Banco Finantia

Report and Consolidated Accounts | 2021

31 March 2022

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KEY FIGURES
IFRS [1]

Euro million	2021	2020	Change
BALANCE SHEET			
Total assets	2,104.9	2,105.2	0 %
Fixed-income and loan portfolio	1,891.6	1,894.3	0 %
Customers' deposits	883.1	950.0	- 7 %
Shareholders' equity	482.3	478.8	+ 1 %
INCOME STATEMENT			
Net interest income, net of hedging	37.0	31.6	+ 17 %
Operating income	53.0	50.9	+ 4 %
Net profit	24.2	23.7	+ 2 %
PROFITABILITY (%)			
Return on equity (ROE) (2)	5.6	5.7	- 0.1 pp
Return on assets (ROA) (2)	1.3	1.1	+ 0.2 pp
CAPITAL ADEQUACY (BIS III, fully loaded) (%)			
CET1 Ratio	26.1	27.3	- 1.2 pp
Total Capital Ratio	26.1	27.3	- 1.2 pp
LIQUIDITY AND FUNDING INDICATORS (%)			
Liquidity Coverage Ratio (LCR) (3)	1,095	863	+ 231.7 pp
Regulatory Leverage Ratio (4)	21	22	- 1.4 pp
EFFICIENCY / ASSET QUALITY			
Cost-to-Income (%)	47	48	- 1.1 pp
NPE Ratio (%) (5)	1.63	2.07	- 0.5 pp
DATA PER SHARE (Euro)			
Net Profit	0.16	0.16	0.00 cts
Book Value	3.28	3.19	+ 0.09 cts
Weighted average no. of shares outstanding (million)	147	150	n.a.
Year end no. of shares outstanding (million)	147	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 measured according 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 34 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 2021 financial year the ROE attained 5.6% and, at the end of 2021, Shareholders' Equity amounted to € 482 million. The Common Equity Tier 1 (CET1) ratio, on a comparable basis with 2020, stood at 26.7%. Considering the proposed distribution of 50% of the net profit for the year, the CET1 ratio stands at 26.1%, one of the highest in the European Union.

The Bank operates in two important niche markets:

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

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

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

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

1. Macroeconomic Framework

1.1 World Economy

The year 2021 ended with a positive feeling, although with some uncertainty regarding the evolution of the economy. The Covid 19 virus, which in 2020 had a major impact on the economy and led to a significant drop in GDP, continued to be a threat to economic growth in 2021. Disruptions in supply chains hampered global production, particularly in Europe and in the USA. China has been affected by disruptions caused by COVID outbreaks, by industrial production disruptions due to power outages, by a decline in real estate investment and by a faster-than-expected decline in public investment. Inflation continued to rise in several regions of the globe throughout the second half of 2021, driven by several factors, including high energy prices and rising food prices. The risks to financial stability were mitigated, due to government support, through monetary and fiscal policies and the economic recovery that has taken place in the meantime.

The latest data from January 2022, published by the IMF, point to an estimated world growth of 5.9% in 2021. For developed economies, growth is estimated at 5.0% in 2021, and for developing countries, 6.5%. For 2021, GDP growth for the United States is estimated at 5.6% (vs. a contraction of 3.4% in 2020), for the Eurozone at 5.2% (vs. -6.4% in 2020) and for the United Kingdom at 7.2% (vs. -9.4% in 2020). The Chinese economy will have grown by 8.1% (vs. 2.3% in 2020), while India's growth is estimated at 9.0% (vs. -7.3% in 2020). Growth for 2021 for Brazil is estimated at 4.7% (vs. -3.9% in 2020), Russia at 4.5% (vs. -2.7% in 2020) and Turkey at 9.0% (vs. 1.8% in 2020).

The effects of the spread of the Omicron variant of COVID-19, the increase in energy prices and interruptions in the supply of raw materials and industrial products, resulted in an increase in inflation with a transversal effect, mainly in the USA and in some emerging markets. High inflation is expected to persist for some time, longer than initially anticipated, with disruptions to supply chains and high energy prices likely to continue in 2022. In the USA, pressure on prices and wages led the Federal Reserve to accelerate the reduction in asset purchases and to signal that it will intensify the pace of rate hikes in 2022. The ECB announced that it will end net asset purchases through the Pandemic Emergency Purchases Programme (PEPP) in March 2022; however, it will temporarily increase net purchases by a residual amount through its Asset Purchase Programme (APP). The ECB also signalled that it expects progress to be made in stabilizing inflation in line with its medium-term target, and that for now it will keep interest rates at current levels.

Thus, for 2022, the IMF forecasts world growth of 4.4%, with developed and emerging economies growing by 3.9% and 4.8%, respectively. The USA GDP is projected to grow at 4.0%, the Eurozone’s at 3.9% and the UK’s at 4.7%.

In China, the COVID-zero policy adopted has led to recurrent restrictions on mobility, a private consumption that remains weak and a downturn in the real estate sector that appears to be prolonged. In Brazil, the fight against inflation boosted a strong monetary policy response, with an impact on domestic demand. In Russia, the forecast is affected by low agricultural production and a third wave of the virus, worse than expected. In Turkey, economic growth is being pressured by the premature easing of monetary and credit policies, which affect the country's credibility.

The IMF's growth projections for 2022 are as follows: China 4.8%, India 9.0%, Latin America and the Caribbean 2.4%, Brazil 0.3%, Emerging Europe 3.5%, Russia 2.8% and Turkey 3.3%. The Middle East and Central Asia, as well as Sub-Saharan Africa, are projected to grow by 4.3% and 3.7%, respectively.

1.2 Iberian Peninsula

In December 2021, the Banco de Portugal (Bank of Portugal) estimated, for 2021, a growth in Portuguese GDP of 4.8%. For 2022, the projection is for a growth of 5.8%. This projection is supported by the maintenance of favourable financing conditions and the increase in funds from the European Union. Portuguese GDP is expected to reach pre-pandemic levels in the first half of 2022. It is also expected that the constraints in the supply chain, which have led to a rise in prices and shortages of raw materials and other goods, are expected to dissipate as from the second half of 2022. Public debt as a percentage of GDP fell to 127.5% in December 2021. On the other hand, the expected inflation for 2021 is estimated at 0.9%, increasing in 2022 to 1.8%, mainly reflecting energy prices. Excluding the energy component, inflation is expected to rise from 0.3% in 2020 to 1.5% in 2024, due to increased external pressures, the recovery in demand for services and pressure on wages. In December 2021, the estimated unemployment rate is 6.6%, with a reduction to 6.0% being expected for 2022. The reduction in the unemployment rate benefits from the expected economic activity recovery in the services sector.

The Bank of Spain has estimated a 4.5% growth in Spanish GDP for 2021, accelerating to 5.4% in 2022, allowing a return to the pre-pandemic level at the beginning of 2023. Public debt as a percentage of GDP is estimated at 120.4% in December 2021. Inflationary pressures will tend to dissipate during 2022 with the gradual reduction of disruptions in the production chain and the expected reversal of energy prices. The Bank of Spain expects inflation to rise from 3% in 2021 to 3.7% in 2022, reducing to 1.2% in 2023. The unemployment rate in December 2021 is estimated at 15%, with a reduction to 14.2% forecast for 2022.

1.3 Recent events

In the report published on 5 March 2022, the IMF warned that the recent war in Ukraine will have a major impact on financial markets and the world economy. Although the situation remains extremely volatile and the outlook is subject to profound uncertainty, serious economic consequences are already being felt. In addition to supply chain disruptions and the recovery from the COVID-19 pandemic, rising energy and commodity prices are putting further pressure on inflation. The IMF also highlighted that an intensification of the conflict would have devastating effects on the world economy. So far, the IMF has not released new projections.

2. Operating Activities

Despite the disruptions arising from the pandemic, 2021 was a year of economic recovery. In the capital markets there was some volatility with the rise of inflation, the foreseeable change in FED and ECB policies and the increase in interest rates.

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

Despite the markets' volatility the performance of the Bank's portfolio remained stable, benefiting from the quality of its assets, the high level of diversification and the policy of hedging interest rate and foreign exchange risks.

Taking advantage of the increase in volume and liquidity in the markets, the Capital Markets area saw its trading volume increase as well as the number of institutional customers.

Activity with Corporate customers also increased, notably in the fixed-income area, with the participation in numerous issues of Eurobonds and syndicated loans in the Portuguese and international markets and of Pagarés in the Spanish market.

In the financial advisory area, there was also an increase in activity, including the completion of a reference transaction in the M&A area in Portugal.

Finally, Private Banking successfully continued its policy of product diversification and was awarded by the magazine "Deco Proteste" the first place in the survey "Best customer service" in Portuguese banking.

At the operational level, Banco Finantia Spain (BFS) was transformed into a branch of Banco Finantia (BFT) through a merger by incorporation into BFT. This will contribute to greater operational efficiency and enhance the quality of services provided to customers both in Spain and Portugal.

2.1 Corporate & Investment Banking

2.1.1 Capital Markets

In 2021, despite the economic uncertainties, the emergence of new outbreaks of infection and the imposition of new restrictive and containment measures in many Eurozone countries, the Capital Markets department once again showed its resilience --- transactions reached almost €3 billion, an increase of 21% in relation to the previous year.

With the effects of the pandemic mitigating in the second half of the year, 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 for an increase in traded volumes and profitability per transaction. The focus on proximity to customers resulted in the consolidation of the Group's institutional customer base, in the geographies where Banco Finantia is a reference partner, with an increase of 9% in 2021 in new customers in Europe, the United Kingdom and Latin America.

During the year, there continued to be a downward trend in volumes placed on the Commercial Paper market in Portugal, due to lower interest from investors given the low rates offered and the inherent illiquidity of this instrument. This downward trend in the domestic market was offset by the increase in the placement in Spain and Portugal of Pagarés listed on the Mercado Alternativo de Renta Fija (MARF). The Spanish market for this type of asset continues to be a financing alternative for Portuguese companies, with Banco Finantia being a reference partner for these placements. In 2021, the Bank was appointed placement entity for a new programme worth € 80 million for the Spanish company OK Mobility, which reinforced the Iberian portfolio in which the Bank participates as a placement entity.

In the Portuguese market, there was a recovery of the primary market in 2021, with the participation of Banco Finantia as Organizing Bank, Global Coordinator and Placement Entity in the Public Exchange and Subscription Offer of Mota-Engil 2021-2026 (Bonds linked to Sustainability) with an issued amount of around of € 132 million. On the institutional side, the issue was placed with Portuguese, Swiss and, with a special focus, Spanish investors, that represented almost 50% of the institutional orders.

The own debt securities portfolio continued to be managed with extreme prudence, in a particularly complex macroeconomic context – emergence of new Covid variants, rising energy prices, disruptions in industrial production chains, resurgence of inflation and changes in central banks' policies. All these factors contributed to the volatility and increase in interest rates and credit spreads that were felt throughout the year, with the consequent impact on the valorisation of assets. Despite this adverse context, and benefiting from an effective risk coverage policy, the performance of the own portfolio remained in line with the result of the previous year and once again made an important contribution to the Bank's results.

2.1.2. Corporate Banking

In the area of Corporate Banking, and given its consolidated position in the financial market, the Bank maintains a special emphasis on supporting the growth of businesses in the geographies where Banco Finantia is a reference and has been operating for more than three decades, including Portugal and Spain.

Regarding the Bank's strategy for the loan portfolio, the diversification of investments by country of origin and by sector was maintained, the latter being segmented into three categories: companies, financial institutions and governments. In this way, Banco Finantia remained active, namely in the international market and once again showed its resilience in periods of instability. Thus, during 2021, the area responsible for the loan portfolio participated in 23 transactions in a syndicated and bilateral loan format. Of this universe 26% were in the primary market. Among these it is worth noting where the Bank was Co-Arranger and Lead Arranger in the syndicated USD loans of JSC Agrobank and SOCAR Turkey Enerji, respectively, and as Arranger in the syndicated loans of JSC Asakabank, Daewoo Engineering & Construction Co. and The Republic of Côte D'Ivoire. In addition, the portfolio began utilizing Credit Risk Insurance, which allows for the optimization of credit risk management, having carried out two of these transactions. The increase in the number of transactions compared with the previous year (also affected by the pandemic) once again demonstrates the resilience of Banco Finantia, which, despite a higher-than-expected number of early amortizations, ended the year with about € 190 million in loans, an increase of 43% year-on-year, and with a robust pipeline of transactions for the first quarter of 2022, namely in Portugal and Spain.

2.1.3. Corporate Finance

The year 2021 was a year of great dynamism for the Corporate Finance area. Banco Finantia benefited from its competitive advantages as an international and independent investment bank to further strengthen its strategic positioning in financial advisory and, in particular, in cross-border transactions.

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

Of note was the transaction as exclusive Financial Advisor of Equistone Partners Europe in the acquisition of a majority stake in Crest Capital Partners' Gardengate Group, one of the leading players at European level in the production of aluminium gates and doors. This was one of the reference operations in Portugal during 2021, both due to its size and nature (first direct investment by Equistone Partners Europe in Portugal).

Also in 2021, the Bank continued to strengthen its relationships with international investment funds, venture capital funds and asset managers, not only through partnerships (Terra Alliance) but also through stakeholders of Banco Finantia.

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 the geographical coverage as well as the range of activities.

2.2 Private Banking

In 2021 Private Banking in Portugal and Spain continued with its policy of diversifying products and services, focusing on expanding the volume of securities in customer portfolios, an activity that grew by more than 30% over 2020, which consolidates Finantia Private's presence in this business area.

The volume of deposits was € 883 million (-7% versus 2020), in line with the forecast. This decline is explained by several factors: the transfer of customers from deposits to other financial products, according to the outlined strategy; the decrease in the interest rates offered (and the respective reduction in the cost of funding); and the shifting of savings into real estate investments.

In 2022 investors are likely to face a set of new challenges, namely: (i) changes in inflation expectations; (ii) Central Banks' actions in relation to the adjustment in the value of reference rates; and (iii) unpredictability in global economic growth and job creation. In general, a scenario of moderation in the pace of world economic growth is assumed in an environment of still structurally low rates – maintaining the challenge of protecting purchasing power and obtaining current income.

Despite another year in a pandemic context, the business with financial instruments/securities grew in 2021. Several factors contributed to this improvement:

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

ii. Reinforcement of adequate training for the commercial team regarding investment products and services offered;

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

iv. Dissemination of the brand “Banco Finantia”, while experienced operator in the market, via specialized digital communication channels and expatriate market niches;

v. Review of the price list of services with securities;

vi. Alternative of higher returns in the face of low interest rates on term deposits; and

vii. Reinforcement of the commercial team with new elements with experience in the area.

As part of the development of new products and services, we wait approval by the Insurance Supervisory Authority of Luxembourg (Commissariat aux Assurrances du Luxemburg) to start marketing the product 'Unit Linked Finantia'. Unit Linked is an investment solution in the form of a life insurance contract, linked to an “umbrella fund” (a collective investment that exists as a single legal entity, but with several different sub-funds that are traded as individual investment funds), and aimed at non-professional clients.

Noteworthy is the completion of the 'Order Execution' project, which will allow for automation in order execution and management of securities portfolios’ business, as well as greater operational control.

Finally, it should be noted that in 2021, in a recent online satisfaction survey carried out by the Deco Proteste magazine with its subscribers, Banco Finantia stood out as the banking institution with the “best customer service” in Portugal, having obtained an 8.2 score in level of satisfaction (on a scale of 1 to 10).

The future strategy aims to increase and diversify the services and products offered off balance sheet and to continuously improve the digital means and the automation of internal and external processes to make them more effective - ensuring the consolidation of its image as a solid bank and respecting the excellence and discretion that has always characterized it.

Supporting Activities

3.1 Information and Development Systems

The year 2021 was marked by the continued implementation of projects to allow for 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.

Within the scope of the creation of the branch in Spain, due to the merger by incorporation of Banco Finantia Spain in BFT, it was necessary to undertake a series of developments to guarantee all the accounting and reporting obligations. The project to upgrade our core system – BFM (Finastra) to the latest version began; and profound changes were made to the official reports to the CMVM.

Note is to be made of the launch of the new APP, FinantiaNet. In addition to improvements already made to the image and features of the home banking platform, the new APP allows (at the Iberian level) for consulting of balances and movements, documenting and archiving documents, carrying out national and international transfers, registering beneficiaries, configuring alerts and notifications, performing biometric entry validation, and accessing contacts of the Bank's branch network. The automation of the process of contracting term deposits and its activation via home banking and APP for Portugal is still in progress.

Information security continued to be a priority for the Group, considering the growth and diversity of cybersecurity threats observed in recent times in the world. Several automation solutions considered adequate were implemented.

The Web Risk Monitoring Service was revised to improve the proactive detection of threats and events in this area that could represent a risk for the Group, and intrusion tests were carried out on some of the critical business applications, to identify possible weaknesses. Vulnerability scans were also carried out on the Group's assets, in a proactive way, to overcome these.

New security measures and controls were added to ensure compliance with the current requirements of the SWIFT Customer Security Controls Framework, and in the scope of the SWIFT Customer Security Programme 2021; the security of the Group's internal network was also optimized with the implementation of a Datacentre Firewall solution to ensure the segregation between its Virtual Local Area Networks (VLANs) and protect the Information Systems from possible improper actions with internal origin. A Multi-factor Authentication (MFA) solution was also implemented, which guarantees that access to critical servers with the Microsoft Windows Operating System does not depend on a password alone.

The project to upgrade Information Systems’ assets that are in End of Support or Extended End of Support continued, giving priority to the infrastructure that supports critical systems.

As part of the Business Continuity Plan (BCP), several tests were carried out on the Disaster Recovery Centre, according to the new Business Impact Analysis (BIA).

Training and awareness actions were continued to improve the knowledge of all Employees on how to act in the face of certain risks when connected to the internet. Documentation on Information Security was also updated/prepared and disseminated.

Within the scope of the COVID-19 contingency plan, all necessary actions and procedures were carried out to guarantee safe and efficient Telework conditions for the Bank's Employees. The laptop pool was also renewed, with the aim of providing employees and the Bank with the appropriate tools for the performance of their duties.

3.2 Operations

The year 2021 will be marked as one of transition to new challenges in the Operations area. It was a year that preceded major changes in 2022, both in terms of the Payment Systems and in terms of the Bank's internal systems. In addition, the scope of the processes under the responsibility of Operations was widened, to reinforce aspects of Compliance and AML.

With a central focus on enhancing quality, specific areas of development were identified: control of information generated in Operations, communication between the Bank and third parties and sale of assets to customers.

In this context, teams were restructured, and processes were computerized, which resulted in a total of 130 application development requests being made to the Application Development and Support Department.

In terms of new projects, we highlight in 2021:

i. preparation of the evolution of the Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET) services;
ii. preparation of the migration of the SWIFT system to the ISO 20022 XML standard;
iii. support for the transition of Banco Finantia Spain to “Sucursal do Banco Finantia em Espanha” (Branch of Banco Finantia in Spain), and
iv. preparation and testing of the migration of the Bank's core application, Bank Fusion Midas, from version 2.0 to version 2.1.

In the Regulatory aspect, the new CMVM information reporting obligations, resulting from the CMVM's Simplification of Instructions and Regulations Project, were implemented.

Anticipating the year 2022, we had a strong impact on Operations from:

i. the Bank Fusion Midas core application upgrade;
ii. the implementation of TARGET and SWIFT transfers in the Bank's Payments Management System (PMS), and
iii. the automation of operational processes that support securities’ operations with customers.

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

Human Resources

At Banco Finantia we believe that our people and our 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.

One of our main objectives is to promote the development of employees, stimulating their learning, developing their skills, and providing them with diversified experiences. Thus, achieving the retention of people, the satisfaction of our customers and continuous good results for the Bank.

As at 31 December 2021, the Bank and its subsidiaries had a total of 249 employees, of which 166 in Portugal, with the rest abroad, of which 71 in Spain.

The average age of the employees is 44 years, and their average employment period is 11 years. About 74% of the employees have a higher academic qualification (bachelors/masters degrees).

Regarding gender distribution, at the end of 2021, 60% of the employees were male and 40% female.

As for employee distribution by staff level, 39% of the Group's employees were senior staff, 52% mid-level staff and 9% administrative staff.

The Bank continues to invest in internal mobility, as a way of giving employees the opportunity to diversify their experience, to deepen their knowledge of the business, to satisfy their professional aspirations, to assume greater responsibilities, to evolve in their careers and/or even to change careers. In this sense, Banco Finantia resorts, whenever possible, to internal mobility to meet its human resources needs, thus ensuring that career opportunities are given to employees who show merit and potential to assume new roles and responsibilities.

Training, as an element of the Human Resources management and development process, contributes to a greater effectiveness and efficiency of Banco Finantia. Believing that the development of skills and knowledge of employees is increasingly based on a new approach to professional training, Banco Finantia implemented an online training platform in 2021, thus ensuring greater gains in time, flexibility and dynamism and ensuring an increase in the sharing of internal knowledge.

In 2021, 956 participations in training sessions were recorded, in a total of 220 actions. The overall volume of hours of training in Portugal was approximately 6,216 hours (corresponding to an average of 37 hours of training per employee).

Due to the pandemic context, the Bank continued, in 2021, to monitor the evolution of the situation and to adjust its Contingency Plan, contributing to the anticipation of measures related to mitigating the respective risks and impacts for the Bank, activity and employees.

3.3 Treasury

During 2021, the main financial markets were marked by the measures applied by the economic and monetary policy authorities of the main world economic blocs, with the objective of consolidating the recovery of economic activity. This was supported by the positive evolution of the global vaccination plan to combat the COVID-19 pandemic.

The ECB maintained its policy of asset acquisitions, to preserve financing conditions, reduce the uncertainty that still exists and reinforce the confidence of economic agents. The FED started the tapering of the asset purchase programme and promoted the change in expectations regarding the conduct of monetary policy in 2022, indicating the reversal of the accommodative posture in response to inflationary pressure.

Banco Finantia, through its Treasury Department, which is responsible for implementing the liquidity risk management strategy, adopted a prudent approach to liquidity risk, maintaining a comfortable margin of highly liquid assets (HQLA) which, together with the extension of the average terms of interbank funding, contributed to an increase in the average annual value of the liquidity coverage ratio (LCR) from 863% to 1095%.

This prudence in terms of liquidity management allows Banco Finantia to present robust levels in the main regulatory liquidity ratios, without resorting to European Central Bank (ECB) lending operations, which remain, in any case, available for contingency scenarios.

The Treasury Department continued its efforts to deepen the relationship with several international financial institutions, reference entities in the main currency and foreign exchange markets.

As a result of this effort, there was a reduction of around 30% in the spread of the cost associated with interbank financing, as well as an increase of more than 50% in the volume of medium-term interbank financing, which made it possible to achieve a stable financing ratio (NSFR) well above the regulatory minimum required (118% versus 100%).

During 2021 and in keeping with the practice of previous years, the Bank was represented, still in virtual format, at the annual meetings of the IMF and World Bank and in more than a dozen bilateral meetings.

In September, of note was the holding of the annual meeting of the Groupement Europèen de Banques (GEB) - an international cooperation banking group made up of small and medium-sized private European banks, of which Banco Finantia continues to occupy the Vice-Presidency. Also under the auspices of the GEB, a meeting was organized in December to share and debate ideas on environmental, social and corporate governance (ESG) sustainability, with the aim of promoting the exchange of experiences, initiatives and projects related to this theme.

3. Risk Management

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

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

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

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

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

i. It is the responsibility of the Board of Directors 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);

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

iii. 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;

iv. 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 set;

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

In summary, the risk management model ensures:

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

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

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

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

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

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

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

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

Banco Finantia

Bank also has a constant concern to diversify its risky assets, as a form of mitigating credit concentration risk.

Market Risk

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

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

Foreign Exchange Risk

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

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

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

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

Liquidity Risk

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

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

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

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

The Treasury Department is responsible for the daily cash flow management and the evolution of the various components of the Bank’s balance sheet. The Risk Department is responsible for the periodic analyses of the balance sheet management, preparing a monthly report 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 NSFR ratio, which supplements the LCR, and that has a wider temporal horizon (one year, was 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 business model/strategy, internal governance, operational, reputational and other risks (compliance, and money laundering and financing of terrorism risks). In general terms, these risks consist of the probability of the occurrence of negative impacts on the results or on the capital arising essentially from: (i) for business model/strategy risk - inadequate plans and strategic decisions, (ii) for internal governance - maladjustments and weaknesses in the internal governance system, in the organizational structure and in the corresponding delimitation of responsibilities; (iii) for operational risk - operational failures, inadequacy of information and technology systems or model weaknesses, (iv) for reputational risk - negative perception of the institution's public image.

As for the other risks, compliance risk consists of the likelihood of legal or regulatory sanctions and/or material financial losses arising from non-compliance with laws, regulations, rules, internal governance standards and codes of conduct applicable to the banking activity. In matters related to the prevention of money laundering and terrorism financing the Group has segregated these risks into its own subcategory.

The management of non-financial risks has been gaining an increasing relevance. In this context, advanced tools and methods have been developed, focused on the identification, assessment, monitoring and control of these types of risks. Among others, these tools include risk matrices and controls, heat-maps, and spider-charts, with inputs derived from an extensive and comprehensive process of self-assessment 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 2021, improvements were introduced in the mapping of the non-financial risk factors, optimizing its structure to permit a more efficient control over this type of risk.

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

During 2021, several training actions were carried out in the area of non-financial risks, of note being specific training on Prevention of Money Laundering and Information Security, among others. For 2022, the Bank will continue to focus on training as a form of contributing to the reduction of non-financial risks.

Climate and environmental risks are becoming increasingly important for the banking activity. Given the distinct characteristics from the traditional risk factors to which the banking system is exposed, and due to the uncertainty and the time horizon in which they may materialize, these risks require special attention from the banking system. In this sense, in 2021 a multidisciplinary taskforce was created with a view to incorporating the ESG (Environmental, Social, and Governance) risk component in the Bank, an aspect that will be given special attention in 2022 and in the coming years.

5 Financial Overview

5.1 Consolidated Results

In 2021, the Bank’s results remained relatively stable compared with 2020. The net profit amounted to € 24.2 million (an increase of 2% over the € 23.7 million of 2020). Operating income attained € 53.0 million, 4% more than that verified in 2020 (€ 50.9 million).

Net interest income, net of hedging, reached € 37.0 million (€ 31.6 million in 2020), while the results of financial transactions, commissions and other income came in at € 16.0 million (€ 19.3 million in 2020). “Impairment and provisions” were € 1.0 million.

Operating expenses came in at € 25.0 million (€ 24.5 million in 2020), resulting in an efficiency ratio (cost-to-income) of 47%, for 2021.

The pre-tax profit amounted to € 27.0 million, an increase of circa 11% over 2020, bringing the ROE (before tax) to 5.6%, which compares with 5.7% for 2020.

The summary of the consolidated income statement for the financial years ended 31 December 2021 and 2020, is as follows:

€ million	IFRS	
CONSOLIDATED INCOME STATEMENT	**31.12.2021**	**31.12.2020**
Net interest income	**54.2**	**55.2**
Interest rate & FX hedging cost	(17.2)	(23.6)
Net interest income, net of hedging	**37.0**	**31.6**
Financial transactions, commissions and other income	16.0	19.3
Operating income	**53.0**	**50.9**
Impairment and provisions	(1.0)	(2.2)
Operating expenses	(25.0)	(24.5)
Profit before tax	**27.0**	**24.2**
Net profit	**24.2**	**23.7**

5.2 Consolidated Balance Sheet

The Group's balance sheet remained stable, with minor changes when compared with 2020:

CONSOLIDATED BALANCE SHEET	31.12.2021	31.12.2020
Assets		
Cash and banks	166.9	133.6
Fixed-income and loan portfolio	1,891.6	1,894.3
Other assets and amounts receivable	46.4	77.2
Total assets	**2,104.9**	**2,105.2**
Liabilities		
Customers' deposits	883.1	950.0
MM takings and Repos	675.7	593.1
Other liabilities	63.8	83.3
Total liabilities	**1,622.6**	**1,626.3**
Total shareholders' equity	**482.3**	**478.8**
Total liabilities and shareholders' equity	**2,104.9**	**2,105.2**

The fixed-income and loan portfolio (comprising mainly fixed-income securities) remained at the levels of the previous year, with the non-performing exposures (NPE) ratio benefitting from a decrease to 1.63%, compared with the 2.07% as at 31/12/2020.

Customers' deposits decreased to € 883 million, 7% less than the € 950 million recorded in 2020, in line with the policy of transforming customers' deposits into other financial products.

Shareholders' equity increased 1% to reach € 482 million, reflecting the positive change verified in the comprehensive income for the year.

> 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 26.1% in 2021, signalling the Group's robust solvency position:

BASEL III	31.12.2021	31.12.2020
CET1 ratio	26.1%	27.3%
Total Capital ratio	26.1%	27.3%

The CET1 ratio as at 31 December 2021, considers the dividend distribution programmed for 2022, corresponding to 50% of the results generated in financial year 2021.

Risk Weighted Assets (“RWA”) reached € 1,791 million (€ 1,736 million in 2020).

> **Economic Capital**

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

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

To quantify the risks, the Bank has developed various models to calculate the economic capital requirements that estimate the potential maximum loss in the period of one year. These models cover the various types of material risks to which the Bank is exposed, namely credit, counterparty, concentration, interest rate 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 assess, in situations of extreme severity and low probability of occurrence, how the Bank’s internal risk models should ensure the solvency of the institution.

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

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

5.3 Regulatory developments

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

In view of its business model, the composition and quality of its assets and its levels of resilience, Banco Finantia did not have to resort to the use of regulatory easing measures in response to the crisis caused by the pandemic in determining its liquidity and solvency (CRR Quick Fix).

5.4 Treasury Stock (Own shares)

At the beginning of 2021, the Bank held 37,607 own shares. During the 2021 financial year, the Bank acquired 2,834,940 own shares at € 1.00 per share through an own share acquisition programme aimed at all shareholders. Within the scope of the transformation of Banco Finantia Spain into a Branch, it handed the minority shareholders of that entity 61,620 own shares. Consequently, at the end of 2021, the Bank held 2,810,927 own shares.

6 Social Responsibility, Cultural Patronage and Education

6.1 Social Responsibility

In 2021, Banco Finantia maintained its support of various social solidarity projects aimed primarily at underprivileged children and youths and/or those with special education needs. The institutions supported were:

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

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

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

SANTA CASA DA MISERICÓRDIA DE LISBOA (www.scml.pt) - founded in 1498, this secular institution has as its mission the improvement of the overall well-being of the person, primarily of those underprivileged. The Bank's support has been centred on a sponsorship programme of psychotherapy consultations of 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 Outlook

The macroeconomic outlook for 2022 is associated with a high degree of uncertainty. On the one hand, the increase in global geopolitical uncertainties, in particular the impact of the Russian/Ukrainian conflict, and the foreseeable rise in interest rates and credit crunch, may contribute to some restraint in investment and consumption. But, on the other hand, the implementation of the recovery plan and economic stimuli at European and national level, together with the regression of the pandemic, should support economic growth.

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

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

In terms of its own portfolio, both bonds and loans, the Bank will continue with a rigorous selection of risks and with a strong geographical and sectoral diversification, which has proven to be particularly effective.

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

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

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

Finally, in 2022, the benefits of the merger by incorporation of Banco Finantia Spain in Banco Finantia and the creation of a branch of Banco Finantia in Spain should start to be felt. This has contributed the simplification of the Bank's organization, the improvement of operational efficiency and the reinforcement of the quality of the services provided to customers in both Spain and Portugal.

8 Appropriation of Results

The Board of Directors proposes a dividend of 8 cents per share, i.e., a distribution of approximately half of the net profit for the year.

Banco Finantia presents a CET1 ratio of 26.1% (full implementation), after the deduction of the proposed dividend, within the internal policies and regulatory guidelines issued for the banking sector, maintaining capital ratios (CET1) sufficiently robust for the development of the respective activities.

Bearing in mind, however, the instability and unpredictability of the political and economic situation, the Board of Directors may review this proposal for the appropriation of results until the date of publication of the notice for the General Meeting.

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.

Translation Note

The present Management Report and accompanying Financial Statements for 2021 are a free translation of the original documents issued in the Portuguese language. In the event of discrepancies or misinterpretations, the original versions shall prevail.

Lisbon, March 31st 2022

The Board of Directors

António Vila Cova

Manuel Faria Blanc

Alzira Cabrita

José Archer

David Guerreiro

Ricardo Caldeira

Telma Oliveira

Banco Finantia

Financial Statements 2021

(CONSOLIDATED ACCOUNTS)

Consolidated Financial Statements

Banco Finantia

Consolidated Balance Sheet as at 31 December 2021 and 2020

EUR thousand	Notes	2021	2020
ASSETS			
Cash and deposits with central banks and other demand deposits	5	66,126	60,055
Financial assets at fair value through profit or loss	6	5,342	49,671
Financial assets at fair value through other comprehensive income	6	1,318,016	1,750,618
Financial assets at amortized cost	6	673,789	215,055
Hedging derivatives	7	10,463	63
Non-current assets held for sale		-	15
Investment properties		988	1,010
Other tangible assets	8	13,320	13,708
Intangible assets	9	724	566
Current tax assets	10	4,643	1,208
Deferred tax assets	10	5,885	1,961
Other assets	11	5,613	11,231
TOTAL ASSETS		**2,104,909**	**2,105,159**
LIABILITIES			
Financial liabilities held for trading	12	32,461	4,159
Financial liabilities at amortized cost	13	1,558,850	1,543,057
Hedging derivatives	7	18,032	58,283
Current tax liabilities		3,401	5,614
Deferred tax liabilities	10	1,927	5,403
Provisions	14	883	893
Other liabilities	14	7,073	8,933
TOTAL LIABILITIES		**1,622,628**	**1,626,343**
SHAREHOLDERS' EQUITY			
Share capital	15	150,000	150,000
Share premium	15	12,849	12,849
Treasury stock	15	(2,811)	(38)
Other acc. comprehensive income, retained earnings & other reserves	16	297,997	292,079
Net profit attributable to shareholders of the Bank		24,246	23,687
Total Shareholders' Equity attributable to shareholders of the Bank		**482,281**	**478,578**
Non-controlling interests		-	238
TOTAL SHAREHOLDERS' EQUITY		**482,281**	**478,816**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,104,909**	**2,105,159**

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

The Certified Accountant

The Board of Directors

Banco Finantia

Consolidated Income Statement
for the financial years ended 31 December 2021 and 2020

EUR thousand	**Notes**	**2021**	**2020**
Interest and similar income	17	65,634	74,833
Interest expense and similar charges	17	(22,883)	(30,846)
NET INTEREST INCOME		**42,751**	**43,987**
Fee and commission income	18	2,800	996
Fee and commission expense	18	(810)	(524)
Net results from financial operations	19	8,522	5,037
Other net operating income / (expense)		(288)	1,382
OPERATING INCOME		**52,974**	**50,879**
Staff costs	20	(14,073)	(13,342)
Other administrative expenses	21	(9,299)	(9,577)
Depreciation and amortization	8, 9	(1,597)	(1,584)
TOTAL OPERATING COSTS		**(24,968)**	**(24,502)**
OPERATING PROFIT BEFORE PROVISIONS AND IMPAIRMENT		**28,005**	**26,377**
Provisions or reversal of provisions	22	11	4
Impairment or reversal of impairment	22	(1,057)	(2,222)
PROFIT BEFORE TAX		**26,960**	**24,159**
Current income tax	10	(4,266)	(2,872)
Deferred income tax	10	1,552	2,409
NET PROFIT FOR THE YEAR		**24,246**	**23,695**
Attributable to:			
Shareholders of the Bank		24,246	23,687
Non-controlling interests		-	8

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 2021 and 2020

EUR thousand	**Notes**	**2021**	**2020**
NET PROFIT FOR THE YEAR		**24,246**	**23,695**
Items that may be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income	16	(25,163)	(7,430)
Foreign exchange variations in foreign operational units	7	9,717	(10,350)
Net investment hedging in the foreign operational units (effective part)	7	(8,874)	9,817
Taxes on income related to items that may be reclassified to profit or loss	16	6,140	2,344
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(18,179)**	**(5,619)**
COMPREHENSIVE INCOME FOR THE YEAR		**6,067**	**18,076**
Attributable to:			
Shareholders of the Bank		6,067	18,080
Non-controlling interests		-	(4)

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 2021 and 2020

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 2020	**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**
Appropriation of results	-	-	-	-	23,687	(23,687)	-	-
Comprehensive income for the year	-	-	-	(18,171)	-	24,246	(8)	6,067
Acquisition and exchange of treasury stock (see Note 15)			(2,773)	-	-	-	-	(2,773)
Other reserves	-	-	-	-	402	-	(230)	172
	-	**-**	**(2,773)**	**(18,171)**	**24,088**	**559**	**(238)**	**3,465**
Balance as at 31 December 2021	**150,000**	**12,849**	**(2,811)**	**(9,072)**	**307,069**	**24,246**	**-**	**482,281**

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 2021 and 2020

EUR thousand	**Notes**	**2021**	**2020**
Cash flows arising from operating activities			
Interest and similar income received		67,114	79,068
Interest expense and similar charges paid		(13,480)	(10,859)
Fee and commission income received		2,800	996
Fee and commission expense paid		(810)	(524)
Recovery of loans previously written-off		14,308	9,834
Cash payments to staff and suppliers		(24,045)	(23,542)
		45,886	**54,974**
Change in operating assets:			
Deposits with central banks		(276)	(824)
Financial assets		(17,130)	90,723
Due from banks		(4,387)	(6,227)
Other operating assets		(3,352)	(11,094)
Change in operating liabilities:			
Derivative financial instruments		8,544	(31,779)
Due to banks		(34,777)	35,781
Due to customers		(69,708)	9,694
Repos operations		122,291	(127,117)
Other operating liabilities		(61)	(192)
Net cash flows from operating activities before taxes		**47,029**	**13,940**
Income taxes		(9,915)	3,472
		37,114	**17,412**
Cash flows arising from investing activities			
Acquisition of tangible and intangible assets	8, 9	(1,406)	(2,191)
Disposal of tangible and intangible assets	8, 9	136	125
		(1,270)	**(2,066)**
Cash flows arising from financing activities			
Acquisition of treasury stock		(2,835)	-
Dividends paid on ordinary shares		-	-
Net cash flows from financing activities		**(2,835)**	**-**
Effect of foreign exchange rate changes on cash and cash equivalents		(3,078)	(15,628)
Net changes in cash and cash equivalents		**29,931**	**(283)**
Cash and cash equivalents at the beginning of the year	25	80,029	80,312
Cash and cash equivalents at the end of the year	25	109,960	80,029
		29,931	**(283)**

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

Notes to the Financial Statements

1. Bases of presentation

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

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

The consolidated financial statements of the Bank are prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), as adopted for use in the European Union ("EU") in force as at 31 December of 2021, as established in Regulation (EC) no. 1606/2002 of the European Parliament and Council, of 19 July, and in Banco de Portugal Notice no. 5/2015, of 7 December.

During 2021, 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 2021. The accounting policies were applied consistently in all the entities of the Group and are consistent with those used in the preparation of the financial statements of the previous financial year.

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

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

These financial statements were approved for issue by the Board of Directors on 31 March 2022 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 2021 and 2020, 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 2021 and 2020, 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 2021 and 2020, the Group does not have any goodwill.

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

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

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

Balances and transactions eliminated on consolidation

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

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

Transactions with non-controlling interests

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

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

2.2. Financial instruments

2.2.1. Financial assets

2.2.1.1. Classification, initial recognition and subsequent measurement

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

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

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

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

Business model

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

The standard identifies the following business models:

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

Business model evaluation for the management of financial assets

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

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

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

Principal and interest are as follows:

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

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

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

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

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

2.2.1.1.1. Financial assets at amortized cost (HTC)

Classification

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

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

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

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

Initial recognition and subsequent measurement

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

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

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

Classification

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

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

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

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

Initial recognition and subsequent measurement

Debt instruments are recognized on the trade date.

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

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

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

2.2.1.1.3. Financial assets at fair value through profit or loss

Classification

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

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

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

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

Initial recognition and subsequent measurement

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

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

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

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

2.2.1.2. Reclassification between categories of financial assets

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

Between 1 January 2020 and 31 December 2021, 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 expected credit losses over the useful life 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 useful life 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 to monitor if the expected cash flows correspond to those initially defined.

2.2.1.5. Impairment of financial assets

2.2.1.5.1. Financial instruments subject to impairment losses

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

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

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

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

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

2.2.1.5.2. Impairment model

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

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

Impairment is measured as:

1) 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 useful life 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 useful life of the asset represents the expected credit losses that result from all possible default events over the life of the financial instrument. The useful life 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 expected credit losses over the useful life 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 useful life 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 useful life of the asset and the interest receivable is calculated on the gross book value net of the provision for credit, using the effective interest rate method.

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

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

2.2.1.5.3. Significant increase in credit risk (SICR))

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

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

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

2) The expected life of the instrument; and

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

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

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

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

2.2.1.5.4. Definition of default and of impairment

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

a) customers declared insolvent;

b) customers subject to recovery through a judicial process;

c) customers with operations restructured due to financial difficulties;

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

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

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

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

2.2.1.5.5. Measurement of expected credit losses (ECL)

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

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

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

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

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

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

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

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

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

Instruments classified in stage 2 and stage 3 are monitored regularly through individual impairment analyses.

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 2021 and 2020, the Group has no embedded derivatives.

2.3. Interest recognition

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

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

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

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

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

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

2.4. Dividend income

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

2.5. Fee and commission income and expenses

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

2.6. Foreign currency transactions

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

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

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

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

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

2.7. Earnings per share

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

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

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

2.8. Fair value of financial instruments

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

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

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

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

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

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

Fair value of derivative financial instruments

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

For the derivative financial instruments, the credit and counterpart risks (DVA and CVA) are also analysed and, if material, are considered in the determination of the fair value of those instruments. As at 31 December 2021 and 2020, since the DVA and the CVA presented immaterial amounts, they were not considered in the fair value of these instruments.

2.9. Offsetting financial instruments

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

2.10. Purchase / sale operations under resale / repurchase agreements

Purchase operations under resale agreements (“reverse repos”)

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

Securities sold under repurchase agreements (“repos”)

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

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

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

2.11. Non-current assets held for sale

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

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

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

2.12. Tangible assets and investment properties

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

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

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

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

Land is not depreciated.

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

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

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

2.13. Intangible assets

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

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

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

2.14. Leases

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

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

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

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

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

Definition of lease

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

Lessee

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

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

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

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

Lessor

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

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

2.15. Equity instruments

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

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

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

On 1 January 2021, the Group applied the following issues, revisions, amendments and improvements of accounting standards and interpretations:

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

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

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

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

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

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

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

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

As at 31 December 2020 and 2021, these amendments had no impact on the Group's consolidated financial statements.

b) Amendments to IFRS 4 - Insurance contracts (deferral of the application of IFRS 9)

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.

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

The temporary exemption referred to is of optional application and is only available for entities which activities are predominantly insurance related.

As at 31 December 2021 and 2020, these amendments had no impact on the group's consolidated financial statements.

c) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Benchmark interest rate reform – phase 2

These amendments are part of the second phase of the IASB's "IBOR reform" project and allow for exemptions related to the benchmark reform for reference interest rates, using an alternative interest rate (Risk Free Rate (RFR)). The amendments include the following practical expedients:

- A practical expedient that requires contractual changes, or changes in cash flows that are directly required by the reform, to be treated in the same way as a floating interest rate change, equivalent to a movement in the market interest rate;

- Allow changes required by the reform to be made to hedging designations and hedging documentation without the hedging relationship being discontinued;

- Provide temporary operational relief to entities that must comply with the separately identifiable requirement when an RFR instrument is designated as hedging a risk component.

As at 31 December 2021 and 2020, all hedging relationships carried out by the Group are fair value hedges, and the Group does not present any hedging instrument that uses an alternative interest rate (Risk Free Rate (RFR)) in place of the reference interest rates (Note 31).

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 2021.

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

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

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

The amendment is of prospective application.

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

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

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

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

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

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

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

This 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 (assuming no adjustment was made in the consolidation process), 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.

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

This improvement clarifies which commissions an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability.

This improvement clarifies that in the scope of the derecognition tests carried out on renegotiated liabilities, only commissions paid or received between the debtor and creditor should be included, including commissions paid or received by the debtor or creditor on behalf of the other.

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

This 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.

g) IFRS 17- Insurance contracts

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct insurance, and reinsurance), irrespective of the type of entity issuing them, as well as certain guarantees and certain financial instruments with discretionary participation features. Broadly speaking, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides an integral model for insurance contracts, covering all relevant accounting aspects.

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

These standard, interpretations, amendments and revisions with mandatory application in future economic periods, have not yet been endorsed by the European Union and, as such, have not been applied by the Group in the twelve-month period ended 31 December 2021.

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

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

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

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

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

b) Amendments to IAS 8 - Definition of accounting estimates

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

c) Amendments to IAS 1 – Disclosure of accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification and measurement of financial instruments

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

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

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

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

Significant increase in credit risk (SICR)

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

Definition, weighting and determination of relevant prospective information

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

Probability of default

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

Loss given default

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

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

Fair value of financial instruments

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

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

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

Income tax

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

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

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

Going concern

The Covid-19 pandemic conditioned activity practically throughout the year 2021, with uncertainty prevailing about its intensity and evolution. Additionally, an international war has recently erupted, which for the time being involves three countries: Russia, Ukraine and Belarus. In response, several sanctions were approved with the objective of impacting the economy of Russia and also that of Belarus, by a group of countries which include the NATO, European Union and other countries. Currently, there is a high level of uncertainty regarding the evolution of this situation and of the possible impacts that it may have on the international economy (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	**31.12.2021**	**31.12.2020**
Cash	70	92
Deposits with central banks		
Banco de Portugal	37,128	23,470
Bank of Spain	17,812	16,876
	54,940	40,346
Deposits with banks in Portugal		
Demand deposits	10,583	18,734
	10,583	18,734
Deposits with banks abroad		
Demand deposits	533	883
	533	883
	66,126	**60,055**

The caption “Deposits with central banks” includes the amount of € 4,866 thousand (2020: € 4,590 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. During financial years 2020 and 2021, the amount of up to six times the value of the minimum reserves became exempt from paying this rate, which is now -0.50% (2020: -0.50%).

6. Financial assets

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

EUR thousand	**31.12.2021**	**31.12.2020**
Financial assets at fair value through other comprehensive income	1,318,016	1,750,618
Financial assets at amortized cost	673,789	215,055
Financial assets at fair value through profit or loss	5,342	49,671
	1,997,147	**2,015,344**

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

EUR thousand	**31.12.2021**	**31.12.2020**
Debt instruments	1,701,710	1,763,763
Loans	186,739	130,566
Due from banks	98,570	70,046
Other loan operations	4,640	6,758
Commercial paper	3,194	-
Purchase operations under resale agreements (“reverse repos”)	2,160	3,497
Trading derivatives (Note 7)	74	40,666
Equity instruments	59	48
	1,997,147	**2,015,344**

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

EUR thousand	**31.12.2021**	**31.12.2020**
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	59	48
Debt instruments		
Public entities	-	-
Banks	-	-
Companies	338	-
	397	48
Financial assets held for trading		
Debt instruments		
Public entities	1,019	1,668
Banks	-	1,494
Companies	3,852	5,795
Risk-management derivatives (Note 7)	74	40,666
	4,945	49,623
	5,342	**49,671**
Financial assets at fair value through other comprehensive income		
Debt instruments		
Public entities	473,021	564,108
Banks	184,466	255,198
Companies	630,182	895,011
Loans		
Public entities	7,039	7,073
Banks	9,334	13,524
Companies	13,974	15,705
	1,318,016	**1,750,618**
Financial assets at amortized cost		
Debt instruments		
Public entities	13,197	-
Banks	33,896	-
Companies	361,740	40,489
Loans		
Public entities	30,925	6,801
Banks	27,815	6,342
Companies	97,652	81,122
Due from banks	98,570	70,046
Purchase operations under resale agreements (“reverse repos”)	2,160	3,497
Commercial paper	3,194	-
Other credit operations	4,640	6,758
	673,789	**215,055**
	1,997,147	**2,015,344**

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

During 2021, interest income from the financial assets held for trading portfolio amounted to € 215 thousand (2020: € 375 thousand).

During 2021, interest income from the financial assets at amortized cost amounted to € 11,455 thousand (2020: € 9,240 thousand).

As at 31 December 2021, the caption "Financial assets at amortized cost" includes debt instruments in the amount € 191,683 thousand (2020: € 17,854 thousand) given as collateral in sale operations under repurchase agreements (Note 24).

As at 31 December 2021, the caption "Due from banks" includes deposits in the amount € 52,029 thousand (2020: € 48,929 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, may be analysed as follows:

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

	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						
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**

During 2021, interest income from the financial assets at fair value through other comprehensive income portfolio amounted to € 53,647 thousand (2020: € 64,460 thousand).

This portfolio includes the amount of € 593,340 thousand (2020: € 674,955 thousand) related to debt instruments given as collateral by the Group in sales operations under repurchase agreements (Note 24).

As at 31 December 2021 and 2020, the financial assets subject to the impairment requirements foreseen in IFRS 9, analysed by stage, may be presented as follows:

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

As at 31 December 2021, within the scope of the closing of restructuring processes due to financial difficulties of exposures with associated impairment, the Group recognized the new financial instruments as POCI.

	31.12.2020							
EUR thousand	**Financial assets at fair value through other comprehensive income**				**Financial assets at amortized cost**			
	Not yet due	Overdue	Impairment	Carrying value	Not yet due	Overdue	Impairment	Carrying value
Stage 1								
Debt instruments and commercial paper	1,661,726	-	(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**	**-**	**-**	**-**	**-**
	1,755,994	**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 new financial instruments as POCI.

The movements in the impairment due to expected losses in financial assets during the 2021 and 2020 financial years were as follows:

EUR thousand	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 January 2020	**6,288**	**2,392**	**24,566**	**-**	**33,246**
Financial assets originated or acquired	1,265	-	-	-	1,265
Financial assets derecognized	(924)	(8)	-	-	(932)
Net changes in credit risk	2,778	2,805	(3,458)	-	2,124
Allocations, net of reversals (Note 22)	3,118	2,797	(3,458)	-	2,456
Usage	-	-	(6,448)	-	(6,448)
Loan recoveries	-	-	10,683	-	10,683
Foreign exchange and other variations	(793)	(330)	(4,662)	-	(5,786)
Balance as at 31 December 2020	**8,612**	**4,859**	**20,680**	**-**	**34,151**
Financial assets originated or acquired	1,497	-	-	-	1,497
Financial assets derecognized	(1,491)	(351)	(1,348)	-	(3,190)
Net changes in credit risk	(565)	(120)	1,556	1,893	2,763
Allocations, net of reversals (Note 22)	(559)	(472)	208	1,893	1,070
Usage	-	-	(9,434)	-	(9,434)
Loan recoveries	-	-	4,601	-	4,601
Foreign exchange and other variations	495	345	1,320	16	2,176
Balance as at 31 December 2021	**8,548**	**4,732**	**17,376**	**1,909**	**32,564**

As at 31 December 2021 and 2020, the caption “Allocations, net of reversals” is net of loan recoveries in the amount of € 4,601 thousand and € 10,683 thousand, respectively.

The movements in the caption “Financial assets” classified in Stage 3 during the 2021 and 2020 financial years were as follows:

EUR thousand	Exposure	Impairment
Movement in Stage 3		
Balance as at 1 January 2020	37,909	24,566
Net changes in credit risk	4,522	(3,458)
Usage	(6,448)	(6,448)
Loan recoveries	3,736	10,683
Foreign exchange and other variations	(2,641)	(4,662)
Balance as at 31 December 2020	**37,078**	**20,680**
Financial assets derecognized	(6,003)	(1,348)
Net changes in credit risk	4,959	1,556
Usage	(9,434)	(9,434)
Loan recoveries	(2,125)	4,601
Foreign exchange and other variations	1,918	1,320
Balance as at 31 December 2021	**26,393**	**17,376**

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 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	**31.12.2021**	**31.12.2020**
Performing credit	25	89
Overdue credit up to 90 days	9	7
Overdue credit between 90 days and up to 24 months	1	10
	35	**107**
Impairment for performing credit	-	-
Impairment for overdue credit up to 90 days	-	-
Impairment for overdue credit between 90 days and up to 24 months	-	(3)
	-	**(3)**
	35	103
Recoverable amount of overdue credit over 24 months	4,606	6,655
	4,640	**6,758**

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

As at 31 December 2020, 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	31.12.2021			31.12.2020		
		Fair value			Fair value	
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
Derivative instruments						
Interest rate derivatives	974,237	10,477	18,063	802,869	63	58,306
Foreign currency derivatives	628,642	60	30,012	640,535	40,666	-
	1,602,879	**10,537**	**48,074**	**1,443,404**	**40,729**	**58,306**
Of which subject to hedge accounting						
Interest rate derivatives	**972,635**	**10,463**	**18,032**	**802,595**	**63**	**58,283**
Of which for risk management (Notes 6 & 12)						
Interest rate derivatives	1,602	14	31	274	-	23
Foreign currency derivatives	628,642	60	30,012	640,535	40,666	-
	630,244	**74**	**30,043**	**640,809**	**40,666**	**23**
	1,602,879	**10,537**	**48,074**	**1,443,404**	**40,729**	**58,306**

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.

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

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

For securities classified as 'financial assets at amortized cost' (Note 6) the accumulated hedge adjustment as at 31 December 2021 amounts to € (232) thousand (2020: € 2,355 thousand). In 2021, the Group recognized in profit or loss the amount of € (2,688) thousand (2020: € 1,880 thousand) related to the fair value change of the hedged instruments in the financial year and the amount of € (69) thousand (2020: € (1) 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 2021, gains on hedging instruments amounting to € 32,656 thousand (2020: losses of € 46,191 thousand) and losses on the respective hedged items of € 32,002 thousand (2020: gains of € 45,548 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 € (5,490) thousand (2020: € (1,155) thousand) related to the expense on the amortization of the discontinued relations.

In summary, the impacts of the hedging relations referred to above, outstanding in 2021 and 2020, may be analysed as follows:

EUR thousand	**31.12.2021**	**31.12.2020**
Category of financial assets at amortized cost	**49**	**8**
Losses on hedging instruments	2,737	(1,872)
Gains on hedged items attributable to hedged risk	(2,688)	1,880
Category of financial assets at fair value through other comprehensive income	**654**	**(642)**
Losses on hedging instruments	32,656	(46,191)
Gains on hedged items attributable to hedged risk	(32,002)	45,548
Ineffectiveness of interest rate risk hedges (Note 19)	**703**	**(635)**

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

EUR thousand	**31.12.2021**	**31.12.2020**
Fair value hedges – securities in the “financial assets at amortized cost” portfolio	(69)	1
Fair value hedges - securities in the “financial assets at fair value through other comprehensive income” portfolio	(5,490)	(1,155)
Amortization of discontinued hedging relations (Note 19)	**(5,559)**	**(1,154)**

Hedging of net investments in foreign operational units

During 2021 and 2020, 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	15,896	15,896
Finantia UK Limited	USD	112,500	112,500	99,329	99,329

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 2021 and 2020, 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	31.12.2021	31.12.2020
Acquisition cost:									
Opening balance	22,576	6,821	3,559	2,195	1,545	-	1,188	37,884	37,879
Additions	-	63	104	579	25	13	-	785	1,404
Disposals / Write-offs	-	(38)	(63)	(442)	(242)	-	(1)	(786)	(1,010)
Fx var. / Transfers	17	23	5	-	58	-	15	117	(389)
Closing balance	**22,593**	**6,869**	**3,606**	**2,332**	**1,386**	**13**	**1,202**	**38,000**	**37,884**
Accumulated depreciation:									
Opening balance	11,548	6,250	3,361	1,403	570	-	1,044	24,176	23,860
Depreciation charge	272	85	138	350	337	-	50	1,231	1,276
Disposals / Write-offs	-	(30)	(62)	(365)	(186)	-	(7)	(650)	(885)
Fx var. / Transfers	12	20	5	-	(124)	-	10	(77)	(75)
Closing balance	**11,832**	**6,325**	**3,442**	**1,388**	**597**	**-**	**1,096**	**24,680**	**24,176**
Carrying value	**10,761**	**544**	**164**	**944**	**789**	**13**	**106**	**13,320**	**13,708**

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

9. Intangible assets

EUR thousand	Software	Other intangible assets	Work in progress	31.12.2021	31.12.2020
Acquisition cost:					
Opening balance	5,404	404	118	5,926	6,037
Additions	323	-	298	621	787
Disposals / Write-offs	-	-	-	-	(539)
Fx var. / Transfers	1	-	(118)	(117)	(359)
Closing balance	**5,729**	**404**	**298**	**6,431**	**5,926**
Accumulated amortization:					
Opening balance	4,958	404	--	5,360	5,613
Amortization charge	345	-	-	345	288
Disposals / Write-offs	-	-	-	-	(539)
Fx var. / Transfers	1	-	-	1	(1)
Closing balance	**5,303**	**404**	**-**	**5,707**	**5,360**
Carrying value	**426**	**-**	**298**	**724**	**566**

As at 31 December 2021 and 2020, other intangible assets and work in progress include software licenses and other expenditure incurred with software implementation and development.

During 2021 and 2020, there were no intangible assets generated internally.

10. Taxes

Income tax recognized in the income statement in 2021 and 2020 may be analysed as follows:

EUR thousand	31.12.2021	31.12.2020
Current tax		
Current tax on profit for the year	(7,763)	(4,777)
Current tax related to prior years	3,498	1,904
	(4,266)	**(2,872)**
Deferred tax		
Origination and reversal of timing differences	79	2,409
Tax losses carried forward	1,473	-
	1,552	**2,409**
Total income tax recognized in results	**(2,714)**	**(463)**

As at 31 December 2021, 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 € 308 thousand (2020: € 1,606 thousand), being recorded under the caption "Debtors and other applications" (see Note 11).

The deferred tax assets and liabilities recognized on the balance sheet in 2021 and 2020 may be analysed as follows:

EUR thousand	31.12.2021			31.12.2020		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Financial assets at fair value through other comprehensive income	2,460	-	2,460	-	(3,680)	(3,680)
Impairment / Provisions	-	(610)	(610)	673	-	673
Tax losses carried forward	1,473	-	1,473	-	-	-
Other	3,358	(2,722)	637	2,588	(3,024)	(436)
Deferred tax assets / (liabilities)	**7,289**	**(3,332)**	**3,957**	**3,262**	**(6,704)**	**(3,442)**
Set-off of deferred tax assets / liabilities	(1,405)	1,405	-	(1,301)	1,301	-
Net deferred tax assets / (liabilities)	**5,885**	**(1,927)**	**3,957**	**1,961**	**(5,403)**	**(3,442)**

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 amounted to € 48 thousand.

During financial year ended 31 December 2021, income taxes recognized in reserves related to financial assets at fair value through other comprehensive income (Note 16) amount to € 6,140 thousand (2020: € 2,344 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	**31.12.2021**		**31.12.2020**	
	%	**Amount**	**%**	**Amount**
Profit before income tax		26,960		24,159
Statutory income tax rate	22.5%		25.5%	
Income tax calculated based on the statutory income tax rate		**6,066**		**6,161**
Tax losses used		(155)		(368)
Tax benefits		(62)		(263)
Autonomous taxation		124		73
Differences in the statutory tax rate of the subsidiaries		(59)		(423)
Non-deductible impairment		(466)		(1,008)
Prior year taxes		(3,498)		(1,904)
Other		763		(1,804)
Income tax recognized in profit or loss		**2,714**		**463**
Current tax		4,266		2,872
Deferred tax		(1,552)		(2,409)
Tax under reconciliation		**2,714**		**463**

11. Other assets

EUR thousand	**31.12.2021**	**31.12.2020**
Debtors and other applications	2,885	4,970
Operations pending financial settlement (Note 14)	1,748	3,454
Other operations awaiting regularization	865	1,013
Accrued income	115	1,794
	5,613	**11,231**

As at 31 December 2021, the caption “Debtors and other applications” includes the amount of € 308 thousand (2020: € 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	31.12.2021	31.12.2020
Risk-management derivatives (Note 7)	30,043	22
Short sales	2,418	4,137
	32,461	**4,159**

13. Financial liabilities at amortized cost

This caption may be analysed as follows:

EUR thousand	31.12.2021	31.12.2020
Due to customers		
Time deposits	823,071	905,353
Demand deposits	60,072	44,637
	883,143	949,990
Sales operations under repurchase agreements (repos)		
Banks	484,511	340,677
Other financial companies	173,277	195,907
	657,789	536,584
Other financial liabilities at amortized cost		
Money market operations	17,919	51,635
Other deposits	-	4,849
	17,919	56,484
	1,558,850	**1,543,057**

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	31.12.2021	31.12.2020
Bank guarantees and irrevocable commitments	13	5
Other provisions	870	889
	883	**893**

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

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

The 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 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	31.12.2021	31.12.2020
Accrued expenses	4,109	4,783
Amounts owed to the public sector	602	452
Creditors of specialized finance operations	436	519
Lease liabilities	734	862
Other liabilities awaiting regularization	1,193	2,317
	7,073	**8,933**

The caption "Other liabilities awaiting regularization" includes the amount of € 1,153 thousand (2020: € 2,128 thousand) related to transactions pending financial settlement, arising in the Group's normal course of business (Note 11).

As at 31 December 2021 and 2020, the caption "Lease liabilities" corresponds to the amount of the lease liabilities recognized in the scope of the application of IFRS 16, as described in the accounting policy (Note 2.14).

As at 31 December 2021 and 2020, the Group had various operating leasehold agreements. The minimum future payments related to operating leasehold agreements, by maturity, are as follows:

EUR thousand	31.12.2021	31.12.2020
Up to 1 year	294	301
1 to 5 years	440	561
	734	**862**

15. Share capital, share premium and treasury stock

Share capital and share premium

As at 31 December 2021 and 2020, 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 2021, the caption "Treasury stock" is represented by 2,810,927 shares with a nominal value of € 1 each (2020: 37,607). The acquisition cost of these shares was € 2,826 thousand (2020: € 53 thousand).

During 2021 and 2020, there were there following movements in treasury stock:

EUR thousand, except number of shares	2021		2020	
	No. shares	Acquisition cost	No. shares	Acquisition cost
Balance at beginning of period	37,607	53	37,607	53
Acquisitions	2,834,940	2,835	-	-
Share exchange	(61,620)	(62)	-	53
Balance at end of period	**2,810,927**	**2,826**	**37,607**	**53**

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	31.12.2021	31.12.2020
Other accumulated comprehensive income	(9,072)	9,099
Retained earnings	(2,120)	-
Other reserves	309,189	282,981
	297,997	**292,079**

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

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**

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	**31.12.2021**	**31.12.2020**
Acquisition cost of financial assets	1,346,079	1,758,085
Accumulated impairment recognized on the balance sheet (Note 6)	(15,379)	(19,939)
Amortized cost of financial assets, net of impairment	1,330,701	1,738,146
Fair value of financial assets (Note 6)	1,318,016	1,750,618
Unrealized gains / (losses) recognized in OCI	(28,063)	(7,469)
Impairment (Note 6)	15,379	19,939
Deferred taxes (Note 10)	2,459	(3,680)
	(10,225)	**8,790**

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

EUR thousand	**31.12.2021**	**31.12.2020**
Balance at the beginning of the financial year	8,790	13,864
Change in fair value	(42,069)	51,630
Disposals in the period (see Note 19)	(16,017)	(18,258)
Reclassification to impairment	(4,560)	3,603
Fair value hedges (Note 7)	37,492	(44,393)
Deferred taxes recognized in reserves in the period (see Note 10)	6,140	2,344
Balance at the end of the financial year	**(10,225)**	**8,790**

17. Net interest income

EUR thousand	31.12.2021	31.12.2020
Interest and similar income		
Debt instruments	59,270	67,111
Loans	5,478	6,364
Other credit operations	6	13
Other interest and similar income	880	1,345
	65,634	**74,833**
Interest and similar expense		
Hedging derivatives	(11,416)	(11,177)
Due to customers	(6,300)	(7,760)
Sale operations under repurchase agreement	(4,476)	(11,230)
Other interest and similar expense	(692)	(679)
	(22,883)	**(30,846)**
	42,751	**43,987**

18. Net fee and commission income

EUR thousand	31.12.2021	31.12.2020
Fee and commission income		
From banking activity	2,748	879
From specialized finance activity	51	117
	2,800	**996**
Fee and commission expense		
On third-party banking services	(800)	(500)
On specialized finance activity	(10)	(24)
	(810)	**(524)**
	1,990	**472**

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

19. Net results from financial operations

As at 31 December 2021 and 2020, this caption may be analysed as follows:

EUR thousand	31.12.2021	31.12.2020
Gains or losses from derecognition of financial assets at fair value through other comprehensive income (Note 16)	16,017	18,258
Gains or losses from derecognition of financial assets at amortized cost	615	338
Gains or losses from financial assets and liabilities held for trading	1,731	80
Gains or losses from hedge accounting (Note 7)	(4,856)	(1,788)
Gains or losses from foreign exchange operations	(5,180)	(11,957)
Other gains or losses from financial operations	194	105
	8,522	**5,037**

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 € (9,094) thousand (2020: € (10,652) 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 € 1 thousand (2020: € 3 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 2021, it includes the amount of € 172 thousand (2020: € (1,867) thousand), related to operations with interest rate derivatives.

20. Staff costs

EUR thousand	31.12.2021	31.12.2020
Remuneration	10,703	10,399
Mandatory social charges	2,359	2,371
Other charges	1,012	572
	14,073	**13,342**

As at 31 December 2021 and 2020, the remuneration, including respective mandatory social charges, paid to the Group's management and supervisory bodies amounted to € 1,039 thousand and € 984 thousand, respectively.

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

	31.12.2021	31.12.2020
Senior management	97	90
Middle management	129	140
Professional staff	23	19
	249	**249**

21. Other administrative expenses

EUR thousand	31.12.2021	31.12.2020
Specialized services	4,712	4,489
Maintenance services	1,724	1,564
Contributions	1,130	1,890
Communication	500	470
Travel and accommodation	225	174
Rentals and hires	127	121
Other	882	868
	9,299	**9,577**

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

22. Impairment and provisions

As at 31 December 2021 and 2020, the amounts of impairment and provisions recognized in the income statement may be analysed as follows:

EUR thousand	31.12.2021	31.12.2020
Financial assets at fair value through other comprehensive income	3,480	11,965
Financial assets at amortized cost	(2,409)	(9,509)
Impairment or reversal of impairment (Note 6)	1,070	2,456
Impairment or reversal of impairment of non-financial assets	(13)	(235)
Provisions or reversal of provisions (Note 14)	(11)	(4)
	1,046	**2,222**

As at 31 December 2021, the caption “Financial assets at amortized cost” includes the amount of € 4,601 thousand (2020: € 10,683 thousand) related to credit recoveries, which in 2020, 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 2021, the total amount of interest recognized in the income statement from impaired financial assets is € 370 thousand (2020: € 1,393 thousand).

23. Earnings per share

Basic earnings per share

EUR thousand, except number of shares	31.12.2021	31.12.2020
Net profit attributable to the shareholders of the Bank	24,246	23,687
Weighted average number of ordinary shares outstanding (thousand)	147,605	149,962
Basic earnings per share (in Euros)	**0.16**	**0.16**
Number of ordinary shares outstanding at year-end (thousand)	**147,189**	**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 2021 and 2020.

24. Off-balance sheet items

EUR thousand	31.12.2021	31.12.2020
Guarantees issued		
Assets given in guarantee (“repos”)	750,380	634,531
Guarantees and endorsements issued (Note 27)	5,391	5,115
	755,771	**639,647**
Guarantees received		
Assets received in guarantee (“reverse repos”)	2,000	3,260
Financial guarantees	8,500	-
	10,500	**3,260**
Other possible assets		
Irrevocable credit lines	1,500	1,500
	1,500	**1,500**
Other possible liabilities (Note 27)		
Revocable credit lines	15,000	3,920
Other contingent liabilities	9,019	5,182
	24,019	**9,102**
Responsibilities for services rendered		
Deposit and custodianship of items	313,083	430,184
	313,083	**430,184**

As at 31 December 2021 and 2020, all assets recorded in the off-balance sheet item captions are classified in Stage 1. As at 31 December 2021, impairment was recognized (Stage 1) for credit risk in the amount of € 8 thousand (2020: impairment was derecognized in the amount of € 20 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 2021, to € 785,023 thousand (2020: € 692,809 thousand).

As part of the purchase operations under resale agreements (“reverse repos”), the Group receives securities as collateral that it can sell or give as collateral. The balance sheet amount of the securities included in these operations amounted, as at 31 December 2021, to € 2,160 thousand (2020: € 3,498 thousand).

As at 31 December 2020, the caption “Other possible liabilities” includes the amount of € 5,000 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	**31.12.2021**	**31.12.2020**
Cash (Note 5)	70	92
Demand deposits with central banks (Note 5)	50,074	35,756
Deposits with other banks (Note 5)	11,116	19,617
Due from banks	48,701	24,564
	109,960	**80,029**

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 balances and transactions with related parties as at 31 December 2021 and 2020, may be analysed as follows:

EUR thousand	**31.12.2021**	**31.12.2020**
Due to customers		
Finantipar, S.A.	33	263
Other related parties	649	852
Interest and similar income		
VTB Group	-	28
Gains from financial operations		
VTB Group	-	3
Interest expense and similar charges		
Other related parties	8	9
Losses from financial operations		
VTB Group	-	21
Deposit and custodianship of items		
Finantipar, S.A.	20,125	31,675
Arendelle, SA	21,321	871
Other related parties	2,613	2,451

Transactions with related parties are realized under normal market conditions.

As at 31 December 2021 and 2020, the other related parties are small shareholders of Banco Finantia (with a shareholding of less than 10%). As at 31 December 2021, the Bank has no balances or transactions with its shareholder VTB Group, which holds a minority interest of 12.2%. The caption "Deposit and custodianship of items" refers to securities' custodianship services provided by Banco Finantia.

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

27. Risk management activity

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

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

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

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

In the scope of ICAAP, the Group allocates capital to the above risk categories. As at 31 December 2021, the Group presented an own capital utilization ratio for economic capital requirements of 46.1% (43.7% as at 31 December 2020).

Regarding risk appetite, during 2021 the metrics included in the RAF were always within the limits and levels of tolerance approved for the Group, except as regards a limit for an indicator on the risk of money laundering and terrorism financing, which was exceeded, although within the tolerance level, in November and December 2021, but which compliance with the respective limit as of the date of this document is already re-established.

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

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	**31.12.2021**	**31.12.2020**
Cash and banks (Note 5)*	11,116	19,617
Debt instruments (Note 6)	1,717,126	1,774,593
Loans (Note 6)	191,699	133,943
Due from banks (Note 6)	98,574	70,047
Purchase operations under resale agreements (“reverse repos”) (Note 6)	2,160	3,497
Risk-management derivatives (Note 6)	74	40,666
Other credit operations (Note 6)	4,640	6,761
Other assets (Note 11)	5,665	11,297
	2,031,054	**2,060,422**
Financial guarantees and other possible liabilities (Note 24)	20,581	14,617
	20,581	**14,617**

* 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 2021, 74% (2020: 77%) 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	31.12.2021		31.12.2020	
OECD countries	1,094,134	52%	1,090,571	52%
Investment grade (non-OECD) countries	464,583	22%	536,766	25%
Other countries	546,193	26%	477,822	23%
	2,104,909	**100%**	**2,105,159**	**100%**

The categories above include around 0.49% of direct exposure to Russian Federation public debt, 0.21% of Republic of Ukraine public debt and 0.22% of debt issued by entities domiciled in Belarus, as of December 31, 2021, direct exposure to these three geographies totalled 0.92% of total assets, which on March 29, 2022 was approximately 0.23%. Additionally, these categories include exposure to debt issued by entities domiciled in the European Union and in the United Kingdom and which present risk related to the aforementioned countries, which in December 31, 2021 was 5.66% and on March 29, 2022 was 3.62% of total assets, respectively. Direct and indirect exposures to these geographies concerns fixed-income securities (Eurobonds in USD and EUR), with no other exposures, assets or liabilities, with entities of these countries.

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

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

Impairment can be measured as: (i) 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 useful life of the instrument: corresponding to the expected losses that may occur from a default event over the entire useful life 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 useful life of the assets; and

3) Stage 3: where ECL is recognized over the useful life 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 +/- € 0.8 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 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 2021, financial assets and liabilities subject to offsetting agreements, regardless of being offset or not, may be analysed as follows:

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

As at 31 December 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 2021 and 2020, there are no financial assets or liabilities offset in the balance sheet.

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

Interest rate risk

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

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

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

Considering the nature and characteristics of the Group's business, as well as the processes implemented for the monitoring and mitigation of interest rate risk, the Group also analyses the behaviour of VaR (“Value at Risk”) related to interest rate risk. VaR is calculated using the historical simulation approach, based on a one-year rate history, a one-day holding period, and a confidence interval of 99%. This model is validated with back tests. For 2021, the average daily VaR for interest rate risk was € 1.58 million (€ 5.16 million in 2020), which corresponds to 0.3% 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 2021	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	324,885	84,009	29,815	619,405	1,022,039
Liabilities	(556,649)	(262,129)	(395,314)	(344,672)	0
Off-balance sheet items	848,942	124,825	(594)	(196,576)	(819,089)
Gap	**617,177**	**(53,295)**	**(366,093)**	**78,158**	**202,950**

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**

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 2021, based on the methodology described above, the average daily VaR for foreign exchange rate risk was € 1.72 million (€ 2.94 million in 2020), which corresponds to about 0.4% of Tier I own funds.

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

EUR thousand	31.12.2021	
	USD	**Other currencies**
Assets		
Cash and banks	2,432	585
Debt instruments	1,053,342	-
Loans	73,635	-
Due from banks	46,541	-
Purchase operations under resale agreements (“reverse repos”)	-	-
Derivative instruments (Note 7)	4,231	-
Other credit operations	-	-
Other assets	2,445	664
Total assets	**1,182,625**	**1,249**
Liabilities		
Short sales	373	-
Derivative instruments (Note 7)	16,604	-
Due to banks	9,071	-
Due to customers	26,852	-
Sales operations under repurchase agreements (“repos”)	505,016	-
Foreign currency derivatives	626,876	-
Other liabilities	535	648
Total liabilities	**1,185,327**	**648**
Net regulatory position	**(2,702)**	**600**
Fair value reserve	(7,230)	-
Net accounting position	**4,528**	**600**

EUR thousand	31.12.2020	
	USD	**Other currencies**
Total assets	1,172,380	1,487
Total liabilities	1,165,711	2,070
Net regulatory position	6,670	(583)
Fair value reserve	3,508	-
Net accounting position	**3,161**	**(583)**

Liquidity risk

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

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

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

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

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

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

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

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

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**

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

As at 31 December de 2021:

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

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

Non-financial risks

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

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

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

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

During 2021, several training actions were carried out in the area of non-financial risks, with an emphasis on specific training on Prevention of Money Laundering, GDPR and Information Security, among others. In 2022, the Bank will continue to focus on training as a means to reducing non-financial risks.

28. Capital management

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

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

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

The main capital ratios of the Group in 2021 and 2020 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, as from 2020 and in accordance with Notice no. 6/2016 of Banco de Portugal, a capital conservation buffer was implemented of 2.5%.

EUR million	**31.12.2021**	**31.12.2020**
Common Equity Tier 1 (CET1)	466.6	473.4
Tier 1	466.6	473.4
Total Capital	466.6	473.5
Risk weighted assets	1,790.5	1,736.1
CET 1 ratio	26.1%	27.3%
Tier 1 ratio	26.1%	27.3%
Total Capital ratio	26.1%	27.3%

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 2021 and 2020, 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		31.12.2021			31.12.2020		
	Notes	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets							
Financial assets at fair value through other comprehensive income	6	863,747	451,955	2,314	1,142,647	595,502	6,860
Financial assets not held for trading mandatorily at fair value through profit or loss	6	-	60	338	-	48	-
Financial assets held for trading	6	3,230	1,640	-	3,960	4,755	242
Derivative financial instruments	7	-	10,537	-	-	40,729	-
Liabilities							
Derivative financial instruments	7	-	48,074	-	-	58,306	-
Short sales	12	-	2,418	-	-	4,137	-

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 € 10,477 thousand and € 18,063 thousand, respectively (2020: € 63 thousand and € 58,306 thousand, respectively). As at 31 December 2021 and 2020, 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 2021 and 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 2021, the amount of € 2,652 thousand was transferred from Level 2 to Level 3 and the amount of € 7,102 thousand from Level 3 to Level 2, related 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.

The main assumptions and inputs used, during financial years 2021 and 2020, 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:

	31.12.2021		31.12.2020	
	EUR	USD	EUR	USD
Overnight	-0.505	0.064	-0.498	0.078
1 month	-0.583	0.101	-0.554	0.144
3 months	-0.572	0.209	-0.545	0.238
6 months	-0.546	0.339	-0.526	0.258
1 year	-0.501	0.583	-0.499	0.342
3 years	-0.147	1.168	-0.506	0.241
5 years	0.017	1.370	-0.459	0.430
7 years	0.129	1.476	-0.384	0.655
10 years	0.301	1.581	-0.260	0.925
15 years	0.490	1.701	-0.082	1.189
20 years	0.545	1.756	-0.002	1.317
30 years	0.476	1.731	-0.023	1.402

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	31.12.2021	31.12.2020
EUR/USD	1.1326	1.2271
EUR/GBP	0.8403	0.8990
EUR/CHF	1.0331	1.0802
USD/BRL [(a)]	5.5713	5.1940

[(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	31.12.2021				31.12.2020		
		Carrying amount	Fair value			Carrying amount	Fair value	
			Level 1	Level 2	Level 3		Level 1	Level 2
Assets								
Cash and banks	5	66,126	66,126	-	-	60,055	60,055	-
Financial assets at amortized cost	6	669,149	392,510	267,208	7,704	213,906	78,063	123,619
Other credit operations	6	4,640	-	4,642	-	6,758	-	6,762
Liabilities								
Due to banks	13	17,919	17,919	-	-	56,484	56,484	-
Due to customers	13	883,143	883,143	-	-	949,990	949,990	-
Repurchase agreements	13	657,789	657,789	-	-	536,584	536,584	-

As at 31 December 2021, the caption "Financial assets at amortized cost" includes financial assets in a situation of impairment, involved in judicial restructuring proceedings due to financial difficulties or acquired or originated with credit impairment (POCI) in the amount of € 7,751 thousand, which respective fair value amounted to € 7,704 thousand, classified in Level 3.

As at 31 December 2020, the caption "Financial assets at amortized cost 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 2021, the Group structure may be analysed as follows:

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

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

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

31. IBOR Reform

As at 31 December 2021, the Group presents the following significant exposures subject to benchmark interest rate reform:

EUR thousand	LIBOR (USD)	EONIA (EUR)
Financial assets held for trading	-	-
Financial assets at fair value through other comprehensive income	12,214	-
Financial assets at fair value through profit or loss	-	-
Financial assets at amortised cost	63,641	15,690
Non-derivative financial assets	**75,855**	**15,690**
Due to banks	-	-
Due to customers	-	-
Operations with repurchase agreements	88,062	-
Other	-	-
Non-derivative financial liabilities	**88,062**	**-**
Irrevocable commitments	**8,829**	**-**
Interest rate derivatives (notional)	**639,237**	**-**

As at 1 January 2022, none of the exposures presented above had yet been transitioned to an alternative interest rate (RFR). The final date for the Libor USD transition is scheduled for 30 June 2023.

As at 31 December 2021 and 2020, all hedging relationships carried out by the Group are at fair value ("fair value hedges"), and the Group does not hold any hedging instrument that uses an alternative interest rate (Risk Free Rate (RFR)) in place of the reference interest rates.

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

32. Subsequent events

On February 24, 2022, the Russian Federation began a military operation on the territory of Ukraine, having triggered a conflict involving three countries: Russia, Ukraine and Belarus. In response, several sanctions were passed with the aim of impacting the economies of Russia and the Belarus by a group of countries which include the countries of NATO, the European Union and others. There is a possibility that Banco Finantia will be impacted by losses on assets exposed to those countries, as a result of the aforementioned sanctions as well as the destruction that is taking place in Ukraine as a result of the conflict.

The Bank's direct and indirect exposure to the Russian Federation, Republic of Ukraine and Belarus on 31 December 2021, is related to fixed-income securities (Eurobonds in USD and EUR), with no other exposures, assets or liabilities, with entities in these countries.

In this context, and in order to assess the potential impact of this conflict on its activity, the Bank prepared two stress scenarios, the first taking into account that there has not been, to date, any default declared in the securities of the referenced issuers, which presupposes the application of a probability default of one-year in line with the current international ratings of these securities (PD = 30%) and a loss given default of 45% (regulatory LGD), in line with the "foundation internal ratings-based" approach in the Basel Accord, and a second, more adverse scenario that considers a probability of default of 100%, with the same level of LGD. In both scenarios the Bank continues to present a CET1 ratio considerably above the regulatory minimum, the impact of the first scenario being a 60 bps decrease on the CET1 ratio and the second a 200 bps decrease, which on 31 December 2021 would place the CET1 ratio at 25.5% or 24.0%, respectively. In view of the foregoing, and taking into account the information currently available on the evolution of this situation, the occurrence of significant impact on the Bank's activity is not expected.

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

Statutory Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Banco Finantia, S.A. (the Group), which comprise the Consolidated Balance Sheet as at 31 December 2021 (showing a total of 2,104,909 thousand euros and a total equity of 482,281 thousand euros, including a net profit of 24,246 thousand euros), and the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated balance sheet of Banco Finantia, S.A. as at 31 December 2021, 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.

Emphasis

We draw attention to note 32 - Subsequent Events of the financial statements, where are presented scenarios on the potential impacts on the Group's regulatory ratios arising from exposure to assets of countries involved in the military operation in Ukraine.

Our opinion is not modified in relation to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

1. Financial Assets impairment – Securities and Loans portfolio

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
As presented in the balance sheet and as further disclosed in note 6, the value of financial assets net of impairment amounted to 1,997,147 thousand euros ("m €") representing 95% of total assets. According to that disclosed in the note 2.2.1.5 the impairment reflects: (i) expected losses resulting from possible default events in the 12 months following the report date or (ii) expected losses that may occur from all possible default events over the useful life of a financial instrument. The transition from expected credit losses for 12 months to expected credit losses over the useful life is based on the concept of a significant increase in credit risk, as disclosed in the note 2.2.1.5.3, for the remaining life of the asset when compared with the credit risk at the time of its acquisition/origination. Given the complexity and subjectivity inherent in the calculation of expected losses as described above, it was necessary to utilize internal statistical models and other relevant historical data to determine the parameters, such as: (i) probability of default ("PD"); (ii) expected loss given default ("LGD") and (iii) exposure at the default date ("EAD") which should also contain forecasts of future economic conditions containing different scenarios. The use of alternative approaches, models or assumptions may have a material impact on the estimated impairment value. Considering the degree of subjectivity and complexity involved in the impairment of the financial assets, we have defined this matter as a key audit matter.	We performed the identification and assessment of the audit risk that led to the definition of the audit approach to respond to the risk of material misstatement. This approach included (i) an overall response with an effect on the way the audit was conducted and (ii) a specific response which resulted in the design and implementation of additional procedures, including substantive procedures, namely: • We obtained an understanding, evaluated the design of the internal control procedures over the process of quantification of impairment losses, namely for the portfolio of debt instruments and loans; • We performed analytical review procedures on the evolution of financial asset impairment balances, comparing them with the previous period; • We identified and analysed the indications of deterioration of credit risk of the financial assets which comprise the debt instruments and loan portfolio; • With the support of internal risk specialists, we assessed the reasonableness of the parameters used in the impairment calculation, highlighting the following procedures: i) understanding of the methodology adopted and approved by management and comparison with the one actually used; ii) evaluation of changes made to the models in order to determine parameters that reflect the expected loss; (iii) based on a sample, comparison of the data used to calculate the risk parameters to source information; iv) evaluation of the consistency of the calculation of risk parameters throughout the historical analysis; and (v) inquiries to the Bank's specialists responsible for the implementation of the model; • We obtained an understanding, evaluated the design over the process of the expected loss calculation model, we reperformed the impairment calculation, assessed the assumptions used to fill gaps in the data, compared the parameters used with the results of the estimation models, and compared the results with the amounts presented in the financial statements; • We assessed the reasonableness of the defined criteria and the consistency of their application in the measurement and impairment calculation of the Group's financial asset portfolio;

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
	• 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 • 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 464,192 thousand euros and 2,652 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 50,492 thousand euros classified in level 2 of the fair value hierarchy, IFRS 13 – Fair Value. At 31 December 2021, the financial instruments classified by the Group in level 2 are comprised by: (i) debt instruments and loans classified in the financial statements as financial assets at fair value through other comprehensive income or as financial assets at held for trading and (ii) derivative financial instruments classified as financial assets and liabilities held for trading or hedging derivatives. The financial instruments classified in level 3 are comprised by debt instruments. The financial instruments classified in level 2 of the fair value hierarchy of IFRS 13 - fair value, reflect a part of the securities portfolio whose valuation is obtained through quotes published by independent entities but in respect of which the markets are not considered official or have a lower level of liquidity. Additionally, it also includes other financial instruments which valuation are based on prices/quotations on active markets for similar assets or liabilities and financial instruments valued based on internal valuation models, including discounted cash flow models, which involve the use of estimates and require judgments which vary according to the complexity of the products being valued, namely derivative financial instruments. Notwithstanding, the Group uses observable market data as inputs in its models, such as interest rate curves, credit spreads, volatility, and market indexes.	Our response to the risk of material misstatement includes the following procedures: • We obtained an understanding and evaluated the design of the internal control procedures over the process of measurement of financial instrument assets and liabilities, specifically for the portfolio of debt instruments, loans and derivative financial instruments; • We assessed the reasonableness of the measurement performed by the Group for the financial instruments' portfolio measured at fair value. • We obtained and analysed the internal documents that support the decision regarding the financial instrument measurement; • We analysed the reasonableness of the defined criteria and the consistency of their application in the measurement of financial instruments held by the Group; • We analysed the disclosures included in the notes to the financial statements, based on the requirements of International Financial Reporting Standards and the accounting records.

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
The financial instruments classified by the Group in level 3 of the fair value hierarchy, IFRS 13 – Fair Value, reflect instruments whose respective valuations were determined using internal valuation models or quotations provided by third parties, but which imply the use of non-observable market information. Consequently, the use of different methodologies, assumptions, and judgments in the application of a specific model, may have an impact on the 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 2021, the Group financial statements include deferred tax assets and liabilities amounting to 5,885 thousand euros and 1,927 thousand euros, respectively. In addition, includes current tax assets and liabilities amounting to 4,643 thousand euros and 3,401 thousand euros, respectively. 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: • 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; • We tested the completeness and reasonableness of the amounts recorded as current and deferred taxes; and • 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 consolidated financial position, financial performance and consolidated cash flows in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union;
- the preparation of the Consolidated Management Report, in accordance with applicable law and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

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

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

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion; 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, what measures taken to eliminate the threats or which safeguards applied.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Consolidated Management Report

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

On additional items set out in article 10 of the Regulation (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 at the shareholders' general meeting held on 27 July 2015 for a mandate from 2015 to 2016. We were appointed at the shareholders' general meeting held on 27 November 2017 for a second mandate from 2017 to 2019. We were reappointed at the shareholders' general meeting held on 31 May 2019 for a third mandate from 2019 to 2021;
- 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 22 April 2022;
- We declare that we have not provided any prohibited services as described in article 5 of Regulation (EU) No 537/2014 of the European Parliament and of the Council, of 16 April 2014, and we have remained independent of the Group in conducting the audit; and

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

Lisbon, 22 April 2022

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

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