Banco Finantia

# Consolidated Report and Accounts | 2020

15 March 2021

Banco Finantia

## Banco Finantia
## KEY FIGURES
### IFRS [1]

| Euro million | 2020 | 2019 | Change |
|---|---|---|---|
| **BALANCE SHEET** | | | |
| Total assets | 2,105.2 | 2,157.3 | - 2 % |
| Fixed-income and loan portfolio | 1,894.3 | 1,983.3 | - 4 % |
| Customers deposits | 950.0 | 939.6 | + 1 % |
| Shareholders' equity | 478.8 | 462.3 | + 4 % |
| **INCOME STATEMENT** | | | |
| Net interest income, net of hedging | 32.1 | 35.3 | - 9 % |
| Operating income | 51.4 | 74.9 | - 31 % |
| Net profit | 23.7 | 36.0 | - 34 % |
| **PROFITABILITY (%)** | | | |
| Return on equity (ROE) [2] | 5.9 | 11.1 | - 5.2 pp |
| Return on assets (ROA) [2] | 1.2 | 2.2 | - 1.0 pp |
| **CAPITAL ADEQUACY (BIS III, fully loaded) (%)** | | | |
| CET1 Ratio | 27.3 | 23.9 | + 3.4 pp |
| Total Capital Ratio | 27.3 | 23.9 | + 3.4 pp |
| **LIQUIDITY AND FUNDING INDICATORS (%)** | | | |
| Liquidity Coverage Ratio (LCR) [3] | 863 | 606 | + 256.9 pp |
| Leverage Ratio [4] | 22 | 20 | + 2.1 pp |
| **EFFICIENCY / ASSET QUIALITY** | | | |
| Cost-to-Income (%) | 46 | 35 | + 11.6 pp |
| NPE Ratio (%) [5] | 2.07 | 2.03 | + 0.1 pp |
| **DATA PER SHARE (Euro)** | | | |
| Net Profit | 0.16 | 0.24 | - 0.08 € |
| Book Value | 3.19 | 3.08 | + 0.11 € |
| Weighted average no. of shares outstanding (million) | 150 | 150 | n.a. |
| Year end no. of shares outstanding (million) | 150 | 150 | n.a. |

[1] International Financial Reporting Standards

[2] Amounts before tax

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

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

[5] NPE Ratio (Non-performing exposures), non-performing exposures over total assets

## Banco Finantia in Brief

Banco Finantia is an independent bank, with a national and international experience of over 33 years and is an important player in Portugal in the areas of investment and private banking.

Banco Finantia has always presented positive results and capital ratios higher than the sector average.

In the 2020 financial year the ROE attained 5.9%. At the end of 2020 Shareholders' Equity amounted to € 479 million and the Common Equity Tier 1 ratio stood at 27.3%, one of the highest in the European Union.

The Bank operates in two important niche markets:

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

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

Banco Finantia has as its main operating units banks in Portugal and Spain, and broker dealers in the United Kingdom and in the United States.

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



# 1 Macroeconomic Framework

## 1.1 World Economy

The main highlight for 2020 was the Covid-19 pandemic. Around the world, governments introduced quarantines, as well as other restrictive measures, in an attempt to reduce the spread of the virus. Although lives were saved, these measures also triggered the worst recession since the Great Depression (1929). The pandemic had a more negative economic impact than initially expected in the first half of 2020 and the recovery has been more gradual than anticipated. Some optimism is beginning to be noted with the easing of containment measures, global vaccination and support provided by central banks and governments on an unprecedented scale. However, the crisis is far from over. It has been difficult to combat the virus, which continues to spread, leading to new restrictive measures, including new quarantines. Employment remains below pre-pandemic levels and the job market is practically stagnant. The recovery will tend to be long, uneven, and very uncertain.

The latest data published by the IMF, for 2020, point to a contraction of world GDP of 3.5%. In developed economies, the IMF predicts a 4.9% contraction in 2020, while in developing countries the estimated contraction is 2.4%.

For 2020, the drop in GDP espected for the USA stands at -3.4% (vs. +2.2% in 2019), in the Eurozone at -7.2% (vs. +1.3% in 2019) and in the United Kingdom by -10.0% (vs. +1.4% in 2019). China is expected to growth 2.3% (vs. 6.0% in 2019), while a contraction is expected in India of -8.0% (vs. +4.2% in 2019), in Brazil of -4.5% (vs. +1.4% in 2019), and in Russia of -3.6% (vs. +1.3% in 2019). Turkey is expected to grow 1.2% (vs. 0.9% in 2019).

For 2021, the IMF forecasts point to a recovery in world growth of 5.5%, with developed economies growing 4.3%, while emerging economies are expected to grow 6.3%.

Regarding developed economies, the election of a new president in the USA, the Brexit trade agreement, the global anti-Covid vaccination and the fiscal and monetary policies adopted on a large scale, especially in the EU and the USA, stand out. Capital markets, which ceased to function for weeks at the start of the pandemic, have rebounded to historic levels. In this context, the IMF projects for 2021 a growth for the USA of +5.1%, the Eurozone of +4.2% and the United Kingdom of +4.5%.

Asia will continue to be the locomotive of growth for Emerging Countries (estimated at +8.3%), led by India (+11.5%) and China (+8.1%). Latin America and the Caribbean, which in 2020 were hit by the deepest recession of all regions (-7.4%), have a positive outlook for 2021 (+4.1%). The IMF's growth projections for Brazil are +3.6%. In Emerging Europe, the projected growth is 4.0%, with Russia at +3.0% and Turkey at +6.0%. The Middle East and Central Asia, as well as Sub-Saharan Africa, have growth projections of 3.0% and 3.2%, respectively.

Growth forecasts for China reflect increased consumption and confidence in business investment, in addition to improved corporate profits and labour market conditions. For Brazil, a partial recovery is expected in 2021, reflecting the persistent effects of the health crisis and the expected end of fiscal support. For Russia, structural economic problems will prevent a rapid economic recovery. Turkey's growth is expected to reflect a recovery in domestic demand.

### 1.2 Iberian Peninsula

According to INE (Portuguese National Statistics Institute) official data (national accounts) Portugal's GDP fell 7.6% in 2020 (from +2.2% in 2019). The contraction was particularly strong from mid-March when measures were put in place to contain the spread of the pandemic. As of May, with the easing of these measures and the impact of the economic policy measures, the level of activity began to gradually recover. Credit lines guaranteed by the State were established to avoid the bankruptcy of companies that were viable before the pandemic, and the subsequent destruction of capital and jobs, so as to bring about a more sustained recovery. The liquidity needs of companies and families have also been mitigated by the implementation of loan moratoria, both public and private.

Fiscal policy focused mainly on the expenditure side to support salaries, preserve employment, and increase social benefits. Among these measures, the simplified layoff scheme stands out, due to its importance in preserving employment and in reducing companies' liquidity needs. For 2021, Banco de Portugal projects growth of +3.9% (the European Commission 4.1%), which will depend to a large extent on the application of the EU Recovery and Resilience Plan and the consequent injection of European funds into the economy. Estimated unemployment for 2020 is 6.8% (vs. 6.5% in 2019), with a projected 8.2% for 2021. Banco de Portugal estimates that inflation in 2020 was -0.2% and that it will increase slightly to +0.3% in 2021. Private consumption is expected to increase to 3.9% in 2021, contrasting with the estimated reduction for 2020 (-6.8%), while public consumption is expected to increase to 4.9% in 2021, from an estimated 0.4% for 2020. Public debt was estimated at 137% of GDP at the end of 2020, against 118% in December 2019.

The Bank of Spain expects GDP to contract by around 11.1% in 2020, after growing by 2.0% in 2019. The Bank also projects a GDP growth of 6.8% (the European Commission 5.6%) for 2021, supported mainly by investment and private consumption. This forecast assumes the implementation of expenditure projected under the Next Generation EU program, with grants set at € 26.6 billion in the State Budget for 2021. Unemployment is expected to increase from 15.8% in 2020 to 18.3% in 2021.

## 2 Operating Activities

2020 was marked by the Covid-19 pandemic, which resulted in a worldwide recession. The economic contraction was widespread affecting all countries and regions and, particularly, the Iberian Peninsula. At the beginning of the pandemic the capital markets were severely disturbed at the global level, reflecting a strong liquidity squeeze. However, partly reflecting the announcement by the EU and the USA of measures to support the economy, liquidity gradually returned to normal as of the second half of the year, maintaining a positive trajectory until the end of the year.

In this context, Banco Finantia’s posture was very conservative - consolidating its position in the markets where it operates, stabilizing the levels of assets and liabilities and accumulating an additional liquidity buffer. The traditional strategy of maintaining a portfolio of geographically and sectorally diversified assets has once again proven correct. The pandemic had a minimal impact at the level of provisioning.

Total assets amounted to € 2,105 million at year end. (€ 2,157 million in 2019). Reflecting the scarcity of liquidity in the markets the Capital Market activity saw the transaction volume decrease, although the number of institutional customers increased. The number of Private customers also increased with the widening of the financial products offer, and deposits increased 1%, reaching € 950 million.

### 2.1 Capital Markets

The year 2020 will be marked by major fluctuations in the capital markets as a result of the pandemic and their reflection on the levels of risk aversion of institutional investors and by the application of extraordinary measures launched by Central Banks at the global level.

In this context of great uncertainty, the Capital Markets business was affected by the extreme illiquidity generated by the pandemic as from March 2020 and closed the year with a trade volume well below that of the previous year.

However, the focus on proximity to our customers resulted in an increase of the Group's institutional customer base in 2020 of about 11%, with an emphasis on the increase in the number of customers in Europe, the United Kingdom and Latin America.

With the attenuation of the effects of the pandemic on the financial markets in the second part of the year, the activity of the Capital Markets area maintained its growth strategy based on the global increase in the number of counterparties and a greater use of electronic platforms, which allowed it to increase the volumes traded and the profitability per transaction in the last part of the year. As a result, this area contributed positively to the Group's results.

During the year, we continued to see a trend towards a reduction in the volume of Commercial Paper placements in Portugal. This reflects a lesser interest on the part of investors, given the low absolute rates offered and the inherent illiquidity of this instrument. This trend is also a reflection of the alternatives made available to companies by commercial banks and the current moratoria regime.

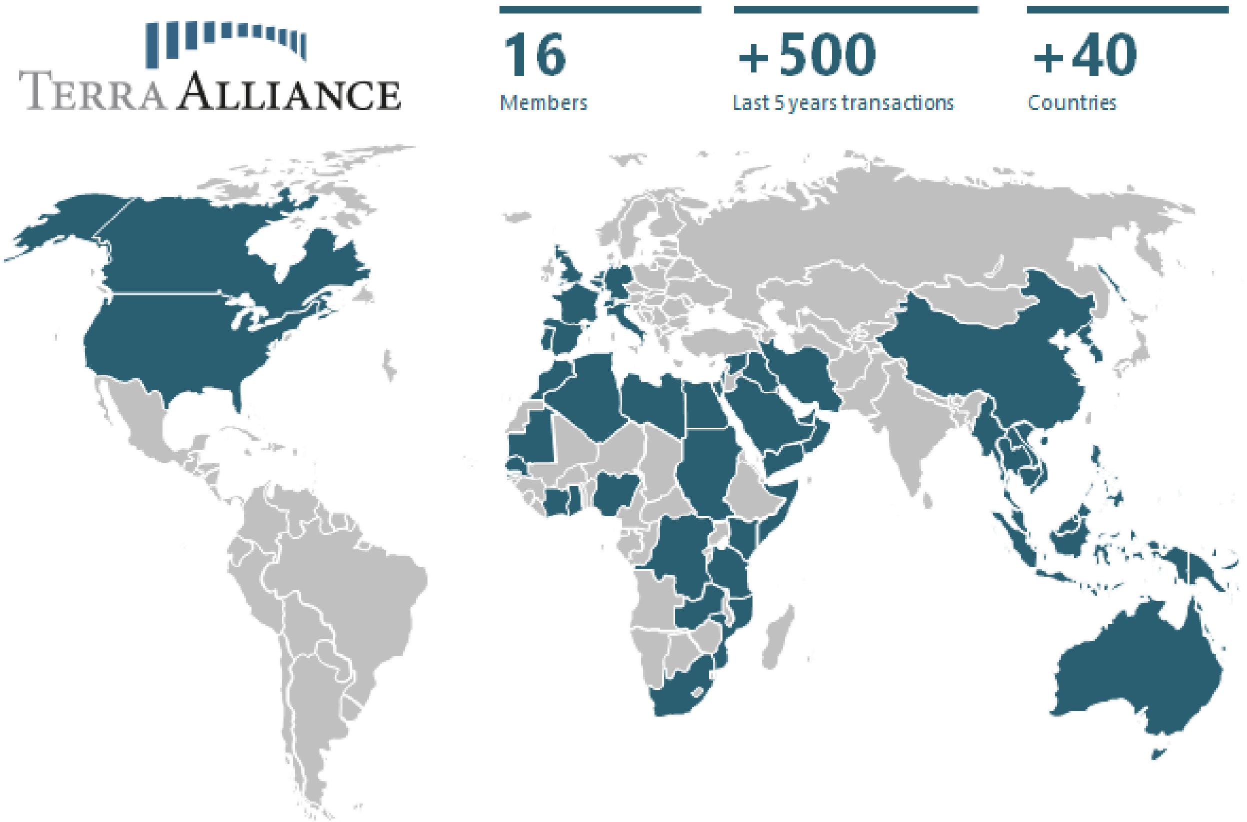
The downward trend in the Portuguese market was offset by an increase in placements of *Pagarés* in Spain listed on the Mercado Alternativo de Renta Fija (MARF). This market continues to be a financing alternative for Portuguese companies, and once again demonstrated its resilience through the purchase and guarantees program launched by the Instituto de Crédito Oficial (ICO).

Regarding the bank's debt securities portfolio it should be noted: (i) at the beginning of the pandemic, the lack of liquidity and depth of the markets where the Bank operates; and (ii) subsequently, the environment of low interest rates resulting from the interventions of the main Central Banks. In this context, an extremely prudent management of this portfolio was undertaken, reducing its amount by about 4% compared with the previous year, promoting risk mitigation and maintaining the diversification strategy by entity, sector, country, and region. We were thus able to maintain the average quality of this portfolio to compensate for the adverse effects of the pandemic. Despite a slight reduction in the net interest income, 99.5% of the securities' portfolio closed the year 2020 without any arrears in payments of interest or capital, once again making an important positive contribution to the results of the Bank.

### 2.2 Corporate Finance

The year 2020 was a year of consolidation for the Corporate Finance area. Banco Finantia benefited from its competitive advantages as an international and independent investment bank, to further strengthen its strategic positioning in cross-border financial advisory and, in particular, cross-border transactions.

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




In the **Financial Advisory** area, of note is our continued participation in transactions of reference and in the origination of sales mandates for Portuguese entities, as well as in the structuring of innovative transactions in Portugal (e.g., credit lines dedicated to capital calls by private equities).

In addition, the Bank extended its activities to various sectors of the economy, providing financial advisory services in the financial, services, health, infrastructure, and transportation industries, among other industrial sectors.

In 2020, the Bank strengthened and developed existing relationships, both with investment funds, private equity companies and asset managers, as well as through partnerships, namely with the Terra Alliance network, in order to intensify its international activity.

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

### 2.3 *Corporate Banking*

In the Corporate Banking area, the Bank maintains its strategy of continuing to diversify its loan portfolio by country of origin and by sector, focusing on supporting the growth of companies not only in Portugal and Spain but also in the remaining geographies where the Finantia Group has operated for over two decades.

Although the activity has been affected by the pandemic context since March 2020, Banco Finantia remained active and participated in 19 transactions in syndicated and bilateral loan format. Of these, six were in the primary market. Of note was the Bank's role as Co-arranger in the syndicated loans of JSC Agrobank and UzAuto Motors, in USD and EUR, respectively.

The decrease in transactions compared with the previous year, together with some early repayments of loans in the portfolio, resulted in a decrease of approximately 20% in the total amount of the loan portfolio compared with the homologous period, with the portfolio closing the year with a total of € 130.6 million. At the end of the financial year, however, a robust pipeline of transactions for the first quarter of 2021 had been originated.

It should be noted that in 2020, Banco Finantia contracted with COPASA a *Pagarés* program registered with MARF in the amount of € 30 million acting as coordinator, paying agent and placement entity for issues by this Spanish company. This is an important milestone, which opens the possibility for the Bank to be able to work with other Spanish companies and having a broader role in this large market.

Considering the growing appetite for Green Bonds and ESG Financing by investors and issuers, Banco Finantia has been working with several Portuguese and Spanish companies in order to place this type of issues on the market during the year 2021.

### 2.4 Private Banking

In 2020, we witnessed the expansion of Banco Finantia’s Private Banking activity in Portugal and Spain, with the consequent impact on the expansion of the customer base and the increase in the volume of assets and deposits, a situation that consolidates the presence of Finantia Private in this business area. The volume of deposits reached € 950 million (+1% versus 2019).

Globally, the concerted actions of the main central banks suggest that the monetary stimulus will be long-term, so it is likely that the Euro short-term benchmark interest rate will remain at negative values for some time. Low interest rates, or even negative ones, penalize the return on the savings of customers that seek alternatives to make their assets more profitable.

Banco Finantia

Despite the challenging year of the pandemic, Private Banking witnessed growth in turnover and results supported by the growth of financial products besides deposits.

For this improvement, several factors converged:

i A highly qualified and flexible commercial team, capable of offering customers the execution of customized financial services tailored to their needs;

ii Reactivation of the order execution service and provision of the new 'Investment Advisory' service for financial instruments such as funds, bonds and shares, aimed at investors with the appropriate profile;

iii Reopening of time deposit taking in the German market through the *Zinspilot* platform, held by Deposit Solutions;

iv Dissemination of the brand "Banco Finantia", as an experienced market operator, via specialized digital communication channels;

v Advertising campaigns of the term deposit product in Portugal and Spain for new customers;

vi Review, in early 2020, of the price list of commissions and general expenses for securities' services;

vii Reorganization of the Private Banking team in Portugal, adjusting it to the needs of the business.

Also of note was the automatic account opening via Frontend and the improvement of management documentation and data collection on customers, allowing their segmentation and, in general, optimizing internal procedures and improving the services provided to customers.

Within the scope of the future commercial strategy, this area will continue to pursue business growth objectives, either through the selective raising of new customers, or by boosting the degree of involvement with current customers. This strategy will focus on improving service quality levels and the level of customer satisfaction, with a focus on advisory services. The aim is to increase and diversify products and services offered off balance sheet, to continuously improve the digital media available, to automate internal and external processes making them more effective and to consolidate the notoriety image of a solid bank, always respecting the excellence and discretion that characterizes Banco Finantia.

## 3 Supporting Activities

### 3.1 Information and Development Systems

The year 2020 was marked by the continued implementation of several projects to allow for significant improvements and gains in efficiency and control in the Bank's information systems.

The "Frontend" project applicable to some of the Bank's business areas was continued, reinforcing the reliability, flexibility, and efficiency of the processes. Various automations of official reports were carried out for regulatory authorities, namely the "SFTR Report" for ESMA and the "Repos Report" for the ECB. The project to create an APP for Portugal was started, with the standardization of services such as the existing homebanking, which was restyled in an Iberian version.

The process of opening new customers accounts was automated and time deposit taking was reopened in the German market through the *Zinspilot* platform, owned by Deposit Solutions, an important openbanking player.

Considering the growth and diversity of the cybersecurity threats observed in recent times and the increased frequency of new vulnerabilities in infrastructures and applications, as well as the need to respond to legal and regulatory requirements, information security has continued to be a priority for the Group. In this sense, the preparation of documentation and formalization of controls on policies and procedures was continued, as was the implementation of solutions considered adequate for information security.

The accompanying of the Web-risk monitoring service was continued, to proactively detect threats and events in this area that may represent a risk for the Group, with intrusion tests being carried out on institutional websites and the homebanking platform, in order to identify possible vulnerabilities. A solution was implemented for the periodic and automatic conducting of vulnerability scans on the Group's assets, in order to proactively address these.

An endpoint protection solution was installed on the workstations, with anti-malware and encryption components of the hard drive, in order to increase the level of reputation and security of the email platform. Additional features have been implemented and activated for the Group's domains and new appropriate security measures and controls have been added to ensure compliance with the current SWIFT Customer Security Controls Framework security requirements contained in the SWIFT Customer Security Programme and in the TARGET2 Security Requirements for 2020.

Within the scope of the Covid-19 contingency plan, various actions were taken, and specific procedures were activated, to create robust and secure conditions to ensure access via Virtual Private Network (VPN) to all business platforms by employees displaced in teleworking, as well as to guarantee social distancing between employees in the offices and to ensure the continuity of the communication between all, in safety, including video conferencing solutions. To increase security in VPN accesses, the necessary configurations were made, and a solution was implemented so that these accesses are carried out with Multi-factor Authentication (MFA).

Training and awareness-raising actions were carried out for all Bank employees, related to topics and concepts within the scope of Information Security, with the aim of expanding their knowledge on how to act in relation to certain risks to which they are exposed when using the internet and the email.

Within the scope of the Business Continuity Plan (BCP), the Group's Business Impact Analysis (BIA) was reformulated to meet the requirements of the legislation issued by the European Banking Authority (EBA). The reengineering of this process intended to establish improvements in terms of business continuity in line with the continuous improvement recommended in the management of information security, identifying new interdependencies that were previously not formally identified.

To respond to new regulations (EBA), a mobile call recording solution for smartphones assigned to Private Banking employees was implemented; upgrades of versions of the Microsoft Windows operating system and Microsoft SQL Server that were in End of Support or Extended End of Support were initiated, giving priority to servers that support critical systems; and a new 20Mbps circuit was installed for the US branch, in order to create redundancy with the existing one.

### 3.2 Operations

The focus in 2020 was on the reorganization of processes and teams, in a new context of social distancing and teleworking. The experience and flexibility of the teams enabled the continuity of the Banking Operation with a high level of reliability.

In parallel, the process development strategy was continued, which resulted in a total of 118 requests for applications development being made to the Department of Application Development and Support.

In terms of new projects, we highlight in 2020:

i. the strong involvement in the development of the asset trading platform with Private Banking customers,
ii. the implementation of Deposit Solutions' electronic deposit taking platform, based on a fully automated process in terms of onboarding new customers and recording of deposits, and
iii. the operationalization of Banco Finantia as a paying agent in Iberclear, a Central Securities Depositary in Spain.

Also noteworthy is the change in the Correspondent Bank in US dollars, from Deutsche Bank Trust Company of Americas to Bank of New York Mellon.

In the Regulatory aspect, the control of the new Securities Financing Transactions Regulation (SFTR) reports was implemented and the communication of the beneficial owners of the account holders was added to the account database of Banco de Portugal.

Looking ahead to the year 2021, we expect a strong impact on Operations from:

i. the upgrade of the core application, Bank Fusion Midas,
ii. the preparation of the evolution of the Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET) services, and
iii. the operationalization of the custody of national securities with Interbolsa.

Throughout the coming year, the Operations Department will continue to focus on mitigating operational risk and the continuous training of employees, in line with the strategy and objectives defined by the Bank.

### 3.3 Human Resources

The pandemic launched great challenges in the management of Human Resources, namely in terms of operationalizing teleworking, recruitment and selection, training (new topics and growth in the e-learning modality) and leadership and monitoring of remote employees and teams, among others.

At Banco Finantia we believe that the people and the teams are at the base of our success. Consequently, we seek to ensure that the employees are continually aligned with the values, the culture, and the mission of the Bank.

We focus on the training, performance, and careers of our employees so as to make the people, the teams and our Organization grow.

As at 31 December 2020, the Bank and its subsidiaries had a total of 250 employees, of which 161 in Portugal, with the rest in the foreign subsidiaries, of which 74 in Spain.

The average age of the employees is 44 years, and their average employment period is 11 years. About 73% of the employees have a higher academic qualification (bachelor's/master's degrees).

Regarding gender distribution, at the end of 2020, 61% of the employees were male and 39% female.

As for employee distribution, on the same date, 36% of the Group's employees were senior staff, 56% mid-level staff and 8% administrative staff.

Internal mobility continues to merit focus, as a means to reinforce the employees' commitment while guaranteeing a balancing of the areas needs and the employees' aspirations.

The investment in training at Banco Finantia seeks performance improvement of employees and teams, promotion of the quality of the service provided and the increase in the level of employee motivation and commitment to the Bank. In 2020, training in the e-learning modality had a marked growth. At the same time, a strong focus was placed on training in information security issues, due to the widespread use of teleworking and the need to raise awareness among employees on this topic. We also highlight an action directed specifically at managers and which addressed the theme of Remote Team Leadership.

In 2020, 652 participations in training sessions were recorded, in a total of 113 actions of which 12 carried out internally, 22 carried out by external entities and 79 in an e-learning regime. The overall volume of hours of training in Portugal was approximately 4,650 hours (corresponding to an average of 26 hours of training per employee).

Lastly, we highlight the implementation of a new Performance Appraisal and Management System transversal to the Group and the development of an employee Portal that will come into operation in 2021.

### 3.4 Treasury

The year 2020 was marked by the outbreak and rapid spread worldwide of the Covid-19 pandemic and by the measures taken by the economic and monetary policy authorities of the main global economic blocs.

The ECB reinforced its expansionary policy (Quantitative Easing), by making the rules for the use of certain assets in refinancing operations more flexible, both in terms of the haircuts applied and in the eligibility criteria, as well as through the launch of new extended term financing operations (TLTRO III).

The American Federal Reserve (Fed), in March 2020, reduced its benchmark rate by 150 bps, intensified the amounts of public debt acquisition, launched a program for the purchase of private debt securities and created credit lines dedicated to non-financial companies.

In this context, and besides the pandemic, the second half of 2020 was dominated by uncertainties associated with BREXIT and the US elections. The Treasury Department implemented the strategy it had outlined, achieving the defined objectives of supporting the Bank's activity. These include liquidity management, monitoring of the Group's various financial flows, management of financial assets and liabilities, implementation of the policy for mitigating exchange and interest rate risks, and strengthening the relationships with other financial institutions.

The Treasury Department has a central role in the implementation of the strategy envisaged in the Internal Liquidity Adequacy Assessment Process (ILAAP), focusing its activity on mitigating this risk, through the permanent maintenance of a considerable liquidity margin and a continuous effort to diversify financing sources, thus ensuring the stability of the Group's funding.

In 2020, given the instability that affected most financial markets, the Bank's focus was on a prudent liquidity and risk management, maintaining a comfortable liquidity margin that could allow the main activity areas of the Group and of its subsidiaries to function at all times. This focus was reflected in an increase in highly liquid assets (HQLA), eligible for the liquidity coverage ratio (LCR), which registered an increase in its average annual value from 606% to 863%, values that far exceed the minimum regulatory requirement (100%).

Regarding the main sources of financing, customer deposits continue to represent the instrument with the greatest relative weight (45%) in the Group's liability structure, with the Bank maintaining, as in previous years, medium-term financing operations, allowing, in this way, for the desired granularity and reinforcement of the Group's stable financing.

In terms of the relationship with national and international financial institutions, the Bank maintained and deepened relationships with more than two dozen Financial Institutions in the main money, foreign exchange and interest rate markets, dispersed over more than one dozen countries and over five continents, having expanded the number of correspondents in USD, adding two top-tier banks to the options for forwarding transactions in USD and increasing flexibility and alternatives for the Group and its customers.

During 2020 and maintaining the practice of previous years, the Bank was represented, this year in virtual format, at the annual meetings of the IMF, the World Bank, SIBOS and the

Groupement Europèen de Banques (GEB) - an international cooperation banking group, formed by small and medium-sized private banks and in which Banco Finantia occupies the Vice-Presidency.

## 4 Risk Management

### 4.1 Risk Management Model

The Bank's risk management model is based on an integrated set of processes, duly planned, reviewed and documented. It is focused on an 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 established goals.

Risk management is based on processes that 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 risks.

The process of risk identification is based on risk matrices, which incorporate, among others, the mapping of the processes, of the risk factors and of the controls associated with the Banks's activity.

All these processes follow the principles recognized at the international and national level, in line with Banco de Portugal Notice no. 03/2020 and Instruction no. 18/2020, with the Guidelines on Internal Governance issued by the European Banking Authority (EBA/GL/2017/11) and with Regulation 575/2013 of the European Union (CRR).

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

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

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

- The Board of Directors is responsible 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 Board of Directors is also responsible for the approval of the Risk Appetite Framework (RAF);

- The Audit Committee is responsible, among others, for the prior analysis, of various important matters in the risk management and internal control areas.
- The executive directors are responsible for the implementation of the internal control system, based on the governance, strategy and policies approved by the Board of Directors related to the risk management model;
- The Finance and Risks Committee is responsible for the identification, assessment and monitoring of the various risks that the Bank is exposed to. The Finance and Risks Committee is also responsible for the monitoring of the RAF limits and tolerance levels;
- The Risk Department is responsible, with total independence, for the management of all the risks of the Bank. In this scope, the Risk Department: (i) guarantees the effective application of the risk management model, through a continuous monitoring of its adequacy and effectiveness, as well as the adoption of measures to correct any weaknesses; (ii) provides advice to all management and supervisory bodies; (iii) leads the work involving the update of risk matrices and the performance of the risk assessment; (iv) prepares and presents periodic reports related to risk management; (v) actively participates in the business and capital planning; (vi) performs stress tests; (vii) prepares the ICAAP, leads the preparation of the ILAAP and actively engages in the preparation of the RAF; (viii) realizes an independent review of the ILAAP methodologies and results; and (ix) promotes the integration of the risk principles in the Bank's daily activities.

In summary, the risk management model ensures:

- An adequate identification, assessment, monitoring and control of all the material risks to which the Group is exposed, as well as the mitigation of same;
- The adequacy of the internal capital to the risk profile, business model, and strategic planning; and
- The integration of the risk management process in the Group's culture and in its decision-making process.

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

### 4.2 Risk Profile

The risk profile of the Bank is determined via the analysis of risk matrices and the subsequent justification of the materiality of the risks, considering the applicable legislation in this matter and the activity developed by the Bank.

To do this, the Bank considers the following risk categories: credit, interest rate, including the Interest Rate Risk in the Banking Book (IRRBB) and the Credit Spread Risk in the Banking

Book (CSRBB), exchange rate, liquidity, internal governance, operational (including operating, information systems, and model risks), compliance (including the prevention of money laundering and the financing of terrorism, and behavioural risk), reputation and business model/strategy.

All the risk categories contributing to the Bank's risk profile are analysed, discussed, and monitored monthly by the Finance and Risks Committee considering exposure levels (and possible measures to increase effectiveness and risk mitigation), the ICAAP, ILAAP and RAF.

## > Credit Risk

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

## > Interest Rate Risk

The interest rate risk results from the probability of the occurrence of negative impacts, provoked by unfavourable fluctuations in interest rates due to gaps between the maturities of the assets and the liabilities and the widening of the securities’ spreads.

The Group has maturity and interest rate type mismatches between balance sheet assets, predominantly medium-long term and fixed rate, and balance sheet liabilities, essentially short-medium term deposits and repos. The adoption of measures to control/mitigate this risk, in particular through the contracting of interest rate risk hedging instruments (e.g., IRS), reduces the potential for a negative impact from the perspective of residual risk.

A significant part of the fixed-income investment portfolio (Hold to Collect and Sell portfolio), is recognized at fair value with the respective changes in value being recognized in equity, changes that can be influenced by credit spreads. The adoption of control measures through the monitoring of securities’ spreads, the monitoring of fair value reserves and the analysis of historical series’ prices allow for a timely management of this risk, reducing its impact on the Group's risk profile.

For ICAAP, the Group has applied the VaR methodology for the allocation of economic capital to interest rate risk, including IRRBB and CSRBB. The economic capital requirements for this risk are calculated through simulation models, based on a twenty-year rate history, a one-year holding period and a 99.9% confidence interval.

## > 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 operate only in assets and liabilities denominated in EUR and USD (the positions in other currencies are sporadic and immaterial).

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

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

### > Liquidity Risk

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

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

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

The Treasury Department is responsible for the daily cash flow management and the evolution of the balance sheet of the Bank. The Risk Department is responsible for the periodic analyses of the balance sheet management, preparing a monthly report for the Finance and Risks Committee.

The metrics used to measure liquidity risk in the scope of balance sheet management include the prudential ratios LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding 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 Bank monitors the NSFR, which supplements the LCR and has a wider temporal horizon (one year). This ratio has been developed to provide a sustainable maturity structure of the assets and liabilities, aimed at promoting an adequate resilience over a longer temporal horizon, and as an additional incentive for banks to fund their activities with more stable sources of funding on a regular basis.

### > Non-Financial Risks

Non-financial risks include internal governance, operational, compliance, reputation, and business model/strategy risks. These risks consist of the probability of the occurrence of negative impacts on results or capital arising from: (i) internal governance - maladjustments and weaknesses in the internal governance system, in the organizational structure and in the corresponding delimitation of responsibilities related to risk management; (ii) operational risk - operational failures, inadequacy of information and technology systems, errors of conduct or model weaknesses, (iii) compliance risk - non-compliance with laws and regulations, (iv) reputation risk - negative perception of the institution's public image; and (v) business model/strategy risk - inadequate plans and strategic decisions.

The management of non-financial risks has been gaining 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, which inputs derive from an extensive and comprehensive process of self-assessment specifically directed at non-financial risks. 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 2020, improvements were introduced in the mapping of the non-financial risk factors, optimizing its structure to permit a more efficient control over this type of risk.

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

During 2020, several training actions were carried out in the area of non-financial risks. It is worth noting specific training on Prevention of Money Laundering and Cybersecurity. For 2021, the Bank will continue to focus on training as a form of contributing to the reduction of non-financial risks.

## 5 Financial Overview

### 5.1 Consolidated Results

Despite the anomalous situation generated by the pandemic, the Bank recorded a positive net income of € 23.7 million in 2020 (a decrease of 34% compared with the € 36.0 million verified in 2019). Operating income attained € 51.4 million, that is, 31% less than that verified in 2019 (€ 74.9 million).

Net interest income before hedging costs reached € 55.7 million, in line with that of the previous year (€ 55.8 million), while net interest income net of interest rate and foreign exchange risk coverage amounted to € 32.1 million, circa 9% below the amount of the previous year (€ 35.3 million). Financial transactions, commissions and other income were € 19.3 million (€ 39.6 million in 2019). “Impairment and provisions” were € 2.7 million.

Operating expenses were € 23.8 million, a reduction compared with (€ 26.0 million) verified in 2019. The efficiency ratio (cost-to-income) attained 46% at the end of 2020, vs 35% in 2019.

The ROE (before tax) attained 5.9%, below the value of 11.1% recorded in 2019.

The summary of the consolidated income statement for the financial years ended 31 December 2020 and 2019, is as follows:

| € million | IFRS | |
|---|---|---|
| CONSOLIDATED INCOME STATEMENT | 31.12.2020 | 31.12.2019 |
| Net interest income, before hedging | 55.7 | 55.8 |
| Interest rate & FX hedging | (23.6) | (20.5) |
| **Net interest income, net of hedging** | **32.1** | **35.3** |
| Financial transactions, commissions and other income | 19.3 | 39.6 |
| **Operating income** | **51.4** | **74.9** |
| Impairments and provisions | (2.7) | (1.0) |
| Operating expenses | (23.8) | (26.0) |
| **Profit before tax** | **24.8** | **47.8** |
| **Net profit** | **23.7** | **36.0** |

## 5.2 Consolidated Balance Sheet

All the balance sheet components remained relatively stable, recording minor changes when compared with 2019.

Total assets amounted to € 2,105 million as at 31 December 2020, a decrease of 2.4% from the previous year:

| CONSOLIDATED BALANCE SHEET | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Assets** | | |
| Cash and banks | 133.6 | 130.0 |
| Fixed-income and loan portfolio | 1,894.3 | 1,983.3 |
| Other assets | 77.2 | 44.1 |
| **Total assets** | **2,105.2** | **2,157.3** |
| **Liabilities** | | |
| Customers deposits | 950.0 | 939.6 |
| MM takings and Repos | 593.1 | 676.3 |
| Other liabilities | 83.3 | 79.1 |
| **Total liabilities** | **1,626.3** | **1,695.0** |
| **Total shareholders' equity** | **478.8** | **462.3** |
| **Total liabilities and shareholders' equity** | **2,105.2** | **2,157.3** |

The fixed-income and loan portfolio (comprising mainly fixed-income securities) decreased 4% to € 1,894 million. The ratio of problematic credit (NPE) remained stable at 2.07%, vs 2.03% on 31/12/2019.

Customers' deposits attained € 950 million, 1% more than the € 940 million recorded in 2019.

Shareholders' equity attained € 479 million, an increase of 4% over 2019, reflecting, in part, the valuation of the investment securities' portfolio.

## 5.3 Solvency

### > 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, with the CET1 and total capital ratios both attaining 27.3% in 2020, signalling a significant increase in the Group's solvency:

| BASEL III | 31.12.2020 | 31.12.2019 |
|---|---|---|
| CET1 Ratio | 27.3% | 23.9% |
| Total Capital Ratio | 27.3% | 23.9% |

Risk Weighted Assets (“RWA”) reached € 1,736 million (€ 1,925 million in 2019).

### > Economic Capital

In complement to the regulatory perspective, the Bank uses an internal capital adequacy self-assessment process, so as 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.

On this basis, 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 so as to ensure that the Bank has the capacity to always settle all its liabilities, including deposits, on a timely basis.

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

In addition to the calculation of the economic capital requirements, the material risks are subject to stress tests to identify any weaknesses that the internal models may not have detected and that may come to jeopardize the solvency of the institution.

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

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

## 5.4 Regulatory developments

Regarding the minimum requirement for own funds and eligible liabilities (MREL), to be fully met by 1 January 2024, Banco Finantia is already fully complying with these requirements by 31 December 2020.

In response to the crisis caused by the pandemic, the supervisory authorities introduced a set of flexibility measures in the determination of the liquidity and solvency of institutions (CRR Quick Fix). Given Banco Finantia’s business model, the composition and quality of its assets and its levels of resilience, it was not considered necessary to resort to the use of the aforementioned flexibility measures.

### 5.5 Treasury Stock (Own shares)

At the beginning of 2020, the Bank held 37,607 own shares. During the 2020 financial year there were no acquisitions or sales of own shares, so at the end of 2020 the Bank held the same 37,607 own shares.

Already in 2021, the Bank acquired 2,834,940 own shares at € 1.00 per share, within the scope of an own share acquisition program aimed at all shareholders.

## 6 Social Responsibility, Cultural Patronage and Education

### 6.1 Social Responsibility

Complying with its mission of supporting various social solidarity projects aimed primarily at under-privileged children and youths with special education needs, Banco Finantia, in 2020, financed the following institutions:

ACADEMIA DOS CHAMPS (www.academiadoschamps.org) – 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.

APOIO À VIDA (www.apoioavida.pt) - A non-profit entity founded in 1999 with the purpose of helping, welcoming and training pregnant teenagers and women whose socioeconomic, family, or psychological situation prevents them from ensuring the birth and education of their children on their own. It does so through the provision of social and psychological support, the temporary reception of pregnant women in difficulty and the carrying out of training actions in the areas of family planning and maternal care or that respond to the professional insertion needs of the mothers. Over its 22 years of existence, it has helped more than 4,000 mothers, accompanying approximately 350 families annually.

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

ASSOCIAÇÃO DE DOENTES COM LUPUS (www.lupus.pt) – A non-profit institution founded in 1992 with the objective to provide medical, social, and educational support to patients with lupus and their families. With more than 3,000 patients associated, it has always sought to be a bridge between patients and the various universes that surround them: family and friends, doctors and other health personnel and society in general.

ASSOCIAÇÃO DOM MAIOR (www.dommaior.pt) – A non-profit entity, dedicated to disabled children and young people, providing therapeutic care in the scope of rehabilitation and education, with particular emphasis on the areas of blindness, deafness, adapted sports, and socio-professional integration.

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

CUERAMA (cuerama.org) – An association whose main objective is to promote and support development cooperation initiatives, to enhance local “know-how”, promoting the protection and safeguarding of the Human Rights of vulnerable people and communities, in Portugal and in African Portuguese Speaking Countries (PALOP).

LIGA DOS AMIGOS DO HOSPITAL DE S. JOÃO - An association created in 2006 to support patients hospitalized in this hospital, especially needy children, and the elderly.

MERCEARIA SOCIAL da Junta de Freguesia de Santo António (Parish of Santo António) - A project intent on having an active role in the fight against the difficulties faced by the more disadvantaged residents of this Lisbon parish, creating a space where they can acquire the goods they need, without any associated costs.

SANTA CASA DA MISERICÓRDIA DE LISBOA (www.scml.pt) - A secular institution founded in 1498 whose mission is the improvement of the overall well-being of the under privileged. The Bank’s support has been centred on a sponsorship program of psychotherapy consultations for the children living in a residential home of Santa Casa da Misericórdia.

### 6.2 Cultural Patronage

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 - Banco Finantia is a founding member since 1995, having sponsored various cultural and social programs.

### 6.3 Education

ISEG – in 2020, the Bank continued its collaboration with ISEG – Instituto Superior de Economia e Gestão (Higher Institute of Economics and Management) of the Universidade Técnica de Lisboa (Technical University of Lisbon), attributing an award to the best first-year student of the master’s degree in “International Economics and European Studies”.

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

## 7 Future Prospects

Several positive factors contribute to some optimism regarding 2021 - the appearance of the anti-Covid vaccines, the economic stimulus programs of the EU and the USA, the maintenance of the monetary policies by the Fed and the ECB, the Brexit resolution and the markets reaction to the US election results. However, the appearance in different geographies of new Covid pandemic waves has created additional uncertainties regarding the predictions for 2021.

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 strategy to the evolution of the economic environment, focusing more on non-capital-intensive activities, fixed-income capital market transactions, financial advisory services, and Private Banking activities.

Regarding the Bank's portfolio of both bonds and loans the Bank will continue with a rigorous selection of risks, adapted to the "Covid effects", while reinforcing its policy of geographical and sectoral diversification, which has proven to be particularly effective.

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

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

Private Banking will continue to grow, with the increase in the number of customers and the widening and diversification of its range of products and services. This will allow Banco Finantia to offer its customers more investment alternatives and to obtain a greater growth of its fee income.

A merger process is underway to incorporate Banco Finantia Spain into Banco Finantia with the creation of a branch of Banco Finantia in Spain. The merger will make it possible to simplify the Group's organization and reinforce the quality of the services provided to customers in both countries. The process is expected to be completed in the second half of 2021.

## 8 Appropriation of Results

Considering the recommendations in force of the ECB and Banco de Portugal regarding the distribution of dividends, it is proposed that the totality of the result for financial year 2020, after reinforcing the legal reserve, be appropriated to free reserves.

## 9 Final Remarks

In a year marked by some challenges resulting from the geopolitical uncertainties in the markets in which the Bank operates, the Board of Directors extends its thanks to all those that supported its activities.

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

Lisbon, 15 March 2021

The Board of Directors

António Vila Cova

Manuel Faria Blanc

Alzira Cabrita

José Archer

David Guerreiro

Ricardo Caldeira

Telma Oliveira

**Translation Note**

The present Management Report and accompanying Financial Statements for 2020 are a free translation of the original documents issued in the Portuguese language. In the event of discrepancies, the original versions shall prevail.

# Banco Finantia

## Financial Statements 2020

(CONSOLIDATED ACCOUNTS)

**Consolidated Financial Statements**

# Banco Finantia

## Consolidated Balance Sheet as at 31 December 2020 and 2019

| *EUR thousand* | Notes | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and deposits with central banks and other demand deposits | 5 | 60,055 | 51,497 |
| Financial assets at fair value through profit or loss | 6 | 49,671 | 17,780 |
| Financial assets at fair value through other comprehensive income | 6 | 1,750,618 | 1,797,331 |
| Financial assets at amortized cost | 6 | 215,055 | 253,207 |
| Hedging derivatives | 7 | 63 | 1,800 |
| Non-current assets held for sale | | 15 | 15 |
| Investment properties | | 1,010 | 1,023 |
| Other tangible assets | 8 | 13,708 | 14,019 |
| Intangible assets | 9 | 566 | 424 |
| Current tax assets | 10 | 1,208 | 7,773 |
| Deferred tax assets | 10 | 1,961 | 1,486 |
| Other assets | 11 | 11,231 | 10,972 |
| **TOTAL ASSETS** | | **2,105,159** | **2,157,328** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 12 | 4,159 | 18,338 |
| Financial liabilities at amortized cost | 13 | 1,543,057 | 1,615,890 |
| Hedging derivatives | 7 | 58,283 | 33,970 |
| Current tax liabilities | | 5,614 | 5,173 |
| Deferred tax liabilities | 10 | 5,403 | 8,164 |
| Provisions | 14 | 893 | 897 |
| Other liabilities | 14 | 8,933 | 12,605 |
| **TOTAL LIABILITIES** | | **1,626,343** | **1,695,038** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 15 | 150,000 | 150,000 |
| Share premium | 15 | 12,849 | 12,849 |
| Treasury stock | 15 | (38) | (38) |
| Other acc. comprehensive income, retained earnings & other reserves | 16 | 292,079 | 263,256 |
| Net profit attributable to shareholders of the Bank | | 23,687 | 35,957 |
| **Total Shareholders' Equity attributable to shareholders of the Bank** | | **478,578** | **462,024** |
| Non-controlling interests | | 238 | 266 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **478,816** | **462,290** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **2,105,159** | **2,157,328** |

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

The Certified Accountant

For the Board of Directors

# Banco Finantia

## Consolidated Income Statement
## for the financial years ended 31 December 2020 and 2019

| *EUR thousand* | Notes | 2020 | 2019 |
|---|---|---|---|
| Interest and similar income | 17 | 75,326 | 84,839 |
| Interest expense and similar charges | 17 | (30,846) | (29,205) |
| **NET INTEREST INCOME** | | **44,480** | **55,635** |
| Fee and commission income | 18 | 996 | 2,466 |
| Fee and commission expense | 18 | (524) | (459) |
| Net results from financial operations | 19 | 5,037 | 17,115 |
| Other net operating income / (expense) | | 1,382 | 115 |
| **OPERATING INCOME** | | **51,371** | **74,871** |
| Staff costs | 20 | (13,342) | (14,265) |
| Other administrative expenses | 21 | (8,914) | (10,199) |
| Depreciation and amortization | 8, 9 | (1,584) | (1,576) |
| **TOTAL OPERATING COSTS** | | **(23,839)** | **(26,041)** |
| **OPERATING PROFIT BEFORE PROVISIONS AND IMPAIRMENT** | | **27,532** | **48,831** |
| Provisions or reversal of provisions | 22 | 4 | (29) |
| Impairment or reversal of impairment | 22 | (2,714) | (961) |
| **PROFIT BEFORE TAX** | | **24,822** | **47,842** |
| Current income tax | 10 | (3,535) | (9,057) |
| Deferred income tax | 10 | 2,409 | (2,813) |
| **NET PROFIT FOR THE YEAR** | | **23,695** | **35,972** |
| **Attributable to:** | | | |
| Shareholders of the Bank | | 23,687 | 35,957 |
| Non-controlling interests | | 8 | 15 |

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

# Banco Finantia

## Consolidated Statement of Comprehensive Income
for the financial years ended 31 December 2020 and 2019

| *EUR thousand* | **Notes** | **2020** | **2019** |
|---|---|---|---|
| **NET PROFIT FOR THE YEAR** | | **23,695** | **35,972** |
| **Items that may be reclassified to profit or loss** | | | |
| Debt instruments at fair value through other comprehensive income | 16 | (7,430) | 75,048 |
| Foreign exchange variations in foreign operational units | 7 | (10,350) | 2,002 |
| Net investment hedging in foreign operational units (effective part) | 7 | 9,817 | (1,875) |
| Taxes on income related to items that may be reclassified to profit or loss | 16 | 2,344 | (20,601) |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | | **(5,619)** | **54,574** |
| **COMPREHENSIVE INCOME FOR THE YEAR** | | **18,076** | **90,545** |
| Attributable to: | | | |
| Shareholders of the Bank | | 18,080 | 90,480 |
| Non-controlling interests | | (4) | 65 |

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

# Banco Finantia

## Consolidated Statement of Changes in Equity
## for the financial years ended 31 December 2020 and 2019

| *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 2019** | **150,000** | **12,849** | **(38)** | **(39,816)** | **229,437** | **38,542** | **234** | **391,207** |
| Appropriation of results | - | - | - | - | 38,542 | (38,542) | - | - |
| Dividend distribution [(a)] | - | - | - | - | (19,495) | - | - | (19,495) |
| Comprehensive income for the year | - | - | - | 54,523 | - | 35,957 | 65 | 90,545 |
| Other reserves | - | - | - | - | 66 | - | (33) | 33 |
| | **-** | **-** | **-** | **54,523** | **19,113** | **(2,585)** | **33** | **71,083** |
| **Balance as at 31 December 2019** | **150,000** | **12,849** | **(38)** | **14,706** | **248,550** | **35,957** | **266** | **462,290** |
| Appropriation of results | - | - | - | - | 35,957 | (35,957) | - | - |
| Comprehensive income for the year | - | - | - | (5,607) | - | 23,687 | (4) | 18,076 |
| Other reserves | - | - | - | - | (1,526) | - | (25) | (1,551) |
| | **-** | **-** | **-** | **(5,607)** | **34,431** | **(12,270)** | **(29)** | **16,525** |
| **Balance as at 31 December 2020** | **150,000** | **12,849** | **(38)** | **9,099** | **282,981** | **23,687** | **238** | **478,816** |

[(a)] Corresponds to a dividend of € 0.13 per outstanding share

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

# Banco Finantia

## Consolidated Statement of Cash Flows
## for the financial years ended 31 December 2020 and 2019

| *EUR thousand* | Notes | 2020 | 2019 |
|---|---|---|---|
| **Cash flows arising from operating activities** | | | |
| Interest and similar income received | | 79,068 | 90,575 |
| Interest expense and similar charges paid | | (10,859) | (27,579) |
| Fee and commission income received | | 996 | 2,419 |
| Fee and commission expense paid | | (524) | (459) |
| Recovery of loans previously written-off | | 9,834 | 5,640 |
| Cash payments to staff and suppliers | | (23,542) | (24,374) |
| | | **54,974** | **46,222** |
| *Change in operating assets:* | | | |
| Deposits with central banks | | (824) | 919 |
| Financial assets | | 90,723 | (56,765) |
| Due from banks | | (6,227) | (16,386) |
| Other operating assets | | (11,094) | (4,378) |
| *Change in operating liabilities:* | | | |
| Derivative financial instruments | | (31,779) | 19,487 |
| Due to banks | | 35,781 | 5,512 |
| Due to customers | | 9,694 | 42,121 |
| Repos operations | | (127,117) | 6,650 |
| Other operating liabilities | | (192) | 1,181 |
| **Net cash flows from operating activities before taxes** | | **13,940** | **44,564** |
| Income taxes | | 3,472 | (2,178) |
| | | **17,412** | **42,386** |
| **Cash flows arising from investing activities** | | | |
| Acquisition of tangible and intangible assets | 8, 9 | (2,191) | (3,990) |
| Disposal of tangible and intangible assets | 8, 9 | 125 | 21 |
| | | **(2,066)** | **(3,969)** |
| **Cash flows arising from financing activities** | | | |
| Acquisition of treasury stock | | - | - |
| Dividends paid on ordinary shares | | - | (19,495) |
| **Net cash flows from financing activities** | | **-** | **(19,495)** |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (15,628) | (20,966) |
| **Net changes in cash and cash equivalents** | | **(283)** | **(2,043)** |
| **Cash and cash equivalents at the beginning of the year** | 25 | 80,312 | 82,355 |
| **Cash and cash equivalents at the end of the year** | 25 | 80,029 | 80,312 |
| | | **(283)** | **(2,043)** |

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

## Notes to the Financial Statements

## 1. Bases of presentation

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

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

The consolidated financial statements of the Bank are prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”), as adopted for use in the European Union (“EU”) in force as at 31 December of 2020, 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. These financial statements are consolidated by Finantipar, S.A., with registered office at Rua General Firmino Miguel, no. 5, in Lisbon, Portugal.

During 2020, 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 2020. The accounting policies were applied consistently in all the entities of the Group and are consistent with those used in the preparation of the financial statements of the previous financial year.

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

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

These financial statements have been approved for issue by the Board of Directors on 15 March 2021 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, an individual and a consolidated financial statement structure convergent with the guidelines of the Implementing Regulation (EU) 2017/1443, of 29 June 2017.

## 2. Main accounting policies

### 2.1 Bases of consolidation

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

All Group companies have consistently applied the accounting policies.

*Investments (financial shareholdings) in subsidiaries*

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

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

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

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

The Group structure is presented in Note 30.

*Investments (financial shareholdings) in associates*

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

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

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

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

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

As at 31 December 2020 and 2019, the Group does not have any investments in associates.

*Investments (financial shareholdings) in special purpose entities ("SPE")*

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

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

As at 31 December 2020 and 2019, the Group did not have financial shareholdings in SPEs.

*Goodwill*

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

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

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

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

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

As at 31 December 2020 and 2019, the Group does not have any goodwill.

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

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

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

*Balances and transactions eliminated on consolidation*

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

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

*Transactions with non-controlling interests*

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

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

## 2.2. Financial instruments

### 2.2.1. Financial assets

*2.2.1.1. Classification, initial recognition and subsequent measurement*

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

1) Financial assets at amortized cost;
2) Financial assets at fair value through other comprehensive income (FVOCI); and
3) Financial assets at fair value through profit or loss.

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

a) on the entity's business model to manage financial assets; and
b) on the contractual characteristics in terms of cash flows of the financial asset (SPPI – "Solely Payments of Principal and Interest").

*Business model*

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

The standard identifies the following business models:

i) "Hold to collect" (HTC) – (Financial assets at amortized cost): a business model whereby financial assets are managed to collect contractual cash flows only through the receipt of capital and interest over the life of the instrument.
ii) "Hold to collect and sell" (HTCS) – (Financial assets at fair value through other comprehensive income): the objectives of the business model are achieved either by collecting contractual cash flows and/or by selling said financial instruments.
iii) "Trading" – (Financial assets at fair value through profit or loss): this business model caters for the remaining financial instruments that are managed in a fair value perspective or that are not included in the previous categories.

*Business model evaluation for the management of financial assets*

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

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

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

Principal and interest are as follows:

1) Principal - Corresponds to the fair value of the asset on the initial recognition. This value may vary over time depending on whether amounts are transferred by the instrument holder;
2) Interest - interest shall consider the following aspects: (i) time value of money and credit risk; (ii) other types of credit risk (e.g., liquidity risk); (iii) other associated costs; and (iv) a profit margin.

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

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

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

*2.2.1.1.1. Financial assets at amortized cost (HTC)*

*Classification*

A financial asset is classified in the category of “financial assets at amortized cost” if it meets all of 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 of 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 on the basis of the HTCS business model and that meet the SPPI conditions.

*Initial recognition and subsequent measurement*

Debt instruments are recognized on the trade date.

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

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

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

*2.2.1.1.3. Financial assets at fair value through profit or loss*

*Classification*

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

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

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

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

*Initial recognition and subsequent measurement*

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

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

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

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

*2.2.1.2. Reclassification between categories of financial assets*

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

Between 1 January 2019 and 31 December 2020, 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.

*Credits written off*

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

*2.2.1.4. Financial assets purchased or originated with credit impairment*

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

On the initial recognition, the POCI have no associated impairment, because the lifetime expected credit losses 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 to be “impaired”, being monitored and analysed individually as if they were classified in stage 3, in order 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, take into account all reasonable, reliable and reasoned information that is available on each reporting date, including information in a forward-looking perspective.

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

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

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

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

*2.2.1.5.2. Impairment model*

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

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

Impairment is measured as:

1) Expected credit losses for 12 months - 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) Expected credit losses over the lifetime of the instrument - 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 expected credit losses for 12 months 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, credit losses expected for 12 months 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 taking into account 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. 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.

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

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

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

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

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

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

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

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

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

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

### 2.2.2. Financial liabilities

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

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

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

*2.2.2.1. Financial liabilities held for trading*

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

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

*2.2.2.2. Financial liabilities at amortized cost*

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

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

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

### 2.2.3. Derivative financial instruments and hedge accounting

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

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

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

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

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

*Hedge accounting*

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

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

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

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

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

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

- *Fair value hedge*

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

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

- *Net investment hedging in a foreign operational unit*

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

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

*Embedded Derivatives*

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

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

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

As at 31 December 2020 and 2019, the Group has no embedded derivatives.

### 2.3. Interest recognition

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

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

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

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

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

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

### 2.4. Dividend income

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

### 2.5. Fee and commission income and expenses

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

### 2.6. Foreign currency transactions

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

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

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

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

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

### 2.7. Earnings per share

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

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

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

### 2.8. Fair value of financial instruments

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

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

The fair value is obtained from quoted market prices or broker / dealer prices in active markets, if available. In their absence, fair value is based on the established price of recent market transactions or, in their absence, on the usage of valuation techniques. Valuation techniques include future cash flows discounted considering available observable market inputs.

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 2020 and 2019, since the DVA and the CVA presented immaterial amounts, they were not considered in the fair value of these instruments.

### 2.9. Offsetting financial instruments

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

### 2.10. Purchase / sale operations under resale / repurchase agreements

*Purchase operations under resale agreements ("reverse repos")*

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

*Securities sold under repurchase agreements ("repos")*

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

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

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

### 2.11. Non-current assets held for sale

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

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

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

### 2.12. Tangible assets and investment properties

The Group's tangible assets are stated at cost less accumulated depreciation and impairment losses, if any. Additions and subsequent expenditures are deducted of 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 lifetime.

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

### 2.13. Intangible assets

Acquired and developed computer software licenses are capitalized on the basis of 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 on the basis of their expected useful lives, which is usually 3 years.

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

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

### 2.14. Leases

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

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

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

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

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

*Definition of lease*

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

*As 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, taking into account 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.

*As lessor*

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

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

### 2.15. Equity instruments

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

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

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

### 2.16. Treasury stock

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

### 2.17. Employee benefits

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

### 2.18. Income tax

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

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

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

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

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

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

### 2.19. Cash and cash equivalents

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

### 2.20. Financial guarantee contracts and irrevocable commitments

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

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

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

### 2.21. Provisions

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

## 3. Changes in accounting policies

### 3.1. Voluntary changes in accounting policies

Within the scope of the March 2019 Agenda of the International Financial Reporting Standards Interpretations Committee ("IFRS IC"), the document - Curing of a credit-impaired financial asset (Agenda Paper 13) was published. In this document, IFRS IC confirms its decision that the expected credit losses of a financial asset that is impaired due to credit losses at the reporting date, but that is not a POCI, should be measured as the difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted at the original effective interest rate of the financial asset. Additionally, if a financial asset that is impaired due to credit losses enters into a "curing" period, that is, when the necessary conditions are met so that the financial asset is no longer considered to be impaired, the overdue interest recovered must be recognized as a reversal of impairment instead of as interest. The Group applied the IFRS IC decision on 1 January 2020, and thus, for comparability purposes, this effect was also reflected in 2019. This decision had no impact on equity, with the recovery of interest on impaired assets having been recorded against impairment. On 31 December 2019, the amount of € 5,795 thousand recognized in interest was adjusted against impairment and the comparative values (2019) presented in Notes 6, 17 and 22 were restated in this amount.

### 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 2020, the Group applied the following issues, revisions, amendments and improvements of accounting standards and interpretations:

**a) Benchmark interest rate reform – amendments to IFRS 9, IAS 39 and IFRS 7**

Commission Regulation (EU) 2020/34 of 15 January 2020, amending Regulation (EC) no. 1126/2008 which adopts certain international accounting standards under Regulation (EC) no. 1606/2002 of the European Parliament and the Council with regard to International Accounting Standard 39 (IAS 39) and International Financial Reporting Standards 7 (IFRS 7) and 9 (IFRS 9), introduces a number of amendments to take into account the financial reporting consequences of the interest rate benchmark reform in the period prior to the replacement of an existing benchmark interest rate with an alternative benchmark rate. These changes took effect for annual periods beginning on or after 1 January 2020.

The amendments provide for temporary and restricted exemptions from the hedge accounting requirements of IAS 39 and IFRS 9 so that companies can continue to comply with the requirements, assuming that the existing benchmark interest rates are not changed due to the interbank rate reform, namely in terms of: i) risk components; ii) 'highly probable' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for IAS 39 adopters); and v) recycling of the cash flow hedge reserve, with the objective that the benchmark interest rate reform does not result in the cessation of hedge accounting. However, any ineffectiveness of the coverage determined must continue to be recognized in the income statement. As at 31 December 2020 and 2019, the entirety of the hedging relationships carried out by the Group are of fair value ("fair value hedges"). In this context, the overall benchmark interest rate reform had no impact on the Group and the disclosures considered in the amendment of this phase of the reform do not apply.

**b) Definition of a business – amendments to IFRS 3**

This amendment constitutes a revision of the definition of a business for the purpose of accounting for business combinations, with the intention of amending the standard to overcome the difficulties that arise when an entity determines whether it has acquired a business or a set of assets.

The new definition requires an acquisition to include an input and a substantial process that together generate outputs. Outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits for shareholders

'Concentration tests' are also allowed which, when positive, exempt the entity from further assessment, as to whether it is faced with the acquisition of an asset or a business. In the scope of the concentration test, if a significant part of the fair value of the acquired assets corresponds to a single asset, the acquired assets do not constitute a business.

**c) Leases – Covid-19-related rent concessions - amendments to IFRS 16**

This amendment introduces a practical expedient for lessees (but not for lessors), which exempts them from assessing whether the rent concessions granted by lessors under Covid-19 qualify as “modifications” when three criteria are cumulatively met: i) the change in lease payments results in a revised lease rental that is substantially equal to, or less than, the rental immediately prior to the change; ii) any reduction in lease payments only affects payments due on or until 30 June 2021; and iii) there are no significant changes to other lease terms and conditions.

Lessees that choose to apply this exemption account for the change in lease payments resulting from a Covid-19-related rent concession in the same way that they account for a change that is not a change in the lease under IFRS 16.

**d) Definition of material – amendments to IAS 1 and IAS 8**

The intention of amending the standard is to clarify the definition of material and align the definition used in international financial reporting standards.

The new definition states that “information is material if its omission, error or concealment can reasonably be expected to influence the decisions that the primary users of the financial statements make on the basis of those financial statements, which provide financial information about a given reporting entity”.

The amendment clarifies that materiality depends on the nature and magnitude of the information, or both. An entity must assess whether certain information, either individually or in combinations with other information, is material in the context of the financial statements.

**e) The conceptual framework for financial reporting**

The conceptual framework for the revised financial reporting is not a standard and none of its concepts prevail over the concepts present in standards or other requirements of some of the standards.

The objective of the conceptual framework is to support the IAASB in the development of standards, to assist preparers to develop consistent accounting policies when there is no applicable standard and to assist all parties to understand and interpret the standards.

The amendments affect the entities that developed their accounting policies based on the conceptual framework. The revised conceptual framework includes some new concepts, definitions, and updated criteria for the recognition of assets and liabilities and clarifies some important concepts.

**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 2020.

**a) Insurance contracts – deferral of the application of IFRS 9 – IFRS 4**

This amendment refers to the temporary accounting consequences that result from the difference between the date of entry into force of IFRS 9 - Financial Instruments and the future IFRS 17 - Insurance Contracts.

In particular, the amendment made to IFRS 4 postpones until 1 January 2023 the expiry date of the temporary exemption from the application of IFRS 9 in order to align the effective date of the latter with that of the new IFRS 17.

**b) Benchmark interest rate reform – phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

These amendments address issues that arise during the benchmark interest rate reform, including the replacement of a benchmark interest rate with another alternative, allowing for the adoption of exemptions such as: i) changes in the designation and documentation of hedging; ii) amounts accumulated in the cash flow hedge reserve; iii) retrospective assessment of the effectiveness of a hedging relationship under IAS 39; iv) changes in coverage ratios for groups of items; v) presumption that an alternative benchmark rate, designated as a risk component not specified by contract, is separately identifiable and qualifies as a hedged risk; and vi) updating the effective interest rate, without recognizing a gain or loss, for financial instruments measured at amortized cost with changes in contractual cash flows as a result of the IBOR reform, including leases that are indexed to an IBOR.

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

These standards 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 2020.

**a) Presentation of financial statements – Classification of liabilities – amendments to IAS 1**

This amendment seeks to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to 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”.

This amendment also includes a new definition of "settlement" of a liability and is retrospectively applied.

**b) Insurance contracts – IFRS 17**

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct insurance, and reinsurance), irrespective of the type of entity issuing them, as well as certain guarantees and certain financial instruments with discretionary participation features. Some exceptions shall apply. The general objective of IFRS 17 is to provide 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 a comprehensive model for insurance contracts, covering all relevant accounting aspects.

**c) Revenue earned before entry into operation - amendments to IAS 16**

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

**d) Onerous contracts - costs of complying with a contract – amendments to IAS 37**

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

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

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

**e) References to the Structural Framework – amendments to IFRS 3**

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

This amendment also clarifies the accounting treatment to be adopted regarding liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus included in a business combination.

The amendment is of prospective application.

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

This improvement clarifies that, when the subsidiary chooses to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements, the measurement of the cumulative translation differences of all foreign operations can be made at the amounts that would be recorded in the consolidated financial statements, based on the transition date of the parent company to IFRS.

**g) Derecognition of liabilities - costs incurred to be included in the 10% change test (included in the annual improvements for the 2018-2020 cycle) – amendments to IFRS 9**

This improvement clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

This improvement clarifies that in the scope of the derecognition tests carried out on renegotiated liabilities, the borrower must determine the net amount between fees paid and fees received considering only the fees paid or received between the borrower and the financier, including fees paid or received by any one of the entities on behalf of the other.

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

This improvement eliminates the requirement to exclude tax cash flows when measuring the fair value of biological assets, ensuring consistency with the principles of IFRS 13 - 'Fair value'.

**i) Insurance contracts – amendments to IFRS 17**

This amendment includes specific changes in eight areas of IFRS 17, such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the Statement of Financial Position; vii) recognition and measurement of the Income Statement; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and streamline its implementation.

## 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 have to 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, in order 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 methodologies, which have underlying techniques involving the discounting of future cash flows considering the market conditions, the time value, the yield curve and volatility factors (see Note 29). These methodologies may require the use of assumptions or judgments in the estimate of fair value.

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 Covid-19 pandemic conditioned activity practically throughout the year 2020, with uncertainty prevailing over its intensity and evolution (see Note 31).

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* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Cash | 92 | 73 |
| Deposits with central banks | | |
| Banco de Portugal | 23,470 | 20,988 |
| Bank of Spain | 16,876 | 15,798 |
| | 40,346 | 36,786 |
| Deposits with banks in Portugal | | |
| Demand deposits | 18,734 | 14,568 |
| | 18,734 | 14,568 |
| Deposits with banks abroad | | |
| Demand deposits | 883 | 69 |
| | 883 | 69 |
| | **60,055** | **51,497** |

The caption “Deposits with central banks” includes the amount of € 4,590 thousand (2019: € 3,766 thousand) to satisfy the legal requirements to maintain minimum cash reserves.

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. Between 1 January 2019 and 31 October 2019, these rates varied between -0.40% and -0.50%. As from 1 November 2019 and until 31 December 2020, the amount of up to six times the value of the minimum reserves became exempt from paying this rate which, in the meantime, changed to -0.50%.

## 6. Financial assets

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

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Financial assets at fair value through profit or loss | 49,671 | 17,780 |
| Financial assets at fair value through other comprehensive income | 1,750,618 | 1,797,331 |
| Financial assets at amortized cost | 215,055 | 253,207 |
| | **2,015,344** | **2,068,319** |

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

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Debt instruments | 1,763,763 | 1,819,564 |
| Loans | 130,566 | 155,788 |
| Due from banks | 70,046 | 71,836 |
| Trading derivatives (Note 7) | 40,666 | 3,340 |
| Other credit operations | 6,758 | 3,164 |
| Purchase operations under resale agreements ("reverse repos") | 3,497 | 6,624 |
| Equity instruments | 48 | 36 |
| Commercial paper | - | 7,968 |
| | **2,015,344** | **2,068,319** |

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

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| **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 | 48 | 36 |
| Financial assets held for trading | | |
| Debt instruments | | |
| Public entities | 1,668 | 2,370 |
| Banks | 1,494 | 4,348 |
| Companies | 5,795 | 7,687 |
| Risk-management derivatives (Note 7) | 40,666 | 3,340 |
| | 49,623 | 17,744 |
| | **49,671** | **17,780** |
| **Financial assets at fair value through other comprehensive income (“HTCS”)** | | |
| Debt instruments | | |
| Public entities | 564,108 | 488,013 |
| Banks | 255,198 | 276,895 |
| Companies | 895,011 | 991,135 |
| Loans | | |
| Public entities | 7,073 | 10,428 |
| Banks | 13,524 | 14,228 |
| Companies | 15,705 | 16,632 |
| | **1,750,618** | **1,797,331** |
| **Financial assets at amortized cost (“HTC”)** | | |
| Debt instruments | | |
| Public entities | - | - |
| Banks | - | - |
| Companies | 40,489 | 49,116 |
| Loans | | |
| Public entities | 6,801 | 8,126 |
| Banks | 6,342 | 13,576 |
| Companies | 81,122 | 92,797 |
| Due from banks | 70,046 | 71,836 |
| Purchase operations under resale agreements (“reverse repos”) | 3,497 | 6,624 |
| Commercial paper | - | 7,968 |
| Other credit operations | 6,758 | 3,164 |
| | **215,055** | **253,207** |
| | **2,015,344** | **2,068,319** |

During 2020, interest income from the financial assets held for trading portfolio amounted to € 375 thousand (2019: € 471 thousand).

During 2020, interest income from the financial assets at amortized cost portfolio amounted to € 9,240 thousand (2019: € 13,850 thousand).

As at 31 December 2020, the caption “Financial assets at amortized cost” includes debt instruments in the amount € 17,854 thousand (2019: € 24,793 thousand) given as collateral in sale operations under repurchase agreements (Note 24).

As at 31 December 2020, the caption "Due from banks" includes deposits in the amount € 48,929 thousand (2019: € 45,829 thousand) given as collateral in sale operations under repurchase agreements, and interest rate and exchange rate derivatives.

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

| | 31.12.2020 | | | | | |
|---|---|---|---|---|---|---|
| *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 ("HTCS")** | | | | | | |
| Debt instruments | | | | | | |
| Public entities | 560,782 | (1,460) | 559,322 | (11,194) | 15,979 | 564,108 |
| Banks | 257,476 | (2,119) | 255,357 | (8,225) | 8,065 | 255,198 |
| Companies | 903,040 | (15,951) | 887,090 | (34,964) | 42,885 | 895,011 |
| Loans | | | | | | |
| Public entities | 7,247 | (90) | 7,157 | - | (84) | 7,073 |
| Banks | 13,619 | (135) | 13,484 | - | 40 | 13,524 |
| Companies | 15,920 | (185) | 15,736 | - | (31) | 15,705 |
| | **1,758,085** | **(19,939)** | **1,738,146** | **(54,382)** | **66,854** | **1,750,618** |

| | 31.12.2019 | | | | | |
|---|---|---|---|---|---|---|
| *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 ("HTCS")** | | | | | | |
| Debt instruments | | | | | | |
| Public entities | 491,372 | (4,791) | 486,581 | (7,999) | 9,432 | 488,013 |
| Banks | 276,600 | (1,250) | 275,351 | (3,709) | 5,254 | 276,895 |
| Companies | 984,403 | (10,004) | 974,399 | (16,398) | 33,134 | 991,135 |
| Loans | | | | | | |
| Public entities | 10,229 | (83) | 10,146 | - | 282 | 10,428 |
| Banks | 14,299 | (68) | 14,231 | - | (3) | 14,228 |
| Companies | 16,877 | (141) | 16,737 | - | (104) | 16,632 |
| | **1,793,779** | **(16,336)** | **1,777,443** | **(28,107)** | **47,995** | **1,797,331** |

During 2020, interest income from the financial assets at fair value through other comprehensive income portfolio amounted to € 64,460 thousand (2019: € 76,162 thousand).

This portfolio includes the amount of € 674,955 thousand (2019: € 811,807 thousand) related to debt instruments given as collateral by the Group in sales operations under repurchase agreements (Note 24).

As at 31 December 2020 and 2019, the financial assets subject to the impairment requirements foreseen in IFRS 9, analysed by stage, may be presented as follows:

| 31.12.2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *EUR thousand* | **Financial assets at fair value through other comprehensive income ("HTCS")** | | | | **Financial assets at amortized cost ("HTC")** | | | |
| | Not yet due | Overdue | Impairment | Carrying value | Not yet due | Overdue | Impairment | Carrying value |
| **Stage 1** | | | | | | | | |
| Debt instruments and commercial paper | 1,661,726 | - | (7,466) | 1,654,260 | 29,856 | - | (193) | 29,663 |
| Loans and other applications | 36,711 | - | (409) | 36,302 | 166,558 | - | (544) | 166,014 |
| Other credit operations | - | - | - | - | 89 | - | - | 89 |
| | **1,698,437** | **-** | **(7,875)** | **1,690,561** | **196,503** | **-** | **(737)** | **195,766** |
| **Stage 2** | | | | | | | | |
| Debt instruments and commercial paper | 51,949 | - | (4,361) | 47,588 | 10,240 | - | (498) | 9,743 |
| Loans and other applications | - | - | - | - | - | - | - | - |
| Other credit operations | - | - | - | - | - | 7 | - | 7 |
| | **51,949** | **-** | **(4,361)** | **47,588** | **10,240** | **7** | **(498)** | **9,750** |
| **Stage 3** | | | | | | | | |
| Debt instruments and commercial paper | - | 14,563 | (7,703) | 6,860 | - | 11,223 | (10,140) | 1,083 |
| Loans and other applications | - | - | - | - | - | 4,627 | (2,834) | 1,793 |
| Other credit operations | - | - | - | - | - | 6,665 | (3) | 6,662 |
| | **-** | **14,563** | **(7,703)** | **6,860** | **-** | **22,516** | **(12,978)** | **9,539** |
| **POCI** | | | | | | | | |
| Debt instruments and commercial paper | 5,609 | - | - | 5,609 | - | - | - | - |
| Loans and other applications | - | - | - | - | - | - | - | - |
| Other credit operations | - | - | - | - | - | - | - | - |
| | **5,509** | **-** | **-** | **5,609** | **-** | **-** | **-** | **-** |
| | **1,770,339** | **14,563** | **(19,939)** | **1,750,618** | **206,744** | **22,523** | **(14,212)** | **215,055** |

As at 31 December 2020, within the scope of the closing of restructuring processes due to financial difficulties of exposures with associated impairment, the Group recognized the receipt of the new financial instruments as POCI.

| | 31.12.2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *EUR thousand* | Financial assets at fair value through other comprehensive income ("HTCS") | | | | Financial assets at amortized cost ("HTC") | | | |
| | Not yet due | Overdue | Impairment | Carrying value | Not yet due | Overdue | Impairment | Carrying value |
| **Stage 1** | | | | | | | | |
| Debt instruments and commercial paper | 1,721,049 | - | (5,333) | 1,715,716 | 56,043 | - | (143) | 55,900 |
| Loans and other applications | 41,580 | - | (292) | 41,288 | 184,669 | - | (520) | 184,149 |
| Other credit operations | - | - | - | - | 243 | - | (1) | 243 |
| | **1,762,629** | **-** | **(5,625)** | **1,757,004** | **240,955** | **-** | **(664)** | **240,292** |
| **Stage 2** | | | | | | | | |
| Debt instruments and commercial paper | 35,787 | - | (2,265) | 33,522 | - | - | - | - |
| Loans and other applications | - | - | - | - | 6,489 | - | (127) | 6,362 |
| Other credit operations | - | - | - | - | - | 15 | - | 15 |
| | **35,787** | **-** | **(2,265)** | **33,522** | **6,489** | **15** | **(127)** | **6,377** |
| **Stage 3** | | | | | | | | |
| Debt instruments and commercial paper | 9,710 | 5,541 | (8,446) | 6,805 | - | 14,831 | (13,648) | 1,183 |
| Loans and other applications | - | - | - | - | 4,907 | - | (2,459) | 2,448 |
| Other credit operations | - | - | - | - | - | 2,920 | (14) | 2,906 |
| | **9,710** | **5,541** | **(8,446)** | **6,805** | **4,907** | **17,751** | **(16,121)** | **6,537** |
| | **1,808,126** | **5,541** | **(16,336)** | **1,797,331** | **252,351** | **17,766** | **(16,910)** | **253,207** |

As at 31 December 2019, the Group did not hold any financial instrument classified as POCI.

The movements in the impairment due to expected losses in financial assets during the 2020 and 2019 financial years were as follows:

| *EUR thousand* | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Balance as at 1 January 2019** | **951** | **416** | **12,231** | **13,598** |
| Financial assets originated or acquired | 2,837 | - | - | 2,837 |
| Financial assets derecognized | (3,299) | - | - | (3,299) |
| Net changes in credit risk | (3,277) | 574 | 4,127 | 1,424 |
| Allocations, net of reversals (Note 22) | (3,739) | 574 | 4,127 | 961 |
| Usage | - | (538) | (3,302) | (3,840) |
| Loan recoveries | - | - | 5,640 | 5,640 |
| Reclassification of fair value reserve (Note 16) | 3,259 | (283) | (8,446) | (5,470) |
| Foreign exchange and other variations | 192 | (42) | 5,870 | 6,020 |
| **Balance as at 31 December 2019** | **663** | **127** | **16,120** | **16,910** |
| Financial assets originated or acquired | 1,265 | - | - | 1,265 |
| Financial assets derecognized | (924) | (8) | - | (932) |
| Net changes in credit risk | 2,778 | 2,805 | (2,966) | 2,616 |
| Allocations, net of reversals (Note 22) | 3,118 | 2,797 | (2,966) | 2,949 |
| Usage | - | - | (8,897) | (8,897) |
| Loan recoveries | - | - | 9,834 | 9,834 |
| Reclassification of fair value reserve (Note 16) | (2,250) | (2,096) | 743 | (3,603) |
| Foreign exchange and other variations | (793) | (330) | (1,857) | (2,980) |
| **Balance as at 31 December 2020** | **737** | **498** | **12,978** | **14,212** |

As at 31 December 2020 and 2019, the caption “Allocations, net of reversals” is net of loan recoveries in the amount of € 9,834 thousand and € 5,640 thousand, respectively.

The movements in the caption “Financial assets” classified in stage 3 during the 2020 and 2019 financial years were as follows:

| *EUR thousand* | Exposure | Impairment |
|---|---|---|
| **Movement in Stage 3** | | |
| Balance as at 1 January 2019 | 18,635 | 12,231 |
| Net changes in credit risk | 21,864 | 4,127 |
| Usage | (3,302) | (3,302) |
| Loan recoveries | 5,640 | 5,640 |
| Reclassification of fair value reserve | (13,373) | (8,446) |
| Foreign exchange and other variations | - | 5,870 |
| **Balance as at 31 December 2019** | **29,463** | **16,120** |
| Net changes in credit risk | 2,952 | (2,966) |
| Usage | (8,897) | (8,897) |
| Loan recoveries | 9,709 | 9,834 |
| Reclassification of fair value reserve | (1,210) | 743 |
| Foreign exchange and other variations | (2,641) | (1,857) |
| **Balance as at 31 December 2020** | **29,376** | **12,978** |

During 2019, there were no financial assets classified as POCI. During 2020, the only movement made corresponds to the recognition of financial assets classified as POCI, in the amount of € 5,609 thousand.

The caption “Other credit operations” refers to the specialized financing (previously denominated motor vehicle financing) 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 into 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* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Performing credit | 89 | 243 |
| Overdue credit up to 90 days | 7 | 15 |
| Overdue credit between 90 days and up to 24 months | 10 | 35 |
| | **107** | **293** |
| Impairment for performing credit | - | (1) |
| Impairment for overdue credit up to 90 days | - | - |
| Impairment for overdue credit between 90 days and up to 24 months | (3) | (14) |
| | **(3)** | **(15)** |
| | 103 | 279 |
| Recoverable amount of overdue credit over 24 months | 6,655 | 2,885 |
| | **6,758** | **3,164** |

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.

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

Interest income from other credit operations includes interest received on overdue credit, which are reflected in net interest income (Note 17).

## 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* | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Notional value | Fair value | | Notional value | Fair value | |
| | | Assets | Liabilities | | Assets | Liabilities |
| **Hedging derivatives** | | | | | | |
| Interest rate derivatives | 802,869 | 63 | 58,306 | 1,102,409 | 1,937 | 34,750 |
| Foreign currency derivatives | 640,535 | 40,666 | - | 716,575 | 3,203 | 8,567 |
| | **1,443,404** | **40,729** | **58,306** | **1,818,983** | **5,140** | **43,318** |
| **Of which subject to hedge accounting** | | | | | | |
| Interest rate derivatives | **802,595** | **63** | **58,283** | **1,043,104** | **1,800** | **33,970** |

**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 of time, 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.

<u>Fair value hedges of interest rate risk – fixed-income securities</u>

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

For securities classified as 'financial assets at amortized cost' (Note 6) the accumulated hedge adjustment as at 31 December 2020 amounts to € 2,355 thousand (2019: € 761 thousand). In 2020, the Group recognized in profit or loss the amount of € 1,880 thousand (2019: € 1,667 thousand) related to the fair value change of the hedged instruments in the financial year and the amount of € 1 thousand (2019: € (103) 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 2020, losses on hedging instruments amounting to € 46,191 thousand (2019: losses of € 44,233 thousand) and gains on the respective hedged items of € 45,548 thousand (2019: gains of € 44,339 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 € (1,155) thousand (2019: € (44) thousand) related to the gain on the amortization of the discontinued relations.

In summary, the impacts of the hedging relations referred to above, outstanding in 2020 and 2019, may be analysed as follows:

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| **Category of financial assets at amortized cost** | **8** | **9** |
| Losses on hedging instruments | (1,872) | (1,658) |
| Gains on hedged items attributable to hedged risk | 1,880 | 1,667 |
| **Category of financial assets at fair value through other comprehensive income** | **(642)** | **106** |
| Losses on hedging instruments | (46,191) | (44,233) |
| Gains on hedged items attributable to hedged risk | 45,548 | 44,339 |
| **Ineffectiveness of interest rate risk hedges (Note 19)** | **(635)** | **115** |

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

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Fair value hedges – securities in the "financial assets at amortized cost" portfolio | 1 | (103) |
| Fair value hedges - securities in the "financial assets at fair value through other comprehensive income" portfolio | (1,155) | (44) |
| **Amortization of discontinued hedging relations (Note 19)** | **(1,154)** | **(147)** |

Hedging of net investments in foreign operational units

During 2020 and 2019, the Group used foreign currency denominated debt to hedge the foreign currency translation risk on its net investment in foreign subsidiaries. As at 31 December 2020, 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 | 14,672 | 14,672 |
| Finantia UK Limited | USD | 112,500 | 112,500 | 91,680 | 91,680 |

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 2020 and 2019, 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 | 31.12.2020 | 31.12.2019 |
|---|---|---|---|---|---|---|---|---|---|
| **Acquisition cost:** | | | | | | | | | |
| Opening balance | 22,397 | 6,756 | 3,766 | 2,086 | 1,349 | 123 | 1,402 | 37,879 | 34,818 |
| Additions | 256 | 146 | 116 | 407 | 365 | 113 | - | 1,404 | 3,563 |
| Disposals / Write-offs | (46) | (63) | (313) | (298) | (115) | - | (175) | (1,010) | (524) |
| Fx var. / Transfers | (27) | (28) | (10) | - | (54) | (237) | (33) | (389) | 22 |
| **Closing balance** | **22,580** | **6,811** | **3,558** | **2,196** | **1,545** | **-** | **1,194** | **37,884** | **37,879** |
| **Accumulated depreciation:** | | | | | | | | | |
| Opening balance | 11,324 | 6,232 | 3,453 | 1,364 | 299 | - | 1,189 | 23,860 | 23,115 |
| Depreciation charge | 242 | 112 | 233 | 284 | 355 | - | 50 | 1,276 | 1,379 |
| Disposals / Write-offs | - | (66) | (313) | (245) | (75) | - | (187) | (885) | (503) |
| Fx var. / Transfers | (15) | (25) | (9) | - | (10) | - | (17) | (75) | (131) |
| **Closing balance** | **11,550** | **6,254** | **3,364** | **1,403** | **570** | **-** | **1,034** | **24,176** | **23,860** |
| **Carrying value** | **11,030** | **557** | **194** | **793** | **975** | **-** | **160** | **13,708** | **14,019** |

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 2.16.

## 9. Intangible assets

| *EUR thousand* | Software | Other intangible assets | Work in progress | 31.12.2020 | 31.12.2019 |
|---|---|---|---|---|---|
| **Acquisition cost:** | | | | | |
| Opening balance | 5,401 | 404 | 231 | 6,037 | 5,669 |
| Additions | 543 | - | 244 | 787 | 427 |
| Disposals / Write-offs | (539) | - | - | (539) | (5) |
| Fx var. / Transfers | (1) | - | (358) | (359) | (54) |
| **Closing balance** | **5,404** | **404** | **118** | **5,926** | **6,037** |
| **Accumulated amortization:** | | | | | |
| Opening balance | 5,209 | 404 | - | 5,613 | 5,438 |
| Amortization charge | 288 | - | - | 288 | 179 |
| Disposals / Write-offs | (539) | - | - | (539) | (5) |
| Fx var. / Transfers | (1) | - | - | (1) | - |
| **Closing balance** | **4,956** | **404** | **-** | **5,360** | **5,613** |
| **Carrying value** | **448** | **-** | **118** | **566** | **424** |

As at 31 December 2020 and 2019, other intangible assets and work in progress include software licenses and other expenditure incurred with software implementation and development.

During 2020 and 2019, there were no intangible assets generated internally.

## 10. Taxes

Income tax recognized in the income statement in 2020 and 2019 may be analysed as follows:

| *EUR thousand* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Current tax** | | |
| Current tax on profit for the year | (4,777) | (8,728) |
| Extraordinary banking sector levy | (663) | (692) |
| Current tax related to prior years | 1,904 | 638 |
| Other | - | (275) |
| | **(3,535)** | **(9,057)** |
| **Deferred tax** | | |
| Origination and reversal of timing differences | 2,409 | (2,813) |
| Tax losses carried forward | - | - |
| | **2,409** | **(2,813)** |
| **Total income tax recognized in results** | **(1,126)** | **(11,870)** |

During financial year 2020, several lawsuits resulted in sentences unfavourable to the Tax Authority (TA), so the Group received from the TA the amount of € 7,240 thousand. As at 31 December 2020, the net amount on the balance sheet related to tax litigation pending a decision and for which the tax in dispute had been paid under the Special State Debt Reduction Program (Programa Especial de Redução de Endividamento ao Estado) (PERES) is € 1,606 thousand, being recorded under the caption “Debtors and other applications” (see Note 11). As at 31 December 2019, the net amount on the balance sheet relating to tax litigation pending a decision and for which the tax in dispute had been paid under PERES amounted to € 3,667 thousand.

The deferred tax assets and liabilities recognized on the balance sheet in 2020 and 2019 may be analysed as follows:

| *EUR thousand* | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Net** | **Assets** | **Liabilities** | **Net** |
| Financial assets at fair value through other comprehensive income | - | (3,680) | (3,680) | - | (6,023) | (6,023) |
| Impairment / Provisions | 673 | - | 673 | 986 | - | 986 |
| Tax losses carried forward | - | - | - | - | - | - |
| Other | 2,588 | (3,024) | (436) | 2,267 | (3,908) | (1,641) |
| **Deferred tax assets / (liabilities)** | **3,262** | **(6,704)** | **(3,442)** | **3,253** | **(9,931)** | **(6,678)** |
| Set-off of deferred tax assets / liabilities | (1,301) | 1,301 | - | (1,767) | 1,767 | - |
| **Net deferred tax assets / (liabilities)** | **1,961** | **(5,403)** | **(3,442)** | **1,486** | **(8,164)** | **(6,678)** |

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. As at 31 December 2020, deferred tax assets related to tax credits for international double taxation amount to € 48 thousand (2019: € 443 thousand). As at 31 December 2019, deferred tax assets related to tax losses carried forward not recognized in the financial statements amount to € 443 thousand.

During financial year ended 31 December 2020, income taxes recognized in reserves related to financial assets at fair value through other comprehensive income (Note 16) amount to € 2,344 thousand (2019: € (20,601) thousand).

As at 31 December 2020, the amount of € (1,478) thousand was recognized in other reserves in respect of other adjustments related to deferred taxes.

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

| *EUR thousand* | **31.12.2020** | | **31.12.2019** | |
|---|---|---|---|---|
| | **%** | **Amount** | **%** | **Amount** |
| **Profit before income tax** | | 24,822 | | 47,842 |
| Statutory income tax rate | 25.5% | | 25.5% | |
| **Income tax calculated based on the statutory income tax rate** | | **6,329** | | **12,200** |
| Tax losses used | | (368) | | (256) |
| Effect of inter-group dividends | | - | | (1,644) |
| Tax benefits | | (263) | | (492) |
| Autonomous taxation | | 73 | | 115 |
| Differences in the statutory tax rate of the subsidiaries | | (423) | | (319) |
| Non-deductible impairment | | (1,008) | | (1,141) |
| Prior year taxes | | (1,904) | | (639) |
| Other | | (1,972) | | 3,353 |
| **Income tax** | | 464 | | 11,178 |
| Extraordinary banking sector levy | | 663 | | 692 |
| **Income tax recognized in profit or loss** | | **1,126** | | **11,870** |
| Current tax | | 3,535 | | 9,057 |
| Deferred tax | | (2,409) | | 2,813 |
| **Tax under reconciliation** | | **1,126** | | **11,870** |

## 11. Other assets

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Debtors and other applications | 4,970 | 3,596 |
| Operations pending financial settlement (Note 14) | 3,454 | 4,806 |
| Other operations awaiting regularization | 1,013 | 2,266 |
| Accrued income | 1,794 | 304 |
| | **11,231** | **10,972** |

As at 31 December 2020, the caption "Debtors and other applications" includes the amount of € 1,606 thousand related to the net amount on the balance sheet of tax litigation pending a decision and for which the value added tax in dispute had been paid under the Special State Debt Reduction Program (PERES) (see Note 10).

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

## 12. Financial liabilities held for trading

This caption may be analysed as follows:

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Risk-management derivatives (Note 7) | 22 | 9,348 |
| Short sales | 4,137 | 8,991 |
| | **4,159** | **18,338** |

## 13. Financial liabilities at amortized cost

This caption may be analysed as follows:

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| **Due to customers** | | |
| Time deposits | 905,353 | 896,485 |
| Demand deposits | 44,637 | 43,122 |
| | 949,990 | 939,607 |
| **Sales operations under repurchase agreements (repos)** | | |
| Banks | 340,677 | 550,754 |
| Other financial companies | 195,907 | 104,864 |
| | 536,584 | 655,617 |
| **Other financial liabilities at amortized cost** | | |
| Money market operations | 51,635 | 15,915 |
| Other deposits | 4,849 | 4,751 |
| | 56,484 | 20,666 |
| | **1,543,057** | **1,615,890** |

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

## 14. Provisions and other liabilities

The caption "Provisions" may be analysed as follows:

| *EUR thousand* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Bank guarantees and irrevocable commitments | 5 | 25 |
| Other provisions | 889 | 872 |
| | **893** | **897** |

The movement occurring in the caption "Provisions" during the 2020 financial year was as follows:

| *EUR thousand* | Bank guarantees and commitments | Other provisions | Total |
|---|---|---|---|
| Balance as at 1 January 2020 | 25 | 872 | 897 |
| Allocations, net of reversals (see Note 22) | (20) | 16 | (4) |
| **Balance as at 31 December 2020** | **5** | **889** | **893** |

The movement occurring in the caption "Provisions" during the 2019 financial year was as follows:

| *EUR thousand* | Bank guarantees and commitments | Other provisions | Total |
|---|---|---|---|
| Balance as at 1 January 2019 | 14 | 854 | 868 |
| Allocations, net of reversals (see Note 22) | 11 | 18 | 29 |
| **Balance as at 31 December 2019** | **25** | **872** | **897** |

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* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Accrued expenses | 4,783 | 6,069 |
| Amounts owed to the public sector | 452 | 443 |
| Creditors of specialized finance operations | 519 | 675 |
| Lease liabilities | 862 | 906 |
| Other liabilities awaiting regularization | 2,317 | 4,512 |
| | **8,933** | **12,605** |

The caption "Other liabilities awaiting regularization" include the amount of € 2,128 thousand (2019: € 4,059 thousand) related to transactions pending financial settlement, arising in the Group's normal course of business (Note 11).

As at 31 December 2020 and 2019, 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 2.16).

As at 31 December 2020 and 2019, the Group had various operating leasehold agreements. The minimum future payments related to operating leasehold agreements, by maturity, are as follows:

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Up to 1 year | 301 | 277 |
| 1 to 5 years | 561 | 629 |
| | **862** | **906** |

## 15. Share capital, share premium and treasury stock

### Share capital and share premium

As at 31 December 2020 and 2019, the Bank's share capital amounts to € 150 million and is represented by 150,000,000 ordinary shares with voting rights and a nominal value of € 1 each and is fully paid up.

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

### Treasury stock (Own shares)

As at 31 December 2020 and 2019, the caption "Treasury stock" is represented by 37,607 shares with a nominal value of € 1 each. The acquisition cost of these shares was € 53 thousand. During 2020 and 2019, there were no movements in treasury stock.

## 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* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Other accumulated comprehensive income | 9,099 | 14,706 |
| Retained earnings | - | 58,982 |
| Other reserves | 282,981 | 189,568 |
| | **292,079** | **263,256** |

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

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

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

The movements occurring in these captions in 2020 and 2019 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 2019** | **13,864** | **842** | **14,706** | **58,982** | **189,568** | **263,256** |
| Changes in fair value | (7,418) | - | **(7,418)** | | | **(7,418)** |
| Hedging of net investment in foreign currency (Note 7) | - | (533) | **(533)** | - | - | **(533)** |
| Deferred taxes (Note 10) | 2,344 | - | **2,344** | - | - | **2,344** |
| Constitution / (transfer) of reserves | - | - | **-** | (58,982) | 93,413 | **34,431** |
| **Balance as at 31 December 2020** | **8,790** | **309** | **9,099** | **-** | **282,981** | **292,079** |

| *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 2018** | **(40,532)** | **715** | **(39,816)** | **52,750** | **176,686** | **189,620** |
| Changes in fair value | 74,997 | - | **74,997** | - | - | **74,997** |
| Hedging of net investment in foreign currency (Note 7) | - | 127 | **127** | - | - | **127** |
| Deferred taxes (Note 10) | (20,601) | - | **(20,601)** | - | - | **(20,601)** |
| Constitution / (transfer) of reserves | - | - | **-** | 6,231 | 12,882 | **19,113** |
| **Balance as at 31 December 2019** | **13,864** | **842** | **14,706** | **58,982** | **189,568** | **263,256** |

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* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Acquisition cost of financial assets | 1,758,085 | 1,793,779 |
| Accumulated impairment recognized on the balance sheet (Note 6) | (19,939) | (16,336) |
| Amortized cost of financial assets, net of impairment | 1,738,146 | 1,777,443 |
| Fair value of financial assets (Note 6) | 1,750,618 | 1,797,331 |
| Unrealized gains / (losses) recognized in OCI | (7,469) | 3,552 |
| Impairment (Note 6) | 19,939 | 16,336 |
| Deferred taxes (Note 10) | (3,680) | (6,023) |
| | **8,790** | **13,864** |

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

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Balance at the beginning of the financial year | 13,864 | (40,532) |
| Change in fair value | 51,630 | 152,043 |
| Disposals in the period (see Note 19) | (18,258) | (38,221) |
| Reclassification to impairment (Note 6) | 3,603 | 5,470 |
| Fair value hedges (Note 7) | (44,393) | (44,295) |
| Deferred taxes recognized in reserves in the period (see Note 10) | 2,344 | (20,601) |
| **Balance at the end of the financial year** | **8,790** | **13,864** |

## 17. Net interest income

| *EUR thousand* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Interest and similar income** | | |
| Debt instruments | 67,111 | 76,580 |
| Loans | 6,364 | 7,451 |
| Other credit operations | 506 | 656 |
| Other interest and similar income | 1,345 | 152 |
| | **75,326** | **84,839** |
| **Interest and similar expense** | | |
| Sale operations under repurchase agreement | (11,230) | (19,314) |
| Hedging derivatives | (11,177) | (124) |
| Due to customers | (7,760) | (8,486) |
| Other interest and similar expense | (679) | (1,280) |
| | **(30,846)** | **(29,205)** |
| | **44,480** | **55,635** |

## 18. Net fee and commission income

| *EUR thousand* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Fee and commission income** | | |
| From banking activity | 879 | 2,209 |
| From specialized finance activity | 117 | 257 |
| | **996** | **2,466** |
| **Fee and commission expense** | | |
| On third-party banking services | (500) | (421) |
| On specialized finance activity | (24) | (38) |
| | **(524)** | **(459)** |
| | **472** | **2,007** |

As at 31 December 2020, the caption “Fee and commission income - from specialized finance activity” includes the amount of € 49 thousand (2019: € 134 thousand) related to commissions from insurance intermediation.

## 19. Net results from financial operations

As at 31 December 2020 and 2019, this caption may be analysed as follows:

| *EUR thousand* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Gains or losses from derecognition of financial assets at fair value through other comprehensive income (Note 16) | 18,258 | 38,221 |
| Gains or losses from derecognition of financial assets at amortized cost | 338 | 1,036 |
| Gains or losses from financial assets and liabilities held for trading | 80 | (1,056) |
| Gains or losses from hedge accounting (Note 7) | (1,788) | (32) |
| Gains or losses from foreign exchange operations | (11,957) | (21,112) |
| Other gains or losses from financial operations | 105 | 57 |
| | **5,037** | **17,115** |

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 € (10,652) thousand (2019: € (12,816) 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 thousand (2019: € (578) 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 2020, it includes the amount of € (1,867) thousand (2019: € (3,055) thousand), related to operations with interest rate derivatives.

## 20. Staff costs

| *EUR thousand* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Remuneration | 10,399 | 11,141 |
| Mandatory social charges | 2,371 | 2,395 |
| Other charges | 572 | 730 |
| | **13,342** | **14,265** |

As at 31 December 2020 and 2019, the remuneration, including respective mandatory social charges, paid to the Group's management and supervisory bodies amounted to € 984 thousand and € 988 thousand, respectively.

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

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Senior management | 90 | 96 |
| Middle management | 140 | 148 |
| Professional staff | 19 | 20 |
| | **249** | **264** |

## 21. Other administrative expenses

| *EUR thousand* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Specialized services | 4,489 | 5,068 |
| Maintenance services | 1,564 | 1,643 |
| Contributions | 1,228 | 1,328 |
| Communication | 470 | 456 |
| Travel and accommodation | 174 | 487 |
| Rentals and hires | 121 | 148 |
| Other | 868 | 1,068 |
| | **8,914** | **10,199** |

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

## 22. Impairment and provisions

As at 31 December 2020 and 2019, the amounts of impairment and provisions recognized in the income statement may be analysed as follows:

| *EUR thousand* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Financial assets at fair value through other comprehensive income | 11,965 | 5,820 |
| Financial assets at amortized cost | (9,016) | (4,858) |
| Impairment or reversal of impairment (Note 6) | 2,949 | 961 |
| Impairment or reversal of impairment of non-financial assets | (235) | - |
| Provisions or reversal of provisions (Note 14) | (4) | 29 |
| | **2,710** | **990** |

As at 31 December 2020, the caption "Financial assets at amortized cost" includes the amount of € 9,834 thousand (2019: € 5,640 thousand) related to credit recoveries, which, in turn, include the approximate amount of € 5,700 thousand resulting from the calibration and update process of the parameters used in the collective impairment model of the specialized financing portfolio (Note 6).

During 2020, the total amount of interest recognized in the income statement from impaired financial assets is € 1,393 thousand (2019: € 2,495 thousand).

## 23. Earnings per share

### Basic earnings per share

| *EUR thousand, except number of shares* | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Net profit attributable to the shareholders of the Bank | 23,687 | 35,957 |
| Weighted average number of ordinary shares outstanding (thousand) | 149,962 | 149,962 |
| Basic earnings per share (in Euros) | **0.16** | **0.24** |
| Number of ordinary shares outstanding at year-end (thousand) | **149,962** | **149,962** |

### 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 2020 and 2019.

## 24. Off-balance sheet items

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| **Guarantees issued** | | |
| Assets given in guarantee (“repos”) | 634,531 | 786,820 |
| Guarantees and endorsements issued (Note 27) | 5,115 | 11,883 |
| | **639,647** | **798,703** |
| **Guarantees received** | | |
| Assets received in guarantee (“reverse repos”) | 3,260 | 5,780 |
| | **3,260** | **5,780** |
| **Other possible assets** | | |
| Irrevocable credit lines | 1,500 | 1,500 |
| | **1,500** | **1,500** |
| **Other possible liabilities** (Note 27) | | |
| Revocable credit lines | 3,920 | 9,000 |
| Other contingent liabilities | 5,182 | 2,590 |
| | **9,102** | **11,590** |
| **Responsibilities for services rendered** | | |
| Deposit and custodianship of items | 430,184 | 418,673 |
| | **430,184** | **418,673** |

As at 31 December 2020 and 2019, all assets recorded in the off-balance sheet item captions are classified in Stage 1. As at 31 December 2020, impairment was derecognized (Stage 1) for credit risk in the amount of € 20 thousand (2019: impairment was recognized 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 2020, to € 692,809 thousand (2019: € 836,600 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 2020, to € 3,498 thousand (2019: € 6,624 thousand).

As at 31 December 2020, the caption “Other possible liabilities” includes the amount of € 5,000 thousand (2019: € 2,500 thousand) related to commercial paper issues of third parties, guaranteed by the Group, not yet placed.

## 25. Cash and cash equivalents

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

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Cash (Note 5) | 92 | 73 |
| Demand deposits with central banks (Note 5) | 35,756 | 33,020 |
| Deposits with other banks (Note 5) | 19,617 | 14,637 |
| Due from banks | 24,564 | 32,581 |
| | **80,029** | **80,312** |

The amount Due from banks considered as cash and cash equivalents relates only to balances with maturities under 3 months and excludes the collateral deposits referred to in Note 6.

## 26. Balances and transactions with related parties

The Group realises 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 with which there are balances and transactions as at 31 December 2020, may be analysed as follows:

| **Shareholder** | **Registered office** | **Direct shareholding %** | **Effective shareholding %** |
|---|---|---|---|
| Finantipar, S.A. | Portugal | 63.0 | 63.1 |
| VTB Group | Russia | 12.2 | 12.2 |

The balances and transactions with related parties as at 31 December 2020 and 2019, may be analysed as follows:

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| **Assets** | | |
| Debt instruments | - | 2,428 |
| **Liabilities** | | |
| Financial liabilities at amortized cost | 1,116 | 5,117 |
| Other liabilities | 125 | 150 |
| **Income** | | |
| Interest and similar income | 28 | 183 |
| Gains from financial operations | 3 | 98 |
| **Expense** | | |
| Interest expense and similar charges | 9 | 12 |
| Losses from financial operations | 21 | 6 |
| **Off-balance sheet items** | | |
| Deposit and custodianship of items | 31,675 | 26,750 |

Transactions with related parties are realized under normal market conditions.

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

## 27. Activity risk management

The overall risk management of the Banco Finantia Group is the responsibility of the Board of Directors, with the implementation and maintenance of the risk management model being the responsibility of the directors with executive functions. There is also a Finance and Risks Committee which main function is the overall monitoring of the risks to which the Group is exposed, including the 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) prepares the Internal Capital Adequacy Assessment Process, (vii) carries out the independent validation of the methodologies and results of the Internal Liquidity Adequacy Assessment Process, (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, interest rate, credit spread, foreign exchange rate, market, liquidity, operational (including operating, information systems, behaviour and modelling risks), compliance, reputation and strategy.

In the scope of ICAAP, the Group allocates capital to the above risk categories. As at 31 December 2020, the Group presented an own capital utilization ratio for economic capital requirements of 43.7% (55.2% as at 31 December 2019).

Regarding risk appetite, during 2020 the metrics included in the RAF were always within the limits and levels of tolerance approved for the Group.

All risk categories contributing to the Group's risk profile are analysed, discussed and monitored monthly by the Finance and Risks Committee on the basis of exposure levels (and possible measures to increase effectiveness and risk mitigation), economic capital and stipulated limits of risk appetite.

Credit risk

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

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

| *EUR thousand* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Cash and banks (Note 5)* | 19,617 | 14,637 |
| Debt instruments (Note 6) | 1,774,593 | 1,833,354 |
| Loans (Note 6) | 133,943 | 158,891 |
| Due from banks (Note 6) | 70,047 | 71,838 |
| Purchase operations under resale agreements (“reverse repos”) (Note 6) | 3,497 | 6,624 |
| Risk-management derivatives (Note 6) | 40,666 | 3,340 |
| Other credit operations (Note 6) | 6,761 | 3,178 |
| Other assets (Note 11) | 11,297 | 12,789 |
| | **2,060,422** | **2,104,651** |
| Financial guarantees and other possible liabilities (Note 24) | 14,617 | 23,473 |
| | **14,617** | **23,473** |

* 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 2020, 77% (2019: 76%) 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* | **31.12.2020** | | **31.12.2019** | |
|---|---|---|---|---|
| OECD countries | 1,090,571 | 52% | 1,105,465 | 51% |
| Investment grade (non-OECD) countries | 536,766 | 25% | 536,632 | 25% |
| Other countries | 477,822 | 23% | 515,231 | 24% |
| | **2,105,159** | **100%** | **2,157,328** | **100%** |

As previously mentioned, the Group developed an expected credit loss model (ECL), in light of the new 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.

On that basis, impairment is measured as: (i) Expected credit losses for 12 months: corresponding to the expected losses resulting from possible default events of the financial instrument in the 12 months following the reporting date and (ii) Expected credit losses over the lifetime of the instrument: corresponding to the expected losses that may occur from a default event over the lifetime of a financial instrument.

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

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

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

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

The model is, thus, sensitive to its main risk parameters, PD and LGD, translated by the credit spread, and for a change of +/- 10% in the credit spread the impact on the total value of the impairment would be circa +/- € 1.3 million, of which circa +/- € 0.9 million in Stage 1 and +/- € 0.4 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 into 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 2020, 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 | 40,729 | 40,729 | - | 25,950 | 14,779 |
| Reverse repos | 3,497 | 3,497 | 3,454 | - | 43 |
| **Total** | **44,226** | **44,226** | **3,454** | **25,950** | **14,821** |
| **Financial liabilities** | | | | | |
| Derivatives | 58,306 | 58,306 | - | (46,869) | 11,436 |
| Repos | 536,584 | 536,584 | (692,809) | 11,467 | (144,758) |
| **Total** | **594,890** | **594,890** | **(692,809)** | **(35,402)** | **(133,322)** |

As at 31 December 2019, 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 | 5,140 | 5,140 | - | - | 5,140 |
| Reverse repos | 6,624 | 6,624 | 6,757 | - | (133) |
| **Total** | **11,764** | **11,764** | **6,757** | **-** | **5,007** |
| **Financial liabilities** | | | | | |
| Derivatives | 43,318 | 43,318 | - | (45,170) | (1,852) |
| Repos | 655,617 | 655,617 | (836,600) | 10,610 | (170,372) |
| **Total** | **698,935** | **698,935** | **(836,600)** | **(34,560)** | **(172,225)** |

As at 31 December 2020 and 2019, 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 through the use of 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 2020, the average daily VaR for interest rate risk was € 5.16 million (€ 3.11 million in 2019), which corresponds to 1.1% 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 2020 | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Assets | 264,420 | 47,267 | 20,488 | 601,971 | 1,017,463 |
| Liabilities | (616,858) | (294,129) | (353,765) | (284,711) | (5,096) |
| Off-balance sheet items | 702,845 | 99,716 | (8,788) | (324,793) | (474,400) |
| **Gap** | **332,406** | **(147,146)** | **(342,064)** | **(7,534)** | **537,967** |

*EUR thousand*

| 31 December 2019 | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Assets | 330,354 | 51,115 | 26,221 | 612,816 | 1,115,793 |
| Liabilities | (531,684) | (297,394) | (411,210) | (373,033) | 0 |
| Off-balance sheet items | 984,339 | 95,881 | (21,904) | (573,007) | (558,882) |
| **Gap** | **783,009** | **(150,398)** | **(406,892)** | **(333,223)** | **556,911** |

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 2020, based on the methodology described above, the average daily VaR for foreign exchange rate risk was € 2.94 million (€ 2.39 million in 2019), which corresponds to about 0.6% 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* | 31.12.2020 | |
|---|---|---|
| | **USD** | **Other currencies** |
| **Assets** | | |
| Cash and banks | 2,023 | 1,078 |
| Debt instruments | 1,090,403 | - |
| Loans | 54,336 | - |
| Due from banks | 21,067 | - |
| Purchase operations under resale agreements (“reverse repos”) | 3,497 | - |
| Derivative instruments (Note 7) | 63 | - |
| Other credit operations | - | - |
| Other assets | 992 | 409 |
| **Total assets** | **1,172,380** | **1,487** |
| **Liabilities** | | |
| Short sales | 4,117 | - |
| Derivative instruments (Note 7) | 53,249 | - |
| Due to banks | 4,224 | - |
| Due to customers | 20,012 | - |
| Sales operations under repurchase agreements (“repos”) | 443,246 | - |
| Foreign currency derivatives | 640,535 | - |
| Other liabilities | 328 | 2,070 |
| **Total liabilities** | **1,165,711** | **2,070** |
| **Net regulatory position** | **6,670** | **(583)** |
| Fair value reserve | 3,508 | - |
| **Net accounting position** | **3,161** | **(583)** |

| *EUR thousand* | 31.12.2019 | |
|---|---|---|
| | **USD** | **Other currencies** |
| Total assets | 1,418,684 | 771 |
| Total liabilities | 1,414,312 | 3,041 |
| **Net regulatory position** | **4,372** | **(2,270)** |
| Fair value reserve | 16,597 | - |
| **Net accounting position** | **(12,225)** | **(2,270)** |

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, allowing for the maintenance of the main liquidity indicators within the limits pre-defined by the Group.

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

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

The Net Stable Funding Ratio (NSFR), which complements the LCR, has a wider time horizon - one year. This ratio was established to impose a sustainable framework of asset and liability maturities, with the aim of promoting adequate resilience over a longer time horizon, by providing additional incentives for banks to finance their activities through more stable sources of financing on a regular basis.

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.

As at 31 December de 2020, 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 | 41,945 | 10,362 | 46 | - | 52,353 |
| Due to customers | 245,803 | 425,636 | 300,414 | - | 971,852 |
| Sales operations under repurchase agreements (“repos”) | 229,704 | 217,646 | 93,355 | - | 540,705 |
| Short sales | - | - | 3,606 | 244 | 3,850 |
| **Liabilities by contractual maturity dates** | **517,452** | **653,644** | **397,420** | **244** | **1,568,760** |
| **Assets** | | | | | |
| Deposits with banks | 70,203 | - | - | - | 70,203 |
| Due from banks | 57,831 | - | - | - | 57,831 |
| Debt instruments | 30,155 | 86,080 | 802,864 | 1,120,003 | 2,039,102 |
| Other credit operations | 383 | 912 | 2,261 | - | 3,556 |
| Loans | 21,666 | 30,405 | 71,055 | 22,884 | 146,010 |
| Purchase operations under repurchase agreements (“reverse repos”) | 3,496 | - | - | - | 3,496 |
| **Assets held for liquidity risk management** | **183,734** | **117,398** | **876,181** | **1,142,887** | **2,320,199** |

As at 31 December de 2019, 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 | 19,192 | - | - | - | 19,192 |
| Due to customers | 199,209 | 365,791 | 390,793 | - | 955,793 |
| Sales operations under repurchase agreements (“repos”) | 206,489 | 356,675 | 103,536 | - | 666,701 |
| Short sales | - | - | 4,886 | 2,930 | 7,816 |
| **Liabilities by contractual maturity dates** | **424,890** | **722,466** | **499,215** | **2,930** | **1,649,502** |
| **Assets** | | | | | |
| Deposits with banks | 50,157 | - | - | - | 50,157 |
| Due from banks | 70,744 | - | - | - | 70,744 |
| Debt instruments | 64,585 | 71,274 | 862,472 | 1,226,551 | 2,224,881 |
| Other credit operations | 1,206 | 2,620 | 3,867 | - | 7,692 |
| Loans | 15,475 | 57,522 | 83,381 | 21,052 | 177,429 |
| Purchase operations under repurchase agreements (“reverse repos”) | 6,611 | - | - | - | 6,611 |
| **Assets held for liquidity risk management** | **208,779** | **131,415** | **949,719** | **1,247,602** | **2,537,515** |

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

As at 31 December de 2020:

| *EUR thousand* | **Up to 3 months** | **3 to 12 months** | **1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|
| Assets' cash flows | 190,585 | 489,734 | 14,951 | 16,935 | 712,205 |
| Liabilities' cash flows | 176,832 | 480,135 | 57,228 | 16,413 | 730,609 |

As at 31 December de 2019:

| *EUR thousand* | **Up to 3 months** | **3 to 12 months** | **1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|
| Assets' cash flows | 224,319 | 517,257 | 80,096 | 21,294 | 842,966 |
| Liabilities' cash flows | 229,898 | 514,935 | 100,716 | 29,756 | 875,305 |

Non-financial risks

The non-financial risks for the Group include operational, compliance, reputation and strategy risks. These risks consists of the likelihood of negative impacts on results or capital arising from (i) for operational risk, failures of an operational nature, of inadequacy of IT systems and technology, of behavioural errors or inadequacy of the models, (ii) for compliance risk, of non-compliance with the laws and regulations, (iii) for reputation risk, of the negative perception of the public image of the institution and (iv) for strategy risk, of inadequate plans and strategies.

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

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

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

During 2019, several training actions were carried out in the area of non-financial risks, with an emphasis on specific training on Prevention of Money Laundering, GDPR and Cybersecurity, among others. In 2020, the Bank continued to focus on training as a means to reducing non-financial risks.

## 28. Capital management

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

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

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

The main capital ratios of the Group in 2020 and 2019 are presented in the table below.

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

| *EUR million* | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Common Equity Tier 1 (CET1) | 473.4 | 459.9 |
| Tier 1 | 473.4 | 459.9 |
| Total Capital | 473.5 | 459.9 |
| Risk weighted assets | 1,736.1 | 1,924.8 |
| CET 1 ratio | 27.3% | 23.9% |
| Tier 1 ratio | 27.3% | 23.9% |
| Total Capital ratio | 27.3% | 23.9% |

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 2020 and 2019, the Group and the entities in its consolidation perimeter complied with all the regulatory capital requirements to which they are subject.

## 29. Fair value of financial assets and liabilities

### Fair value hierarchy

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

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

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

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

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

| *EUR thousand* | | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|---|
| | **Notes** | **Level 1** | **Level 2** | **Level 3** | **Level 1** | **Level 2** | **Level 3** |
| **Assets** | | | | | | | |
| Financial assets at fair value through other comprehensive income ("HTCS") | 6 | 1,142,647 | 595,502 | 6,860 | 1,372,196 | 425,136 | - |
| Financial assets not held for trading mandatorily at fair value through profit or loss | 6 | - | 48 | - | - | 36 | - |
| Financial assets held for trading | 6 | 3,960 | 4,755 | 242 | 8,293 | 6,111 | - |
| Derivative financial instruments | 7 | - | 40,729 | - | - | 5,140 | - |
| **Liabilities** | | | | | | | |
| Derivative financial instruments | 7 | - | 58,306 | - | - | 43,318 | - |
| Short sales | 12 | - | 4,137 | - | - | 8,991 | - |

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 and credit related derivatives amounts to € 63 thousand and 58,306 thousand, respectively (2019: € 1,937 thousand and € 34,750 thousand, respectively). As at 31 December 2020 and 2019, 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 2020, the Group classified in Level 3 impaired financial instruments involved in restructuring legal proceedings due to financial difficulties and for which it was not possible to assess their fair value based on observable market prices representative of transactions carried out on the market. In these cases, the fair value of the instruments was determined based on the use of valuation techniques that consider the expected future cash flows discounted based on a discount rate representative of the risk of the respective exposures.

During 2020, the amount of € 7,102 thousand relating to impaired financial instruments involved in restructuring legal proceedings due to financial difficulties and for which it was not possible to assess their fair value based on observable market prices representative of transactions carried out on the market, was transferred to Level 3. As at 31 December 2019, these instruments were classified as Level 1 in the amount of € 8,109 thousand and Level 2 in the amount of € 1,134 thousand.

The main assumptions and inputs used, during financial years 2020 and 2019, 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:

| | 31.12.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | EUR | USD | EUR | USD |
| Overnight | -0.498 | 0.078 | -0.446 | 1.543 |
| 1 month | -0.554 | 0.144 | -0.438 | 1.763 |
| 3 months | -0.545 | 0.238 | -0.383 | 1.908 |
| 6 months | -0.526 | 0.258 | -0.324 | 1.912 |
| 1 year | -0.499 | 0.342 | -0.249 | 1.996 |
| 3 years | -0.506 | 0.241 | -0.238 | 1.689 |
| 5 years | -0.459 | 0.430 | -0.129 | 1.729 |
| 7 years | -0.384 | 0.655 | 0.017 | 1.798 |
| 10 years | -0.260 | 0.925 | 0.211 | 1.895 |
| 15 years | -0.082 | 1.189 | 0.470 | 2.010 |
| 20 years | -0.002 | 1.317 | 0.604 | 2.066 |
| 30 years | -0.023 | 1.402 | 0.621 | 2.091 |

### 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 | 31.12.2020 | 31.12.2019 |
|---|---|---|
| EUR/USD | 1.2271 | 1.1234 |
| EUR/GBP | 0.8990 | 0.8508 |
| EUR/CHF | 1.0802 | 1.0854 |
| USD/BRL [a] | 5.1940 | 4.0197 |

[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 | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|---|
| | | Carrying amount | Fair value | | Carrying amount | Fair value | |
| | | | Level 1 | Level 2 | | Level 1 | Level 2 |
| **Assets** | | | | | | | |
| Cash and banks | 5 | 60,055 | 60,055 | - | 51,497 | 51,497 | - |
| Financial assets at amortized cost ("HTC") and ("HTCS") | 6 | 213,906 | 78,063 | 123,619 | 250,043 | 89,105 | 162,253 |
| Other credit operations | 6 | 6,758 | - | 6,762 | 3,164 | - | 3,173 |
| **Liabilities** | | | | | | | |
| Due to banks | 13 | 56,484 | 56,484 | - | 20,666 | 20,666 | - |
| Due to customers | 13 | 949,990 | 949,990 | - | 939,607 | 939,607 | - |
| Repurchase agreements | 13 | 536,584 | 536,584 | - | 655,617 | 655,617 | - |

As at 31 December 2020, the caption "Financial assets at amortized cost ("HTC") and ("HTCS")" includes financial assets acquired or originated with credit impairment (POCI) in the amount of € 5,609 thousand, which respective fair value amounted to € 4,087 thousand, classified in Level 2.

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 2020, 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 | - | - |
| Banco Finantia Spain, S.A. | 1993 | 2001 | Spain | Banking | 99.8 | Full |
| Finantia UK Limited | 1993 | 1997 | United Kingdom | Finance | 100 | Full |
| Finantia Malta Ltd. | 2004 | 2004 | Malta | Finance | 100 | Full |
| Finantia USA Inc. | 1995 | 1997 | USA | Broker-Dealer | 100 | Full |
| Finantia Brasil, Ltda. | 1997 | 1997 | Brazil | Advisory services | 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 |

On 17 November, the company Sofinloc, S.A. changed its legal nature to a sole proprietary limited company, and it company name to Sofinloc, Unipessoal, Lda.

## 31. Impact of the Covid-19 pandemic

### 31.1. Overview

The Covid-19 pandemic conditioned economic activity practically throughout the year 2020, with uncertainty prevailing over its intensity and evolution.

In this context, several measures to support the economy have been adopted by various governments, as well as flexibility measures by regulators and supervisory authorities in order to maximize the capacity of institutions to grant loans and absorb losses related to the Covid-19 pandemic, thus preserving their resilience. Below are the main measures, procedures and impacts that the pandemic crisis caused in 2020.

### 31.2. Measures to support the economy

The year 2020 was marked by the impacts resulting from the pandemic associated with Covid-19, forcing most countries to adopt exceptional measures, with a huge impact on the lives of people and companies.

To accelerate economic recovery, economic stimulus plans were announced by the various European governments, with European leaders approving in July an extraordinary package of European funds, called NextGeneration EU, for a total of € 750 billion distributed between grants and loans, which will run from 2021 to 2023 and will be financed through the issuance of European debt.

In many countries, and in particular in the USA and the EU, QE has been resumed and greatly expanded, also supporting governments in the implementation of their fiscal policy with strong implications at the level of the increase in the financing needs of states. Benchmark interest rates were also reduced, financing programs for companies with public guarantees were introduced, the possibility of requests for moratoria on debt service was made available, taxes were deferred, and payment of transfers and social benefits was made more flexible. In addition, measures were taken to provide ample liquidity to the banking system, reinforcing its solvency and liquidity position, which was already strong at the start of this crisis.

The ECB has implemented a set of measures to support banks, focused on easing capital and liquidity requirements, limiting the recognition of provisions and easing consolidation processes in the sector.

In Portugal, there was the launch of credit lines with State guarantees, moratoria for companies and individuals and support for families affected by the crisis, in the lay-off processes, with a significant part of the charges being borne by the State and in the cases where people had to be quarantined, namely:

*Credit lines with State guarantees*

In the context of the epidemic caused by the new Coronavirus, the Portuguese Government created lines of support for the economy that allow companies to access credit on favourable terms. This support has been made available in a phased manner and distributed in specific lines destined to the various sectors of the business fabric. These lines are guaranteed by the Portuguese State in 90%, in the case of credit granted to micro and small companies, and in 80%, in the case of larger companies.

*Credit moratoria*

The Portuguese Government has also instituted a credit moratorium on financial institutions with the objective of supporting families and companies in an adverse context of a sharp drop in income caused by the Covid-19 pandemic. This public moratorium establishes exceptional measures to protect the credits of beneficiary entities in the context of the Covid-19 pandemic, allowing the deferral of the fulfilment of responsibilities, when they represent credits assumed by the beneficiary entities vis-à-vis the Bank, which are not overdue on the date of receipt of the declaration of adherence to the public moratorium.

With the evolution of the economic crisis generated by the Covid-19 pandemic, the Portuguese Government has been extending the scope and deadline of the public moratorium, this being currently extended until September 2021 (Decree-Law no. 10-J/2020).

In line with the recommendations of the European Banking Authority (EBA) regarding the disclosure of information on exposures subject to measures applied in response to the Covid-19 crisis, it should be noted that as at 31 December 2020, the Group did not hold any exposures related to credit moratoria and loans granted under the credit lines guaranteed by the Portuguese State.

### 31.3. Adoption of new procedures and criteria in the preparation of accounting estimates in the context of the Covid-19 pandemic

In the context of the current crisis caused by the spread of the Covid-19 pandemic, several supervisors and regulators, including the European Central Bank (ECB), the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the International Accounting Standards Board (IASB) issued guidelines, directives and recommendations in order to ensure the consistency and comparability of the metrics, principles and requirements provided for in the International Financial Reporting Standards (IFRS), in particular with regard to IFRS 9 - Financial instruments. In this context, the publication of the following main guidelines and recommendations are highlighted:

- Guidance on the application of the prudential framework for default, restructuring and IFRS 9, in the light of the measures approved in the context of the Covid-19 pandemic, issued by the EBA on 25 March 2020;

- IFRS 9 and Covid-19 - Accounting for expected credit losses using IFRS 9 - Financial Instruments, in light of the current uncertainty resulting from the Covid-19 pandemic, issued on 27 March 2020 by the IASB;

- Guidelines on public and private moratoria applied to credit operations in the context of the Covid-19 pandemic, issued by the EBA on 2 April 2020 (EBA/GL/2020/02) and updated on 25 June 2020;

- IFRS 9 in the context of the coronavirus pandemic (Covid-19), issued on 1 April 2020 by the ECB.

**Impacts of the Covid-19 pandemic at the level of credit risk monitoring**

To address the incorporation of the potential impacts of the Covid-19 pandemic, the Group reinforced the procedures regarding the monitoring of credit risk, namely in terms of the classification in Risk Stages under the terms provided for in IFRS 9, which translates the identification and classification of customers in situations of increased risk or even default, as well as the definition of impairment. The main procedures followed by the Bank were as follows:

<u>i) Update of macroeconomic scenarios</u>

Regarding the impairment model for the banking portfolio, the process of attributing “loss curves” was reviewed, adjusting them to the current reality of each exposure evaluated and the calculation process of the respective ECL was revised in order to avoid the procyclical effects, as recommended by the ECB, with the objective that institutions avoid the use of excessively procyclical assumptions in the estimation models given the strong volatility of the prospective scenarios; this resulted in some additional impairment. However, this portfolio proved to be particularly resilient, without relevant impacts deriving from the pandemic.

<u>ii) Classification of operations as restructuring due to financial difficulties</u>

Specifically with regard to the classification of customers as restructured due to financial difficulties, and as provided in the guidelines issued by regulators and supervisors, the operations that were framed within the scope of the state moratorium (Decree Law 10-J/2020, of 26 March) or the sectoral moratorium (protocol signed in the context of the APB) could not be marked as restructured due to financial difficulties. Since the Group has no exposures arising from these moratorium mechanisms, there was no impact on its procedures. Regarding the marking of restructuring due to financial difficulties in other operations or contractual changes, the Group continued to reinforce its internal procedures with a view to the rigorous classification of new operations or the modification of ongoing operations that are considered to be carried out due to financial difficulties of customers.

### 31.4. Use of judgements and estimates in the preparation of the financial statements

The preparation of the consolidated financial statements requires that judgments are used, estimates are prepared, and certain assumptions are made to determine the value of assets and liabilities and the amount of contingent assets and liabilities disclosed on the reference date to which the financial statements refer, as well as the income and expenses calculated in the reporting period.

The main judgments and estimates adopted in the context of the preparation of these financial statements are described in Note 4 - Main estimates and judgments used in the preparation of the financial statements.

The Covid-19 pandemic significantly increased the degree of uncertainty in the estimates made and reinforced the need to use expert judgment to assess how these estimates are influenced by the current macroeconomic situation, especially regarding the calculation of impairment of financial and non-financial assets.

Although the estimates were prepared based on the best information available with respect to the current and prospective context, the final result may differ from the values currently estimated.

**Going concern**

The Group's financial statements have been prepared on a going concern basis, as the Board of Directors considers that the Group has the necessary resources to continue its operations and business in the foreseeable future. The assessment made by the Board of Directors was based on a wide range of information related to current and future conditions, including projections on future profitability, cash flows, capital requirements and sources of financing. The Covid-19 pandemic introduced an increased level of uncertainty in the Group's financial projections and the need to consider its impact on the Group's operations, its profitability, capital, and liquidity.

**Contingency plan**

To deal with the pandemic caused by Covid-19, the Bank adopted a set of contingency measures planned and designed to ensure the protection of people and the continuity of the activity, including, among others, the recommendations of health authorities, teleworking and segregation of teams, seeking to maximize the organization's resilience. In this context, the Bank activated the Contingency Plan, provided for in the Business Continuity Plan. This plan has been updated and adapted specifically to the current pandemic scenario. Thus, in line with the guidelines issued by the authorities and supervisory entities, an action plan was designed to protect Customers and Employees, minimize the chances of contagion, and ensure the operational continuity of the business.

### 31.5. Main impacts on the results of the operations, liquidity, and capital

Following the first effects of the pandemic associated with Covid-19, the Group revised its operating strategy, opting for a more conservative and prudent approach.

In this sense, its financing policy was adjusted with a view to preserving capital and, within the scope of a prudent liquidity management, the collateral pool eligible for discount with the ECB was reinforced and other initiatives were taken to strengthen the liquidity buffer of the Group, as opposed to an increase in its risky assets as initially planned for 2020.

<u>Results of the operations</u>

Following this strategic revision, the main impacts caused by the Covid-19 pandemic on profitability were fundamentally centred on the level of net interest income, as a result of greater prudence in the Group's growth strategy, reducing the volume of interest-generating assets, giving rise to a reduction in the net interest income compared with the previous year, which was also pressured by the drop in benchmark interest rates in the main geographies where the Group operates. Commissions related to the banking business were penalized, not only by the direct impacts of the pandemic caused by Covid-19, but also by the reduction in investor confidence arising from its effects and the results on financial operations were penalized by the negative impact caused by the reduction in transaction volume in the financial markets, especially in the debt markets where the Group operates, although there was a recovery at the end of the last quarter. At the level of credit impairment, due to a more conservative and prudent stance in the assessment of credit risk and in view of the deterioration of the macroeconomic scenarios, additional impairment was recorded, causing an increase in the cost of risk compared with that verified in the financial statements of the previous years.

<u>Capital and liquidity requirements</u>

The public health crisis caused by Covid-19 has led regulators and supervisors to temporarily reduce capital, liquidity, and operational requirements for banks, to ensure that they continue to perform their role in supporting and financing the economy.

In particular, the European Commission, the European Central Bank and EBA issued clarifications on some of the flexibilities already incorporated in Regulation (EU) 575/2013, issuing interpretations and guidelines on the application of the prudential framework in the context of Covid-19.

Since the capital buffers were designed to allow banks to withstand adverse situations and the European banking sector constituted a significant amount of same, the European Central Bank allows banks to operate temporarily below the capital level defined by Pillar 2 (P2G) guidance and the capital conservation (CCB) and systemic (O-SII) buffers, and suggested relaxation by the various National Supervisory Authorities of the countercyclical buffer (CCyB).

Banks have also been able to use non-qualified capital instruments such as CET1 to comply with Pillar 2 (P2R) requirements, anticipating the entry into force of a measure contained in the latest revision of the Capital Requirements Directive (CRD V) and scheduled to take effect from January 2021.

In addition, the European Central Bank allows banks, if necessary, to use their liquidity reserves and to temporarily operate below the minimum regulatory level of the LCR (100%).

It should be noted that the Bank and the Group have always operated above the minimum capital and liquidity values, without benefiting from the flexibility measures described above, maintaining robust capital and liquidity ratios, with both capital and liquidity ratios having been strengthened compared with those verified in 2019.

Strategic orientations and targets

The outbreak of Covid-19 gave rise to a pandemic on a global scale that forced different countries to adopt exceptional measures with a great impact on the lives of people and companies. Financial institutions were forced to change the focus of their business objectives to outline an action plan to respond to the crisis. In this context, the Group reacted quickly and adjusted its priorities, seeking to anticipate the impacts of the crisis. The strategic orientation focused on growth was temporarily superimposed by a model aimed at defending the quality of the balance sheet and adapting business processes and models to the current situation.

On this basis, the following priorities for 2020 were defined, which will be maintained in 2021:

- Protect the safety and health of employees;
- Ensure business continuity;
- Protect the safety and health of customers and suppliers;
- Defend the quality of the Balance Sheet, the liquidity and the solvency of the Bank;
- Adapt business models and processes to the new normal;
- Strengthen the social support component for the most vulnerable.

The economic and social impacts of the public health crisis and the measures adopted by governments and authorities, including supervisory authorities, will produce effects that, at this stage, are still uncertain, but which may materially affect the Group's activity in the main markets where it operates.

The response of financial institutions and their customers has made it evident that the current crisis is a powerful accelerator of trends, revealing an adaptation of traditional business models and existing processes to a new context designated the “new normal”, which is based primarily on digital channels. The pandemic accelerated and even forced the use of digital channels on customers who would otherwise continue to use traditional channels to meet their needs.

Among the priorities included in the Medium-Term Plan 2020-2022, digitization centred on mobile takes a prominent place. It should be noted, however, that the income generation potential in a post-pandemic context, probably more diminished, will increase the pressure between financial institutions to capture additional efficiency gains in order to preserve the sustainability of their business models.

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# Statutory Auditor's Report

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the accompanying consolidated financial statements of Banco Finantia, S.A. (the Group), which comprise the Consolidated Balance Sheet as at 31 December 2020 (showing a total of 2,105,159 thousand euros and a total equity of 478,578 thousand euros, including a net profit of 23,687 thousand euros), and the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Banco Finantia, S.A. as at 31 December 2020, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

### Basis for opinion

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 2,015,344 thousand euros ("m €") representing 96% of total assets.<br><br>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 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.<br><br>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.<br>Additionally, the Covid-19 pandemic decreased the predictability of the economy evolution. Consequently, a determination of scenarios and weight used to calculate the expected loss of the securities and loan portfolio is more uncertain.<br><br>The use of alternative approaches, models or assumptions may have a material impact on the estimated impairment value.<br>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. | 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:<br>• We obtained an understanding, evaluated the design of the internal control procedures over the process of quantification of impairment losses, namely for the portfolio of debt instruments and loans;<br>• We performed analytical review procedures on the evolution of financial asset impairment balances, comparing them with the previous period;<br>• We identified and analysed the indications of deterioration of credit risk of the financial assets which comprise the debt instruments and loan portfolio;<br>• 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, namely on the methodology for incorporating prospective information in the context of the current Covid-19 pandemic;<br>• 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;<br>• We assessed the reasonableness of the defined criteria and the consistency of their application in |

| Description of the most significant risks of material misstatement | Summary of our response to the most significant risks of material misstatement |
|---|---|
| | the measurement and impairment calculation of the Group's financial asset portfolio;<br>• 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; and<br>• 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 641,034 thousand euros and 7,102 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 62,443 thousand euros classified in level 2 of the fair value hierarchy, IFRS 13 – Fair Value.<br><br>At 31 December 2020, 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 held for trading or hedging derivatives. The financial instruments classified in level 3 are comprised by debt instruments.<br><br>The financial instruments classified by the Group in level 2 of the fair value hierarchy, IFRS 13 – Fair Value, reflects a part of the debt instruments portfolio whose valuation is obtained through an unregulated market or not quoted under the rules of the stock exchange or have a lower level of liquidity. Additionally, it includes other financial instruments whose 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 observable market data as inputs in its | Our response to the risk of material misstatement includes the following procedures:<br><br>• 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;<br>• We assessed the reasonableness of the measurement performed by the Group for the financial instruments' portfolio measured at fair value.<br>• We obtained and analysed the internal documents that support the decision regarding the financial instrument measurement;<br>• We analysed the reasonableness of the defined criteria and the consistency of their application in the measurement of financial instruments held by the Group;<br>• 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 |
|---|---|
| models, such as interest rate curves, credit spreads, volatility and market indexes.<br>The financial instruments classified by the Group in level 3 of the fair value hierarchy, IFRS 13 – Fair Value, reflects 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.<br><br>Consequently, the use of different methodologies, assumptions and judgments in the application of a specific model, may have an impact on the determination of the fair value of financial instruments and on the consolidated financial statements, and therefore we considered this as a key audit matter. | |

3. Current and deferred tax estimates

| Description of the most significant risks of material misstatement | Summary of our response to the most significant risks of material misstatement |
|---|---|
| At 31 December 2020, the Group financial statements include deferred tax assets and liabilities amounting to 1,961 thousand euros and 5,403 thousand euros, respectively.<br>In addition, includes current tax assets and liabilities amounting to 1,208 thousand euros and 5,614 thousand euros, respectively.<br><br>The Group operates in different countries with different tax jurisdictions, some of them being extremely complex in terms of interpretation and, accordingly, we consider this to be a key audit matter. | Our approach towards the risk of material misstatement included the following procedures:<br><br>• We included in our local audit team internal specialists in domestic and international tax matters in order to evaluate whether the tax procedures performed by the Group were in compliance with the local tax rules established by the respective Tax Authorities;<br><br>• We tested the completeness and reasonableness of the amounts recorded as current and deferred taxes; and<br><br>• We analysed the consistency and completeness of the disclosures related to current and deferred taxes and the assessment of their compliance with the disclosure requirements of International Financial Reporting Standards. |

## Responsibilities of management and the 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 financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of 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 scepticism throughout the audit. We also:

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

- 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, related safeguards.

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the 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 (EU) 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 in the shareholders' general meeting held on 27 July 2015 for a mandate from 2015 to 2016. We were reappointed in the shareholders' general meeting held on 31 May 2019 for a third mandate from 2019 to 2021;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional scepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on 25 March 2021;
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, 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 5/2013 issued by the Bank of Portugal, republished by instruction 18/2018 of Bank of Portugal;
    - Issuance of a report, as required by Article 304.º of the Securities Code, and in accordance with the requirements of the directives for Reviews and Audits nº 825 ("*Diretriz de Revisão e Auditoria* nº 825");
    - Issuance of reports, in compliance with Notice 5/2008 issued by the Bank of Portugal, considering the technical directives of the Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), as at 31 May 2020;
    - Factual conclusions report of the Statutory Auditor under the terms of the Article 56, paragraph 3, of the Bank of Portugal Notice nº 3/2020, as at 31 December 2020.

Lisbon, 25 March 2021

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

António Filipe Dias da Fonseca Brás - ROC nr. 1661
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