidity remained very high throughout the year and the value of the securities and loans portfolio in December (mainly composed of fixed-income securities) was below the levels of the previous year, reflecting the more prudent strategy adopted during the financial year in relation to securities and loans in the portfolio. The non-performing loan ratio (NPE) increased to 5.7%, compared to 1.6% on 31/12/2021. Non-performing loans are duly provisioned and have been reduced through disposals that started at the end of 2022 and continued more intensely in 2023.

Customer deposits on 31/12/2022 were € 845 million, 4% less than the € 883 million recorded at the end of 2021. This evolution reflects the strategy of progressively transforming customer deposits into other financial products, to achieve growth in commissions on the provision of financial services.

Equity amounted to € 423 million, reflecting the evolution in comprehensive income for the financial year and the acquisition of 12.91% of the Bank's own shares (for treasury stock) held by the VTB Group (see point 5.4). The book value per share remained at € 3.28.

> Regulatory Capital

The Bank's solvency ratios are calculated in accordance with the prudential framework established by Regulation (EU) no. 575/2013 (CRR) and by Directive 2013/36/EU (CRD IV), both issued by the European Parliament and Council, of 26 June 2013 ("Basel III").

The Bank maintains solid financial ratios above sector average, with the CET1 and total capital ratios attaining 25.1% in 2022, thus signalling the Group's robust solvency position, despite the adverse conjuncture registered in the period.

BASEL III	31.12.2022	31.12.2021
CET1 ratio	25.1%	26.1%
Total Capital ratio	25.1%	26.1%

The CET1 ratio as at 31 December 2022, considers the dividend distribution in the amount of € 12 million, as per proposal to be submitted to the General Shareholders Meeting.

Risk Weighted Assets ("RWA") reached € 1,606 million as at 31 December 2022, which compares with the € 1,791 million at the end of 2021, with this evolution resulting from the referred Balance sheet risk reduction strategy adopted in the financial year.

> Economic Capital

The Bank uses an internal capital adequacy self-assessment process, supplementing the regulatory perspective, to ensure that all the risks are assessed and that the internal capital is adequate vis-à-vis its risk profile, in line with the guidance of Pillar 2 of Basel III and Instruction no. 3/2019 of the Banco de Portugal.

Both the risks and the available financial resources (Risk Taking Capacity "RTC") are evaluated from an economic perspective and estimated on a going concern basis to ensure that the Bank has the capacity to always settle all its liabilities, including the customers' deposits, on a timely basis.

To quantify the risks, the Bank has developed various models to calculate the economic capital requirements that estimate the potential maximum loss in the period of one year. These models cover the various types of material risks to which the Bank is exposed, namely credit, counterparty, concentration, interest rate, credit spread of the banking portfolio, market, foreign exchange, operational, compliance, strategy, and reputational risks.

In addition to the calculation of the economic capital requirements, the material risks are subject to stress tests to assess, in situations of extreme severity, but with a low probability of occurrence, how the Bank's internal risk models should ensure the solvency of the institution.

The analysis of the capital adequacy is carried out monthly. At the end of each year, it is complemented with a prospective analysis of the capital requirements, associated with the respective risks, and of the financial resources available, over a three-year temporal horizon, considering the Bank's funding and capital plan.

The ICAAP results are continuously monitored and permit concluding that the Bank's capital continues to be adequate to cover incurred or potential risks from both the regulatory and economic perspectives.

5.3 Regulatory developments

Since 31 December 2020, Banco Finantia has fully complied with the minimum requirement for own funds and eligible liabilities (MREL). (The implementation deadline for these requirements is 1 January 2024).

Regarding ESG Risks and considering the European regulatory framework and the supervisory expectations in this regard, the Bank prepared, with the support of a specialized external consultant, a diagnosis of the institution's situation in this matter, which led to the drawing up of a detailed Plan of Action for 2023/24.

5.4 Treasury Stock (Own shares)

At the beginning of 2022, the Bank held 2,810,927 own shares. During the 2022 financial year, the Bank acquired 18,282,017 own shares from the shareholders JSC VTB Capital Holding and VTB Capital PE Investment Holding (Cyprus). At the end of 2022 the Bank held 21,092,944 own shares, representative of 14.06% of the share capital. Following this acquisition, the Board of Directors will propose to the Annual General Shareholders Meeting the extinction of all own shares through a reduction in share capital, followed by a capital increase by incorporation of reserves to restore the amount of share capital to the previous value of € 150 million.

6 Social Responsibility, Cultural Patronage and Education

The outbreak of the war in Ukraine, combined with the rise in inflation and interest rates verified in 2022, led to a context of growing social needs. In this context, the Bank reinforced its involvement in multiple projects of a social, cultural and educational nature.

6.1 Social Responsibility

Banco Finantia supported an organization that assists people displaced from Ukraine and maintained its support of various social solidarity projects aimed primarily at underprivileged children and youths and/or those with special education needs. The mains institutions supported were:

ACADEMIA DOS CHAMPS (www.academiadoschamps.org) – is a non-profit entity founded in 2009, as a social integration project aimed at children and young people. The main objective is to demonstrate, through the practice of tennis, the benefits of viewing sport as a philosophy of life. Much more than a simple project of occupying leisure time, it aims to provide students with a real and concrete possibility of overcoming their own limits, opening their horizons to new, better and more structured life prospects.

APSA – ASSOCIAÇÃO PORTUGUESA DO SÍNDROME DE ASPERGER (www.apsa.pt) – is a non-profit entity set up in 2003 by a group of parents with the mission of supporting the personal and social development of children and youths with this neuro-behavioural specific disorder with a genetic origin. APSA has been operating the Casa Grande project since 2016, a unique, innovative, and differentiated space that empowers young people with Asperger's Syndrome for autonomy, employability, and social and community inclusion.

ASSOCIAÇÃO UKRAINIAN REFUGEES – founded on 28 February 2022, this is a non-profit NGO based in Portugal, which is coordinating assistance to people temporarily displaced from Ukraine following Russia's war against Ukraine. Articulated with Associação Ukrainian Refugees ("UAPT"), Banco Finantia promoted a campaign to collect goods among its employees for the creation of 100 "Adult Kits" and 100 "Child Kits", in solidarity with the refugees who arrived in Portugal.

CAPITI (www.capiti.pt) – is a non-profit entity created in 2016 aimed at ensuring the access of children and young people from poor families to health services in the area of neurodevelopment, in order to facilitate their integration in the family, school and society. CAPITI provides these families with services for the early identification and access to intervention and diagnosis throughout childhood and adolescence, through a regular monitoring with consultations in the area of child development.

6.2 Cultural Patronage

In terms of culture, we continue to engage, as patrons, with some leading institutions in Portugal, in particular:

PALÁCIO NACIONAL DA AJUDA - Banco Finantia is a patron of the Palace since 1997, having financed the full restoration of the Sala do Corpo Diplomático (Diplomatic Corps Room) and the re-acquisition of various decorative pieces previously belonging to the Palace's collection.

FUNDAÇÂO DE SERRALVES – being a founding member since 1995, Banco Finantia continued to sponsor various cultural and social programs.

6.3 Education

ISEG – The Bank continued its collaboration with ISEG – Instituto Superior de Economia e Gestão (Higher Institute of Economics and Management) of the Universidade de Lisboa (University of Lisbon), attributing an award to the best first-year student of the master's degree in "International Economics and European Studies".

FUNDAÇÃO ECONÓMICAS - the Bank is also a founding member of Fundação Económicas – Fundação para o Desenvolvimento das Ciências Económicas, Financeiras e Empresariais (Economics Foundation – Foundation for the Development of the Economic, Financial and Business Sciences) that grants scholarships to more needy students.

7 Outlook

Prospects for 2023 are of a continuous slowdown in economic activity, with global GDP growth falling to less than 3%.

These prospects reflect a high degree of uncertainty. On the one hand, uncertainty regarding the possible evolution of numerous geopolitical situations, in particular the Russian/Ukrainian conflict. On the other hand, uncertainty of a financial nature, in particular regarding the monetary policy of the main central banks, which struggle between containing inflation and the threat of recession.

In this context, the Bank will continue to assume a prudent stance, privileging the defence of the interests of its customers, shareholders, and employees.

In terms of business lines, the Bank will adapt its strategic orientation considering the evolution of events, focusing more on non-capital-intensive activities, fixed-income capital market transactions, financial advisory services, and Private Banking activities.

In terms of its own portfolio, both bonds and loans, the Bank will apply an even more judicious selection of risks, maintaining a strong geographical and sectoral diversification.

The Capital Markets area plans to continue its sales, distribution and market-making activities as well as to strengthen its role in the primary market. Improvements in efficiency are projected by increasing the sales and intermediation turnovers, thereby strengthening its capacity to fund companies and satisfy investor demand while consuming less capital.

Financial Advisory Services will continue to be focused on cross-border transactions, supporting foreign investment in Portugal and Spain as well as the internationalization of Iberian companies.

Private Banking should grow, with the increase in the number of customers and with the widening and diversification of its range of products and services with an emphasis on asset management. This will allow Banco Finantia to offer customers more investment alternatives and to improve fee income.

8 Appropriation of Results

The Board of Directors proposes a dividend in the total amount of € 12 million, through the appropriation of the net income of 2022 and the use of free reserves.

9 Final Remarks

In a year marked by the adverse performance of the markets and geopolitical uncertainties in the markets in which the Bank operates, the Board of Directors extends its thanks to all those that supported its activities.

To our customers, shareholders, corporate bodies and auditors, a word of appreciation for the loyalty and trust placed on us. To our employees, our thank-you for the dedicated and competent contribution, indispensable for the good functioning of the institution.

Lisbon, 21 April 2023

The Board of Directors

António Vila Cova

Alzira Cabrita

David Guerreiro

Jaime Bastos

Marta Eirea

Manuel de Faria Blanc

Raul Marques

Sandra Matos Chaves

Ricardo Caldeira

Translation Note

The present Management Report and Financial Statements for 2022 are a free translation of the original documents issued in the Portuguese language. In the event of discrepancies or misinterpretations, the original versions shall prevail.

Banco Finantia

Financial Statements 2022

(CONSOLIDATED ACCOUNTS)

Consolidated Financial Statements

Banco Finantia

Consolidated Statements of Financial Position as at 31 December 2022 and 2021

EUR thousand	Notes	2022	2021
ASSETS			
Cash and deposits with central banks and other demand deposits	5	88,391	66,126
Financial assets at fair value through profit or loss	6	42,297	5,342
Financial assets at fair value through other comprehensive income	6	1,063,416	1,318,016
Financial assets at amortized cost	6	674,791	673,789
Hedging derivatives	7	129,861	10,463
Non-current assets held for sale		-	-
Investment properties		975	988
Other tangible assets	8	12,617	13,320
Intangible assets	9	639	724
Current tax assets	10	4,860	4,643
Deferred tax assets	10	24,726	5,885
Other assets	11	16,808	5,613
TOTAL ASSETS		**2,059,381**	**2,104,909**
LIABILITIES			
Financial liabilities held for trading	12	3,142	32,461
Financial liabilities at amortized cost	13	1,620,185	1,558,850
Hedging derivatives	7	187	18,032
Current tax liabilities	10	1,590	3,401
Deferred tax liabilities	10	-	1,927
Provisions	14	713	883
Other liabilities	14	10,378	7,073
TOTAL LIABILITIES		**1,636,195**	**1,622,628**
SHAREHOLDERS' EQUITY			
Share capital	15	150,000	150,000
Share premium	15	12,849	12,849
Treasury stock	15	(21,093)	(2,811)
Other acc. comprehensive income, retained earnings & other reserves	16	281,182	297,997
Net profit attributable to shareholders of the Bank		248	24,246
Total Shareholders' Equity attributable to shareholders of the Bank		**423,186**	**482,281**
Non-controlling interests		-	-
TOTAL SHAREHOLDERS' EQUITY		**423,186**	**482,281**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,059,381**	**2,104,909**

The attached Explanatory notes form an integral part of these Financial Statements

The Certified Accountant

The Board of Directors

Banco Finantia

Consolidated Income Statements
for the financial years ended 31 December 2022 and 2021

EUR thousand	Notes	2022	2021
Interest and similar income	17	67,799	65,634
Interest expense and similar charges	17	(17,404)	(22,883)
NET INTEREST INCOME		**50,395**	**42,751**
Fee and commission income	18	1,222	2,800
Fee and commission expense	18	(544)	(810)
Net results from financial operations	19	1,659	8,522
Other net operating income/(expense)		(261)	(288)
OPERATING INCOME		**52,470**	**52,974**
Staff costs	20	(13,231)	(14,073)
Other administrative expenses	21	(9,186)	(9,299)
Depreciation and amortization	8, 9	(1,574)	(1,597)
TOTAL OPERATING EXPENSES		**(23,991)**	**(24,968)**
OPERATING PROFIT BEFORE PROVISIONS AND IMPAIRMENT		**28,479**	**28,005**
Provisions or reversal of provisions	22	(4)	11
Impairment or reversal of impairment	22	(32,638)	(1,057)
PROFIT BEFORE TAX		**(4,163)**	**26,960**
Current income tax	10	(1,095)	(4,266)
Deferred income tax	10	5,506	1,552
NET PROFIT FOR THE YEAR		**248**	**24,246**
Attributable to:			
Shareholders of the Bank		248	24,246
Non-controlling interests		-	-

The attached Explanatory notes form an integral part of these Financial Statements

Banco Finantia

Consolidated Statements of Comprehensive Income
for the financial years ended 31 December 2022 and 2021

EUR thousand	Notes	2022	2021
NET PROFIT FOR THE YEAR		**248**	**24,246**
Items that may be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income	16	(60,307)	(25,163)
Foreign exchange rate changes in foreign operational units	7	8,626	9,717
Net investment hedging in the foreign operational units (effective part)	7	(7,933)	(8,874)
Taxes on income related to items that may be reclassified to profit or loss	16	15,239	6,140
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(44,375)**	**(18,179)**
COMPREHENSIVE INCOME FOR THE YEAR		**(44,127)**	**6,067**
Attributable to:			
Shareholders of the Bank		(44,127)	6,067
Non-controlling interests		-	-

The attached Explanatory notes form an integral part of these Financial Statements

Banco Finantia

Consolidated Statements of Changes in Equity
for the financial years ended 31 December 2022 and 2021

EUR thousand	Share capital	Share premium	Treasury stock	Other accumulated comprehensive income	Retained earnings and other reserves	Net profit attributable to shareholders	Non-controlling interests	Total Shareholders' Equity
Balance as at 1 January 2021	**150,000**	**12,849**	**(38)**	**9,099**	**282,981**	**23,687**	**238**	**478,816**
Appropriation of results	-	-	-	-	23,687	(23,687)	-	-
Comprehensive income for the year	-	-	-	(18,171)	-	24,246	(8)	6,067
Acquisition and exchange of treasury stock	-	-	(2,773)	-	-	-	-	(2,773)
Other reserves	-	-	-	-	402	-	(230)	172
	-	**-**	**(2,773)**	**(18,171)**	**24,088**	**559**	**(238)**	**3,465**
Balance as at 31 December 2021	**150,000**	**12,849**	**(2,811)**	**(9,072)**	**307,069**	**24,246**	**-**	**482,281**
Appropriation of results	-	-	-	-	24,246	(24,246)	-	-
Comprehensive income for the financial year	-	-	-	(44,375)	-	248	-	(44,127)
Acquisition of treasury stock (see Note 15)	-	-	(18,282)	-	3,321	-	-	(14,961)
Other reserves	-	-	-	-	(7)	-	-	(7)
	-	**-**	**(18,282)**	**(44,375)**	**27,560**	**(23,998)**	**-**	**(59,095)**
Balance as at 31 December 2022	**150,000**	**12,849**	**(21,093)**	**(53,447)**	**334,629**	**248**	**-**	**423,186**

The attached Explanatory notes form an integral part of these Financial Statements

Banco Finantia

Consolidated Statements of Cash Flows
for the financial years ended 31 December 2022 and 2021

EUR thousand	Notes	2022	2021
Cash flows arising from operating activities			
Interest and similar income received		64,846	67,114
Interest expense and similar charges paid		(12,851)	(13,480)
Fee and commission income received		1,222	2,800
Fee and commission expense paid		(544)	(810)
Recovery of loans previously written-off		6,423	14,308
Cash payments to staff and suppliers		(23,148)	(24,045)
		35,948	**45,886**
Change in operating assets:			
Deposits with central banks		51	(276)
Financial assets		121,281	(17,130)
Due from banks		30,495	(4,387)
Other operating assets		(7,312)	(3,352)
Change in operating liabilities:			
Derivative financial instruments		(193,667)	8,544
Due to banks		145,565	(34,777)
Due to customers		(36,747)	(69,708)
Repos operations		(51,266)	122,291
Other operating liabilities		(388)	(61)
Net cash flows from operating activities before taxes		**43,961**	**47,029**
Income taxes		(3,122)	(9,915)
		40,839	**37,114**
Cash flows arising from investing activities			
Acquisition of tangible and intangible assets	8, 9	(1,236)	(1,406)
Disposal of tangible and intangible assets	8, 9	175	136
		(1,061)	**(1,270)**
Cash flows arising from financing activities			
Acquisition of treasury stock	15	-	(2,835)
Dividends paid on ordinary shares		-	-
Net cash flows from financing activities		**-**	**(2,835)**
Effect of foreign exchange rate changes on cash and cash equivalents		(7,969)	(3,078)
Net changes in cash and cash equivalents		**31,809**	**29,931**
Cash and cash equivalents at the beginning of the year	25	109,960	80,029
Cash and cash equivalents at the end of the year	25	141,769	109,960
		31,809	**29,931**

The attached Explanatory notes form an integral part of these Financial Statements

Notes to the Financial Statements

1. Bases of presentation

Banco Finantia and its subsidiaries (the “Group”) have as their main object the accomplishment of all the operations and the provision of all the services permitted to Banking Institutions, having specialized itself on capital markets, money markets, advisory services (including mergers and acquisitions), credit operations and private banking activities.

Banco Finantia is a privately-owned bank with registered office in Portugal, at Rua General Firmino Miguel, no. 5, in Lisbon, which resulted from the transformation, in October 1992, of Finantia – Sociedade de Investimentos, S.A., which began its activity in July 1987. For such effect, the Bank has all the indispensable permits from the Portuguese authorities, central banks and all other regulatory agents operating in Portugal and in the other countries where the Bank operates through its branches and international subsidiaries and its branch in Spain. Its subsidiaries have branches and/or offices in Portugal, Spain, England, the United States of America, Malta and the Netherlands.

The consolidated financial statements of the Bank are prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”), as adopted for use in the European Union (“EU”) in force as at 31 December of 2022, as established in Regulation (EC) no. 1606/2002 of the European Parliament and Council, of 19 July, and in Banco de Portugal Notice no. 5/2015, of 7 December.

During 2022, as described in Note 3, the Group adopted the amendments to existing standards issued by the IASB and endorsed by the EU with mandatory application in this financial year, having opted not to early adopt those not mandatory in 2022. The accounting policies were applied consistently in all the entities of the Group and are consistent with those used in the preparation of the financial statements of the previous financial year.

These financial statements are stated in thousands of Euros (“€ thousand”) rounded to the nearest thousand, except where otherwise mentioned, and have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, hedging and trading derivative financial instruments and hedged assets and liabilities, in respect of the component hedged.

The preparation of financial statements in accordance with IFRS requires the use of accounting estimates and assumptions. The areas involving a greater level of judgement or complexity are analysed in Note 4.

These financial statements were approved for issue by the Board of Directors on 21 April 2023 and will be submitted to approval by the Shareholders’ General Meeting, which has the power to alter them. The Board of Directors believes these will be approved without significant changes.

The Group adopted, whenever applicable, a financial statement structure convergent with the guidelines of the Implementing Regulation (EU) 2017/1443, of 29 June.

2. Main accounting policies

2.1 Bases of consolidation

These consolidated financial statements reflect the assets, liabilities, results and comprehensive income of Banco Finantia and its subsidiaries (the "Group").

All Group companies have consistently applied the accounting policies.

Investments (financial shareholdings) in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group exercises control. According to the requirements of IFRS 10 - Consolidated Financial Statements - the Group exercises control when it is exposed to or has rights over the variable returns of an entity, as a result of its involvement with the entity, and has the ability of affecting those variable returns due to its power to affect the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

The accumulated losses of a subsidiary are proportionally attributable to non-controlling interests, which might imply the recognition of negative non-controlling interests.

In a business combination achieved in stages (step acquisition) where control is obtained, any previously held non-controlling interest is remeasured to fair value and the resulting gain or loss recognized in the income statement when determining the respective goodwill. At the time of a partial sale, which results in a loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to fair value at the date the control is lost, and the resulting gain or loss is recognized in the income statement. The amount of the initial recognition of the remaining investments corresponds to the amount determined on the prior revaluation.

Any amounts previously recognized in other comprehensive income regarding ex-subsidiaries are reclassified to profit or loss, as if the Group has sold or liquidated the respective assets and liabilities.

The Group structure is presented in Note 30.

Investments (financial shareholdings) in associates

Associates are entities in respect of which the Group has significant influence over their financial and operational policies but not control. Generally, when the Group owns more than 20% of the voting rights, but no more than 50%, it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive Board of Directors. Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that such influence ceases. The dividends received from associates are deducted from the investment initially realized by the Group.

In a step acquisition operation that results in the obtaining of significant influence over an entity, any previously held stake in that entity is remeasured to fair value through the income statement when the equity method is first applied.

When the Group's share of losses in an associate equals or exceeds the accounting value of its interest in the associate, including any other unsecured medium- and long-term receivables in the associate, the equity method of accounting is interrupted, unless the Group has incurred legal or constructive obligations to recognize those losses or has made payments on behalf of the associate.

The Group realizes impairment tests on its investments in associates, on an annual basis and whenever impairment triggers are detected.

When the Group sells its shareholding in an associate, even if it does not lose control, it should record the transaction in profit or loss (gains/losses on disposal).

As at 31 December 2022 and 2021, the Group does not have any investments in associates.

Investments (financial shareholdings) in special purpose entities (“SPE”)

The Group consolidates by the full consolidation method certain special purpose entities, specifically created to accomplish a well-defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, and independently of the percentage of the equity held.

The Group exercises control when it is exposed to or has rights over the variable returns of an entity, as a result of its involvement with the entity, and has the ability of affecting those variable returns due to its power to affect the relevant activities of the entity.

As at 31 December 2022 and 2021, the Group did not have financial shareholdings in SPEs.

Goodwill

The Group measures goodwill as the fair value of the consideration transferred, including the fair value of any previously held non-controlling interest, less the net recognized amount of the identifiable assets acquired and liabilities assumed, and any equity instruments issued by the Group, all measured as at the acquisition date. Transaction costs are expensed as incurred.

As at the acquisition date, non-controlling interests are measured at their proportional interest in the fair value of the assets acquired and liabilities assumed, without their corresponding portion of goodwill. As a result, the goodwill recognized in these consolidated financial statements corresponds only to the portion attributable to the shareholders of the Bank.

In accordance with IFRS 3 – Business Combinations, goodwill is recognized as an asset at its cost and is not amortized. Goodwill relating to the acquisition of associates is included in the carrying value of the investment in those associates, determined using the equity method. Negative goodwill is recognized directly in the income statement in the period the business combination occurs.

Impairment of goodwill is tested on an annual basis, and for that purpose the goodwill is allocated to the cash generating units (“CGUs”), or CGU groups, that are expected to benefit from the synergies created by business combinations. The Group assesses the recoverable amount of goodwill, as the higher of the fair value of the investment less estimated costs to sell and the value in use. The impairment losses are accounted, first, at the goodwill level, and only then at the level of the other remaining assets of the CGUs, or the CGU groups.

The recoverable amount of goodwill recognized as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognized directly in the income statement and are not reversible in the future.

As at 31 December 2022 and 2021, the Group does not have any goodwill.

Investments (financial shareholdings) in foreign subsidiaries and associates – translation of balances and transactions in foreign currency

The financial statements of each of the Group’s subsidiaries and associates are prepared according to the currency used in the economic environment in which they operate (denominated “functional currency”). In the consolidated financial statements of the Group, the results and financial position of each subsidiary are stated in Euros, which is the Banco Finantia Group’s functional currency.

In the consolidated financial statements, the assets and liabilities of entities with a functional currency different from the Euro are translated using the closing rate, while income and expenses are translated at the average rate for the year. The foreign exchange variations resulting under this method, are recognized in the caption “Other reserves” in shareholders’ equity, with the respective balance being transferred to the income statement on the partial or total disposal of the Group entity, provided such disposal results in the loss of control over same.

Balances and transactions eliminated on consolidation

Inter-company balances and transactions, including any unrealized gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealized losses provide evidence of an impairment loss that should be recognized in the consolidated financial statements.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealized losses are also eliminated unless the transactions provide evidence of impairment.

Transactions with non-controlling interests

Acquisitions or disposals of non-controlling interests that do not result in a change of control over the subsidiary, are accounted for as transactions with shareholders and, therefore, no goodwill is recognized as a result of such transaction. Any difference between the fair value of the consideration paid or received and the amount of the change in the non-controlling interest is accounted for directly in reserves and retained earnings.

Gains or losses on dilutions or disposals of part of an interest in a subsidiary, with a change in control, are recognized by the Group in profit or loss.

2.2. Financial instruments

2.2.1. Financial assets

2.2.1.1. Classification, initial recognition and subsequent measurement

The Group classifies all financial assets, for measurement purposes, in one of the following categories:

1) Financial assets at amortized cost;

2) Financial assets at fair value through other comprehensive income (FVOCI); and

3) Financial assets at fair value through profit or loss.

To determine the classification and subsequent measurement, all financial assets, other than equity instruments and derivatives, are analysed based, simultaneously:

a) on the entity's business model to manage financial assets; and

b) on the contractual characteristics in terms of cash flows of the financial asset (SPPI – "Solely Payments of Principal and Interest").

Business model

According to IFRS 9, the business model reflects the way an entity manages its financial assets to achieve its business objectives, whether through the receipt of contractual cash flows, the sale of financial assets or both.

The standard identifies the following business models:

i) "Hold to collect" (HTC) – (Financial assets at amortized cost): a business model whereby financial assets are managed to collect contractual cash flows only through the receipt of capital and interest over the life of the instrument.

ii) "Hold to collect and sell" (HTCS) – (Financial assets at fair value through other comprehensive income): the objectives of the business model are achieved either by collecting contractual cash flows and/or by selling said financial instruments.

iii) "Trading" – (Financial assets at fair value through profit or loss): this business model caters for the remaining financial instruments that are managed in a fair value perspective or that are not included in the previous categories.

Business model evaluation for the management of financial assets

The evaluation of the business model is determined so that it reflects the manner in which a set of financial assets are managed to achieve a business objective, not being, therefore, determined on an individual basis according to a specific asset, but rather for a set of assets, taking into account the frequency, value, timing of sales in previous years, the reasons for such sales and expectations regarding future sales. Sales may be compatible with the purpose of holding financial assets in order to collect contractual cash flows when same are made near the maturity date of the financial assets and the sales proceeds approach the value of the collection of the remaining contractual cash flows. Sales motivated by a significant increase in credit or to manage concentration risk, among others, may also, according to IFRS 9, be compatible with the model of holding assets to receive contractual cash flows (HTC).

Evaluation of the characteristics of the cash flows of financial assets (SPPI)

For the instruments to be allocated to the "Hold to collect" or "Hold to collect and sell" business models, the contractual terms of the financial asset shall have to give rise, at defined dates, to cash which represents only principal repayments and interest payments on the outstanding principal, denominated the SPPI test.

Principal and interest are as follows:

1) Principal - Corresponds to the fair value of the asset on the initial recognition. This value may vary over time depending on whether amounts are transferred by the instrument holder;

2) Interest - interest shall consider the following aspects: (i) time value of money and credit risk; (ii) other types of credit risk (e.g., liquidity risk); (iii) other associated costs; and (iv) a profit margin.

Regardless of the underlying business model, in the event the instrument does not meet the SPPI criteria mentioned above, it may not be classified at amortized cost or at fair value through other comprehensive income.

Thus, the Group assesses the compliance with the SPPI criteria in respect of the financial instruments acquired. In this assessment, consideration is given to the original contractual terms of the agreement, as well as to the existence of situations in which the contractual terms may modify the periodicity and amount of the cash flows such that they do not meet the SPPI conditions.

A prepayment is consistent with the SPPI criterion if: i) the financial asset is acquired or originated with a discount premium in relation to the contractual nominal value; (ii) the prepayment represents substantially the nominal amount of the contract plus accrued but unpaid contractual interest (this may a include reasonable compensation for prepayment); and iii) the fair value of the prepayment is materially insignificant on the initial recognition.

2.2.1.1.1. Financial assets at amortized cost (HTC)

Classification

A financial asset is classified in the category of "financial assets at amortized cost" if it meets all the following conditions:

i) the asset is held in a business model which main purpose is the holding to collect its contractual cash flows (HTC); and

ii) its contractual cash flows occur on specific dates and correspond only to payments of principal and interest on the outstanding principal (SPPI).

This category includes due by banks, loans and advances to customers, loans and debt instruments managed based on the HTC business model and that meet the SPPI conditions.

Initial recognition and subsequent measurement

Due by banks and loans and advances to customers are recognized on the date the funds are made available to the counterparty ("settlement date"). Debt instruments are recognized on the trade date.

Financial assets at amortized cost are initially recognized at fair value, plus transaction costs, and subsequently measured at amortized cost. In addition, these financial assets are subject, from their initial recognition, to the determination of impairment losses for expected credit losses (Note 6), which are recognized against the caption "Impairment of financial assets at amortized cost".

2.2.1.1.2. Financial assets at fair value through other comprehensive income (FVOCI)

Classification

A financial asset is classified in the category of "financial assets at fair value through other comprehensive income" if it meets all the following conditions:

i) the asset is held in a business model which purpose is the collection of its contractual cash flows and/or the sale of that financial asset; and

ii) its contractual cash flows occur on specific dates and correspond only to payments of principal and interest on the outstanding principal (SPPI).

This category includes debt instruments as well as loans and advances to customers, managed based on the HTCS business model and that meet the SPPI conditions.

Initial recognition and subsequent measurement

Debt instruments are recognized on the trade date.

Financial assets at fair value through other comprehensive income are initially recognized at fair value, plus transaction costs, and subsequently measured at fair value. Changes in the fair value of these financial assets are recorded against other comprehensive income and, at the time of their disposal, the respective gains or losses accumulated in other comprehensive income are reclassified to a specific caption of the income statement designated "Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss". Foreign exchange variations are recognized in the income statement, in the case of monetary assets, and in other comprehensive income, in the case of non-monetary assets.

Debt instruments at fair value through other comprehensive income are also subject, from their initial recognition, to the determination of impairment losses for expected credit losses (Note 6). Estimated impairment losses are recognized in the income statement, in the caption "Impairment of financial assets at fair value through other comprehensive income", against other comprehensive income and do not reduce the carrying amount of the financial asset in the balance sheet.

Interest, premiums or discounts of financial assets at fair value through other comprehensive income are recognized in the caption "Interest and similar income" based on the effective interest rate method and in accordance with the criteria described in Note 2.3.

2.2.1.1.3. Financial assets at fair value through profit or loss

Classification

A financial asset is classified in the category of "financial assets at fair value through profit or loss" if the business model defined by the Group for its management or the characteristics of its contractual cash flows does not comply with the SPPI conditions to be measured at amortized cost, or at fair value through other comprehensive income.

The Group classified financial assets at fair value through profit or loss in the following captions:

i) "financial assets held for trading": financial assets classified under this heading are acquired with the purpose of being sold in the short term; at the time of the initial recognition they are included in a portfolio of financial assets identified and jointly managed for which there is evidence of recent actions with the objective of obtaining gains in the short term; or are derivative instruments that do not meet the definition of financial guarantee or that have not been designated as hedging instruments;

ii) "financial assets not held for trading mandatorily at fair value through profit or loss": financial assets classified under this caption are instruments which contractual cash flows do not correspond solely to the repayments of principal and payments of interest on the principal outstanding (SPPI).

Initial recognition and subsequent measurement

Financial assets at fair value through profit or loss are initially recognized at their fair value, with the costs or income associated with the transactions being recognized immediately in the income statement at the initial moment. Subsequent changes in fair value are recognized in the income statement under "Gains or losses on financial assets and liabilities held for trading" (Note 19).

Interest, premiums or discounts of financial assets at fair value through profit or loss are recognized in the income statement in the caption "Interest and similar income" in accordance with the criteria described in Note 2.3. Dividends are recognized in income when the right to receive them is attributed.

Trading derivatives with a positive fair value are recognized under "Financial assets at fair value through profit or loss" and trading derivatives with a negative fair value are recognized under "Financial liabilities at fair value through profit or loss".

The Group may, at initial recognition, irrevocably record a financial asset as measured at fair value through profit or loss, if it considers that, in doing so, it eliminates or significantly reduces an incoherence in the measurement or recognition that would otherwise result from the measurement of assets or liabilities or the recognition of gains and losses on same on different bases.

2.2.1.2. Reclassification between categories of financial assets

Financial assets are reclassified to other categories only if the business model used in their management changes. According to IFRS 9, changes in the business model occur very infrequently. However, if they occur, all of the financial assets affected are reclassified prospectively at the date of reclassification, and no gains, losses (including impairment losses) or previously recognized interest are restated.

Between 1 January 2021 and 31 December 2022, no reclassifications were made between financial asset categories.

2.2.1.3. Modification and derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows resulting from the instrument expire or it substantially transfers all the risks and rewards of ownership of the financial asset in accordance with the derecognition requirements set forth in IFRS 9.

Financial assets written off

The Group writes off a financial asset against assets in the period in which it is considered irrecoverable in whole or in part, with the gross carrying amount of a financial asset being reduced by the amount of such annulment and coming to represent the estimated recovery amount.

2.2.1.4. Financial assets purchased or originated with credit impairment

Financial assets purchased or originated with credit impairment (POCI) represent assets which credit losses have already occurred before they were acquired or originated by the Group. It is understood that an asset is impaired if one or more events that have occurred have a negative impact on the estimated future cash flows of the asset.

On the initial recognition, the POCI have no associated impairment, because the expected credit losses over the lifetime are incorporated in the calculation of the effective interest rate adjusted to the credit risk. In this context, on the initial recognition of this type of asset, the gross book value of the POCI (acquisition cost) is equal to its carrying value before being recognized as POCI, that is, the difference between the initial balance and the total discounted cash flows.

Securities considered as POCI are measured at amortized cost and the respective interest is recognized in the income statement in the caption "Interest and similar income".

The expected losses for POCI assets are always measured as expected losses over the lifetime of the instrument. However, the amount recognized as a loss for these assets is not the estimated loss over the life of the instrument, but rather the absolute changes in the amounts receivable compared with the initially estimated amounts. Favourable changes are recognized as impairment gains, even if those gains are greater than the amount previously recognized in the income statement as an impairment loss.

Financial assets considered as POCI are considered "impaired", being monitored and analysed individually to monitor if the expected cash flows correspond to those initially defined.

2.2.1.5. Impairment of financial assets

2.2.1.5.1. Financial instruments subject to impairment losses

The requirements of IFRS 9 determine that the recognition of expected losses, whether assessed on an individual or collective basis, consider all reasonable, reliable and reasoned information that is available on each reporting date, including information in a forward-looking perspective.

The Group recognizes impairment losses for financial assets measured at amortized cost and at fair value through other comprehensive income, as well as for other exposures that have an associated credit risk, such as bank guarantees and irrevocable commitments (Note 2.20).

Impairment losses on financial assets measured at amortized cost reduce the balance sheet value of those assets against the income statement caption: "Impairment or reversal of impairment".

Impairment losses on financial assets at fair value through other comprehensive income do not decrease the balance sheet value of these assets which remain at fair value. Instead, the expected credit losses of these assets are recognized in the income statement, in the caption "Impairment or reversal of impairment", against the caption "Other accumulated comprehensive income" in shareholders' equity.

Impairment losses on exposures associated with credit commitments and bank guarantees (Note 14) are recognized in liabilities in the caption "Provisions" against the caption "Provisions or reversal of provisions" in the income statement.

2.2.1.5.2. Impairment model

IFRS 9 has an underlying prospective expected credit loss model (ECL), which considers the expected losses throughout the life of the financial instruments.

The ECL corresponds to the weighted average of the credit losses, using as weighting factor the probability of occurrence of default events. A credit loss is the difference between the cash flows due to an entity in accordance with the agreed contract, and the cash flows that the entity expects to receive, discounted at the original effective interest rate. To calculate expected cash flows, consideration should be given to amounts that may be generated by collateral or any other risk mitigant.

Impairment is measured as:

1) 12 month expected credit losses – expected losses resulting from possible default events of the financial instrument in the 12 months following the reporting date. It does not represent the loss of expected cash flows over the next 12 months, instead it is the effect of any credit loss on an asset weighted by the likelihood that such loss will occur in the next 12 months;

2) Lifetime expected credit losses – expected losses that may occur from a default event over the life of a financial instrument. As the expected credit losses consider the amounts and the payment periods, the credit loss also occurs when there is a considerable delay in payments, even when the entity estimates the full receipt of the amounts. The ECL over the lifetime of the asset represents the expected credit losses that result from all possible default events over the life of the financial instrument. The lifetime of the instrument is understood as the maximum contractual period during which the Group is exposed to the credit risk related to that operation.

According to IFRS 9, the transition from 12 month expected credit losses to lifetime expected credit losses is based on the concept of a significant increase in credit risk (SICR, Note 2.2.1.5.3.) for the remaining life of the asset when compared with the credit risk at the time of its acquisition/origination.

In this context, the determination of impairment is based on the classification of the instruments into 3 stages, considering the changes in the credit risk of the financial asset since its initial recognition. The stages are defined as follows:

1) Stage 1: all operations for which there is no significant increase in credit risk since their initial recognition or that have a low credit risk at the reporting date are classified in this stage. For these assets, 12 month expected credit losses are recognized and interest receivable is calculated on the gross book value of the asset using the effective interest rate method;

2) Stage 2: all operations in which there is a significant increase in credit risk since their initial recognition but do not, at the reporting date, evidence impairment (Note 2.2.1.5.4) are classified in this stage. For these assets, the credit loss recognized is that expected over the lifetime of the instrument, but the interest receivable is calculated on the gross book value of the asset using the effective interest rate method;

3) Stage 3: includes instruments that present evidence of impairment at the reporting date (Note 2.2.1.5.4). For these assets, the credit loss recognized is that expected over the lifetime of the asset and the interest receivable is calculated on the gross book value net of the provision for credit, using the effective interest rate method.

The Group applies curing periods for financial instruments in respect of which the criteria that materialize a significant increase in credit risk are no longer met, which lead to their classification in stage 2, namely a curing period of at least 3 months for its classification back to stage 1.

In the case of instruments classified in stage 3, they can only be transferred to stage 2 if the following conditions are met: i) the debtor is compliant for a minimum period of 3 months; ii) there is no indication that the debtor is unable to fulfil his/her/its responsibilities; and iii) the debtor does not present any amount overdue for more than 90 days. Except for rare and duly justified exceptions, direct transfers to stage 1 of financial instruments classified in stage 3 are not contemplated.

2.2.1.5.3. Significant increase in credit risk (SICR))

The significant increase in credit risk (SICR) is determined according to a set of both quantitative and qualitative criteria.

Several approaches may be used to assess whether there has been a significant increase in credit risk, but the following elements should always be considered:

1) The change in the risk of non-compliance since the initial recognition;

2) The expected life of the instrument; and

3) Adequate support information that is available at no cost or significant effort, which may affect credit risk.

The main criteria used by the Group to assess whether there is a significant increase in credit risk are based, among others, on the following indications: i) the existence of arrears in the payment of principal and/or interest in excess of 30 days; ii) a negative evolution of the external rating attributed to the issuer, based on the limits established internally based on a rating migration matrix; iii) significant negative fair value changes in portfolio instruments observed in the market; iv) the existence of depreciative market information; v) potential breach of covenants; and vi) restructuring or operational reorganization processes.

Whenever any of the referred indications are identified, an analysis process is triggered internally, to determine the causes and the impacts of the indication identified, to conclude as to whether there is a significant increase in credit risk.

The credit risk of a financial instrument is assessed without considering its collateral; this means that a financial instrument may not be considered as having a low credit risk simply because this is mitigated by its collateral. The collateral is only considered for the calculation of its recoverable amount.

2.2.1.5.4. Definition of default and of impairment

All instruments that show a default (delay) of more than 90 days in the payment of principal or interest, regardless of the amount owed, are considered in default. In addition, the following events are considered indicators of default (objective signs of impairment), among others:

a) customers declared insolvent;

b) customers subject to recovery through a judicial process;

c) customers with operations restructured due to financial difficulties;

d) customers that register recidivism of operations restructured due to financial difficulties within a period of 24 months as from the de-marking of the default, resulting from the previous restructuring. If no default resulted from the previous restructuring, the 24 months count from the restructuring prior to that;

e) customers with significant delays in payments to other creditors;

f) customers with breach of some of the contractual covenants.

g) the customer was evaluated, and it is considered that there is a low probability of full compliance with the respective credit obligations without the execution of the guarantees, regardless of the existence of any past due amount or of the number of days in arrears.

2.2.1.5.5. Measurement of expected credit losses (ECL)

All financial instruments subject to impairment losses (Note 2.2.1.5.1) are considered under the expected credit loss measurement model (ECL).

The ECL model considers as inputs: i) information for the construction of future cash flows; ii) information regarding the stage of the instrument (Note *2.2.1.5.2*); and iii) forward-looking and point-in-time information on the expected loss.

The future cash flows as well as the "Exposure at Default" (EAD) of each financial instrument are calculated based on contractual and system information, namely, maturity date, coupon periodicity, coupon rate and amortized cost.

The EAD represents the expected exposure if the exposure enters default. The Group derives the EAD values from the counterparty's current exposure and from potential changes to its current value as a result of contractual conditions, including amortizations and prepayments.

The expected forward-looking and point-in-time loss is determined based on the market-based curve spreads considered for each instrument, which have subjacent a set of possible scenarios considered by the market participants. The methodology developed by the Group is based on the construction of the temporal structure of the Probabilities of Default (PD) implicit in the market curves, in this manner incorporating forward-looking and point-in-time information, given that it reflects the current economic environment as well as future market expectations. This information is made available by entity or segmented based on currency, economic sector and rating. If a specific curve is not available for the instrument, a generic curve is assigned according to the asset segment analysed.

The Loss Given Default (LGD) rate corresponds to the percentage of debt that will not be recovered in the event of customer default. The calculation of the LGD is made based on internal historical and market information, considering the cash flows associated with the contracts from the moment of default until their settlement or until there are no relevant recovery expectations.

The Group has IT tools that support the calculation and management of the parameters considered in the ECL model for almost the entire credit portfolio and for the main risk segments. These tools are integrated in the monitoring and risk management process and are developed and calibrated according to the experience and strategy adopted.

Estimates of expected credit losses - Individual analysis (bond and loan portfolio)

All instruments that are classified as stage 1 with potential signs of impairment are subject to individual analysis so as to determine whether or not there is a significant increase in credit risk and, consequently, whether the instrument should be transferred to stage 2 or stage 3.

Instruments classified in stage 2 and stage 3 are monitored regularly through individual impairment analyses with a minimum annual (stage 2) and half-yearly (stage 3) periodicity.

Other credit operations - Estimates of expected credit losses - Collective analysis

Operations that are not subject to an individual impairment analysis are grouped considering their risk characteristics and subject to a collective impairment analysis.

The Group has a specialized credit portfolio, which results from the company Sofinloc's activity and is related to car loans, operating and finance lease agreements. The granting of this type of credit was discontinued in 2012-2013 and this is currently a residual portfolio in which most of the contracts are past due.

This portfolio is recorded in the caption "Financial assets at amortized cost - Other credit operations" (Note 6).

The expected credit losses are estimates of credit losses that are determined as follows:

- Financial assets with no signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Group expects to receive;

- Financial assets with impairment at the reporting date: the difference between the gross accounting value and the present value of the estimated cash flows.

The main inputs used to measure the expected credit losses on a collective basis include the following variables:

> Probability of Default – PD;
> Loss Given Default – LGD; and
> Exposure at Default – EAD.

These parameters are obtained through internal statistical models and from other relevant historical data, considering market information including the specific yield curves of the entities or, in their absence, general curves considering factors such as the rating, currency, economic sector and country risk of the entity analysed.

2.2.2. Financial liabilities

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be made through the delivery of money or another financial asset, regardless of its legal form.

A financial liability (or a part of a financial liability) is removed from the balance sheet when, and only when, it is extinguished - that is, when the obligation specified in the agreement is satisfied or cancelled or expires. Reclassifications of financial liabilities are not permitted.

At the time of their initial recognition, financial liabilities are classified into one of the following categories: i) Financial liabilities held for trading or ii) Financial liabilities at amortized cost.

2.2.2.1. Financial liabilities held for trading

In this caption are classified the liabilities issued with the objective of repurchase in the short term, those that are part of a portfolio of identified financial instruments and for which there is evidence of a recent pattern of short-term profit taking or those that fall within the definition of derivative (except in the case of a derivative classified as a hedge).

Derivative financial liabilities and short positions are recognized at fair value on the balance sheet. Gains and losses arising on changes in the fair value of these instruments are recognized directly in the income statement in financial operations.

2.2.2.2. Financial liabilities at amortized cost

Non-derivative financial liabilities are classified under this caption, and include “securities sold under repurchase agreements”, “due to banks”, “due to customers” and “debt instruments”.

These liabilities are (i) initially recorded at their fair value, plus transaction costs incurred and (ii) subsequently measured at amortized cost, based on the effective interest rate method.

Interest on financial liabilities at amortized cost is recognized in the caption “Interest expense and similar charges”, based on the effective interest rate method.

2.2.3. Derivative financial instruments and hedge accounting

The Group has applied since 1 January 2018 the provisions of IFRS 9 regarding the requirements for hedge accounting application. The standard aims to promote a greater alignment of the requirements inherent in the application of hedge accounting with the reality of the current risk management in institutions.

Besides the greater disclosure requirements and the technical notes documenting the hedges, there were no significant quantitative impacts.

The Group designates derivatives and other financial instruments to hedge interest rate risk and foreign exchange risk arising from financing and investing activities. Derivatives that do not qualify for hedge accounting are recorded as financial assets held for trading (Note 2.2.1.1.3).

Derivative financial instruments are recognized on the trade date at their fair value. Subsequently, the fair value of derivative financial instruments is revalued on a regular basis, and gains or losses are recorded directly in results for the period in financial operations, except in respect of hedging derivatives. Recognition of fair value changes in hedging derivatives depends on the nature of the hedged risk and the hedging model used.

The fair value of derivative financial instruments corresponds to their market value, when available, or is determined based on valuation techniques, including discounted cash flows and option valuation models, as appropriate.

Hedge accounting

The derivative financial instruments used for hedging purposes are classified as hedging instruments provided that they cumulatively meet the following conditions:

(i). Existence of an economic relationship between the hedged element and its hedging;

(ii). The effects inherent in the evolution of credit risk may not dominate the changes in value resulting from this relationship; and

(iii). Establishment of a hedging ratio between hedged and hedging items that is equivalent to that actually applied by the institution in the management of the economic hedges that are intended to be replicated.

The application of hedge accounting is optional; however, it may not be discontinued while the requirements for its application continue to be verified.

The use of derivatives is framed in the Group's risk management strategy and objectives, namely:

- *Fair value hedge*

In a fair value hedge, the balance sheet value of that asset or liability, determined based on the respective accounting policy, is adjusted to reflect the change in its fair value attributable to the hedged risk. Changes in the fair value of hedging derivatives are recognized in the income statement, together with the changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

When a hedging instrument expires or is sold, or when the hedging no longer meets the criteria required for hedge accounting or the effect of the credit risk dominates the fair value fluctuations, the derivative financial instrument is transferred to the trading book and hedged assets and liabilities cease to be adjusted for changes in their fair value. If the hedged asset or liability corresponds to an instrument measured at amortized cost, the revaluation adjustment is amortized to its maturity by the effective interest rate method and reflected in results of financial operations.

- *Net investment hedging in a foreign operational unit*

When a derivative (or a non-derivative financial liability) is designated as a hedging instrument in the hedging of a net investment in a foreign operational unit, the effective portion of the fair value variation is recognized directly in equity, in foreign exchange reserves (other comprehensive income).

Any non-effective part of this relationship is recognized in profit or loss. The gain or loss resulting from the hedging instrument related to the effective portion of the hedge that has been recognized in other comprehensive income (foreign exchange reserves) is reclassified from equity to the income statement as a reclassification adjustment on the full or partial disposal of the foreign operational unit.

Embedded Derivatives

An embedded derivative is a component of a hybrid contract, which also includes a main non-derivative host contract.

If the main instrument included in the hybrid contract is considered a financial asset, the classification and measurement of the entire hybrid contract is carried out in accordance with the criteria described in Note 2.2.1.1.

Derivatives embedded in contracts that are not considered financial assets in accordance with the requirements of IFRS 9, are treated separately whenever the economic risks and benefits of the derivative are not related to those of the main instrument, provided that the hybrid instrument (overall) is not, at the start, recognized at fair value through profit or loss. Embedded derivatives are recorded at fair value with the subsequent fair value changes being recorded in profit or loss for the period and are presented in the trading derivatives portfolio.

As at 31 December 2022 and 2021, the Group has no embedded derivatives.

2.3. Interest recognition

Interest income and expense are recognized in the income statement under interest and similar income or interest expense and similar charges for all financial instruments measured at amortized cost and for financial assets at fair value through other comprehensive income, using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts directly related to the transaction, except for financial assets and liabilities at fair value through profit or loss.

Interest income recognized in profit or loss associated with instruments classified in stage 1 or 2 is calculated by applying the effective interest rate of each contract on its gross balance sheet value. The gross balance sheet value of an instrument is its amortized cost, before deducting the respective impairment. For financial assets included in stage 3, interest is recognized in the income statement based on its net balance sheet value (net of impairment). The interest recognition is always made prospectively, and for financial assets that enter stage 3 interest is recognized on the amortized cost (net of impairment) in subsequent periods. When a stage 3 financial asset enters a “curing” period, that is, when the necessary conditions are met so that the financial asset is no longer considered to be impaired, the recovered overdue interest is recognized as an impairment reversal instead of interest.

For financial instruments originated or acquired with credit impairment (POCI), the effective interest rate reflects the expected credit losses in the determination of the expected future cash flows receivable from the financial asset.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk and credit related derivatives, the interest component of the changes in their fair value is not separated out and is classified under financial assets and liabilities at fair value through profit or loss. For hedging derivatives of interest rate risk and credit related derivatives, the interest component of the changes in their fair value is recognized under interest and similar income or interest expense and similar charges.

2.4. Dividend income

Dividend income is recognized when the right to receive its payment is established.

2.5. Fee and commission income and expenses

Fee and commission income and expenses are recognized as follows: (i) fees and commissions that are earned or incurred on the execution of a significant act, such as loan syndication fees, are recognized in profit or loss when the significant act has been completed; (ii) fees and commissions earned or incurred over the period during which services are provided are recognized in profit or loss in the period the services are provided; and (iii) fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized in profit or loss using the effective interest rate method.

2.6. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the foreign exchange rates ruling at the balance sheet date. Foreign exchange variations arising on this translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into Euros at the foreign exchange rates ruling on the dates the fair value was determined.

Exchange differences related to cash flow hedges, hedging of net investments in foreign operational units or other items recognized in other comprehensive income are also recognized in other comprehensive income.

Changes in financial assets at fair value through other comprehensive income are divided between changes in fair value, and other changes the instrument may undergo. The prior should be recognized in other comprehensive income and the latter in profit or loss.

2.7. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the holding company by the weighted average number of ordinary shares outstanding, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as convertible debt and share options granted to employees. The dilutive effect translates into a decrease in earnings per share, resulting from the assumption that the convertible instruments are converted and that options granted are exercised.

The weighted average number of ordinary shares outstanding during the period and for all periods presented is adjusted for events, other than the conversion of potential ordinary shares, which have altered the number of ordinary shares outstanding without the corresponding changes in resources.

2.8. Fair value of financial instruments

IFRS 13 defines fair value as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions and assumes that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. Also, according to IFRS 13, an entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests. Therefore, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

On this basis, the fair value of a financial instrument is the amount at which the instrument could be exchanged in an ordered transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

Fair value of financial instruments in the bonds and loans and advances portfolio

Fair value is obtained based on quoted market prices or prices of financial intermediaries in active markets, corresponding to the current purchase price (bid-price), when available. In its absence, or when it is verified that the available prices are not representative of ordered transactions in an active market, the fair value is based on observable market data considered relevant, namely, but not exclusively: rates, prices, yield curves, volatilities, spreads, correlations or another source of information considered adequate to assess current market conditions or, in their absence and/or impossibility, using valuation techniques. These valuation techniques include discounted future cash flow methodologies considering available observable market data, customized to reflect the particularities and circumstances of the instrument, and maximizing the use of observable and representative data of current market conditions, as well as assumptions that other market participants would use in the valuation of assets.

These valuation techniques are limited to the use of relevant observable data, excluding the use of unobservable market data, so the need for fair value adjustments by model risk, market uncertainty or others that mitigate the uncertainty in the definition of fair value and that ensure that the valuation methodology provides representative estimates of fair value, is low or non-existent.

The definition of the circumstances and criteria that identify the need to resort to the use of alternative valuation techniques, namely due to the lack of orderly transactions in the market representing the fair value of financial instruments, is based on a framework for the daily monitoring of market conditions, including, among others, metrics for assessing liquidity and market depth.

Fair value of derivative financial instruments

Fair value is based on market quotations when available and, in their absence, is determined based on the use of prices of recent, similar transactions carried out under market conditions or based on valuation techniques, namely discounted future cash flow methodologies considering market conditions, the effect of time, the yield curve and volatility factors, when applicable.

For the derivative financial instruments, the credit and counterpart risks (DVA and CVA) are also analysed and, if material, are considered in the determination of the fair value of those instruments. As at 31 December 2022 and 2021, since the DVA and the CVA presented immaterial amounts, they were not considered in the fair value of these instruments.

2.9. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. This legally enforceable right may not be dependent on any future event and should be enforceable in the regular activity of the Finantia Group, as well as in the event of default, bankruptcy or insolvency of the Group or the counterparty.

2.10. Purchase/sale operations under resale/repurchase agreements

Purchase operations under resale agreements (“reverse repos”)

Securities purchased under resale agreements (“reverse repos”) at a fixed price or at the purchase price plus a lender’s return are not recognized in the balance sheet, with the purchase price paid being recorded as financial assets at amortized cost – due from banks or loans and advances to customers, as appropriate. The difference between the purchase and the resale price is treated as interest and accrued over the life of the agreements using the effective interest rate method and recognized in the income statement in the caption “Interest and similar income”.

Securities sold under repurchase agreements (“repos”)

Securities sold under repurchase agreements (“repos”) at a fixed price or at the sales price plus a lender’s return are not derecognized from the balance sheet. The corresponding liability is included in financial liabilities at amortized cost – securities sold under repurchase agreements (“repos”). The difference between the sale and the repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method and recognized in the income statement in the caption “Interest expense and similar charges”.

Securities lent under lending agreements are not derecognized from the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.2.1. Securities borrowed under borrowing agreements are not recognized in the balance sheet.

Securities received or given in guarantee in purchase operations under resale agreements (“reverse repos”) and in sales operations under repurchase agreements ("repos") are disclosed as off-balance sheet items.

2.11. Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying amount will be recovered mainly through a sale transaction (including those acquired only for the purpose of selling them), the assets are available for immediate sale and the sale is highly probable.

Non-current assets held for sale are measured at the lower of their carrying amount on their initial recognition and their corresponding fair value less selling costs and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

The Group obtains, for these assets, regular valuations from experts.

2.12. Tangible assets and investment properties

The Group's tangible assets are stated at cost less accumulated depreciation and impairment losses, if any. Additions and subsequent expenditures are added to the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Costs incurred in the process of dismantling and removing installed assets on third party property are considered as part of the initial cost of the respective asset, when the amount is significant and reliably measurable.

Depreciation is calculated on the straight-line method at the following rates which reflect their estimated useful lives, and are reviewed at each reporting date:

Buildings:	50 years
Furniture and equipment:	5 to 10 years
IT equipment:	3 to 4 years
Furnishings:	10 years
Motor vehicles:	3 to 5 years
Other assets:	4 to 10 years

Land is not depreciated.

When there is an indication that an asset may be impaired, its recoverable amount is estimated, and an impairment loss is recognized when the carrying value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in future years, when the reasons that caused the initial recognition cease to exist. In that situation, the new depreciated amount shall not be greater than the one that would result if impairment losses had not been recognized on the asset, considering the depreciation the asset would have undergone.

The recoverable amount is determined as the higher of its net selling price and value in use, which is based on the net present value of the future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

Buildings classified as investment properties relate to rented buildings owned by the Group, which are measured and depreciated similarly to the tangible assets.

2.13. Intangible assets

Acquired and developed computer software licenses are capitalized based on the costs incurred by the Group to acquire and bring into use the specific software, eligible for capitalization as intangible assets. These costs are amortized based on their expected useful lives, which is usually 3 years.

Costs that are directly associated with the development by the Group of identifiable specific software applications, which will probably generate economic benefits beyond one year, are recognized as intangible assets. These costs include employee costs directly associated with the development of the referred software.

Maintenance costs associated with software are recognized as an expense as incurred. The Group recognizes software development costs that fail to meet the recognition criteria as costs for the period, when incurred.

2.14. Leases

In accordance with the provisions set out in IFRS 16, the Group chose not to apply this standard to short-term lease agreements (less than or equal to 12 months) and to lease agreements in which the underlying asset has a reduced value, considering the amount of Euros 5 thousand for this purpose. In addition, the Group also exercised the option foreseen of not applying this standard to leases of intangible assets (IAS 38) and also opted for the practical expedient provided for in the standard of not re-assessing whether a contract is, or contains, a lease under the new lease definition.

IFRS 16 implies the recognition in the Group's financial statements of:

a) in the income statement: i) the interest cost related to lease liabilities in the caption "Other interest and similar expense"; ii) the cost of the amounts relating to short-term lease agreements and lease agreements of low-value assets in the caption "Other administrative expenses"; and iii) the depreciation cost of assets under right of use in the caption "Depreciation and amortization".

b) in the balance sheet: i) the assets under right of use in the caption "Other tangible assets" and ii) the lease liabilities in the caption "Other liabilities".

c) in the statement of cash flows: i) the amounts related to short-term lease agreements and lease agreements of low-value assets in the caption "Cash flows from operating activities - Cash payments to staff and suppliers" and ii) the amounts related to payments of the principal of the lease liability in the caption "Change in operating liabilities - Other operating liabilities".

Definition of lease

As from 1 January 2019, the Group assesses whether a contract is or contains a lease in accordance with the requirements set out in IFRS 16 - Leases, namely and based on the following definition: a contract is, or contains, a lease if it includes the right to control the use of an identified asset for a certain period, in exchange for compensation.

Lessee

The Group recognizes for all leases, except for short-term leases (less than or equal to 12 months) or leases in which the underlying asset has a reduced in value:

i) an asset under right of use, initially measured at cost, considering the net present value of the lease liability, plus payments made (fixed or variable) less any lease incentives received, penalties for termination, as well as any direct costs of dismantling or restoration, when there is an obligation to bear them. Subsequently, the asset is amortized on a straight-line basis in accordance with the respective contractual term and subject to impairment tests (IAS 36).

ii) a lease liability, initially measured at the present value of the future cash flows of the lease not yet realized on that date, using as the discount rate, the interest rate that the lessee would obtain on contracting, with a similar term and guarantee, the funds necessary to obtain an asset of equivalent value to the asset under right of use in a similar economic context. Subsequently, the liability is valued at amortized cost using the effective interest rate method and is revalued (with the corresponding adjustment to the related asset under right of use) when there is a change in the future payments in the event of negotiations, changes in the index or rate in in the event of a new assessment of the contract options.

Given the impossibility of easily determining the interest rate implicit in the lease, lease payments are discounted according to the lessee's incremental financing interest rate, which is the Group's average financing rate on 1 January 2019.

Lessor

When the Bank acts as lessor, it determines, at the beginning of the agreement, whether it is a finance or an operating lease.

To classify each lease, the Bank globally assesses whether the lease transfers substantially all the risks and rewards inherent in the ownership of the underlying asset. If this is the case, the lease is a finance lease, if not, it is an operating lease. As part of this assessment, the Bank considers some indicators such as whether the lease comprises the largest part of the asset's economic life.

2.15. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, and evidences a residual interest in the assets of an entity after deducting all its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognized under equity as a deduction from the proceeds. Consideration paid or received related to acquisitions or sales of equity instruments are recognized in equity, net of transaction costs.

Distributions to holders of an equity instrument are debited directly against equity as dividends, when declared.

2.16. Treasury stock

On the acquisition of treasury stock (own shares), the consideration paid is deducted from equity, not being subject to revaluation. When such shares are subsequently sold, any gain or loss, including the respective taxes, are recognized directly in equity, not affecting the profit or loss for the financial year.

2.17. Employee benefits

The Group is subject to the General Regime of the Social Security System in Portugal or to the equivalent system in the subsidiaries located abroad and, therefore, has no obligations for the payment of pensions or pension complements to its employees.

2.18. Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the tax expected to be paid on the taxable income for the year, calculated using tax rates and rules enacted or substantively enacted at the balance sheet date in each jurisdiction.

Deferred tax is determined using the balance sheet liability method, on the timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets and liabilities correspond to the amount of tax recoverable/payable in future periods resulting from timing differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax assets are recognized to the extent it is probable that future taxable income will be available against which the deductible timing differences may be utilized.

Deferred tax assets and liabilities are not recognized for taxable timing differences associated with investments in subsidiaries and associates when the Group controls the timing difference reversals, and it is not probable that these will reverse in the future.

2.19. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances recorded in the statement of financial position with less than three months' maturity from the date of acquisition/contracting with an insignificant risk of change in fair value, including cash and deposits with banks. Cash and cash equivalents exclude restricted balances with central banks and collateral deposits.

2.20. Financial guarantee contracts and irrevocable commitments

Financial guarantee contracts and irrevocable commitments are initially recognized in the financial statements at fair value on the date the contract is issued.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortizations, calculated so as to recognize in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement.

Any liability remaining is recognized in the income statement when the guarantee is derecognized.

2.21. Provisions

Provisions are recognized when: (i) the Group has a present legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

3. Changes in accounting policies

3.1. Voluntary changes in accounting policies

During the period there were no voluntary accounting policy changes, when compared with those used in the preparation of the financial information related to the previous period, presented as comparatives.

3.2. New standards and interpretations applicable in the financial year with effects on the policies and disclosures adopted by the Group

On 1 January 2022, the Group applied the following issues, revisions, amendments and improvements of accounting standards and interpretations:

a) Amendments to IFRS 3 - References to the Structural Framework for the Financial Reporting

This amendment updates the references to the Structural Framework in the text of IFRS 3, with no amendments being made to the accounting requirements for business combinations.

The accounting treatment to be adopted in relation to liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination, is also clarified.

The amendment is of prospective application.

b) Amendments to IAS 16 - Revenue earned before entry into operation

Clarifies the accounting treatment given to the consideration obtained from the sale of products that result from production in the test phase of the tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. The entity recognizes the income obtained from the sale of such products and the cost of their production in profit or loss.

c) Amendments to IAS 37- Onerous contracts - costs of complying with a contract

This amendment specifies that when assessing whether a contract is onerous or not, only costs directly related to the performance of the contract, such as incremental costs related to direct labour and materials and the allocation of other directly related expenses such as depreciation expenses of tangible assets used to carry out the contract can be considered.

General and administrative expenses are not directly related to a contract and are excluded unless they are explicitly charged to the counterparty under the contract.

This amendment should be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include contractual obligations to be satisfied, without there being any need to restate the comparison.

d) Amendments to IFRS 1- Subsidiary while first-time IFRS adopter (included in the annual improvements for the 2018-2020 cycle)

This amendment clarifies that, when a subsidiary chooses to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements (assuming no adjustment was made in the consolidation process), the measurement of the cumulative translation differences can be made at the amounts that would be recorded in the consolidated financial statements, based on the transition date of the parent company to IFRS.

e) Amendments to IFRS 9 - Derecognition of financial liabilities - commissions to be included in the 10 per cent change test (included in the annual improvements for the 2018-2020 cycle)

This amendment clarifies which commissions an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. Thus, in the scope of the derecognition tests carried out on renegotiated liabilities, only commissions paid or received between the debtor and creditor should be included, including commissions paid or received by the debtor or creditor on behalf of the other.

f) Amendments to IAS 41 - Taxation and measurement of fair value (included in the annual improvements for the 2018-2020 cycle)

This amendment eliminates the requirement provided for in paragraph 22 of IAS 41, to exclude cash flows related to income tax when measuring the fair value of biological assets, ensuring consistency with the principles of IFRS 13.

g) Amendments to IFRS 16 - Leases - Covid-19-related rent concessions for rents beyond 30 June 2021

On 28 May 2020, the amendment to IFRS 16 entitled 'Covid-19-related rent concessions' was issued, which introduced the following practical expedient: a lessee may choose not to assess whether a Covid-19-related rent concession is a lease modification.

Lessees that choose to apply this expedient, account for the change to lease payments resulting from a COVID-19-related concession in the same way they account for a change that is not a lease modification in accordance with IFRS 16.

Initially, the practical expedient applied to payments originally due by 30 June 2021; however, due to the prolonging of the impact of the pandemic, on 31 March 2021 this was extended to payments originally due by 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

In short, the practical expedient can be applied if the following criteria are met:

- the change in lease payments results in a revised lease rental that is substantially equal to, or less than, the rental immediately prior to the change;

- any reduction in lease payments only affects payments due on or until 30 June 2022; and

- there are no significant changes to other lease terms and conditions.

These standards and amendments had no material impacts on the Group's consolidated financial statements.

3.3. New standards and Interpretations applicable in future financial years already endorsed by the European Union

The Group did not proceed with the early application of any of these standards in the financial statements in the twelve-month period ended on 31 December 2022.

a) IFRS 17- Insurance contracts

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct insurance, and reinsurance), irrespective of the type of entity issuing them, as well as certain guarantees and certain financial instruments with discretionary participation features.

Broadly speaking, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides an integral model for insurance contracts, covering all relevant accounting aspects.

b) Amendments to IFRS 17 – Insurance contracts – Initial application of IFRS 17 and IFRS 9 – Comparative information

This amendment to IFRS 17 refers to the presentation of comparative information on financial assets on the initial application of IFRS 17.

The amendment adds a transition option that allows an entity to apply an 'overlay' in the classification of a financial asset in the comparative period(s) presented on the initial application of IFRS 17. The 'overlay' allows all financial assets, including those held in connection with activities not related to contract within the scope of IFRS 17 to be classified, instrument by instrument, in the comparative period(s) in line with how the entity expects these assets to be classified on initial application of IFRS 9.

c) Amendments to IAS 1 – Disclosure of accounting policies

These amendments are intended to assist the entity in the disclosure of 'material' accounting policies, previously designated as 'significant' policies. However, due to the inexistence of this concept in the IFRS standards, it was decided to substitute same with the concept "materiality", a concept already known to the users of the financial statements.

When assessing the materiality of accounting policies, the entity must consider not only the size of the transactions but also other events or conditions and their nature.

d) Amendments to IAS 8 - Definition of accounting estimates

The amendment clarifies the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. Additionally, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.

e) Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction

This amendment clarifies that payments that settle a liability are tax deductible; however, it is a matter of professional judgment whether such deductions are attributable to the liability that is recognized in the financial statements or to the related asset. This is important in determining whether there are timing differences on the initial recognition of the asset or liability.

Thus, the initial recognition exception is not applicable to transactions that give rise to equal taxable and deductible timing differences. It is only applicable if the recognition of a lease asset and a lease liability give rise to taxable and deductible timing differences that are not equal.

3.4. New standards and interpretations issued by the IASB but not yet endorsed by the European Union

These standard, interpretations, amendments and revisions with mandatory application in future economic periods, have not yet been endorsed by the European Union and, as such, have not been applied by the Group in the twelve-month period ended 31 December 2022.

a) Amendments to IAS 1 - Presentation of financial statements – Classification of current and non-current liabilities

This amendment seeks to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity must defer their payment, at the end of each reporting period.

The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists but should not consider whether the entity will exercise that right), or by events occurring after the reporting date, such as non-compliance of a “covenant”.

However, if the right to defer settlement for at least twelve months is subject to the fulfilment of certain conditions after the balance sheet date, these criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or non-current.

This amendment also includes a new definition of “settlement” of a liability and is of retrospective application.

b) Amendments to IFRS 16 - Lease liabilities in sale and leaseback transactions

This amendment specifies the requirements related to the subsequent measurement of lease liabilities, related to sale and leaseback transactions that qualify as a “sale” in accordance with the principles of IFRS 15, with a focus on variable lease payments that do not depend on an index or a rate.

In subsequently measuring lease liabilities, seller-lessees shall determine the “lease payments” and “revised lease payments” in such a way as not to recognize any gain or loss relating to the retained right of use. Application of these requirements does not preclude the seller-lessee from recognizing, in the income statement, any gain or loss related to the partial or total “sale”, as required by paragraph 46(a) of IFRS 16.

This amendment applies retrospectively.

4. Main estimates and judgments used in the preparation of the financial statements

The IFRS establish a series of accounting treatments and requires the Board of Directors to make judgments and the necessary estimates in order to decide which accounting treatment is most appropriate. The main estimates and judgments used by the Group in the application of accounting principles are presented in this note, with the objective of improving the understanding of their application and the manner in which they affect the results reported by the Group and their disclosure.

Considering that in some situations there are alternatives to the accounting treatment adopted by the Board of Directors, the results reported by the Group could be different if a different treatment were chosen.

The Board of Directors considers that its choices are appropriate and that the financial statements present adequately the financial position of the Group and the result of its operations in all materially relevant aspects.

The analysis made below is presented only for a better understanding of the financial statements and is not intended to suggest that other alternatives or estimates may be more appropriate.

Classification and measurement of financial instruments

The classification and measurement of financial assets depends on an analysis of the business model associated with the financial asset and the results of the analysis of the characteristics of the contractual cash flows, to conclude whether they correspond only to payments of principal and interest on the outstanding principal (SPPI test).

The business model takes into consideration how groups of financial assets are managed together to achieve a specific business objective. This evaluation requires judgment, since several aspects of a subjective nature must be considered, among others, such as: i) the way in which the performance of the assets is evaluated; ii) the risks that affect the performance of the assets and the way these risks are managed; and iii) the form of remuneration of asset managers.

In this context, the Group monitors financial assets measured at amortized cost and at fair value through other comprehensive income which are derecognized before maturity, to understand the reasons associated with their sale, and to determine whether these are consistent with the objective of the business model defined for these assets. This monitoring is an integral part of the monitoring process of the financial assets that remain in the portfolio, to determine if the model is adequate and, if not, if there was a change in the business model and, consequently, a prospective change in the classification of these financial assets.

Impairment of financial assets at amortized cost and at fair value through other comprehensive income

Significant increase in credit risk (SICR)

Impairment losses correspond to the expected losses in a 12-month time horizon for the assets in stage 1, and the expected losses considering the probability of a default event occurring at some point up to the maturity date of the financial instrument, for assets in stage 2 and 3. An asset is classified as stage 2 whenever there is a significant increase in its credit risk since its initial recognition. In assessing the existence of a significant increase in credit risk, the Group considers qualitative and quantitative, reasonable, and sustainable information (Note 2.2.1.5.3).

Definition, weighting and determination of relevant prospective information

In estimating expected credit losses, the Group uses reasonable and sustainable forecasting information that is based on assumptions about the future evolution of different economic drivers and how each driver impacts the remaining drivers.

Probability of default

The probability of default is a determining factor in the measurement of expected credit losses. The probability of default corresponds to an estimate in a given time period, which is calculated on the basis of historical data, assumptions and expectations about future conditions.

Loss given default

This corresponds to an estimate of the loss in a default scenario. It is based on the difference between the contractual cash flows and those expected to be received, either through the cash flows generated by the customer's business or the credit collateral, if any. The calculation of the expected loss given default is based on, among other aspects, the different recovery scenarios, historical information, the costs involved in the recovery process and the valuation estimates of collaterals associated with credit operations.

Alternative methodologies and the use of different assumptions and estimates may result in a different level of recognized impairment losses, with a consequent impact on the results of the Group.

Fair value of financial instruments

IFRS 13 establishes that financial instruments should be valued at fair value. Fair value is based on market prices or, in the absence thereof, on prices of recent transactions, similar and carried out under market conditions and on valuation techniques, which have underlying methodologies involving the discounting of future cash flows considering the market conditions, the time value, the yield curve and volatility factors, where applicable (see Note 2.8 and 29).

These methodologies may require the use of assumptions or judgments in the estimate of fair value, as well as the definition of the circumstances and criteria that identify the need to resort to the use of valuation techniques, namely due to the lack of orderly operations on the market representing the fair value of the financial instruments in question.

Consequently, the use of different methodologies, assumptions, or judgments in the application of a particular model, may lead to financial results different from those reported.

Income tax

The Group is subject to the payment of income tax on profits in several jurisdictions. The determination of the total amount of income tax on profits requires certain interpretations and estimates. There are several transactions and calculations for which the determination of the final amount of tax payable is uncertain during the normal business cycle.

In addition, it should be noted that the reversal of deductible timing differences results in deductions in the determination of future taxable income. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it achieves sufficient taxable income against which these deductions may be offset. On this basis, the Group recognizes deferred tax assets only when it is probable that taxable income will be available against which the deductible timing differences may be utilized.

Other interpretations and estimates could result in a different level of taxation on income, current and deferred, recognized in the period. The Portuguese Tax Authorities are entitled to review the calculation of the taxable income of the Company and its subsidiaries based in Portugal for a period of four years. In this way, it is possible that corrections to the taxable income may occur, mainly resulting from differences in the interpretation of tax legislation. However, it is the Board of Directors' belief that there will be no significant corrections to the income taxes recorded in the financial statements.

Going concern

Russia's invasion of Ukraine dominated 2022, plunging Europe into an energy crisis, high inflation and tighter financial conditions, precisely at the moment when the pandemic was fading. This conjuncture led to a slowdown in global economic growth in 2022 and negative prospects for 2023. The three largest economies in the world - the US, the Eurozone and China - were the main contributors to this slowdown. Currently, a high level of uncertainty persists regarding the evolution of this situation and of the possible impacts that it may have on the international economy.

The Board of Directors has assessed the Group's ability to continue as a going concern and is confident that it has the resources to continue its business for the foreseeable future.

In addition, the Board of Directors is not aware of any material uncertainties that may cast significant doubts on the Group's ability to continue as a going concern.

On that basis, the financial statements have been prepared on a going concern basis.

Provisions and contingent liabilities

The Bank and its subsidiaries operate in a regulatory and legal environment which, by its nature, has a marked degree of litigation risk inherent in its operations. On that basis, it is involved in legal and arbitration proceedings, arising from the normal course of its business.

When the Group can reliably measure the outflow of resources that incorporate economic benefits in relation to a specific case and considers those outflows to be probable, it records a provision for that purpose. When the outflow probability is considered remote, or probable but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Group considers that the disclosure of these estimates on a case-by-case basis would jeopardize their outcome, no detailed and specific disclosures of the underlying situations are made.

Given the subjectivity and uncertainty in determining the probability and amount of the losses, the Group considers several factors, including legal advice, the stage of the proceedings and the historical evidence of similar incidents. Significant judgment is required in the determination of these estimates.

5. Cash and deposits with central banks and other demand deposits

EUR thousand	**31.12.2022**	**31.12.2021**
Cash	78	70
Deposits and applications with central banks		
Banco de Portugal	61,430	37,128
Bank of Spain	18,342	17,812
	79,772	54,940
Deposits with banks in Portugal		
Demand deposits	7,168	10,583
	7,168	10,583
Deposits with banks abroad		
Demand deposits	1,373	533
	1,373	533
	88,391	**66,126**

The caption "Deposits and applications with central banks" includes the amount of € 4,815 thousand (2021: € 4,866 thousand) to comply with the legal requirements to maintain minimum cash reserves of the European System of Central Banks (ESCB).

These deposits earn interest at the average rates for the main refinancing operations of the European System of Central Banks (ESCB) prevailing during the deposit period considered. During financial year 2022, the amount of up to six times the value of the minimum reserves became exempt from paying this rate, which varied between -0.50% and 2% (2021: -0.50%).

6. Financial assets

The financial assets held by the Group, classified by category, may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Financial assets at fair value through other comprehensive income	1,063,416	1,318,016
Financial assets at amortized cost	674,791	673,789
Financial assets at fair value through profit or loss	42,297	5,342
	1,780,504	**1,997,147**

The financial assets held by the Group, classified by instrument type, may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Debt instruments	1,501,146	1,701,710
Loans	168,852	186,739
Due from banks	77,567	98,570
Trading derivatives (Note 7)	28,123	74
Other loan operations	4,756	4,640
Equity instruments	60	59
Commercial paper	-	3,194
Purchase operations under resale agreements (“reverse repos”)	-	2,160
	1,780,504	**1,997,147**

The balance of financial assets by category, net of impairment, may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Financial assets at fair value through profit or loss		
Financial assets not held for trading mandatorily at fair value through profit or loss		
Equity instruments		
Companies	60	59
Debt instruments		
Public entities	-	-
Banks	-	-
Companies	384	338
	444	397
Financial assets held for trading		
Debt instruments		
Public entities	2,819	1,019
Banks	3,942	-
Companies	6,969	3,852
Risk-management derivatives (Note 7)	28,123	74
	41,853	4,945
	42,297	**5,342**
Financial assets at fair value through other comprehensive income		
Debt instruments		
Public entities	468,296	473,021
Banks	141,369	184,466
Companies	434,568	630,182
Loans		
Public entities	1,717	7,039
Banks	8,883	9,334
Companies	8,583	13,974
	1,063,416	**1,318,016**
Financial assets at amortized cost		
Debt instruments		
Public entities	43,865	13,197
Banks	38,018	33,896
Companies	360,916	361,740
Loans		
Public entities	26,767	30,925
Banks	6,364	27,815
Companies	116,538	97,652
Due from banks	77,567	98,570
Purchase operations under resale agreements (“reverse repos”)	-	2,160
Commercial paper	-	3,194
Other credit operations	4,756	4,640
	674,791	**673,789**
	1,780,504	**1,997,147**

During 2022, interest income from debt instruments at fair value through profit or loss amounted to € 114 thousand (2021: € 27 thousand).

During 2022, interest income from the financial assets held for trading portfolio amounted to € 297 thousand (2021: € 215 thousand).

During 2022, interest income from the financial assets at amortized cost amounted to € 23,407 thousand (2021: € 11,455 thousand).

As at 31 December 2022, the caption "Financial assets at amortized cost" includes debt instruments in the amount € 214,304 thousand (2021: € 191,683 thousand) given as collateral in sale operations under repurchase agreements (Note 24).

As at 31 December 2022, the caption "Due from banks" includes deposits given as collateral in sale operations under repurchase agreements, and interest rate and exchange rate derivatives in the amount € 19,374 thousand (2021: € 52,029 thousand).

The caption "Financial assets at fair value through other comprehensive income", may be analysed as follows:

	31.12.2022					
EUR thousand	**Acquisition cost**	**Impairment**	**Carrying amount**	**Fair value hedging adjustments**	**Changes in fair value**	**Total**
Financial assets at fair value through other comprehensive income						
Debt instruments						
Public entities	497,613	(2,464)	495,149	60,133	(86,986)	468,296
Banks	163,280	(12,772)	150,508	4,843	(13,982)	141,369
Companies	485,752	(17,528)	468,224	20,226	(53,881)	434,568
Loans						
Public entities	1,797	(34)	1,763	-	(46)	1,717
Banks	11,840	(2,060)	9,780	-	(897)	8,883
Companies	8,641	(36)	8,605	-	(23)	8,583
	1,168,924	**(34,894)**	**1,134,030**	**85,201**	**(155,815)**	**1,063,416**

	31.12.2021					
EUR thousand	**Acquisition cost**	**Impairment**	**Carrying amount**	**Fair value hedging adjustments**	**Changes in fair value**	**Total**
Financial assets at fair value through other comprehensive income						
Debt instruments						
Public entities	481,457	(1,274)	480,183	979	(8,141)	473,021
Banks	187,608	(1,478)	186,130	(3,154)	1,490	184,466
Companies	646,073	(12,333)	633,740	(8,041)	4,483	630,182
Loans						
Public entities	7,135	(116)	7,019	-	20	7,039
Banks	9,468	(4)	9,464	-	(130)	9,334
Companies	14,338	(175)	14,163	-	(190)	13,974
	1,346,079	**(15,379)**	**1,330,701**	**(10,216)**	**(2,468)**	**1,318,016**

During 2022, interest income from the financial assets at fair value through other comprehensive income portfolio amounted to € 42,280 thousand (2021: € 53,647 thousand).

This portfolio includes the amount of € 507,408 thousand (2021: € 593,340 thousand) related to debt instruments given as collateral by the Group in sales operations under repurchase agreements (Note 24).

As at 31 December 2022 and 2021, the financial assets subject to the impairment requirements foreseen in IFRS 9, analysed by stage, may be presented as follows:

	31.12.2022							
EUR thousand	**Financial assets at fair value through other comprehensive income**				**Financial assets at amortized cost**			
	Not yet due	Overdue	Impairment	Carrying value	Not yet due	Overdue	Impairment	Carrying value
Stage 1								
Debt instruments and commercial paper	982,125	-	(3,751)	978,374	400,906	-	(1,825)	399,081
Loans and other applications	19,388	-	(263)	19,125	226,473	-	(261)	226,212
Other credit operations	-	-	-	-	20	-	-	20
	1,001,513	**-**	**(4,014)**	**997,499**	**627,399**	**-**	**(2,086)**	**625,313**
Stage 2								
Debt instruments and commercial paper	47,750	-	(6,536)	41,214	10,202	-	(843)	9,359
Loans and other applications	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	-	-	-
	47,750	**-**	**(6,536)**	**41,214**	**10,202**	**-**	**(843)**	**9,359**
Stage 3								
Debt instruments and commercial paper	-	47,121	(22,476)	24,645	12,039	24,078	(7,105)	29,012
Loans and other applications	-	1,926	(1,868)	58	-	1,765	(740)	1,025
Other credit operations	-	-	-	-	-	4,736	-	4,736
	-	**49,047**	**(24,343)**	**24,703**	**12,039**	**30,579**	**(7,846)**	**34,772**
POCI								
Debt instruments and commercial paper	-	-	-	-	7,907	-	(2,560)	5,346
Loans and other applications	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**7,907**	**-**	**(2,560)**	**5,346**
	1,049,263	**49,047**	**(34,894)**	**1,063,416**	**657,547**	**30,579**	**(13,335)**	**674,791**

EUR thousand	31.12.2021							
	Financial assets at fair value through other comprehensive income				Financial assets at amortized cost			
	Not yet due	Overdue	Impairment	Carrying value	Not yet due	Overdue	Impairment	Carrying value
Stage 1								
Debt instruments and commercial paper	1,258,450	-	(5,888)	1,252,562	396,850	-	(1,350)	395,499
Loans and other applications	28,619	-	(241)	28,379	256,979	-	(1,070)	255,909
Other credit operations	-	-	-	-	25	-	-	25
	1,287,069	**-**	**(6,128)**	**1,280,941**	**653,853**	**-**	**(2,420)**	**651,433**
Stage 2								
Debt instruments and commercial paper	36,947	-	(4,154)	32,793	10,513	-	(524)	9,989
Loans and other applications	2,022	-	(54)	1,968	-	-	-	-
Other credit operations	-	-	-	-	9	-	-	9
	38,969	**-**	**(4,208)**	**34,761**	**10,522**	**-**	**(524)**	**9,998**
Stage 3								
Debt instruments and commercial paper	7,357	-	(5,043)	2,314	-	9,322	(8,439)	883
Loans and other applications	-	-	-	-	-	5,108	(3,894)	1,214
Other credit operations	-	-	-	-	-	4,606	-	4,606
	7,357	**-**	**(5,043)**	**2,314**	**-**	**19,036**	**(12,333)**	**6,703**
POCI								
Debt instruments and commercial paper	-	-	-	-	7,563	-	(1,909)	5,655
Loans and other applications	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**7,563**	**-**	**(1,909)**	**5,655**
	1,333,395	**-**	**(15,379)**	**1,318,016**	**671,938**	**19,036**	**(17,186)**	**673,789**

The movements in the impairment due to expected losses in financial assets during the 2022 and 2021 financial years were as follows:

EUR thousand	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 January 2021	**8,612**	**4,859**	**20,680**	**-**	**34,151**
Financial assets originated or acquired	1,497	-	-	-	1,497
Financial assets derecognized	(1,491)	(351)	(1,348)	-	(3,190)
Net changes in credit risk	(565)	(120)	1,556	1,893	2,763
Allocations, net of reversals (Note 22)	(559)	(472)	208	1,893	1,070
Usage	-	-	(9,434)	-	(9,434)
Loan recoveries	-	-	4,601	-	4,601
Foreign exchange and other variations	495	345	1,320	16	2,176
Balance as at 31 December 2021	**8,548**	**4,732**	**17,376**	**1,909**	**32,564**
Financial assets originated or acquired	389	-	-	-	389
Financial assets derecognized	(766)	(11,084)	-	-	(11,850)
Net changes in credit risk	(2,462)	17,943	28,012	619	44,113
Allocations, net of reversals (Note 22)	(2,839)	6,859	28,012	619	32,652
Usage	(5)	(5,213)	(19,733)	-	(24,991)
Loan recoveries	-	-	6,423	-	6,423
Foreign exchange and other variations	397	1,001	151	33	1,582
Balance as at 31 December 2022	**6,101**	**7,380**	**32,189**	**2,560**	**48,230**

As at 31 December 2022 and 2021, the caption “Allocations, net of reversals” is net of loan recoveries in the amount of € 6,423 thousand and € 4,601 thousand, respectively.

During 2022, the caption Allocations, net of reversals includes the amount of € 29,073 of impairment related to instruments affected by the conflict between Russia and Ukraine.

The movements in the caption “Financial assets” classified in Stage 3 during the 2022 and 2021 financial years were as follows:

EUR thousand	Exposure	Impairment
Movement in Stage 3		
Balance as at 1 January 2021	**37,078**	**20,680**
Financial assets derecognized	(6,003)	(1,348)
Net changes in credit risk	4,959	1,556
Usage	(9,434)	(9,434)
Loan recoveries	(2,125)	4,601
Foreign exchange and other variations	1,918	1,320
Balance as at 31 December 2021	**26,393**	**17,376**
Financial assets derecognized	(11,630)	-
Net changes in credit risk	106,941	28,012
Usage	(19,773)	(19,773)
Loan recoveries	98	6,423
Foreign exchange and other variations	(10,364)	151
Balance as at 31 December 2022	**91,665**	**32,189**

The caption “Other credit operations” refers to the specialized financing (previously denominated car finance) that was carried out by the subsidiary Sofinloc. This activity was discontinued in 2012-2013 when the origination of new contracts practically came to an end and the portfolio entered run-off.

Thus, this activity is, at present, essentially restricted to the management of a non-performing assets portfolio, and may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Performing credit	20	25
Overdue credit up to 90 days	-	9
Overdue credit between 90 days and up to 24 months	4	1
	24	**35**
Impairment for performing credit	-	-
Impairment for overdue credit up to 90 days	-	-
Impairment for overdue credit between 90 days and up to 24 months	-	-
	-	**-**
	24	35
Recoverable amount of overdue credit over 24 months	4,732	4,606
	4,756	**4,640**

The recoverable amount of overdue credit over 24 months corresponds to the amount, net of impairment, of credit agreements that have been in default for over 24 months, and reflects the future cash flows which, considering the respective expected losses, are still recoverable, based on the historical analysis and the Group's recovery management process.

As at 31 December 2021, in the scope of the half-yearly calibration and update process of the parameters used in the collective impairment model of the specialized financing portfolio, among other aspects, the work-out period inherent in the recovery of credit under litigation was revised, this being the period as from which the expected loss is considered at 100%, with same having been widened from 120 to 156 months. This calibration resulted in a decrease in the amount of the expected impairment losses of this portfolio in the approximate amount of € 5,700 thousand (Note 22).

Interest income from other credit operations includes interest received on overdue credit, which are reflected in loan recoveries (Note 22).

7. Derivative financial instruments and hedge accounting

The Group enters derivative financial instrument transactions with the objective of hedging and managing the financial risks inherent in its activity, managing own positions based on expectations of market evolution, satisfying its customers' needs or hedging structural positions.

The fair value and notional value of derivative instruments in the portfolio are set out in the following table:

EUR thousand	31.12.2022			31.12.2021		
		Fair value			Fair value	
	Notional value	Assets	Liabili-ties	Notional value	Assets	Liabili-ties
Derivative instruments						
Interest rate derivatives	983,250	132,516	187	974,237	10,477	18,063
Foreign currency derivatives	620,664	25,468	1,097	628,642	60	30,012
	1,603,914	**157,984**	**1,284**	**1,602,879**	**10,537**	**48,074**
Of which subject to hedge accounting						
Interest rate derivatives	**955,004**	**129,861**	**187**	**972,635**	**10,463**	**18,032**
Of which for risk management (Notes 6 & 12)						
Interest rate derivatives	28,246	2,655	-	1,602	14	31
Foreign currency derivatives	620,664	25,468	1,097	628,642	60	30,012
	648,910	**28,123**	**1,097**	**630,244**	**74**	**30,043**
	1,603,914	**157,984**	**1,284**	**1,602,879**	**10,537**	**48,074**

Foreign currency derivative: represents a contract between two parties and consists in the swap of currencies at a determined forward foreign exchange rate. It is an agreement for cash flow exchange, in which one of the parts agrees to pay interest on the principal in one currency, in exchange of receiving interest on the principal in another currency. At the end of the operation, the principal in foreign currency is paid and the principal in domestic currency is received. The purpose of these operations is the hedging and management of the liquidity risk in foreign currency inherent in future receipts and payments in foreign currency, through the elimination of the uncertainty of the future value of a certain foreign exchange rate.

Interest rate derivative: in conceptual terms this can be seen as a contract between two parties that agree to swap between them, for a nominal amount and period, an interest rate differential. Involving only one currency, it consists of the exchange of fixed cash flows for variable cash flows and vice-versa. It is mainly directed at the hedging and management of the interest rate risk related to the income on a deposit or the cost of a loan that a certain entity intends to realize at a certain time in the future.

Hedge accounting

The accounting treatment of hedging transactions varies according to the nature of the hedged instrument and whether the hedge qualifies as such for accounting purposes in accordance with Note 2.2.3. When hedge accounting is discontinued, and despite the hedging relations being maintained from a financial perspective, the respective hedging instruments are reclassified to financial assets and liabilities held for trading.

Fair value hedges of interest rate risk – fixed-income securities

These fair value hedges consist of the contracting of interest rate derivatives that are used to protect against changes in the fair value of fixed-rate debt instruments due to movements in market interest rates, namely, to protect these against interest rate exposure.

For securities classified as 'financial assets at amortized cost' (Note 6) the accumulated hedge adjustment as at 31 December 2022 amounts to € (34,336) thousand (2021: € (232) thousand). In 2022, the Group recognized in profit or loss the amount of € (36,790) thousand (2021: € (2,688) thousand) related to the fair value change of the hedged instruments in the financial year and the amount of € (61) thousand (2021: € (69) thousand) related to the gain on the amortization of the discontinued relations.

In addition, and for securities classified as 'financial assets at fair value through other comprehensive income', the Group recognized, in 2022, gains on hedging instruments amounting to € 102,117 thousand (2021: gains of € 32,656 thousand) and losses on the respective hedged items of € 100,519 thousand (2021: losses of € 32,002 thousand). These gains on hedged items attributable to the hedged risk are reclassified from the fair value reserve to profit or loss. The Group also recognized in profit or loss the amount of € (4,663) thousand (2021: € (5,490) thousand) related to the expense on the amortization of the discontinued relations.

In summary, the impacts of the hedging relations referred to above, outstanding in 2022 and 2021, may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Category of financial assets at amortized cost	**551**	**49**
Losses on hedging instruments	37,341	2,737
Gains on hedged items attributable to hedged risk	(36,790)	(2,688)
Category of financial assets at fair value through other comprehensive income	**1,598**	**654**
Losses on hedging instruments	102,117	32,656
Gains on hedged items attributable to hedged risk	(100,519)	(32,002)
Ineffectiveness of interest rate risk hedges (Note 19)	**2,149**	**703**

The impacts of the amortization of discontinued hedging relations may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Fair value hedges – securities in the "financial assets at amortized cost" portfolio	(61)	(69)
Fair value hedges - securities in the "financial assets at fair value through other comprehensive income" portfolio	(4,663)	(5,490)
Amortization of discontinued hedging relations (Note 19)	**(4,724)**	**(5,559)**

Hedging of net investments in foreign operational units

During 2022 and 2021, the Group used foreign currency denominated debt to hedge the foreign currency translation risk on its net investment in foreign subsidiaries. As at 31 December 2022 the hedged investments held by the Group in foreign subsidiaries and the associated debt used to hedge these investments may be analysed as follows:

Company	**Functional Currency**	**Net Investment USD' 000**	**Associated Debt USD' 000**	**Net Investment EUR' 000**	**Associated Debt EUR' 000**
Finantia Holdings BV	USD	18,004	18,004	16,880	16,880
Finantia UK Limited	USD	130,500	130,500	122,351	122,351

The effective portion of the changes in fair value of the non-derivative financial liabilities (associated debt) designated as hedging instruments in the hedging of the net investments in the above-mentioned foreign operations, was recognized directly in equity, in foreign currency reserve (other comprehensive income). In 2022 and 2021, there was no ineffectiveness in these hedging relations.

8. Other tangible assets

EUR thousand	Buildings	Office equipment	IT equipment	Motor vehicles	Assets under right of use	Fixed assets in progress	Other assets	31.12.2022	31.12.2021
Acquisition cost:									
Opening balance	**22,593**	**6,869**	**3,606**	**2,332**	**1,386**	**13**	**1,202**	**38,000**	**37,884**
Additions	-	43	26	453	104	32	-	658	785
Disposals/Write-offs	(68)	(624)	(1562)	(501)	(206)	-	(217)	(3,179)	(786)
Fx var./Transfers	1	18	4	6	(16)	(13)	12	12	117
Closing balance	**22,525**	**6,306**	**2,073**	**2,290**	**1,268**	**32**	**996**	**35,491**	**38,000**
Accumulated depreciation:									
Opening balance	**11,832**	**6,325**	**3,442**	**1,388**	**597**	**-**	**1,096**	**24,680**	**24,176**
Depreciation charge	265	86	98	409	285	-	46	1,189	1,231
Disposals/Write-offs	(68)	(624)	(1,562)	(450)	(81)	-	(217)	(3,004)	(650)
Fx var./Transfers	5	24	4	-	(26)	-	1	9	(77)
Closing balance	**12,034**	**5,811**	**1,981**	**1,347**	**774**	**-**	**927**	**22,874**	**24,680**
Carrying value	**10,491**	**495**	**92**	**944**	**493**	**32**	**70**	**12,617**	**13,320**

The caption "Assets under right of use", arises from the application of IFRS 16 and corresponds to buildings, depreciated according to the respective term of the lease agreement, as per the accounting policy referred to in Note 2.14.

9. Intangible assets

EUR thousand	Software	Other intangible assets	Work in progress	31.12.2022	31.12.2021
Acquisition cost:					
Opening balance	5,729	404	298	6,431	5,926
Additions	439	-	138	578	621
Disposals/Write-offs	(172)	(7)	-	(179)	-
Fx var./Transfers	1	-	(298)	(297)	(117)
Closing balance	**5,997**	**397**	**138**	**6,533**	**6,431**
Accumulated amortization:					
Opening balance	5,302	404	-	5,706	5,360
Amortization charge	365	-	-	365	345
Disposals/Write-offs	(172)	(7)	-	(179)	-
Fx var./Transfers	1	-	-	1	1
Closing balance	**5,497**	**397**	**-**	**5,894**	**5,706**
Carrying value	**501**	**-**	**138**	**639**	**424**

As at 31 December 2022 and 2021, other intangible assets and work in progress include software licenses and other expenditure incurred with software implementation and development.

During 2022 and 2021, there were no intangible assets generated internally.

10. Taxes

Income tax recognized in the income statement in 2022 and 2021 may be analysed as follows:

EUR thousand	31.12.2022	31.12.2021
Current tax		
Current tax on profit for the year	(2,239)	(7,763)
Current tax related to prior years	1,145	3,498
	(1,095)	**(4,266)**
Deferred tax		
Origination and reversal of timing differences	2,053	79
Tax losses carried forward	3,453	1,473
	5,506	**1,552**
Total income tax recognized in results	**4,411**	**(2,714)**

As at 31 December 2022, the net amount on the balance sheet related to tax litigation pending a decision and for which the tax in dispute had been paid under the Special State Debt Reduction Program ("Programa Especial de Redução de Endividamento ao Estado" - PERES) is € 321 thousand (2021: € 308 thousand), being recorded under the caption "Debtors and other applications" (see Note 11).

The deferred tax assets and liabilities recognized on the balance sheet in 2022 and 2021 may be analysed as follows:

EUR thousand	31.12.2022			31.12.2021		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Financial assets at fair value through other comprehensive income	17,699	-	17,699	2,460	-	2,460
Impairment/Provisions	3,320	(1,039)	2,281	-	(610)	(610)
Tax losses carried forward	4,926	-	4,926	1,473	-	1,473
Other	4,547	(4,727)	(180)	3,358	(2,722)	637
Deferred tax assets/(liabilities)	**30,492**	**(5,766)**	**24,726**	**7,289**	**(3,332)**	**3,957**
Set-off of deferred tax assets/liabilities	(5,766)	5,766	-	(1,405)	1,405	-
Net deferred tax assets/(liabilities)	**24,726**	**-**	**24,726**	**5,885**	**(1,927)**	**3,957**

The Group offsets, as established in IAS 12, paragraph 74, the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

At the end of each reporting period, the Group reassesses unrecognized deferred tax assets, and recognizes a previously unrecognized deferred tax asset to the extent that it becomes probable that future taxable income will allow the deferred tax asset to be recovered. In this context, deferred tax assets are only recognized when it is probable that taxable income will be available against which deductible timing differences can be used.

The recoverability assessment of deferred tax assets is carried out annually. As at 31 December 2022, this exercise was carried out taking into account the elimination of the time limit on the use of tax losses in accordance with the amendments introduced by Law n.º 24-D/2022 and based on the preliminary version of the projections prepared for the period 2023-2025, being Group expectations to generate future taxable income for this purpose.

During financial year ended 31 December 2022, income taxes recognized in reserves related to financial assets at fair value through other comprehensive income (Note 16) amount to € 15,320 thousand (2021: € 6,140 thousand).

The reconciliation of the effective income tax rate may be analysed as follows:

EUR thousand	**31.12.2022**		**31.12.2021**	
	%	**Amount**	**%**	**Amount**
Profit before income tax		(4,163)		26,960
Statutory income tax rate	22.5%		22.5%	
Income tax calculated based on the statutory income tax rate		**(937)**		**6,066**
Tax losses used		(32)		(155)
Tax benefits		(95)		(62)
Tax losses generated in the period		3,806		1,422
Autonomous taxation		156		124
Differences in the statutory tax rate of the subsidiaries		(677)		(59)
Deferred tax assets on tax losses generated in the period		(3,453)		(1,436)
Deferred tax assets on tax credits resulting from international double taxation		(2,051)		-
Non-deductible impairment		(476)		(466)
Prior year taxes		(1,145)		(3,498)
Other		490		778
Income tax recognized in profit or loss		**(4,411)**		**2,714**
Current tax		1,095		4,266
Deferred tax		(5,506)		(1,552)
Tax under reconciliation		**(4,411)**		**2,714**

11. Other assets

EUR thousand	**31.12.2022**	**31.12.2021**
Operations pending financial settlement (Note 18)	12,656	1,748
Debtors and other applications	2,953	2,885
Other operations awaiting regularization	1,086	865
Accrued income	113	115
	16,808	**5,613**

As at 31 December 2022, the caption “Debtors and other applications” includes the amount of € 321 thousand (2021: € 308 thousand) related to the net amount on the balance sheet of tax litigation pending a decision and for which the value added tax in dispute had been paid under the Special State Debt Reduction Program (PERES) (see Note 10).

The caption “Operations pending financial settlement” refer to outstanding operations resulting from the Group's normal activity.

12. Financial liabilities held for trading

This caption may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Risk-management derivatives (Note 7)	1,097	30,043
Short sales	2,045	2,418
	3,142	**32,461**

13. Financial liabilities at amortized cost

This caption may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Due to customers		
Time deposits	789,069	823,071
Demand deposits	56,411	60,072
	845,480	883,143
Sales operations under repurchase agreements (repos)		
Banks	440,693	484,511
Other financial companies	170,490	173,277
	611,183	657,789
Other financial liabilities at amortized cost		
Money market operations	163,522	17,919
Other deposits	-	-
	163,522	17,919
	1,620,185	**1,558,850**

The sales operations under repurchase agreements (repos) are collateralized with debt instruments as referred to in Note 6.

14. Provisions and other liabilities

The caption “Provisions” may be analysed as follows:

EUR thousand	31.12.2022	31.12.2021
Bank guarantees and irrevocable commitments	2	13
Other provisions	711	870
	713	**883**

The movement occurring in the caption “Provisions” during the 2022 financial year was as follows:

EUR thousand	Bank guarantees and commitments	Other provisions	Total
Balance as at 1 January 2022	13	870	893
Allocations, net of reversals (see Note 22)	(11)	15	4
Usage	-	(175)	(175)
Balance as at 31 December 2022	**2**	**711**	**713**

The movement occurring in the caption “Provisions” during the 2021 financial year was as follows:

EUR thousand	Bank guarantees and commitments	Other provisions	Total
Balance as at 1 January 2021	5	889	893
Allocations, net of reversals (see Note 22)	8	(19)	(11)
Balance as at 31 December 2021	**13**	**870**	**883**

The caption “Other provisions” refers to provisions for other risks and charges to cater for contingencies arising in the scope of the Group’s activity.

The caption “Other liabilities” may be analysed as follows:

EUR thousand	31.12.2022	31.12.2021
Other liabilities awaiting regularization	5,442	1,193
Accrued expenses	3,552	4,109
Amounts owed to the public sector	551	602
Lease liabilities	478	734
Creditors of specialized finance operations	355	436
	10,378	**7,073**

The caption “Other liabilities awaiting regularization” includes the amount of € 4,700 thousand (2021: € 1,153 thousand) related to transactions pending financial settlement, arising in the Group’s normal course of business (Note 11).

As at 31 December 2022 and 2021, the caption “Lease liabilities” corresponds to the amount of the lease liabilities recognized in the scope of the application of IFRS 16, as described in the accounting policy (Note 2.14).

As at 31 December 2022 and 2021, the Group had various operating leasehold agreements. The minimum future payments related to operating leasehold agreements, by maturity, are as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Up to 1 year	257	294
1 to 5 years	221	440
	478	**734**

15. Share capital, share premium and treasury stock

Share capital and share premium

As at 31 December 2022 and 2021, the Bank's share capital amounts to € 150 million and is represented by 150,000,000 ordinary shares with voting rights and a nominal value of € 1 each and is fully paid up.

The caption "Share premium" in the amount of € 12,849,132 relates to the premiums paid by the shareholders in share capital increases realized.

Treasury stock (Own shares)

As at 31 December 2022, the caption "Treasury stock" is represented by 21,092,944 shares with a nominal value of € 1 each (2021: 2,810,927). The acquisition cost of these shares was € 17,787 thousand (2021: € 2,826 thousand).

During 2022 and 2021, there were there following movements in treasury stock:

EUR thousand, except number of shares	**2022**		**2021**	
	No. shares	**Acquisition cost**	**No. shares**	**Acquisition cost**
Balance at beginning of period	2,810,927	2,826	37,607	53
Acquisitions	18,282,017	14,961	2,834,940	2,835
Share exchange	-	-	(61,620)	(62)
Balance at end of period	**21,092,944**	**17,787**	**2,810,927**	**2,826**

Following the necessary authorizations from the Competent National Authorities and Banco de Portugal, and validated by an external legal opinion justifying the legal framework of the operation (namely, the acquisition from two shareholders of treasury stock in an amount greater than 10% of the share capital deliberated by the Board of Directors) Banco Finantia concluded, on 3 November 2022, the acquisition of the shareholding held by JSC VTB Capital Holding and by VTB Capital PE Investment Holding (Cyprus) in its share capital. On that date, these entities ceased their shareholder relationship with the Bank.

The transaction consisted of the acquisition by the Bank of a total of 18,282,017 shares, representing 12.19% of its share capital, increasing the treasury stock to 21,092,944 shares, representing 14.06% of the share capital. As consideration for the acquisition of the shares, bonds from direct or indirect issuers of the Russian Federation which fair value was € 14,961 thousand, were delivered.

The assets delivered under this transaction are subject to "freezing measures" in accordance with the restrictive measures in force in the European Union on that date. These assets are in the custody of the Group and recognized in Note 24 – Off-balance sheet items – Liabilities for provision of services – Deposit and custodianship of items.

Pursuant to article 324 of the Portuguese Commercial Companies Code (CCC), a non-distributable reserve equal to the amount recorded for the purchase of treasury stock was recorded in equity.

This acquisition was included in the exceptional regime established in article 317, no. 2 of the Portuguese Commercial Companies Code (CCC) which allows the Company to acquire, in certain cases, treasury stock representing more than 10% of its share capital.

Given the unpredictability of the evolution of the conflict between Ukraine and Russia, as well as the exceptional and urgent nature of this operation, it was not possible, in good time, to convene the General Meeting of Banco Finantia. In this context, the transaction was approved by the Bank's Board of Directors.

The Board of Directors will submit for approval at the next Annual General Meeting the reduction in share capital by extinguishing all treasury stock in the portfolio, followed by a capital increase through incorporation of reserves to restore the amount of share capital to the previously existing amount of € 150,000 thousand, having already obtained the respective authorization from Banco de Portugal.

16. Other accumulated comprehensive income, retained earnings and other reserves

The caption "Other accumulated comprehensive income, retained earnings and other reserves" may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Other accumulated comprehensive income	(53,447)	(9,072)
Retained earnings	(4,110)	(2,120)
Other reserves	338,739	309,189
	281,182	**297,997**

The caption "Other accumulated comprehensive income" represents the unrealized gains and losses arising on the financial instruments classified according to the "hold to collect and sell" (HTCS) business model, at fair value through other comprehensive income, net of impairment losses recognized in the income statement in the financial year/previous financial years. This caption also includes the fair value component of the reclassified financial assets and the effective part of the changes in fair value of hedging derivatives for exposure to the variability in fair value.

The caption "Other reserves" includes the legal reserve. According to Article 97 of the General Regime for Banks and Financial Companies, Banco Finantia must appropriate at least 10% of its net income each year to a legal reserve until the amount of the reserve equals the greater of the amount of the share capital or the sum of the free reserves and the retained earnings. In accordance with Article 296 of the Portuguese Commercial Companies Code, the legal reserve may only be used to cover accumulated losses or to increase share capital.

The remaining Group companies with registered offices in Portugal must transfer to a legal reserve at least 5% of their annual net income until this reserve is equal to 20% of their issued share capital.

As at 31 December 2022, the caption Other reserves includes the amount of € 3,321 thousand related to the treasury stock purchase operation (Note 15).

The movements occurring in these captions in 2022 and 2021 were as follows:

EUR thousand	Other accumulated comprehensive income			Retained earnings and other reserves		
	Financial assets at fair value through other comprehensive income	Hedging of net investment in foreign currency	Sub-Total	Retained earnings	Other reserves	Total
Balance as at 31 December 2021	**(10,225)**	**1,153**	**(9,072)**	**(2,120)**	**309,189**	**297,997**
Changes in fair value	(60,307)	-	**(60,307)**	-	-	**(60,307)**
Hedging of net investment in foreign currency (Note 7)	-	693	**693**	-	-	**693**
Deferred taxes (Note 10)	15,239	-	**15,239**	-	-	**15,239**
Constitution/(transfer) of reserves	-	-	**-**	(1,990)	29,550	**27,560**
Balance as at 31 December 2022	**(55,293)**	**1,846**	**(53,447)**	**(4,110)**	**338,739**	**281,182**

EUR thousand	Other accumulated comprehensive income			Retained earnings and other reserves		
	Financial assets at fair value through other comprehensive income	Hedging of net investment in foreign currency	Sub-Total	Retained earnings	Other reserves	Total
Balance as at 31 December 2020	**8,790**	**309**	**9,099**	**-**	**282,981**	**292,079**
Changes in fair value	(25,155)	-	**(25,155)**	-	-	**(25,155)**
Hedging of net investment in foreign currency (Note 7)	-	844	**844**	-	-	**844**
Deferred taxes (Note 10)	6,140	-	**6,140**	-	-	**6,140**
Constitution/(transfer) of reserves	-	-	**-**	(2,120)	26,208	**24,088**
Balance as at 31 December 2021	**(10,225)**	**1,153**	**(9,072)**	**(2,120)**	**309,189**	**297,997**

The captions “Other accumulated comprehensive income” and “Fair value reserve - financial assets at fair value through comprehensive income”, excluding non-controlling interests, may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Acquisition cost of financial assets	1,168,924	1,346,079
Accumulated impairment recognized on the balance sheet (Note 6)	(34,894)	(15,379)
Amortized cost of financial assets, net of impairment	1,134,030	1,330,701
Fair value of financial assets (Note 6)	1,063,416	1,318,016
Unrealized gains/(losses) recognized in OCI	(105,507)	(28,063)
Impairment (Note 6)	32,516	15,379
Deferred taxes (Note 10)	17,699	2,459
	(55,292)	**(10,225)**

The movement in the fair value reserve - financial assets at fair value through other comprehensive income may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Balance at the beginning of the financial year	(10,225)	8,790
Change in fair value	(178,663)	(42,069)
Disposals in the period (see Note 19)	(3,963)	(16,017)
Reclassification to impairment	17,137	(4,560)
Fair value hedges (Note 7)	105,182	37,492
Deferred taxes recognized in reserves in the period (see Note 10)	15,239	6,140
Balance at the end of the financial year	**(55,292)**	**(10,225)**

17. Net interest income

EUR thousand	**31.12.2022**	**31.12.2021**
Interest and similar income		
Debt instruments	58,345	59,270
Loans	7,742	5,478
Derivatives	1,340	-
Other credit operations	5	6
Other interest and similar income	367	880
	67,799	**65,634**
Interest and similar expense		
Sale operations under repurchase agreement	(10,880)	(4,476)
Due to customers	(4,928)	(6,300)
Hedging derivatives	(770)	(11,416)
Other interest and similar expense	(826)	(692)
	(17,404)	**(22,883)**
	50,395	**42,751**

18. Net fee and commission income

EUR thousand	31.12.2022	31.12.2021
Fee and commission income		
From banking activity	1,186	2,748
From specialized finance activity	36	51
	1,222	**2,800**
Fee and commission expense		
On third-party banking services	(533)	(800)
On specialized finance activity	(11)	(10)
	(544)	**(810)**
	678	**1,990**

As at 31 December 2022, the caption “Fee and commission income - from specialized finance activity” includes the amount of € 35 thousand (2021: € 49 thousand) related to commissions from insurance intermediation.

19. Net results from financial operations

As at 31 December 2022 and 2021, this caption may be analysed as follows:

EUR thousand	31.12.2022	31.12.2021
Gains or losses from derecognition of financial assets at fair value through other comprehensive income (Note 16)	3,963	16,017
Gains or losses from derecognition of financial assets at amortized cost	(1,662)	615
Gains or losses from financial assets and liabilities held for trading	11,666	1,731
Gains or losses from financial assets and liabilities at fair value through profit or loss	(99)	2
Gains or losses from hedge accounting (Note 7)	(2,575)	(4,856)
Gains or losses from foreign exchange operations	(9,839)	(5,180)
Other gains or losses from financial operations	205	194
	1,659	**8,522**

The gains or losses from derecognition of financial assets at fair value through other comprehensive income include the effect of the derecognition of the hedged assets in the amount of € 8,184 thousand (2021: € (9,094) thousand).

The gains or losses from derecognition of financial assets at amortized cost include the effect of the derecognition of hedged assets in the amount of € 2,056 thousand (2021: € 1 thousand).

The gains or losses from financial assets and liabilities held for trading include: (i) the effect of the purchases and sales and change in fair value of the debt instrument of the trading portfolio and (ii) the results of the derivative financial instruments. As at 31 December 2022, it includes the amount of € 10,061 thousand (2021: € (172) thousand), related to operations with interest rate derivatives.

As at 31 December 2022, this caption includes losses in the amount of € 3,072 thousand of operations made with instruments affected by the conflict between Russia and Ukraine, of which € 866 thousand derived from the treasury stock purchase operation (Note 15).

20. Staff costs

EUR thousand	**31.12.2022**	**31.12.2021**
Remuneration	10,588	10,703
Mandatory social charges	2,327	2,359
Other charges	316	1,012
	13,231	**14,073**

As at 31 December 2022 and 2021, the remuneration, including respective mandatory social charges, paid to the Group's management and supervisory bodies amounted to € 921 thousand and € 1,039 thousand, respectively.

The number of employees, by category, may be analysed as follows:

	31.12.2022	**31.12.2021**
Senior management	91	97
Middle management	127	129
Professional staff	22	23
	240	**249**

21. Other administrative expenses

EUR thousand	**31.12.2022**	**31.12.2021**
Specialized services	4,520	4,712
Maintenance services	1,657	1,724
Contributions	914	1,130
Communication	437	500
Travel and accommodation	428	225
Rentals and hires	132	127
Other	1,098	882
	9,186	**9,299**

The caption "Contributions" includes, among others, mandatory contributions to the resolution fund, the sole resolution fund, the deposits guarantee fund, the annual prudential supervision fee (ECB) and the banking levy.

22. Impairment and provisions

As at 31 December 2022 and 2021, the amounts of impairment and provisions recognized in the income statement may be analysed as follows:

EUR thousand	31.12.2022	31.12.2021
Financial assets at fair value through other comprehensive income	30,345	3,480
Financial assets at amortized cost	2,307	(2,409)
Impairment or reversal of impairment (Note 6)	32,652	1,070
Impairment or reversal of impairment of non-financial assets	(13)	(13)
Provisions or reversal of provisions (Note 14)	4	(11)
	32,643	**1,046**

As at 31 December 2022, the caption “Financial assets at amortized cost” is net of the amount of € 6,423 thousand (2021: € 4,601 thousand) related to credit recoveries. In 2021, this caption included, in turn, the approximate amount of € 5,700 thousand resulting from the calibration and update process of the parameters used in the collective impairment model of the specialized financing portfolio (Note 6).

As at 31 December 2022, the caption Impairment or reversal of impairment includes the amount of € 29,073 thousand related to instruments affected by the conflict between Russia and Ukraine (Note 6).

During 2022, the total amount of interest recognized in the income statement from impaired financial assets is € 4,088 thousand (2021: € 370 thousand).

23. Earnings per share

Basic earnings per share

EUR thousand, except number of shares	31.12.2022	31.12.2021
Net profit attributable to the shareholders of the Bank	248	24,246
Weighted average number of ordinary shares outstanding (thousand)	144,142	147,605
Basic earnings per share (in Euros)	**0,002**	**0,164**
Number of ordinary shares outstanding at year-end (thousand)	**128,907**	**147,189**

Diluted earnings per share

The diluted earnings per share do not differ from the basic earnings per share since the Group does not have any potential ordinary shares with a dilutive effect as at 31 December 2022 and 2021.

24. Off-balance sheet items

EUR thousand	31.12.2022	31.12.2021
Guarantees issued		
Assets given in guarantee ("repos")	768,760	750,380
Guarantees and endorsements issued (Note 27)	977	5,391
	769,737	**755,771**
Guarantees received		
Assets received in guarantee ("reverse repos")	-	2,000
Financial guarantees	3,500	8,500
	3,500	**10,500**
Other possible assets		
Irrevocable credit lines	1,500	1,500
	1,500	**1,500**
Other possible liabilities (Note 27)		
Revocable credit lines	15,100	15,000
Other contingent liabilities	190	9,019
	15,290	**24,019**
Responsibilities for services rendered		
Deposit and custodianship of items	348,775	313,083
	348,775	**313,083**

As at 31 December 2022 and 2021, all assets recorded in the off-balance sheet item captions are classified in Stage 1. As at 31 December 2022, impairment was derecognized (Stage 1) for credit risk in the amount of € 11 thousand (2021: impairment was recognized in the amount of € 8 thousand) (Note 14).

The caption "Assets given in guarantee ("repos")" refers to the nominal amount of securities sold under repurchase agreements and includes operations with central banks, including operations with securities issued by Group companies and with securities received in the scope of purchase operations under resale agreements ("reverse repos"). The balance sheet amount of the securities included in these operations amounted, as at 31 December 2022, to € 721,712 thousand (2021: € 785,023 thousand).

As part of the purchase operations under resale agreements ("reverse repos"), the Group receives securities as collateral that it can sell or give as collateral. The balance sheet amount of the securities included in these operations amounted, as at 31 December 2021, to € 2,160 thousand.

As at 31 December 2022, the amount recorded under the caption "Deposits and custodianship of items" includes the amount of € 24,088 thousand, corresponding to the assets delivered within the scope of the transaction regarding the acquisition of own shares (Note 15).

25. Cash and cash equivalents

For purposes of the presentation of the statement of cash flows, cash and cash equivalents comprise the following balances, with maturities under 3 months:

EUR thousand	**31.12.2022**	**31.12.2021**
Cash (Note 5)	78	70
Demand deposits with central banks (Note 5)	74,957	50,074
Deposits with other banks (Note 5)	8,541	11,116
Due from banks (Note 6)	58,193	48,701
	141,769	**109,960**

The amount Due from banks considered as cash and cash equivalents relates only to balances with maturities under 3 months, amounted to € 58,193 thousand (2021: € 48,701 thousand) and exclude the minimum cash reserves in the amount of € 4,815 thousand (2021: € 4,866 thousand) (Note 5) and the collateral deposits in the amount of € 19,374 thousand (2021: € 52,029 thousand) (Note 6).

26. Balances and transactions with related parties

The Group realizes transactions, in its normal course of business, with other Group companies and other related parties. Group companies are identified in Note 30 and the respective balances and transactions are eliminated in the consolidation process.

The balances and transactions with related parties as at 31 December 2022 and 2021, may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Due to customers		
Finantipar, S.A.	49	33
Other related parties	103	649
Gains from financial operations		
Finantipar, S.A.	12	-
Other related parties	21	-
Interest expense and similar charges		
Other related parties	1	8
Deposit and custodianship of items		
Finantipar, S.A.	18,769	20,125
Arendelle, SA	21,321	21,321
Other related parties	2,408	2,613

Transactions with related parties are realized under normal market conditions.

As at 31 December 2022 and 2021, the other related parties are small shareholders of Banco Finantia (with a shareholding of less than 10%).

As at 31 December 2021, the Bank has no balances or transactions with its shareholder VTB Group, which held, at that date, a minority interest of 12.2%. During 2022, and as described in Note 15, the VTB Group ceased to be shareholder of Banco Finantia, S.A.

The caption “Deposit and custodianship of items” refers to securities’ custodianship services provided by Banco Finantia.

The amount of the remuneration paid to the Group’s management and supervisory bodies is disclosed in Note 20.

27. Risk management activity

The overall risk management of the Banco Finantia Group is the responsibility of the Board of Directors, with the implementation and maintenance of the risk management model being the responsibility of the directors with executive functions. There is also a Finance and Risks Committee which main function is the overall monitoring of the risks to which the Group is exposed, including the control over the limits and tolerances of the “Risk Appetite Framework” (RAF).

The Risk Department in the Group is responsible for the management of all Group risks and forms part of the Risk Management Function. In this context, the Risk Department (i) ensures the effective application of the risk management model by continuously monitoring its adequacy and effectiveness, as well as the measures taken to correct any weaknesses, (ii) provides advice to the Management, Executive, Middle-management and Supervisory bodies, (iii) prepares and updates the risk matrices and evaluates risks, (iv) prepares and presents periodic reports on risk management, (v) actively participates in the business and capital planning, and carries out stress tests, (vi) leads the preparation of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), (vii) carries out the independent validation of the methodologies and results of the ICAAP and ILAAP, (viii) actively participates in the preparation of the RAF and (ix) promotes the integration of the risk principles into the Group's daily activities.

The risk profile of the Group is determined by the analysis of risk matrices and subsequent justification of the materiality of the risks, considering the applicable legislation on the risk management system and the activity developed by the Group.

To do this, the Group considers the following risk categories: credit, market - on the banking portfolio (IRRBB & CSRBB), foreign exchange rate, market - on the trading portfolio, liquidity, operational (including among others the operational, information systems and modelling risks), internal governance, reputational, business/strategy model and other risks (covering compliance, and money laundering and the financing of terrorism risks).

In the scope of ICAAP, the Group allocates capital to the above risk categories. As at 31 December 2022, the Group presented an own capital utilization ratio for economic capital requirements of 42.2% (47.5% as at 31 December 2021).

Regarding risk appetite, during 2022 the metrics included in the RAF were always within the limits and levels of tolerance approved for the Group, except as regards the profitability risk indicator, the strategy/business model risk indicator and a credit risk indicator, with exceeded tolerances, resulting from negative impacts on the Group's results as a result of assets more exposed to the conflict in Ukraine. These situations are monitored by the Risk Department.

All risk categories contributing to the Group's risk profile are analysed, discussed and monitored monthly by the Finance and Risks Committee.

<u>Credit risk</u>

Credit risk arises not only from the possibility of a counterpart defaulting but also from the degradation in the credit quality of a certain financial instrument. The Group's objective is to maintain a high-quality asset portfolio, based on a prudent credit policy and a careful analysis of all credit proposals. The Group also has a constant concern to diversify its own portfolio, as a form of mitigating the credit concentration risk.

The Group's maximum exposure to credit risk before collateral and impairment may be analysed as follows:

EUR thousand	**31.12.2022**	**31.12.2021**
Cash and banks (Note 5)*	8,541	11,116
Debt instruments (Note 6)	1,513,478	1,717,126
Loans (Note 6)	169,846	191,699
Due from banks (Note 6)	77,575	98,574
Purchase operations under resale agreements ("reverse repos") (Note 6)	-	2,160
Risk-management derivatives (Note 6)	28,123	74
Other credit operations (Note 6)	4,756	4,640
Other assets (Note 11)	16,847	5,665
	1,819,167	**2,031,054**
Financial guarantees and other possible liabilities (Note 24)	16,077	20,581
	16,077	**20,581**

* excludes the amounts of cash and demand deposits with central banks

Considering the Group's credit risk exposure, by external rating, as at 31 December 2022, 80% (2021: 74%) of the total exposure of the Group relates to OECD or investment grade (non-OECD) countries, with the remaining exposure spread over more than twenty countries, as follows:

EUR thousand	**31.12.2022**		**31.12.2021**	
OECD countries	1,253,494	61%	1,094,134	52%
Investment grade (non-OECD) countries	383,162	19%	464,583	22%
Other countries	422,724	20%	546,193	26%
	2,059,380	**100%**	**2,104,909**	**100%**

The "Other countries" category includes approximately 3.06% of debt issued by entities that pose a risk related to Russia, Belarus and Ukraine, value which as at 31 December 2021, was approximately 6.6%. Exposure, direct and indirect, to these geographies concerns fixed-income securities (Eurobonds in USD and EUR), there being no other exposure, of assets or liabilities, with entities from these countries.

As at 31 December 2022, there was only one exposure related to Russia, which was not classified as stage 3 for credit risk purposes. Following a coupon payment failure in February 2023, this exposure (approximately 0.13% of total assets) was transferred to stage 3. In addition to the aforementioned classification, this event did not result in additional relevant impacts in terms of credit risk.

As previously mentioned, the Group developed an expected credit loss model (ECL), considering the requirements of IFRS 9, where the ECL corresponds to the weighted average of credit losses, using as weighting factor the probability of the occurrence of default events.

A credit loss is the difference between the cash flows that are due to an entity in accordance with the agreed contract, and the cash flows that the entity expects to receive, discounted at the original effective interest rate. To calculate the expected cash flows, consideration should be given to amounts that may be generated by collateral or any other risk mitigant.

Impairment can be measured as: (i) 12 months expected credit losses: corresponding to the expected losses resulting from possible default events of the financial instrument in the 12 months following the reporting date and (ii) Lifetime expected credit losses: corresponding to the expected losses that may occur from a default event over the entire lifetime of a financial instrument.

The method of calculating impairment is based on the classification of the instruments into three stages, considering the changes in the credit risk of the financial asset since its initial recognition, as follows:

1) Stage 1: where the ECL is recognized for 12 months;

2) Stage 2: where the ECL is recognized over the lifetime of the assets; and

3) Stage 3: where ECL is recognized over the lifetime of the asset, with its respective PD being 100%.

The model is, thus, sensitive to its main risk parameters, PD and LGD, translated by the credit spread, and for a change of +/- 10% in the credit spread the impact on the total value of the impairment would be circa € 1.3 million, of which circa +/- € 0.6 million in Stage 1 and +/- € 0.7 million in Stage 2.

Offsetting financial assets and financial liabilities

The Group receives and gives collateral in the form of cash or securities in respect of over-the-counter derivatives, sale operations under repurchase agreements ("repos") and purchase operations under resale agreements ("reverse repos").

This collateral is subject to the rules and regulations of these markets and is based on industry standard bilateral contracts, as published respectively by the ISDA - International Swaps and Derivatives Association (Master Agreement and Credit Support Annex) or the ICMA - International Capital Market Association (GMRA). These contracts also operate as netting agreements whereby, in the event of a contractual termination for non-compliance, only the net amount of all transactions entered under the contract may be demanded, thus allowing for the offsetting of debit positions in a transaction with credit positions in other transactions.

As at 31 December 2022, financial assets and liabilities subject to offsetting agreements, regardless of being offset or not, may be analysed as follows:

EUR thousand	Gross amounts of recognized financial assets / liabilities	Net amounts of recognized financial assets / liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
			Financial instruments received / (given) as collateral	Cash collateral received / (given)	
Financial assets					
Derivatives	157,984	157,984	-	153,327	4,657
Reverse repos	-	-	-	-	-
Total	**157,984**	**157,984**	**-**	**153,327**	**4,657**
Financial liabilities					
Derivatives	1,284	1,284	-	-	1,284
Repos	611,183	611,183	(721,712)	(18,276)	(128,805)
Total	**612,467**	**612,467**	**(721,712)**	**(18,276)**	**(127,521)**

As at 31 December 2021, financial assets and liabilities subject to offsetting agreements, regardless of being offset or not, may be analysed as follows:

EUR thousand	Gross amounts of recognized financial assets / liabilities	Net amounts of recognized financial assets / liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
			Financial instruments received / (given) as collateral	Cash collateral received / (given)	
Financial assets					
Derivatives	10,537	10,537	-	1,320	9,217
Reverse repos	2,160	2,160	2,043	-	118
Total	**12,698**	**12,698**	**2,043**	**1,320**	**9,335**
Financial liabilities					
Derivatives	48,074	48,074	-	(40,426)	7,648
Repos	657,789	657,789	(785,023)	(11,558)	(138,792)
Total	**705,863**	**705,863**	**(785,023)**	**(51,984)**	**(131,144)**

As at 31 December 2022 and 2021, there are no financial assets or liabilities offset in the balance sheet.

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured on the balance sheet on the following bases: derivatives - fair value, repos and reverse repos - amortized cost. The corresponding financial instruments received/given as collateral are presented at fair value.

Interest rate risk

The interest rate risk stems from the probability of negative impacts caused by unfavourable changes in interest rates due to the existence of maturity mismatches between assets and liabilities.

The Group adopted the strategy of minimizing the interest rate risk associated with its fixed-rate assets using hedging instruments for this type of risk, thereby maintaining a balanced structure between assets and liabilities in terms of the fixed-interest rate mismatch.

The Group monitors the distribution of its fixed-rate assets across temporal buckets, net of the corresponding fixed-rate liabilities and the hedging instruments used.

Considering the nature and characteristics of the Group's business, as well as the processes implemented for the monitoring and mitigation of interest rate risk, the Group also analyses the behaviour of VaR (“Value at Risk”) related to interest rate risk. VaR is calculated using the historical simulation approach, based on a one-year rate history, a one-day holding period, and a confidence interval of 99%. This model is validated with back tests. For 2022, the average daily VaR for interest rate risk was € 2.64 million (€ 1.58 million in 2021), which corresponds to 0.6% of Tier I own funds.

The classification of on- and off-balance sheet asset and liability captions by repricing intervals, following the recommendations of Basel III (Pillar 2) and Instruction no. 3/2020 of Banco de Portugal, may be analysed as follows:

EUR thousand

31 December 2022	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	302,905	102,051	121,712	899,221	907,707
Liabilities	(798,389)	(358,338)	(341,990)	(160,359)	-
Off-balance sheet items	839,436	135,950	(21,268)	(447,961)	(739,560)
Gap	**343,952**	**(120,337)**	**(241,906)**	**290,901**	**168,148**

EUR thousand

31 December 2021	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	324,885	84,009	29,815	619,405	1,022,039
Liabilities	(556,649)	(262,129)	(395,314)	(344,672)	0
Off-balance sheet items	848,942	124,825	(594)	(196,576)	(819,089)
Gap	**617,178**	**(53,295)**	**(366,093)**	**78,157**	**202,950**

Foreign exchange rate risk

Foreign exchange rate risk is characterized by the probability of negative impacts due to unfavourable changes in foreign exchange rates and adverse variations in the price of foreign currency instruments.

It is Group policy to deal only in assets and liabilities denominated in EUR and USD (positions in other currencies are sporadic and insignificant).

The Group adopted the strategy of minimizing foreign exchange rate risk associated with its assets and liabilities. Hence, foreign exchange rate risk is regularly hedged in order to ensure a comfortable foreign currency exposure margin considering the pre-established limits, with said exposure being monitored on a daily basis, for both the spot and the forward positions.

For 2022, based on the methodology described above, the average daily VaR for foreign exchange rate risk was € 1.43 million (€ 1.72 million in 2021), which corresponds to about 0.3% of Tier I own funds.

The breakdown of assets and liabilities denominated in currencies other than the Euro may be analysed as follows:

EUR thousand	31.12.2022	
	USD	**Other currencies**
Assets		
Cash and banks	3,477	982
Debt instruments	847,853	-
Loans	58,113	-
Due from banks	58,193	-
Purchase operations under resale agreements ("reverse repos")	-	-
Derivative instruments (Note 7)	66,311	-
Other credit operations	-	-
Other assets	11,940	6,921
Total assets	**1,045,887**	**7,903**
Liabilities		
Short sales	2,045	-
Derivative instruments (Note 7)	187	-
Due to banks	-	-
Due to customers	24,178	-
Sales operations under repurchase agreements ("repos")	422,681	-
Foreign currency derivatives	620,664	-
Other liabilities	4,720	242
Total liabilities	**1,074,474**	**242**
Net regulatory position	**(28,587)**	**7,661**
Fair value reserve	(33,714)	-
Net accounting position	**5,127**	**7,661**

EUR thousand	31.12.2021	
	USD	**Other currencies**
Total assets	1,182,625	1,249
Total liabilities	1,185,327	648
Net regulatory position	(2,702)	600
Fair value reserve	**(7,230)**	-
Net accounting position	**4,528**	**600**

Liquidity risk

Liquidity risk is defined as the possibility of an institution being unable to meet its obligations as they come due, because of an inability to liquidate assets, obtain funding or refinance liabilities under appropriate conditions.

The Group's objective in liquidity risk management is to ensure a stable and robust liquidity position based on liquid assets, controlling liquidity gaps and including a liquidity buffer to respond to increased contractual outflows in stressful situations.

Liquidity risk management is carried out so as to maintain liquidity levels within predefined limits, according to two distinct parameters: i) the cash flow management, through a control system of the financial flows that allows for the daily calculation of the treasury balances over an extended time horizon and the maintenance of an excess of liquidity that ensures the normal functioning even under unfavourable conditions; ii) the management of the balance sheet, with the daily calculation of liquidity metrics, and iii) maintenance and accompanying of the liquidity buffers, allowing for the maintenance of the main liquidity indicators within the limits pre-defined by the Group.

The Treasury Department controls the Group's cash flow and balance sheet management daily. The Risk Management Department is responsible for periodic analyses related to the management of the Group's balance sheet, preparing a monthly report for the Finance and Risks Committee.

The metrics used to measure liquidity risk in the scope of the balance sheet management include, among others, the prudential ratios Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), as well as a broad set of internal ratios related to liquidity mismatches, concentration of major counterparties, distribution of the repayment flows of the main liabilities, collateral of repos operations, asset liquidity and immediate liquidity characteristics.

Cash flows due by the Group related to non-derivative financial liabilities and the assets held for liquidity risk management are undiscounted and include principal and interest as contractually determined, adjusted based on the respective behavioural maturities.

The Bank's conservative policy in terms of liquidity management is based on maintaining a significant volume of highly liquid assets (HQLA) eligible for prudential ratios and thus maintaining a high level of liquidity to ensure the maintenance of LCR and NSFR ratios appropriate to the activities carried out and mitigating potential risks arising from a possible liquidity crisis in the financial markets.

As at 31 December de 2022, they may be analysed as follows:

EUR thousand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Liabilities					
Due to banks	153,182	5,045	1,867	-	160,094
Due to customers	231,124	460,885	146,240	-	838,249
Sales operations under repurchase agreements (“repos”)	279,898	208,794	61,238	-	549,930
Short sales	-	-	51,717	344	52,061
Liabilities by contractual maturity dates	**664,204**	**674,724**	**261,062**	**344**	**1,600,334**
Assets					
Deposits with banks	93,935	-	-	-	93,935
Due from banks	72,841	-	-	-	72,841
Debt instruments	43,118	145,667	955,623	911,942	2,056,350
Other credit operations	4	10	2	-	16
Loans	13,142	55,355	101,857	23,207	193,561
Assets held for liquidity risk management	**223,040**	**201,032**	**1,057,482**	**935,149**	**2,416,703**

As at 31 December de 2021, they may be analysed as follows:

EUR thousand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Liabilities					
Due to banks	12,893	48	5,971	-	18,912
Due to customers	185,652	347,265	367,656	402	900,975
Sales operations under repurchase agreements (“repos”)	227,409	303,364	130,997	-	661,770
Short sales	-	-	2,185	179	2,365
Liabilities by contractual maturity dates	**425,954**	**650,677**	**506,809**	**581**	**1,584,022**
Assets					
Deposits with banks	69,312	-	-	-	69,312
Due from banks	92,856	-	-	-	92,856
Debt instruments	60,035	88,609	795,447	1,095,505	2,039,597
Other credit operations	178	534	819	-	1,531
Loans	23,415	44,394	116,596	22,901	207,307
Purchase operations under repurchase agreements (“reverse repos”)	2,157	-	-	-	2,157
Assets held for liquidity risk management	**247,953**	**133,538**	**912,862**	**1,118,407**	**2,412,759**

For derivative financial instruments, the undiscounted contractual cash flows may be analysed as follows:

As at 31 December de 2022:

EUR thousand	**Up to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Assets' cash flows	227,063	453,310	148,400	34,817	863,590
Liabilities' cash flows	221,149	410,872	44,047	12,849	688,917

As at 31 December de 2021:

EUR thousand	**Up to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Assets' cash flows	209,318	392,639	105,305	45,836	753,098
Liabilities' cash flows	230,376	414,665	64,094	23,925	733,061

Non-financial risks

Non-financial risks for the Group include business/strategy model, internal governance, operational (including operational, information systems and model risks), reputational and other risks including compliance and money laundering and terrorism financing risks. These risks consist of the probability of negative impacts on results or capital, essentially arising from: (i) for business/strategy model risk, inadequate strategic plans and decisions, (ii) for internal governance risk, inadequacies and weaknesses in the internal governance system, in the organizational structure and in the corresponding delimitation of responsibilities, related to risk management; (iii) for operational risk, failures of an operational nature, inadequacy of information and technology systems, or insufficiency of models; (iv) for reputational risk, the negative perception of the institution's public image. As for compliance risk, this consists of the likelihood of legal or regulatory sanctions and/or material financial losses arising from non-compliance with laws, regulations, rules, internal governance standards and codes of conduct applicable to the banking activity, except for matters relating to the prevention of money laundering and terrorism financing. In turn, the risk within the scope of regulatory compliance regarding the prevention of money laundering and terrorism financing consists of the probability of incurring in legal or regulatory sanctions and/or material financial losses, resulting from non-compliance with laws, regulations, rules, internal governance standards and codes of conduct applicable to the banking activity within this well-defined scope.

The management of non-financial risks has been gaining increasing relevance in the Group. In this context, the Group relies on advanced tools and methods focused on the identification, evaluation, monitoring and control of these types of risks. Among others, these tools include risk matrices and controls, heat-maps and radar-charts, which inputs derive from an extensive and comprehensive self-assessment process specifically targeting non-financial risks. This process serves as a basis for the definition of dedicated action plans on non-financial risks.

In addition to the maintenance of risk matrices, the Group maintains an organized process of collecting and acting on the various categories of non-financial risks, as well as the recording of the resulting information in a database of non-financial risks. This database includes, among others, the registration of (i) events, (ii) any associated losses and (iii) corrective and/or mitigation measures implemented.

In the scope of ICAAP, although there is no historical record whatsoever of material losses, the Group has been using the Basic Indicator Approach (BIA) methodology to quantify operational risk and internally developed methodologies to quantify compliance, reputational and strategy risks.

During 2022, several training actions were carried out in the area of non-financial risks, with an emphasis on specific training on Prevention of Money Laundering, GDPR and Information Security, among others. In 2023, the Bank will continue to focus on training as a means to reducing non-financial risks.

28. Capital management

The Group’s capital management and control is performed in a comprehensive manner with the objective of guaranteeing the institution’s solvency, complying with regulatory requirements and maximizing profitability, being determined by the strategic goals and by the risk appetite defined by the Board of Directors.

Accordingly, some objectives were defined in terms of capital management for the Group:

- Establish a capital planning appropriate for the actual and future needs (so as to help the business develop), complying with the regulatory requirements and associated risks;
- Ensure that, under stress scenarios, the Group maintains enough capital to accommodate the needs resulting from a risk increase;
- Optimize capital allocation, from a regulatory and an economic capital perspective, considering the Group’s risk appetite, the expected growth and the strategic goals.

The main capital ratios of the Group in 2022 and 2021 are presented in Management Report.

Minimum own funds requirements (“Pilar 1 requirements”) include a common equity tier 1 ratio (“CET 1”) of 4.5%, a level 1 own funds ratio (“Tier 1”) of 6% and a total own capital ratio (“Total capital”) of 8%, as defined in Article 92 of Regulation (EU) no. 575/2013 of the European Parliament and Council, of 26 June (“CRR”).

Additionally, as from 2020 and in accordance with Notice no. 6/2016 of Banco de Portugal, a capital conservation buffer was implemented of 2.5%.

The risk weighted assets are measured using the standard method. This measurement considers the nature of the assets and the respective counterparts and also the existence of associated collateral and guarantees.

During 2022 and 2021, the Group and the entities in its consolidation perimeter complied with all the regulatory capital requirements to which they are subject.

29. Fair value of financial assets and liabilities

Fair value hierarchy

IFRS requires that an entity classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in the measurement, considering whether the inputs are observable or not. On that basis, the Group's assets and liabilities are measured in accordance with the following levels:

Quoted market prices (Level 1) – is this category are included prices quoted on official markets and those disclosed by market providers for the respective assets/liabilities when the market is considered active;

Valuation techniques based on observable market inputs (Level 2) – this category includes a part of the securities portfolio which valuation is obtained through quotes published by independent entities but in respect of which the markets are not considered official or have a lower level of liquidity. It also includes other financial instruments which valuations are based on prices/quotations on active markets for similar assets or liabilities and financial instruments valued based on internal valuation models, including discounted cash flow models, which involve the use of estimates and require judgments which vary according to the complexity of the products being valued, namely derivative financial instruments. Notwithstanding, the Group uses as inputs in its models observable market data, such as interest rate curves, credit spreads, volatility and market indexes; and

Valuation techniques based on non-observable market inputs (Level 3) – consists of the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

The Group's fair value hierarchy for assets and liabilities measured at fair value may be analysed as follows:

EUR thousand		31.12.2022			31.12.2021		
	Notes	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets							
Financial assets at fair value through other comprehensive income	6	731,775	313,714	17,927	863,747	451,955	2,314
Financial assets not held for trading mandatorily at fair value through profit or loss	6	-	60	383	-	60	338
Financial assets held for trading	6	12,177	1,553	-	3,230	1,640	-
Derivative financial instruments	7	-	157,984	-	-	10,537	-
Liabilities							
Derivative financial instruments	7	-	1,284	-	-	48,074	-
Short sales	12	-	2,045	-	-	2,418	-

The fair value of financial instruments traded on active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if prices/quotations are readily and regularly available with transparency, and those prices/quotations represent actual and regular market transactions occurring on an arm's length basis. The fair value of financial instruments that are not traded on an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If the significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

The fair value of interest rate derivatives is calculated as the present value of the estimated future cash flows based on observable yield curves, considering counterpart credit risk.

Disregarding own credit risk, the fair value of interest rate derivatives amounts to € 132,516 thousand and € 187 thousand, respectively (2021: € 10,477 thousand and € 18,063 thousand, respectively). As at 31 December 2022 and 2021, the fair value of the derivatives was not adjusted for counterpart credit risk, given the collateral deposits as at those dates and/or the ratings of each counterpart.

The fair value of foreign currency derivatives is determined using forward exchange rates as at the balance sheet date, with the resulting value discounted back to its present value.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

As at 31 December 2022, the Group classified in Level 3 impaired financial instruments involved in restructuring legal proceedings due to financial difficulties or which present operational settlement restrictions and for which it was not possible to assess their fair value based on observable market prices representative of transactions carried out on the market. In the case of legal proceedings due to financial difficulties, the fair value of the instruments was determined based on the use of valuation techniques that consider the expected future cash flows discounted based on a discount rate representative of the risk of the respective exposures. In the case of instruments that have operational settlement restrictions, the fair value of these instruments was determined based on the use of valuation techniques that consider the expected future cash flows updated based on a discount rate extrapolated based on market interest rates, an estimate of the issuer's credit spread, and not observable market data related with viable scenarios for receiving payment flows (i.e., moratorium period) and an additional illiquidity adjustment (premium) of 100 bps, in accordance with market practice. To estimate the credit spread, the ratio between the equity value and the senior debt spread of comparable companies is considered, together with the issuer's share prices. As at 31 December 2022, the fair value of these instruments amounts to € 15,705 thousand and the sensitivity of this amount to an increase/decrease in the credit spread or adjustment of the illiquidity spread of +/-100 bps and +/-200bps, is approximately of +/- € 0,367 thousand and +/- € (0,741) thousand, respectively.

As at 31 December 2021, the Group classified in Level 3 impaired financial instruments involved in restructuring legal proceedings due to financial difficulties and for which it was not possible to assess their fair value based on observable market prices representative of transactions carried out on the market. In these cases, the fair value of the instruments was determined based on the use of valuation techniques that consider the expected future cash flows discounted based on a discount rate representative of the risk of the respective exposures.

During 2022, the amount of € 15,705 thousand (2021: € 2,652 thousand) was transferred from Level 2 to Level 3, being related to impaired financial instruments presenting operational settlement restrictions and for which it was not possible to assess their fair value based on observable market prices representative of transactions carried out on the market.

The main assumptions and inputs used, during financial years 2022 and 2021, in the valuation models are presented as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market and for the long term the figures represent interest rate derivatives' quotations for the respective periods:

	31.12.2022		31.12.2021	
	EUR	USD	EUR	USD
Overnight	1.890	4.318	-0.505	0.064
1 month	1.884	4.392	-0.583	0.101
3 months	2.132	4.767	-0.572	0.209
6 months	2.693	5.139	-0.546	0.339
1 year	3.291	5.482	-0.501	0.583
3 years	3.311	4.342	-0.147	1.168
5 years	3.239	4.023	0.017	1.370
7 years	3.202	3.903	0.129	1.476
10 years	3.203	3.838	0.301	1.581
15 years	3.142	3.812	0.490	1.701
20 years	2.931	3.744	0.545	1.756
30 years	2.533	3.491	0.476	1.731

Foreign exchange rates

The foreign exchange rates (European Central Bank) as at the balance sheet date for the main currencies used in valuing the Group's financial instruments in foreign currency may be analysed as follows:

Exchange rate	31.12.2022	31.12.2021
EUR/USD	1.0666	1.1326
EUR/GBP	0.8869	0.8403
EUR/CHF	0.9847	1.0331
USD/BRL [a]	5.2865	5.5713

[a] Calculated in accordance with the EUR/USD and EUR/BRL exchange rates

The Group uses in its valuation models the spot rate observed on the market at the time of the valuation.

Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of financial assets and liabilities presented in the Group's balance sheet at amortized cost:

EUR thousand	Notes	31.12.2022				31.12.2021			
		Carrying amount	Fair value			Carrying amount	Fair value		
			Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets									
Cash and banks	5	88,391	88,391	-	-	66,126	66,126	-	-
Financial assets at amortized cost	6	670,035	340,504	282,577	9,827	669,149	392,510	267,208	7,704
Other loan operations	6	4,756	-	4,756	-	4,640	-	4,642	-
Liabilities									
Due to banks	13	163,522	163,522	-	-	17,919	17,919	-	-
Due to customers	13	845,480	845,480	-	-	883,143	883,143	-	-
Repurchase agreements	13	611,183	611,183	-	-	657,789	657,789	-	-

As at 31 December 2022, the caption "Financial assets at amortized cost" includes financial assets in a situation of impairment, involved in judicial restructuring proceedings due to financial difficulties or acquired or originated with credit impairment (POCI) in the amount of € 11,007 thousand (2021: € 7,752 thousand), which respective fair value amounted to € 9,827 thousand (2021: € 7,704 thousand), classified in Level 3.

Fair value is based on market prices, whenever these are available. The main methods and assumptions used in estimating the fair values of financial assets and liabilities accounted for at amortized cost, are analysed as follows:

Cash and banks: considering the short-term nature of these financial instruments, their carrying amount is a reasonable estimate of their fair value.

Portfolio of securities and loans and other credit operations: for the specialized finance portfolio, the fair value is estimated based on the update of the expected cash flows of principal and interest, considering that instalments are paid on the contractually defined dates. For debt instruments, fair value is estimated based on market prices/quotes.

Due from/to banks and to central banks: for repos and deposits with banks, due to their short-term nature, it is considered that their carrying amounts are a reasonable estimate of their fair value. The fair value of medium- and long-term deposits and loans is estimated based on the discounted expected future cash flows (principal and interest), considering that instalments are paid on the contractually defined dates.

Due to customers: the fair value of these financial instruments is based on the discounted expected future cash flows (principal and interest), considering that instalments are paid on the contractually defined dates. Considering that the applicable interest rates are variable and that the period to maturity is substantially lower than one year, there are no significant differences between the fair value and the carrying amount.

Debt instruments issued and subordinated debt: The fair value of these financial instruments is based on market prices when available or, if not available, the fair value is based on the discounted expected future cash flows (principal and interest).

30. Group structure

As at 31 December 2022, the Group structure may be analysed as follows:

Subsidiary	Year of incorporation	Year of acquisitio n	Registered office	Activity	% Shareholding	Consolidation method
Banco Finantia, S.A.	1987	1987	Portugal	Banking	-	-
Finantia UK Limited	1993	1997	United Kingdom	Finance	100	Full
Finantia Malta Ltd. (a)	2004	2004	Malta	Finance	100	Full
Finantia USA Inc. (b)	1995	1997	USA	Broker-Dealer	100	Full
Finantia Holdings BV	2004	2004	Holland	Shareholdings' management	100	Full
Sofinloc Unipessoal, Lda.	1983	1992	Portugal	Administrative services and company support	100	Full
Finantia Corporate, Lda.	1989	1989	Portugal	Advisory services	100	Full
Esprin - Española de Promociones, S.L.	2000	2001	Spain	Advisory services and shareholding company	100	Full

During 2021 and following the completion of the respective merger by incorporation project, Banco Finantia Spain, S.A. was merged into Banco Finantia, S.A. and its assets and liabilities were incorporated into the branch in Spain.

Additionally, it should be noted that Finantia Brasil, Lda., was voluntarily dissolved by decision of its shareholders, Finantia Holdings B.V. and Finantia Corporate, Lda., in May 2021.

31. IBOR Reform

As at 31 December 2022, the Group presents the following significant exposures subject to benchmark interest rate reform:

EUR thousand	LIBOR (USD)	EONIA (EUR)
Financial assets held for trading	-	2,595
Financial assets at fair value through other comprehensive income	10,446	27,893
Financial assets at fair value through profit or loss	-	-
Financial assets at amortized cost	47,651	87,392
Non-derivative financial assets	**58,097**	**117,881**
Due to banks	-	-
Due to customers	-	-
Operations with repurchase agreements	62,560	-
Other	-	-
Non-derivative financial liabilities	**62,560**	**-**
Irrevocable commitments	**-**	**15,100**
Interest rate derivatives (notional)	**584,099**	**352,273**

As at 1 January 2023, none of the exposures presented above had yet been transitioned to an alternative interest rate (RFR). The final date for the Libor USD transition is scheduled for 30 June 2023.

As at 31 December 2022 and 2021, all hedging relationships carried out by the Group are at fair value ("fair value hedges").

As at 31 December 2022, the Group holds financial assets at amortized cost and Due to banks indexed to the €ster reference rate, respectively in the amount of € 19,303 thousand (2021: € 36,293 thousand) and € 154,354 thousand (2021: € 1,320 thousand), respectively.

32. Subsequent events

Up to the date of this report and after the end of the 2022 financial year, no events with a material impact on the Group's Financial Statements have occurred.

Building a better working world

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Statutory Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Banco Finantia, S.A. (the Group), which comprise the Consolidated Balance Sheet as at 31 December 2021 (showing a total of 2.059.381 thousand euros and a total equity of 423.286 thousand euros, including a net profit of 248 thousand euros), and the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated balance sheet of Banco Finantia, S.A. as at 31 December 2022, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

A We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors' code of ethics.

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 opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. **Financial Assets Impairment – Securities and Loans Portfolio**

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
As presented in the balance sheet and as further disclosed in note 6, the value of financial assets net of impairment amounted to 1.780.504 thousand euros representing 86% of total assets. According to that disclosed in the note 2.2.1.5 the impairment reflects: (i) expected losses resulting from possible default events in the 12 months following the report date or (ii) expected losses that may occur from	We performed the identification and assessment of the audit risk that led to the definition of the audit approach to respond to the risk of material misstatement. This approach included (i) an overall response with an effect on the way the audit was conducted and (ii) a specific response which resulted in the design and implementation of additional procedures, including substantive procedures, namely: ▸ We obtained an understanding, evaluated the design of the internal control procedures over the process of

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
all possible default events over the useful life of a financial instrument. The transition from expected credit losses for 12 months to expected credit losses over the useful life is based on the concept of a significant increase in credit risk, as disclosed in the note 2.2.1.5.3, for the remaining life of the asset when compared with the credit risk at the time of its acquisition/origination. Given the complexity and subjectivity inherent in the calculation of expected losses as described above, it was necessary to utilize internal statistical models and other relevant historical data to determine the parameters, such as: (i) probability of default ("PD"); (ii) expected loss given default ("LGD") and (iii) exposure at the default date ("EAD") which should also contain forecasts of future economic conditions containing different scenarios. The use of alternative approaches, models or assumptions may have a material impact on the estimated impairment value. Considering the degree of subjectivity and complexity involved in the impairment of the financial assets, we have defined this matter as a key audit matter.	quantification of impairment losses, namely for the portfolio of debt instruments and loans; ▸ We performed analytical review procedures on the evolution of financial asset impairment balances, comparing them with the previous period; ▸ We identified and analysed the indications of deterioration of credit risk of the financial assets which comprise the debt instruments and loan portfolio; ▸ With the support of internal risk specialists, we assessed the reasonableness of the parameters used in the impairment calculation, highlighting the following procedures: i) understanding of the methodology adopted and approved by management and comparison with the one actually used; ii) evaluation of changes made to the models in order to determine parameters that reflect the expected loss; (iii) based on a sample, comparison of the data used to calculate the risk parameters to source information; iv) evaluation of the consistency of the calculation of risk parameters throughout the historical analysis; and (v) inquiries to the Bank's specialists responsible for the implementation of the model; ▸ We obtained an understanding, evaluated the design over the process of the expected loss calculation model, we reperformed the impairment calculation, assessed the assumptions used to fill gaps in the data, compared the parameters used with the results of the estimation models, and compared the results with the amounts presented in the financial statements;; ▸ We assessed the reasonableness of the defined criteria and the consistency of their application in the measurement and impairment calculation of the Group's financial asset portfolio; ▸ We obtained and analysed the internal documents that support the decision to record an impairment, specifically for those financial assets with indicators of deterioration in credit risk; ▸ We analysed the disclosures included in the notes to the financial statements, based on the requirements of International Financial Reporting Standards and the accounting records.

2. Financial Instruments Measurement

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
As disclosed in note 29 to the consolidated financial statements, the Group presents financial instruments assets in the amount of 473.311 thousand euros and 18.310 thousand euros classified in level 2 and level 3 of the fair value hierarchy, IFRS 13 – Fair Value, respectively. Additionally, the Group presents financial instruments liabilities in the amount of 3.329 thousand euros classified in level 2 of the fair value hierarchy, IFRS 13 – Fair Value. At 31 December 2022, the financial instruments classified by the Group in level 2 are comprised by: (i) debt instruments and loans classified in the financial statements as financial assets at fair value through other comprehensive income or as financial assets at held for trading and (ii) derivative financial instruments classified as financial assets and liabilities held for trading or hedging derivatives. The financial instruments classified in level 3 are comprised by debt instruments. The financial instruments classified in level 2 of the fair value hierarchy of IFRS 13 - fair value, reflect a part of the securities portfolio whose valuation is obtained through quotes published by independent entities but in respect of which the markets are not considered official or have a lower level of liquidity. Additionally, it also includes other financial instruments which valuation are based on prices/quotations on active markets for similar assets or liabilities and financial instruments valued based on internal valuation models, including discounted cash flow models, which involve the use of estimates and require judgments which vary according to the complexity of the products being valued, namely derivative financial instruments. Notwithstanding, the Group uses observable market data as inputs in its models, such as interest rate curves, credit spreads, volatility, and market indexes. The financial instruments classified by the Group in level 3 of the fair value hierarchy, IFRS 13 – Fair Value, reflect instruments whose respective valuations were determined using internal valuation models or quotations provided by third parties, but which imply the use of non-observable market information. Consequently, the use of different methodologies, assumptions, and judgments in the application of a specific model, may have an impact on the	Our approach towards the risk of material misstatement included the following procedures: ▸ We obtained an understanding and evaluated the design of the internal control procedures over the process of measurement of financial instrument assets and liabilities, specifically for the portfolio of debt instruments, loans and derivative financial instruments; ▸ We assessed the reasonableness of the measurement performed by the Group for the financial instruments' portfolio measured at fair value; ▸ We obtained and analysed the internal documents that support the decision regarding the financial instrument measurement; ▸ We analysed the reasonableness of the defined criteria and the consistency of their application in the measurement of financial instruments held by the Group; ▸ We analysed the disclosures included in the notes to the financial statements, based on the requirements of International Financial Reporting Standards and the accounting records.

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
determination of the fair value of financial instruments and on the consolidated financial statements, and therefore we considered this as a key audit matter.	

3. Acquisition of own shares

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
As mentioned in Note 15 to the consolidated financial statements, on the 3rd November 2022, the Banco Finantia signed an agreement with its former shareholders JSC VTB Capital Holding of Russia and VTB Capital PE Investment Holding of Cyprus to acquire own shares, which were held respectively 2.49% and 9.7% of the Bank's share capital with an aggregate nominal value of €18,282,017. The entities from which the shares were acquired are subject to sanctions applied by the European Union, through Annex I of Regulation (EU) nº 269/2014 of 17th March 2014, which imposes restrictive measures with respect to actions that compromise or threaten the territorial integrity, sovereignty and independence of Ukraine. In this context, prior to the operation, Banco Finantia requested and obtained authorization from the Competent National Authorities, namely the Directorate General for Foreign Policy of the Ministry of Foreign Affairs and the Planning, Strategy and Evaluation and International Relations Office of the Ministry of Finance, to carry out the operation. To execute the operation were delivered financial instruments issued by Russian entities whose fair value amounted to approximately 14.961 thousand euros, reflecting a difference between the fair value and the nominal value of shares (approximately 3.321 thousand euros) that was recognized in the equity component "Other Reserves". Under this operation, the Bank also recognized losses of approximately 866 thousand euros, as mentioned in note 19, which resulted from the recognition at fair value of financial instruments previously recognized at amortized cost and delivered under this operation. Given the risks and uncertainties associated with the restrictions arising from the sanctions applied by the	We performed an audit risk identification and assessment that led to the definition of the audit approach to respond to the risk of material misstatement. This approach includes (i) a global response that influences the way the audit was conducted and (ii) a specific response that materialized into the design and subsequent execution of audit procedures, namely: ▸ Inquiry to the management and responsible for the Anti-Money Laundering and Terrorism Financing Function regarding the scope and objective of the operation; ▸ Collect and analysis of the documentation related to the operation deliberation by the Board of Directors; ▸ Inspection of the contracts supporting the operation, correspondence with the Bank of Portugal, legal advisory reports and the documentation produced by the Competent National Authorities authorizing the operation; ▸ Evaluation of the reasonability of the fair value measurement made by the Bank for the financial instruments delivered as payment for the acquisition of own shares, including (i) the collection and analysis of internal documents that support the decision process regarding the measurement of these financial instruments and (ii) the evaluation of the criteria reasonability and the consistency of its application in the measurement of the financial instruments held by the Bank. ▸ Obtaining and analyzing correspondence with the Bank of Portugal, and opinions from lawyers, regarding compliance with the applicable requirements, particularly with regard to the Portuguese Company Law ("Código das Sociedades Comerciais"); and

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
European Union to the counterparties of this operation, as well as the subjectivity and complexity of the assumptions considered in determining the fair value of the financial instruments delivered, we consider this a relevant audit matter.	► Analysis of the disclosures included in the notes to the consolidated statements (note 15 and 19), based on the requirements of international financial reporting standards and accounting records.

Responsibilities of management and supervisory board for the consolidated financial statements:

Management is responsible for:

- the preparation of consolidated financial statements that present a true and fair view of the Group's consolidated financial position, financial performance and consolidated cash flows in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union;
- the preparation of the Consolidated Management Report, in accordance with applicable law and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

Management is responsible for the supervision of the process of preparation and disclosure of financial information of the Group.

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

Our responsibility is to obtain reasonable assurance about whether the consolidated 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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 Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management'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 Group 's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the supervisory body, 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;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated 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; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, what measures taken to eliminate the threats or which safeguards applied.

Our responsibility includes the verification of the consistency of the Consolidated Management Report with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Consolidated Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Consolidated Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

On additional items set out in article 10 of the Regulation (UE) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of Banco Finantia, S.A (Group's Parent Entity) for the first time at the shareholders' general meeting held on 27 July 2015 for a mandate from 2015 to 2016. We were appointed at the shareholders' general meeting held on 27 November 2017 for a second mandate from 2017 to 2019. We were reappointed at the shareholders' general meeting held on 31 May 2019 for a third mandate from 2019 to 2021. We were appointed for the last time, at the shareholders' general meeting held on September 29, 2022 for the fourth mandate from 2022 to 2024;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional scepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on 2nd May 2023;
- We declare that we have not provided any prohibited services as described in article 5 of Regulation (EU) No 537/2014 of the European Parliament and of the Council, of 16 April 2014, and we have remained independent of the Group in conducting the audit; and

- We declare that, in addition to the audit, we provided the Group with the following services as permitted by law and regulations in force:
  - Issuance of the External Auditor Report of Group Banco Finantia, S.A. on the process of quantification of the impairment of exposures to Russia, Belarus, Ukraine or with interdependence of these geographies, as required by the Bank of Portugal in communication CEX/2022/1000059423;
  - Issuance of a report on a half year evaluation of Impairment of the credit portfolio, in accordance with the requirements of instruction No. 5/2013 issued by the Banco de Portugal (Bank of Portugal), republished by Banco de Portugal instruction No. 18/2018;
  - Issuance of the report, as required by article 304.º of the Securities Code, in accordance with the requirements of the directives for Reviews and Audits No. 825 ("Diretriz de Revisão e Auditoria nº 825");
  - Procedures for issuing the report to the Audit Committee on the internal control system for the prevention of money laundering and financing of terrorism (Notice No. 2/2018) of Banco Finantia;
  - Factual conclusions report of the Statutory Auditor under the terms of the Article 56, paragraph3, of the Banco de Portugal Notice No. 3/2020.

Lisbon, 2nd of May 2023

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

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