

## Pillar 3 Report 2023

Disclosure of information in accordance with Part VIII of Regulation (EU) N.° 575/2013 of the European Parliament and of the Council of 26 June 2013 (reviewed by Regulation 876/2019) and Execution Regulation (EU) 637/2021, regarding disclosure requirements.

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## Foreword

This report is prepared in accordance with the regulatory requirements set out in Part VIII of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013 (CRR or Regulation (EU) No. 575/2013) on the disclosure of information of prudential relevance (Pillar III), and the Regulation (EU) No. 2021/637 of the Commission of 15 March 2021, on the requirements of such disclosure, as a complement to the information required in the scope of the annual financial statements.

On this basis, the information disclosed in this report complies with the requirements set out in the CRR, for Banco Finantia, S.A. (on a consolidated basis whilst "parent institution in the EU" hereinafter "Banco Finantia") regarding the information specified in articles 435, 437, 438, 447, and 450) and is structured in accordance with Title II and Title III of Part VIII of the CRR, as follows:

- 1** Scope of application (article 436)
- 2** Risk management policies (article 435)
- 3** Own funds (article 437)
- 4** Capital requirements and and risk-weighted exposure amount (article 438)
- 5** Key metrics (article 447)
- 6** Remuneration policy (article 450)

For the purposes of disclosing information, and under the terms of the legislation in force, Banco Finantia is not classified as a large institution or as a small and non-complex institution (Articles 433-A and 433-B of the CRR).

Unless expressly stated to the contrary or when the context results otherwise, the information disclosed in this report was prepared with reference to 31 December 2023 and applies to Banco Finantia consolidation perimeter, including its branch in Spain and all its subsidiaries (together with Banco Finantia referred to in this report as "Group").

Banco Finantia as parent institution, is the entity that conducts the Group's business activities, directly or through its subsidiaries, following the strategy outlined for the Group.

## Group disclosure policy

Group's Disclosure Policy has approved by the Board of Directors was drafted in accordance with article 431.º, n.º 3, first paragraph and article 434.º, n.º 1 in Part VIII of Regulation (EU) No. 575/2013. This Policy aims to ensure that the disclosure requirements laid down in Part VIII of CRR, are subject (at least) to the same level of verification and internal procedures than the management information disclosed in the Annual Report and Accounts and to establish the internal controls and procedures in place to assess their appropriateness. In this context, the Board of Directors and heads of department are responsible to establish and maintain an adequate and efficient internal control system to support information disclosures, including the disclosure requirements laid down in Part VIII of CRR, ensuring as well their appropriateness and verification.

## Statement

The Board of Directors of Banco Finantia certifies that the present document was prepared with reference to 31 December 2023 and that the procedures deemed necessary for the public disclosure of the information have been carried out and that, to the best of their knowledge, all the information disclosed is true and reliable.

Inflation was the economic theme that marked 2023, particularly in the US and in the Eurozone, with the main central banks continuing their restrictive monetary policy initiated in 2022. Geopolitical risks remained high due to the continuing war in Ukraine and the conflict in Gaza, which has spread to other parts of the Middle East, particularly the Red Sea. Thus, and despite the prospect of a continued reduction of inflation worldwide in 2024 due to the actions of the central banks, a climate of uncertainty remains regarding the behaviour of inflation and interest rates.

Taking into consideration the uncertainty regarding the potential economic impact associated with the current situation, the Board of Directors of Banco Finantia will continue to assume a prudent attitude and will carefully monitor the evolution of the situation in order to assess the short and medium-term impacts on Group's activity and risk profile aiming to prioritise the interests of the different stakeholders, including depositors and customers, employees and shareholders.

The Board



## **1 Scope of application (Article 436)**

### **1.1 Banco Finantia Group**

Banco Finantia is an independent bank with broad national and international experience of over 36 years, and is an important institution in Portugal in the areas of investment banking and private banking.

Banco Finantia has always had a solid financial situation with capital ratios higher than the sector average – on 31 December 2023 its Common Equity Tier 1 (CET1) ratio was 24.6%.

The Bank operates in two important niche markets:

1) Corporate & Investment Banking - Capital markets, fixed-income products to companies and investors, corporate loans, financial restructurings and financial advisory services focusing on cross-border Mergers and Acquisitions;

2) Private Banking - quality personalized services, for affluent and high networth clients.

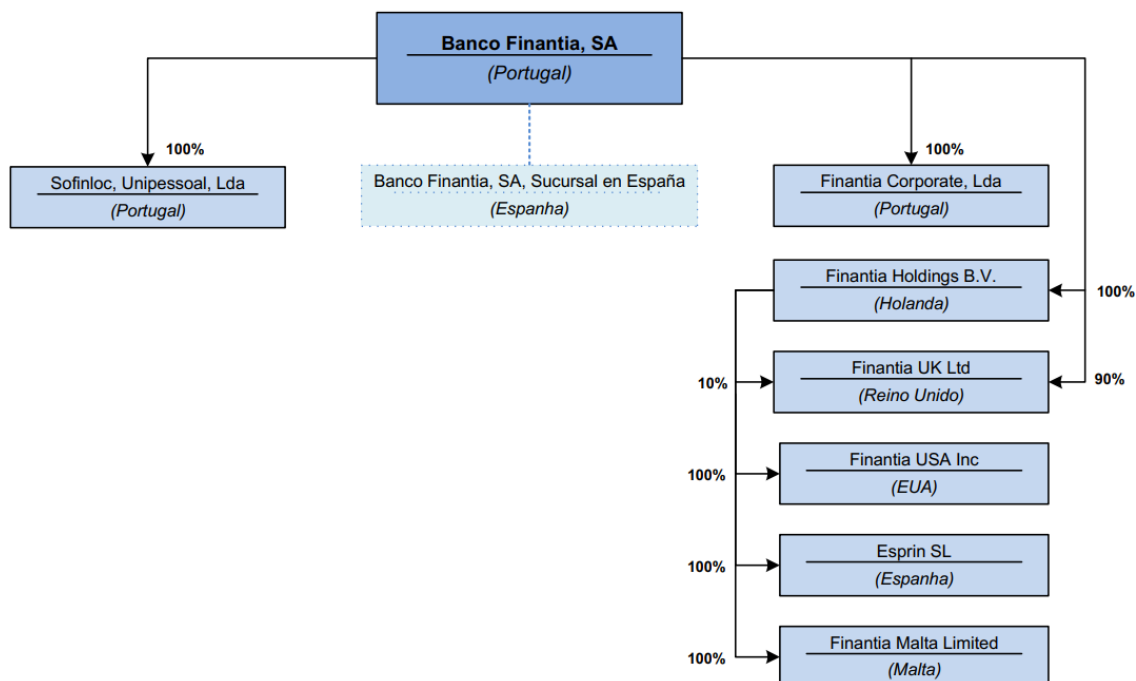
Banco Finantia includes as its main operating units a bank in Portugal with a branch in Spain, an investment firm in the United Kingdom, a broker-dealer in the United States and an auxiliary subsidiary in Malta.

The organizational chart below identifies the entities that are included in the Group, as well as the jurisdictions where they are based. Of these entities, only Banco Finantia carries out banking activity.

There are no differences between the consolidation perimeter used for accounting and prudential purposes, all the entities included in the consolidation perimeter are being consolidated using the full consolidation method and there are no current or foreseeable legal or factual impediments to a timely transfer of own funds or the prompt liabilities refund between the parent company and its subsidiaries.

## Organizational Chart

(31 December 2023)



## 1.2 Description of the activity developed by the various Group entities

### Banco Finantia, S.A.

A credit institution that takes on the Group's core business and operates in two important market segments:

Corporate & Investment Banking – fixed income products and capital market operations for companies and investors; loans and financial restructuring; financial advisory services with a focus on cross-border M&A operations; and

Private Banking – quality personalized services for affluent and high net worth clients. In Spain, Banco Finantia carries out its private banking activity through a branch in line with the strategic guidelines established for the Group. The products and services offered include: mention equities, bonds and investment funds; investment advice on bonds, equities and investment funds; deposits; and custody of securities.

### Sofinloc, Unipessoal, Lda.

Sofinloc is dedicated exclusively to the activity of recovery and management of non-performing consumer retail loans.

**Finantia Corporate, Lda.**

An auxiliary services company whose corporate purpose is to provide investment, administrative, technical and consultancy services and general business support to Group companies.

**Finantia Holding, B.V.**

Company whose corporate purpose is the management of holdings as an indirect form of carrying out economic activities.

**Finantia UK Limited**

Finantia UK is an investment firm that engages in intermediation activities and operates in the areas of Capital Markets (fixed income) and of Financial Advisory in Corporate Banking and in syndicated loans for professional customers, following the strategic guidelines established for the Group.

**Finantia USA, Inc.**

Investment firm who exercises the activity of broker-dealer, for institutional clients in the acquisition of foreign bonds, acting on behalf of Finantia UK and Banco Finantia. It is registered as a broker-dealer at Securities and Exchange Commission ("SEC") and a member of the Financial Industry Regulatory Authority ("FINRA").

**Esprin Española de Promociones,S.L.**

Company that manages and administers securities representative of the capital of other entities.

**Finantia Malta Limited**

Company that manages its asset portfolio, in accordance with the strategic guidelines established by the Group. Establishes commercial arrangements and channel relevant information to generate business at Group level.

## 2 Risk management policies (Article 435)

### 2.1 Statement on the adequacy of the risk management systems

The Board of Directors of Banco Finantia confirm that the risk management system implemented, as well as the processes and measures to ensure that the defined risk limits are met, is adequate to ensure the correct development of the business strategy, taking into account the complexity, nature, size, risk profile and strategy of the Group.

### 2.2 Statement of the General Risk profile and its relation with the Business Strategy

The Group's risk management policies are based on a conservative approach, reflected in its robust capital ratios and liquidity position. As fundamental principle underlying the management and formulation of risk strategies is the understanding of the risks to which the institution is exposed and the implementation of a comprehensive risk appetite structure for the Group.

On that basis, the Group has established the six fundamental principles that outline its risk appetite, and that guide its activity, business model and business strategy:

- > **Solvency principle:** the Group undertakes to maintain an adequate level of capital to accommodate unexpected losses, both under normal and adverse conditions, in order to be perceived as a solid and robust entity;
- > **Liquidity principle:** the Group undertakes to maintain a stable financing structure and sufficient liquidity to meet its financial obligations, ensuring its continuity even under stress scenarios;
- > **Profitability principle:** the Group undertakes to provide its shareholders with a return adequate to the risks assumed;
- > **Sustainability principle:** the Group considers that it is of strategic importance to maintain sustainable levels of activity and exposure to risk, whilst preserving its image and reputation and engaging in social contribution actions. With this objective, the Group works on the proper definition, communication and implementation of its risk strategy and appetite;
- > **ESG integration principle:** ESG aspects present opportunities and risks for Banco Finantia, mainly for its investment portfolio and for the financial services provided to clients. Banco Finantia works to promote sustainable financing and investments to decarbonize the economy, as well as empowering and training staff to manage ESG risks holistically;
- > **Business continuity principle:** Banco Finantia assumes as a strategic objective the commitment to develop and implement a system capable of ensuring the continuity of critical business processes and functions, applicable to the Group, which allows, in the event of disruptive events that may compromise the normal functioning of its activities, compliance with existing commitments to its customers and counterparts, maximize employee safety, keep critical functions and operations resilient, ensure the confidentiality, integrity and availability of information on its services, systems and infrastructures, thus allowing operations to be restored and processes to their normal state in the shortest amount of time.



As of 31 December 2023 and 2022, Banco Finantia capital ratios were as follows:

million, except %

	dez/23	dez/22
Common Equity Tier 1 capital	430,9	403,4
Tier 1 capital	430,9	403,4
Total capital	430,9	403,4
Risk weighted exposures (RWA)	1.749,9	1.606,5
Rácio CET1	24,6%	25,1%
Rácio Tier 1	24,6%	25,1%
Rácio Total Capital	24,6%	25,1%

Additionally, under the terms and for the purposes of subparagraphs ii) of paragraph 1 f) of article 435 of the CRR, during the 2023 financial year, there were no intra-group operations or transactions with related parties that would have a significant impact on the risk profile of the consolidated Group.

## 2.3 The Strategies and management processes of those risks

### Risk Management Model

Banco Finantia whilst "parent company" is subject to supervision on a consolidated basis and, as such, is responsible for providing information on all the elements that are necessary for the supervision and maintenance of the Group internal control system. Regarding Risk Management, Board of Directors of Banco Finantia is responsible for establishing and monitoring the Group's Risk Management Model.

In addition to the regulatory perspective, the Group also evaluates risks and financial resources from an economic perspective, through the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process (ILAAP).

The management of Banco Finantia is the responsibility of its Board of Directors ("BoD"), which delegated the broadest powers of the day-to-day management to an Executive Committee ("EC") - composed of four executive directors.

The Board of Directors of Banco Finantia is responsible for defining the Group's global strategy and policies, establishing, among other aspects, the risk appetite and the main aspects of the risk management and internal control system, to be implemented by the EC, with the support of the Risk Management Function and by the Bank's business and support areas.

The EC of the Board of Directors is responsible for ensuring that the strategy defined by the BoD is implemented, being responsible to ensure the implementation and maintenance of an adequate and effective internal control system with regard to the management and control of financial and non-financial risks. Therefore EC is responsible to monitor, on a regular basis, compliance with

risk tolerance levels and risk management policies and procedures, assessing their effectiveness and continuous adequacy to Banco Finantia activity, in order to enable the detection and correction of any shortcomings as well as to ensure that the decision-making process reflect the risk appetite objectives outlined by the BoD for the Group.

The BoD distributed the responsibility for certain areas among the EC members, in order to ensure a closer and immediate monitoring of the activity in the areas in question, and delegated direct responsibility for the portfolios assigned to each EC member.

The Audit Committee (“CAud”) is the Bank’s supervisory body, which supervises the effectiveness of the risk management and internal control system, and is responsible for, without prejudice to the other powers conferred upon it by law or by the statute, exercise a supervisory role and continuous evaluation.

The management and supervisory bodies receive regular information on the risks to which the institution’s activity is subject, as well as on the methodologies used in their mediation and control.

The Bank has an independent Risk Management Function, supported by the Risk Department, whose functions and hierarchical and functional reporting lines are formalized, thus ensuring that the function has adequate authority, independence and status.

The Risk Management function is central and independent and is embodied in the Risk Department, which is responsible for managing, analysing and controlling all the Group’s risks. In this context, the Risk Department: (i) ensures the effective application of the risk management model, through continuous monitoring of its suitability and effectiveness, as well as the adoption of measures to correct any deficiencies; (ii) advises the management and supervisory bodies; (iii) carries out work on preparing and updating risk matrices and risk assessment; (iv) prepares and presents periodic reports related to risk management; (v) actively participates in activity and capital planning; (vi) performs stress tests; (vii) prepares the ICAAP; (viii) coordinates the execution of the ILAAP; (ix) conducts, through the involvement of its independent validation unit, the independent review of ICAAP and ILAAP methodologies and results; (ix) actively participates in the preparation of the RAF; and (x) monitors and controls the risks associated with ICT and information security; (xi) promotes the integration of risk management principles into the daily activities of Banco Finantia.

The Bank recognizes that the definition and assessment of adequate capital levels to support the risk profile, as well as the appropriate controls, are essential elements for the implementation of a sustainable business strategy. The planning of the evolution and behaviour of internal capital is crucial to ensure its continued adequacy for the risk profile, strategic objectives and business objectives.

The Bank’s risk management model is based on an integrated set of processes, duly planned, reviewed and documented, aimed at ensuring an appropriate understanding of the nature and magnitude of the risks underlying its activity, enabling an adequate implementation of the respective strategy and compliance with the objectives.

This model is based on processes of identification, assessment, monitoring and control of all the risks subjacent to the Bank’s activity, which are supported by appropriate and clearly defined policies and procedures to ensure that the established objectives are achieved and that the necessary measures are taken to adequately respond to previously identified risks. In this manner, the risk management model covers all products, activities, processes and systems,

considering all the risks underlying its activity and taking into account its size and complexity, as well as the nature and magnitude of the risks.

The Group's risk management model respects the principles recognized and accepted at international and national level and are in line with Notice 3/2020 and with the Instruction 18/2020 of the Banco de Portugal as well as with the "Guidelines on Internal Governance under Directive 2013/36/EU" (EBA/GL/2021/05) issued by the European Banking Authority (EBA).

Risk management is an integral part of the decision-making process of the Bank's Board of Directors and Executive Committee. In short, the risk management system ensures:

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

### **Risk profile**

The risk profile of the Group is determined through the analysis of the adherence of the risk matrices to the Group's reality and the subsequent listing and description of the risks to which it is exposed, taking into account the applicable legislation on the risk management system and the activity developed by the Group.

For such, the Group considers in its internal evaluation the following risk categories: a) financial risks - credit, market, interest rate and credit spread of the banking book, foreign exchange rate, market risk in trading book, liquidity; and b) the non-financial risks - business model/strategy, internal government, operational, and other risks including compliance subcategories, which includes compliance risk and the money-laundering and terrorism financing risk and reputational.

The evolution of the Group's risk profile is monitored through a number of indicators, in particular those established under the RAF, making it possible to guarantee that decisions that may affect the Group's risk exposure do not exceed the institution's risk appetite levels.

All risk categories contributing to the Group's risk profile are analysed, discussed and monitored monthly by Executive Committee from the perspective of the exposure levels (and possible measures to increase effectiveness and risk mitigation), ICAAP, ILAAP and RAF, which are reported to the BoD.

### **Credit risk**

Credit risk derives from the possibility that a counterparty defaults or the credit quality of a given financial instrument degrades. The Group's objective is to maintain a high-quality asset portfolio, based on a prudent credit policy. The Group is also constantly concerned to diversify its own portfolio, as a way to mitigate the credit concentration risk.

The Group developed an expected credit loss model (ECL), in accordance with IFRS 9 requirements, where 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.

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

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

- 1) Stage 1: where the ECL is recognized for 12 months;
- 2) Stage 2: where the ECL is recognized over the lifetime of the assets; and
- 3) Stage 3: where ECL is recognized over the lifetime of the asset, with its respective PD being 100%.

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

### **Market risk in trading book**

Market risk consists of the probability of negative impacts on results or capital due to unfavourable movements in the market price of the trading book instruments.

The Group adopted the strategy of managing the market risk associated with its trading book (fixed income) in a conservative manner, through the definition of prudent exposure limits and holding periods, as well as through its the daily monitoring.

### **Interest Rate Risk and Credit Spread Risk in the banking book – IRRBB&CSRBB**

The risk of occurring unfavourable variations in the value of the instruments which form the banking book presents two aspects or subcategories:

- > the interest rate risk in the banking book (IRRBB), derives from the probability of the occurrence of negative impacts caused by unfavourable changes in the interest rates; and
- > the credit spread risk in the banking book (CSRBB), resulting from the probability of the occurrence of negative impacts caused by unfavourable changes in the credit spread that are not explained either by the IRRBB or by default risk.

### Interest Rate Risk in the banking book

Interest rate risk – Interest Rate Risk in the Banking Book (IRRBB) – derives from the probability of negative impacts caused by unfavourable changes in interest rates as a result of maturity mismatches between assets and liabilities.

The Group adopted the strategy of minimizing the interest rate risk associated with its fixed-rate assets through the use of hedging instruments of this type of risk (usually IRS – Interest Rate Swaps), thereby maintaining a balanced structure between assets and liabilities in terms of fixed-rate mismatch.

The Group monitors the distribution of its fixed-rate assets over time intervals, net of the corresponding fixed-rate liabilities and 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 99% confidence interval. This model is validated with back tests.

Within the scope of ICAAP, the Group has been applying the VaR methodology for the allocation of economic capital to interest rate risk. The economic capital requirements for this risk are calculated through the historical simulation, based on a ten-year historical rate, a one-year holding period and a 99.9% confidence interval.

### Credit spread risk in the banking book

Credit Spread Risk in the Banking Book (CSRBB) - refers to the risk arising from changes in the price of a financial asset subject to credit risk that are not explained either by the IRRBB or by the default risk / jump to default risk.

The adoption of control measures through the monitoring of securities spreads, the monitoring of fair value reserves, and the analysis of historical price series together with the monitoring of the limit for economic capital for CSRBB within the scope of the RAF, allows a timely management of this risk, reducing its impact on the Group's risk profile.

Within the scope of ICAAP, the Group has been applying the VaR methodology for allocating economic capital to the CSRBB. The economic capital requirements for this risk are calculated through historical simulation, net of classic credit risk, based on a ten-year history of rates, a one-year holding period and a 99.9% confidence interval.

## **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 changes in the price of foreign currency instruments.

It is the Group's policy to operate only with assets and liabilities denominated in EUR or USD (positions in other currencies are sporadic and insignificant).

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

Within the scope of ICAAP, the Group has been applying the VaR methodology for the allocation of economic capital to foreign exchange rate risk. The economic capital requirements for this risk are calculated through the historical simulation, based on a ten-year historical rate, a one-year holding period and a 99.9% confidence interval.

### **Liquidity Risk**

Liquidity risk is defined as the possibility of a financial institution defaulting on its maturity dates due to its inability to liquidate assets, obtain financing or refinance liabilities on a timely basis.

In liquidity risk management, and in the scope of the Internal Liquidity Adequacy Assessment Process (ILAAP) the Group aims to ensure a stable and robust liquidity position, through the holding of liquid assets, the control of liquidity gaps and the monitoring of a liquidity buffer, which allow to balance contractual financial outflows in stress situations.

Liquidity risk management is carried out in a way to keep all liquidity levels within the pre-established limits, in accordance with two main parameters: (i) cash flow management, through the daily calculation of financial flows and treasury balances over an extensive time horizon, allowing for the maintenance of a positive cash balance over normal and stress temporal horizons and (ii) inventory management, with the daily calculation of liquidity metrics in order to ensure their maintenance within the pre-established limits determined by the Group.

The Treasury Department monitors the Group's liquidity risk on a daily basis in the two aforementioned aspects. The Risk Department is responsible for the periodic analysis of the Group's liquidity risk management, preparing a monthly report entitled "Finance and Risk Report" to the Executive Committee.

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

### **Non-financial Risks**

Non-financial risks include business model/strategy risks, internal governance risks, operational risks (including ICT risks) and other risks (reputational risk, compliance risk, money laundering and terrorist financing risk and ESG risk). These risks consist of the likelihood of negative impacts on results or capital, essentially arising from: (i) for business model/strategy risk, from inadequate strategic plans and decisions, (ii) for internal governance risk, from mismatches and deficiencies in the internal governance system, the organisational structure and the corresponding delimitation of responsibilities; and (iii) for operational risk, from failures of an operational nature, the inadequacy of information and technology systems, or the insufficiency of models; (iv) for reputational risk, from the negative perception of the institution's public image, (v) for compliance risk; (vi) for money laundering and terrorist financing risk from non-compliance with applicable

legislation and regulations, and (vii) for ESG risk arising from environmental, social and/or governance factors.

The management of financial and non-financial risks has been gaining increasing relevance in the Group. In this context, advanced tools and methods have been developed, 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 spider-charts, with inputs derived from an extensive and comprehensive process of self-assessment. This process serves as a basis for the definition of action plans for financial and non-financial risks.

In addition to the maintenance of risk matrices, the Group maintains an organized process of collecting and performance on the various categories of financial and non-financial risks, as well as recording the resulting in a database of operational and reputational risk events. This database includes, amongst others, records of the (i) events, (ii) possible associated losses, and (iii) corrective and/or mitigating measures implemented. It is also important to mention that the Group maintains a Central Database of Deficiencies and Defaults (managed through the i-Flow application) which provides valuable insights in monitoring action plans from a Risk Management perspective within the scope of management of financial and non-financial risks.

In the scope of ICAAP to quantify economic capital requirements to address financial and non-financial risks, the Group has been using the Basic Indicator Approach (BIA) methodology.

During 2023, various training programmes were carried out in the area of non-financial risks, with special emphasis on specific training on Prevention of Money Laundering, Information Security and Climate and Environmental Risks, among others. In 2024, the Bank will continue to prioritise training as a way of helping to mitigate non-financial risks, with particular emphasis on climate risks (ESG), digital transformation and cybersecurity.

Climate and environmental risks are becoming increasingly important for banking activity. Given their distinct characteristics compared to the traditional risk factors to which the banking system is exposed, and due to the uncertainty and time horizon in which they can materialise, these risks require special attention from the banking system. To this end, in 2023 the implementation of the sustainability action plan continued, drawn up with the support of a specialised consultant, with a view to incorporating the ESG risk component into the Bank, an aspect that will be given special attention in 2024 and beyond.

## **ESG Risk**

Climate change and environmental degradation are a global concern that is reflected in several initiatives in different areas. The Paris Agreement, signed in 2015, or the Intergovernmental Panel on Climate Change (IPCC) are examples of these initiatives, which reflect on the need to take measures to keep global warming well below 2°C compared to pre-industrial levels. Achieving these goals implies considerable reductions in greenhouse gas emissions over the coming decades.

The implementation of the necessary measures to move towards a low-carbon and environmentally friendly economy, as well as the physical risks arising from climate change and environmental events, are generating risk factors that have drawn the attention of regulators and central banks. As a result, the analysis of financial risks associated with climate change and environmental deterioration is to be incorporated into the agendas of the various players in the financial system.

The Group follows an integrated ESG risk management policy, which aims to guarantee the financial soundness and sustainability of the institution, contributing to the realisation of strategic objectives.

In this way, the Sustainability Policy establishes the general principles for action in incorporating ESG considerations. Within the scope of ESG risks, the Group considers, in particular, climate and environmental factors, which result in the two main strands of risk, namely physical risks and transition risks: (i) Physical risks arise from the physical effects (acute or chronic) of climate change and environmental degradation and (ii) Transition risks refer to the financial losses that an entity may suffer, directly or indirectly, due to the process of adapting to a lower carbon and more environmentally sustainable economy.

In this context, Banco Finantia is implementing the sustainability action plan defined following a gap analysis in order to fulfil supervisory expectations and regulatory requirements in terms of integrating and managing climate and environmental risks in the Group.

The sustainability action plan has a comprehensive vision in four areas: strategy, governance, risk management and disclosure, and maintains a holistic view of the Group's structure and activity. Implementing the action plan involves progressively meeting a series of targets, and in 2023 the ESG integration principle and indicators for monitoring this risk were introduced into the RAF.

Based on a segmentation exercise by NACE sector of the issuer of the Bank's securities portfolio, the level of exposure of the Bank to sectors vulnerable to climate change was identified.

For the definition of a vulnerable sector, the classification made by the European Central Bank in its methodology for climate stress tests was considered, either because of its high level of emissions or because it is subject to technological changes or changes in consumer and investor preferences, are considered the sectors most exposed to transition risks.

Banco Finantia, like the rest of the European banking sector, maintains its commitment to the climate and the environment, and to managing the risks arising from them, and will continue to work on providing quality data and developing more robust methodologies for identifying, managing and controlling these risks. ESG risk is monitored on a monthly basis by the Executive Committee and to monitor ESG risks in terms of climate transition.

## **Stress Test**

The Group performs stress tests under the ICAAP, ILAAP and Recovery Plan.

Under ICAAP, sensitivity stress tests are performed for all material risks to which the Group is exposed. These analyses make it possible to assess possible capital shortfalls in periods of stress resulting from sharp variations in risk factors such as the credit risk profile, interest rates, credit spreads, exchange rates, market volatility and internal or external events with a reputational impact or on the Group's normal business activity. In addition to sensitivity tests, adverse scenario analyses are also performed, including reverse stress tests, and the Group's situation is assessed from both a regulatory and an economic perspective. The results of the stress tests demonstrate the adequacy of the Group's internal capital levels in adverse periods.



As part of the Group's Recovery Plan, several scenarios are prepared with the aim of defining a set of hypothetical events to test the effectiveness of recovery measures. In this way, impacts arising from adverse scenarios are analyzed and measured, namely a systemic scenario, an idiosyncratic scenario and a combined scenario. This analysis results in a set of recovery measures to be implemented in order to ensure the preservation and solidity of the Group's levels of capital, liquidity, profitability and operating activities in contingency or financial crisis situations.

The relevance of the results of the stress tests lies in the fact that they enable a duly substantiated conclusion to be reached as to the extent of the impacts of adverse market conditions and make it possible to anticipate any vulnerabilities of the Group. The results of the stress tests incorporate all the material risks inherent in the Group's business model and activities in the context of macroeconomic and financial stress, as well as depending on the Group's individual circumstances. The stress tests and scenarios are analyzed by the Group's management, and the conclusions are incorporated into strategic decision-making processes, namely in determining levels of solvency, liquidity and exposure to specific risks.

## **2.4 Structure and organization of the relevant risk management unit**

The Board of Directors is responsible to ensure that the internal control framework is based on a risk management approach which allows to identify, assess, follow and monitor all risk and to implement a Risk management function, in accordance with Notice 3/2020 of the Banco de Portugal and the EBA "Guidelines on Internal Governance" (EBA/GL/2021/15).

The Group's risk management is under the responsibility of the Risk Department, that is responsible for:

- > Assisting the Board of Directors, the Audit Committee and the Executive Committee in establishing strategies, developing and submit to their approval, policies and procedures to attain and keep the pretended risk profile;
- > Drafting, review and monitor the RAF, with the aim to ensure that Group's risk profile is aligned with its objectives and submit proposals for amendment thereof, which shall be subject to prior opinion by the Audit Committee, and approval by the Board of Directors;
- > Develop, implement and monitor internal self-assessment processes for the adequacy of the capital and liquidity levels (ICAAP and ILAAP), in order to ensure that the Group has adequate capital and liquidity for its risk profile;
- > Defining and implement risk management policies and procedures, in accordance with the business strategy, the risk management culture and the RAF, as well as the regulations in force, promoting the integration of risk principles in the Group's daily activities and ensuring that there is no significant aspect of the business not included in the risk management framework
- > Ensuring the effective application and review of the risk management system, namely through the definition and implementation of processes for the identification, assessment, monitoring and control of all existing and emerging financial and non-financial risks;
- > Systematically revisit exposures and the risk profile, in order to ensure that the risk levels assumed comply with the established objectives and limits;

- > Carrying out the function independently from the departments it monitors and/or controls, having direct access to the Board of Directors, the Audit Committee and the Executive Committee, being able, on its own initiative, to transmit any information or send directly, to the Audit Committee, any document that it deems relevant, without the need for a request or prior communication to the Board of Directors;
- > Defining the criteria and methodologies for assessing and quantifying the risks to which the Group is exposed;
- > Preparing monthly information for the Executive Committee, namely the Finance and Risk Report, which is subsequently submitted to the Board of Directors;
- > Carrying out the appropriate continuous monitoring of situations identified with regard to corrective and prospective measures, and opportunities for improvement in the risk management scope to ensure that the necessary corrective measures are taken and that same are properly managed;
- > Ensuring the monitoring and control of risks associated with ICT and information security;
- > Promoting the integration of the risk principles into the institution's daily activities, ensuring that there are no significant business aspects not included in the risk management framework; and
- > Actively participating in the definition and review of the institution's strategic management of capital and liquidity.

The head of the risk management function reports functionally to the Board of Directors and to the Audit Committee. The functional reporting comprises a set of interactions that provide management and supervisory bodies with an adequate knowledge, and allow for the monitoring and evaluation of the risk management function's activity, as well as ensuring that the risk management function has direct and unconditional access to those bodies and that the function has the conditions and resources necessary to act independently, in order to have a holistic view of all risk categories to which the Group is, or may become, exposed.

Complementing the functional reporting, the risk management function reports hierarchically to a director with executive functions which aims at a more immediate monitoring of the daily functioning and current activity of the risk management function, and should not focus on any of the aspects included in the functional report. Hierarchical reporting also comprises the assistance and support to the risk management function, when necessary, in order to ensure the cooperation of the operational areas in a timely consideration of the reports issued and implementation of recommendations within the scope of the work of the respective functions.

The Group confers on the head of the risk management function the necessary powers to perform the functions independently, granting access to the relevant information. The risk management function is independent of the other functional areas of Banco Finantia subject to assessment, namely of the commercial areas, thereby granting it the conditions to perform its competencies in an objective and autonomous manner. In addition, at the level of the remuneration policy of its employees, the Group has implemented some specificities applicable to employees exercising internal control functions, designated Key Function Holders. The determination of the remuneration of these employees, which includes the head of the risk management function, is subject to certain rules and control procedures that aim to guarantee the performance of their duties in an objective manner and to safeguard its effective independence.

The interaction process of the risk management function with the other structure units is of fundamental importance to the execution of its activities and attributions in the scope of risk management and internal control (in the latter case, the interaction with the Internal Audit

Function, Compliance Function and the AML Function). In addition, the risk management function participates in periodic meetings, in which the heads and representatives of the various Group areas participate, thereby enhancing the interaction between the risk management function and the other structure units.

It is the responsibility of the Risk Department to control the limits and tolerances defined in the Group's RAF, approved by the Board of Directors. It is also responsible for drawing up proposals for changes to limits and tolerances, supervising the quality of the calculation of the metrics in light of the parameters provided to the Risk Department by the other structure units, monitoring the evolution of the Bank's risk profile through the RAF metrics and for providing timely advice to the management and supervisory bodies about possible deviations in the adequacy of the risk assumed by the institution in light of its risk appetite.

The purpose of the RAF is to determine risk appetite and it is an integral part of the Group's strategic planning process, thus evidencing the link between the strategy and the risk appetite. It provides a common structure regarding the activity of the entire Group for the communication to, and the understanding and evaluation by top management and by the management and supervisory bodies of the types of risks and of the respective levels to be assumed, explicitly defining the limits and tolerances within which the management of the business must operate. The RAF constitutes a holistic approach that includes policies, controls and systems through which the risk appetite is established, communicated and monitored. In this manner, in addition to defining limits and tolerances to risk, the RAF clarifies the actions to be taken in the event of those being exceeded and establishes the responsibilities and the roles of those responsible for the implementation and maintenance of same.

The risk indicator control schedule (dashboard) established by the RAF is updated on a monthly basis and is included in the Finance and Risk Report, which is submitted monthly to the Executive Committee and the Board of Directors of Banco Finantia, which include the members of the Audit Committee, for analysis and follow-up. The RAF dashboard presents several risk metrics to which the institution is exposed, as well as their respective limits and tolerances. These metrics are aggregated into groups, including solvency, liquidity, profitability, credit risk, credit spread and interest rate risk and foreign currency risk and non-financial risks.

## **2.5 Scope and nature of the reporting and risk measurement systems**

The risk measurement and reporting systems in the Group are supported by information universes that are an integral part of the Group's information management system. These information universes are centralized in the Group's information management tool, Business Objects, where all the information is constantly updated, historically maintained and available to the end user.

The two major information universes are BFM (Bank Fusion Midas) and MIS. The former serves the accounting purpose, whilst the latter collects and processes the information resulting from the normal operations of the Group's activity. These operations are recorded by the Front-Office, Middle-Office and Operations' teams through the TOMS (Bloomberg), Kondor+ (Thomson Reuters) and BFM interfaces.

## 2.6 Risk coverage and mitigation policies

The Group's risk management system, including the hedging and risk mitigation policies and the strategies and processes to control their effectiveness, aims to ensure that the risks to which the Group is exposed remain at the level defined by the management body and do not significantly affect the Group's financial position, thereby enabling the proper implementation of the strategy, the meeting of the objectives and the taking of the necessary actions to respond to the risks.

Hence, within the scope of the risk management system, the Group acts to ensure, on a timely basis, the prevention of undesired or unauthorized situations and the detection of these situations should they occur, so that the immediate adoption of corrective risk mitigation measures is possible. In this context, the Group established its RAF, whereby it defined the overall and specific objectives with regard to the risk profile and the degree of risk tolerance, as well as the escalation process in the event limits or tolerances are exceeded.

Coverage and risk mitigation policies and strategies and the processes to control their effectiveness are continuously monitored, both by the Risk Department in the scope of the regular exercise of its functions, or monthly by the Executive Committee, covering all the categories of risk to which the Group is exposed.

### **Credit risk**

The Group seeks to minimize credit risk through a careful analysis, applying strict standards of credit analysis to its debtors and counterparties, as well as a systematic monitoring of the economic environment and other aspects that may contribute to the deterioration of the quality of the credit granted.

In addition, the Group seeks to mitigate credit risk through the diversification of the loan portfolio - by geographical area, counterparties, sectors of activity, entity types and instrument types. Credit Risk Management policies and procedures are subject to periodic review, being ratified by the competent body.

Exposure to credit risk is only possible after a credit limit is assigned to the risk entity. It is the responsibility of the Credit Department to analyse and prepare its opinion, proposing a limit, which is then approved according to the procedures formalized in the institution.

Compliance with these limits is monitored daily by the Risk Department, that is also responsible for monitoring the geographical concentration by country and region. The Executive Committee monitors monthly compliance with the limits and with the composition of the portfolio.

Being the main risk to which the Group is exposed, specific indicators were set up in the scope of the RAF to monitor it against the respective limits and tolerances approved by the Board of Directors. Thus, from the RAF dashboard, on a monthly basis, the Executive Committee monitors several metrics related to credit risk, namely impaired assets, non-performing exposures (NPE) and concentration risk, amongst others that are reported to the Board of Directors in line with the risk management function.

### **Market risk in trading book**

Although the trading book is of minor importance, the Group has a market risk mitigation policy, based on several measures to mitigate this risk in order to reduce the potential for negative impact from a residual risk perspective, in particular the definition of aggregate exposure limits and holding periods.

### **Market risk in banking book**

The risk of occurrence of unfavorable variations in the value of the instruments that make up the banking book has two aspects or subcategories: interest rate risk in the banking book (IRRBB) and credit spread risk in the banking book (CSRBB).

#### *Interest rate risk in banking book*

Interest rate risk coverage is ensured through the contracting of interest rate derivative financial instruments, which allow for the matching of maturities and average refixing periods of the rates of these assets with those resulting from the liabilities.

The systematic monitoring of the distribution of assets and liabilities is carried out in accordance with their rate refixing periods, proceeding regularly to the hedging of risks in case they come close to the limits defined by the Board of Directors and formalized within the scope of the RAF, through the use of appropriate instruments (currently interest rate swaps).

The interest rate risk metric subject to the limit mentioned in the RAF is based on the calculation of the impact on the consolidated net equity, measured as a percentage of own funds, of the variation of 200 basis points in the yield curves in EUR and USD, considering the temporal bands in Instruction 03/2020 of the Banco de Portugal.

Concerning interest rate risk, an analysis is also carried out of the interest rate mismatch (gap analysis), a methodology used to measure the risk resulting from the temporal mismatch of the maturities of the fixed-rate assets, liabilities and off-balance-sheet instruments of the Group, distributed by time buckets. This analysis is carried out monthly by the Risk Department and monitored monthly in the Executive Committee.

Hedge effectiveness is the extent to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or in the cash flows of the hedging instrument. The effectiveness of the interest rate risk hedging strategies is assessed monthly in the Executive Committee.

#### *Credit spread risk in the banking book*

Credit Spread Risk in the Banking Book (CSRBB) mitigation is ensured by monitoring the structure of the banking portfolio, by balancing investment grade (IG) exposures and non-investment grade (HY) exposures. This diversification in terms of credit quality is complemented by diversification in the sectors of economic activity, in countries, and also by geographic regions, which allow occasional increases in the CSRBB in part of the portfolio will not lead to the spread of other duly diversified parts.

The adoption of control measures through the monitoring of securities spreads, the monitoring of fair value reserves, and the analysis of historical price series together with the monitoring of the limit for economic capital for CSRBB within the scope of the RAF, allows for control the low level of these risks, making its impact in line with the Group's risk profile.

The Executive Committee assess the effectiveness of the credit spread risk reduction strategies monthly.

### **Foreign Exchange Rate Risk**

The foreign exchange rate position is systematically monitored, with the foreign exchange rate risk being regularly hedged if it comes close to the limits defined by the Board of Directors and formalized in the scope of the RAF, through the use of appropriate instruments (e.g. spots, forwards, swaps).

For foreign exchange rate risk, the Risk Department calculates the foreign exchange position daily, both from a regulatory and accounting perspective. All analyses produced are sent to relevant recipients including two directors with executive roles. The information prepared for the monthly meeting of the Executive Committee, in addition to the RAF dashboard, includes a specific schedule dedicated to the foreign exchange rate position.

### **Liquidity risk**

In the scope of defining its liquidity management policies, the Group adopts conservative rules, in order to be able to sustain the normal development of its activities, minimizing liquidity risk. The liquidity risk management in the Group is carried out in a global and centralized manner, in line with the ILAAP, being the responsibility of the Treasury Department, with the second line of defence control being exercised by the Risk Department, and with monthly monitoring by the Executive Committee.

Being a critical risk for the Group, specific indicators for its monitoring were defined in the RAF together with the respective limits and tolerances approved by the Board of Directors. Thus, from the RAF dashboard, on a monthly basis, the Executive Committee monitors a number of liquidity risk metrics, both in terms of immediate liquidity, as well as of the concentration and stability of financing sources, amongst others.

In addition, the Executive Committee monitors, monthly, several other liquidity metrics, safeguarding the continued and constant compliance with the Group's internal liquidity policies.

### **Non-financial Risks**

The non-financial risks of the Group are essentially associated with operational failures, inadequacy of information and technology systems, conduct errors, model weaknesses (operational risk), regulatory non-compliance (compliance risk), inadequate definition or implementation of strategic decisions (business model/strategy risk) and negative perception of its public image (reputation risk), and inadequate organizational structure and internal governance (risk of internal governance) that may surge as a result of the development of its activity.

Non-financial risks are continuously monitored and controlled, with various mitigation measures being adopted in order to reduce the potential negative impact of these risks from a residual risk perspective.

To monitor operational risk and reputational risk, there are established mechanisms for regular communication on operational risk events associated with operational, information systems, conduct and model risks, and on reputational risk events resulting from a negative perception of public image. The event communications include a description of the event as well as its classification into three grades (high, medium and low).

These mechanisms aim to minimize operational risk and reputational events and related losses, allowing for a close follow-up of these events and a fast acting on their resolution and the introduction of risk mitigation measures to avoid future occurrences of the same events and potential associated losses.

Additionally, it is intended to monitor the net losses associated with operational risk events through the definition of limits and tolerances for this metric in the RAF, permitting, in this manner, to mitigate the Group's operational risk. The RAF dashboard is reported monthly to the Executive Committee.

The Group objective is the minimization of non-compliance breaches and related losses, complying with laws, regulations and guidelines relevant to its nature and business activity, bearing in mind that risk mitigation measures and controls must be adequate to the inherent level of compliance risk subjacent to the activities of the Group. The Group maintains a close track on its internal policies and is focused in strengthening the effectiveness of controls in order to avoid compliance breaches. The Group maintains an updated compliance risk database which includes the registry of compliance tables, eventual breaches, and time of resolution and implementation of mitigation measures.

In addition, there are complementary risk mitigation measures, in order to strengthen the compliance risk monitoring process.

In addition to the above monitoring, it is intended to add monitoring under the RAF of the seven metrics relating to Compliance/AML Risk, which cover sanctioned Compliance/AML irregularities and unresolved Compliance/AML deficiencies that exceeded the stipulated resolution deadline. By defining limits and tolerances for these metrics within the RAF, the Group's compliance/AML risk is mitigated. The RAF dashboard is reported to the Executive Committee on a monthly basis.

To monitor business model/strategy risk, there are established mechanisms, described below, with the objective of mitigating the risk of exposure to the risk of inadequate definition or implementation of strategic decisions. To this end, the Group, on the one hand, monitors the evolution of the commercial activities developed and the main indicators, based on the strategic plan "Strategic Planning " and the resulting business plan, and, on the other hand, identifies aspects that may cause adverse impacts on said activities, and which call for the adoption of adequate measures. These indicators include, amongst others, the loan portfolio, the funding, the capital and the net interest income margin, in respect of which the Group is focused on sustainable growth, and the shareholder structure, in respect of which the Group is focused on stability. The evolution of these indicators is monitored through the analysis of the management accounts as well as of the regular schedules that are reported monthly to the Executive Committee. Possible strategy risk events are reported to the Executive Committee on a monthly basis.

Additionally, it is intended to monitor the profitability of the Group's assets through the definition of limits and tolerances for this metric in the RAF, allowing, in this manner, for the mitigation of the Group's strategy risk. The RAF dashboard is reported monthly to the Executive Committee.

To monitor reputation risk, there are established mechanisms, described below, with the objective of mitigating the risk of a negative perception of the Group's public image. To this end, the Group monitors the evolution of that image, as well as the evolution of the assessment of any vulnerabilities that may negatively affect same, and which call for the adoption of adequate measures. In particular, press releases and public opinion, in general, cyber-attack attempts/occurrences and complaints from customers and counterparts. Possible reputation risk events are reported to the Executive Committee on a monthly basis, which is complemented by the non-financial risks report.

Additionally, it is intended to monitor the variation of customer deposits through the definition of limits and tolerances for this metric in the RAF, allowing, in this manner, for the mitigation of the Group's reputation risk. The RAF dashboard is reported monthly to the Executive Committee.

With regard to internal governance risk mitigation, it is important to mention that the Group has internal control functions with statute, authority and independence in the organizational structure. It has a risk management system that makes it possible to identify, assess, monitor and control risks that may affect the objectives and defined strategy, and which also allows decision-making to respond to deviations or unexpected events. There is a set of reports that ensure the communication of information on risk management and internal control matters to the management and supervisory bodies. Risk, internal control and compliance policies are reviewed at adequate intervals and communicated to all employees.

With regard to ESG risk, the Bank has adopted a set of metrics to monitor this risk.



## 2.7 Information on the governance model

The information required by paragraph a) of no. 2, article 435 of Regulation (EU) 575/2013, is indicated in the following table.

Number of positions held by members of the management body of Banco Finantia as at 31 December 2023:

Members of the Board of Directors	Group Companies	Companies outside the Group
António Manuel da Silva Vila Cova	-	2
Marta Eirea Álvarez	1	1
David Paulino Guerreiro	2	-
Raul Manuel Nunes da Costa Simões Marques	-	1
Ricardo da Mota Borges Caldeira	1	-
Sandra Paulino Guerreiro Matos Chaves	1	-
Manuel Luís Barata de Faria Blanc	-	2
Alzira da Encarnação das Neves Cabrita	-	-
Jaime de Macedo Santos Bastos	-	1

As regards the disclosure of the information referred to in paragraph b) and c) of no. 2 of article 435 of Regulation (EU) 575/2013, Banco Finantia has a "Policy for the Selection and Adequacy Assessment of Suitability and Succession of Members of the Management Body, of the Supervisory Body and of Key Function Holders", (hereinafter 'Selection, Assessment of Suitability and Succession Policy' for short). The document can be consulted at: <https://www.finantia.pt/pt/outra-informacao-obrigatoria>).

The Selection, Assessment of Suitability and Succession Policy approved by Banco Finantia's General Meeting aims to ensure that the members of the management and supervisory bodies have, at all times, the necessary requirements to carry out their duties, identifying the profiles corresponding to the duties to be performed by the members of the management and supervisory bodies.

In particular, and in the light of the specific duties to be performed, the following are assessed in the context of the respective selection process: their past practical experience, their technical competences and their interpersonal skills. The provisions of the 2EBA Guidelines on assessing the suitability of members of the management body and key function holders" (EBA/GL/2021/06) and the 'Internal Governance Guidelines' (EBA/GL/2021/05) must be observed.

In addition to the individual assessment of each member of the management and supervisory bodies, an assessment is made of the collective suitability of the body as a whole, with a view to verifying that the body itself collectively has the qualifications and professional experience in the

relevant areas, the appropriate independence and sufficient availability to fulfil its legal and statutory duties.

With regard to the policy of diversity of the members of the governing bodies, the “Selection, Assessment of Suitability and Succession Policy” emphasizes the importance of promoting diversity in the composition of the management and supervisory bodies and states that – “diversity in the composition of the Governing Bodies should be promoted, namely diversity of gender and professional skills and generational diversity, in order to improve the performance of the respective body and to ensure greater balance in its composition (chapter ‘5.1.3.’).

The “Selection, Assessment of Suitability and Succession Policy” states that “the Bank establishes the objective of ensuring that each of the Governing Bodies maintains at least 20% of the sub-genre represented”. As of the start of the current term of office to 31 December 2023, this objective had been achieved at both the management body and the supervisory body.

Regarding paragraph d) of no. 2 of article 435, it is incumbent upon the Audit Committee of Banco Finantia, under the terms and for the purposes of article 115-L of the General Regime for Credit Institutions and Financial Companies (“RGICSF”) and as provided for in the Regulation of the said body, to carry out the functions inherent to a risk committee, its constitution is not obligatory under the foreseen terms..

Banco Finantia, as the parent company, monitors the evolution of the risk profile and control through the reports and the respective implications for the Group, and is responsible for establishing and monitoring the Risk Management Model of the Group.

Ultimate responsibility for the strategies and policies relating to the Group’s risk assumption, management, and control rest with the Board of Directors of Banco Finantia.

### 3. Own Funds (article 437)

Own funds are calculated in accordance with the prudential framework established by Regulation (EU) No. 575/2013 (CRR) and Directive 2013/36/EU (CRD IV), both issued by the European Parliament and Council, on 26 June 2013 ("Basel III").

#### 3.1 Reconciliation of the own funds elements

As of 31 December 2023, own funds are as follows:

thousand euros

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
1	Capital instruments and the related share premium accounts	162.849	a) more b)
	of which: Instrument type 1	Ações ordinárias	
2	Retained earnings	-1.758	e)
3	Accumulated other comprehensive income (and other reserves)	277.467	d) more f)
EU-3a	Funds for general banking risk	0	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	0	
5	Minority interests (amount allowed in consolidated CET1)	0	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	g) Deducted from the dividend to be distributed
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>438.558</b>	

Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Ajustamentos de valor adicionais (valor negativo)	-1.270	
8	Ativos intangíveis (líquidos do passivo por impostos correspondente) (valor negativo)	-566	h)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-3.677	i)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	0	
12	Negative amounts resulting from the calculation of expected loss amounts	0	
13	Any increase in equity that results from securitised assets (negative amount)	0	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	
15	Defined-benefit pension fund assets (negative amount)	0	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	0	c)
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
20	Not applicable		

EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	0	
EU-20c	of which: securitisation positions (negative amount)	0	
EU-20d	of which: free deliveries (negative amount)	0	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	0	
22	Amount exceeding the 17,65% threshold (negative amount)	0	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	
25	of which: deferred tax assets arising from temporary differences	0	
EU-25a	Losses for the current financial year (negative amount)	-1.648	g) dividend
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	0	
26	Not applicable		
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	0	
27a	Other regulatory adjustments	-498	
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-7.659</b>	
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>430.899</b>	

Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts		0
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1		0
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1		
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1		
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		0
35	of which: instruments issued by subsidiaries subject to phase out		0
<b>36</b>	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>		<b>0</b>

Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)		0
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		0
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		0
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		0
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)		0
42a	Other regulatory adjustments to AT1 capital		0
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>		<b>0</b>
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>		<b>0</b>
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>		<b>430.899</b>

Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts		0
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR		0
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2		0
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2		0
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		0
49	of which: instruments issued by subsidiaries subject to phase out		0
50	Credit risk adjustments		0
<b>51</b>	<b>Tier 2 (T2) capital before regulatory adjustments</b>		<b>0</b>

Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	0	
EU-56b	Other regulatory adjustments to T2 capital	0	
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	<b>0</b>	
58	<b>Tier 2 (T2) capital</b>	<b>0</b>	
59	<b>Total capital (TC = T1 + T2)</b>	<b>430.899</b>	
60	<b>Total Risk exposure amount</b>	<b>1.749.939</b>	

Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital	24,6%	
62	Tier 1 capital	24,6%	
63	Total capital	24,6%	
64	Institution CET1 overall capital requirements	9,6%	
65	of which: capital conservation buffer requirement	2,5%	
66	of which: countercyclical capital buffer requirement	0,0%	
67	of which: systemic risk buffer requirement	0,0%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0,0%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	2,5%	
68	<b>Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements</b>	<b>9,0%</b>	

Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	6.591	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	0	
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	23.926	

Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	20.303	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0	

Model CC1 of Implementing Regulation (EU) 2021/637 of 15 March 2021

The reconciliation of regulatory own funds to the balance sheet in the audited financial statements as at 31 December 2023 is presented as follows:

thousand euros

	Balance (1)	Reference	
	As at period end		
<b>Assets - Breakdown by asset classes according to the balance sheet in the published financial statements</b>			
1	Cash and deposits with central banks and other demand deposits	54.816	
2	Financial assets at fair value through profit or loss	26.368	
3	Financial assets at fair value through other comprehensive income	1.134.991	
4	Financial assets mandatorily at fair value through profit or loss	423	
5	Financial assets at amortized cost	840.415	
6	Hedging derivatives	93.761	
7	Non-current assets held for sale	0	
8	Investment properties	515	
9	Other tangible assets	12.952	
10	Intangible assets	566	h)
11	Current tax assets	3.130	
12	Deferred tax assets	15.202	
	of which: Deferred tax assets that depend on future profitability and do not arise from temporary differences	3.677	i)
13	Other assets	13.790	
14	<b>Total Assets</b>	<b>2.196.929</b>	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the published financial</b>			
1	Financial liabilities held for trading	5.828	
2	Financial liabilities at amortized cost	1.716.602	
3	Hedging derivatives	8.171	
4	Current tax liabilities	267	
5	Deferred tax liabilities	0	
6	Provisions	561	
7	Other liabilities	16.590	
8	<b>Total liabilities</b>	<b>1.748.019</b>	
<b>Shareholders' equity</b>			
1	Share capital	150.000	a)
2	Share premium	12.849	b)
3	Treasury stock	0	c)
4	Other acc. comprehensive income, retained earnings & other reserves	275.709	
	Other accumulated comprehensive income	-26.091	d)
	Retained earnings	-1.758	e)
	Other reserves	303.558	f)
5	Net profit attributable to shareholders of the Bank	10.352	g)
6	<b>Total Shareholders' Equity attributable to shareholders of the Bank</b>	<b>448.910</b>	

Model CC2 of Implementing Regulation (EU) 2021/637 of 15 March 2021

(1) Balance sheet as in published financial statements and under regulatory scope of consolidation

## 4. Capital Requirements and risk-weighted exposure amounts (article 438)

### 4.1 Method used to assess the adequacy of internal capital

In addition to the regulatory perspective, the Group also evaluates risks and financial resources available (Risk Taking Capacity "RTC") from an economic perspective, by conducting the internal capital adequacy self-assessment exercise (ICAAP) envisaged in Pillar 2 of Basel III and in line with Instruction No. 3/2019 from Banco de Portugal.

The risks and the RTC are estimated on a going concern basis to ensure that the Group is able, at all times, to liquidate all its liabilities in a timely manner.

To quantify the risks, the Group has developed a number of internal capital requirement calculations that estimate the maximum potential loss over a one-year period, with a 99.9% confidence interval. These methodologies cover all categories of risk to which the Group is exposed, except operational risks, for which regulatory requirements are used.

The Group has assumed a conservative perspective for the economic capital requirements, considering the higher between the regulatory and the internal capital requirements, by risk category.

The ICAAP results are continuously monitored to ensure that the Group's capital is sufficient to cover the risks, incurred or potential, and are reported monthly to the Executive Committee. From the analysis of the results, it can be concluded that the Group has a solid and robust capital position, presenting a coverage ratio substantially above the internal minimum level defined in the RAF.

The aforementioned monthly capital adequacy analysis is supplemented at the end of each year by a prospective analysis of the economic capital requirements and of the financial resources available, over a three-year horizon, in the scope of the annual ICAAP exercise and of the preparation of the Group's Funding and Capital Plan.

The above-mentioned monitoring is supplemented by the performance of stress tests, which cover all categories of risk to which the Group is exposed.

The stress tests aim to provide a better understanding of the Group's risk profile, allowing for the assessment of the internal capital and of the capacity to absorb shocks, and to facilitate the detection of vulnerabilities in the Group's exposure to different risk categories.

Two types of stress tests are performed:

- > Sensitivity analyses, carried out regularly - consist of assessing the impact on the Group's financial condition resulting from the application of shocks to risk parameters (including, amongst others, PD, LGD, ratings, interest rates with and free of risk and foreign exchange rates).
- > Scenario analyses, carried out annually - consist of assessing the impact on the Group's financial condition resulting from the application of simultaneous and consecutive shocks to several factors that affect the business plan. In 2024, the scenario used under the "ICAAP Report" for December 31, 2023 stress test was designed taking into consideration the possible



impacts arising from a systemic crisis, modelled based on the history of the crisis caused by the Covid-19 pandemic.

The results of the stress tests reinforce the conclusion that the Group has a solid and robust capital position. The scenario analyses performed as of 31 December 2023 resulted in a coverage ration always above the minimum internal level defined in RAF.

## **4.2 Credit risk - Own Funds minimum requirements**

The Group applies the Standardised Approach in the calculation of the capital requirements for credit risk, in accordance with the prudential rules in force at the reference date, according to article 112, Title II, Part III, Chapter 2.

Under this method, exposures (elsewhere also “positions at risk”) are classified according to the counterparty, by risk classes. The exposure value of an asset element corresponds to its net carrying amount after making the adjustments for specific credit risk, additional value adjustments and other own funds’ reductions, related to the asset element.

To calculate the amounts of the risk weighted assets ("RWA"), risk weighting coefficients are applied to all exposures, unless deducted from own funds. The application of risk weighting coefficients is based on the risk class to which the exposure is allocated and on its credit quality. Credit quality is determined by reference to ECAI (External Credit Assessment Institutions) credit assessments. Whenever necessary to determine capital requirements, 8% of the risk-weighted exposure amounts is considered.

An external credit assessment may only be used to determine the risk-weighting coefficient of an exposure if it has been issued by an ECAI or has been approved by an ECAI in accordance with Regulation (EC) No. 1060/2009. EBA publishes on its website the list of ECAIs authorized under no. 4 of article 2 and no. 3 of article 18 of Regulation (EC) No. 1060/2009.

Under EBA guidelines (in line with paragraph d) of article 438), the capital requirements and the corresponding RWA exposures on a yearly basis, as presented in the following table, provide an overview of the denominator used in the calculation of the capital requirements as at 31 December 2023:

thousand euros

		Total risk exposure amounts (TREA)		Total own funds requirements
		31-12-2023	31-12-2022	31-12-2023
1	Credit risk (excluding CCR)	1.532.253	1.388.892	122.580
2	Of which the standardised approach	1.532.253	1.388.892	122.580
6	Counterparty credit risk - CCR	91.957	75.258	7.357
7	Of which the standardised approach	10.303	10.175	824
EU 8b	Of which credit valuation adjustment - CVA	1	3	0
9	Of which other CCR	81.654	65.081	6.532
20	Position, foreign exchange and commodities risks (Market risk)	29.576	49.752	2.366
21	Of which the standardised approach	29.576	49.752	2.366
23	Operational risk	96.153	92.591	7.692
EU 23a	Of which basic indicator approach	96.153	92.591	7.692
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	59.815	64.913	4.785
<b>29</b>	<b>Total</b>	<b>1.749.939</b>	<b>1.606.494</b>	<b>139.995</b>

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## 5. Key metrics (article 447)

We present the referred indicators at December 31, 2023 and December 31, 2022:

		thousand euros, except %	
		31/12/2023	31/12/2022
<b>Available own funds (amounts)</b>			
1	Common Equity Tier 1 (CET1) capital	430 899	403 357
2	Tier 1 capital	430 899	403 357
3	Total capital	430 899	403 357
<b>Risk-weighted exposure amounts</b>			
4	Total risk exposure amount	1 749 939	1 606 494
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>			
5	Common Equity Tier 1 ratio (%)	24,6%	25,1%
6	Tier 1 ratio (%)	24,6%	25,1%
7	Total capital ratio (%)	24,6%	25,1%
<b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>			
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	4,5%	4,5%
EU 7b	of which: to be made up of CET1 capital (percentage points)	2,5%	2,5%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	3,4%	3,4%
EU 7d	Total SREP own funds requirements (%)	12,5%	12,5%
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>			
8	Capital conservation buffer (%)	2,5%	2,5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0,0%	0,0%
9	Institution specific countercyclical capital buffer (%)	0,0%	0,0%
EU 9a	Systemic risk buffer (%)	0,0%	0,0%
10	Global Systemically Important Institution buffer (%)	0,0%	0,0%
EU 10a	Other Systemically Important Institution buffer (%)	0,0%	0,0%
11	Combined buffer requirement (%)	2,5%	2,5%
EU 11a	Overall capital requirements (%)	15,0%	15,0%
12	CET1 available after meeting the total SREP own funds requirements (%)	9,0%	9,5%
<b>Leverage ratio</b>			
13	Total exposure measure	2 249 222	2 012 368
14	Leverage ratio (%)	19,2%	20,0%
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>			
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	N/A	N/A
EU 14b	of which: to be made up of CET1 capital (percentage points)	N/A	N/A
EU 14c	Total SREP leverage ratio requirements (%)	3%	3%
<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure percentagem da medida de exposição total)</b>			
EU 14d	Leverage ratio buffer requirement (%)	0%	0%
EU 14e	Overall leverage ratio requirement (%)	3%	3%
<b>Liquidity Coverage Ratio</b>			
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	323 413	316 690
EU 16a	Cash outflows - Total weighted value	90 526	87 396
EU 16b	Cash inflows - Total weighted value	60 140	62 045
16	Total net cash outflows (adjusted value)	30 587	28 644
17	Liquidity coverage ratio (%)	995,0%	1148,5%
<b>Net Stable Funding Ratio (NSFR)</b>			
18	Total available stable funding	1 487 227	1 364 098
19	Total required stable funding	1 197 538	1 072 756
20	NSFR ratio (%)	124,2%	127,2%

Template KM1 of the Implementing Regulation (EU) 2021/637 of 15 March 2021

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## 6. Remuneration policy (article 450)

As regards the remuneration policies and practices of Banco Finantia, the Group generally meets the requirements established in a manner appropriate to its size and internal organization, as well as to the nature, scope and complexity of the activities carried out.

Information on remuneration policies and practices which disclosure is required by paragraphs a) to d) and j) of number 1 of article 450 of Regulation (EU) No. 575/2013 is detailed and disclosed in Part II. Remuneration, pages 21-31 of the “Report on the Structure and the Corporate Governance Practices of Banco Finantia” (document which is attached to and makes an integral part of the 2023 Annual Report and Accounts), which can be accessed at [https://www.finantia.com/pt/banco-finantia\\_pt/informacao-financeira/](https://www.finantia.com/pt/banco-finantia_pt/informacao-financeira/). In this context, this document discloses detailed and individual information on the remuneration effectively paid in 2023 to the members who exercised functions in the management and supervisory bodies during that financial year.

In order to promote the adoption of consistent remuneration practices within the Group’s entities, Banco Finantia’s remuneration policies and practices are generally applicable to the branch and to its subsidiaries. Application is made, with the necessary adaptations arising, in particular: from criteria of proportionality, the need for compatibility with the legislation applicable in the jurisdictions where they carry out their activity and/or the adoption of duly justified specific rules.

In compliance with Notice 3/2020 and article 450, Banco Finantia also disclosed, in the “Report on the Structure and Practices of Corporate Governance of Banco Finantia”, information regarding the remuneration policies and practices applicable to the categories of employees whose professional activities have or may have a significant impact on the risk profile, with reference to December 31, 2023.

The identified staff as having a significant impact on the risk profile included, at 31 December 2023: (i) included members of Banco Finantia’s management and supervisory corporate bodies, (ii) the members with executive and non-executive functions and effective intervention in the execution of the activity of the subsidiaries considered relevant in light of their respective activity and impact in the Group’s risk profile, -(iii) as well as the heads of Banco Finantia’s Internal Control Functions, (iv) the branch managers and (v) the head of the Corporate & Investment Banking area and the heads of the following Departments, Legal, Financial Control, Human Resources, Application Development and Support, Systems and Telecommunications, Credit, Treasury, Principal Investments, Capital Markets and Private Banking .

The Remuneration Committee of Banco Finantia, appointed by the General Shareholders Meeting, undertakes annually an independent and centralised analysis of the remuneration policy and practices adopted by Banco Finantia, in compliance with the provisions of paragraph 6 of article 115-C of the (“RGICSF”) and of article 44, no.1 of the Notice no. 3/2020 of the Bank of Portugal.

Additionally, and since Banco Finantia is parent company of the Group, the Remuneration Committee also undertook, with reference to the 2023 financial year, the annual evaluation ‘remuneration practices’ impact, in particular on risk management, as per articles 53, no. 3 of Notice no. 3/2020.

Banco Finantia’s Remuneration Committee has submitted to the Annual General Shareholders Meeting, held on 28 May 2023, the main conclusions of its evaluation, according to which the remuneration policy adopted (i) comply with the applicable laws and regulations and is being effectively applied, (ii) being adequate and proportionate to the size, internal organisation, nature, scope and complexity of the institution’s activities, and (iii) is coherent and neutral and not encouraging excessive and imprudent risk taking, avoiding conflicts of interest, promoting the preservation of Banco Finantia’s solidity and stability. The Remuneration Committee also concludes that the practices and remuneration policies applied in the Group's companies, which include overseas subsidiaries for this purpose, do not encourage excessive risk-taking, are adjusted to risks and performance, promoting continuity and sustainability of the Group's results.

The table below concerns the remuneration awarded in the 2023 financial year (regardless of the effective date on which the amount awarded is paid) reported in accordance with sub-paragraphs i) and ii) of paragraph h) of paragraph 1 of Article 450 of Regulation (EU) No. 575/2013:

thousand euros

		MB Supervisory function	MB Management function	Other senior management	Other identified staff	
1	Fixed remuneration	Number of identified staff	7	8	13	5
2		Total fixed remuneration	159	863	925	336
3		Of which: cash-based	159	783	925	336
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the EU)				
7		Of which: other forms	-	80	-	-
8	(Not applicable in the EU)					
9	Variable remuneration	Number of identified staff	-	2	5	1
10		Total variable remuneration	-	28	72	14
11		Of which: cash-based	-	28	72	14
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14 a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y	Of which: deferred	-	-	-	-	
15	Of which: other forms	-	-	-	-	
16	Of which: deferred	-	-	-	-	
17	Total remuneration (2 + 10)		159	891	997	350

Model REM1 of Implementing Regulation (EU) 2021/637 of 15 March 2021

Without prejudice to the table above referring to the “Template EU REM1 - Remuneration awarded for the financial year” (“REM1 Table”)- include information regarding all staff members who, during 2023, were, at a given moment, identified in the categories listed there, it should be noted that, with reference to the date of December 31, 2023, 7 (seven) people were identified in the category “supervision function of the management body”, 8 (eight) people in the category “management function of the management body; 13 (thirteen) people in the “other senior management” category and 5 (five) people in the “other identified staff” category. Additionally, it should be noted that in column (d) “Other identified staff” of REM1 table above is included information of the members with executive functions of the corporate bodies of relevant Banco Finantia’s subsidiaries identified as having a material impact on the risk profile. In addition, and for the purposes of the REM1 Table above includes information on the members of the governing bodies with executive functions of relevant subsidiaries of Banco Finantia identified as having a material impact on the Group's risk profile. .

In addition, for the purposes of this Table REM1, the information on variable remuneration refers to the amounts of variable remuneration awarded with reference to performance in the 2023 financial year.

There are no amounts to report for the purposes of “Template EU REM2 - Special payments to staff whose professional activities have a material impact on institutions’ risk profile (identified staff)”.

The table below concerns the deferred remuneration reported in accordance with the provisions of article 450, paragraph 1, paragraph h), subparagraphs iii) and iv) of Regulation (EU) n° 575/2013:

thousand euros

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to explicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	MB Management function	44	31	13	-	-	-	31	-
8	Cash-based	44	31	13	-	-	-	31	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	Other senior management	-	-	-	-	-	-	-	-
14	Cash-based	-	-	-	-	-	-	-	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	Other identified staff	-	-	-	-	-	-	-	-
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	<b>Total amount</b>	<b>44</b>	<b>31</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>-</b>

Model REM3 of Implementing Regulation (EU) 2021/637 of 15 March 2021

Within the context of “Template EU REM3 - Deferred remuneration” (“REM3 Table”), and in particular, column (b) “Of which due to vest in the financial year” considers the remuneration amounts paid in the year 2023 awarded with reference to financial years previous to 2023 (and excluding 2023). For the purposes of column (c) “Of which vesting in subsequent financial years”, the amounts of remuneration awarded with reference to financial years previous to 2023 (and excluding 2023) and whose effective payment is still deferred.

There are no highly paid employees in the Group within the meaning of article 450, paragraph i) of Regulation (EU) No. 575/2013, as set out in the “Guidelines on the collection of information on employees who earn high salaries under Directive 2013/36/EU and Directive (EU) 2019/2034”.

In what concerns the information determined in paragraph k) of article 450 of Regulation (EU) No. 575/2013, Banco Finantia is included within the scope of the derogation foreseen in article 94 no. 3 of Directive 2013/36/EU, based on its respective paragraph a) since: (i) Banco Finantia is not a large institution in the sense of article 4 no. 1 paragraph 146 of Regulation (EU) No. 575/2013 and (ii) its assets do not reach, in average and in an individual basis, as per such Directive and Regulation, an amount higher than 5 billion euros in the four year period immediately preceding the financial year at stake.

Without prejudice to the above, the remuneration policy for the members of Banco Finantia's governing bodies provides that in the event of attribution of a variable remuneration amount exceeding €50,000, the Remuneration Committee may determine the deferral of a portion of this remuneration for a period to be defined.

As regards the quantitative data foreseen in paragraph k) of no. 1 of article 450 of Regulation (EU) No. 575/2013, and in respect of identified staff members whose professional activity has a significant impact on the institution's risk profile comprised by the scope of the applied derogations or for whom the rules in question do not apply because they do not receive variable remuneration, reference is made to the table below:

no. of employees identified <sup>1</sup>	Fixed remuneration <sup>2</sup>	Variable remuneration <sup>3</sup>	thousand euros
			Total Remuneration
33	2.283	114	2.398

1 with reference a 31.12.2023

2 fixed remuneration earned in 2023.

3 variable remuneration awarded with reference to 2023, paid in 2024 and payable in subsequent years (by deferral)

## 7. Non-performing exposures and forbore exposures

As of 31 December 2023, the credit quality of the forbore exposures is presented as follows:

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Cauções e garantias financeiras recebidas sobre exposições reestruturadas	
	Performing forbore	Non-performing forbore		On performing forbore exposures	On non-performing forbore exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures	
		Of which defaulted	Of which impaired					
1 Loans and advances	2,20	48,02	48,02	48,02	0,00	0,00	0,00	0,00
2 Central banks	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
3 General governments	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
4 Credit institutions	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
5 Other financial corporations	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
6 Non-financial corporations	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
7 Households	2,20	48,02	48,02	48,02	0,00	0,00	0,00	0,00
8 Debt Securities	1.740,52	387,61	0,00	26,39	0,00	0,00	0,00	0,00
9 Loan commitments given	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
10 Total	1.742,73	435,63	48,02	74,41	0,00	0,00	0,00	0,00

Template 1 of Guidelines EBA/GL/2018/10 of 17 december 2018

The following table shows the credit quality of performing and non-performing exposures by past due days:

thousand euros

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted	
1 <b>Loans and advances</b>	304.510	304.510	0	7.332	0	3	1	2.144	1.709	17	3.459	7.332
2 <i>Central banks</i>	0	0	0	0	0	0	0	0	0	0	0	0
3 <i>General governments</i>	39.044	39.044	0	0	0	0	0	0	0	0	0	0
4 <i>Credit institutions</i>	75.596	75.596	0	0	0	0	0	0	0	0	0	0
5 <i>Other financial corporations</i>	94.319	94.319	0	2.144	0	0	0	2.144	0	0	0	2.144
6 <i>Non-financial corporations</i>	95.549	95.549	0	1.704	0	0	0	0	1.704	0	0	1.704
7 <i>Of which SMEs</i>	0	0	0	0	0	0	0	0	0	0	0	0
8 <i>Households</i>	2	2	0	3.485	0	3	1	0	5	17	3.459	3.485
9 <b>Debt securities</b>	1.659.542	1.659.542	0	45.953	2.971	0	3.505	31.785	5.022	2.671	0	42.983
10 <i>Central banks</i>	0	0	0	0	0	0	0	0	0	0	0	0
11 <i>General governments</i>	509.134	509.134	0	2.583	2.583	0	0	0	0	0	0	0
12 <i>Credit institutions</i>	204.942	204.942	0	3.505	0	0	3.505	0	0	0	0	3.505
13 <i>Other financial corporations</i>	343.088	343.088	0	37.195	388	0	0	31.785	5.022	0	0	36.807
14 <i>Non-financial corporations</i>	602.378	602.378	0	2.671	0	0	0	0	0	2.671	0	2.671
15 <b>Off-balance-sheet exposures</b>	50.392			0								0
16 <i>Central banks</i>	44.228			0								0
17 <i>General governments</i>	0			0								0
18 <i>Credit institutions</i>	300			0								0
19 <i>Other financial corporations</i>	0			0								0
20 <i>Non-financial corporations</i>	5.864			0								0
21 <i>Households</i>	0			0								0
22 <b>Total</b>	2.014.444	1.964.052	0	53.286	2.971	3	3.506	33.929	6.731	2.688	3.459	50.315

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The non-performing loans (NPL) ratio as of December 31, 2023 is 2.35%.

As of 31 December 2023, performing and non-performing exposures and their respective provisions are presented in the following table:

thousand euros

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
	Of which stage 1	Of which stage 2	Of which stage 3	Of which stage 1	Of which stage 2	Of which stage 3	Of which stage 1	Of which stage 2	Of which stage 3	Of which stage 1	Of which stage 2	Of which stage 3			
1 <b>Loans and advances</b>	304.510	304.510	0	7.332	0	7.332	-738	-738	0	-3.058	0	-3.058	0	0	0
2 <i>Central banks</i>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3 <i>General governments</i>	39.044	39.044	0	0	0	0	-84	-84	0	0	0	0	0	0	0
4 <i>Credit institutions</i>	75.596	75.596	0	0	0	0	-173	-173	0	0	0	0	0	0	0
5 <i>Other financial corporations</i>	94.319	94.319	0	2.144	0	2.144	-384	-384	0	-1.852	0	-1.852	0	0	0
6 <i>Non-financial corporations</i>	95.549	95.549	0	1.704	0	1.704	-96	-96	0	-1.206	0	-1.206	0	0	0
7 <i>Of which SMEs</i>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 <i>Households</i>	2	2	0	3.485	0	3.485	0	0	0	0	0	0	0	0	0
9 <b>Debt securities</b>	1.659.542	1.621.222	36.580	45.953	0	45.966	-8.139	-5.626	-2.513	-29.635	0	-29.635	0	0	0
10 <i>Central banks</i>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11 <i>General governments</i>	509.134	503.322	5.812	2.583	0	2.583	-1.081	-953	-129	-1.501	0	-1.501	0	0	0
12 <i>Credit institutions</i>	204.942	204.942	0	3.505	0	3.505	-761	-761	0	-1.523	0	-1.523	0	0	0
13 <i>Other financial corporations</i>	343.088	337.739	5.349	37.195	0	36.807	-1.942	-1.824	-118	-25.479	0	-25.479	0	0	0
14 <i>Non-financial corporations</i>	602.378	575.219	25.419	2.671	0	2.671	-4.355	-2.088	-2.267	-1.132	0	-1.132	0	0	0
15 <b>Off-balance-sheet exposures</b>	50.392	50.392	0	0	0	0	-1	-1	0	0	0	0	0	0	0
16 <i>Central banks</i>	44.228	44.228	0	0	0	0	0	0	0	0	0	0	0	0	0
17 <i>General governments</i>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
18 <i>Credit institutions</i>	300	300	0	0	0	0	0	0	0	0	0	0	0	0	0
19 <i>Other financial corporations</i>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
20 <i>Non-financial corporations</i>	5.864	5.864	0	0	0	0	0	0	0	0	0	0	0	0	0
21 <i>Households</i>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22 <b>Total</b>	2.014.444	1.976.124	36.580	53.286	0	52.898	-8.878	-6.364	-2.513	-32.693	0	-32.693	0	0	0

Template 4 of Guidelines EBA/GL/2018/10 of 17 december 2018

There are no foreclosed assets obtained from non-performing exposures.

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## **TRANSLATION NOTE**

The above translation is a free translation of the original document issued in the Portuguese language. In the event of discrepancies or misinterpretations, the original version shall prevail.