Banco Finantia

Report and Consolidated Accounts | 2023

March 22nd, 2024

Banco Finantia

Banco Finantia
KEY FIGURES
IFRS [1]

Euro million	2023	2022	Change
BALANCE SHEET			
Total assets	2.196,9	2.059,4	+ 7 %
Fixed-income and loan portfolio	1.927,8	1.670,0	+ 15 %
Due to customers (Customers' deposits)	902,9	845,5	+ 7 %
Shareholders' equity	448,9	423,2	+ 6 %
INCOME STATEMENT			
Net interest income, net of hedging	45,9	40,5	+ 13 %
Operating income	40,9	52,5	- 22 %
Net profit	10,4	0,2	+ 4.082 %
PROFITABILITY (%)			
Return on equity (ROE) [2]	2,4	0,1	+ 2,3 pp
Return on assets (ROA) [2]	0,5	0,0	+ 0,5 pp
CAPITAL ADEQUACY (BIS III, fully loaded) (%)			
CET1 Ratio [3]	24,6	25,1	- 0,5 pp
Total Capital Ratio [3]	24,6	25,1	- 0,5 pp
LIQUIDITY AND FUNDING INDICATORS (%)			
Liquidity Coverage Ratio (LCR) [4]	996	1.149	- 152,2 pp
Net Stable Funding Ratio (NSFR) [3] [5]	124	127	- 3,0 pp
Leverage Ratio [3] [6]	19	20	- 0,8 pp
ASSET QUALITY			
NPE Ratio (%) [7]	2,77	5,72	- 2,9 pp
NPE Ratio, net of impairment (%) [8]	1,22	3,94	- 2,7 pp
DATA PER SHARE (Euro)			
Net Profit	0,07	0,00	+ 0,07 cts
Book Value	2,99	3,28	- 0,29 cts
Weighted average no. of shares outstanding (million)	141	144	n.a.
Year end no. of shares outstanding (million)	150	129	n.a.

[1] International Financial Reporting Standards

[2] Amounts after tax

[3] Ratio estimated incorporates dividend proposal

[4] High quality liquid assets (HQLA) / Total net cash outflows over a 30-day stress period (average)

[5] Available stable funding / Required stable funding

[6] Common Equity Tier 1 / On-balance and off-balance sheet assets (exposure measure accordingly to Basel III)

[7] NPE Ratio - non-performing exposures over total assets

[8] NPE Ratio, net of impairment - non-performing exposures, net of impairment, over total assets

Banco Finantia

Banco Finantia in Brief

Banco Finantia is an independent bank, with broad national and international experience of over 36 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.

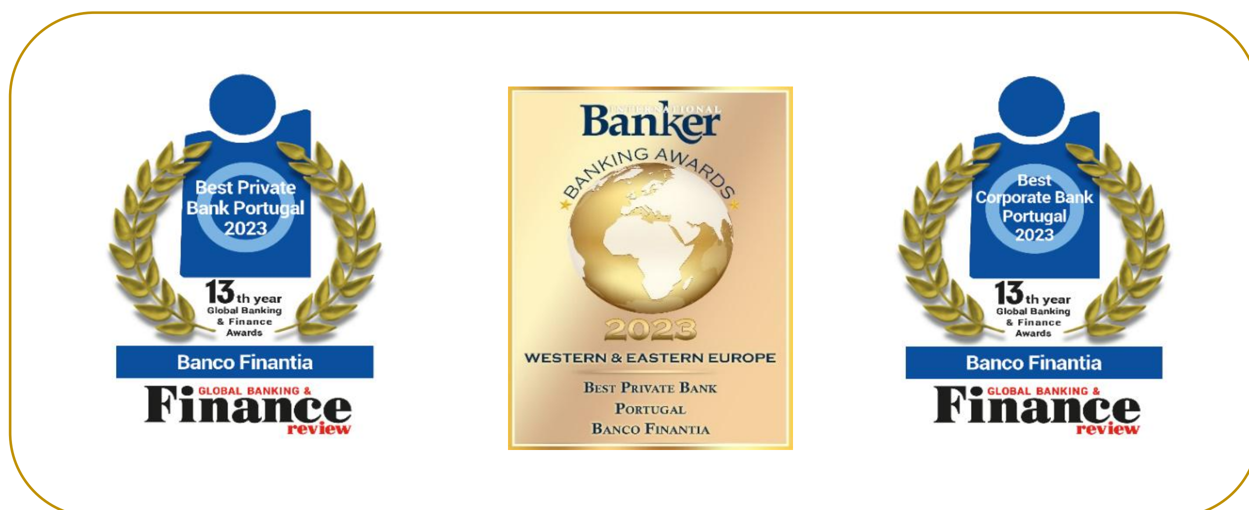
The Bank operates in two important niche markets:

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 subsidiaries in the United Kingdom and in the United States.

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



1. Macroeconomic Framework

1.1 World Economy

Inflation was the economic theme that marked the year 2023, particularly in the USA and the Eurozone, with the main central banks continuing their restrictive monetary policy that had started in 2022.

The European Central Bank raised its benchmark rate from 2.5% p.a. at the beginning of the year to 4.5% p.a. at the end of the year, while the FED raised the Fed Funds range from 4.25% p.a. to 4.5% p.a. at the beginning of the year to 5.25% p.a. to 5.5% p.a. in July 2023. The stance of these central banks contributed to the decline in inflationary pressures. The Eurozone's inflation rate fell from 9.2% in December 2022 to 2.9% in December 2023. In the USA, in the same period, it fell from 6.5% to 3.4%.

Geopolitical risks remained high due to the continuation of the war in Ukraine and the conflict in Gaza, which has spread to other parts of the Middle East, particularly the Red Sea. Due to the climate of insecurity there was a significant reduction in maritime traffic in the region - which includes one of the most important maritime routes in the world for the transport of oil, gas and other goods - resulting in an increase in transport time and costs. Thus, despite prospects of a continued reduction in inflation for 2024 at the global level a climate of uncertainty remains regarding the behaviour of inflation and interest rates.

This environment led to a slowdown in global economic growth with a greater impact in Europe. The IMF estimates world growth of 3% in 2023, compared to 3.5% in 2022. For developed economies, the growth in 2023 is estimated at 1.5% (2.6% in 2022), while for developing countries it is 4% (4.1% in 2022). The USA is estimated to have grown 2.1% in 2023 (the same pace as in 2022), the Eurozone 0.7% (3.3% in 2022) and the UK 0.5% (4.1 % in 2022). The Chinese economy is estimated to have grown by 5% in 2023 (3% in 2022), India 6.3% (7.2% in 2022), Brazil 3.1% (2.9% in 2022) and Turkey 4% (5.5% in 2022).

The IMF projects a continued slowdown in global economic growth to 2.9% in 2024. Growth in the USA is projected at 1.5% in 2024, in the Eurozone at 1.2% and in the UK at 0.6%. The Chinese economy is projected to grow 4.2% in 2024, India 6.2%, Brazil 1.5%, and Turkey 3.0%.

1.2 Iberian Peninsula

It is estimated that in 2023 the Portuguese GDP’s growth has been 2.1%. The projection for 2024 is 1.2%. The economy is projected to recover gradually over the year 2024. Investment, the decrease in inflation and the European funds will be the main positive contributors to growth this year. Inflation (harmonized) is estimated to have reached 5.3% in 2023 and is expected to slow down to 2.9% in 2024. Public debt (as a percentage of GDP) at the end of 2023 is expected to be at 100%, dropping from 112.4% at the end of 2022. Employment in 2023 is estimated to have grown by 0.8%. Private consumption is expected to grow by 1% in 2024, in line with 2023. Investment growth continued to slow to 0.9% but should recover to 2.4% in 2024. The current and capital account is calculated at a positive 3% of GDP in 2023 and the projection is of 3.5% for 2024.

Regarding the Spanish economy, GDP is estimated to have grown by 2.4% in 2023. The projection for 2024 is 1.6%, reflecting weaker external demand. Inflation in 2023 is estimated at 3.4% and in 2024 is expected to be 3.3%. Public debt (as a percentage of GDP) stood at 107.3% at the end of 2023 and the unemployment rate at 12.1%, with a marginal decrease to 11.7% expected for 2024.

2. Operating Activities

After the strong deceleration of the world economy in 2022, the year 2023 was characterized by a continued, but less strong, slowdown of world GDP. On the other hand, the capital markets maintained a great volatility in 2023, albeit with some recovery, in particular in the last quarter of the year.

In this context, Banco Finantia's strategic posture remained conservative, consolidating its position in the markets where it operates, gradually increasing its bond and loan portfolio, with a resulting increase of circa 15% in this portfolio, but maintaining a comfortable liquidity cushion.

Despite the volatility of the market conditions, the performance of the Bank's own portfolio was positive, and the Capital Markets area managed to maintain a high volume of transactions and improve the performance of the trading portfolio when compared to the previous year.

Worthy of note in the activity with Corporate customers were (i) in the fixed-income area, the participation in numerous Eurobond issues, 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 reference transactions in the M&A area as well as in the area of advisory services in privatizations.

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

2.1 Corporate & Investment Banking

2.1.1 Capital Markets

As in the previous year, in 2023 the main Central Banks continued to conduct their monetary policy essentially through sharp increases in interest rates as a way of controlling inflation. There were increased levels of volatility and increased risk premiums in financial markets, mainly due to the instability caused by the Ukrainian and Gaza conflicts. At the end of the year there was an interruption in the rise in rates, which seems to indicate a change in cycle, with some economies displaying some slowdown and fragility.

These factors had an important impact, on the one hand, on the appreciation of assets, especially fixed income, and on the other, on issuers that opted for less expensive financing alternatives, such as bank credit, which translated into a reduction in issuance volumes.

Despite the unfavourable context, the Capital Markets Department demonstrated, once again, its resilience in the various segments in which it operates.

In the primary markets, Banco Finantia continued to consolidate its participation as a placement entity in commercial paper programmes and Pagarés for Portuguese and Spanish companies. In

total, around € 127 million in Pagarés and € 12 million in commercial paper were placed during 2023. The Bank was also appointed placement entity for two new programmes for Spanish companies, each of € 200 million, and structured a new commercial paper programme for a Portuguese company, worth € 10 million.

Regarding the bond trading and intermediation activity, this continued to be managed with some caution, in a particularly complex macroeconomic and market context. Even so, a transaction volume of more than € 2.2 billion was achieved, in line with the previous year. This result was possible thanks to a strategy based on the increased use of electronic platforms, making it possible to take advantage of market opportunities, maintain the level of traded volumes and increase profitability per transaction.

Regarding Banco Finantia's bond portfolio, of note is an increase of around € 181 million to €1,682 million and an improvement in the level of the credit quality of the portfolio. The contribution to the financial margin increased and impairment and provisions decreased in relation to 2023. This portfolio also contributed to a positive variation in fair value reserves, due to the recovery in the markets, especially during the last quarter of 2023.

2.1.2. Corporate Banking

Banco Finantia had the most active year in the Corporate Banking area since the start of the pandemic, both in number of transactions and in volume. The Bank maintained the focus of its activity in the geographies where it has operated for several years, including Portugal and Spain.

In Portugal, following disbursement requests made within the scope of the Capital Call Facilities signed last year, the Bank granted a total of around € 39 million in financing to venture capital funds, continuing to be leader of this market segment.

In the international markets, the Bank participated in 10 syndicated loans (around € 117 million), with emphasis on the role of Lead Arranger in the loan to an important Canadian company. Additionally, the use of Credit Risk Insurance (CRI) for credit risk mitigation purposes increased significantly.

The increase in total transactions compared to the previous year reflects a greater number of opportunities that arose due to market uncertainty, and which allowed the Bank to improve the average quality of the portfolio. Banco Finantia ended the year with a nominal loan portfolio value of approximately € 245 million and has a robust pipeline of transactions for 2024, namely in Portugal, which includes two new Capital Call Facilities transactions for Private Equity funds.

2.1.3. Corporate Finance

2023 was a year of reference 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, in particular in cross-border transactions.

The Bank’s global geographic coverage, strengthened by its partnerships for business development in its key operational markets (Portugal and Spain) and globally in the Terra Alliance network, has materialized in increased opportunities and transactions.

The Bank acted as exclusive Financial Advisor to a Private Equity fund in the acquisition of a reference company in Portugal, leader in irrigation projects and services for agriculture. The Bank was one of the entities selected by Parpública to value the largest national airline company, TAP Air Portugal, in the scope of its potential reprivatization.

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 its geographical coverage and the range of activities.

2.2 Private Banking

In a generally unfavourable context during most of 2023 (crisis in North American banking and strong competition from other financial products in the 1st half-year), the Bank had an increase of 7% in the financial year in resources of customers (exceeding € 1,0 billion at the end of the financial year), with increases of, respectively, 6% in deposits and 16% in assets under management. This evolution was based on improved customer service and the strengthening of the Bank's commercial capacity, accompanied by a strategy of progressive transformation of customer deposits into other financial products. Commissions earned increased by approximately 6%.

Private Banking, in Portugal and Spain, continued to implement its strategy of continuous improvement of the value proposition and service provided to customers, with emphasis on the diversification and quality of the products and services offered. In this manner, Finantia Private's presence and recognition in this business area was consolidated.

Several factors converged to this evolution:

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

ii. The reinforcement of training of the commercial team;

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

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

v. The positive evolution of the experience perceived by the customer, whether face-to-face or online. This has been accomplished through the improvement of the monthly statement, the layout of proposals for customers and the diagnosis of their portfolios in the investment consultancy service (Check-up). The digital channels' features were upgraded, which allowed a significant increase in customer interaction with the Bank through the APP and Home banking channels;

vi. The investment made in increasing awareness and recognition of the "Banco Finantia" brand and of our products and services;

vii. The launch of the new digital customer onboarding system, aligned with the objective of automating and simplifying processes, enhancing the use of digital channels by customers.

In 2024, the Bank will pursue the strategy of strengthening the Private Banking activity, within the objective of boosting the off-balance sheet business, generator of commissions and with lower capital requirements. In this context, the aim is to continue to: increase the weight of securities in the total resources of customers; improve the service quality; and broaden 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 which have characterized us over the years.

3. Supporting Activities

3.1 Information and Development Systems

The financial year was marked by the implementation of several projects aimed at providing the Bank with the necessary capabilities to increase response efficiency in a context of additional regulatory requirements. This includes migration to more recent systems, the introduction of features that aim at optimizing and simplifying the applications architecture, boosting efficiency gains and ensuring greater quality and reliability in the Bank's Information Systems.

The most relevant projects in the year were: the migration of SWIFT (Society for Worldwide Interbank Financial Telecommunication) payment systems to the electronic messaging standard, ISO 20022, which aims for a global cross-border payments market in real time; the project to replace the LIBOR (London Interbank Offered Rate) index with the SOFR (Secured Overnight Funding Rate) index, a project that had an impact on the market for derivatives and loans in US dollars and which aims at transparency gains and depth in a market where the Bank is quite active; and the successful entry into operation in Spain of another phase of the digital onboarding process.

The third quarter of 2023 was marked by the entry into production of new operational features that aim at improving the Bank's responsiveness to the ever-increasing needs for monitoring and updating information in bank customer databases in line with regulatory requirements.

Also, ongoing are the projects to update the reporting of International Banking Statistics on a consolidated basis (EBIS) and the data quality management project for processes associated with the Bank's strategic indicators, in accordance with the principles established by the Basel Committee on Banking Supervision.

3.2 Operations

The year 2023 was marked by the final implementation of the projects started in 2021 related to the upgrade of the TARGET and SWIFT Payment Systems. In terms of processing operations, it was once again a demanding year, a consequence of the expansion of the customer securities portfolios and of debt issuance transactions in the primary market in which Banco Finantia is the paying agent.

The following projects stand out:

i. development of new operational processes, in the scope of customer data updating;
ii. centralization at the headquarters of the operational processes of Banco Finantia in Spain (Branch); and
iii. implementation 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 – the Bank ended up with a centralized payment system, integrated with AML solutions.

On the Regulatory front, the implementation of the new version of statistical reporting of payment systems and instruments to Bank of Portugal, known as the PAY Project, continued.

Looking ahead to 2024, we note with great relevance the following projects:

i. completion of the PAY Project and update of the current EMIR report (EMIR Refit Project);
ii. implementation of immediate payment transfers and of the features of the Lookup Proxy and of COP within the scope of SEPA Transfers;
iii. automation of operational processes that support securities' operations with customers; and
iv. monitoring of the normalization of operations carried out at the HQ and at the Spanish Branch – processes, teams, and systems.

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

Banco Finantia's core values – Excellence, Independence, Transparency, Innovation, Dynamism, Cooperation, and Integrity – shape its approach to attracting, retaining, engaging, and developing a highly qualified workforce guided by high ethical values.

Promoting a positive culture that values everyone's contribution is fundamental to achieving the Bank's strategy and boosting its success. The Bank is therefore committed to creating a collaborative, agile, ethical, and rewarding work environment for its employees.

As at 31 December 2023, the Group, including the international offices, had a total of 246 employees, of which 178 in Portugal, 55 in the Branch in Spain and the remainder in other geographies (United Kingdom, United States and Malta).

The average age of employees is 44 years and around 75% have higher education (bachelor's /master's degrees).

Banco Finantia seeks to promote stable and lasting relationships. In this sense, the average seniority of employees is 11 years and more than 97% are permanent employees.

As for employee distribution by staff level, 39% of the Group's employees were senior staff, 53% mid-level staff and 8% administrative staff. Male staff accounted for 62% of total and female 38%.

Banco Finantia believes that it must face the daily challenges from multiple points of view. In this sense and in its employment practices, the Bank values diversity of origins, skills, knowledge, and perspectives.

Regarding attracting talent, in 2023 the Bank created an internal candidate referral programme (Recruit a Friend), with the aim of encouraging its employees to recommend candidates they consider suitable for open positions and adherence to the Bank's culture.

Internal mobility also played, once again, an important role in the development of talent at the Bank. Employees are challenged and empowered to continually learn and grow.

Banco Finantia invests in training to enable its employees to perform their duties in highly professional manner, in a highly demanding and regulated sector. The current challenges in terms of ESG (Environmental, Social and Governance), sustainability, cybersecurity and information security require an adequate level of training and knowledge in these topics. In this sense, in 2023, the Bank encouraged employees to strengthen their skills in these areas of knowledge, primarily through training.

Banco Finantia fosters a culture of continuous learning, encouraging employees to have training experiences that encourage their growth and supporting them in building rewarding careers. In 2023, the volume of training in Portugal was approximately 7 413 hours (corresponding to an average of 43 hours of training per employee).

With a focus on individual and organizational growth, Academia Finantia (internal training platform) also enabled the development of employees' skills and knowledge on a very wide range of topics.

Banco Finantia promotes a healthy work environment by creating a culture where best safety practices are consistently followed. Therefore in 2023 the Bank evaluated internal practices in terms of occupational health and safety and the psychosocial risk factors, obtaining very positive results.

Finally, in 2023, the harmonization of Human Resources' processes and procedures between the parent company (Portugal) and the other offices, namely the Branch in Spain, was continued.

3.4 IT Support

To support the business areas, several actions have been carried out in the Bank´s infrastructures and systems to maximize the availability, integrity, and confidentiality of information. To this end, compliance, business continuity and information security have continued to be considered as priorities.

Therefore, prevention, detection and correction actions were carried out: (i) monitoring and taking measures to minimize the risks and external threats reported in the global and national environment; (ii) identifying and mitigating technical and operational gaps; (iii) responding to

incidents and preventing intrusion attempts; (iv) training and raising awareness among employees; and (v) updating and performing proactive maintenance.

Some of the actions worth highlighting were: (i) implementation of a tool for classifying and protecting information; (ii) start of the voice infrastructure requalification project; (iii) segregation of the SWIFT network authentication environment from the remaining corporate environment, ensuring compliance with the SWIFT CSCF and the SWIFT network operation for another year; and (iv) implementation of a Multi-Factor Authentication (MFA) solution on laptops assigned to Bank employees, as well as the obligation to create passwords with a minimum of 12 characters, for access to the Group's network.

In 2024, we will continue to support the business, prioritizing the operational resilience of the technologies that support it and identifying and mitigating gaps in compliance with the Digital Operational Resilience Act (DORA). Improvements will be introduced to the current business continuity plan, implementing technologies that facilitate the detection and correlation of events, which will allow a greater capacity to identify malicious actions and a greater timeliness in responding to them.

3.5 Treasury

The Treasury Department, responsible for implementing the Bank's financing and liquidity management strategy, maintained a prudent and conservative approach in 2023 to ensure that all the Bank's business areas function efficiently.

Treasury activities once again faced a challenging environment, marked by important factors:

(i) geopolitical, with the prolonging of the Russia/Ukraine conflict and the increase in tensions in the Middle East; (ii) financial, with the intervention in several regional banks operating in the USA and the intervention in Credit Suisse in Europe; and (iii) monetary, with the main central banks, pressured by inflation, expanding their interventions, especially in the first half of the year and through interest rate increases.

These factors contributed to the need to implement a strategy that would promote the maintenance of a comfortable margin of highly liquid assets, which could immunize the Bank and its customers from this less favourable environment.

The success of the strategy carried out by the Bank through the Treasury Department resulted in a high average liquidity coverage ratio (LCR), approximately 10x higher than the minimum regulatory requirement. In addition to this the stable funding ratio (NSFR) stood at an annual average of 127.3%, that is, 6.6% above that presented in 2022 (120.8%) and above the required regulatory minimum (100%).

The activity encompassed the strengthening of relationships with several international financial institutions, reference entities in the main monetary and foreign exchange markets. This is illustrated by the considerable increase in the Bank's volume of operations in its main operating markets, namely in the collateralized financing market. Treasury carried out 21.2% more operations in this financial year than in the previous year, representing an increase of 55.3% in terms of volume. In the foreign exchange swap market there was an increase of 10.9% in the number of operations carried out. The objectives of diversifying financing sources and respective terms were thus met.

During 2023 and in keeping with the practice of previous years in the scope of institutional relations' activities, the Bank was present at the annual meetings of the IMF, World Bank and International Trade and Forfaiting Association (IFTA).

In May, of note was the holding of the annual meeting, in Antwerp, 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 occupies the Presidency. Main themes covered were ESG and innovation in the banking system.

4. Risk Management

The Bank's risk management model is based on an integrated set of processes, periodically reviewed, and documented. The model is focused on providing 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 and eventual deviations.

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.

These processes follow the principles recognized at international and national levels, in line with all applicable regulations.

The Bank's risk management model covers all products, activities, processes, and systems, taking into consideration all the risks inherent in its activities and considering its size, nature, 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. 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 Executive Committee ("EC") is, by delegation of the BoD, responsible for ensuring the implementation and maintenance of an adequate and effective internal control system, based on governance, strategy and policies approved by the BoD related to the risk management model to manage and control financial and non-financial risks. The EC monitors, 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 of various matters related to 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. Inter alia it : (a) 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; (b) provides advice to all management and supervisory bodies; (c) leads the work involving the update of risk matrices and the performance of the risk assessment; (d) prepares and presents periodic reports related to risk management; (e) participates in the business and capital planning; (f) performs stress tests; (g) is responsible for the ICAAP and ILAAP processes and actively engages in the preparation of the RAF; (h) realizes an independent review of the ICAAP and ILAAP methodologies and results; and (i) 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 their mitigation;

ii. the adequacy of the internal capital and the liquidity 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.

The Bank attaches great importance to the development of the skills of its Risk Department employees through general and specific training actions. Focused on best practices, the Department actively participates in the planning and structuring of training actions related to: (i) the risk management processes; and (ii) the capital adequacy and liquidity assessment processes 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, as detailed below.

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 objective 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 income or capital, resulting from unfavourable movements in the valuations of financial instruments in the portfolio, caused by fluctuations in interest rates and credit spreads.

For the financial instruments (securities and loans), recognized at fair value, 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.

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 entails the adoption of measures to control and mitigate the market 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. 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.

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 and in the forward positions – being monitored daily.

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 its 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. 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 in order to maintain liquidity levels within pre-defined limits, through: (i) cash flow management, including 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 monitoring and accompanying this risk.

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. The aim is thus to promote 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 2023, several training actions were carried out, with an emphasis on specific training on ICAAP, the regulatory framework (CRR/CRD-V) and market risk. For 2024, the Bank will continue to favour expand in this area.

Non-Financial Risks

Non-financial risks include business model/strategy, internal governance, operational (including IT risks) and other risks (reputational, compliance, money laundering and financing of terrorism, and ESG). 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 2023, 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. It has also developed internally methodologies to quantify compliance, reputational and strategy risks.

During 2023, several training actions were carried out on non-financial risks, including specific training on Prevention of Money Laundering, Information Security and Climate and Environmental Risks. For 2023, the Bank will continue to focus on training as a form of contributing to the reduction of non-financial risks with special relevance for climate risks (ESG), digital transformation and cybersecurity.

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 2023, continuity was given to the implementation of the action plan on sustainability, prepared with the help of a specialized consultant with a view to incorporating the ESG risk component in the Bank, an aspect that will be given special attention in 2024 and in the coming years.

5 Financial Overview

5.1 Consolidated Results

In 2023, the Bank's results recorded a significant improvement, mainly due to the reduction in the impairment and provisions caption, which was € 4.2 million, an amount significantly below the extraordinary value of € 32.6 million recorded in 2022.

Net interest income, net of hedging, rose to € 45.9 million (€ 40.5 million in 2022), benefitting from the context of increased market interest rates, despite the progressive increase in the cost of funding verified in the financial year.

The result of financial operations, commissions and other income was negative in € 5.0 million (positive in € 12.0 million in 2022), due to the strategy of accelerated reduction of the NPE (non-performing loans) ratio. The NPE ratio decreased from 5.7% as at 31/12/2022 to 2.8% at the end of 2023.

Operating expenses amounted to € 25.1 million (€ 24.0 million in 2022).

Net profit amounted to € 10.4 million, which compares with € 0.2 million in 2022.

The summary of the consolidated income statement for the financial years ended 31 December 2023 and 2022, is as follows:

€ million	IFRS	
CONSOLIDATED INCOME STATEMENT	31.12.2023	31.12.2022
Net interest income	**27.8**	**49.8**
Interest rate & FX hedging	18.1	(9.3)
Net interest income, net of hedging	**45.9**	**40.5**
Financial transactions, commissions and other income	(5.0)	12.0
Operating income	**40.9**	**52.5**
Impairments and provisions	(4.2)	(32.6)
Operating expenses	(25.1)	(24.0)
Profit before tax	**11.5**	**(4.2)**
Net profit	**10.4**	**0.2**

5.2 Consolidated Balance Sheet

The Group's balance sheet recorded an increase of 6.7% when compared with 2022:

€ million	IFRS	
CONSOLIDATED BALANCE SHEET	31.12.2023	31.12.2022
Assets		
Cash and banks	114.0	166.0
Fixed income and loan portfolio	1,927.8	1,670.0
Other assets	155.1	223.4
Total assets	**2,196.9**	**2,059.4**
Liabilities		
Due to customers (Customers' deposits)	902.9	845.5
MM takings and Repos	813.7	774.7
Other liabilities	31.4	16.0
Total liabilities	**1,748.0**	**1,636.2**
Total shareholders' equity	**448.9**	**423.2**
Total liabilities and shareholders' equity	**2,196.9**	**2,059.4**

The Bank's liquidity remained high throughout the year and the value of the securities and loans portfolio in December (mainly composed of fixed-income securities) was 15% above the levels of the previous year, reflecting the acquisition strategy materialized throughout the financial year. Non-performing loans are duly provisioned and were significantly reduced through multiple disposals that started at the end of 2022 and continued in 2023.

Due to customers (Customers' deposits) on 31/12/2023 were € 902.9 million, 7% more than the € 845.5 million recorded at the end of 2022. During the same period, the remaining assets (off-balance sheet) held by customers recorded a 16% growth, reflecting the global strategy of resource raising and of progressive transformation of customer deposits into other financial products, to achieve a gradual growth in commissions derived from the provision of financial services.

Equity amounted to € 448.9 million, reflecting the positive evolution in comprehensive income for the financial year. Despite the increase in equity, the book value of the shares outstanding decreased to € 2.99, reflecting the extinction of the own shares (treasury stock) and the increase in equity through the incorporation of reserves (see section 5.4), for which reason it is not immediately comparable with the value of the previous year (€ 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 24.6% at the end of 2023, thus signalling the Group's robust solvency position.

BASEL III	31.12.2023	31.12.2022
CET1 ratio	24.6%	25.1%
Total Capital ratio	24.6%	25.1%

The CET1 ratio as at 31 December 2023, considers a dividend distribution in the amount of € 12 million, as per proposal to be submitted to the annual Shareholders' General Meeting.

Risk Weighted Assets ("RWA") reached € 1,750 million as at 31 December 2023, which compares with the € 1,606 million at the end of 2022, with this evolution resulting from the strategy of a progressive increase in the loan and securities' portfolio.

> Economic Capital

The Bank uses an internal capital adequacy self-assessment process, complementing 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 (Due to customers), 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, described in section 4.

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 internal risk models should ensure the solvency of the Bank.

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 time, 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.

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 fully complies with the minimum requirement for own funds and eligible liabilities (MREL), which implementation deadline was 1 January 2024).

Regarding ESG Risks and considering the European regulatory framework and the supervisory expectations in this regard, the Bank finalized, with the support of a specialized external consultant, a diagnosis of its procedures in this matter, which led to the drawing up of an Action Plan for 2023/24.

5.4 Treasury Stock (Own shares)

In May 2023, the Shareholders' General Meeting approved the extinction of all own shares held as at 31 December 2022 (21,092,944 own shares, representing 14.06% of the share capital) through a reduction in share capital, followed by a capital increase through the incorporation of reserves to restore the amount of share capital to the value of € 150 million.

6 Social Responsibility, Cultural Patronage and Education

In 2023, the Bank reinforced its commitment to the community and to sustainable progress. Faced with a dynamic scenario, marked by global challenges and significant changes in society, an active role was maintained in social, cultural and educational initiatives.

6.1 Social Responsibility

The main 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 disorder with a genetic origin. APSA has been operating the Casa Grande project in Lisbon, since 2016. This is a unique, innovative, and differentiated space that empowers young people with Asperger's Syndrome for autonomy, employability, and social and community inclusion.

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 neurodevelopment and 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 exams in child development.

APOIO à VIDA (www.apoioavida.pt) – An organization that supports pregnant women, their partners, and their families when they face psychological, social, or family difficulties. The Association helps, shelters, and empowers women of all ages and social conditions.

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, the Bank has sponsored various cultural and social programs.

6.3 Education

ISEG – The Bank continued its collaboration with ISEG – Instituto Superior de Economia e Gestão (Economics and Management) of the 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 partner of Fundação Económicas – Fundação para o Desenvolvimento das Ciências Económicas, Financeiras e Empresariais (Foundation for the Development of the Economic, Financial and Business Sciences) that grants scholarships to needy students.

7 Outlook

Prospects for 2024 are of a slight 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 and Middle Eastern conflicts. On the other hand, uncertainty of a financial nature, in particular the monetary policy of the main central banks, which are caught between the threat of recession and a resurgence of inflation.

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 on optimizing fixed-income and capital market activities, financial advisory services, and Private Banking activities.

In terms of the asset portfolio (primarily bonds and loans), the Bank will: maintain gradual growth; apply a judicious selection of risks; and maintain a strong geographical and sectoral diversification.

The Capital Markets area plans to continue its sales and 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 investment consultancy and execution services. 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 of € 12 million, through the appropriation of the net profit of 2023 and the use of free reserves.

After deducting the proposed dividend, Banco Finantia will present a CET 1 ratio of 24.6%, remaining within internal policies and regulatory guidelines issued for the banking sector, with solvency ratios sufficiently robust for the development of its activities.

9 Final Remarks

The Board of Directors extends its thanks to all those that supported its activities in 2023 - customers, shareholders, corporate bodies, auditors and authorities for the loyalty and trust placed on us, and to the employees for the dedicated and competent contribution, indispensable for the good functioning of the institution.

Lisbon, 22 March 2024

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 2023 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

Banco Finantia

Financial Statements 2023

(CONSOLIDATED ACCOUNTS)

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Banco Finantia

Consolidated Statements of Financial Position as at 31 December 2023 and 2022

EUR thousand	**Notes**	**2023**	**2022**
ASSETS			
Cash and deposits with central banks and other demand deposits	5	54,816	88,391
Financial assets at fair value through profit or loss	6	26,791	42,297
Financial assets at fair value through other comprehensive income	6	1,134,991	1,063,416
Financial assets at amortized cost	6	840,415	674,791
Hedging derivatives	7	93,761	129,861
Investment properties		515	975
Other tangible assets	8	12,952	12,617
Intangible assets	9	566	639
Current tax assets		3,130	4,860
Deferred tax assets	10	15,202	24,726
Other assets	11	13,790	16,808
TOTAL ASSETS		**2,196,929**	**2,059,381**
LIABILITIES			
Financial liabilities held for trading	12	5,828	3,142
Financial liabilities at amortized cost	13	1,716,602	1,620,185
Hedging derivatives	7	8,171	187
Current tax liabilities		267	1,590
Deferred tax liabilities	10	-	-
Provisions	14	561	713
Other liabilities	14	16,590	10,378
TOTAL LIABILITIES		**1,748,019**	**1,636,195**
SHAREHOLDERS’ EQUITY			
Share capital	15	150,000	150,000
Share premium	15	12,849	12,849
Treasury stock	15	-	(21,093)
Other acc. comprehensive income, retained earnings & other reserves	16	275,709	281,182
Net profit attributable to shareholders of the Bank		10,352	248
Total Shareholders’ Equity attributable to shareholders of the Bank		**448,910**	**423,186**
Non-controlling interests		-	-
TOTAL SHAREHOLDERS’ EQUITY		**448,910**	**423,186**
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		**2,196,929**	**2,059,381**

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 2023 and 2022

EUR thousand	Notes	2023	2022
Interest and similar income	17	110,645	67,799
Interest expense and similar charges	17	(52,189)	(17,404)
NET INTEREST INCOME		**58,457**	**50,395**
Fee and commission income	18	1,593	1,222
Fee and commission expense	18	(561)	(544)
Gains/(Losses) from derecognition of financial assets at amortized cost	19	(3,201)	(1,662)
Gains/(Losses) from exchange operations	19	(13,832)	(9,839)
Other gains/(losses from financial operations	19	(1,108)	13,160
Other net operating income/(expense)		(449)	(261)
OPERATING INCOME		**40,898**	**52,470**
Staff costs	20	(14,394)	(13,231)
Other administrative expenses	21	(9,261)	(9,186)
Depreciation and amortization	8, 9	(1,477)	(1,574)
TOTAL OPERATING EXPENSES		**(25,133)**	**(23,991)**
OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENT		**15,765**	**28,479**
Provisions or reversal of provisions	14, 22	150	(4)
Impairment or reversal of impairment of financial instruments	22	(4,111)	(32,652)
Impairment or reversal of impairment of non-financial instruments	22	(271)	13
PROFIT BEFORE TAX		**11,533**	**(4,163)**
Current income tax	10	(545)	(1,095)
Deferred income tax	10	(636)	5,506
NET PROFIT FOR THE YEAR		**10,352**	**248**
Attributable to:			
Shareholders of the Bank		10,352	248
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 2023 and 2022

EUR thousand	Notes	2023	2022
NET PROFIT FOR THE YEAR		**10,352**	**248**
Items that may be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income	16	36,422	(60,307)
Foreign exchange rate changes in foreign operational units	7	(5,026)	8,626
Net investment hedging in the foreign operational units (effective part)	7	4,838	(7,933)
Taxes on income related to items that may be reclassified to profit or loss	16	(8,879)	15,239
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**27,356**	**(44,375)**
COMPREHENSIVE INCOME FOR THE YEAR		**37,707**	**(44,127)**
Attributable to:			
Shareholders of the Bank		37,707	(44,127)
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 2023 and 2022

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 2022	**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 year (Note 16)	-	-	-	(44,375)	-	248	-	(44,127)
Acquisition and exchange of treasury stock (Notes 15 and 16)	-	-	(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**
Appropriation of results	-	-	-	-	248	(248)	-	-
Comprehensive income for the year (Note 16)	-	-	-	27,356	-	10,352	-	37,707
Distribution of dividends (Note 16)	-	-	-	-	(12,000)	-	-	(12,000)
Share capital reduction through extinction of own shares (Note 15)	(21,093)	-	21,093	-	-	-	-	-
Share capital increase through incorporation of reserves (Note 15)	21,093	-	-	-	(21,093)	-	-	-
Other reserves	-	-	-	-	17	-	-	17
	-	**-**	**21,093**	**27,356**	**(32,829)**	**10,104**	**-**	**25,724**
Balance as at 31 December 2023	**150,000**	**12,849**	**-**	**(26,091)**	**301,800**	**10,352**	**-**	**448,910**

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 2023 and 2022

EUR thousand	**Notes**	**2023**	**2022**
Cash flows arising from operating activities			
Interest and similar income received		76,124	64,846
Interest expense and similar charges paid		(42,110)	(12,851)
Fee and commission income received		1,593	1,222
Fee and commission expense paid		(561)	(544)
Recovery of loans previously written-off		4,966	6,423
Cash payments to staff and suppliers		(23,081)	(23,148)
		16,930	**35,948**
Change in operating assets:			
Deposits with central banks		(1,861)	51
Financial assets		(229,989)	121,281
Due from banks		21,100	30,495
Other operating assets		9,060	(7,312)
Change in operating liabilities:			
Derivative financial instruments		91,199	(193,667)
Due to banks		(55,339)	145,565
Due to customers		52,114	(36,747)
Repos operations		89,563	(51,266)
Other operating liabilities		146	(388)
Net cash flows from operating activities before taxes		**(7,077)**	**43,961**
Income taxes		(139)	(3,122)
		(7,215)	**40,839**
Cash flows arising from investing activities			
Acquisition of tangible and intangible assets	8, 9	(1,370)	(1,236)
Disposal of tangible and intangible assets	8, 9	9	175
		(1,362)	**(1,061)**
Cash flows arising from financing activities			
Dividends paid on ordinary shares	16	(12,000)	-
Net cash flows from financing activities		**(12,000)**	**-**
Effect of foreign exchange rate changes on cash and cash equivalents		(14,939)	(7,969)
Net changes in cash and cash equivalents		**(35,516)**	**31,809**
Cash and cash equivalents at the beginning of the year	25	141,769	109,960
Cash and cash equivalents at the end of the year	25	106,254	141,769
		(35,516)	**31,809**

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

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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 necessary permits from the Portuguese authorities, central banks, and all other regulatory agencies operating in Portugal and in the other countries where the Bank operates through its branches and international subsidiaries, including its branch in Spain. Its subsidiaries have offices in Portugal, Spain, UK, USA, 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 2023, 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 2023, 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 2023. 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 hedged component.

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 22 March 2024 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 2017.

2. Material 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 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.

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 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). The Group considers that sales of financial instruments may occur as long as they are infrequent or of insignificant value, i.e., whenever the number of such sales is annually equal to or less than 10% of the monthly average of the number of securities classified under the HTC business model throughout the year and their total amount does not exceed 10% of the total nominal value of the instruments classified in this business model.

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 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 2022 and 31 December 2023, 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 financial 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 2.19).

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 signs of 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 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.

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 2023 and 2022, 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. 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.

2.12. 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.

2.13. 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.

2.14. 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.

2.15. 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.

2.16. 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.

2.17. 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. It 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.

2.18. 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.

2.19. 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.

2.20. 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 2023, the Group applied the following issues, revisions, amendments and improvements of accounting standards and interpretations:

a) IFRS 17- Insurance contracts

IFRS 17 substitutes IFRS 4 and 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 an 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 should 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

IAS 12 now requires an entity to recognize deferred tax when its initial recognition gives rise to equal amounts of taxable and deductible timing differences.

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 fact is particularly important in the determination of the existence of timing differences on the initial recognition of the asset or liability to the extent that the initial recognition exception is not applicable to transactions that give rise to equal taxable and deductible timing differences.

Among the applicable transactions are the recording of (i) assets under right of use and lease liabilities; (ii) provisions for dismantling, restoration or similar liabilities, and the corresponding amounts recognized as part of the cost of the related asset,

when, on the date of initial recognition, they are not relevant for tax purposes.

This amendment is applicable retrospectively.

f) Amendments to IAS 12 – International Tax Reform – Pillar 2 Model Rules

These changes arise within the scope of the implementation of the OECD's Global Anti-Base Erosion (“Globe”) rules, which could result in significant impacts on the calculation of deferred taxes, which at the date of issuance of these amendments are difficult to estimate.

These amendments introduce a temporary exception to the accounting of deferred taxes arising from the application of the OECD Pillar 2 model rules, and additionally establish new specific disclosure requirements for affected entities.

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 2023.

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 to IFRS 16 introduces guidelines regarding 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 greater impact when some or all lease payments are 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.

This amendment applies retrospectively.

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 2023.

a) Amendments to IAS 7 and IFRS 7 - Disclosures: Supplier financing arrangements

These amendments to IAS 7 - Statement of Cash Flows and IFRS 7 - Financial Instruments: Disclosures aim to clarify the characteristics of a supplier financing arrangement and introduce additional disclosure requirements where such arrangements exist.

Disclosure requirements are intended to help users of financial statements understand the effects of supplier financing arrangements on the entity's liabilities, cash flows and liquidity risk exposure.

The amendments are effective for the period beginning on or after 1 January 2024. Early adoption is permitted but must be disclosed.

b) Amendments to IAS 21 - The Effects of Changes in Exchange Rates: Lack of exchangeability

This amendment aims to clarify how to assess the exchangeability of a currency, and how the exchange rate should be determined when it is not exchangeable for a long period.

The amendment specifies that a currency should be considered exchangeable when an entity is able to obtain the other currency within a period that allows normal administrative management, and through an exchange or market mechanism in which an exchange transaction creates rights and obligations capable of execution.

If a currency cannot be exchanged for another currency, an entity must estimate the exchange rate on the measurement date of the transaction. The objective will be to determine the exchange rate that would be applicable, on the measurement date, for a similar transaction between market participants. The amendment also states that an entity may use an observable exchange rate without making any adjustment.

The changes are effective for the period beginning on or after 1 January 2025. Early adoption is permitted; however, the applicable transition requirements must be disclosed.

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 Notes 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

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	**31.12.2023**	**31.12.2022**
Cash	67	78
Deposits and applications with central banks		
Banco de Portugal	32,388	61,430
Bank of Spain	16,401	18,342
	48,789	79,772
Deposits with banks in Portugal		
Demand deposits	5,848	7,168
	5,848	7,168
Deposits with banks abroad		
Demand deposits	112	1,373
	112	1,373
	54,816	**88,391**

The caption “Deposits and applications with central banks” includes the amount of € 6,676 thousand (2022: € 4,815 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 2023, this rate varied between 2% and 4% (2022: -0.50% and 2%).

6. Financial assets

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

EUR thousand	**31.12.2023**	**31.12.2022**
Financial assets at fair value through other comprehensive income	1,134,991	1,063,416
Financial assets at amortized cost	840,415	674,791
Financial assets at fair value through profit or loss	26,791	42,297
	2,002,197	**1,780,504**

Financial instruments classified as other assets and derivative financial instruments that are designated in a hedging relationship, as per Note 2.2.3, are presented separately in Notes 11 and 7, respectively.

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

EUR thousand	**31.12.2023**	**31.12.2022**
Debt instruments	1,682,428	1,501,146
Loans	245,340	168,852
Due from banks	56,387	77,567
Trading derivatives (Note 7)	11,661	28,123
Other loan operations	3,487	4,756
Purchase operations under resale agreements ("reverse repos")	2,832	-
Equity instruments	62	60
	2,002,197	**1,780,504**

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

EUR thousand	**31.12.2023**	**31.12.2022**
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	62	60
Debt instruments		
Companies	361	384
	423	444
Financial assets held for trading		
Debt instruments		
Public entities	6,125	2,819
Banks	359	3,942
Companies	8,223	6,969
Risk-management derivatives (Note 7)	11,661	28,123
	26,368	41,853
	26,791	**42,297**
Financial assets at fair value through other comprehensive income		
Debt instruments		
Public entities	451,594	468,296
Banks	141,692	141,369
Companies	495,138	434,568
Loans		
Public entities	29,961	1,717
Banks	16,605	8,883
Companies	-	8,583
	1,134,991	**1,063,416**
Financial assets at amortized cost		
Debt instruments		
Public entities	57,541	43,865
Banks	86,645	38,018
Companies	434,750	360,916
Loans		
Public entities	8,999	26,767
Banks	2,722	6,364
Companies	187,053	116,538
Due from banks	56,387	77,567
Purchase operations under resale agreements (“reverse repos”)	2,832	-
Other credit operations	3,487	4,756
	840,415	**674,791**
	2,002,197	**1,780,504**

During 2023, interest income from debt instruments at fair value through profit or loss amounted to € 116 thousand (2022: € 114 thousand).

During 2023, interest income from the financial assets held for trading portfolio amounted to € 655 thousand (2022: € 297 thousand).

During 2023, interest income from the financial assets at amortized cost amounted to € 33,922 thousand (2022: € 23,407 thousand).

As at 31 December 2023, the caption "Financial assets at amortized cost" includes debt instruments in the amount € 326,699 thousand (2022: € 214,304 thousand) given as collateral in sale operations under repurchase agreements (Note 24).

As at 31 December 2023, 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 € 1,106 thousand (2022: € 19,374 thousand).

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

			31.12.2023			
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	467,593	(2,534)	465,059	40,098	(53,562)	451,594
Banks	159,064	(14,854)	144,210	3,272	(5,789)	141,692
Companies	525,678	(13,213)	512,465	10,543	(27,870)	495,138
Loans						
Public entities	30,072	(83)	29,989	-	(28)	29,961
Banks	18,967	(2,006)	16,961	-	(356)	16,605
Companies	-	-	-	-	-	-
	1,201,374	**(32,690)**	**1,168,684**	**53,912**	**(87,605)**	**1,134,991**

			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**

During 2023, interest income from the financial assets at fair value through other comprehensive income portfolio amounted to € 43,005 thousand (2022: € 42,280 thousand).

This portfolio includes the amount of € 528,303 thousand (2022: € 507,408 thousand) related to debt instruments given as collateral by the Group in sales operations under repurchase agreements (Note 24).

As at 31 December 2023 and 2022, the financial assets subject to the impairment requirements foreseen in IFRS 9, analysed by stage, may be presented as follows:

	31.12.2023							
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	1,056,423	-	(3,405)	1,053,018	564,799	-	(2,221)	562,578
Loans and other applications	46,511	-	(236)	46,275	257,997	-	(501)	257,495
Other credit operations	-	-	-	-	2	-	-	2
	1,002,934	**-**	**(3,641)**	**1,099,293**	**822,797**	**-**	**(2,723)**	**820,075**
Stage 2								
Debt instruments and commercial paper	24,283	-	(1,376)	22,906	12,297	-	(1,137)	11,160
Loans and other applications	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	-	-	-
	24,283	**-**	**(1,376)**	**22,906**	**12,297**	**-**	**(1,137)**	**11,160**
Stage 3								
Debt instruments and commercial paper	2,583	35,737	(25,820)	12,500	-	7,246	(3,815)	3,431
Loans and other applications	-	2,144	(1,852)	291	-	1,704	(1,206)	498
Other credit operations	-	-	-	-	-	3,485	-	3,485
	2,583	**37,881**	**(27,673)**	**12,791**	**-**	**12,434**	**(5,021)**	**7,414**
POCI								
Debt instruments and commercial paper	-	-	-	-	1,767	-	-	1,767
Loans and other applications	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**1,767**	**-**	**-**	**1,767**
	1,129,800	**37,881**	**(32,690)**	**1,134,991**	**836,861**	**12,434**	**(8,880)**	**840,415**

	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**

The movements in the impairment due to expected losses in financial assets during the 2023 and 2022 financial years were as follows:

EUR thousand	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 January 2022	**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
Decrease due to write-offs	(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**
Financial assets originated or acquired	1,181	-	-	-	1,181
Financial assets derecognized	(517)	(1,574)	-	-	(2,091)
Net changes in credit risk	(231)	(2,264)	7,490	27	5,022
Allocations, net of reversals (Note 22)	432	(3,838)	7,490	27	4,111
Decrease due to write-offs	-	(1,045)	(10,955)	-	(12,000)
Loan recoveries	-	134	4,832	-	4,966
Foreign exchange and other variations	(169)	(117)	(862)	(2,587)	(3,736)
Balance as at 31 December 2023	**6,364**	**2,513**	**32,693**	**-**	**41,571**

As at 31 December 2023 and 2022, the caption “Allocations, net of reversals” is net of loan recoveries in the amount of € 4,966 thousand and € 6,423 thousand, respectively.

During 2023, the caption “Allocations, net of reversals” includes the amount of € 5,517 thousand (2022: € 29,073 thousand) 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 2023 and 2022 financial years were as follows:

EUR thousand	Exposure	Impairment
Movement in Stage 3		
Balance as at 1 January 2022	**26,393**	**17,376**
Financial assets derecognized	(11,630)	-
Net changes in credit risk	106,941	28,012
Decrease due to write-offs	(19,773)	(19,773)
Loan recoveries	-	6,423
Foreign exchange and other variations	(10,266)	151
Balance as at 31 December 2022	**91,665**	**32,189**
Financial assets derecognized	(44,231)	-
Net changes in credit risk	12,806	7,490
Decrease due to write-offs	(10,955)	(10,955)
Loan recoveries	-	4,832
Foreign exchange and other variations	3,613	(862)
Balance as at 31 December 2023	**52,898**	**32,693**

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	**31.12.2023**	**31.12.2022**
Performing credit	2	20
Overdue credit up to 90 days	-	-
Overdue credit between 90 days and up to 24 months	4	4
	6	**24**
Impairment for performing credit	-	-
Impairment for overdue credit up to 90 days	-	-
Impairment for overdue credit between 90 days and up to 24 months	-	-
	-	**-**
	6	24
Recoverable amount of overdue credit over 24 months	3,481	4,732
	3,487	**4,756**

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.

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	31.12.2023			31.12.2022		
		Fair value			Fair value	
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
Derivative instruments						
Interest rate derivatives	1,059,425	94,332	8,269	983,250	132,516	187
Foreign currency derivatives	633,484	11,091	1,038	620,664	25,468	1,097
	1,692,909	**105,423**	**9,307**	**1,603,914**	**157,984**	**1,284**
Of which subject to hedge accounting						
Interest rate derivatives	**1,045,167**	**93,761**	**8,171**	**955,004**	**129,861**	**187**
Of which for risk management (Notes 6 & 12)						
Interest rate derivatives	14,258	570	98	28,246	2,655	-
Foreign currency derivatives	633,484	11,091	1,038	620,664	25,468	1,097
	647,742	**11,661**	**1,136**	**648,910**	**28,123**	**1,097**
	1,692,909	**105,423**	**9,307**	**1,603,914**	**157,984**	**1,284**

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' (see Note 6) the accumulated hedge adjustment as at 31 December 2023 amounts to € (19,490) thousand (2022: € (34,336) thousand). In 2023, the Group recognized in profit or loss the amount of € 10,016 thousand (2022: € (36,790) thousand) related to the fair value change of the hedged instruments in the financial year and the amount of € 401 thousand (2022: € (61) 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 2023, losses on hedging instruments amounting to € (27,943) thousand (2022: € 102,117 thousand) and gains on the respective hedged items of € 27,797 thousand (2022: € (100,519) 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 € (2,470) thousand (2022: € (4,663) 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 2023 and 2022, may be analysed as follows:

EUR thousand	**31.12.2023**	**31.12.2022**
Category of financial assets at amortized cost	**5**	**551**
Gains/(Losses) on hedging instruments	(10,011)	37,341
Gains/(losses) on hedged items attributable to hedged risk	10,016	(36,790)
Category of financial assets at fair value through other comprehensive income	**(146)**	**1,598**
Gains/(Losses) on hedging instruments	(27,943)	102,117
Gains/(Losses) on hedged items attributable to hedged risk	27,797	(100,519)
Ineffectiveness of interest rate risk hedges	**(141)**	**2,149**

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

EUR thousand	**31.12.2023**	**31.12.2022**
Fair value hedges – securities in the "financial assets at amortized cost" portfolio	401	(61)
Fair value hedges - securities in the "financial assets at fair value through other comprehensive income" portfolio	(2,470)	(4,663)
Amortization of discontinued hedging relations	**(2,070)**	**(4,724)**

Hedging of net investments in foreign operational units

During 2023 and 2022, the Group used foreign currency denominated financial liabilities to hedge the foreign currency translation risk on its net investment in foreign subsidiaries. As at 31 December 2023 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	16,293	16,293
Finantia UK Limited	USD	130,500	130,500	118,100	118,100

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 2023 and 2022, 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	31.12.2023	31.12.2022
Acquisition cost:									
Opening balance	**22,525**	**6,306**	**2,073**	**2,290**	**1,268**	**32**	**996**	**35,491**	**38,000**
Additions	-	90	48	466	469	41	2	1,114	658
Disposals/Write-offs	(185)	(65)	(10)	(187)	(76)	-	(3)	(525)	(3,179)
Fx var./Transfers	583	10	(2)	-	27	(22)	(6)	590	12
Closing balance	**22,924**	**6,341**	**2,108**	**2,569**	**1,688**	**51**	**989**	**36,670**	**35,491**
Accumulated depreciation:									
Opening balance	**12,034**	**5,811**	**1,981**	**1,347**	**774**	**-**	**927**	**22,874**	**24,680**
Depreciation charge	274	112	93	477	272	-	7	1,235	1,189
Disposals/Write-offs	(185)	(65)	(11)	(160)	(76)	-	(20)	(517)	(3,004)
Fx var./Transfers	135	(5)	(7)	-	9	-	(7)	125	9
Closing balance	**12,258**	**5,853**	**2,057**	**1,663**	**980**	**-**	**909**	**23,718**	**22,874**
Carrying value	**10,666**	**488**	**51**	**906**	**708**	**51**	**83**	**12,952**	**12,617**

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)	(1,562)	(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 2.13.

9. Intangible assets

EUR thousand	Software	Other intangible assets	Work in progress	31.12.2023	31.12.2022
Acquisition cost:					
Opening balance	**5,997**	**397**	**138**	6,533	6,431
Additions	170	-	86	256	578
Disposals/Write-offs	-	-	-	-	(179)
Fx var./Transfers	(1)	-	(99)	(100)	(297)
Closing balance	**6,167**	**397**	**126**	**6,689**	**6,533**
Accumulated amortization:					
Opening balance	**5,497**	**397**	**-**	5,894	5,706
Amortization charge	230	-	-	230	365
Disposals/Write-offs	-	-	-	-	(179)
Fx var./Transfers	-	-	-	-	1
Closing balance	**5,726**	**397**	**-**	**6,123**	**5,894**
Carrying value	**440**	**-**	**126**	**566**	**639**

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 2023 and 2022, the captions “Other intangible assets” and “Work in progress” include software licenses and other expenditure incurred with software implementation and development.

During 2023 and 2022, there were no intangible assets generated internally.

10. Taxes

Income tax recognized in the income statement in 2023 and 2022 may be analysed as follows:

EUR thousand	31.12.2023	31.12.2022
Current tax		
Current tax on profit for the year	(1,792)	(2,239)
Current tax related to prior years	1,247	1,145
	(545)	**(1,095)**
Deferred tax		
Origination and reversal of timing differences	612	2,053
Tax losses carried forward	(1,249)	3,453
	(636)	**5,506**
Total income tax recognized in results	**(1,181)**	**4,411**

The deferred tax assets and liabilities recognized on the balance sheet in 2023 and 2022 may be analysed as follows:

EUR thousand	31.12.2023			31.12.2022		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Financial assets at fair value through other comprehensive income	8,820	-	8,820	17,699	-	17,699
Impairment/Provisions	3,358	(505)	2,853	3,320	(1,039)	2,281
Tax losses carried forward	3,677	-	3,677	4,926	-	4,926
Other	11,748	(11,896)	(148)	4,547	(4,727)	(180)
Deferred tax assets/(liabilities)	**27,603**	**(12,401)**	**15,202**	**30,492**	**(5,766)**	**24,726**
Set-off of deferred tax assets/liabilities	(12,401)	12,401	-	(5,766)	5,766	-
Net deferred tax assets/(liabilities)	**15,202**	**-**	**15,202**	**24,726**	**-**	**24,726**

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. As at 31 December 2023 and 2022, there are no deferred tax assets associated with tax losses carried forward not recognized in the financial statements.

The recoverability assessment of deferred tax assets is carried out annually. As at 31 December 2023, this exercise was carried out considering the elimination of the time limit on the use of tax losses in accordance with the amendments introduced by Law no. 24-D/2022 and based on the preliminary version of the

projections prepared for the period 2024-2026, with the Group's expectation being the generation of future taxable income for this purpose.

During financial year ended 31 December 2023, income taxes recognized in reserves related to financial assets at fair value through other comprehensive income (Note 16) amount to € (8,879) thousand (2022: € 15,239 thousand).

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

EUR thousand	**31.12.2023**		**31.12.2022**	
	%	**Amount**	**%**	**Amount**
Profit before income tax		11,533		(4,163)
Statutory income tax rate	25.5%		22.5%	
Income tax calculated based on the statutory income tax rate		**2,941**		**(937)**
Tax losses		(122)		325
Tax benefits		(103)		(95)
Autonomous taxation		101		156
Differences in the statutory tax rate of the subsidiaries		(57)		(677)
Equity changes		398		345
International double taxation tax credit		(518)		(2,051)
Non-taxable dividends		(1,194)		(1,162)
Branch taxes		480		884
Non-deductible impairment		16		(1,183)
Consolidation adjustments in financial instruments		(560)		(43)
Other		(201)		(27)
Income tax recognized in profit or loss		**1,181**		**(4,411)**
Current tax		545		1,095
Deferred tax		636		(5,506)
Tax under reconciliation		**1,181**		**(4,411)**

11. Other assets

EUR thousand	**31.12.2023**	**31.12.2022**
Operations pending financial settlement	8,998	12,656
Debtors and other applications	2,451	2,953
Other operations awaiting regularization	2,174	1,086
Accrued income	166	113
	13,790	**16,808**

As at 31 December 2023, the caption "Debtors and other applications" includes the amount of € 259 thousand (2022: € 321 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 Programme (PERES). This caption also includes the amount of € 1,882 thousand (2022: € 1,953 thousand) related to the value-added tax (VAT) tax credit recovery process.

The caption "Operations pending financial settlement" refer to outstanding operations resulting from the Group's day-to-day activity (Note 14).

12. Financial liabilities held for trading

This caption may be analysed as follows:

EUR thousand	**31.12.2023**	**31.12.2022**
Risk-management derivatives (Note 7)	1,136	1,097
Short sales	4,692	2,045
	5,828	**3,142**

13. Financial liabilities at amortized cost

This caption may be analysed as follows:

EUR thousand	**31.12.2023**	**31.12.2022**
Due to customers		
Time deposits	864,668	789,069
Demand deposits	38,226	56,411
	902,894	845,480
Sales operations under repurchase agreements (repos)		
Banks	537,156	440,693
Other financial companies	168,347	170,490
	705,503	611,183
Other financial liabilities at amortized cost		
Money market operations	108,205	163,522
Other deposits	-	-
	108,205	163,522
	1,716,602	**1,620,185**

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

14. Provisions and other liabilities

The caption “Provisions” may be analysed as follows:

EUR thousand	31.12.2023	31.12.2022
Bank guarantees and irrevocable commitments	1	2
Other provisions	560	711
	561	**713**

The movement occurring in the caption “Provisions” during the 2023 financial year was as follows:

EUR thousand	Bank guarantees and commitments	Other provisions	Total
Balance as at 1 January 2023	2	711	713
Allocations, net of reversals (see Note 22)	1	(151)	(150)
Foreign exchange and other variations	(2)	-	(2)
Decrease due to write-offs	-	-	-
Balance as at 31 December 2023	**1**	**560**	**561**

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
Decrease due to write-offs	-	(175)	(175)
Balance as at 31 December 2022	**2**	**711**	**713**

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	31.12.2023	31.12.2022
Other liabilities awaiting regularization	10,934	5,442
Accrued expenses	4,127	3,552
Amounts owed to the public sector	867	551
Lease liabilities	290	478
Creditors of specialized finance operations	373	355
	16,590	**10,378**

The caption “Other liabilities awaiting regularization” includes the amount of € 8,965 thousand (2022: € 4,700 thousand) related to transactions pending financial settlement, arising in the Group’s day-to-day activity (Note 11).

As at 31 December 2023, the caption “Accrued expenses” includes the amount of € 2,137 thousand (2022: € 1,264 thousand) corresponding to staff costs’ accruals.

As at 31 December 2023 and 2022, 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 2023 and 2022, the Group had various operating leasehold agreements. The minimum future payments related to operating leasehold agreements, by maturity, are as follows:

EUR thousand	**31.12.2023**	**31.12.2022**
Up to 1 year	163	257
1 to 5 years	127	221
	290	**478**

15. Share capital, share premium and treasury stock

Share capital and share premium

As at 31 December 2023 and 2022, 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.

In May 2023, the Shareholders' General Meeting approved the extinction of 21,092,944 own shares held as at 31 December 2022 (representing 14.06% of the share capital) through a reduction in share capital, followed by a capital increase through the incorporation of reserves to restore the amount of share capital to the value of € 150 million.

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 2023, the caption "Treasury stock" is represented by 86 shares with a nominal value of € 1 each (2022: 21,092,944). The acquisition cost of these shares was nil (2022: € 17,787 thousand).

During 2023 and 2022, there were the following movements in treasury stock:

EUR thousands, except number of shares	**2023**		**2022**	
	No. shares	**Acquisition cost**	**No. shares**	**Acquisition cost**
Balance at beginning of period	21,092,944	17,787	2,810,927	2,826
Acquisitions	-	-	18,282,017	14,961
Reduction of share capital through extinction of shares	(21,092,944)	(17,787)	-	-
Share capital increase	86	-	-	-
Balance at end of period	**86**	**-**	**21,092,944**	**17,787**

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, with the difference to the nominal value being recognized in "Other reserves" (Note 16).

During 2023, Banco Finantia extinguished 21,092,944 own shares it held, via a reduction in share capital. During the share capital increase, through incorporation of legal reserves, new shares were attributed pro-rata to the remaining shareholders, with the 86 shares resulting from the rounding down of the attribution being held by Banco Finantia and recorded as own shares.

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	**31.12.2023**	**31.12.2022**
Other accumulated comprehensive income	(26,091)	(53,447)
Retained earnings	(3,748)	(4,110)
Other reserves	305,548	338,739
	275,709	**281,182**

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 profit 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 profit until this reserve is equal to 20% of their issued share capital.

During 2023, the Group paid out dividends in the amount of € 12,000 thousand, through the appropriation of the net profit of 2022 and the use of free reserves.

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 2023 and 2022 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 2022	**(55,293)**	**1,846**	**(53,447)**	**(4,110)**	**338,739**	**281,182**
Changes in fair value	36,422	-	**36,422**	-	-	**36,422**
Hedging of net investment in foreign currency (Note 7)	-	(187)	**(187)**	-	-	**(187)**
Deferred taxes (Note 10)	(8,879)	-	**(8,879)**	-	-	**(8,879)**
Share capital increase through incorporation of reserves	-	-	**-**	-	(21,093)	**(21,093)**
Distribution of dividends	-	-	**-**	(248)	(11,752)	**(12,000)**
Other movements	-	-	**-**	362	(345)	**17**
Constitution/(Transfer) of reserves	-	-	**-**	248	-	**248**
Balance as at 31 December 2023	**(27,749)**	**1,659**	**(26,091)**	**(3,749)**	**305,549**	**275,710**

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**

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	**31.12.2023**	**31.12.2022**
Acquisition cost	1,201,374	1,168,924
Accumulated impairment recognized on the balance sheet (Note 6)	(32,690)	(34,894)
Value of financial assets, net of impairment	1,168,684	1,134,030
Fair value of financial assets (Note 6)	1,134,991	1,063,416
Unrealized gains/(losses) recognized in other comprehensive income	(6,755)	(105,507)
Accumulated impairment recognized in other comprehensive income	(29,814)	32,516
Deferred taxes (Note 10)	8,820	17,699
	(27,749)	**(55,292)**

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

EUR thousand	**31.12.2023**	**31.12.2022**
Balance at the beginning of the financial year	(55,292)	(10,225)
Change in fair value	62,534	(178,663)
Disposals in the period (Note 19)	1,917	(3,963)
Reclassification to impairment	(2,702)	17,137
Fair value hedges (Note 7)	(25,327)	105,182
Deferred taxes recognized in reserves in the period (Note 10)	(8,879)	15,239
Balance at the end of the financial year	**(27,749)**	**(55,292)**

17. Net interest income

EUR thousand	**31.12.2023**	**31.12.2022**
Interest and similar income		
Debt instruments	61,838	58,345
Loans	15,858	7,742
Derivatives	30,614	1,340
Other credit operations	1	5
Other interest and similar income	2,334	367
	110,645	**67,799**
Interest and similar expense		
Sale operations under repurchase agreement	(31,502)	(10,880)
Due to customers	(16,242)	(4,928)
Hedging derivatives	-	(770)
Other interest and similar expense	(4,445)	(826)
	(52,189)	**(17,404)**
	58,457	**50,395**

As at 31 December 2023, the caption "Interest and similar income" includes the amount of € 109,874 thousand (2022: € 67,388 thousand) related to interest calculated using the effective interest rate method. As at 31 December 2023 and 2022, the entire balance of the caption "Interest and similar expense" consists of interest calculated using the effective interest rate method.

During 2023, the total interest recognized in the income statement in respect of impaired financial assets is € 1,776 thousand (2022: € 4,088 thousand) (Note 22).

18. Net fee and commission income

EUR thousand	31.12.2023	31.12.2022
Fee and commission income		
From banking activity	1,564	1,186
From specialized finance activity	29	36
	1,593	**1,222**
Fee and commission expense		
On third-party banking services	(548)	(533)
On specialized finance activity	(13)	(11)
	(561)	**(544)**
	1,032	**678**

As at 31 December 2023, the caption "Fee and commission income - from specialized finance activity" includes the amount of € 28 thousand (2022: € 35 thousand) related to commissions from insurance intermediation.

19. Net results from financial operations

As at 31 December 2023 and 2022, this caption may be analysed as follows:

EUR thousand	31.12.2023	31.12.2022
Gains or losses from derecognition of financial assets at fair value through other comprehensive income (Note 16)	(1,917)	3,963
Gains or losses from derecognition of financial assets at amortized cost	(3,201)	(1,662)
Gains or losses from financial assets and liabilities held for trading	3,003	11,666
Gains or losses from financial assets and liabilities at fair value through profit or loss	(118)	(99)
Gains or losses from hedge accounting (Note 7)	(2,210)	(2,575)
Gains or losses from foreign exchange operations	(13,832)	(9,839)
Other gains or losses from financial operations	133	205
	(18,141)	**1,659**

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 € 4,679 thousand (2022: € 8,184 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 € 3,133 thousand (2022: € 2,056 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 2023, it includes the amount of € 412 thousand (2022: € 10,061 thousand), related to operations with interest rate derivatives.

As at 31 December 2023, this caption includes losses in the amount of € 9,089 thousand of operations made with instruments affected by the conflict between Russia and Ukraine (2022: losses of € 3,072 thousand, of which € 866 thousand derived from the treasury stock purchase operation (Note 15)).

20. Staff costs

EUR thousand	**31.12.2023**	**31.12.2022**
Remuneration	11,118	10,588
Mandatory social charges	2,362	2,327
Other charges	915	316
	14,394	**13,231**

As at 31 December 2023 and 2022, the remuneration, including respective mandatory social charges, paid to the Group's management and supervisory bodies amounted to € 1,094 thousand and € 969 thousand, respectively.

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

	31.12.2023	**31.12.2022**
Senior management	96	91
Middle management	130	127
Professional staff	20	22
	246	**240**

21. Other administrative expenses

EUR thousand	**31.12.2023**	**31.12.2022**
Specialized services	4,611	4,520
Maintenance services	1,612	1,657
Contributions	1,074	914
Communication	447	437
Travel and accommodation	404	428
Rentals and hires	155	132
Other	958	1,098
	9,261	**9,186**

The caption “Contributions” includes, among others, mandatory contributions to the Resolution Fund, the Single Resolution Fund, and the Deposits Guarantee Fund, the ECB Annual supervisory fee and the banking sector contribution (Portugal).

22. Impairment and provisions

As at 31 December 2023 and 2022, the amounts of impairment and provisions recognized in the income statement may be analysed as follows:

EUR thousand	**31.12.2023**	**31.12.2022**
Financial assets at fair value through other comprehensive income	6,163	30,345
Financial assets at amortized cost	(2,053)	2,307
Impairment or reversal of impairment in financial instruments (Note 6)	4,111	32,652
Impairment or reversal of impairment of non-financial assets	271	(13)
Impairment or reversal of impairment	4,382	32,639
Provisions or reversal of provisions (Note 14)	(150)	4
	4,232	**32,643**

As at 31 December 2023, the caption “Financial assets at amortized cost” is net of the amount of € 4,966 thousand (2022: € 6,423 thousand) related to credit recoveries.

As at 31 December 2023, the caption “Impairment or reversal of impairment” includes the amount of € 5,517 thousand (2022: € 29,073 thousand) related to instruments affected by the conflict between Russia and Ukraine (Note 6).

During 2023, the total amount of interest recognized in the income statement from impaired financial assets is € 1,776 thousand (2022: € 4,088 thousand) (Note 17).

23. Earnings per share

Basic earnings per share

EUR thousands, except number of shares	**31.12.2023**	**31.12.2022**
Net profit attributable to the shareholders of the Bank	10,352	248
Weighted average number of ordinary shares outstanding (thousand)	141,211	144,142
Basic earnings per share (in Euros)	**0,073**	**0,002**
Number of ordinary shares outstanding at year-end (thousand)	**150,000**	**128,907**

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 2023 and 2022.

24. Off-balance sheet items

EUR thousand	**31.12.2023**	**31.12.2022**
Guarantees issued		
Assets given in guarantee ("repos")	901,237	768,760
Guarantees and endorsements issued (Note 27)	977	977
	902,214	**769,737**
Guarantees received		
Assets received in guarantee ("reverse repos")	2,715	-
Financial guarantees	25,455	3,500
	28,170	**3,500**
Other possible assets		
Irrevocable credit lines	1,500	1,500
	1,500	**1,500**
Other possible liabilities (Note 27)		
Revocable credit lines	5,000	15,100
Other contingent liabilities	187	190
	5,187	**15,290**
Responsibilities for services rendered		
Deposit and custodianship of items	434,515	348,775
	434,515	**348,775**

As at 31 December 2023 and 2022, all assets recorded in the off-balance sheet item captions are classified in Stage 1. As at 31 December 2023, impairment was recognized (Stage 1) for credit risk in the amount of € 1 thousand (2022: impairment was derecognized in the amount of € 11 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 2023, to € 855,002 thousand (2022: € 721,712 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 2023, to € 2,779 thousand (2022: nil).

25. Cash and cash equivalents

For purposes of the presentation of the statement of cash flows, the caption "Cash and cash equivalents" comprises the following balances, with maturities under 3 months:

EUR thousand	**31.12.2023**	**31.12.2022**
Cash (Note 5)	67	78
Demand deposits with central banks (Note 5)	42,113	74,957
Deposits with other banks (Note 5)	5,960	8,541
Due from banks (Note 6)	58,113	58,193
	106,254	**141,769**

"Due from banks" considered as cash and cash equivalents relates only to balances with maturities under 3 months, amounted to € 58,113 thousand (2022: € 58,193 thousand) and excluded minimum cash reserves of € 6,676 thousand (2022: € 4,815 thousand) (Note 5) and collateral deposits of € 1,106 thousand (2022: € 19,374 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 main shareholders of Banco Finantia as at 31 December 2023, are analysed as follows:

Shareholder	**Registered office**	**Direct shareholding %**	**Effective shareholding %**
Finantipar, S.A.	Portugal	39.6	39.6
Arendelle, S.A.	Portugal	16.5	16.5
Natixis	France	11.3	11.3
Erste Abwicklungsanstalt	Germany	10.4	10.4

The balances and transactions with related parties as at 31 December 2023 and 2022, may be analysed as follows:

EUR thousand	**31.12.2023**	**31.12.2022**
Due to customers		
Finantipar, S.A.	2	49
Other related parties	103	103
Gains from financial operations		
Finantipar, S.A.	-	12
Other related parties	-	21
Interest expense and similar charges		
Other related parties	2	1
Deposit and custodianship of items		
Finantipar, S.A.	22,975	18,769
Arendelle, SA	24,810	21,321
Other related parties	3,336	2,408

Transactions with related parties are realized under normal market conditions.

As at 31 December 2023 and 2022, the other related parties are small shareholders of Banco Finantia (with a shareholding of less than 10%).

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 of the Executive Committee, composed of 4 executive directors. The Executive Committee also monitors the overall 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, business/strategy model and other risks (covering compliance, money laundering and the financing of terrorism, reputational and ESG risks).

In the scope of ICAAP, the Group allocates capital to the above risk categories. As at 31 December 2023, the Group presented an own capital utilization ratio for economic capital requirements of 47.4% (42.2% as at 31 December 2022).

Regarding risk appetite, during 2023 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 (ROE) which has, since 30 June 2023, been over the limit, but within the tolerance levels. This situation is monitored by the Risk Department.

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

Credit risk

Credit risk arises not only from the possibility of a counterpart defaulting but also from the decline 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	**31.12.2023**	**31.12.2022**
Cash and banks (Note 5)*	5,960	8,541
Debt instruments (Note 6)	1,689,601	1,513,478
Loans (Note 6)	247,043	169,846
Due from banks (Note 6)	56,391	77,575
Purchase operations under resale agreements (“reverse repos”) (Note 6)	2,832	-
Risk-management derivatives (Note 6)	11,661	28,123
Other credit operations (Note 6)	3,487	4,756
Other assets (Note 11)	14,100	16,847
	2,031,076	**1,819,167**
Financial guarantees and other possible liabilities (Note 24)	5,977	16,077
	5,977	**16,077**

* 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 2023, 84% (2022: 80%) 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	**31.12.2023**		**31.12.2022**	
OECD countries	1,525,638	69%	1,253,494	61%
Investment grade (non-OECD) countries	318,378	14%	383,162	19%
Other countries	352,913	17%	422,725	20%
	2,196,929	**100%**	**2,059,381**	**100%**

As at 31 December 2023, the “Other countries” category includes approximately 0.78% of debt issued by entities that pose a risk related to Russia, Belarus and Ukraine, value which, as at 31 December 2022, was approximately 3.06%. 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 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 € 0.8 million, of which circa +/- € 0.6 million in Stage 1 and +/- € 0.2 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 2023, 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	105,423	105,423	-	96,587	8,836
Reverse repos	2,832	2,832	-	-	2,832
Total	**108,255**	**108,255**	**-**	**96,587**	**11,668**
Financial liabilities					
Derivatives	9,307	9,307	-	-	9,307
Repos	705,503	705,503	(855,002)	6,488	(143,012)
Total	**714,810**	**714,810**	**(855,002)**	**6,488**	**(133,705)**

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 2023 and 2022, 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 2023, the average daily VaR for interest rate risk was € 2.41 million (€ 2.64 million in 2022), 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 2023	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	293,576	165,672	108,887	919,402	1,010,756
Liabilities	(717,422)	(405,472)	(446,720)	(190,895)	-
Off-balance sheet items	875,756	168,007	(23,970)	(456,087)	(793,316)
Gap	**451,910**	**(71,793)**	**(361,803)**	**272,420**	**217,440**

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**

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 2023, based on the methodology described above, the average daily VaR for foreign exchange rate risk was € 1.55 million (€ 1.43 million in 2022), which corresponds to about 0.4% 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	**31.12.2023**	
	USD	**Other currencies**
Assets		
Cash and banks	1,735	954
Debt instruments	936,663	-
Loans	89,425	-
Due from banks	55,282	-
Purchase operations under resale agreements (“reverse repos”)	2,832	-
Derivative instruments (Note 7)	45,639	-
Other credit operations	-	-
Other assets	8,577	2,152
Total assets	**1,140,153**	**3,105**
Liabilities		
Short sales	4,692	-
Derivative instruments (Note 7)	5,363	-
Due to banks	-	-
Due to customers	21,858	-
Sales operations under repurchase agreements (“repos”)	473,821	-
Foreign currency derivatives	633,484	-
Other liabilities	10,120	372
Total liabilities	**1,149,338**	**372**
Net regulatory position	**(9,184)**	**2,734**
Fair value reserve	(15,427)	-
Net accounting position	**6,243**	**2,734**

EUR thousand	**31.12.2022**	
	USD	**Other currencies**
Total assets	**1,045,887**	**7,903**
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**

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 Executive 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 2023, 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	104,837	1,512	-	-	106,349
Due to customers	170,780	419,145	339,386	-	929,310
Sales operations under repurchase agreements (“repos”)	267,493	329,267	119,811	-	716,570
Short sales	-	-	50,180	4,398	54,578
Liabilities by contractual maturity dates	**543,109**	**749,924**	**509,377**	**4,398**	**1,806,808**
Assets					
Deposits with banks	52,887	-	-	-	52,887
Due from banks	55,423	-	-	-	55,423
Debt instruments	44,140	177,815	973,061	1,050,001	2,245,017
Other credit operations	883	106	-	-	989
Loans	12,829	80,483	167,875	46,429	307,616
Purchase operations under repurchase agreements (“reverse repos”)	2,843	-	-	-	2,843
Assets held for liquidity risk management	**168,123**	**258,268**	**1,140,936**	**1,096,430**	**2,663,787**

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
Purchase operations under repurchase agreements (“reverse repos”)	-	-	-	-	-
Assets held for liquidity risk management	**223,040**	**201,032**	**1,057,482**	**935,149**	**2,416,703**

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

As at 31 December de 2023:

EUR thousand	**Up to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Assets' cash flows	228,052	460,913	128,241	43,092	860,298
Liabilities' cash flows	219,403	430,911	62,554	29,487	742,354

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

Non-financial risks

Non-financial risks for the Group include business/strategy model, internal governance, operational (including operational, information systems and model risks) and other risks including reputational, compliance, money laundering and terrorism financing and ESG 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. Regarding reputational risk, this refers to the negative perception of the Group's public image. Compliance risk 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. ESG risks result from environmental, social and governance factors that an entity may face, with these risks being a combination of threats and opportunities that can have a significant impact on reputation, financial performance and solvency.

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. 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, which cover the various non-financial risk categories, the Group also maintains records that result in a database of Operational and Reputational Risk events. 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 business model/strategy risks.

During 2023, the three phases of the ESG project were concluded (the action plan is currently being implemented) and in order to mitigate non-financial risks, a Business Continuity Plan component was also incorporated related to the annual review of the business functions and supporting processes and activities and the human and technological resources, as well as external dependencies were also identified, with the attribution of a level of criticality by process. In 2024, the Bank will continue to promote initiatives to reduce 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 2023 and 2022 are presented in the 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 2023 and 2022, 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) – in 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		31.12.2023			31.12.2022		
	Notes	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets							
Financial assets at fair value through other comprehensive income	6	784,085	341,516	9,390	731,775	313,714	17,927
Financial assets not held for trading mandatorily at fair value through profit or loss	6	-	62	361	-	60	383
Financial assets held for trading	6	12,088	2,619	-	12,177	1,553	-
Derivative financial instruments	7	-	105,423	-	-	157,984	-
Liabilities							
Derivative financial instruments	7	-	9,307	-	-	1,284	-
Short sales	14	-	4,692	-	-	2,045	-

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 € 94,332 thousand and € 8,269 thousand, respectively (2022: € 132,516 thousand and € 187 thousand, respectively). As at 31 December 2023 and 2022, 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 2023, 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 non-directly-observable market data related to 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 2023, the fair value of these instruments amounts to € 6,916 thousand (2022: € 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 +/- € 0.128 thousand and +/- € (0.258) thousand, respectively (2022: approximately +/- € 0.367 thousand and +/- € (0.741) thousand, respectively).

During 2022, the amount of € 15,705 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 2023 and 2022, 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:

	31.12.2023		31.12.2022	
	EUR	USD	EUR	USD
Overnight	4.038	5.399	1.890	4.318
1 month	4.037	5.399	1.884	4.392
3 months	3.998	5.352	2.132	4.767
6 months	3.805	5.137	2.693	5.139
1 year	3.308	4.691	3.291	5.482
3 years	2.388	3.671	3.311	4.342
5 years	2.271	3.445	3.239	4.023
7 years	2.287	3.391	3.202	3.903
10 years	2.382	3.387	3.203	3.838
15 years	2.526	3.424	3.142	3.812
20 years	2.526	3.394	2.931	3.744
30 years	2.352	3.153	2.533	3.491

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	31.12.2023	31.12.2022
EUR/USD	1.1050	1.0666
EUR/GBP	0.8690	0.8869
EUR/CHF	0.9260	0.9847
USD/BRL [(a)]	4.8523	5.2865

[(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	31.12.2023				31.12.2022			
		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	54,816	54,816	-	-	88,391	88,391	-	-
Financial assets at amortized cost	6	836,928	409,844	410,000	5,096	670,035	340,504	282,577	9,827
Other loan operations	6	3,487	-	3,487	-	4,756	-	4,756	-
Liabilities									
Due to banks	13	108,205	108,205	-	-	163,522	163,522	-	-
Due to customers	13	902,894	902,894	-	-	845,480	845,480	-	-
Repurchase agreements	13	705,503	705,503	-	-	611,183	611,183	-	-

As at 31 December 2023, 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 € 5,696 thousand (2022: € 11,007 thousand), which respective fair value amounted to € 5,096 thousand (2022: € 9,827 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 2023, the Group structure may be analysed as follows:

Subsidiary	Year of incorporation	Year of acquisition	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

31. IBOR Reform

On 30 June 2023, the final date for the Libor USD transition occurred.

As at 31 December 2023 and 2022, all hedging relationships carried out by the Group are at fair value ("fair value hedges").

As at 31 December 2023, the Group holds financial assets at amortized cost and "Due to banks" indexed to the €ster reference rate, respectively in the amount of € 1,052 thousand (2022: € 19,303 thousand) and € 104,129 thousand (2022: € 154,354 thousand).

As at 31 December 2023, the Group had financial assets at fair value through other comprehensive income, financial assets at amortized cost and repos operations indexed to the SOFR reference rate, respectively in the amounts of € 7,240 thousand (2022: nil), € 66,485 thousand (2022: € 10,404 thousand) and € 160,171thousand (2022: € 78,180 thousand).

32. Subsequent events

Up to the date of this report and after the end of the 2023 financial year, no events with a material impact on the Group's Financial Statements have occurred.

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Ernst & Young
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(Translation from the original Portuguese language. In case of doubt, the Portuguese version prevails.)

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 of December 31st 2023 (showing a total of 2.196.929 thousand euros and a total equity of 448.910 thousand euros, including a net profit of 10.352 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 attached notes to the consolidated financial statements, including material accounting policy information.

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 of December 31st, 2023, and of its financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

Basis for opinion

As 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 2.002.197 thousand euros representing 91% 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 analyzed 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 449.620 thousand euros and 9.751 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 13.999 thousand euros classified in level 2 of the fair value hierarchy, IFRS 13 – Fair Value. On 31 December 2023, 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 essentially 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.	

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, being that its period was changed on May 31st 2019 to the three year period 2019-2021. 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 skepticism 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 this date;
- 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 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");
  - Report addressed to the supervisory body on the adequacy and effectiveness of the governance and internal control systems within the scope of article No. 55 of Notice no. 3/2020 of the Bank of Portugal

Lisbon, 27th of March 2024

Ernst & Young Audit & Associados – SROC, S.A.
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