BAI EUROPA

2022
FINANCIAL STATEMENTS

CONTENTS

2022 MANAGEMENT **REPORT**

MAIN INDICATORS

Thousand Euro	2020	2021	2022	YoY change
Net interest income	6,750	5,524	10,480	+89.7%
Net operating income	9,595	9,573	15,821	+65.3%
Fixed costs	6,528	7,968	9,770	+22.6%
Fixed costs per employee	136	126	121	-4.6%
Fixed costs/Net interest income	97%	144%	93%	-51 p.p.
Net operating income per employee	200	152	195	+28.5%
Cost-to-income	**68.0%**	**83.2%**	**61.8%**	**-21.5 p.p.**
Profit/(loss) for the period	170	2,423	3,306	+36.4%
Return on total assets (ROA)	0.0%	0.4%	0.4%	+0.1 p.p.
Return on equity (ROE)	**0.2%**	**2.7%**	**3.7%**	**+1.1 p.p.**
Own funds	89,271	87,713	83,315	-5.0%
Solvency ratio (CET 1)	**25.5%**	**20.2%**	**18.7%**	**-1.5 p.p.**
Number of customers	1,674	2,737	3,102	+13.3%
Number of employees	48	63	81	+28.6%

Note: The efficiency, solvency and credit quality indicators presented above follow the methodology indicated by the Banco de Portugal in Instruction No. 16/2004, of 16 August, and Instruction No. 3/2015, of 15 May.

MESSAGE FROM THE **BOARD OF DIRECTORS**

The year 2022 began with renewed enthusiasm. The pandemic was coming to an end and the year was expected to consolidate the levels of economic growth recorded in 2021, after the negative historical record of 2020. The start of the conflict between Russia and Ukraine at the end of February dramatically changed that framework. The conflict brought uncertainty for economic agents, restrictions in production and distribution chains, and a strong acceleration of inflation, with a special focus on energy and food goods. It was a rather sudden change in context, in which initially optimistic expectations gave way to some scepticism, based on the increased risks of economic slowdown in the main global economies. Inflationary pressures led to a change in monetary policy by the European Central Bank, flagging up a tighter stance, pointing to higher financing costs for economic activity.

Throughout the year, it became clear that inflationary pressures would be rather long-lasting, monetary policy would be more restrictive than initially expected, but at the same time, the worst macroeconomic scenarios would not materialise, with the main world economies showing some resilience in a challenging environment of high uncertainty.

The Portuguese economy had a very positive performance in 2022, with a GDP growth rate of 6.8%, the second best in the Euro Zone. However, this growth was decreasing throughout the year, with a very strong first quarter, but with stair-step reductions in the following quarters.

In Angola, after 2021 had been the first year of growth after five consecutive years of recession, 2022 was again a year of economic growth, with GDP growing by 3.2%, sustained by the reforms implemented and with inflation on a very positive downward trend for the economy.

The second year of the Strategic and Business Plan (PEN 2021-2025) of Banco BAI Europa (BAIE or the Bank) was completed in 2022. It was a year in which growth in business turnover – both in terms of the loans and advances to Customers and to other credit institutions portfolio – and growth in deposits from Customers was consolidated, continuing along the path of diversification of the Bank's financing base, founded on greater growth in the retail and corporate segments and reduced dependence on the institutional segment. However, the second year of the Strategic and Business Plan is above all marked by the intensification of the Bank's digital transformation, both in terms of processes directed towards Customer service and in terms of internal processes. It was a year of heavy investment, but also of some deliveries, among which stands out the ability to open an account remotely for the retail segment, available not only to residents, but also to non-residents of Angolan and Cape Verdean nationality, something unique in the Portuguese market.

On a commercial level, throughout the year, the Bank carried out a complete review of its product catalogue, seeking to adapt it to the demands of the business and seeking to capitalise on advantages that are considered competitive. A new commercial system was implemented in the retail and corporate segments, incorporating the new digital capacities, meeting Customers' expectations. Finally, the institutional Customer base and the number of target markets were materially expanded, with wider coverage of Portuguese-speaking countries.

Luís Filipe Rodrigues Lélis
Chairman of the Board of Directors

Omar José Mascarenhas de Morais Guerra
Chairman of the Executive Committee

2022 was a year in which the BAIE team continued to grow, both in the commercial area and in the control and support areas. It was also a year in which the Bank placed a strong emphasis on growing the team's leadership skills and cultural transformation.

We are confident that the conclusion of this period of strong investment in human and technological capital will lead to the achievement of the intended business goals, an improvement in profitability, a more significant enlargement of the customer base and, consequently, the diversification of counterparties and sources of financing.

We enter 2023 in a very challenging context and, notwithstanding the importance of implementing the Strategic and Business Plan, the Bank has the imperative duty to maintain high standards of accuracy in the management of its business risks, with particular attention to credit risk, namely in the robustness of identification, classification, assessment and mitigation practices.

The commitment of all employees, who demonstrate responsibility, diligence and competence in the performance of their duties, is greatly appreciated. The professionalism and dedication demonstrated by this team makes it possible to fulfil our goals and objectives and to implement the proposed strategy.

It is also noted and appreciated the trust that the Customers have placed in the Bank, which encourages us to continue to provide a differentiated, value-added service, especially aimed at further development of trade and economic relations between Portugal and Angola.

We also thank the support and special collaboration of the Parent Company in Angola, which has greatly contributed to the success of our business and with which we hope to continue to count on, as well as the collaboration of the Angolan banks and other institutional customers to which BAIE provides services as a correspondent bank in Portugal.

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2022 MACROECONOMIC **FRAMEWORK**

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I. INTERNATIONAL ECONOMIC FRAMEWORK

The macroeconomic environment of 2022 is necessarily associated with the intensification of inflation, on a global scale, which has reached unprecedented peaks in recent decades. By the end of 2021, inflationary pressures were already beginning to build, triggered by simultaneous effects on both the demand and supply side, still related to the COVID-19[1] pandemic. The start of the military conflict in Ukraine in February 2022 increased these same pressures, with strong speculation on the price of energy and food commodities as a consequence of the boomerang effect of the sanctions imposed by the West on Russia.

The year-on-year change in the Harmonised Index of Consumer Prices (HICP) in the Euro Zone renewed historic highs throughout the year, standing at 10.2% in November. Furthermore, the labour market in the economies of this Bloc was robust, with the unemployment rate standing at 6.5% in October, representing 2008 minimums. In the USA, the inflation, reached its highest level in 40 years, was 7.1% in November, whilst the unemployment rate stood at 3.7%.

The main central banks, which initially considered inflation to be temporary[2], significantly changed the direction of their monetary policy during 2022, beginning a process of tightening monetary conditions. The American Federal Reserve (Fed) raised the fed funds rate for seven consecutive times, to a range of 4.25% - 4.5%, a level not recorded since the 2008 financial crisis. The US central bank has also begun to reduce its balance sheet by not reinvesting, up to a certain monthly threshold, in assets that reach maturity. This cap stood at USD 47.5 billion in Q2, subsequently rising to USD 95 billion.

For its part, the European Central Bank (ECB), which began tightening monetary conditions later in the year, raised its main refinancing rate four times during the year, setting it at 2.5% at the December 2022 meeting, the highest level since January 2009. In the monetary policy corridor, the rates applicable to the marginal lending and deposit facilities increased to 2.75% and 2%, respectively. In addition to raising its key rates, the ECB has adjusted its non-standard instruments:

- It decided to amend the terms and conditions of the third series of targeted longer-term refinancing operations (TLTROs);
- From 1 July, it ceased the programme of net asset purchases under its asset purchase programme (APP), announcing that it would limit itself to reinvesting principal payments on maturing securities acquired under this programme until the end of February 2023, after which time such reinvestment would be reduced by Euro 15 billion per month;
- It announced that it will continue to reinvest debt repayments under the pandemic emergency asset purchase programme (PEPP) until the end of 2024;
- It introduced a new tool to control the risk of fragmentation of the Eurozone countries' sovereign debt, the Transmission Protection Instrument (TPI). This instrument allows the Eurosystem to purchase, on an occasional basis, government bonds in the secondary market of a sovereign whose risk premiums are experiencing a deterioration for purely speculative reasons.

Regarding the interest rate development, it is possible to infer from recent central bank communications that the scope for interest rate hikes is not yet defined and that the current scenario of contractionary monetary policy may extend, so that the labour market loses strength and inflation expectations remain well anchored.

1. Disruptions in the supply chains and shortages of raw materials led to delays in production and consequent stock-outs. In addition, following the easing of the COVID-19 containment measures, demand for goods and services increased, with households benefiting from savings accumulated during the pandemic and an accommodating monetary environment.
2. Some economic agents are claiming that the persistence of inflation is due to the delay by the main central banks in combating price instability. Inflation was considered temporary when the measures restricting mobility were eased and this may have deviated from the conventional lessons of monetary policy in that central banks did not act from a forward-looking perspective.

This context of deteriorating monetary and financial conditions has determined a worsening of the prospects for growth in the world economy.

For example, in the October 2022 update of the World Economic Outlook, the International Monetary Fund (IMF) forecasts that world economic growth will be 3.2% and 2.7% in 2022 and 2023, respectively. In addition to being the fourth consecutive downward revision by the Institution, it emphasises that this may be the weakest growth in the global economy since 2001, excluding the years associated with the 2008 financial crisis and COVID-19.

The macroeconomic projections of the international reference institutions have been consecutively revised downwards, reflecting the current scenario of uncertainty. Apart from issues related to monetary policy and the persistence of inflation, other indicators should also be closely monitored to adjust macroeconomic projections, namely: (i) uncertainty surrounding the development of the current geopolitical environment, deeply marked by the military war in Ukraine and by trade wars in an already divided world; (ii) intensification of the energy crisis in Europe, with an impact on energy prices, the need for energy rationing and production cuts in countries such as Germany; (iii) China's economic slowdown, which will depend on the duration of the zero COVID policy and current concerns about the country's real estate sector.

II. FINANCIAL MARKETS

The year was marked by a sell-off across most asset classes, bucking the trend seen between the beginning of the second quarter of 2020 and the end of 2021. One of the main highlights was in the bond market, where there was a considerable increase in yield to maturity as expectations of persistently high inflation and, consequently, the level that interest rates could reach increased.

In the USA, the year was characterised by a significant trend in returns on money market and short-term instruments, which were close to zero at the beginning of the year and were between 4% and 4.7% at year-end. At the same time, 10-year treasury bonds rose from 1.63% to 3.48% over the same periods. It should be noted that the yield curve is currently completely inverted, which historically is usually a precedent indicator of periods of recession in the North American economy.

In the Euro Zone, the sharp increase in yields was common to the Bloc's countries, with French and German treasury bonds reaching all-time highs during the year. The yield on 10-year German bonds went from -0.118% at the beginning of the year to 2.165% over the period under review, whilst the yield on 10-year French bonds went from 0.259% to 2.709%. Despite the increase in yields on Portuguese bonds, these reached values similar to those observed in 2014, a period when Portugal was ending its economic and financial assistance programme.

It should be noted that, with the start of standardisation of monetary policy by the ECB, the resurgence of the risk of fragmentation was still a concern, given the rapid increase in the risk premium underlying sovereign debt yields, particularly Italian debt. The announcement of the creation of the TPI instrument by the ECB reduced this speculation, leaving spreads stable between the Bloc countries.

On the money market, the 3-, 6- and 12-month Euribor rates, used as benchmarks in variable rate financing for companies and families, returned to positive levels, standing at 2.05%, 2.60% and 2.99%, respectively, at the time of preparing this document. Market forecasts for the 3-month Euribor, implied in futures, show that investors expect this rate to rise until it reaches 3.5%, which is estimated to occur in September 2023.

In the stock markets, after a prolonged period of valuations, during which there were signs of overvaluation, 2022 was a year marked by volatility and adjustment of asset prices. On 19 December, the Euro Stoxx 600 and the S&P 500 were down 13% and 20%, respectively, since the start of the year. The Nasdaq 100, made up of a large number of stocks whose prices were most leveraged by the accommodative monetary conditions of previous years, contracted 33% in the period under review. In the opposite direction, the Portuguese stock market maintained a more favourable trend, with the PSI-20 up 1.2% since the beginning of the year.

As has been usual in periods of uncertainty, there was a natural demand for the US dollar, which was heightened due to the Fed's swifter and more aggressive start to monetary policy standardisation. Consequently, the US dollar gained strength, with the DXY index appreciating by 9.1% over the year.

Still on the foreign exchange market, it is important to note the depreciation of the Euro against the US dollar, which was even below par. In addition to the factors mentioned for the general appreciation of the dollar, the performance of the European currency has suffered additional pressure, related to the cooling of economic activity as a result of the worsening of the energy crisis in Europe that the Bloc is facing and the loss of family purchasing power.

Although markets felt some relief in the last quarter of the year, the IMF warns in its October Global Financial Stability Report that market volatility and the sell-off mentioned above could extend over time if monetary conditions continue to be tightened. The impact of rising interest rates, the appreciation of the dollar on the sovereign debt of emerging economies and the deceleration of the Chinese real estate market are some of the other risks that were highlighted in the aforementioned report.

III. OIL MARKET

The recovery in demand, with the easing of anti-COVID measures, as well as the price speculation associated with the military conflict and the sanctions imposed on Russia, contributed to a positive oil price performance. The average price of Brent over 2022, up to the time this document was prepared, was USD 99.5 per barrel, an increase of more than 40% compared to the same period the previous year.

Nevertheless, in the second half of the year, the Brent price retreated to levels in line with those prior to the invasion of Ukraine. The uncertainties associated with Chinese demand for oil, due to the COVID-zero policy, increased fears of global recession and the increased supply of oil by the countries of the Organisation for Economic Cooperation and Development (OECD), in particular with the use of the USA's strategic reserves to increase supply in the market, have influenced the decline in prices in recent months.

The factors identified above also support the more pessimistic expectations for the price of crude oil, despite the end of the coordinated release of oil from US strategic reserves, the effect of which translates into reduced supply and the creation of upward pressure on the price. Other arguments weighing on the more optimistic outlook for the barrel price are: (i) the growth of geopolitical tensions in several countries; (ii) the existence of meteorological risks that could result in possible disruptions in production; (iii) the adjustment of supply by the Organisation of Petroleum Exporting Countries (OPEC+[3]) in order to sustain high prices.

Notwithstanding the above points, one of the critical factors for 2023 will be to understand the impacts of the European Union's recent measures regarding Russian oil. In particular, the setting of a ceiling on the price of Russian oil and an embargo on imports of refined petroleum products from Russia.

IV. DEVELOPMENT OF THE ANGOLAN ECONOMY

Despite the military conflict having meant an unfavourable environment for the global economy, Angola benefited from the rise in oil prices and its consequent impact, both in terms of tax and external accounts and the confidence of businesspeople and investors. The local currency was also one of the currencies with the best performance against the dollar and inflation, which despite remaining high, has been following a trajectory contrary to that of the other world economies.

At the end of 2022, the price of oil was comfortably above USD 59 per barrel, which was included in the 2022 General State Budget (OGE). Consequently, there was a slight increase in oil exports (+2%), which was reflected in a 120% growth in oil tax revenue collected up to October, compared to the same period the previous year. This context translated into additional tax relief which, in turn, was a valuable tool for the implementation of the Government's debt strategy, which involves reducing internal debt securities and increasing the average maturity of the debt. Angola also returned to the international markets, in April 2022, to issue new Eurobonds, raising the stock of these securities to USD 10 billion.

3. It should be noted that, with the reduction in the price of oil at the end of the year, the cartel decided in October to reduce its supply by 2 million barrels per day (2% of global supply), the biggest cut in the cartel's production since the start of the Covid-19 pandemic.

The favourable external environment provided a period of greater regularity in the supply of foreign currency, which implied an appreciation of the Kwanza in 2022. In the first half of the year, there was a surplus of foreign currency supply, which led the Banco Nacional de Angola (BNA) to intervene in the market, in a one-off purchase operation. However, with the recent adjustment in the price of oil, the last few months of the year have seen a downward trend. Overall, from the start of the year to the date this document was prepared, the Kwanza appreciated 9.1% against the US dollar and 15% against the Euro. In turn, international reserves at the end of November stood at USD 13.8 billion[4], which represents a fall of more than 11% from the year's peak.

As for the real sector, the economy performed well in the first half of 2022, with a year-on-year growth of 3.2%, with particular emphasis on growth in the transport (32%), construction (6%), agricultural (3.3%), manufacturing (2.6%) and oil (2.2%) sectors. The Consumer Price Index (CPI) recorded a year-on-year growth of 15.2%, a slowdown of 15.5 percentage points compared to the previous year. This behaviour reflects: (i) the controlled growth of monetary aggregates; (ii) the appreciation of the kwanza; (iii) the effect of previously adopted measures, such as the reduction of the customs tariff and the reduction of VAT on essential goods from 14% to 7%; (iv) the effect of the Strategic Food Reserve in the supply of goods from the basic food basket.

With the tax consolidation strategy carried out by the Government, strong nominal GDP growth and the strong appreciation of the Kwanza, the public debt to GDP ratio is expected to fall below 60%.

Considering the favourable macroeconomic environment for the Angolan economy, Fitch upgraded the debt rating in January from "CCC" to "B-", while in the following month Standard & Poor's (S&P) changed its rating from "CCC+" to "B-". In addition, Fitch changed the outlook from "stable" to "positive" when it revised the country's rating in July, a similar action carried out by Moody's in its October evaluation.

As for monetary policy, despite defining it as restrictive, the BNA applied two important adjustment measures, one of which was related to the reduction, on two occasions, of the reserve requirement coefficient in national currency, from 22% to 17%, using as an argument the need to reduce the levels of financial immobilisation. The Central Bank also decided to reduce its leading rates, at two points in time, lowering the Marginal Lending Facility from 25% to 21%, and the BNA's basic interest rate from 20% to 19.5%.

The reduction in these rates occurred in an environment in which the custody fee continues to have an impact, leading banks to seek alternative ways of investing their liquidity, particularly through recurrent recourse to open market operations carried out by the BNA. The overnight interbank market rate stood at 10% at the time this document was prepared, compared to 18.7% at the end of 2021.

In the October 2022 Monetary Survey, it was highlighted that the Central Government's net credit to the financial system decreased by 19% in the last 12 months, explained by a 12% decrease in the stock of credit to the State. Despite the lower exposure of the financial system, the stock of credit to the Government is still 1.9 times greater than the stock of credit granted to the private sector, which grew by 3.7% compared to October 2021. As for liabilities, there was a year-on-year growth of 23% in the M2 monetary aggregate (denominated in national currency), which is in line with the inflation and real growth expectations assumed by the Executive.

The Government and many international institutions are aligned on improving the country's real GDP growth by 2022. The Government has revised its macroeconomic policy planning, presenting an improvement in the 2022 economic growth outlook to 2.7%, explained by a 3.2% growth in the non-oil sector and 2.1% in the oil sector. For 2023, the Government expects economic growth to accelerate to 3.3% and inflation to drop to 11.1%.

V. DEVELOPMENT OF THE PORTUGUESE ECONOMY

The increased control over the pandemic and the successful vaccination process[5] contributed to the lifting of restrictive measures to contain the outbreak of COVID-19 and its variants. This flexibility was fundamental for a very favourable performance of the Portuguese economy in 2022. The December Economic Bulletin of the Banco de Portugal (BdP) anticipates real growth of 6.8% for the Portuguese economy in 2022, bringing real GDP above pre-pandemic levels.

4. According to the BNA, as of January 2022, in the calculation of statistics on international reserves, securities collateralised in financing operations and National Treasury deposits in foreign currency were excluded, which were reclassified under other foreign assets in the Central Bank's balance sheet. Accordingly, the temporal analysis of international reserves is only comparable from January 2022 onwards.
5. By the end of 2021, Portugal was the country, along with the United Arab Emirates, with the highest complete vaccination rate in the world.

This positive performance was due to the strong recovery of consumption by Portuguese families, who used a large part of the savings accumulated during the pandemic crisis, for postponed expenses during periods of restricted mobility. For 2023, the BdP expects private consumption to grow by 5.9%. It should be noted that private consumption has also been supported by a robust labour market, which is estimated to be close to full employment. The unemployment rate, released by INE for October, stood at 6%, a lower level than in the pre-pandemic period and then in the Euro Zone.

At the beginning of 2022, investment was the component that most sustained the growth prospects of the Portuguese economy, has been below expectations. In particular, the execution of the Recovery and Resilience Plan (PRR) has been negatively affected by the uncertainty surrounding the current economic environment, where inflation and the availability of essential raw materials affect the costs and timings of project execution.

It is important to note that the economic growth of 2022, particularly the contribution of domestic demand, has a base year factor in its explanation, particularly, the above two-digit year-on-year growth recorded in the first quarter of this year, whose basis of comparison is the period when the measures to combat the pandemic were still in force.

After the first quarter, the contribution of net foreign demand stood out in GDP growth, as a result of the more accentuated acceleration of tourism service exports, which benefited to some extent from the country's geographical positioning in Europe and the depreciation of the Euro for non-European tourists[6]. The BdP estimates a 17.7% growth in exports of goods and services in 2022, contributing to a reduction in the deficit of the balance of goods and services by 0.5 percentage points of GDP compared to 2021.

Tourism in Portugal did in fact perform quite well, with nominal income in the sector being higher than in the pre-pandemic period. Compared to 2019, the value of tourism exports in Euro, accumulated until October, grew by 14%, according to the balance of payments provided by the BdP.

In 2022, inflation was at a 30-year high. The HICP, the most appropriate inflation indicator for comparisons between the different countries of the European Union, grew by 10.3% year-on-year. Excluding unprocessed foodstuffs and energy, the HICP in Portugal reached a year-on-year change of 8.1% in November, above the Euro Zone average of 6.6%. It should be noted that this indicator was above the Euro Zone average throughout 2022.

The acceleration of inflation, which was not expected when the last State Budget was prepared, has benefited public accounts. On a national accounts basis, there was a surplus of 0.8% of GDP in the General Government accounts in the first half of the year, due to a substantial growth in revenue (+12.4% in nominal terms) and a reduction in expenditure (-3%).

Revenue growth is across most taxes, although with emphasis on direct taxes, Corporate Income Tax (IRC) and Personal Income Tax (IRS), and indirect tax, Value Added Tax (IVA), since these are components that are sensitive to inflation in the short term. As for the reduction in expenditure, there is a decrease in interest charges[7], a reduction in support paid to companies as part of the mitigation of the economic effects of the pandemic, and a 2021 base effect, which accounted for capital transfers to TAP, Novo Banco and aid granted to SATA S.A.

It should be added that more recently, in September, the Government adopted a set of measures, at an estimated cost of Euro 2.4 billion, to reduce the impact of inflation on household incomes, which it planned to implement by the end of the year. Nevertheless, the Government maintained its estimate in the 2022 State Budget, which anticipated a deficit of 1.9%.

Public debt, calculated on the Maastricht basis, stood at Euro 279.8 billion in September 2022, which represents a nominal growth of approximately 3% compared to the same period in the previous year. Nevertheless, as an effect of the nominal growth of GDP in the denominator, the ratio of public debt to GDP was 120.1% in the third quarter, which represents a drop of nine percentage points in relation to the same period of the previous year. According to the 2023 State Budget, the debt-to-GDP ratio was expected to fall to 115% in 2022.

6. It should be noted that, among the tourists' country of origin, the main highlight is the excellent recovery of tourists from the USA, where the depreciation of the Euro against the Dollar made Portugal a more attractive destination. The fact that Portugal is the European country geographically furthest from Ukraine also proved to be a positive factor.

7. Despite the increase in interest rates on Portuguese public debt, the Treasury has been replacing debt with much higher interest rates, which were issued when Portuguese public debt was facing higher liquidity speculation.

The solid results observed in public finances and economic growth influenced three rating agencies to review favourably the rating of the Portuguese public debt. At the end of August, DBRS revised the long-term debt rating from "BBB (high)" to "A (low)" and changed the trend from positive to stable. In September, S&P raised the rating on long-term Portuguese sovereign debt from "BBB" to "BBB+" and assigned a stable outlook, a move replicated by Fitch at the end of October.

With regard to prospects, in its base scenario, the BdP forecasts that GDP will grow by 1.5% in 2023, expanding at a rate close to 2% in the following two years. As for inflation, the BdP believes it will reach its peak in 2022, approximately 8.1%, and estimates a gradual decrease to 5.8% in 2023, 3.3% in 2024 and 2.1% in 2025.

The Institution also outlines an adverse scenario, where more challenging assumptions are made regarding interruptions in energy supply to Europe, an increase in the cost of raw materials, greater persistence of inflation and a reduction in the confidence of agents. In this scenario, GDP would contract by 0.4% in 2023 and grow by 0.3% and 1.8% in 2024 and 2025, respectively, while inflation would stand at 8% in 2023, falling to 5.1% and 2.6% in 2024 and 2025, respectively.

VI. FRAMEWORK OF THE PORTUGUESE BANKING SECTOR

In a rather uncertain economic environment, the national banking system managed to maintain positive levels of financial soundness, reflecting the progress made in terms of the financial stability requirements demonstrated by the sector in recent years. The data on the banking sector's performance and soundness indicators for the first half of 2022 show an improvement in several dimensions. In comparison with the same period of the previous year, the following can be highlighted:

- Notwithstanding the end of the moratoria, which occurred until December 2021, the non-performing loans (NPL) ratio, gross and net of impairments, stood at 3.4% and 1.6%, respectively, continuing the downward trajectory that started in mid-2016.

- As in recent years, liquidity indicators remained high, and deposits, which grew 4.1% against the end of 2021, strengthened their lead in the banks' funding structure. The transformation ratio extended the previous downward trajectory that began in 2010 to 19.2%, well below the regulatory maximum of 120%. At the same time, the liquidity coverage ratio and net stable funding ratio stood at 262% and 145%, respectively, comfortably above the regulatory minimum of 100%. It should be noted that most major banks issued Minimum Required Eligible Liabilities (MREL) in the course of 2022, amounting to about Euro 3.5 billion[8].

- The solvency levels of the sector reduced slightly in the period under review, with Common Equity Tier 1 (CET1) capital standing at 15%. Contributing to this performance was the resumption of dividend distribution and the impact of rising yields on debt securities measured at fair value through other comprehensive income. The leverage ratio, although showing a favourable trend (-0.8 p.p. to 6.6%) in the period under analysis, continues to be above 3%, a regulatory compliance requirement that came into force in June 2021.

- Profitability indicators improved notably, with returns on capital and assets standing at 8.8% and 0.71%, respectively. This improvement is mainly due to the contribution of the increase in interbank interest rates in the evolution of net interest income, which reflected a price effect, given the more significant increase in the implicit lending rate compared to the implicit borrowing rate.

Notwithstanding the improvement in the banking system's indicators and the favourable outlook for the development of economic activity, there are a number of risks to the sector's performance. In its November 2022 Financial Stability Report, the Banco de Portugal identified the following risks: (i) risk of an additional revaluation of risk premiums; (ii) risk associated with the increase in interest expenses and economic slowdown in the public debt ratio; (iii) lower ability of Retail customers to comply with debt service; (iv) materialisation of the credit risk of the companies most affected by the current environment; (v) risk of price adjustments in the residential real estate market; (vi) credit and market risk associated with a deterioration of the macroeconomic environment beyond that anticipated.

8. The MREL requirement is defined in accordance with the Bank Recovery and Resolution Directive (BRRD2), aiming to ensure that banks are provided with sufficient own funds and eligible liabilities to ensure their ability to absorb losses and recapitalise in adverse scenarios.

Million Euro	2020	2021	1Q/2022	2Q/2022	3Q/2022
Balance sheet data					
Total Assets	411,812	444,890	450,272	457,954	462,983
Loans and advances to customers	237,178	246,895	248,763	251,836	252,679
Liabilities	375,773	407,902	414,530	421,624	427,233
Deposits from customers	279,908	304,281	310,616	317,878	319,743
Deposits from Central Banks	32,300	41,671	41,516	40,921	40,347
Equity	36,038	36,988	35,742	36,330	35,751
Equity/Total Assets	8.8%	8.3%	7.9%	7.9%	7.7%
Deposits from customers/Total Assets	68.0%	68.4%	69.0%	69.4%	69.1%
Liquidity indicators					
Transformation Ratio	84.7%	81.1%	80.1%	79.2%	79.0%
Funding gap	(42,730)	(57,386)	(61,853)	(66,042)	(67,064)
Liquidity coverage ratio (LCR)	245.9%	260.0%	262.0%	262.0%	253.9%
Solvency and leverage indicators					
Solvency ratio (CET 1)	15.3%	15.5%	14.9%	15.0%	14.6%
RWAs	185,800	181,700	181,800	182,800	182,100
RWAs (in % of total assets)	48.6%	44.0%	43.5%	43.0%	42.4%

Source: *Summary of Banking Sector Indicators - 2022 | 3rd Quarter*, Associação Portuguesa de Bancos (Portuguese Banking Association)

Million Euro	2020	2021	2021 (Jan.-Sep.)	2022 (Jan.-Sep.)
Income statement data				
Net interest income	6,172	6,130	4,579	5,186
Net commissions	2,833	3,057	2,216	2,415
Net gains/(losses) on financial operations	122	655	588	455
Net operating income	9,366	10,060	7,432	8,231
Operating costs	5,410	5,372	3,965	4,108
Impairment losses	2,851	976	796	522
Profit before tax	757	2,923	2,144	3,222
Net profit/(loss)	195	1,998	1,476	2,243
Net interest income (in % of BP)	65.9%	60.9%	61.6%	63.0%
Cost-to-income ratio	57.8%	53.4%	53.4%	49.9%
Profitability ratios				
ROE	0.5%	5.4%	5.4%	8.3%
ROA	0.0%	0.5%	0.5%	0.7%

Source: *Summary of Banking Sector Indicators - 2022 | 3rd Quarter*, Associação Portuguesa de Bancos (Portuguese Banking Association)

2

LEGAL AND **REGULATORY FRAMEWORK**

Legal and **REGULATORY FRAMEWORK**

The banking activity necessarily involves the assumption of risks, which, if not properly managed, may jeopardise the sustainability of an institution with damaging consequences for the stability of the entire financial structure. Accordingly, the performance of the banking activity is necessarily subject to a myriad of regulatory requirements of a prudential and behavioural nature in order to promote the adoption of processes and procedures that are in line with the objectives of preserving financial stability and protecting the interests of depositors and other bank customers.

Since the major global financial crisis that began in 2008, the legislative power and the various regulatory bodies have embarked on a journey to transform the legal regulatory framework for banking activity. The framework put in place underwent a thorough legal and regulatory reform aimed at strengthening the transparency, stability and soundness of all financial institutions.

During 2020, there was also the challenge caused by the COVID-19 pandemic, which deeply affected economic activity in Portugal and the rest of the world. The banking activity was also deeply affected by the solutions found in response to the pandemic crisis, namely the issue of moratoria and the successive reporting requirements to the supervisory authorities. During 2022, there was a recovery in global activity and the establishment of normality in terms of pandemic risk, the greatest highlight of this trend being the progressive opening of the Chinese market and the abandonment of the COVID-zero policy.

Nevertheless, the year 2022 was deeply marked by two factors that are somehow interconnected: a) the Russia/Ukraine conflict and; b) inflationary pressure.

The beginning of 2022 was marked by the start of the conflict in Europe between Russia and Ukraine, which immediately put pressure on oil and energy prices in general, emphasising the imbalances already initiated by the pandemic, particularly with regard to international supply chains. In 2022, there was a global inflationary trend that led to pressure on the prices of the main commodities and industrial products, as well as a generalised increase in the basket of essential products for families.

As a result of the above reasons, over the course of 2022, a regulatory burden associated with the publication of EU sanctions was witnessed in the context of the Russia/Ukraine conflict. In terms of other regulatory developments and legislative amendments, with an impact on BAIE's activity, we highlight the following:

- **BdP Notice No. 1/2022 AML/CFT Duties** – Reorganises the systematics of the duties for anti-money laundering and counter terrorism financing (AML/CFT), applicable to the banking sector and replaces the previous BdP Notice No. 2/2018.

- **Circular Letter No. CC/2022/00000001 Reporting Template - Funding and Capital Plans** – Discloses, in accordance with no. 9 of Instruction no. 18/2015, the reporting templates for the Funding and Capital Plans, the description of the macroeconomic and financial scenario and other guidelines necessary for the exercise and reporting by institutions with a reference date of 31 December 2021.

- **Instruction No. 6/2022 - Reporting of loan moratoriums** – The obligation to periodically report loan moratoriums to the BdP, previously regulated in Instruction No. 13/2020, is repealed.

- **Instruction No. 7/2022 - Change in prudential reporting of loan moratoriums** – Reporting shall be made on a quarterly basis, in accordance with the standard models annexed to the EBA/GL/2020/07 Guidelines of 2 June.

- **Own Funds Reserve - Termination of flexibility measures adopted in the context of the pandemic** – As from 1 January 2023, less significant institutions must maintain own funds levels in order to comply with Pillar 2 - Guidance and the combined own funds reserve, in compliance with the applicable legislation and the supervisory decisions individually communicated by the Banco de Portugal.

- **Instruction No. 13/2022 Statistical Reporting | Securities Portfolios** – Introduces changes in the reporting of statistical information to Banco de Portugal for the compilation of securities statistics, as regards securities portfolios. Revokes and replaces, as from 31 January 2023, Instruction No 31/2005.

3

BUSINESS **MODEL**

BUSINESS **MODEL**

In 2022, BAIE materialised the implementation of its revised Business Model, based on the strategy outlined within the Strategic and Business Plan (PEN), which had been validated by the shareholders at the beginning of the second quarter of 2021 (General Meeting of April 2021), giving rise to the following impacts:

a) change in the Bank's funding structure, with growth in its balance sheet through customer deposits to the detriment of resources from financial institutions;

b) growth of the loans and advances to customers portfolio and, consequently, reduction of the set of availability and investments in financial institutions;

c) obtaining new and diversified sources of funding that:

   i. allowed reducing the dependence on BAI Angola, in terms of financing the Bank's activity (a situation also flagged as a weakness by the Bank de Portugal under the SREP - Supervisory Review and Evaluation Process);

   ii. these impacts translated into lower compulsory bank contributions;

   iii. the above led to a significant strengthening of the liquidity of the Bank's balance sheet, which also eliminated the need to sell debt securities to meet liquidity ratios.

These impacts are mainly the result of:

a) internal restructuring, with the setting up of 3 new business units (Marketing and Communication Unit, Institutional Banking Unit and Retail Banking Unit);

b) the launching of new products;

c) the attraction of new customers in new and existing geographies.

The Business Model implemented aims to develop activity in specific market segments, adopting the quality of the services rendered to its customers as a differentiating factor. The implementation of this strategic guideline is based on the adoption of a conservative risk profile, which ensures the continuity of the Bank's business, in terms of profitability and solvency, under all circumstances.

BAIE'S BUSINESS AREAS

Corporate Banking	Retail Banking	Institutional Banking
Area dedicated to supporting resident companies managing their treasury needs and those carrying out export and investment operations, mainly in Africa.	Area dedicated to providing savings solutions for resident and non-resident customers, with a focus on the affluent segment, while developing a digital strategy.	Service provided as a correspondent and intermediary to other banks outside the Eurozone, namely institutions in Portuguese-speaking Africa.

1. CORPORATE BANKING

Dedicated to promoting trade flows between Africa and Europe, BAIE **has specialised**, since its establishment in Portugal, **in trade finance solutions to support its Corporate customers**. The Bank's Corporate Banking area is structured as shown below.

Commercial Banking

BAIE offers solutions to **support international trade to companies resident in Portugal**, seeking that they benefit from the know-how in trade finance and experience with the Angolan market acquired since the bank was founded.

In terms of segmentation, the Bank has a **special focus on exporting SMEs**, while also providing a **diversified offer for large companies and non-exporting SMEs**.

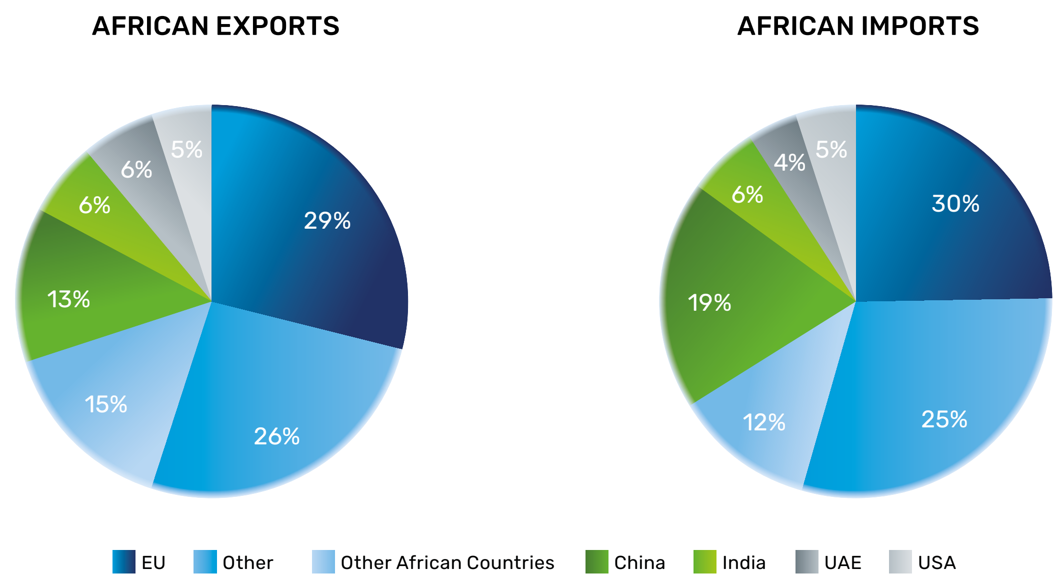
Structured Credit

Organisation of **specialised financial solutions for Corporate customers**, namely the creation and/or participation in structured operations, particularly in the form of a banking syndicate.

1.1. INTERNATIONAL TRADE

Trade Flows: European Union-Africa

The European Union is Africa's number one trading partner for goods, with 29% of exports and 25% of imports in 2021.



Source: *International Trade Centre*

Portugal's exports to Africa

In 2021, the largest exporter of EU goods to Africa was France (Euro 23 billion), with a market share of 17.2%, whilst Portugal (Euro 4 billion) ranked 7th with a share of 3.3%.

Country	Euro million	% Share EU
France	22,964	17.2
Germany	20,298	15.2
Spain	16,840	12.6
Italy	15,752	11.8
Belgium	13,889	10.4
The Netherlands	12,987	9.8
Portugal	4,469	3.3
Poland	3,451	2.6
Sweden	2,748	2.1
Greece	2,587	1.9
(...)	(...)	(...)
Croatia	153	0.1

Source: *International Trade Centre*

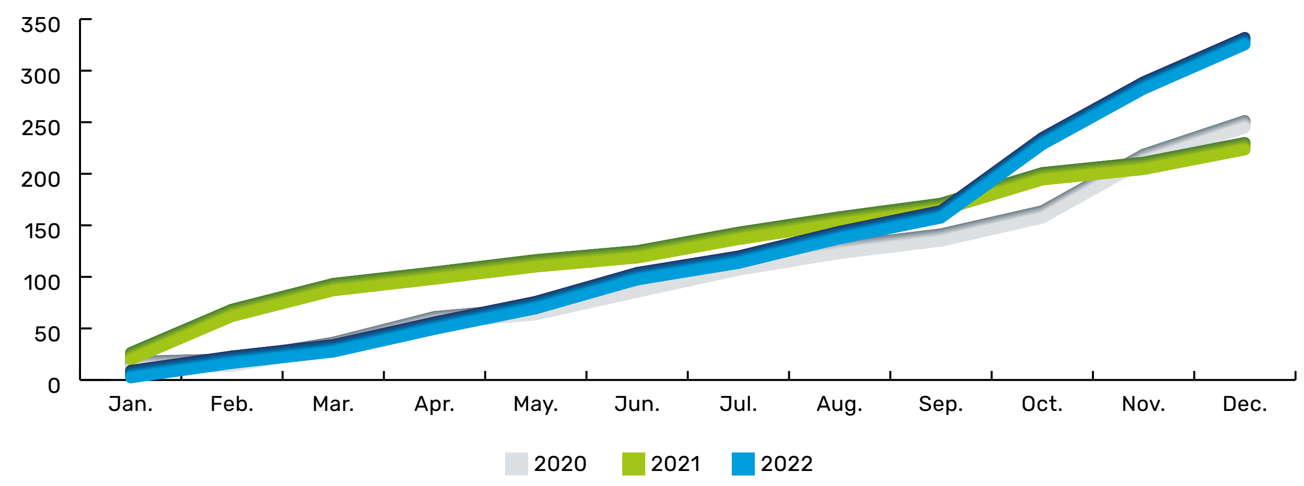
1.2. BAIE'S OFFER

BAIE focuses on niche companies, resident in Portugal or other European Union countries, which carry out export and investment operations in Portuguese-speaking Africa and other African countries.

The Bank has developed a specific set of tools and solutions to support its customers' import and export business, such as:

- **Documentary credits**: advice, negotiation and confirmation of letters of credit;
- **Discount of letters of credit:** advance payment of the amount of the letter of credit to the exporter before the maturity date;
- **Irrevocable credit facilities:** issue of irrevocable credit facilities under letters of credit opened by correspondent banks;
- **Financing**: granting a short-term pre-credit facility to the exporter (the recipient of the letter of credit);
- Transfer of the funds from the credit to the exporter as payment, upon presentation of the required regulatory documentation;
- **Documentary payments**: intermediation and document management related to trade finance operations;
- **Bank guarantee:** provision of bank guarantees to its customers to ensure that payments are made with the least possible risk;
- **Guarantee advisory and reissue**: advisory and reissue of guarantees through the presentation of counter-guarantees accepted under the terms of a trade finance transaction.

BAIE – CONFIRMATIONS OF CDE'S (MILLION EUROS)



1.3. NEXT STEPS

New markets

BAIE closely follows the activity of its Corporate customers, anticipating solutions, according to their international expansion needs.

The main focus of BAIE is the Portuguese-speaking African market. However, the Bank is prepared to expand its business wherever its customers are doing business.

Supranational organisations

Joining trade finance programmes with multilateral institutions is part of BAIE's strategy to find the necessary solutions for future operations of its customers.

Considering the risk profile, the Bank has taken on exposures in trade finance transactions with this type of international organisation.

Structured financing

Over the last few years, and particularly in 2022, BAIE has been participating in structured operations abroad, in partnership with African financial institutions, in order to respond to local opportunities through syndicated financing and trade finance agreements.

Regarding financial solutions to support larger and long-term internationalisation, it should be noted that BAIE has been affirming itself as one of the main players in the structuring of syndicated loans under the Portugal-Angola financial arrangement.

2. RETAIL BANKING

BAIE segments its **Retail customer** base into Retail, Affluent, Premium and Employees of the BAI Group, **focusing on the offer of savings solutions for resident and non-resident customers**, namely residents in Angola, BAI customers or employees.

The Bank's main target is *Affluent* customers who, depending on their profile, show greater interest in this type of product.

In 2022, the Bank developed a digital strategy to attract customers, namely through remote account opening (digital onboarding). In 2023, a restructuring of Internet Banking (BAI Europa Directo) and the development of an App are planned.

Throughout 2022, BAIE achieved three very important milestones under this strategy, with the availability of the opening of online accounts for residents in Portugal, under a 100% digital process, on 17 January 2022. Subsequently, the opening of online accounts was extended to residents in Angola and Cape Verde on 12 May 2022, in a pioneering process. Finally, on 10 October 2022, this process allowed the opening of an online account with up to three holders.

Accordingly, our customers can open an account in just five steps:

1. Contact gathering and confirmation of requirements
2. Acceptance of pre-contractual documentation
3. Collection of identification and supporting data
4. Video call for identity validation
5. Document signing

MAIN SERVICES

BAIE provides a wide range of services in the Retail Banking segment, tailored to the needs of its customers, among which we highlight the following:

- **Current Account** no minimum amount required
- **Term Deposits** with competitive rates
- **VISA Debit Card** with contactless functionality
- **Direct Debits** for periodic payments upon prior authorisation
- **BAI Europa Directo** check your accounts and carry out various operations online

3. INSTITUTIONAL BANKING

As part of its Institutional Banking activity, BAIE focuses on providing services to financial institutions based in Portuguese-speaking Africa, which allows banks to **manage their treasury and financial flows more efficiently**. In addition, BAIE plays the role of **local and regional service provider to these institutional partners.**

Within this scope, BAI Europa's offer focuses on the provision of trade finance, trade payments, FX (forex) and interbank money market solutions to institutional customers.

The Institutional Banking activity also ensures the promotion of the Bank's financing capacity in foreign markets, with other financial and multilateral institutions, establishing partnerships to support trade finance activity, thereby supporting the effort to internationalise European companies in Africa.

Within the Correspondent Banking segment, BAIE offers several products, from international payment services to trade finance solutions tailored to the customer's needs, developed according to the experience acquired in the African and European markets, complementing the offer of Corporate Banking solutions.

Main services

Among the different services provided by BAI Europa, in the Institutional Banking segment, we highlight the following:

- **Current accounts** in Euro and other foreign currencies to facilitate payments and other commercial transactions
- **Participant in SEPA, TARGET 2 (Euro) and EBA Step 1**, as well as all home market local currency clearing systems
- **Foreign exchange and spot transactions** via Bloomberg and Reuters
- **Savings solutions** (money market investments)
- **Financing**
- **Online banking**

4

BUSINESS **DEVELOPMENT**

BUSINESS **DEVELOPMENT**

COMMERCIAL BANKING AND CORRESPONDENT BANKING DEPARTMENT (DCC)

After the redesign of the business areas that led to the setting up of the Commercial and Correspondent Banking Department and its three functional units – Retail Banking Unit, Corporate Banking Unit and Institutional Banking Unit, the year 2022 was considered to be a year for consolidating our market position as set out in the strategic plan for 2021-2025.

The Bank increased commercial drive with the introduction of systematic tools aimed at achieving greater customer orientation and proximity, leading to the strengthening of cross-selling between the three customer segments – Retail, Corporate, Institutional – and the creation of synergies between the Commercial Banking and Trade Finance offer, thus increasing the capture of business opportunities.

BAIE attended two international trade fairs (Gulfood and Sial) represented by joint delegations – Corporate and Institutional – where some of the key players in this market are present. The institutional presence in Angola and Cape Verde was strengthened, beginning the process of geographic expansion through a reinforced approach, already begun in 2021, to the Mozambican market and a first approach to the São Tomé market. Important steps were also taken in strengthening the connection between BAI AO and BAIE and in approaching the concept of the single group customer, seeking to strengthen the relationship with our parent company, being this the Enabler of the Strategic Business Plan. In this chapter, the role of the Commercial Department of BAI AO was fundamental in promoting joint visits to customers and potential customers of the Group, as well as the role of our Ambassadors in identifying companies with a dominant position in the import business.

As a result of the strengthening of our positioning in trade finance, BAIE received the news of the award for "Best Trade Finance Bank Portugal 2022" by the "Global Banking and Finance Review".

In order to improve monitoring in the Corporate and Retail Customers segment, a new office was inaugurated in Oporto and the corporate team was strengthened with two new managers and a customer assistant, which shows a strong commitment to this important geographical area.

RETAIL BANKING UNIT (UBP)

In 2022, this unit continued its strategy of expanding the Retail customer base on a transactional offer basis – current account, debit and credit card, and term deposit-taking – in order to guarantee the diversification of the strategy of raising stable funding to provide sustainability to the growth model in the corporate network.

A priority approach was maintained to Affluent customers (Portugal and Angola) and a customer segment was created for BAI Group employees with a view to extending the offer for Retail customers to all the Group's employees (Portugal, Angola and Cape Verde).

The systematic commercial tools allowed for the establishment of proactive and regular telephone contacts with the customer base in order to increase the level of satisfaction with BAIE and strengthen customer loyalty through the offer of term deposits and debit cards.

The strengthening of the support structure to UBP, together with the introduction of the remote account opening process, allowed, in the final phase of the year, a significant increase in the rate of account opening and fund raising, as well as maintaining a focus on strengthening the regularisation process of customer documentation under the KYC process. This strategy allowed the opening of a significant number of new accounts for Retail customers (+19.3% YoY) and to achieve 30.5% growth in deposit taking – current and term deposits – (Euro 58.74 million compared to Euro 45.00 million euros in 2021).

CORPORATE BANKING UNIT (UBE)

A commercial approach to the Corporate segment was continued through a strategy of increasing the customer base by strengthening the team and opening an office in Oporto with a view to achieving greater sector diversification and better monitoring of the customer base.

In terms of our offer, there was a strengthening of the value proposal in trade finance and cash flow facilities to support resident and non-resident companies that have business and/or investment lines in Angola, Mozambique, Cape Verde and São Tomé and Príncipe.

We also continued to focus on disbursement credit facilities in the form of mutual loans, with a view to providing greater stability to the loan portfolio, broadening the sectorial scope and the maturities of the operations, which also allowed us to broaden the offer and reduce sectorial concentration.

Special attention was also paid by the business unit to the strategy of raising funds through a differentiated offer in terms of remuneration of deposits, with a view to complementing the Bank's offer, enabling funding to be raised to provide sustainability to the growth of the loan portfolio.

The corporate loan portfolio reached the amount of Euro 110.79 million, which represents a growth of Euro 22.80 million compared to the close of 2021 (Euro 87.99 million); a total of Euro 135.20 million in deposits (demand and term), which represents a growth of Euro 51.89 million compared to 2021 and a total of 419 letters of credit were pre-financed, for a volume of Euro 53.83 million and USD 124.76 million.

INSTITUTIONAL BANKING UNIT (UBI)

BAIE continued its strategy of proactively monitor the relationship with Institutional customers, seeking to provide an excellent service, with rapid response capacity to the needs of the Bank's customers. Concurrently, important steps were taken to consolidate our position in Angola, and to expand to new geographical areas centred on Portuguese-speaking African countries, namely Cape Verde, Mozambique and São Tomé and Príncipe. Within this scope, four international roadshows were held, which enabled 75 face-to-face meetings to be held with customers and potential customers from the Institutional segment.

Relevant steps were also taken towards securing new partnerships with multilateral entities with a view to joining Trade Finance Facility Programmes, and a new nostro account was opened with a European reference entity for clearing services in USD, complementary to the existing solutions, having also strengthened contacts for the opening of accounts in USD with a North American reference bank.

The strengthening of the operational connection with customers was initiated, through the promotion of several meetings/calls between the operational departments of BAIE and customers, with a view to promoting operational excellence and the service rendered.

The approach to raising funds (IMM, TD and DD) was also stepped up as part of the contacts established with correspondent banks.

The year ended with a 125% growth in the portfolio of institutional customers in Angola and in São Tomé and Príncipe.

In 2022, a total volume of Euro 324.52 million in letters of credit was confirmed, which represents a growth of Euro 101.35 million compared to 2021 and a total of 93,162 foreign payment orders were issued.

TREASURY AND STRUCTURED CREDIT DEPARTMENT (DTE)

TREASURY MANAGEMENT UNIT (UGT)

Liquidity is a fundamental basis for BAIE's management and remained solid in 2022, as in previous years. UGT implemented the outlined strategy, achieving the planned goals which include efficient management of available liquidity, management of financial assets and liabilities, interest rate and exchange rate risk management.

UGT plays an important role in the BAIE's liquidity management through maintaining the defined liquidity ratios and, together with the Institutional area, maintaining a constant effort to diversify funding sources.

Since 2015, when the Basel III standards came into force, BAIE has had a Liquidity Coverage Ratio above the minimum required. As at 31 December 2022, the LCR was 443% (in December 2021, it was 297%).

With regard to the Net Stable Funding Ratio (NSFR), which entered into force in June 2021, BAIE was able to maintain a ratio between the available and required amount of stable funding comfortably above regulatory levels. As at 31 December 2022, the NSFR was 120% (in December 2021, it was 136%).

In this context, in the course of 2022, BAIE was able to increase stable funding, with customer deposits increasing by 26.5% and deposits from Institutional customers increasing by 5.6%, in line with the strategy of diversification of financing sources.

Notwithstanding the challenges during 2022, with the intervention of central banks that led to a rise in interest rates at a historically high rate, the Bank maintained a bond portfolio with a reduced duration (which translates into a low interest rate risk) and reduced credit risk (72% of the bond portfolio has an investment grade rating).

STRUCTURED CREDIT UNIT (UCE)

Throughout the year, the UCE acted as Arranger or Mandated Lead Arranger on international financing transactions in Africa for more than USD 79 million. In Europe, the Bank participated in two primary market operations in Schuldschein format for Euro 7 million, in addition to the participation in a syndicated financing to a financial institution in the United Kingdom for the amount of Euro 10 million.

Regarding to loan operations under the Portugal-Angola Convention, to be granted to the Angolan Ministry of Finance and to be structured and organised as Buyer's Credit, with guarantee support on behalf of the Portuguese State, during 2022 BAIE was present as an agent bank in operations in the form of a banking syndicate totalling Euro 404 million, the part to be taken up being Euro 153 million, although most of it has not been disbursed.

5

HUMAN CAPITAL **AND SUSTAINABILITY (ESG = E+S+G)**

HUMAN CAPITAL **AND SUSTAINABILITY (ESG = E+S+G)**

FRAMEWORK

In 2022, BAI Europa continued the implementation of a strategic plan based on five strategic axes, one of these being the focus on Human Capital and Social Impact. In a year marked by the implementation of the hybrid working model, the Bank maintained its strategy of Human Capital development and transformation of the organisational culture, with the objective of contributing towards the development of its employees, meeting shareholder expectations and being a benchmark in the provision of a tailor-made, quality service.

For this strategy to succeed, it was necessary to strengthen five areas of intervention: **Feedback & Development; Strengthening of Culture; Engagement & Retention; Recognition** and **Social Responsibility**. Therefore, several initiatives were developed for each of the intervention areas.

Within the scope of **Feedback & Development**, Leaving Interviews were implemented in order to gather insights that allow the organisation to implement improvement actions. A Leadership Development programme was implemented for people who have recently taken on leadership roles and Human Resources indicators were prepared with the aim of analysing the evolution of Human Capital. As usual, on an annual basis, the Performance Assessment System was implemented in which goals were set, feedback sessions were held in the middle of the year in order to align the goals set, and mid-year and end-of-year performance assessment meetings were held. Finally, within this area of intervention, an Organisational Climate Survey was implemented with the objective of receiving feedback from employees on the organisation and implementing improvement actions that contributed towards strengthening the institutional culture.

In order to work towards **Strengthening Culture**, the Human Capital Unit (UCH) held individual meetings with all employees, to be continued in 2023, which aims to get to know better and bring the UCH closer to all employees. We held the traditional celebrations on themed days or holidays, and also corporate events such as the Bank's Kick Off, focusing on Sustainability, and two other occasions when all employees and governing bodies came together, the Summer is Here! event and the Christmas Dinner. On a quarterly basis, we published our Newsletter, "a Voz do BAIE!", where we shared internal initiatives and activities that took place throughout the year. Also, under the Strengthening Culture intervention area, moments were held with the Bank's Management Team, with the aim of strengthening teamwork, with two activities held off site.

Due to the volume of recruitment carried out during 2022, but also in view of the competitiveness of the labour market, an Onboarding Plan for new employees was created in the **Engagement & Retention** intervention area, in order to facilitate the acculturation and integration process. Surveys were also carried out on this plan, in order to collect insights that allow us to assess satisfaction with the recruitment process and the onboarding process.

An intranet and groups on social media platforms have been created in order to encourage interaction between employees and to promote various initiatives among them. Thus, we contribute to improving internal communication and bringing employees closer together, as well as encouraging friendly, after work activities, such as sports. Also, in the scope of Engagement & Retention, the Employee Value Proposition document was created, which shows not only our values, Demanding, Rigour, Agility, Respect and Ethics, but also the 32 benefits available.

Recognition is increasingly a form of acknowledgement of the contribution made by employees over the years. For this reason, the Career Prizes were created, awarded to employees who have completed 5, 10, 15, 20 and 25 years of service in BAIE, and a Newsletter with a special edition was also created to honour and thank the dedication of the employees who have been with the Bank for more than 10 years.

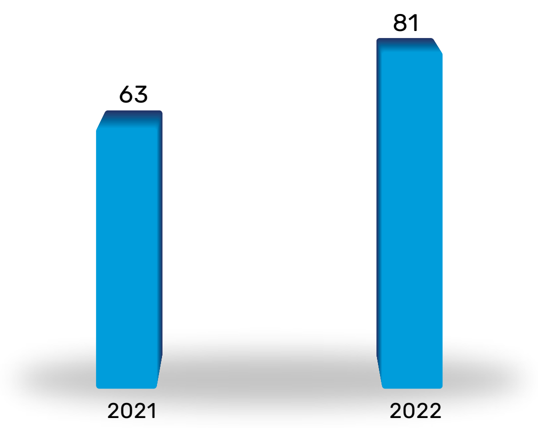
Finally, in an area of intervention that is increasingly relevant in our society, **Social Responsibility**, the Bank supported two Private Institutions of Social Solidarity, helping them to promote actions relevant to social inclusion and the fight against poverty, and a Non-Governmental Development Organisation, in order to stamp our fingerprint on the Ecosystem. In 2023, the intention is to expand the number of initiatives developed in this area.

The World Health Organisation has identified depression as "the disease of the 21st Century". Against this background, two initiatives were developed in the field of mental health to promote, within and outside the organisation, a culture of support for mental health issues, contributing to the reduction of the associated stigma, rooted in society in general, and to an adequate response to employees' mental health problems. Accordingly, BAIE joined as a founding member of MindAlliance in Portugal and provided a psychological support programme for its employees.

HUMAN CAPITAL DEVELOPMENT

BAIE ended the 2022 financial year with 81 employees, a growth of 28.5% compared to 2021.

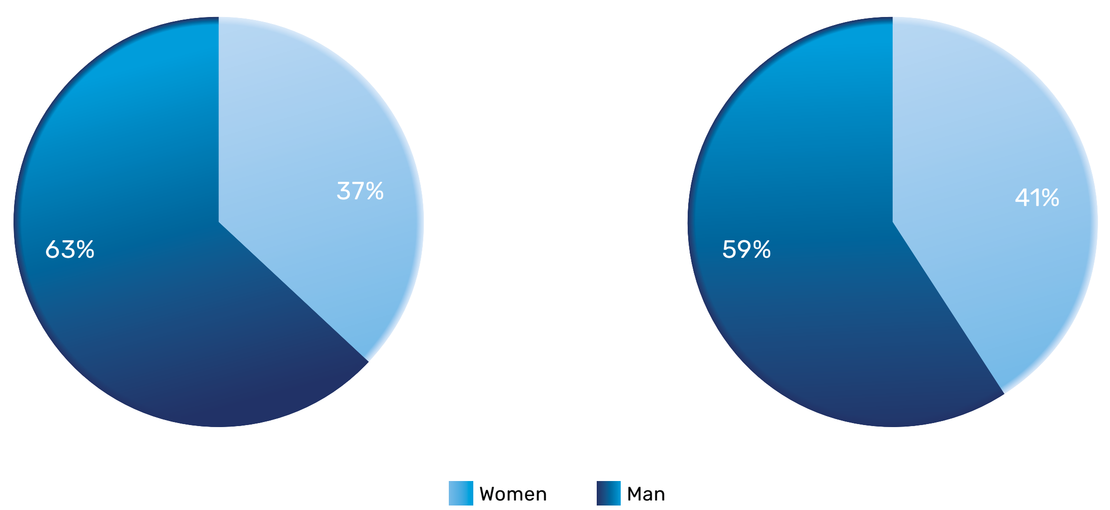
TOTAL NO. OF EMPLOYESS



In 2022, there were 34 hirings and 16 leavings of employees. As in 2021, the majority of hirings were in the business, control and technology areas, representing 76% of new admissions, whereas the leavings observed were in the technology and control areas, with a representation of 81%.

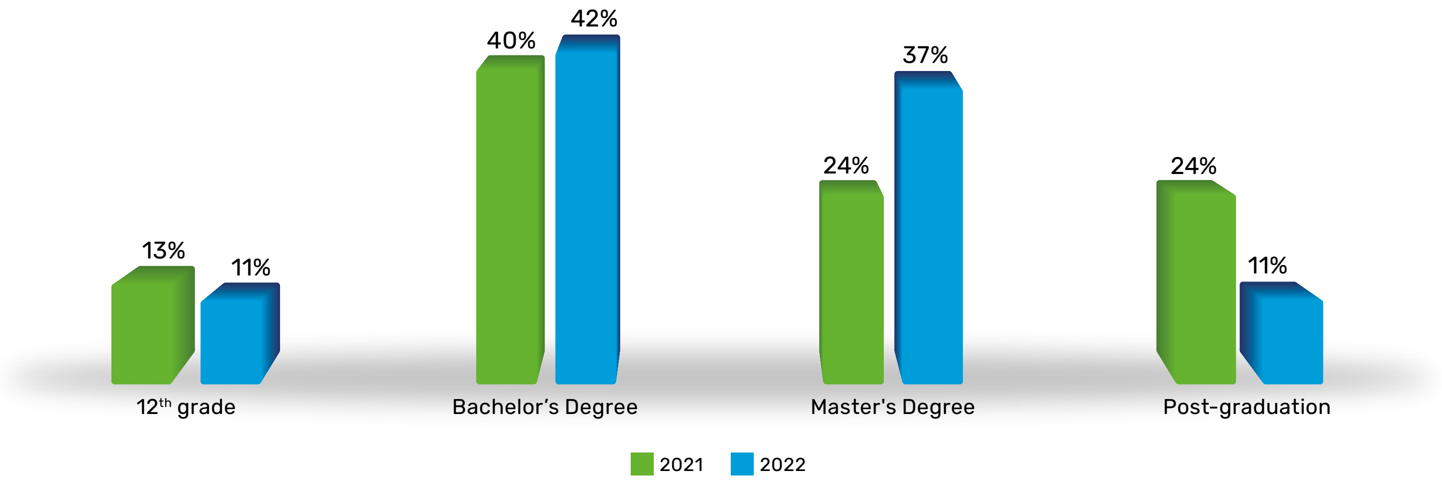
These movements contributed towards ending 2022 with an average age of employees of 36 years old and a team made up of 41% female and 59% male members, which represents an improvement compared to 2021, with an increase in gender diversity.

GENDER DIVERSITY (2021) **GENDER DIVERSITY** (2022)



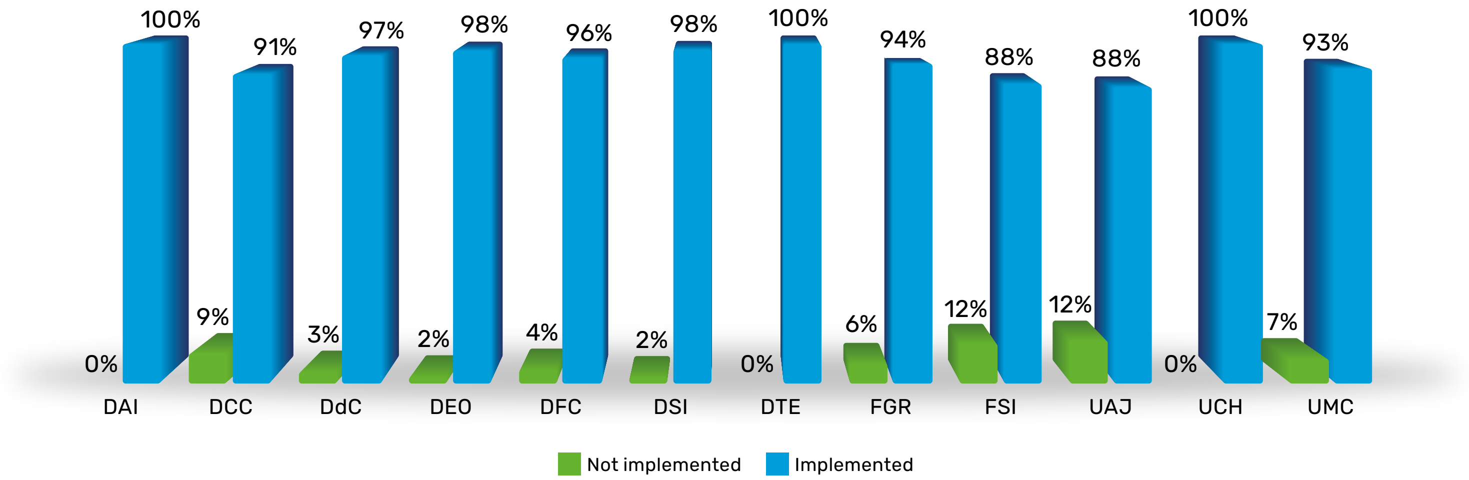
Of the total of 81 employees, 90% had a permanent labour contract and 100% worked full time, 89% had higher education qualifications and there was an increase of 13% in the number of employees with a master's degree, compared with the previous year. In 2022, there were people of five different nationalities in the Bank.

LEVEL OF EDUCATION



In 2022, 3,456 hours of training were delivered, which represents an average of 42 hours of training per employee. Most of the training was delivered in-house. However, the Bank also used external entities to develop the potential of its employees.

TRAINING PLAN (2022)



ENVIRONMENTAL **(E)**

Sustainability and Social Impact are incorporated in one of the five axes of the Bank's Strategic Plan for 2021-2025, and a multidisciplinary working group dedicated to guiding BAI Europa in the incorporation of ESG factors in its business strategy, risk management and monitoring, follow-up of the new legislative and regulatory framework and observation of best practices in the sector was created in 2022. This working group meets every fortnight.

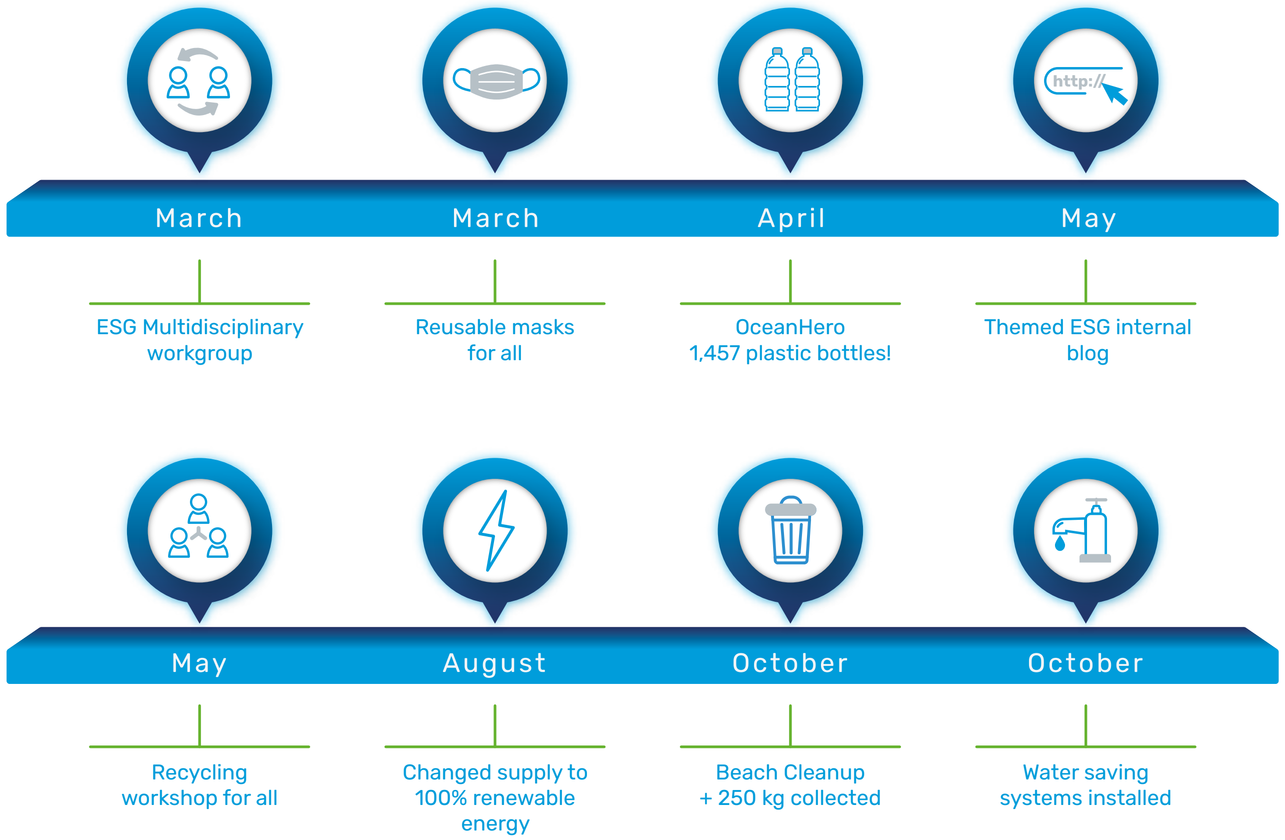
BAIE's Risk Management Function (FGR) is responsible for monitoring and setting ESG indicators that may impact the Bank and are presented to the Executive Committee on a monthly basis, together with other indicators associated with the different types of risk to which the Institution is subject.

In addition, as part of its financial planning, BAIE has taken into consideration the necessary investment and the main operating costs arising from the implementation of the planned ESG initiatives, with a view to reducing the Bank's ecological footprint.

The design and implementation of the ESG related activities resulted from an initiative of BAIE's Strategic and Business Plan, seeking to translate it into tangible actions that meet the expectation and demands of the Bank's stakeholders.

Inspired by the report *"Agir pela Sustentabilidade"* of the Banco de Portugal, which defines the strategy of approach 2022-2025 to ESG issues, BAI Europa created and implemented an annual strategic framework consisting of various initiatives.

Using the GRI reporting methodology, we highlight some of the activities carried out in 2022, with particular emphasis on the following:



The initiatives illustrated above resulted in a substantial improvement in BAI Europa's performance in terms of various indicators, which the Bank considers to be decisive within the scope of its environmental responsibility strategy. Below are some of the main KPI's that illustrate the developments observed between 2021 and 2022:

Operational energy consumption:

2021: 36.29 tonnes of CO_2

2022: 31.48 tonnes of CO_2

Electricity generated:

2021: Electricity produced from mixed sources, mostly non-renewable sources

2022: From September 2022, electrical energy 100% generated from renewable sources

Water saving:

2021: Water-saving flush cisterns

2022: Maintenance of flushing cisterns and installation of flow reducers that saved 30% of water in toilets and pantry

As part of its environmental responsibility strategy, and in order to continue the work developed over the last year, the following initiatives have been planned for 2023:

Associated tasks	Areas Involved	To be developed in 2023
Replacing the car fleet with hybrid or electric vehicles, providing electric chargers at the Bank's facilities.	UMC, DEO	• The BAIE's vehicle fleet is made up of vehicles under an operational leasing regime contracted for periods of 4 years. Since the second half of 2021, all vehicle replacements comply with this rule. The fleet replacement process will be concluded in 2025. • Until the end of the first semester of 2023, 8 electric chargers will be installed at the facilities.
Measures to reduce energy consumption and single-use resources.	UMC, DFC, UCH	• Maintenance of the analysis of energy supply and consumption, internal communication via intranet of initiatives aimed at raising awareness and increasing the general population's knowledge of energy consumption, saving and production. • Optimisation of resource consumption in toilets through the replacement of hand drying equipment.
Ensure that electronic waste is correctly disposed of and promote the replacement of appliances and light bulbs with more energy efficient ones.	UMC, FSI, DSI and UAA	• Monitoring and raising awareness among employees for good management of equipment and electric and electronic waste, through promoting training actions and good compliance with management standards in force.
Limit the availability of non-reusable items.	UMC, UAA	• Analysis and renegotiation of coffee and other supply contracts with a view to significantly reducing the waste produced, whether non-recyclable capsules or single--use items.
Analyse consumption and implement water saving measures.	UMC, UAA	• Raise awareness in UAA for more water and energy efficient dishwashing programmes.
Improve individual employee waste management.	UMC, UCH	• Workshop with recycling company on WEEE (Waste Electrical and Electronic Equipment)/batteries; • Internal promotion of good compliance with the procurement policy, by choosing larger packages with a view to reducing waste; raising awareness for the effective separation of waste not only in the pantry context but also at individual work stations.
Improve external communication on ESG issues.	UMC, UCH	• Re-design the page on the public website dedicated to Sustainability and Social Responsibility.
Analyse suppliers of recycling bins for sensitive documents.	UMC, DFC	• Check whether these suppliers have good practices.
Analyse paper consumption to promote the reduction of internal and customer consumption.	UMC, FSI, DSI and UAA	• Analyse total paper consumption; • Run a campaign with managers, for customers who have not yet signed up for internet banking or continue to receive paper documentation, in order for many issues to be dealt with digitally; • Promote the switch, for those who use it most (EC and business areas), to digital and reusable business cards.

(To be continued)

BAI EUROPA

(Continued)

Associated tasks	Areas Involved	To be developed in 2023
Promote volunteering and awareness actions among BAIE employees.	UMC, UCH	• Communicate again to all employees about the impact of installing the OceanHero extension in the browser (on average, for every five browser searches with this extension, OceanHero finances the collection of one plastic bottle by disadvantaged people, who thus benefit directly and indirectly from this clean-up in coastal areas), together with a support guide; • Promote a forest management event with Institute for Nature Conservation and Forests (ICNF) to protect biodiversity and native forest.
Share a weekly ESG tip on the intranet.	UMC	• Initiative to be continued in 2023.
Benchmarking ESG offer.	UMC	• Monitoring of market trends, more detailed analysis will be done as part of the preparation of the 2023 Competition and Market Trends Analysis.

WHAT HAVE WE DONE TO POSITIVELY IMPACT OUR BLUE HOUSE?

The Bank sought to rethink and rationalise its consumption, namely of energy, water, materials and waste, above all based on a logic of process dematerialisation, preservation of natural resources and good management of what cannot be reduced, in particular electronic and electrical waste.

During the year, several environmental performance indicators were monitored in order to follow the eco-efficiency of the Bank and, based on the performance observed, actions were developed, and tasks were carried out for improvement.

We highlight the following:

1. Analysis of energy consumption and operational energy sources:

i. CO_2 emissions in 2021: 36.29 tonnes - in 2021 impacts related to the pandemic were still felt, which favoured a lower energy consumption and respective emissions;

ii. CO_2 emissions in 2022: 31.48 tonnes - it proved possible to reduce CO_2 emissions by 13.25% despite the fact that, for most of 2022, the return to the office was a certainty and that BAI Europa Bank is growing rapidly in number of employees. From September 2022, BAIE will only operate with 100% renewable energy, thus eliminating this source of CO_2 and other greenhouse gas emissions. Additionally, if we analyse the impact per employee in 2022, with a total of 81 employees, we note that compared to 2021, with 63 employees, the CO_2 reduction was 32.81%.

2. Analysis of operational water consumption:

i. During the year, flow reducers were installed in all taps at the Head Office, allowing water savings of around 30%. This saving was achieved even considering the return to the office of most employees in the post-pandemic context and also the increase in the number of employees from 63 to 81.

3. Waste management and optimisation:

i. In March 2022, when the pandemic was still very much present in everyone's daily lives, in order to reduce the waste caused by disposable masks, each employee was offered two reusable masks. The internal supplier policy was also updated so that, in line with what we believe to be our responsibility towards the planet and society, we can apply sustainability criteria when we need supplies of goods and services from outside BAIE.

4. Awareness-raising and communication:

i. The Hummingbird Effect, as described by the United Nations, in relation to the 17 Sustainable Development Goals, determines that no one is too small or insignificant to take action to help implement these worthy goals for humanity and the planet. Every action counts;

ii. Therefore, in order to inspire its Employees to reflect the actions that BAIE has been developing throughout 2022, since May 2022 the "ESG Tip of the Week" has been published every week on BAI Europa's Intranet, covering topics as diverse as the optimisation of resources and assets, food waste, public health issues, waste management, ethics and corporate governance, mental health and its prevention, taxation and personal finance, among others.

In addition to these communication activities, we challenged our employees to participate in specific actions:

- In May, Valorsul provided us with information and dispelled myths related to recycling, which not only allowed Employees to obtain relevant information for their personal life, but also helped to optimise the separation that takes place at the BAIE premises, in line with our waste management objectives;

- Moreover, looking at our values of environmental and social sustainability, we promoted the cleaning of coastal areas, directly through the collection of waste in October on the urban beach of Ponta dos Corvos, in the municipality of Seixal, with the support of the ENGO Brigada do Mar (Environmental Non-Governmental Organisation), a voluntary action in which we collected more than 250 kg of waste, and indirectly through the installation of an OceanHero add-on in the browsers of the participating employees;

- OceanHero is a social enterprise, without equivalence in the Portuguese regulatory context, but similar in action to an ENGO. It invests all its earnings (advertising in browsers, paid by companies), obtained with the searches made by users through browsers with this add-on installed. With these earnings they fund the collection of plastic bottles from rivers, beaches and oceans by people in disadvantaged coastal communities in developing countries. With this indirect support from BAIE Employees, 1,457 bottles have been collected since April 2022. This polluting and abandoned plastic is recovered and becomes a resource for people facing environmental, social and economic vulnerability in different regions of the planet, supporting, without welfarism, both local communities and global ocean health.

GOVERNANCE (G)

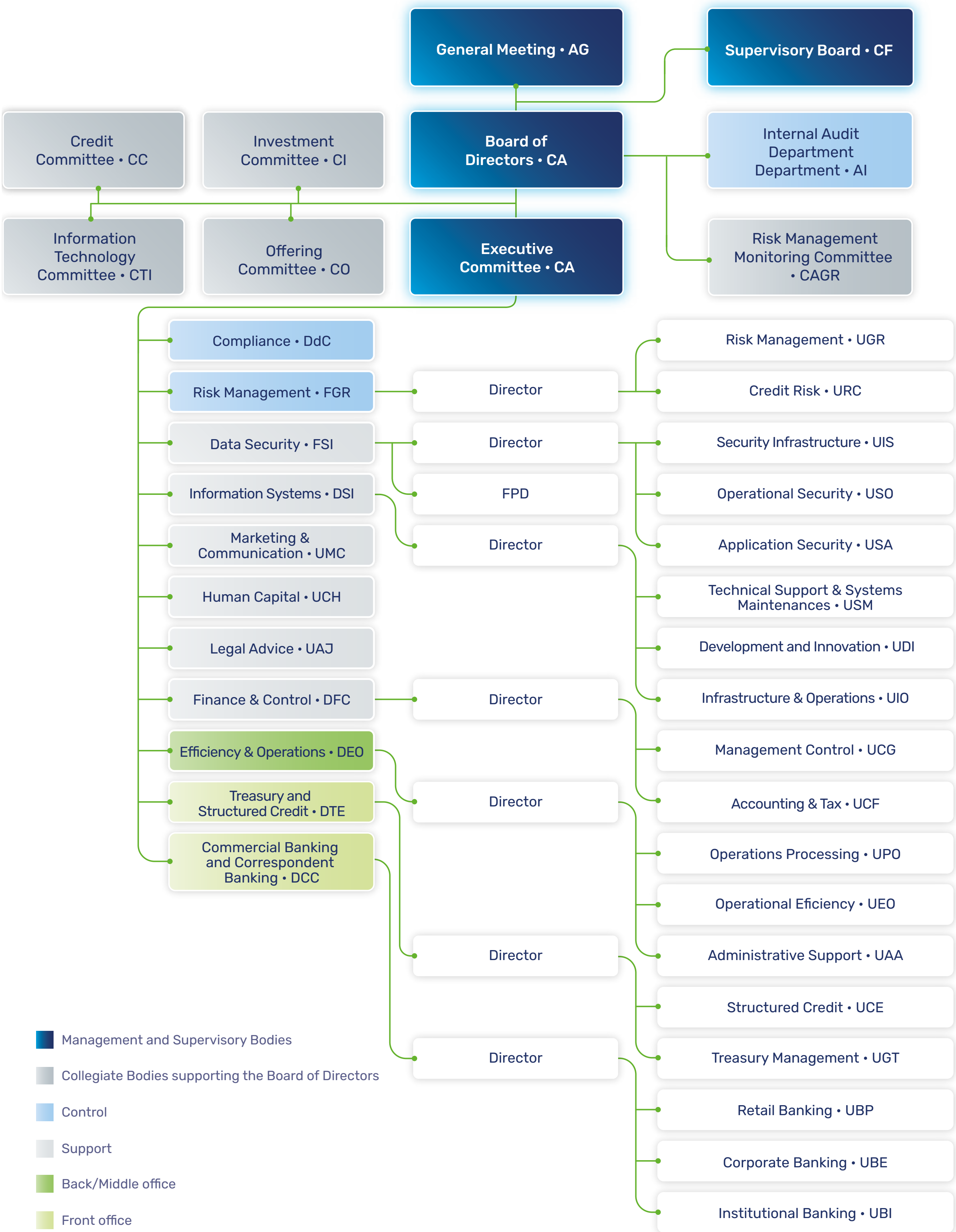
1. INTERNAL GOVERNANCE STRUCTURE

BAIE has developed its activity in order to combine good corporate governance criteria, including technical expertise and duties of care, loyalty and transparency, with procedures aimed at achieving the goals of good corporate governance, including the segregation of duties and the implementation of strict management, financial and risk controls and their monitoring.

BAIE's internal governance structure is outlined based on several factors, namely the environment in which the Bank operates, its business strategy, its conduct and organisational culture, as well as the size, nature and complexity of its activity.

Based on these factors, the Bank's organisational structure has been designed to ensure the existence of adequate resources for the execution of the Bank's business strategy, as well as for the identification, assessment, follow-up, control and monitoring of the financial and non-financial risks to which the Bank is exposed in the course of its activities.

The Bank's internal organisation is portrayed in the organisational chart below and described in specific regulations, called "Organisational Structure".



In January 2023, the Compliance Department was segregated into three units: 1. the Anti-money Laundering and Financing of Terrorism Unit (UPBC), 2. Compliance Unit (UC) and 3. Control and Quality Unit (UCQ).

1.1. Corporate Bodies

BAIE's corporate bodies are the General Meeting of Shareholders, the Board of Directors and the Supervisory Board, and minutes are taken of all the meetings of these bodies. The term of office of the members of the corporate bodies is four years and they may be re-elected. The composition of BAIE's corporate bodies elected by the General Meeting of Shareholders and approved by Banco de Portugal is available on the BAIE website (http://www.bancobaieuropa.pt).

1.1.1. General Meeting

The board of the General Meeting consists of a Chairman, a Vice-Chairman and the company secretary.

The General Meeting is convened by its Chairman, with at least thirty days' notice, and may validly deliberate on first convening, provided that shareholders representing more than 40% of the share capital are present or represented.

Decisions at the General Meeting are taken by an absolute majority of the votes cast, except when the articles of association require a qualified majority of votes, in which case such decisions can only be taken after the Board of Directors has given its prior opinion.

1.1.2. Board of Directors

The Board of Directors is currently composed of three executive directors and three non-executive directors, one of whom is independent.

All directors in office have adequate technical skills and professional experience to perform their duties, complying with duties of care and loyalty and strict compliance with the law, in the interest and with a view to the sustainability of BAIE.

The day-to-day management of the Bank was delegated by the Board of Directors to an Executive Committee (CE). The Executive Members have been allocated specific responsibilities for monitoring the different departments that comprise the Bank's organisational structure. The distribution of portfolios considers the different qualifications and the personal and professional experience of each of the directors.

The Board of Directors meets in accordance with the frequency set by the Board itself and at least once every quarter.

The current practice has been to approve the calendar of ordinary meetings of all the Bank's collegiate bodies, both statutory and non-statutory, at the last meeting of the Board of Directors of the year. Board of Directors meetings have been held bimonthly, taking place over a full working day and may be extended to another scheduled day.

Decisions are taken by majority vote, except in cases where the Law or the Articles of Association require a qualified majority of votes. In the event of a tie, or if the Board of Directors is composed of an even number of members, the Chairman of the Board of Directors has the casting vote.

The powers, composition and *modus operandi* of the Board of Directors are detailed in the relevant regulations approved by the General Meeting, in addition to the legal provisions and the Bank's articles of association.

1.1.3. Executive Committee

The Executive Committee is composed of three executive directors appointed by the Board of Directors from among its members, including a Chairman (CEO), all elected by the General Meeting.

The Executive Committee meets at least once a month, except in August, or whenever it is convened by its Chairman or by any of its members.

Decisions of the Executive Committee are taken by majority vote. In the event of a tied vote, the Chairman shall have a casting vote.

The directors who comprise the Executive Committee ensure that all information concerning their activity is provided to the other members of the Board of Directors, who, in turn, are responsible for the general monitoring of the former's performance.

The powers, composition and modus operandi of the Executive Committee are detailed in the relevant regulation approved by the General Meeting, in addition to the legal provisions and the Bank's articles of association.

1.1.4. Supervisory Board

The Company is supervised by a Supervisory Board elected by the General Meeting and made up of three full members and one alternate member, who took office on 24 March 2022, after being authorised by the Banco de Portugal for the 2021-2024 term.

The Supervisory Board meets as often as determined by its members, with a minimum frequency of quarterly. Decisions are taken by majority vote.

The powers, composition and modus operandi of the Supervisory Board are detailed in the relevant regulation approved by the General Meeting, in addition to the legal provisions and the Bank's articles of association.

1.1.5. Statutory Auditor

BAIE's accounts are audited by a statutory auditor or a firm of statutory auditors appointed by the General Meeting.

1.2. Other collegiate bodies

1.2.1. Risk Management Monitoring Committee

The Risk Management Monitoring Committee (CAGR) is composed of the executive directors, the independent non-executive member of the Board of Directors, who chairs this committee, the directors of the Risk Management Function (FGR), the Compliance Department (DdC), the Internal Audit Department (DAI) and the Information Security Function (FSI), and also includes at least one member of the Supervisory Board.

This committee is responsible for the permanent monitoring of the financial and non-financial risk management system. As a monitoring body, this committee has no decision-making powers.

The meetings take place ordinarily every two months and extraordinarily whenever convened by its Chairman or, in his absence, by another director of the Committee.

The powers, composition and modus operandi of the Risk Management Supervisory Committee are detailed in the relevant regulation approved by the Board of Directors.

1.2.2. Credit Committee

The Credit Committee (CC) is a decision-making body that comprises all the directors who make up the Executive Committee, the Director of the FGR and the Coordinator of the Credit Risk Unit (URC). It is chaired by the director responsible for the FGR.

This committee has the responsibility of approving the highest level of credit operations and meets, as a rule, on a weekly basis or whenever convened by the Managing Director of the FGR or by any of the executive directors.

The decisions of this committee are approved with the favourable vote of the majority of the executive directors who are part of it and the non-opposition of the director responsible for the second line of control functions.

The director in charge of the second line of control functions has the power of veto over the operations presented for analysis by the Credit Committee.

The powers, composition and modus operandi of the Credit Committee are detailed in the relevant regulation approved by the Board of Directors.

1.2.3. Information Technology Committee

The Information Technology Committee (CTI) is a collegiate decision-making and monitoring body made up of all the directors who comprise the Executive Committee and the directors of the Information Systems Department (DSI), the Information Security Function (FSI) and the Department of Efficiency and Operations (DEO). It is chaired by the Chief Executive Officer, the director responsible for the information systems areas. With the exception of August, CTI meets monthly.

The Information Technologies Committee is responsible, in particular, for supervising the strategic plan for information technologies, defining and approving priorities in terms of implementing technological programmes and projects in line with the BAIE's business strategy, including those arising from legal and regulatory obligations or which support the mitigation of relevant risks, as well as monitoring and defining mitigation actions for information security and information technology risk events.

The powers, composition and modus operandi of the Information Technologies Committee are detailed in the relevant regulation approved by the Board of Directors.

1.2.4. Investment Committee

The Investment Committee (CI) is a collegiate decision-making and monitoring body composed of all the members of the Executive Committee, the manager of the department in which the Treasury Management Unit (UGT) is integrated and the manager of the FGR. The Chairman is the director responsible for the business areas. With the exception of August, CI meets monthly.

The CI is responsible, in particular, for analysing and approving investment strategies in accordance with future expectations in relation to macroeconomic scenarios, as well as approving/rejecting new investment options in accordance with the Bank's risk profile approved by the Board of Directors.

The powers, composition and functioning of this body are detailed in the relevant regulation approved by the Board of Directors.

1.2.5. Offer Committee

The Offer Committee (CO) is a collegiate decision-making and monitoring body composed of all the members of the Executive Committee, the directors of the Commercial Banking and Correspondent Department (DCC), the FGR, the DdC and the heads of the Marketing and Communication Unit (UMC) and Legal Support Unit (UAJ). The Chairman is the director responsible for the business areas. The CO meets every two months.

The CO is responsible for analysing and recommending to the Executive Committee the launch of new products, as well as monitoring the life cycle of the portfolio of products and services.

The powers, composition and functioning of this body are detailed in the relevant regulation approved by the Board of Directors.

2. CORPORATE GOVERNANCE PRACTICES

2.1. Internal Control and Risk Management System

The Bank's internal control system is based on the three lines of defence model, allocating powers and responsibilities for governance and risk management as follows:

- **First line of defence,** consisting of the business-generating areas and the support areas, which are primarily responsible for identifying, assessing, monitoring and controlling the risks they incur while carrying out their activities;
- **Second line of defence,** consisting of the risk management and compliance functions (FGR and DdC), which interact with the first line of defence with a view to the adequate identification, evaluation, monitoring and control of the risks inherent to the activity carried out by the business and support areas;
- **Third line of defence,** consisting of the internal audit function (DAI), which is responsible for carrying out independent analyses, carried out according to the risk to the other lines of defence.

2.2. Remuneration

The General Meeting shall be responsible for setting the remuneration of the members of the corporate bodies, including social security arrangements and other benefits or complementary benefits.

The Board of Directors defines and approves the remuneration policy of the heads of control functions and other employees.

The Bank's remuneration policy takes into consideration, inter alia:

i. the involvement of the FGR in the definition of appropriate measures for risk-adjusted performance;

ii. the involvement of the Human Capital Unit (UCH) in defining the remuneration structure, gender neutrality, remuneration levels and incentive schemes to attract and retain employees;

iii. the DAI's analysis of the effects of the remuneration policy on the Bank's risk profile; and

iv. the assessment by the DdC of compliance with legislation and regulations, as well as with the Bank's internal policies and risk culture.

To this end, a joint document is drawn up annually by the FGR and DdC, which reflects the evolution of the relevant indicators over the last five years, as well as the analysis regarding the impact of the remuneration policy on the Bank's solvency and conservative risk profile.

Each year, the Supervisory Board reviews the adequacy and compliance with the remuneration policy for the Bank's corporate bodies and employees, including those with control functions. As a result of this review, an opinion is issued which, together with the joint document issued by the risk management and compliance functions (2nd line of control), accompany the proposal for the remuneration policy of the Board of Directors and the Supervisory Board, which is subject to approval at the General Meeting.

In accordance with the EBA/GL/2021/04 guidelines, we present below the Remuneration Policy for the members of the management and supervisory bodies of Banco BAI Europa applicable to 2022:

Policy Definition

The Bank's remuneration policy was prepared with the purpose of defining rules, clear and in line with the Bank´s culture, considering the specific features of the Bank's activity, in particular its small size and the nature of its business activity which is characterised by the provision of services within a narrow and traditional range resulting in an activity of little complexity and focused on pre-defined market niches.

The remuneration policy provides specific rules for the Bank's various employees, distinguishing between:

a) Members of the management and supervisory boards;

b) Employees who, due to the nature of their duties, are considered by Commission Delegated Regulation (EU) No. 604/2014, of 4 March 2014, to have a significant impact on the Bank's risk profile, which in the case of BAIE are considered to be those responsible for the control functions, as well as the other heads of department, who, as a whole, the Bank refers to as the Management Team;

c) Employees who have direct contact with customers within the scope of marketing deposits and products, as well as the employees responsible for the management and supervision of these business areas;

d) Other employees.

With respect to paragraphs a) and b), if the payment of the remuneration includes a variable component, the following deferred payment criteria applies:

i. If the total amount of the variable component of the remuneration awarded for a full financial year does not exceed Euro 50 thousand, it may be paid fully in cash;

ii. Should the variable component of the annual remuneration awarded exceed Euro 50 thousand, the following criteria for deferred payment shall also apply:

1) The amount corresponding to 40% of the variable component is deferred, and this amount is increased to 60% when it exceeds Euro 150 thousand;

2) The deferral is made over a three-year period, which is the minimum period legally established given the nature of the Bank's business and economic cycles, characterised by short and medium term operations;

3) The part of the variable component not subject to deferral is paid in the following year;

4) If there are no situations of reduction of the variable remuneration, the part of the variable remuneration subject to deferral is paid over the next 3-year period, in 3 annual instalments corresponding to 1/3 of its value.

5) Whenever the amount of the variable remuneration exceeds Euro 50 thousand, the deferred and not deferred components shall comprise, in equal proportions, financial instruments and cash.

Policy Approval

It is the responsibility of the Board of Directors (CA) to ensure that the remuneration policy is defined, maintained and applied in accordance with the Bank's culture and governance processes, as well as the adequacy of remuneration practices to the capital structure and risk profile assumed by BAIE, in order to promote a healthy and prudent management of the risks.

Decisions concerning the remuneration of the Bank's employees are approved annually by the CA.

On an annual basis, under the terms of Article No. 115-C of the General Regime for Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*), the Supervisory Board (CF) assesses the adequacy and compliance with the remuneration policy of the Bank's corporate bodies and its employees, issuing an opinion to that effect.

The remuneration of the members of the corporate bodies is approved annually at the General Meeting of shareholders (AG). The implementation of the Policy is subject to an annual independent evaluation, with the results being included in a report that comprises the necessary measures to correct any deficiencies detected, as foreseen in Article 44 of Notice no. 3/2020.

The results of that assessment and the measures required to correct any deficiencies detected are included in an assessment report that is submitted to the General Meeting os shareholders, the Supervisory Board and the Board of Directors, the latter having to ensure the implementation of those measures.

The annual decisions of the Board of Directors regarding remunerations of employees, as well as the preparation of the statement of remuneration to be submitted to the AG, are always preceded by an assessment that considers, in particular:

a) Whether the implementation of the policy remains appropriate to the Bank's risk profile;

b) The identification of staff members whose professional activities may have a significant impact on the Bank's risk profile, considering the qualitative and quantitative criteria set out in Commission Delegated Regulation (EU) No. 604/2014, of 4 March 2014;

c) Whether the allocation and payment of variable remuneration is consistent with the maintenance of a solid equity position.

Executive Directors

The fixed remuneration of executive directors is determined based on the following considerations:

i. individual skills;

ii. the level of responsibilities of each director;

iii. the position held in the Board of Directors;

iv. the length of service in the Group.

The variable remuneration shall depend on the following factors:

i. individual and Bank performance;

ii. economic aspects;

iii. extent of risks assumed;

iv. compliance with the standards applicable to the Bank's business activity;

v. the level of responsibilities of each director.

The performance evaluation of the Bank's executive directors is the responsibility of the General Meeting.

The variable remuneration is allocated on an annual basis according to that assessment and to the proposal submitted by the Board of Directors. The calculation thereof shall allow for adjustments to be made considering the different types of current and future risks, as well as the profitability and adequacy of the Bank's equity and liquidity.

With the aim of maintaining a prudent balance between fixed and variable remuneration components, the amounts of fixed remuneration of executive directors should be sufficient; and the percentage that corresponds to variable remuneration over fixed annual remuneration should be relatively low, not exceeding 50%. The amount corresponding to 50% of the total variable component of the remuneration is paid in cash and the remainder in kind, whenever the respective amount exceeds Euro 50 thousand. If the total amount of the variable component of the remuneration awarded for a full financial year does not exceed Euro 50 thousand, notwithstanding the deferral procedures defined, it may be paid fully in cash. In 2021, the Bank did not pay variable remuneration in kind.

Non-Executive Directors

The fixed remuneration of non-executive directors is determined based on the following considerations:

i. the position held in the Board of Directors;

ii. individual skills;;

iii. the length of service in the Group.

Fixed remuneration is paid 12 times a year. Non-executive directors do not receive a variable remuneration.

The performance assessment of the Bank's non-executive directors is the responsibility of the General Meeting.

Supervisory Board

The members of the Supervisory Board receive a fixed remuneration, determined according to the position held in this body and considering the size and complexity of the Bank's business activity.

Fixed remuneration is paid 12 times a year. The members of the Supervisory Board do not receive a variable remuneration.

The remuneration policy for members of the corporate bodies and employees with a significant impact on the Bank's risk profile is disclosed on BAIE's website.

A General Meeting of the Bank's shareholders will be held by March 2023 to approve the remuneration of the governing bodies.

2.3. Assessment and selection of members of the corporate bodies and employees performing key functions

The rules for selection and assessment of members of the management and supervisory bodies, as well as employees who perform key functions, are defined and approved at the General Meeting.

Whenever required, the DdC proposes to the Board of Directors adjustments or changes to the Policy for Selection and Assessment of Suitability of Members of the Management and Supervisory Bodies and of Employees Performing Key Functions. It is the responsibility of the Board of Directors to approve the respective proposal for revision of the Policy and, in turn, to submit it for approval to the General Meeting.

Any non-approval by the Board of Directors of the proposed revision to the Policy must be duly substantiated.

About the selection of new members for the management or supervisory body, it is the responsibility of the Board of Directors to define the necessary competencies and skills to ensure that there is sufficient expertise in the relevant body, sufficient availability of time and independence of its members, considering, as far as possible, the principle of balanced representation of men and women.

The assessment of the candidates is carried out, among several ways, through the mandatory intervention of an independent evaluator.

Regarding the selection of employees who perform key functions, it is the responsibility of the Board of Directors to define the competencies and skills required to ensure the adequate performance of the respective functions, as well as to assess the candidate(s), namely through an independent evaluator. Members of the management and supervisory bodies and those responsible for the performance of key functions (risk management, internal audit and compliance) are subject to a simplified assessment, duly documented.

The procedure for assessing the suitability of the members of the management and supervisory bodies is based on criteria of suitability, honesty and integrity, professional qualifications, independence and availability. The adequacy is reassessed by an independent evaluator every two years, or whenever facts occur that change the content of the assessment previously carried out.

The assessment of those responsible for performing key functions is carried out on an annual basis, or whenever supervening facts occur that change the content of the previously carried out assessment, and is based on criteria of technical knowledge, responsibility, availability for teamwork, communication skills, initiative (aimed at introducing improvements in the performance of functions), leadership and perception of business risks. In addition, those responsible for performing key functions are covered by the performance management system applicable to all the Bank's employees.

2.4. Training of the members of the governing bodies and employees performing key functions

The Bank provides the members of the Board of Directors, the members of the Supervisory Board and the holders of essential functions with access to adequate training activities relevant to the performance of their duties.

The Bank will provide the new members appointed to the governing bodies with information that is essential for the performance of their duties within a maximum of one month after they take office, as well as training activities that must be completed within six months from the date they take office.

In the last quarter of each year, the training plan for the following year is prepared. This plan covers all employees, including those with essential functions, as well as all members of the Board of Directors and the Supervisory Board. The document is approved by the Board of Directors and includes induction and training objectives for the members of the governing bodies, and is updated in line with legal and regulatory changes, governance changes, strategies, new products and market developments.

2.5. Succession of members of the governing bodies and employees performing key functions

The succession policy for members of the management and supervisory bodies and for employees performing key functions is approved by the General Meeting. The Board of Directors is responsible for preparing and managing the succession plan at the various planning stages, namely in defining profiles, selecting and identifying potential candidates.

The Board of Directors is also responsible for submitting succession proposals (planned or unforeseen) to the shareholders, whenever the respective nomination falls within the competence of the General Meeting.

2.6. Prevention of situations of conflicts of interest

In situations involving conflicts of interest, the Bank will always act so as to ensure that its institutional interest prevails over the personal interests of its shareholders, directors, employees or third parties. Should a situation of conflict of interest involving its customers arise, the Bank shall act so as to ensure transparent and equitable treatment for its customer, considering the duty of loyalty towards them.

The Bank has established a set of internal procedures to prevent and control potential situations of conflicts of interest, which are set out in the Policy for the Prevention of Conflicts of Interest and in the Related Party Policy.

2.7. Transactions with related parties

The Bank's policy on related parties establishes rules regarding the definition, identification, execution and approval of transactions with related parties, their monitoring and disclosure, as well as the powers and responsibilities of the different parties involved in related party transactions.

The conclusion of transactions with related parties depends on favourable prior opinions from the Supervisory Board and the risk management and compliance functions (FGR and DdC), as well as approval by a qualified majority of at least two thirds of the members of the Board of Directors.

2.8. Whistleblowing

The Bank has in place a Whistleblowing Policy that establishes specific, independent, autonomous and adequate internal procedures for the receipt, treatment and filing of reports of serious irregularities in the Bank related to its administration, accounting organisation, internal supervision and solid evidence of breaches of the duties enshrined in the applicable legislation, regulations, instructions and internal rules, namely the Legal Framework of Credit Institutions and Financial Companies and Regulation (EU) No. 575/2013, of the European Parliament and of the Council, of 26 June, as well as reports of irregularities related to possible violations of Law 83/2017, of 18 August, its regulations and/or policies, procedures and controls concerning the anti-money laundering and financing of terrorism.

The reporting of irregularities may be done anonymously, through the ethics portal available on the Bank's institutional website, where the right of defence of those involved, the protection of personal data and the confidentiality of the reports are always ensured.

2.9. Disclosure of Information

It is the responsibility of the Board of Directors to define and approve the information disclosure policy, as well as to assess the adequacy of the information to be disclosed, its verification and frequency.

In defining, implementing and reviewing the disclosure policy, the Board of Directors considers the inputs of the relevant areas, including the FGR and the DdC, in order to ensure an adequate process in terms of relevance, reserve, confidentiality and frequency in the disclosure of information.

6

RISK MANAGEMENT **AND INTERNAL CONTROL**

RISK MANAGEMENT **AND INTERNAL CONTROL**

RISK MANAGEMENT SYSTEM

BAIE's Risk Management System (SGR) comprises an integrated set of permanent processes that ensure an appropriate understanding of the nature and magnitude of the risks underlying the activity performed, thus enabling the adoption of an appropriate strategy and compliance objectives, with the Board of Directors responsible for ensuring its implementation. Accordingly, the SGR allows for the identification, assessment, control and monitoring of all material risks to which the Bank is exposed, both internally and externally, in order to ensure that they remain at the level previously defined by the Board of Directors and that they will not significantly affect the institution's financial position:

Identification **Assessment** **Follow-up** **Control** **Monitoring**

BAIE's Risk Management System was defined according to the size, nature and complexity of the Bank's activity, aiming to incorporate the strategic guidelines and the level of risk appetite defined by the Board. According to the current Bank's risk management model, the following are considered material risks:

I. FINANCIAL RISKS:

a) Credit Risk (includes Concentration Risk);

b) Liquidity and Financing Risk (includes Concentration Risk);

c) Interest Rate Risk;

d) Exchange Rate Risk (includes Concentration Risk);

e) Real Estate Risk.

II. NON-FINANCIAL RISKS:

a) Strategy Risk;

b) Operational Risk;

c) Information Security and Information Technology Risk;

d) Compliance Risk;

e) Reputational Risk

f) ESG Risk.

Pension fund risk and market risk were not considered material in the context of the BAIE. The former due to its applicability to a rather reduced number of employees and the latter due to the fact that the Bank does not have an investment strategy based on a trading portfolio, and therefore does not take market risk into account.

RISK PROFILE

In defining the Bank's strategic guidelines, the Board of Directors has set as its overall objective the adoption of a conservative risk profile for the material risks assumed by the Bank, thus ensuring the continuity of the business in terms of profitability and solvency under all circumstances. This profile was defined considering, among others, the Bank's level of capital and liquidity, the macroeconomic framework in which it operates and its strategic and business objectives.

The Risk Appetite Statement (RAS) reflects the risk appetite guidelines for each of the material risks identified as part of the risk self-assessment as well as the quantitative metrics by which the Bank will monitor its risk profile.

The FGR is responsible for the follow-up and monitoring of the risk profile and the communication of the main findings and conclusions. It is also responsible for supporting the Board of Directors in the assessment of the action measures implemented whenever there is a breach of the limits defined that significantly impacts the Bank's activity, or in the periodic updating of those limits.

FINANCIAL RISK MANAGEMENT

As mentioned above, the financial risks considered material to the BAIE are credit risk (includes concentration risk), liquidity and financing risk (includes concentration risk), interest rate risk and exchange rate risk.

CREDIT RISK

Credit risk is defined as the probability of negative impacts on profit/(or loss) or equity due to the inability of a counterparty to meet its financial commitments to the institution. An integral part of this risk is the credit concentration risk that results from borrowing or investing funds of a relevant amount in a small number of borrowers/counterparties and/or risk groups, or in a few business sectors.

The Board of Directors has defined as a goal the adoption of a low risk appetite for credit risk, ensuring for this purpose a strict management of this risk supported by the delimitation of the nature of the positions at risk and of the number of products and counterparties, the definition of conservative limits and a delegation of credit powers with the need for executive directors to intervene in credit granting operations to non-financial entities or to entities for which no limits have been defined.

Credit risk management at the granting stage

No specific criteria are established for credit granting, since all credit operations are analysed on an individual basis at the time of decision making. The basic principle is that credit is only granted to companies or institutional clients (as a rule, loans are not granted to individuals) that present an acceptable financial position and an ability to generate cash flows that can be easily foreseen and reliably measured, in order to comply with the debt service requirements. In addition, the Credit Committee meets on a weekly basis, where the highest-level operations are approved, and which involve the assumption of risk on amounts relevant to the BAIE's balance sheet. This Committee includes all the executive directors of the Board of Directors. The director responsible for controlling functions has the power to veto operations submitted for analysis by the Credit Committee.

Credit risk management at the exposure monitoring phase

The Risk Management Unit (UGR) incorporated in the FGR is responsible for controlling credit risk through the calculation of indicators operating within the policies and guidelines established by the Board of Directors.

The FGR monitors the credit risk exposures and checks whether they are within the established limits, as well as evaluates the adequacy and efficiency of the measures taken to correct any deficiencies in the respective credit risk management system.

LIQUIDITY AND FINANCING RISK

Liquidity and financing risk is defined as the likelihood of negative impacts on profit or loss or on equity resulting from the Bank not having liquid funds to meet its financial liabilities upon maturity. An integral part of this risk is the risk of liquidity and financing concentration, which results from the concentration of sources of liquidity in a reduced number of counterparties or geographies.

The Board of Directors has defined as a goal the adoption of a low-risk appetite for liquidity and financing risk, ensuring for that purpose the management of this risk based on the maintenance of a prudent net position in order to guarantee compliance with financial obligations upon maturity. Regarding the risk of liquidity and financing concentration, given the framework of the Financial Group of which BAIE is inserted, the Bank has defined as a goal the adoption of a moderate risk appetite in view of the concentration of liquidity sources in Angola. The management of liquidity risk is superimposed on the management of interest rate risk, so that the coverage between assets and liabilities with respect to maturity terms or any possible interest rate review should only be performed after the defined liquidity limits have been met.

INTEREST RATE RISK

Interest rate risk is defined as the probability of negative impacts on net interest income due to adverse movements in interest rates caused by maturity mismatches of assets and liabilities, repricing of related interest rates or the absence of a perfect correlation between the rates received and paid on the different instruments.

The Bank's goal is to adopt a low-risk appetite for interest rate risk, ensuring the management of this risk in order to reduce the sensitivity of net interest income to changes in interest rates and, consequently, preserving the economic value of the balance sheet. For this purpose, in operations with variable rates, only market benchmark rates are accepted as indexing factors.

EXCHANGE RATE RISK

Exchange rate risk is defined as the probability of negative impacts on profit/(or loss) or equity due to adverse movements in the exchange rates of balance sheet items caused by changes in those rates that are used in the translation into the functional currency or by changes in the Bank's foreign currency position due to significant changes in exchange rates. An integral part of this risk is the exchange concentration risk, which results from concentrating the balance sheet in foreign currencies.

BAIE has defined as a goal the adoption of a low-risk appetite for exchange rate risk, ensuring for this purpose the management of this risk so as to maintain the exposure to exchange rate risk within conservative limits considering the size and financial structure of the Bank. Regarding the exchange rate concentration risk, the net exchange position limit provided for in Article No. 351 of the CRR must be complied with on a permanent basis.

REAL ESTATE RISK

Real estate risk is defined as the likelihood of negative impacts on profit/(or loss) or equity, due to adverse movements in the real estate sector, that cause the devaluation of the properties given as collateral in loans granted by the Bank.

The Board of Directors set as an objective the adoption of a moderate risk appetite for real estate risk, ensuring the prudent management of this risk through:

- setting sectoral concentration limits;
- careful analysis of the projects presented, focusing on operations in the medium-high segment – less exposed to the effects of negative economic cycles;
- setting prudent LTV ratios to accommodate negative impacts on the real estate sector.

NON-FINANCIAL RISK MANAGEMENT

As stated above, the non-financial risks considered material to the BAIE are operational risk, information security and information technology risk, strategy risk, reputation risk and compliance risk.

OPERATIONAL RISK

Operational risk is defined as the risk of negative impacts on profit/(or loss) or equity arising from failures in the analysis, processing or settlement of operations, internal and external fraud, the use of resources or services under a subcontracting arrangement, inefficient internal decision-making processes, insufficient or inadequate human resources or the inoperability of infrastructures. A characteristic of operational risk is its dispersion, being present in all the Bank's activities.

BAIE has defined as a goal the adoption of a low-risk appetite for operational risk, ensuring the management of this risk so as to guarantee that adequate internal controls are in place to mitigate, to the greatest extent possible, any negative impacts on profit/(or loss) or equity.

INFORMATION SECURITY AND INFORMATION TECHNOLOGY RISK

Information security and information technology risk is defined as the risk of negative impacts on profit/(or loss) or equity due to the pursuit of a maladjusted strategy in this area, namely the non-adaptability of the information systems to new needs, their inability to prevent unauthorised access, to ensure data integrity or to ensure business continuity in case of failure. In addition, the management of this risk ensures compliance with the guidelines on subcontracting, particularly cloud services.

The Bank has defined as a goal the adoption of a low-risk appetite for Information Security and IT risk, ensuring the management of this risk through the inventory of the Bank's IS/IT assets and identification of the threats to which they are exposed. Mitigation mechanisms were created in order to avoid the event of severe incidents with transversal impact in highly critical IS/IT assets (including incidents related to cybersecurity) and guaranteeing reduced levels of unavailability of highly critical IS/IT assets, mitigating the negative impacts on profit/(or loss) or equity. For this purpose, a structural unit responsible for information security should be defined, independent from the structural unit that manages the information systems.

STRATEGY RISK

Strategy risk is defined as the risk of negative impacts on profit/(or loss) or equity arising from inadequate strategic decisions, a poor internal governance model or the inability to respond to changes in the surrounding environment, as well as changes in the Bank's business environment.

BAIE has defined as a goal the adoption of a low-risk appetite for strategy risk, ensuring a balance between the risk taken and the return generated. In addition, the Bank takes a conservative position in terms of compliance with all regulatory capital limits, and therefore decisions on the Bank's strategic guidance and on its business model should not overly expose it to the intended risk profile.

REPUTATION RISK

Reputation risk is defined as the risk of negative impacts on profit/(or loss) or equity arising from a negative perception of the institution's public image, whether substantiated or not, by customers, suppliers, financial analysts, employees, investors, the media or public opinion in general. This risk may affect the Bank's ability to establish new relationships with its customers, business counterparties, employees or investors. It could also affect the ability to maintain currently existing relationships and could even lead not only to direct and immediate financial losses, but also to legal proceedings, deterioration of the customer portfolio, difficulty in obtaining funds or the loss of key employees from the Bank.

The Board of Directors has defined as a goal the adoption of a moderate risk appetite for reputation risk, ensuring the management of this risk by monitoring the perception of stakeholders, including customers, employees, other financial institutions, suppliers, the media and the general public.

COMPLIANCE RISK

Compliance risk is defined as the risk of negative impacts on profit/(or loss) or equity, arising from breaches or non-compliance with laws, regulations, specific determinations, contracts, rules of conduct and of relationships with customers, established practices or ethical principles, which may materialise in legal sanctions, limitation of business opportunities, reduction in the potential for expansion or in the impossibility of requiring compliance with contractual obligations.

The Bank has defined a low-risk appetite for compliance risk, ensuring the management of this risk in order to guarantee compliance with the legal and regulatory obligations to which it is exposed, including the obligations of prevention of money laundering and financing of terrorism, and to act in accordance with the code of conduct, mitigating the negative impacts on profit/(or loss) or equity.

ESG RISK

ESG risk is defined as the risk of negative impacts on profit/(or loss) or equity arising from the Bank's inability to implement and comply with the requirements defined by the EBA guidelines on ESG, as well as being exposed to entities whose activity is not considered sustainable in environmental terms (E), do not have socially equitable and fair policies (S) or do not comply with best internal governance practices (G).

The Board of Directors has set the objective of adopting a moderate risk appetite for ESG risk.

COMPLIANCE

The Compliance Department is responsible for managing compliance risk in BAIE, acting in an unbiased, independent and extensive manner in relation to the Bank's processes and activities.

The Compliance Department has the mission of ensuring the prevention and mitigation of compliance risks, which materialise in fines, reputational and financial impacts, as a consequence of non-compliance with regulations, laws and the code of conduct.

Also, ensures the evaluation of compliance and effectiveness of the procedures adopted by the Bank, issuing opinions and producing studies at the request of the different areas and departments, where it assesses and identifies the associated risks. And also prepares proposals for correction and lists potential mitigating factors for the risks identified, carrying out a permanent analysis of the control and compliance environment.

It is also the responsibility of the DdC to participate in the development of internal control procedures for the prevention of money laundering and the financing of terrorism, both for monitoring and evaluating them and for centralising information from all business areas and reporting to the relevant authorities as required by law.

In order to guarantee independence, the Compliance Department, together with the Risk Management Function, report to the same director (who must not accumulate responsibilities in business units and support areas, with the exception of the FSI and the UAJ) and are the second line of defence of the internal governance model, interacting with the first line functions (other departments) in order to adequately identify, assess, monitor and control the risks inherent to the activity carried out by the first line functions.

INTERNAL AUDIT

The main mission of BAIE's Internal Audit Function (FAI), ensured by the Internal Audit Department (DAI), is to protect the Bank and contribute to the sustainable development of its activities and to the adequacy and effectiveness of its organisational culture, governance and internal control systems, and their individual components. To this end, the DAI carries out systematic, disciplined, independent and objective risk-based assessment aimed at identifying opportunities for improvement.

The department's responsibilities include managing the database of deficiencies, which includes not only those detected internally, but also those identified by third parties, including supervisory authorities.

It is also the responsibility of the DAI to ensure compliance with the established procedures and control mechanisms and to guarantee the maintenance of the processes for which it is responsible during changes in activity.

The annual and multi-annual internal audit plan is prepared according to an approach based on the risks to which the Bank is exposed. This plan is approved by the Board of Directors and the Supervisory Board and is monitored by these bodies so as to observe its implementation status.

The DAI represents the third line of defence in the Bank's internal governance model, carrying out independent and risk-focused analysis. Their actions and related findings are directly reported to the Board of Directors, and to the Supervisory Board. The ordinary meetings of the Board of Directors have their own agenda item for the DAI to make presentations it deems relevant.

It should also be noted that the DAI is governed by the international standards for the professional practice of internal auditing issued by The Institute of Internal Auditors (IIA).

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FINANCIAL **ANALYSIS**

FINANCIAL **ANALYSIS**

A brief financial analysis of BAIE's activity in 2022 is provided below.

INCOME STATEMENT

EUR	31-Dec.-22	31-Dec.-21	YoY change
Interest and similar income	15,244,734	7,553,778	+101.8%
Interest and similar expense	(4,764,932)	(2,029,408)	+134.8%
Net Interest Income (NII)	**10,479,802**	**5,524,370**	**+89.7%**
Financial Operations (FO)	2,014,867	1,453,445	+38.6%
Gross Profit (NII+FO)	**12,494,669**	**6,977,815**	**+79.1%**
Net fee and commission income/(expense) (NFCIE)	4,154,673	4,090,048	+1.6%
Other Operating Income/(expense) (OPIE)	(828,760)	(1,494,964)	(44.6%)
Net Operating Income (NOI=NII+NFCIE+OPIE)	**15,820,582**	**9,572,899**	**+65.3%**
Fixed Costs (FC)	(8,804,356)	(7,260,665)	+21.3%
EBITDA (NOI-FC)	**7,016,226**	**2,312,234**	**+203.4%**
Depreciation for the period (D)	(965,311)	(707,398)	+36.5%
Net provisions and impairment	(1,612,141)	1,763,566	(191.4%)
Profit before tax	**4,438,774**	**3,368,402**	**+31.8%**
Taxes	(1,132,910)	(945,307)	+19.8%
Profit/(loss) for the period	**3,305,864**	**2,423,095**	**+36.4%**
Cost to income [(FC+D)/NOI]	61.8%	83.2%	(25.8 p.p.)

In a financial year marked by the strong growth of the Portuguese economic activity (with particular emphasis on the recovery period from the pandemic crisis in the first half of the year, generating a carry-over effect in the following quarters) and the significant increase in key interest rates, a consequence of the monetary policy adopted by Central Banks in response to escalating inflation, in 2022, BAIE's ***profit before tax*** amounted to Euro 4,439 thousand, which represents a significant growth of 32% compared to the profit before tax of 2021, as well as the ***net profit for the period***, which reached Euro 3,306 thousand, representing an increase of about 36% when compared to the value for the same period last year.

Net interest income reached Euro 10,480 thousand, which represents a substantial increase of +90% compared to 2021, to which contributed the higher volume of credit assets (loans, securities and interbank money market), but above all the effect of the rise in interest rates. From the cyclical point of view, Portugal has significant indebtedness levels, both in the corporate and household segments, with a prevalence of loans at variable rates. The Portuguese economy is therefore more exposed to the impact of rapidly rising interest rates than other countries in the Euro Zone (officially called the Euro Area). Accordingly, BAIE's asset margin doubled in 2022, to Euro 15,245.

As for the margin debt, the change was +135% compared to the same period of the previous year, mainly due to the increase in costs related to interest and expenses with deposits from other credit institutions. Together with the increase in key interest rates, the need to comply with the net stable funding ratio (NSFR), which became mandatory from June 2021, led BAIE to adopt an aggressive pricing strategy. Additionally, the increase in these costs was also due to the volume variable, as the average term deposit portfolio grew by +25% in 2022.

Income from financial operations increased +39% year-on-year, driven by the increase in income from foreign exchange operations (Euro +946 thousand compared to 2021), due to the investment in expanding the portfolio of institutional customers. Furthermore, there was a reduction in the realised gains/(losses) in the portfolio of financial assets at fair value (Euro -385 thousand compared to 2021), mostly related to the early repayment of securities.

Net fee and commission income/(expense) reached Euro 4,155 thousand, a slight increase of approximately +2% compared to that observed in 2021. Although there was a -1% reduction in commissions on documentary credits (despite +45% growth in the volume of confirmations of documentary credit letters, approximately ~52% of the annual production of trade finance activity occurred in the last quarter, and part of the commissions associated with these operations should be reflected in 2023), commissions received for processing operations grew +13% in 2022, as a result of a higher volume of payment orders.

In 2022, ***other operating income*** decrease compared to the net expense in the previous year (-45%), explained by the following effects: i) capital gains of Euro 379 thousand from the sale of the financial holding that BAIE held in a management company; ii) reduction in the value of contributions to the Single Resolution Fund and to the Banking Sector, in the amount of Euro 421 thousand.

In 2022, ***fixed costs*** increased by 21%, compared to the same period of the previous year, due to the variation in the following items:

i. **General and administrative expenses** (+14%), due to an increase of Euro 124 thousand in expenses with projects and external advisory (including recruitment and selection processes). Additionally, there was an expenditure of approximately Euro 100,000 on the refurbishment of a new office in the city of Oporto, in order to strengthen monitoring of the Corporate and Retail segments in the North region of Portugal, and a cost of Euro 136,000 on travel, accommodation and representation expenses, due to the organisation of four international roadshows and participation in two international trade fairs;

ii. **Staff costs** (+26%), due to the growth in the Bank's human capital structure during the period, as defined in the Bank's strategic plan (81 employees at year-end 2022, compared to 63 employees at year-end 2021), as well as an increase in variable remuneration in 2022.

Regarding ***net provisions and impairment***, the item presents a worsening of -191% in 2022, explained by the following effects: (i) increase in impairment, to the amount of Euro 1,286 thousand, due to the review of risk factors – forward-looking and Country Risk Premium of Angola; (ii) strengthening of provisions for costs related to the Bank's technological infrastructure.

Despite the increase in the cost structure (Euro +1,802 thousand compared to 2021), reflecting BAIE's investment inherent to the strategic and business plan, the significant growth in net operating income (approximately Euro 15,821 thousand in 2022), allowed the cost-to-income ratio to be reduced by approximately 26 p.p. compared to the same period last year.

BALANCE SHEET

EUR	31-Dec.-22	31-Dec.-21	YoY change
Financial Assets:			
Cash and cash equivalents	74,635,816	137,325,731	(45.7%)
Other loans and advances to credit institutions	270,987,405	163,757,086	+65.5%
Loans and advances to customers	145,870,044	119,190,273	+22.4%
Financial assets not held for trading mandatorily measured at fair value through profit or loss	389,216	555,199	(29.9%)
Financial assets at fair value through other comprehensive income	108,688,812	213,998,510	(49.2%)
Other financial assets at amortised cost	135,900,332	25,965,446	+423.4%
Other financial assets at fair value through profit or loss	349,517	313,715	+11.4%
Total Financial Assets	**736,821,142**	**661,105,959**	**+11.5%**
Non-financial assets	8,663,950	6,387,037	+35.6%
Total Assets	**745,485,092**	**667,492,997**	**+11.7%**
Financial Liabilities:			
Deposits from credit institutions	369,212,958	349,468,936	+5.6%
Deposits from customers	273,439,896	216,169,146	+26.5%
Other financial liabilities	349,517	313,715	+11.4%
Total Financial Liabilities	**643,002,371**	**565,951,797**	**+13.6%**
Other non-financial liabilities	14,046,089	10,565,575	+32.9%
Share capital	42,000,000	40,000,000	+5.0%
Revaluation reserves	(5,171,273)	1,322,377	(491.1%)
Other reserves and retained earnings	48,302,041	47,230,154	+2.3%
Profit/(loss) for the period	3,305,864	2,423,095	+36.4%
Total Liabilities and Equity	**745,485,092**	**667,492,997**	**+11.7%**

In 2022, a considerable growth in BAIE's balance sheet (+12%) stands out, driven by the growth in the value of the following items: i) portfolio of ***loans and advances to customers*** (Euro +26,680 thousand compared to 2021); ii) portfolio of ***loans and advances tocredit institutions repayable on demand*** (Euro +18,445 thousand compared to 2021) and; iii) portfolio of ***other loans and advances to credit institutions*** (Euro +87,642 thousand compared to 2021).

The increase in the volume of BAIE's ***loan portfolios***, in line with the guidelines of the strategic and business plan, was reflected in the improvement of the Bank's overall ***transformation ratio***, from 32.7% in 2021 to 35.8% in 2022. This improvement was mainly due to the transformation ratio of CIs (+4 p.p. compared to 2021), since the transformation ratio of customers fell slightly (-2 p.p. compared to the same period in the previous year).

In 2022, there was a greater appetite for ***operations in the interbank money market*** (loans and advances and deposits from credit institutions), reflecting the contractionary monetary policy of the ECB and the Fed, which translated into a significant increase in key interest rates.

In the 2022 financial year, the profile of the BAIE's ***bond portfolio*** did not change significantly compared to the same period. However, there was a trade-off between the items of ***financial assets at fair value through other comprehensive income*** (Euro -105,310 thousand compared to 2021) and of ***other financial assets at amortised cost*** (Euro +109,935 thousand compared to 2021), as it is the Bank's intention to implement a change to the business model underlying its securities portfolios. It should be noted that, in relation to the item ***other financial assets at amortised cost***, there was a positive change of Euro +58,968 thousand euros relating to bonds and commercial paper as well as a positive change of +52,092 thousand relating to the discounting of documentary letters of credit.

Regarding the structure of liabilities, there was an increase in the volume of deposits from from customers (+27%) and, although more moderate, also from credit institutions (+6%), in 2022, reflecting BAIE's growth strategy. The evolution of these items is very significant, since the transformation of this liquidity into financial assets (in line with the Bank's risk profile) allows for the sustainable growth of the Bank's net operating income. Additionally, in the prudential sphere, as mentioned above, increased resources are a key aspect for BAIE to maintain stable funding levels in line with regulatory requirements (NSFR).

The solvency indicator stood at 18.8%, down from 20.2% in the previous year. This variation is explained by the increase in BAIE's activity, whose impact on the level of risk-weighted assets causes pressure on this indicator. However, the solvency ratio remains comfortably above the regulatory minimum limit.

Furthermore, ROE showed significant growth, increasing by 1.1 p.p. (3.7% in 2022, compared with 2.7% in 2021). This reflects BAIE's efforts throughout this financial year to manage its resources more efficiently and, consequently, to increase the return on its equity.

PROPOSAL FOR THE APPROPRIATION OF NET PROFITS

In accordance with the legal and statutory provisions, the Board of Directors proposes that net profit in the amount of Euro 3,305,865 for 2022 be applied as follows:

Transfer to Retained Earnings	Euro 2,975,278
Transfer to Legal Reserves	Euro 330,587

OTHER INFORMATION

i. Subsequent events

Subsequent events are disclosed in the Notes to the Financial Statements, namely in Note 36 (Subsequent events).

ii. In compliance with legal regulations, the Board of Directors expressly confirms that:

- The Bank does not hold and has not disposed of or acquired treasury shares;
- Apart from contracting demand and term deposits under the same conditions applicable to other customers, there were no transactions between the Bank and its Directors;
- The Bank has no branches; and
- The Bank has no overdue debts to the State, namely to Social Security and the Portuguese Tax Authorities.

iii. The structures of the Board of Directors and of the Executive Committee underwent changes in 2021, as disclosed in Note 27 (Staff costs - Annual remuneration paid to members of the corporate bodies).

NOTES TO THE MANAGEMENT REPORT

1) In compliance with Article No. 447 of the Portuguese Commercial Companies Code (*Código das Sociedades Comerciais*), it is hereby declared that the Chairman of the Board of Directors, Luís Lélis, the Chairman of the Executive Committee, Omar Guerra, and the non-executive director and member of the Board of Directors Inokcelina dos Santos are each holder of one (1) share. None of the other members of the Management and Supervisory bodies holds any shares of the Bank's share capital.

2) As at 31 December 2022, and in accordance with Article No. 448 of the Portuguese Commercial Companies Code (*Código das Sociedades Comerciais*), the following shareholders hold more than one-tenth of the share capital of the Bank:

	No. of Shares	%
Banco Angolano de Investimentos, S.A.	7,999,996	99.99995

Lisbon, 1 March 2023

The Board of Directors

Luís Lélis
Chairman of the Board of Directors

Omar Guerra
Chairman of the Executive Committee – CEO

Inokcelina dos Santos
Member of the Board of Directors

Henrique Gonçalves
Member of the Executive Committee

César Gonçalves
Member of the Board of Directors

Nuno Leal
Member of the Executive Committee

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FINANCIAL **STATEMENTS**

FINANCIAL STATEMENTS **AS AT 31 DECEMBER 2022**

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022 AND 2021

	31-Dec.-22				
EUR	Notes	Amount before impairment and amortisation	Impairment and amortisation	Net value	31-Dec.-21
Assets					
Cash and deposits at central banks	3	4,436,230	-	4,436,230	69,738,598
Loans and advances to credit institutions repayable on demand	4; 18	70,288,839	(89,253)	70,199,586	67,587,133
Financial assets not held for trading mandatorily measured at fair value through profit or loss	5	389,216	-	389,216	555,199
Other financial assets at fair value through profit or loss	6	349,517	-	349,517	313,715
Financial assets at fair value through other comprehensive income	7; 20	108,688,812	-	108,688,812	213,998,510
Financial assets at amortised cost					
Other loans and advances to credit institutions	8; 18	271,526,486	(538,334)	270,988,152	163,757,086
Loans and advances to customers	9; 18	147,641,756	(1,771,712)	145,870,044	119,190,273
Other financial assets at amortised cost	10; 18	70,111,574	(203,645)	69,907,929	11,042,227
Other property, plant and equipment and right-of-use assets	11	4,934,303	(2,449,327)	2,484,976	2,892,360
Intangible assets	12	1,712,801	(804,355)	908,446	533,013
Investments in subsidiaires and associates	13	-	-	-	3,949
Deferred tax assets	14; 29	2,407,486	-	2,407,486	579,600
Other assets	15; 18	70,388,590	(1,533,892)	68,854,698	17,301,334
Total Assets		**752,875,610**	**(7,390,518)**	**745,485,092**	**667,492,997**

The following notes form an integral part of these financial statements

The Certified Accountant The Board of Directors

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022 AND 2021

EUR	Notes	31-Dec.-22	31-Dec.-21
Liabilities			
Other financial liabilities at fair value through profit or loss	6	349,517	313,715
Deposits from other credit institutions	16	369,212,958	349,468,936
Deposits from customers and other loans	17	273,439,896	216,169,146
Provisions	18	2,296,890	2,969,217
Current tax liabilities	14; 29	679,076	385,782
Deferred tax liabilities	14; 29	-	224,850
Other liabilities	19	11,070,125	6,985,724
Total Liabilities		**657,048,460**	**576,517,370**
Equity			
Share capital	20	42,000,000	40,000,000
Revaluation reserves	20	(5,171,273)	1,322,377
Other reserves	20	8,932,705	8,690,394
Retained earnings	20	39,369,335	38,539,760
Net profit/(loss) for the period	20	3,305,865	2,423,095
Total Equity		**88,436,632**	**90,975,626**
Total Liabilities + Total Equity		**745,485,092**	**667,492,997**

The following notes form an integral part of these financial statements

The Certified Accountant The Board of Directors

BAI EUROPA

INCOME STATEMENTS FOR THE PERIODS ENDED 31 DECEMBER 2022 AND 2021

EUR	Notes	31-Dec.-22	31-Dec.-21
Interest and similar income – effective rate	21	15,271,876	7,553,778
Interest and similar expense	21	(4,792,073)	(2,029,408)
Net interest income	**21**	**10,479,803**	**5,524,370**
Fees and commission income	22	5,384,379	5,089,898
Fees and commission expense	22	(1,229,706)	(999,850)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	23	63,293	441,236
Net gains/(losses) arising from other assets and liabilities measured at fair value through profit or loss	24	8,303	-
Net gains/(losses) arising from financial assets mandatorily measured at fair value through profit or loss	24	1,238	16,155
Net gains/(losses) arising from financial assets at amortised cost	25	40,027	-
Net gains/(losses) arising from foreign exchange differences	2; 3	1,942,033	996,054
Net gains/(losses) arising from the sale of other assets	11	(935)	-
Other operating income/(expense)	26	(867,852)	(1,494,964)
Net operating income		**15,820,583**	**9,572,899**
Staff costs	27	(5,534,662)	(4,398,113)
General administrative expenses	28	(3,269,694)	(2,862,552)
Depreciation for the period	11; 12	(965,311)	(707,398)
Provisions net of reversals and recoveries	18	(326,204)	1,157,362
Impairment on financial assets at fair value through other comprehensive income			
Financial assets at fair value through other comprehensive income	18	173,776	(203,942)
Financial assets at amortised cost			
Impairment on loans and advances net of reversals and recoveries	18	(388,486)	1,298,397
Impairment on other financial assets net of reversals and recoveries	18	(161,235)	(478,503)
Impairment on non-financial assets	18	(909,992)	(9,748)
Profit before tax		**4,438,775**	**3,368,402**
Taxes	29	(1,132,910)	(945,307)
Current	29	(1,350,843)	(902,348)
Deferred	14; 29	217,934	(42,959)
Profit after tax		**3,305,865**	**2,423,095**
Net profit/(loss) for the period		**3,305,865**	**2,423,095**
Earnings per share		**0.39**	**0.30**

The following notes form an integral part of these financial statements

The Certified Accountant — The Board of Directors

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED 31 DECEMBER 2022 AND 2021

EUR	Notes	31-Dec.-22	31-Dec.-21
Net profit/(loss) for the period		**3,305,865**	**2,423,095**
Items that will not be reclassified into the income statement			
Accumulated actuarial gains and losses on long-term benefits	20	648,767	440,882
Items that may be reclassified into the income statement			
Changes in fair value of debt instruments at fair value through other comprehensive income			
Changes in fair value	20	(8,154,676)	(1,846,743)
Impairment	20	(173,776)	203,941
Tax effect	14; 20	1,834,802	415,518
Profit/(loss) not included in the income statement		**(5,844,883)**	**(786,402)**
Comprehensive income for the period		**(2,539,018)**	**1,636,693**

The following notes form an integral part of these financial statements

The Certified Accountant — The Board of Directors

BAI EUROPA

STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS ENDED 31 DECEMBER 2022 AND 2021

EUR	Notes	Share capital	Retained earnings	Legal reserve	Revaluation reserve	Net profit/(loss) for the period	Total Capital
Balances as at 1 January 2021		**40,000,000**	**37,945,465**	**8,673,348**	**2,549,660**	**170,460**	**89,338,929**
Appropriation of 2020 profits into retained earnings and legal reserve		-	153,413	17,047	-	(170,460)	-
Revaluation reserves	20	-	-	-	(1,227,283)	-	(1,227,283)
Accumulated actuarial gains and losses on long-term benefits	20	-	440,882	-	-	-	440,882
Net profit/(loss) for 2021		**-**	**-**	**-**	**-**	**2,423,095**	**2,423,095**
Comprehensive income		**-**	**440,882**	**-**	**(1,227,283)**	**2,423,095**	**1,636,693**
Balance as at 31 December 2021		**40,000,000**	**38,539,760**	**8,690,394**	**1,322,377**	**2,423,095**	**90,975,625**
Appropriation of 2021 profits into retained earnings and legal reserve		-	180,808	242,310	-	(423,095)	23
Capital increase by appropriation of profits	20	2,000,000	-	-	-	(2,000,000)	-
Revaluation reserves	20	-	-	-	(6,493,650)	-	(6,493,650)
Accumulated actuarial gains and losses on long-term benefits	20	-	648,767	-	-	-	648,767
Net profit/(loss) for 2022	**20**	**-**	**-**	**-**	**-**	**3,305,865**	**3,305,865**
Comprehensive income		**-**	**648,767**	**-**	**(6,493,650)**	**3,305,865**	**,(2,539,018)**
Balance as at 31 December 2022		**42,000,000**	**39,369,335**	**8,932,706**	**(5,171,273)**	**3,305,865**	**88,436,632**

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

CASH FLOW STATEMENT FOR THE PERIODS ENDED 31 DECEMBER 2022 AND 2021

EUR	Notes	31-Dec.-2022	31-Dec.-2021
Operating activities			
Interest, commissions and other income received	21 and 22	20,274,918	12,669,105
Interest, commissions and other expense paid	21 and 22	(7,099,829)	(2,830,846)
Income from foreign exchange and other financial operations	2; 3	1,942,033	996,054
Payments to employees and suppliers	27 and 28	(8,772,584)	(7,847,606)
Net cash flow arising from operating activities before changes in assets and liabilities		**6,344,538**	**2,986,708**
Decreases/(increases) in:			
Other financial assets at amortised cost	10	(58,459,878)	(1,099,334)
Other loans and advances to credit institutions	8	(106,784,923)	(51,777,229)
Loans and advances to customers	9	(26,678,306)	(34,227,306)
Other assets	13; 16	(52,636,626)	(2,257,359)
Net cash flows arising from operating assets		**(244,559,733)**	**(89,361,228)**
Increases/(decreases) in:			
Deposits from other credit institutions and central banks	16	18,892,531	37,139,554
Deposits from customers	17	56,943,665	40,822,307
Other liabilities	19	(2,478,244)	2,286,039
Net cash flows arising from operating liabilities		**73,357,952**	**80,247,900**
Income tax payment	14 and 29	(1,095,822)	(224,876)
Other taxes and contributions paid	25	(1,247,814)	(1,785,773)
Gross cash flow from operating activities		**(2,343,636)**	**(2,010,649)**
Investing activities			
Income arising from financial assets at amortised cost	25	-	-
Income arising from financial assets at fair value through other comprehensive income	23	64,846	441,236
Income arising from financial assets at fair value through profit or loss	24	-	-
Acquisitions of financial assets at fair value through other comprehensive income, net of disposals	7	105,571,590	(73,148,551)
Acquisitions of financial assets at fair value through profit or loss, net of disposals	6	189,503	(11,960)
Acquisition of tangible and intangible assets, net of disposals	11 and 12	(934,403)	1,084,540
Dividends received		-	-
Net cash flows arising from investing activities		**104,981,536**	**(71,634,735)**
Financing activities			
Payments on lease liabilities	19	(362,348)	(144,448)
Net cash flows arising from investing activities		**(362,348)**	**(144,448)**
Net changes in cash and cash equivalents		(62,671,691)	(79,916,452)
Cash and cash equivalents at the beginning of the period	3 and 4	137,396,760	217,313,212
Cash and cash equivalents at the end of the period	**3 and 4**	**74,725,069**	**137,396,760**

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

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NOTES TO THE **FINANCIAL STATEMENTS**

NOTES TO THE **FINANCIAL STATEMENTS**

(Amounts expressed in Euro)

1. INTRODUCTION

Banco BAI Europa, S.A. (hereinafter referred to as BAIE or Bank) was incorporated on 26 August 2002 under authorisation granted by Ministerial Order of the Minister of State and Finances, of 10 May 2002, succeeding to the Portuguese branch, Banco Angolano de Investimentos, S.A. (BAI) in Portugal and its corporate object is the performance of banking activities.

BAI´s branch in Portugal was incorporated in Lisbon under Decree-Law No. 298/92, of 31 December (General Regime for Credit Institutions and Financial Companies – RGICSF), and had its establishment authorised by the Minister of Finance through Ordinance No. 4/97, of 7 January, with a share capital of PTE 3,500,000,000 converted into Euro 17,457,926 fully subscribed through capital originated from BAI.

BAI is a private capital bank with head office in Luanda, Angola. BAI was incorporated on 13 November 1996 with the corporate object of performing banking activities, in accordance with the terms defined by Banco Nacional de Angola (BNA). Its business activity started on 4 November 1997. On 4 May 2008, BAI changed the abbreviation of its legal entity name from Limited Liability Company (S.A.R.L) to Limited Company (S.A.). On 11 January 2011, BAI changed its corporate name from Banco Africano de Investimentos, S.A. to Banco Angolano de Investimentos, S.A.. BAIE is part of BAI Group.

On 9 June 2022, BAI became the first bank to join the Angola Stock Exchange.

The Bank currently operates through its head office and a branch in Lisbon and an office in Oporto.

BAIE´s activity is subject to the supervision of Banco de Portugal, and it is considered a financial institution in accordance with RGICSF.

2. BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES

These financial statements were prepared in order to comply with the legislation in force and were prepared on an individual basis.

2.1. BASES OF PRESENTATION

In accordance with Regulation (EC) No. 1606/2002 from the European Parliament and of the Council, of 19 July 2002 and Regulation No. 5/2015 of Banco de Portugal, of 7 December, BAIE's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). IFRS comprise standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and their predecessor bodies.

These financial statements relate to the period ended at 31 December 2022 and were prepared in accordance with the principle of going concern, as well as with the IFRS in force, as adopted in the European Union, up to that date.

The Bank has adopted the IFRS and interpretations of mandatory application for periods beginning on or after 1 January 2022. The accounting policies adopted are consistent with those followed in the preparation of the financial statements for the previous period.

These financial statements were approved by the Board of Directors of the Bank on 1 March 2023 and are pending approval from the General Meeting of shareholders. However, the Board of Directors believes that these will be approved without amendments.

2.2. USE OF ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The preparation of financial statements requires that the Bank´s management establishes assumptions and perform estimates that affect assets, liabilities, income and expenses, which will be analysed below.

Impairment losses in loans and advances to customers and in other assets

The Bank performs monthly assessments on the existence of objective evidence of impairment, using for that purpose estimates over recoverable cash flows including the ones originated by possible recoveries and collaterals completion (Note 2.4.1.3). This process includes factors such as probability of default, credit ratings, the value of the collaterals associated to each operation, recovery rates and the cash flow estimates, either from future cash flows or the time of their receipt.

Income taxes

The Bank recognised deferred tax assets based on the assumption of the existence of future taxable profits and considering the current legislation in force or legislation already published for future application, as well as the requirements set in IAS 12 (Note 14). Probable future amendments to tax legislation may influence the amounts expressed in the financial statements regarding deferred taxes.

Fair value of derivatives and unlisted financial assets

Fair value of derivative financial instruments and unlisted financial assets (*i.e.*, not traded in active markets) was estimated based on techniques and financial theories using market assumptions or third parties' assumptions (Note 33). Results achieved may differ according to the assumptions considered.

Employee benefits and other

Liabilities arising from retirement and survival pensions and the income generated by the Pensions Funds to cover those liabilities are estimated using actuarial boards, pensions and wages growing assumptions and pension future income assumptions (Note 31). These assumptions are based on BAIE's expectations at the balance sheet date and for the period over which liabilities will be settled.

Impairment and measurement of assets at fair value through other comprehensive income

The Bank determines the existence of impairment losses in their debt instruments at fair value through other comprehensive income considering all the reasonable, reliable and duly supported information available, including forward looking information.

Valuations are obtained through market prices (mark-to-market) or valuation models (mark-to-model), which require the use of certain assumptions or judgement in the calculation of fair value estimates.

The Bank's assets and liabilities at fair value are measured according to the following hierarchy, in accordance with IFRS 13 – Fair Value:

Listed market prices (Level 1)

This category includes Financial Instruments with listed market price available in official markets and entities that regularly disclose transaction prices for these instruments traded in liquid markets.

The priority in prices used is given to those observed in official markets, and where there is more than one official market the option falls on the main market where these financial instruments are traded.

The Bank considers as market prices those disclosed by independent entities (namely Bloomberg and Reuters), assuming they act in their own economic interest and that such prices are representative of an active market, using, whenever possible, prices provided by more than one entity (for a given asset and/or liability). In the revaluation process of financial instruments, the Bank reviews the different prices in order to select the one that is most representative for the instrument under analysis.

Under this category are included, among others, the following financial instruments:

i. Derivatives traded on an organised market;

ii. Shares listed on the stock exchange market;

iii. Open-end securities funds listed on the stock exchange market;

iv. Closed-end funds whose underlying assets are only financial instruments listed on the stock exchange market;

v. Bond securities with more than one provider whose instruments are listed on the stock exchange market.

Valuation methods with observable prices/parameters in the market (Level 2)

In this category, financial instruments valued using internal models are considered, such as discounted cash flow models and option valuation models, which involve the use of estimates and require judgments that vary according to the complexity of the products being valued. Nevertheless, the Bank uses as inputs in its models' observable variables in active markets, such as interest rate curves, credit spreads, volatility and indexes on prices.

Under this category are included, among others, the following financial instruments:

i. Bonds not listed on stock exchange market;

ii. Derivatives (OTC) over the counter; and

iii. Commercial paper in which there are observable inputs in the market, namely yield curves and credit spread, applicable to the issuing entity.

Valuation methods with parameters not observable in the market (Level 3)

This level includes valuations determined through the use of internal valuation models or quotes provided by third parties but whose parameters are not observable in the market. The basis and assumptions for the calculation of fair value are in accordance with the IFRS 13 principles.

Under this category are included, among others, the following financial instruments:

i. Debt securities valued using inputs not observable in the market;

ii. Shares not listed on the stock exchange market;

iii. Closed-end real estate funds;

iv. Hedge Funds;

v. Private equities; and

vi. Restructuring Funds.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses recognised with a consequent impact in the income statement of the Bank.

Provisions

The measurement of provisions is based on the principles defined in IAS 37 – Provisions and Contingent Liabilities, regarding the best estimate of the expected cost, the most probable outcome of the actions in progress and considering the risks and uncertainties inherent to the process.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable. Provisions are derecognised through their use for the obligations for which they were initially recognised or for the cases that the situations were no longer observed (Note 18).

2.3. TRANSACTIONS IN FOREIGN CURRENCY (IAS 21)

These financial statements are expressed in the functional currency, Euro, since it is the currency used in the main business environment where the bank operates.

The assets and liabilities denominated in foreign currency are accounted on the basis of the multi-currency system, in other words, in their respective denomination currency.

Assets and liabilities denominated in foreign currency are translated into Euro based on the following:

i. Monetary assets and liabilities expressed in foreign currency are translated into the functional currency at the exchange rate published at the balance sheet date;

ii. Non-monetary assets and liabilities expressed in foreign currency and recorded at historical cost are translated to the functional currency at the exchange rate published on the date of the transaction; and

iii. Non-monetary assets and liabilities recorded at fair value are translated into the functional currency at the exchange rate published on the date when the fair value is determined.

Exchange rate differences resulting from translation of the net positions are recognised in the income statement, under the balance Net gains/(losses) arising from foreign exchange differences.

The spot position in a given currency corresponds to the net balance of assets and liabilities expressed in that currency, plus the amounts of spot operations pending settlement and forward operations maturing in the following two business days.

The forward position in a given currency corresponds to the net balance of forward operations pending settlement, except for those maturing in the following two business days.

The translation of income and expense in foreign currency is performed on a monthly basis at the exchange rate prevailing at the end of each month.

The foreign exchange rates used in the functional currency translation process of assets, liabilities, income and expenses expressed in foreign currency, are the exchange rates disclosed by the European Central bank, designated as fixing rates.

With the purpose of mitigating its foreign exchange exposure, BAIE may use derivative financial instruments as currency forwards and currency swaps. The accounting policies used to record these transactions are described in Note 2.4.6. As at 31 December 2022, BAIE does not hold any derivative financial instrument.

2.4. DERIVATIVE FINANCIAL INSTRUMENTS (IFRS 9)

Financial assets are recognised on the settlement date, *i.e.*, on the date on which the Bank settles the asset that is committed to the trade date, and are classified by considering its underlying purpose, under the categories described below.

On initial recognition, financial assets are classified in one of the following categories:

i. Financial assets at amortised cost;

ii. Financial assets at fair value through other comprehensive income; or

iii. Financial assets at fair value through profit or loss.

The classification is made considering the following aspects:

i. The Bank's business model for financial asset management; and

ii. The contractual cash flow characteristics of the financial asset.

2.4.1. Loans and advances to customers (Financial assets at amortised cost)

2.4.1.1. Measurement, initial and subsequent recognition

Loans and other receivables includes all financial assets corresponding to the supply of cash, goods or services to a debtor. This concept includes the typical credit granting to customers, as well as the creditor positions resulting from operations with third parties under the institution´s business activities except operations with credit institutions.

Loans and advances to customers are initially recognised at fair value plus any directly attributable transaction costs and fees and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

In summary, revenue arising from fees for services rendered that are directly associated with loan operations is recognised on straight-line basis over their term.

The Bank writes-off credits to the assets of operations whenever it considers then to be irrecoverable and whose impairment is registered by the total amount of the operation.

2.4.1.2. Derecognition

Loans and advances to customers are derecognised from the balance sheet when: (i) the contractual rights of the Bank to their respective cash flows have expired; or (ii) the Bank transferred substantially all the associated risks and rewards of ownership; or (iii) notwithstanding the fact that the Bank may have retained part, but not substantially all the associated risks and rewards of ownership, control over the assets was transferred and (iv) the changes to the contractual conditions of a financial asset originated a substantial variation in the present value of the cash flows, *i.e.*, the new contractual conditions discounted using the initial contract interest rate resulted in a change of, at least 10%, of the remaining present value of cash flows of the original financial asset.

2.4.1.3. Impairment losses

Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

IFRS 9 adopts the forward-looking expected credit loss (ECL) model, which considers the expected losses over the life of the financial instruments. Thus, macroeconomic factors are considered when determining ECL, as well as other forward-looking information, whose changes have impact in expected losses.

Collective analysis
Instruments that are subject to impairment calculations are divided in three stages considering its credit risk level, as follows:

- Stage 1: no significant increase in credit risk since its initial recognition. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;
- Stage 2: instruments in which there is a significant increase in credit risk since its initial recognition, however no objective evidence of impairment exists. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur over the expected residual life of the instrument;
- Stage 3: instruments for which there is objective evidence of impairment losses as a consequence of events that resulted in losses. In this case, impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

It should be noted that BAIE also considered the following assumptions for the purpose of calculating impairment losses on loans and advances to customers:

- Default contamination: the contamination is performed by customer number, being considered in default all the operations of a customer for which one of the operations is considered in default;
- Cure period: a cure period of 6 months is considered for contracts that were in default and a period of 12 months is considered for contracts that were forborne.

The calculation of impairment losses in accordance with IFRS 9 is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:

- Assessment of the existence of a significant increase in credit risk since the initial recognition; and
- Incorporation of forward-looking information in ECL calculation.

ECL Calculation
ECL correspond to unbiased weighted estimates of credit losses that will be determined as follows:

- Financial assets without signs of impairment at the reporting date: the actual value of the difference between the contractual cash flows and the cash flows that BAIE expects to receive;
- Financial assets with signs of impairment at the reporting date: difference between the gross book value and the actual value of the estimated cash flows;
- Unused credit commitments: the actual value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that BAIE expects to receive;
- Financial guarantees: the actual value of expected reimbursement payments deducted from the amounts that BAIE expects to recover.

Definition of default
Under IFRS 9, the Bank considered the recommendations of the EBA "Final Report on Guidelines on default definition (EBA-GL-2016-07)", issued on 28 September 2016.

Significant increase in credit risk
Under IFRS 9, in order to determine if a significant increase in credit risk has occurred (risk of default) since the financial instrument´s initial recognition, BAIE considers as relevant information all the information available and without costs and/or excessive effort, including either quantitative and qualitative information or an analysis based in BAI Europa´s history, expert judgement and forward looking.

Accordingly, considering the Bank's activity, it was defined that a significant increase in credit risk takes place when any of the following situations occurs since initial recognition: i) default between 30 and 90 days; ii) more than 2 non-performing payments in the last 12 months; iii) credit overdue in the Central Credit Register (CRC) between 2 and 3 months; iv) debts to the Tax Authorities; v) credit overdue for more than 3 months and/or written-off at the CRC in the last 3 reporting periods; vi) credit renegotiated in CRC; vii) credit forborne due to financial difficulties; viii) PERSI (Retail); and ix) Deceased (Retail).

In addition, in the process of monitoring a significant increase in credit risk, as part of the individual credit analysis, the Bank also considers the following qualitative factors: i) management problems; (ii) high investments; (iii) high competition/low margins;

iv) concentration of turnover on a small number of customers; v) loss of concessions or representations; vi) economic group with difficulties; vii) evidence of forbearance in the financial system; viii) problems with suppliers; ix) worsening of the economic and financial position; (x) high concentration in a market; xi) employer company (Retail); and (xii) divorce (Retail).

BAI Europa monitors the effectiveness of the criteria used for the identification of significant increase in credit risk through regular assessments in order to confirm that:

- The criteria allow to identify significant increases in credit risk before the exposure enters in default;
- The criteria is not in line with the moment where the customer is 30 days overdue;
- The average time between the identification of the significant increase in credit risk and the default is reasonable;
- The exposures usually do not change directly from the calculation of the 12 month ECL for a situation where they show signs of impairment;
- There is no unjustified volatility in the impairment value of transfers between the 12-month ECL value and the lifetime ECL value.

Inputs for the measurement of ECL

The main inputs used for measuring ECLs in a collective basis include the following parameters:

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

These parameters are obtained using market references adjusted in order to reflect the forward-looking information, when applicable.

The EAD represents the expected exposure if the exposure and/or customer go into default. BAIE obtains the EAD values from the counterparty's current exposure and potential changes to its current value in accordance with the contractual conditions, including amortisation and prepayments. For commitments and financial guarantees, the value of EAD includes both the amount of credit used and the expectation of the future potential value that may be used in accordance with the contract.

The EAD calculation is performed differently per Stage:

- Stage 1 and 3: corresponds to the sum of outstanding loans, overdue loans, accrued interest and any off-balance sheet loans (to which, as mentioned above, and depending on the product segment considered, a credit conversion factor is applied), after deducting any existing financial collateral associated with the credit operation (pledges of deposits made with BAI Europe and credit insurance guaranteed by the Portuguese Government);
- Stage 2: corresponds to the expected projection over the residual maturity of the contract, *i.e.*, the sum of outstanding loans, overdue loans, accrued interest and any off-balance sheet loans (to which a credit conversion factor is applied, depending on the product segment considered), after deducting any existing financial collateral associated with the credit operation (pledges of deposits made with BAI Europe and credit insurance guaranteed by the Portuguese Government). Given the need to calculate the expected loss for the lifetime of the contract, future amortisations are deducted from the exposure considering the financial plan of each contract, in 12-month buckets.

Forward-looking information

Under IFRS 9, BAI Europa includes forward looking information both in its assessment of the significant increase in credit risk and in the measurement of the ECL, namely for probability of default calculation purposes. The Bank includes projections of relevant macroeconomic variables with statistical adherence to history in the measurement of ECL (*e.g.*, GDP, Inflation, Unemployment Rate, 3M Euribor). These external data are obtained from highly reputable sources, namely data aggregated by the Portuguese Public Finance Council, which includes, among others, projections from the Banco de Portugal, the International Monetary Fund or the Portuguese Public Finance Council itself, and data from Bloomberg, for the index benchmarks.

The forward-looking methodology aims to strengthen the impairment model and represents a forecast of what is most likely to occur, considering three different scenarios – base, adverse and optimistic. This methodology is aligned with other analyses carried out by the BAIE, such as strategic planning and budgeting.

Individual analysis

The individual analysis corresponds to the impairment calculation of individual contracts, instead of the one used in the collective analysis. The contracts eligible for this analysis have the following individual analysis criteria: i) exposure with country risk; ii) exposures above Euro 1 million. All contracts that have the following characteristics are removed from the segments to which they are aggregated, and an individual impairment rate is applied, depending on the internal considerations regarding the associated risk.

The determination of the impairment loss estimates results from the difference between the book value and the estimated recoverable amount of the credit, considering the recovery expectation of the amounts owed, the existing guarantees and, if possible, the recovery costs. For the customers to whom no impairment is attributed in the individual analysis, the Bank applies the impairment calculated through the collective model.

POCI Assets

Purchased or Originated Credit Impaired (POCI) are assets in default at the initial recognition, which can be originated according to one of the following criteria: (i) new financial assets originated after changes in the contractual conditions that result in the derecognition of the original asset and in the recognition of a new asset; (ii) new customer contracts in default.

The calculation of the ECL for assets classified as POCI is based in the following principles:

- Impairment at initial recognition (inception): on inception, POCI assets are not impaired. The gross book value of POCI assets at inception corresponds to the net book value before its recognition as POCI. Therefore, at inception, the ECL of a POCI asset should be zero and the respective fair value is determined in accordance with a proxy of Net Carrying Amount (*i.e.*, gross carrying amount deducted from the initial ECL).
- Impairment in subsequent periods: the ECL for POCI assets is always calculated in a lifetime perspective (from the moment an asset is recognised as POCI, can never be allocated to stage 1). Considering that the ECL, at inception, is incorporated in the value of the POCI asset, the amount recognised as ECL corresponds only to the amounts related to the ECL changes since the initial recognition.

In 2022 and 2021, there were no assets classified as POCI.

2.4.2. Other financial assets at amortised cost

2.4.2.1. Measurement and recognition

The Bank measures a financial asset at amortised cost if it meets, simultaneously, the following requirements and is not recorded at fair value through profit or loss (FVTPL) by choice (use of the Fair Value Option):

- The financial asset is held in a business model whose main purpose is to held the asset to collect its contractual cash flows (HTC – Held to collect); and
- Its contractual cash flows occur on specific dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI - Solely Payments of Principal and Interest).

These financial assets are initially recorded at fair value and subsequently measured at amortised cost. Interest is calculated based on the effective interest rate method and recognised in Net Interest Income. Impairment losses are recognised in the income statement when identified.

2.4.2.2. Impairment losses

IFRS 9 introduced the calculation of expected impairment losses for all financial assets. BAIE's policy is to regularly assess the objective existence of impairment of its Financial Assets. Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

Inputs for the measurement of ECL
The inputs for the measurement of ECL of these assets are:

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

These parameters are also obtained using market references. In the calculation of ECL, the PDs made available by a rating agency are used, and its maturity is adjusted to the residual maturity of each asset, in the case of Loans and advances to credit institutions repayable on demand. In case of Other financial assets its maturity is adjusted through the allocation of a 12-month PD.

The EAD represents the accumulated balance of the financial asset (deposits or other debtors) or the sum of the nominal value of the security, the amount of accrued interest and the premium to be amortised (premium paid on the acquisition of the security less the amount already amortised), less the discount to be amortised (the total value of the discount obtained on the acquisition of the security less the amount already amortised).

Allocation to Stages
The inputs for the measurement of ECL of these assets are:

- Stage 1: assets that do not meet the criteria to be considered in Stages 2 and 3;
- Stage 2: assets which simultaneously meet 2 or more criteria indicative of deterioration in the quality of the asset;
- Stage 3: assets with a "D" rating (default) assigned by a rating agency.

BAI Europa does not have an internal rating scale, *i.e.*, it does not have a scale of internal risk grades to apply to its assets in order to ascertain the deterioration of their quality. Thus, it is considered as evidence of deterioration of the quality of a financial asset, the simultaneous occurrence of two or more conditions described below:

- Failure to pay coupons or principal repayments on the established dates (only for debt securities);
- Downgrade of the consolidated external rating of the counterparty vis-à-vis the rating at origination if: i) it changes from investment grade to non-investment grade; ii) as investment grade, it shows a downgrade greater than two notches; or iii) originated in non-investment grade, it shows a downgrade;
- The absence of quotation evidence for the security, in the active market (in case of being a listed asset);
- Unfavourable market information.

2.4.3. Financial assets at fair value through other comprehensive income

2.4.3.1. Valuation and recognition

A financial asset is measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met and if is not designated at fair value through profit or loss (FVTPL) by option (use of Fair value option):

- The financial asset is held within a business model whose objective is to both collect contractual cash flows and the sale of that financial asset (HTC and Sell – Held to collect and Sell); and
- The contractual cash flows occur on specified dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI).

The financial assets at fair value through other comprehensive income are initially accounted at fair value, including all expenses or income associated with the transactions and subsequently measured at fair value. The changes in fair value are accounted for against Fair value reserves.

a) Debt instruments
On the sale, or if impairment is determined, the accumulated gains or losses recognised in fair value reserves are recognised in the income statement under Net gains/(losses) arising from assets and liabilities at fair value through other comprehensive income or under Impairment losses from other financial assets, respectively. Interest income from debt instruments is recognised in Net interest income based on the effective interest rate, including a premium or discount when applicable.

b) Equity instruments
On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably choose to classify it as at fair value through other comprehensive income (FVOCI). This option is exercised on a case-by-case basis, instrument by instrument. This option is only available for financial instruments that comply with the definition of equity instruments provided for in IAS 32, and cannot be used for financial instruments whose classification as an equity instrument under the scope of the issuer is made under the exceptions provided for in paragraphs 16A and 16D of IAS 32.

In accordance with IFRS 9, no impairment is recognised in equity instruments recorded at fair value through other comprehensive income, being the corresponding accumulated gains or losses recognised in the fair value reserve transferred into Retained earnings when its sale occurs.

Dividends are recognised in the income statement when the right to receive the dividends is attributed.

2.4.4. Financial assets and liabilities at fair value through profit or loss

All financial assets that are not measured according to the criteria described above, at amortised cost or at fair value through other comprehensive income (FVOCI), are measured at fair value through profit or loss (FVTPL).

Additionally, at initial recognition, the Bank may irrevocably designate a financial asset, which otherwise meets the requirements to be measured at amortised cost or FVOCI, such as FVTPL, if the designation significantly eliminates the accounting mismatch that would otherwise exist (Fair Value Option).

a) Financial assets and liabilities held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition on the short term, namely bonds, treasury bills or shares, or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking, or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are accounted in Gains arising from trading and hedging operations. The interest from debt instruments is recognised as Net interest income.

Trading derivatives with a positive fair value are included in the financial assets held for trading and the trading derivatives with negative fair value are included in the Financial liabilities held for trading.

In 2022 and 2021, the Bank had no financial assets and/or liabilities held for trading.

b) Financial assets not held for trading mandatorily at fair value through profit or loss

This category includes assets for which the main purpose of the business model is to hold the assets to collect their contractual cash flows and debt instruments that are mandatorily classified at fair value through profit or loss due to non-compliance with the SPPI criteria.

At inception, IFRS 9 allows that an entity makes an irrevocably selection (instrument by instrument) in order to present as comprehensive income, the subsequent fair value changes from an equity instrument. This option only applies to instruments not held for trading.

c) Other financial assets and liabilities at fair value through profit and loss (Fair value Option)

The designation of other financial assets and liabilities at fair value through profit and loss (Fair Value Option) is performed whenever at least one of the following requirements is fulfilled:

- The financial assets and liabilities are managed, evaluated and reported internally at its fair value;

- The designation eliminates or significantly reduces the accounting mismatch of the transactions; and

- The financial assets and liabilities include embedded derivatives that significantly change the cash flows of the original contracts (host contracts).

Considering that the transactions performed by the bank in the normal course of business are fulfilled at market prices, the financial assets and liabilities at fair value through profit or loss are initially accounted at their fair value, with the expenses or income related to the transactions being recognised in profit or loss at the initial moment and subsequent fair value changes under IFRS 9, according to the following:

- The amount related to the fair value change attributable to changes in the credit risk of the liability is presented in OCI; and

- The remaining amount of the fair value change is presented in the income statement.

The accrual of interest and the premium/discount (when applicable) is recognised in Net Interest Income based on the effective interest rate of each transaction, as well as the accrual of interest on the derivatives associated to financial instruments classified in this category.

2.4.5. Other financial liabilities

This category includes all financial liabilities that are not recognised as financial liabilities at fair value through profit and loss, namely deposits from other financial institutions (Note 16) and from customers (Note 17).

These financial liabilities are initially recognised at fair value, accrued of possible commissions included in the effective interest rate and accrued of all incremental expenses directly attributable to the transaction. Subsequently, these financial assets are measured at amortised cost using the effective interest rate method.

2.4.6. Derivative financial instruments

Derivative financial instruments are recognised on the trade date at fair value and subsequently at fair value. Fair value is obtained through market prices listed in active markets, including recent market transactions and valuation models, namely discounted cash flows models and option valuation models. Derivatives are considered assets when its fair value is positive and liabilities when its fair value is negative.

Certain embedded derivatives in other financial instruments, as debts instruments for which profitability is indexed to share prices or share indexes, are bifurcated, and treated as separate derivatives, when its risk and economical features are not clearly related to the host contract, and the latter not measured at fair value with changes through profit or loss. These embedded derivatives are measured at fair value with subsequent changes recognised in the income statement.

Derivatives are also recorded in off-balance sheet accounts by its theoretical value (notional value).

As at 31 December 2022 and 2021, BAIE does not own any derivative financial instrument.

2.4.7. Reclassifications between financial instruments categories

Reclassifications of financial assets can only occur when the entity changes its business model used in the management of financial assets, which it is expected to be very unusual. In this case, all financial assets affected must be reclassified. The reclassification must be applied prospectively from the date of reclassification, and any gains, losses (including gains or losses from impairment) or interest previously recognised should not be restated.

IFRS 9 does not allow the reclassification of investments in equity instruments measured at fair value through OCI or when the fair value option was exercised for financial assets and liabilities. Reclassifications of financial liabilities are not allowed.

There were no reclassifications of Financial Assets in 2022 and 2021.

2.5 GUARANTEES PROVIDED AND IRREVOCABLE COMMITMENTS

Liabilities with guarantees provided and irrevocable commitments are recorded in off-balance sheet accounts by its value at risk. Interest, commissions and other income are recorded in the income statement over the useful life of the operations (Note 30).

Impairment losses on guarantees provided and irrevocable commitments are calculated in accordance with IFRS 9 (similarly to the underlying assets – Note 2.4.1.3.), and are recorded against profit or loss, being subsequently reversed through profit or loss if the amount of the estimated impairment loss decreases in a later period.

2.6. INTANGIBLE ASSETS (IAS 16)

The Bank´s other tangible assets are recorded at acquisition cost less accumulated depreciation and impairment losses. Depreciation is calculated through the straight-line method, according to the useful life expected by the Bank, as shown below:

	Number of years
Rented buildings	5 to 10
Equipment	3 to 5
Other property, plant and equipment	4 to 12

The acquisition cost includes expenses which are directly attributable to the acquisition of assets. Repairs and maintenance expenses are recognised as costs as they are incurred under the balance General and administrative expenses.

According to IAS 16, these assets are subjected to impairment tests whenever there is an indication that its net book value exceeds its recoverable amount, being the difference, if exists, recognised in the income statement. The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use.

The accounting policy concerning the right-of-use is disclosed in Note 2.15. IFRS 16 – Leases.

Impairment losses on property, plant and equipment are recognised in profit or loss for the period, with no objective signs of impairment identified in 2022.

2.7. INTANGIBLE ASSETS (IAS 38)

This balance includes the costs incurred with the acquisition, development and implementation of software to be used in the Bank´s activity (Note 12).

Intangible assets are booked at acquisition cost less accumulated amortisation and impairment losses. Depreciations are calculated on a straight-line basis over the expected useful life of the asset, usually three years.

Software maintenance costs are charged to the income statement when incurred.

The bank does not recognise internally developed intangible assets.

Any impairment losses are recognised in profit or loss for the period, with no objective signs of impairment identified in 2022.

2.8. IINCOME TAXES (IAS 12)

BAIE is subject to the tax regime of the Corporate Income Tax Code (CIRC) and Tax Benefits Code (EBF).

Income tax recognised in profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly to reserves in which case it is recognised in reserves. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

According to Law No. 98/2019, of 4 September, which established the tax regime of credit impairment and provisions for guarantees for tax periods beginning on or after 1 January 2019, the Bank joined the definitive regime provided in Articles 2 and 3 of the Law under review, hence the new regime has already been considered in the estimation of current and deferred taxes.

Deferred taxes are calculated under the liability method based on the balance sheet date, in respect of temporary differences between the accounting values of assets and liabilities and its tax base, using the rates of tax approved or substantially approved at the balance sheet date. Tax credits and tax losses carried forward are also recorded as deferred tax assets.

In accordance with IAS 12, deferred tax liabilities are recognised for all taxable temporary differences, except for differences related to goodwill not deductible for tax purposes, differences resulting from the initial recognition of assets and liabilities that do not affect accounting and tax income, differences that do not result from business combinations and differences related to investments in subsidiaries, which are not expected to be reversed. Under the same standard, deferred tax assets are recognised only to the extent when it is probable that future taxable profits will be available to absorb deductible temporary differences for taxation purposes or tax losses carried forward.

It should be noted that the taxable profit or tax loss calculated by the Bank may be subject to adjustments by the tax authorities within four years. In years in which there are deductions or use of tax credits, the period for the tax authorities to make adjustments depends on the exercise of such right, particularly five or twelve years, according to the year, in the case of tax losses.

At this date, in accordance with Article 52(2) of the Corporate Income Tax Code, as well as the State Budget approved for the year 2023, tax losses carried forward, once incurred, may be deducted up to a limit of 65% of tax income generated during that period.

Deferred taxes regarding temporary differences arising at the initial recognition of assets and liabilities related to transactions that do not affect the accounting result or the taxable profit are not recognised.

Deferred tax assets related to financial investments in associates are also not recognised since it is not probable that the difference will reverse in a predictable future.

The main situations that originate temporary differences on BAIE are related to provisions/temporary non-deductible impairments, financial assets at fair value through other comprehensive income and long-term employee benefits.

Deferred taxes are calculated, using the tax rates enacted or substantively enacted at the balance sheet date and that are expected to be applied when the temporary difference is reversed.

2.9. EMPLOYEE BENEFITS (IAS 19)

Liabilities with employee benefits are recognised in accordance with IAS 19 – Employee benefits. The main employee benefits are retirement and survival pensions, post-employment health charges, other long-term and short-term benefits:

2.9.1. Retirement and survival pensions and post-employment health charges

In accordance with the Pension Plan attached to the subscription contract to the *Fundo de Pensões da Ocidental - Sociedade Gestora de Fundos de Pensões, S.A.*, BAIE acknowledges the responsibility to pay to its employees covered by the Vertical Collective Labour Agreement for the Portuguese Banking Sector (ACTV) or to their families, cash benefits for old age or disability retirement, early retirement or survival. These benefits currently consist of an increasing percentage of the employee's years of service in the Bank, applied to his/her salaries. To this extent, the plan is classified as a defined benefit plan.

With the publishing of Decree-Law No. 1-A/2011, of 3 January, under the Vertical Collective Labour Agreement (ACTV) for the banking sector, the employees in active age on 4 January 2011 began to be covered, as from that date, by the Social Security General Regime (SSGR) only for old age retirement benefit and in cases of maternity, paternity and adoption, whose charges the Bank no longer bears. Considering the complementarity character predicted in the ACTV rules, the bank continues to guarantee the difference between the amounts paid under the Social Security General Regime and those estimated under the referred Agreement.

BAIE determines, on an annual basis, the total amount of these responsibilities, through calculations performed by independent actuaries, using the "Unit Credit Projected" method and actuarial assumptions considered appropriate (Note 30). The amount of liabilities includes benefits with post-employment medical care (*Serviços de Assistência Médico-social* – SAMS), besides the benefits with retirement and survival pensions.

The actuarial assumptions consider the pensions and salaries growth expectations and are based in mortality tables used by other institutions operating in the Portuguese financial market. The discount rate used to update the liability is determined by reference to interest rates associated with high quality corporate bonds, in the currency in which the liabilities are settled, and with a similar maturity to the average date of termination of liabilities.

In terms of sensitivity analysis of changes in the discount rate and their impact on total past service liabilities, the methodology of using assumptions remained stable, without changes in the method used.

Until 4 January 2011, liabilities were exclusively financed by one pension fund, being the amount corresponding to the difference between the actual amount of liabilities and the fair value of the fund´s assets at the balance sheet date, if applicable, adjusted by the deferred actuarial gains and losses, either positive or negative, recognised under Other liabilities or Other assets, respectively. The value of the pension fund corresponds to the fair value of its assets at the balance sheet date. Concerning the application of the above-mentioned Decree-Law No. 1-A/2011, the defined benefit plan for employees covered by the ACTV regarding old age retirement, become to be financed by the pension fund in the part regarding past service cost until 4 January 2011, and by the Social Security in the remaining part regarding past services cost after that date. Thus, from 2011 onwards, the current service cost and the annual increase of liabilities for past services have reduced and the bank, since the beginning of that year started to support an additional charge corresponding to a fee (*Taxa Social Única* – TSU) of 23.75% over the generality of retributions paid to its employees covered by the VCLA.

Actuarial gains and losses are recognised in equity under the balance Retained Earnings and disclosed in Other Comprehensive Income Statement.

Accruals with past service responsibilities, namely the ones related to the passage of employees to early retirement, are recognised as expenses in the income statement in the period to which they occur.

In addition, Notice No. 12/2001 of the Banco de Portugal requires a full financing of pension liabilities in payment and a level of financing of 95% of past services liabilities of active employees.

The costs with Bank employees include the following costs regarding liabilities with retirement pensions:

- current service cost (cost for the period);
- interest regarding all liabilities; and
- expected return of the pension fund.

2.9.2. Other long-term benefits

Pursuant to clause No. 74 of the ACTV, the Bank has taken the responsibility of granting to its employees who are covered by this scheme and in active service, an end-of-career bonus corresponding to 1.5 times their effective monthly remuneration, on the date of their retirement due to disability or alleged disability.

The Bank determines, on an annual basis, the present value of past liabilities with seniority awards through evaluations performed by independent qualified actuaries using the Project Unit Credit method. The actuarial assumptions used (demographic and financial) consider expectations, at the balance sheet date, for the salary growth and a mortality table suitable to the bank´s population. The discount rate is determined by reference to interest rates associated with low-risk corporate bonds with a similar maturity to the date of termination of liabilities. These assumptions are equal to the ones used in the retirement pension's liability calculation.

For accounting purposes, the Bank registers the amount of the liabilities calculated as an expense (Note 18) against the income statement. Payments made to employee are deducted from the provision recorded.

The costs with bank employees include the following costs regarding seniority awards liabilities:

- Current service cost (cost for the period); and
- Interest expense.

2.9.3. Short-term benefits

Short-term benefits (retribution and charges with retributions) are recorded by the undiscounted amount under Staff costs (Note 27) in the period to which they relate in accordance with the accrual principle.

2.10. PROVISIONS AND CONTINGENT LIABILITIES (IAS 37)

Provisions are recognised when (i) the Bank has a present obligation (legal or constructive), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation (iii) as a result of past events and (iv) a reliable estimate can be made of the amount of the obligation.

When the probability of an outflow of resources or the estimation on the amount of the obligation cannot be reliably estimated, we are in the presence of a contingent liability which should only be subject to disclosure, unless the probability of occurrence is remote.

Provisions are reviewed at the end of each reporting date and adjusted to reflect the best estimate, being reversed against the income statement in proportion to the payments that are not likely. Provisions cease from being recognised when they are used for settling the liabilities for which they were initially set up or reversed in cases where those liabilities are no longer observed (Note 18).

As there were no Contingent Liabilities in 2022 and 2021, these are not disclosed.

2.11. ASSETS RECEIVED AS PAYMENT IN EXCHANGE FOR CREDITS RECOVERY

Assets received as payment in exchange for credits recovery, namely real estate, equipment and other assets received as payment, are classified in the balance Other Assets and are recorded, in its initial recognition, by the lower between its fair value net of selling costs and the book value of the credit object of recovery.

Subsequently, these assets are recorded by the lower between the net book value of the loan and the corresponding present fair value net of selling costs and are not depreciated. Unrealised gains or losses generated are recognised in the income statement. Regular assessments are performed, which give rise to impairment losses whenever the amount determined in those assessments is lower than the book value. Subsequent reversal of these unrealised losses is limited to the initial amount of the assets received as payment in exchange for credits recovery.

Potential gains in assets received as payment in exchange for credits recovery are not recognised in the balance sheet.

No assets of this nature were recorded in the 2022 and 2021 financial years.

2.12. RECOGNITION OF REVENUE FROM SERVICES AND COMMISSIONS (IFRS 15)

IFRS 15 redefines revenue recognition principles and is applicable to all contracts with customers that are not contracts under other standards.

IFRS 15 establishes a five-step model (identifying the contract with a customer, identifying performance obligations in the contract, determining the transaction price, allocating the transaction price and recognising revenue) to depict the revenue arising from contracts with customers and requires the recognition of such revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for services rendered to the customer.

Revenue from services and commissions is recognised in accordance with the following criteria:

- When obtained as services are rendered, they are recognised in the income statement in the period to which they relate;
- When they result from services rendered, they are recognised in the income statement when the service is completed; and
- When they form an integral part of the effective interest rate of a financial instrument, the income resulting from services and commissions is recorded in Net interest income.

Many of the Bank's sources of revenue (for example, interest income, gains and losses on financial instruments) are outside the scope of IFRS 15, and therefore the recognition of these flows has not changed with the adoption of IFRS 15. The revenue of the Bank generated under IFRS 15 refer to income from services and commissions (Note 22).

2.13. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the trade date, including cash and deposits with banks.

2.14. IFRS 16 – LEASES

IFRS 16 introduced a single lease accounting model in the Balance Sheet. Accordingly, the Bank, as a lessee, is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accounting as a lessor remains unchanged due to the accounting policies already in place, and the Bank did not carry out leasing operations as a lessor in 2021 and 2020.

A. Lease definition

The new lease definition entails a focus on control of the identified asset, i.e., a contract is, or contains a lease, if it gives the right to control the use of an identified asset (underlying asset) for a certain period of time in exchange of consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

B. Lessee accounting

From the lessee's perspective, the Bank previously classified leases as operating or finance leases based on an overall assessment of whether the lease transfers substantially all the risks and rewards of ownership of the underlying assets. Currently, in accordance with IFRS 16, the Bank recognises right-of-use assets and lease liabilities for some classes of assets – i.e., these leases are recognised in the Bank's balance sheet.

The Bank recognises a right-of-use asset and a lease liability at the inception of the lease.

Right-of-use assets

The right-of-use asset is initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities.

The Bank records right-of-use assets under Other tangible assets, i.e., on the same item line as the underlying assets of the same nature that are its property.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined, at the Bank's incremental borrowing rate. The Bank generally uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and reduced by the lease payments made. It is remeasured (remeasurements are treated as adjustments to the right-of-use assets) to reflect changes in future lease payments resulting from a change in an index or rate, in the amounts expected to be payable under residual value guarantees, or, if appropriate, in the assessment of whether a call or put option is reasonably certain to be exercised or an exit option is reasonably certain not to be exercised.

The Bank records lease liabilities under Other liabilities in the statement of financial position.

Judgement used in determining the lease term

The Bank has used judgement to determine the lease term of some contracts in which it is the lessee, which include put and exit options. The Bank determines the lease term as the non-cancellable period during which it has the right to use an underlying asset together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The assessment of whether the Bank will exercise such options will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and the right-of-use assets recognised.

The Bank has the option to lease the assets for additional periods, particularly in property rental contracts. The Bank uses judgement in assessing whether it is reasonably certain to exercise the put option, i.e., it considers all relevant factors that create an economic incentive to exercise it or not.

Currently, right-of-use assets are measured at the amount equivalent to the lease liability, adjusted for the amount of any prepaid or accrued lease payments - the Bank has adopted this approach for all other leases.

C. Lessor accounting

In accordance with IFRS 16, lessors will continue to classify leases as finance or operating.

2.15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (IAS 28)

Associates are entities in which the Bank holds between 20% and 50% of the voting rights, or over which the Bank exercises significant influence. When the share of the losses in an associate exceeds the value of the investment in the associate, the Bank recognises additional losses if it has assumed commitments or made payments on behalf of the associate.

Investments in associates or joint ventures are recorded in the financial statements at historical cost less any impairment losses.

This item includes the 17% shareholding and voting rights in a company in which BAIE exercises significant influence. This asset is stated at historical cost (Note 13).

The financial holding is expressed in foreign currency and translated into the functional currency at the exchange rate prevailing at the date of acquisition (Note 2.3).

The recoverable amount of investments in associates is reviewed whenever there is evidence of impairment. Impairment losses are determined based on the difference between the recoverable value of investments and their book value. Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

Dividends received from associated companies are recorded under Income from equity instruments.

2.16. SUBSEQUENT EVENTS

The Bank analyses events occurring after the balance sheet date, i.e., favourable and/or unfavourable events occurring between the balance sheet date and the date on which the financial statements were authorised for issue. Within this context, two types of events can be identified:

- Those that provide evidence of conditions existing at the balance sheet date (adjusting events after the balance sheet date); and
- Those that provide information on conditions arising after the balance sheet date (non-adjusting events after the balance sheet date).

Events occurring after the date of the financial statements that are not considered adjustable events, if significant, are disclosed in the notes to the financial statements (Note 36).

3. CASH AND DEPOSITS AT CENTRAL BANKS

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Cash	162,440	209,273
Deposits repayable on demand at the Banco de Portugal	4,273,790	69,529,325
	4,436,230	**69,738,598**

The balance Deposits repayable on demand at the Banco de Portugal includes the deposits made to satisfy the requirements of the Minimum Reserve System of the European System of Central Banks (SBCE).

Until 30 October 2019, these deposits were remunerated at the benchmark rate defined by the European Central Bank (ECB) for the main refinancing operations of the Euro system (MRO) up to the amount required to meet the requirements of the Minimum Reserve System. The balance of deposits recorded exceeding the Minimum Reserve System requirements is remunerated at the benchmark rate defined by ECB for the deposit facility (DF).

This system, which came into force on 30 October, featured a two-tier remuneration mechanism (tiering), exempting excess reserves (exempt tier), up to the amount resulting from the product between the balance required to comply with the Minimum Reserve System and the multiplier of 6 (defined by the Governing Council).

On 27 July 2022, following a decision by the Governing Council, after the increase in the deposit facility rate, this system will no longer apply. This change to the monetary policy, associated with the suspension of exempt tiering, impacted the balance of the item, in terms of volume, from the second half of 2022.

As at 31 December 2022, the multiplier set by the ECB is 0 (zero). Since 21 September 2022, the benchmark rate for the MRO and DF is 3.00% and 2.50%, respectively.

4. LOANS AND ADVANCES TO CREDIT INSTITUTIONS REPAYABLE ON DEMAND

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Loans and advances to credit institutions in Portugal		
Deposits repayable on demand	59,393,698	65,062,952
Loans and advances to credit institutions abroad		
Deposits repayable on demand	10,903,506	2,595,210
Cheques to be settled	(8,365)	-
Impairment losses (Nota 18)	(89,253)	(71,029)
	70,199,586	**67,587,133**

5. FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Equity instruments		
Issued by national private entities	54,869	54,869
Issued by foreign private entities	52,252	46,633
Debt instruments		
Issued by foreign private entities	107,337	296,840
Other – investment funds		
Issued by foreign private entities	174,758	156,857
	389,216	**555,199**

As mentioned in Note 2.4.4, as from 1 January 2018, through the adoption of IFRS 9, financial assets that are not measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

In 2022, no dividends were earned relating to financial assets mandatorily measured at fair value through profit or loss.

The item Other - investment funds – Issued by foreign private issuers relates to investment in a private equity investment fund (Note 34).

6. OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

	31-Dec.-22		31-Dec.-21	
	Assets	Liabilities	Assets	Liabilities
Other financial assets at fair value through profit or loss				
Investment funds				
Non-resident	349,517	-	313,715	-
Other financial liabilities at fair value through profit or loss				
Structured financial resources	-	(349,517)	-	(313,715)
	349,517	**(349,517)**	**313,715**	**(313,715)**

The financial resource presented under the balance Other financial liabilities at fair value through profit or loss is related and pledges in full the underlying asset (units in a non-resident investment fund).

The gain and loss in 2022 related to financial assets and liabilities at fair value through profit or loss, resulting from changes in fair value occurred in the Fund, amounted to Euro 35,802 and Euro -35,802, respectively.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

Financial assets at fair value through other comprehensive income is analysed as follows:

	31-Dec.-22	31-Dec.-21
Financial assets at fair value through other comprehensive income (IFRS 9)		
Debt instruments		
Issued by national public entities	5,994,221	8,698,791
Issued by national private entities	26,252,408	40,772,817
Issued by foreign public entities	27,490,883	92,600,239
Issued by foreign private entities	48,022,729	71,259,984
Interest receivable	928,571	680,637
Other – investment funds		
Issued by national private entities	-	-
Amount before accumulated impairment	-	-
Accumulated impairment (Note 18)	-	-
Revenue with deferred income from operating assets	-	(13,958)
Total gross amount	**108,688,812**	**213,998,510**

In 2022 and 2021, the Bank has no financial instruments in the pool of eligible assets for Eurosystem operations.

Within the scope of BAIE's responsibilities to the Deposit Guarantee Fund (FGD), the Bank holds a nominal value of securities pledged to the Fund, for the purpose of replacing part of the obligation to pay the annual contribution to the FGD through the provision of an irrevocable commitment (Notes 30 and 33). As at 31 December 2022 and 2021, the value of these securities amounts to Euro 21,772.

Income relating to dividends from financial assets at fair value through other comprehensive income, as well as realising gains/losses on transactions are recorded under Net gains/(losses) arising from financial assets at fair value through other comprehensive income (Note 23). In 2022 and 2021, the Bank did not receive dividends from assets at fair value through other comprehensive income.

As at 31 December 2022 and 2021, the Bank has no equity instruments accounted for under Financial assets at fair value through other comprehensive income.

Impairment related to financial assets measured at fair value through other comprehensive income is recognised in equity, similarly to the fair value reserve of those assets (Note 18).

8. FINANCIAL ASSETS AT AMORTISED COST – OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Other loans and advances to credit institutions in Portugal		
Very-short-term loans and advances	164,080,822	-
Deposits	18,751,172	8,829,242
Subordinated loans and advances	4,112,676	3,248,773
Interest receivable	54,858	8,531
Other loans and advances to credit institutions abroad		
Very-short-term loans and advances	-	13,243,864
Deposits	-	73,282,712
Loans and advances	84,067,129	65,622,285
Interest receivable	613,697	223,662
Deferred commissions	(153,868)	(152,875)
Total gross amount	**271,526,486**	**164,306,194**
Impairment (Note 18)	(538,334)	(549,108)
Total net of impairment	**270,988,152**	**163,757,086**

The amount corresponding to Subordinated loans and advances is a set of collateral deposits (Note 30), which refers to the indirect representation of another institution in the SEPA credit transfer payments and SEPA direct debit systems, both STEP2.

Very short-term loans and advances have a maximum maturity of 2 business days.

As mentioned in Note 3, the change in Monetary Policy by the European Central Bank had an impact on the management of investments in the interbank money market. This change in context had an impact on the balances Loans and advances to credit institutions in Portugal – very short-term loans and advances and Loans and advances to credit institutions abroad (very short-term loans and advances and deposits).

The amount under Loans and advances relates to two loans to a South African bank, two loans to an Egyptian bank, one loan to an English bank, one loan to a Mauritian bank and five loans to Nigerian banks.

Changes in impairment during 2022 and 2021 are disclosed in Note 18.

9. FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES TO CUSTOMERS

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Loans not represented by securities		
Domestic loans		
Loans and advances	89,571,768	76,440,242
Current account loans	4,732,453	1,700,000
Foreign loans		
Loans and advances	52,960,309	35,989,960
Current account loans	295,331	759,315
Overdue loans and interest	26,717	6,018,755
Capital subtotal	**147,586,578**	**120,908,272**
Interest receivable	746,901	427,496
Prepaid interest	(7,446)	(98,646)
Monthly commissions	(684,277)	(663,623)
Interest and commission subtotal	**55,178**	**(334,773)**
Total gross exposure	**147,641,756**	**120,573,499**
Impairment for credit risk	(1,771,712)	(1,383,226)
Total net exposure	**145,870,044**	**119,190,273**

Changes in impairment for Loans and advances to customers during 2022 and 2021 are disclosed in Note 18.

The item Overdue loans and interest is mainly due to two financings in the total amount of Euro 26,717 which were settled in the beginning of 2023.

As at 31 December 2022 and 2021, this balance has the following structure by business sector:

	31-Dec.-22		31-Dec.-21	
Trade and repair	35,286,047	23.9%	24,727,088	20.5%
Real Estate activities	25,478,710	17.3%	22,243,153	18.4%
Construction	22,854,600	15.5%	22,563,247	18.7%
Other business services	20,216,052	7.7%	18,473,424	15.3%
Food, beverage and tobacco industries	11,417,518	6.6%	4,308,332	3.5%
Financial and insurance activities	9,757,858	6.0%	12,305,111	10.2%
Public administration (regional and local)	8,906,152	3.2%	5,771,416	4.8%
Other activities and Retail	4,727,675	-	1,754,642	1.5%
Transportation and storage	4,518,752	3.1%	4,923,152	4.1%
Accommodation, catering and similar activities	4,423,212	3.0%	3,838,707	3.2%
	147,586,578	**100.0%**	**120,908,272**	**100.0%**

Note: includes overdue credit and interest, except for interest receivable, monthly commissions and prepaid interest.

In 2022, the amount of Other business services relates to activities of head offices and management consultancy.

10. OTHER FINANCIAL ASSETS AT AMORTISED COST

Other financial assets at amortised cost is analysed as follows:

	31-Dec.-22	31-Dec.-21
Securities issued by residents		
Debt instruments		
Issued by other national public entities	2,057,000	2,057,000
From other residents		
Non-subordinated debt	13,301,871	8,999,248
Securities issued by non-residents		
Non-subordinated debt	54,157,255	-
Interest receivable	448,659	13,200
Prepaid interest	267,146	48
Deferred charges expenses	(120,357)	(17,946)
	70,111,574	**11,051,549**
Impairment of other financial assets at amortised cost	(203,645)	(9,322)
	69,907,929	**11,042,227**

As at 31 December 2022 and 2021, Debt instruments – Issued by other national public entities refers to a bond issue of Portuguese public debt.

As at 31 December 2022 and 2021, Debt instruments – From other residents refers to investments in commercial paper issues that the Bank subscribed in the primary market.

As at 31 December 2022, Securities issued by non-residents – Non-subordinated debt refers to bond issues.

11. OTHER TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

The changes in this balance during 2022 were as follows:

	31-Dec.-21			Acquisitions	Amortisation for the period	Write-offs		Sales			31-Dec.-22		
	Gross amount	Accumulated amortisation and impaiment	Net amount			Gross amount	Accumulated amortisation and impaiment	Gross amount	Accumulated amortisation and impaiment	Net amount	Gross amount	Accumulated amortisation and impaiment	Net amount
Properties in use													
Leasehold imprevements	847,433	(292,630)	554,803	6,920	(85,032)	-	-	-	-	-	854,353	(377,662)	476,691
Equipment				-			-						
Furniture and material	188,144	(82,317)	105,827	46	(22,338)	(3,185)	2,207	-	-	-	185,005	(102,448)	82,557
Machinery and tools	14,739	(5,885)	8,854	-	(3,150)	(128)	128	-	-	-	14,611	(8,907)	5,704
IT equipment	1,018,314	(679,754)	338,560	258,602	(192,146)	(259,362)	259,297	-	-	-	1,017,554	(612,603)	404,951
Indoor facilities	19,860	(13,387)	6,473	-	(990)	(9,954)	9,954	-	-	-	9,906	(4,423)	5,483
Safety equipment	10,588	(9,820)	768	-	(768)	(4,451)	4,451	-	-	-	6,137	(6,137)	-
Other equipment	11,693	(698)	10,995	-	-	(524)	524	-	-	-	11,170	(174)	10,996
Right-of-use assets							-						
Real Estate	2,369,574	(787,820)	1,581,754	-	(274,670)	-	-	-	-	-	2,369,574	(1,062,490)	1,307,084
Vehicles	465,993	(181,667)	284,326	-	(92,816)	-	-	-	-	-	465,993	(274,483)	191,510
Assets under construction	-	-	-	-	-	-	-	-	-	-	-	-	-
	4,946,338	**(2,053,978)**	**2,892,360**	**265,568**	**(671,910)**	**(277,603)**	**276,561**	**-**	**-**	**-**	**4,934,303**	**(2,449,327)**	**2,484,976**

Right-of-use assets corresponds essentially to leased properties, namely the Bank's headquarters in Lisbon and a representative office in Oporto, and a residual number of vehicles. These assets are amortised according to the lease term of each contract, as described in the accounting policy of Note 2.15.

In 2022, the Bank inventoried its assets and, as a result of this process, derecognised the assets that were not found/tagged, resulting in a loss amounting to Euro 935 in respect of the derecognised assets, not depreciated in their entirety.

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The changes in this balance during 2021 were as follows:

	31-Dec.-20			Acquisitions	Amortisation for the period	Write-offs		Sales			31-Dec.-21		
	Gross amount	Accumulated amortisation and impaiment	Net amount			Gross amount	Accumulated amortisation and impaiment	Gross amount	Accumulated amortisation and impaiment	Net amount	Gross amount	Accumulated amortisation and impaiment	Net amount
Properties in use													
Leasehold imprevements	847,433	(207,886)	639,547	-	(84,744)	-	-	-	-	-	847,433	(292,630)	554,803
Equipment				-									
Furniture and material	188,144	(59,822)	128,322		(22,495)	-	-	-	-	-	188,144	(82,317)	105,827
Machinery and tools	4,395	(2,899)	1,496	10,344	(2,986)	-	-	-	-	-	14,739	(5,885)	8,854
IT equipment	668,141	(557,209)	110,932	350,173	(122,544)			-	-	-	1,018,314	(679,754)	338,560
Indoor facilities	19,860	(12,397)	7,463	-	(990)	-	-	-	-	-	19,860	(13,387)	6,473
Safety equipment	10,588	(7,421)	3,167	-	(2,399)	-	-	-	-	-	10,588	(9,820)	768
Other equipment	11,693	(698)	10,995	-	-	-	-	-	-	-	11,693	(698)	10,995
Right-of-use assets													
Real Estate	2,370,458	(549,340)	1,821,118	35,305	(274,669)	(36,189)	-	-	-	-	2,369,574	(787,820)	1,581,754
Vehicles	349,203	(142,292)	206,911	172,951	(95,536)	(56,161)	-	-	-		465,993	(181,667)	284,326
Assets under construction	-	-	-	-	-	-	-	-	-	-	-	-	-
	4,469,915	**(1,539,964)**	**2,929,951**	**568,774**	**(606,363)**	**(92,350)**	-	**-**	**-**	**-**	**4,946,338**	**(2,053,978)**	**2,892,360**

12. INTANGIBLE ASSETS

The changes in this balance during 2022 were as follows:

	31-Dec.-21			Acquisitions	Amortisation for the period	Write-offs		Sales			31-Dec.-22		
	Gross amount	Accumulated amortisation and impaiment	Net amount			Gross amount	Accumulated amortisation and impaiment	Gross amount	Accumulated amortisation and impaiment	Net amount	Gross amount	Accumulated amortisation and impaiment	Net amount
Automatic data processing systems (software)	1,546,903	(1,013,890)	533,013	668,835	(293,402)	(502937)	502,937	-	-	-	1,712,801	(804,355)	908,446
	1,546,903	**(1,013,890)**	**533,013**	**668,835**	**(293,402)**	**(502,937)**	**502,937**	**-**	**-**	**-**	**1,712,801**	**(804,355)**	**908,446**

In 2022, the amount of acquisitions is essentially due to the investment made under the BAIE's strategic plan.

The changes in this balance during 2021 were as follows:

	31-Dec.-20			Acquisitions	Amortisation for the period	Write-offs		Sales			31-Dec.-21		
	Gross amount	Accumulated amortisation and impaiment	Net amount			Gross amount	Accumulated amortisation and impaiment	Gross amount	Accumulated amortisation and impaiment	Net amount	Gross amount	Accumulated amortisation and impaiment	Net amount
Automatic data processing systems (software)	628,168	(912,855)	25,931	918,735	(101,035)	-	-	-	-	-	1,546,903	(1,013,890)	533,013
	628,168	**(912,855)**	**25,931**	**918,735**	**(101,035)**	**-**	**-**	**-**	**-**	**-**	**1,546,903**	**(1,013,890)**	**533,013**

In financial year 2021, BAIE incurred expenses with Research and Development (R&D), which, according to its understanding, are eligible for the purposes of obtaining tax benefits under the Tax Incentive System for Business R&D (SIFIDE II), provided for in Decree-Law No. 162/2014, of 31 October. Accordingly, the Bank submitted an application to ANI – *Agência Nacional de Inovação, S.A.* (ANI) on 31 May 2022, which is still pending acceptance. The amount of the benefit submitted in the application is Euro 474,165, however, it should be noted that the BAIE did not consider in its corporate income tax return for 2021 any amount inherent to the application, as it is still being validated.

13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Investments in subsidiaries and associates	-	3,949
	-	**3,949**

As at 31 December 2022, the Bank does not hold any investments in subsidiaries and associates. On 13 May 2022, the Bank sold the financial holding in the real estate company Exemplary Sparrow – *Sociedade Imobiliária, Lda.*, in the amount of Euro 6,807,589, which resulted in a gain of Euro 157,334 (Note 26).

In 2022, BAIE did not receive any dividends from the entity Exemplary Sparrow – *Sociedade Imobiliária, Lda.*

14. TAX ASSETS AND LIABILITIES

These balances are analysed as follows:

	31-Dec.-22	31-Dec.-21
In assets	1,609,952	-
In liabilities	797,534	579,600
	2,407,486	**579,600**
Current tax liabilities		
Income tax payable (IRC)	(679,076)	(385,782)
Deferred tax liabilities		
In assets	-	(224,850)
	(679,076)	**(610,632)**

a) The amount of income tax payable and/or receivable (IRC) for 2022 and 2021 is presented as follows:

	31-Dec.-22	31-Dec.-21
Corporate Income Tax (IRC)	(1,234,654)	(788,855)
Payments on account	664,293	481,314
Additional payments on account	45,747	22,815
	(524,614)	**(284,726)**
Surcharge	(81,462)	(52,199)
Autonomous taxation	(73,000)	(48,857)
Income tax payable (IRC)	**(679,076)**	**(385,782)**

During 2022, the changes in deferred taxes were as follows:

	31-Dec.-21	Reserves	Profit/(or loss)	31-Dec.-22
	Opening balance			Closing balance
Deferred tax assets				
Financial assets at fair value through other comprehensive income	-	1,609,953	-	1,609,953
Financial assets mandatorily measured at fair value through profit or loss (Note 21)	117,979	-	(6,219)	111,760
Impairment (Note 18)	394,378	-	265,963	660,341
Provisions for other risks (Note 18)	27,514	-	(27,513)	-
End-of-career bonus (ACTV)	7,046	-	(1,255)	5,791
Pension funds and post-employment benefits	32,683	-	(13,042)	19,641
	579,600	**1,609,953**	**217,934**	**2,407,486**
Deferred tax liabilities				
Financial assets at fair value through other comprehensive income (Note 20)	(224,850)	224,850	-	-
	(224,850)	**224,850**	**-**	**-**
	354,750	**1,834,803**	**217,934**	**2,407,486**

As at 31 December 2022, the amount of the item Deferred tax assets – Financial assets at fair value through other comprehensive income of Euro 1,609,953 relates to the impact of potential capital losses underlying the portfolio of Financial assets at fair value through other comprehensive income which, as at 31 December 2022, amounted to Euro 7,155,344 (Note 20).

The expected recovery periods for deferred tax assets and liabilities are as follows:

	31-Dec.-22	31-Dec.-21
Deferred tax assets		
For more than 12 months	2,407,486	579,600
Deferred tax liabilities		
For more than 12 months	-	(224,850)
	2,407,486	**354,750**

15. OTHER ASSETS

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Letters of credit		
Discounts	66,016,074	15,023,188
Debtors and other investments		
FCGT Contributions	15,539	13,697
Government sector		
Value added taxes (IVA) receivable	723,378	313,572
Other	425,000	425,000
Other sundry debtors	1,097,512	857,114
Other income receivable		
Documentary credits	162,377	128,196
Deferred charges expenses		
With active operations		
Insurance	97,617	52,211
Other administrative costs	168,416	403,733
Pension liabilities and other benefits (Notes 2.10.1, 21 and 31)		
Past service liabilities	(1,499,941)	(2,520,976)
Pension fund assets	3,000,909	3,415,292
Post-employment benefits	(87,292)	(145,256)
Interbank transactions	269,001	-
Total gross amount	**70,388,590**	**17,965,771**
Impairment	(1,533,892)	(664,437)
Total net of impairment	**68,854,698**	**17,301,334**

a) The balance Government sector – Other relates mainly to an amount receivable from the Portuguese Tax Authorities resulting from an auctioning procedure for the acquisition of a property purchased to a customer as a payment for a credit transaction to a customer following a tax foreclosure process for the payment of Municipal Property Tax (IMI) relating to that same property. The balance of Euro 425,000 corresponds to the property's acquisition value net of IMI payable and its default interest and estimated fines. Impairment recognised in the amount of Euro 425,000 (2021: Euro 425,000) was set up for a possible loss on the collection of this asset.

b) The balance Other sundry debtors includes the amount of Euro 857,114, which refers to an amount receivable, through an advance payment made within an ongoing legal process. Impairment recognised in the amount of Euro 857,114 (2021: Euro 172,771) mainly respects to an estimate of a possible loss on the collection of this asset. The item also includes an amount of Euro 225,641 corresponding to the amount receivable through the sale of the financial holding in the real estate company Exemplary Sparrow – *Sociedade Imobiliária, Lda.* (Note 13).

c) The balance of Other administrative costs refers to deferred invoices from suppliers.

As at 31 December 2022, the amount corresponding to the equity value of the pension fund is higher than the liability that the Bank assumes for past services by Euro 1,413,676 (Euro 749,060 as at 31 December 2021).

16. DEPOSITS FROM CENTRAL BANKS AND OTHER CREDIT INSTITUTIONS

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Deposits from credit institutions in Portugal		
Repayable on demand	11,314	24,191
Deposits from credit institutions abroad		
Repayable on demand	80,195,553	67,341,380
Very short-term	-	-
Term deposits	287,920,979	281,869,744
Interest payable	1,085,112	233,621
	369,212,958	**349,468,936**

The amount of Euro 127,338,920 (31 December 2021: Euro 30,198,801) included in the item Deposits from credit institutions abroad – term deposits, is collaterising liabilities with loans and advances to customers, other loans and advances to credit institutions, open documentary credits and irrevocable credit facilities (Note 30).

17. DEPOSITS FROM CUSTOMERS AND OTHER LOANS

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Deposits repayable on demand		
From other residents	31,354,067	38,714,626
From non-residents	95,422,810	45,166,846
Term deposits		
From emigrants	20,000	-
From other residents	43,023,886	33,921,253
From non-residents	102,411,515	97,412,596
Interest payable	1,207,618	953,825
	273,439,896	**216,169,146**

The amount of Euro 6,540,211 (31 December 2021: Euro 3,084,056) included in the balance Deposits from customers and other loans is collaterising liabilities with loans and advances to customers and irrevocable credit facilities (Note 30).

18. PROVISIONS AND IMPAIRMENT

The changes in these balances during 2022 were as follows:

	31-Dec.-21	Charge for the period	Adjustments/ (Reversals)	Recoveries/ (Charge-off)	Transfers	31-Dec.-22
	Opening balance					Closing balance
Impairment						
Loans and advances to credit institutions repayable on demand (Note 3)	71,029	376,476	(358,253)	-	-	89,252
Financial assets at fair value through other comprehensive income (Notes 7 and 20)	547,894	318,217	(491,992)	-	-	374,118
Other financial assets at amortised cost (Note 10)	9,322	333,534	(139,210)	-	-	203,646
Other loans and advances to credit institutions (Note 8)	549,108	951,705,	(962,480)	-	-	538,334
Loans and advances to customers (Note 9)	1,383,226	978,700	(590,214)	-		1,771,712
Impairment on other assets (Note 15)	664,437	934,411	(64,956)	-	-	1,533,891
Total impairment	**3,225,016**	**3,893,043**	**(2,607,105)**	**-**	**-**	**4,510,954**
Provisions						
Bank guarantees and letters of credit	418,791	453,426	(485,062)	-	-	387,155
Off-balance sheet liabilities	22,391	711,771	(60,339)	-	-	673,823
Subtotal provisions resulting from the impairment model	**441,182**	**1,165,197**	**545,401**	**-**	**-**	**1,060,978**
Other provisions	**2,528,035**	**1,294,157**	**(1,587,750)**	**(998,530)**		**1,235,912**
Subtotal other provisions	**2,528,035**	**1,294,157**	**(1,233,083)**	**(998 530)**	**-**	**1,235,912**
Total provisions	**2,969,217**	**2,459,354**	**(2,133,151)**	**(998,530)**	**-**	**2,296,890**
Total provisions and impairment	**6,194,233**	**6,352,397**	**(4,740,256)**	**(998,530)**	**-**	**6,807,844**

The changes in these balances during 2021 were as follows:

	31-Dec.-20 Opening balance	Charge for the period	Adjustments/ (Reversals)	Transfers	Recoveries/ (Charge-off)	31-Dec.-21
Impairment						
Loans and advances to credit institutions repayable on demand (Note 4)	50,784	561,920	(541,675)	-	-	71,029
Financial assets at fair value through other comprehensive income (Notes 7 and 20)	343,953	305,729	(101,787)	-	-	547,894
Other financial assets at amortised cost (Note 10)	11,568	56,353	(58,599)	-	-	9,322
Other loans and advances to credit institutions (Note 8)	115,319	1,044,021	(610,232)	-	-	549,108
Loans and advances to customers (Note 9)	3,543,729	2,374,942	(3,673,339)	-	(862,106)	1,383,226
Impairment on other assets (Note 15)	627,973	81,816	(45,352)	-	-	664,437
	4,693,327	**4,424,781**	**(5,030,984)**	**-**	**(862,106)**	**3,225,016**
Provisions						
Bank guarantees and letters of credit	372,963	381,326	(335,498)	-	-	418,791
Off-balance sheet liabilities	52,085	34,401	(64,095)	-	-	22,391
Other provisions	4,172,936	1,168,404	(2,341,900)	-	(471,405)	2,528,035
	4,597,984	**1,584,131**	**(2,741,493)**	**-**	**(471,405)**	**2,969,217**
	9,291,311	**6,008,912**	**(7,772,477)**	**-**	**(1,333,311)**	**6,194,233**

The charge for the period and reversals of impairment and provisions occurred in 2022 and 2021 result from the Bank's normal course of business.

The increase in the item Impairment – Loans and advances to customers is essentially due to the contracting of a new credit limit, as well as the impact of the review of risk factors, namely the updating of the forward-locking factor, carried out by the Bank in 2022, and the deterioration of Angola's Country Risk Premium. These impacts are cumulative for the growth of the portfolio during 2022.

The item Provisions – Off-balance sheet liabilities refers to provisions for bank guarantees, letters of credit and irrevocable credit facilities.

The item Provisions – Other provisions relates essentially to provisions for contingencies and the provision of Euro 600,000 associated with the challenges inherent to the quality of data in the context of the requirements related to the process of obtaining, producing and processing information and information flows, presented in Notice No. 3/2020 of the Banco de Portugal. The significant reduction in 2022 results essentially from the reversal of a contingency recorded in previous years due to the expiry of the process, as well as the reversal of a provisioned amount related to a lawsuit that was pending at the time, closed during the year 2022.

19. OTHER LIABILITIES

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Creditors and other contributions		
Government sector		
Tax withholding	210,819	194,560
Social security contributions	111,939	88,504
Other contributions	1,432	1,058
Third-party collections	2,162	2,002
Other health services contributions (SAMS)	25,388	18,145
Sundry creditors (a)	-	241,760
Expenses payable		
Staff costs		
Holiday allowance and other allowances (b)	302,848	256,498
Charges with deferred variable remuneration (c)	683,725	613,860
Other expenses payable	422,269	456,535
Rents payable (d)	1,553,989	1,916,337
Revenue with deferred income		
From guarantees provided (Note 30)	29,168	21,309
From documentary credits (Note 30)	738,801	252,279
Long-term benefits – end-of-career bonus	25,739	31,317
Interbank transactions pending settlement (e)	6,961,844	2,891,560
	11,070,123	**6,985,724**

a) As at 31 December 2022, there is no amount under Sundry creditors. In 2021, the amount disclosed under Sundry creditors concerns essentially to amounts payable to suppliers, without seniority.

b) In accordance with the Portuguese legislation in force, employees are entitled to one month's holiday and one month's holiday allowance each year, acquired in the year preceding payment. Therefore, this liability is recorded in the period during which the employees acquire that right, irrespective of the date of its payment.

c) The item Charges with deferred variable remuneration includes the amounts of variable remuneration payable to members of the Board of Directors and Management, as defined in the Bank's Remuneration Policy (Note 27).

d) As at 31 December 2022, Rents payable refers to the amount of lease liabilities recognised under IFRS 16 and as described in the accounting policy of Note 2.14. Lease liabilities, presented by residual term, are as follows:

	Real Estate	Vehicles	Total
Maturity of lease liabilities			
Below 1 year	-	-	-
1 to 5 years	1,345,343	208,646	1,553,989
Above 5 years	-	-	-
Total Lease Liabilities in the Statement of Financial Position as at 31 December 2022	**1,345,343**	**208,646**	**1,553,989**

During 2022, the changes in lease liabilities were as follows:

	Total
31 December 2021	**1,916,337**
Additions	-
Disposals	(1,569)
Accrued interest	-
Payments	(360,779)
31 December 2022	**1,553,989**

e) As at 31 December 2022, the amount of operations pending settlement relates essentially to balances in the interbank clearing system, which are settled on the first following working day.

20. SHARE CAPITAL

	31-Dec.-22	31-Dec.-21
Share capital	**42,000,000**	**40,000,000**
Revaluation reserves		
Financial assets measured at fair value through other comprehensive income		
Debt instruments (Note 7)	(7,155,344)	999,332
Credit risk adjustment of financial assets at fair value through other comprehensive income (IFRS 9) (Note 7)	374,118	547,894
Deferred tax reserves (Note 14)		
Financial assets measured at fair value through other comprehensive income	1,609,953	(224,849)
Revaluation reserves	**(5,171,273)**	**1,322,377**
Other reserves and retained earnings		
Legal reserve	8,932,706	8,690,394
Retained earnings		
Approved	35,364,937	35,184,130
Changes in accounting policies		
IFRS1 Transition adjustments - NCA (in 2006)	830,264	830,264
Elimination of corridor rule IAS 19 (in 2011)	14,503	14,503
Survivor and disability liability	(749,709)	(749,709)
Entry into force of Notice No. 5/2015 of the Banco de Portugal (in 2016)	1,057,407	1,057,407
IFRS9 transition adjustments	(627,117)	(627,117)
IFRS9 transition adjustments - Tax impact	141,657	141,657
Accumulated actuarial gains and losses (Notes 2.10.1 and 30)	1,088,278	439,511
Adjustment of accounting errors (in 2012)	2,249,114	2,249,114
	48,302,040	**47,230,154**
Profit/(Loss) for the period	**3,305,864**	**2,423,095**
	88,436,631	**90,975,626**

As at 31 December 2022, the item Revaluation reserves – Financial assets measured at fair value through other comprehensive income presents a significant negative change of Euro 8,154,676 explained by the devaluation of the Assets at fair value through other comprehensive income portfolio (Note 7).

This devaluation is essentially explained by the successive increases in the key interest rates of the world's main economies in response to the inflationary pressures caused by the conflict between Russia and Ukraine.

The share capital, fully subscribed and paid-up, is represented by 8,400,000 ordinary shares, with a nominal value of Euro 5 each. As at 31 December 2022, Banco Angolano de Investimentos, S.A., a credit institution resident in Angola, holds 99.9997% of the Bank's share capital.

In 2022, there was an increase in the Bank's share capital in the amount of Euro 2,000,000 through incorporation of the net profit for 2021.

In accordance with Article No. 97 of Credit Institutions and Financial Companies General Regime (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* – RGICSF), approved by the Decree-Law No. 298/91, of 31 December and subsequent amendments, the Bank should allocate no less than 10% of net profits for each financial year to the legal reserve, up to a limit equal to the value of the share capital or the sum of free reserves and retained earnings, if higher.

In 2022, the change in revaluation reserves was as follows:

	31-Dec.-22
Opening balance as at 1 January 2022	1,322,377
Changes in fair value	(8,091,383)
Disposals	(63,293)
Deferred taxes recorded in the period in reserves	1,834,802
Credit risk adjustment of financial assets at fair value through other comprehensive income (Note 18)	(173,776)
Closing balance as at 31 December 2022	**(5,171,273)**

In 2021, the change in revaluation reserves was as follows:

	31-Dec.-21
Opening balance as at 1 January 2021	2,549,660
Changes in fair value	(1,571,951)
Disposals	(274,792)
Deferred taxes recorded in the period in reserves	415,518
Credit risk adjustment of financial assets at fair value through other comprehensive income (Note 18)	203,942
Closing balance as at 31 December 2021	**1,322,377**

21. NET INTEREST INCOME

Net interest income is detailed as follows:

	31-Dec.-22	31-Dec.-21
Interest and similar income from		
Financial assets at amortised cost		
Other loans and advances to credit institutions	5,429,542	1,297,481
Of which: interest on assets (a)	27,142	-
Loans and advances to customers	5,053,933	3,713,436
Of which: commissions received at amortised cost	712,916	590,219
Other financial assets at amortised cost	503,230	108,629
Financial assets at fair value through other comprehensive income	4,285,171	2,434,232
Other assets	-	-
	15,271,876	**7,553,778**
Interest and similar expense from Financial liabilities measured at amortised cost		
Deposits from credit institutions	(3,392,210)	(452,819)
Deposits from customers	(1,085,430)	(1,134,612)
Interest expense over assets (a)	(212,552)	(331,584)
Interest on leases (b)	(49,125)	(56,201)
Other	-	-
Commissions paid at amortised cost from:		
Comissão Gestão Carteira FVOCI (c)	(45,600)	(46,372)
Loans and advances to customers	(7,156)	(7,820)
	(4,972,073)	**(2,029,408)**
Net interest income	**10,479,803**	**5,524,370**

(a) Balance regarding interest from bank deposits repayable on demand with the Banco de Portugal that exceed the requirements of Minimum Reserves. This remainder is remunerated at the rate defined by the ECB for the permanent deposit facility (Note 3).
(b) The item Interest on leases refers to interest expense related to lease liabilities recognised under IFRS 16, as mentioned in accounting policy of Note 2.14.
(c) Management fee related to the portfolio of financial assets measured at fair value through other comprehensive.

The significant change in Net Interest Income between 2021 and 2022 is essentially due to the change in monetary policy of the main central banks, which adopted a contractionary approach in 2022 in response to the inflationary pressures resulting from the conflict between Russia and Ukraine.

22. FEES AND COMMISSIONS INCOME/EXPENSE

These balances are analysed as follows:

	31-Dec.-22	31-Dec.-21
Fees and commissions income:		
On guarantees provided	3,163,442	3,133,862
On commitments assumed with third parties	16,952	4,672
On services rendered	2,203,985	1,951,364
	5,384,379	**5,089,898**
Fees and commissions expense:		
On services rendered by third parties	(1,229,670)	(996,956)
On transactions performed by third parties	(36)	-
Other commissions paid	-	(2,894)
	(1,229,706)	**(999,850)**
	4,154,673	**4,090,048**

The item On guarantees provided includes income from services and commissions associated with guarantees and securities provided and open documentary credits (Note 30).

As at 31 December 2021, the item Other commissions paid refers to an annual performance fee paid to a credit institution for the management of part of the Bank's portfolio of financial assets at fair value through other comprehensive income. In 2022, no commission was paid.

23. NET GAINS/(LOSSES) ARISING FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Net gains/(losses) arising from financial assets at fair value through other comprehensive income is analysed as follows:

	31-Dec.-22	31-Dec.-21
Net gains/(losses) arising from financial assets measured at fair value through other comprehensive income		
Debt instruments		
Resident	64,634	155,704
Non-resident	(1,341)	285,532
	63,293	**441,236**

In 2022 and 2021, Net gains/(losses) arising from financial assets at fair value through other comprehensive income are mostly related to gains on the disposal of debt instruments.

During 2022 and 2021, the capital gains resulting from the sale of these assets were made close to the maturity of the most important securities, and are less significant than in previous years, given the changes in the way the Bank's liquidity is being managed.

24. NET GAINS/(LOSSES) ARISING FROM FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Net gains/(losses) arising from financial assets measured at fair value through profit or loss		
Equity instruments		
Resident	-	-
Non-resident	2,733	-
Debt instruments		
Resident	-	-
Non-resident	(1,495)	15,628
Other – investment funds		
Resident	-	-
Non-resident	8,303	527
	9,541	**16,155**

In 2022 and 2021, the Bank did not earn dividends on financial assets mandatorily measured at fair value through profit or loss.

In 2022, the value of the financial assets mandatorily measured at fair value through profit or loss, whose valuation is performed using methods not observable in the market, is Euro 8,302 (Note 34).

25. NET GAINS/(LOSSES) ARISING FROM FINANCIAL ASSETS MEASURED AT AMORTISED COST

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Net gains/(losses) arising from financial assets measured at amortised cost		
Debt instruments		
Resident	-	-
Non-resident	40,027	-
	40,027	**-**

The balance Net gains/(losses) arising from financial assets measured at amortised cost includes the amount of Euro 40,027, which is justified by the sale of a security that took place in September 2022.

26. OTHER OPERATING INCOME/(EXPENSE)

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Other operating income		
Investments in associates (Note 13)	379,027	-
Recovery of bad debts	-	261,715
Income from services rendered	9,291	10,599
Other operating income	68,196	18,495
	456,514	**290,809**
Other operating expense		
Contributions	(4,845)	(2,420)
Contributions to the Deposit Guarantee Fund	(1,200)	(235)
Contributions to the Single Resolution Fund	(86,957)	(332,943)
Contributions to the Resolution Fund	(280,750)	(280,750)
Other indirect taxes and fees		
Value added tax (IVA)	(297,976)	(390,469)
Extraordinary contribution over the banking sector	(568,845)	(743,622)
Other indirect taxes and fees	(56,387)	(29,680)
Other charges and operating expenses	(27,406)	(5,654)
	(1,324,366)	**(1,785,773)**
	(867,852)	**(1,494,964)**

As at 31 December 2022, the Bank does not hold any investments in subsidiaries and associates. On 13 May 2022, the Bank sold the financial holding in the real estate company Exemplary Sparrow – *Sociedade Imobiliária, Lda.*, in the amount of Euro 6,807,589, which resulted in a gain of Euro 157,334 (Note 13).

Expenses incurred under Contributions to the Resolution Fund (CFR), to the Single Resolution Fund (CFUR) and Extraordinary contribution over the banking sector are recognised in expenses at the moment the liability is generated (application of IFRIC 21 – Levies).

The caption Extraordinary contribution over the banking Sector is estimated according to the terms of the Decree-Law No. 55-A/2010. The determination of the amount payable focuses on:

i. the annual average liability recorded in the balance sheet deducted from core capital (Tier 1) and supplementary capital (Tier 2) and deposits covered by the Deposit Guarantee Fund; and

ii. the notional amount of derivative financial instruments.

The item Contribution to the Resolution Fund corresponds to the mandatory periodic contributions paid to the Fund, in accordance with Decree-Law No. 24/2013. The periodic contributions are determined using a base rate, established by the Banco de Portugal, to be applied in each year and which may be adjusted to the credit institution's risk profile. The periodic contributions focus on the liabilities of the member credit institutions, in accordance with Article No. 10 of the referred Decree-Law, deducted from the liability elements that are part of the Tier 1 and Tier 2 capital and from the deposits covered by the Deposit Guarantee Fund.

Contributions to the Single Resolution Fund corresponds to the annual *ex-ante* contribution made by the Bank to support the implementation of resolution measures at European Union level. The Single Resolution Fund was established by Regulation (EU) No. 806/2014 (the Fund Regulation) and is financed by *ex-ante* contributions made annually and individually by all credit institutions within the Banking Union system.

Contributions to the Single Resolution Fund consider the annual target level as well as the size and risk profile of the institutions. The Single Resolution Fund applies the methodology set out in the Commission Delegated Regulation (EU) No. 2015/63 and Regulation (EU) No. 806/2014 of the European Parliament and of the Council, for determining *ex-ante* contributions.

The annual contribution to the Fund is based on the liabilities of the institutions, excluding own funds and hedged deposits, and considering adjustments arising from derivatives and intra-group liabilities, and on a risk adjustment factor that depends on the institution's risk profile. In accordance with Article No. 67 (4) of the Fund Regulation and the intergovernmental agreement on the transfer and pooling of contributions to the Single Resolution Fund, *ex-ante* contributions are collected by the national resolution authorities and transferred to the Single Resolution Fund until 30 June of each year.

27. STAFF COSTS

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Remunerations of the Management and supervisory bodies	1,082,900	966,234
Remunerations of the employees	3,184,019	2,367,548
Mandatory social security charges	1,120,934	949,697
Pension plan liabilities:		
ACTV pension plans (Defined benefit) (Note 31)	34,593	47,251
Directors Pension Plan	27,026	23,028
Other staff costs	85,190	44,355
	5,534,662	**4,398,113**

The number of Bank employees is detailed as follows:

	31-Dec.-22		31-Dec.-21	
	Average for the period	End of the period	Average for the period	End of the period
Executive directors	3	3	3	3
Non-executive directors	3	3	1	3
Senior management	10	9	12	9
Other middle management and employees	65	72	50	54
Total	**81**	**87**	**66**	**69**

ANNUAL REMUNERATION PAID TO MEMBERS OF THE CORPORATE BODIES

In accordance with the provisions of Article No. 47 of the Banco de Portugal Notice No. 3/2020 and Article No. 450 of Regulation (EU) No. 575/2013, of the European Parliament and of the Council, of 26 June, the individual remuneration of members of the corporate bodies is presented below:

	2022						2021					
	Gross remuneration paid			Expenses with remunerations			Gross remuneration paid			Expenses with remunerations		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Executive Directors												
António Manuel Pinto Duarte (a) (Vice Chairman)	-	6,607	**6,607**	-	-	**-**	153,550	6,066	**159,616**	153,550	-	**153,550**
Omar José Mascarenhas de Morais Guerra (a) (b) (Chairman of the Executive Committee)	235,200	5,867	**241,067**	235,200	50,000	**285,200**	194,012	5,866	**199,878**	194,012	50,000	**244,012**
Henrique Manuel Forte Carvalho da Silva (a) (Member)	-	4,800	**4,800**	-	-	**-**	125,349	4,799	**130,148**	125,349	-	**125,349**
Henrique José Camejo Gonçalves (b) (Member)	179,200	-	**179,200**	179,200	50,000	**229,200**	71,104	-	**71,104**	71,104	50,000	**121,104**
Nuno Alexandre de Almeida Leal (b) (Member)	196,000	-	**196,000**	196,000	50,000	**246,000**	61,469	-	**61,469**	61,469	50,000	**111,469**
Non-Executive Directors												
Luís Filipe Rodrigues Lélis (b) (Chairman of the Board of Directors)	75,000	-	**75,000**	75,000	-	**75,000**	18,750	-	**18,750**	18,750	-	**18,750**
César Abel Rodrigues Gonçalves (c) (Independent member)	60,000	-	**60,000**	60,000	-	**60,000**	15,000	-	**15,000**	15,000	-	**15,000**
Inokcelina Ben'África Correia dos Santos (b) (Member)	60,000	-	**60,000**	60,000	-	**60,000**	60,000	-	**60,000**	60,000	-	**60,000**
Supervisory Board												
João Augusto (a) (b) (Chairman)	48,000	-	**48,000**	48,000	-	**48,000**	36,000	-	**36,000**	36,000	-	**36,000**
Pedro Cabrita (a) (b) (Member)	39,000	-	**39,000**	39,000	-	**39,000**	36,000	-	**36,000**	36,000	-	**36,000**
Ana Gomes (b) (d) (Member)	29,250	-	**29,250**	29,250	-	**29,250**	-	-	**-**	-	-	**-**
Henrique Marçal (a) (e) (Chairman)	11,250	-	**11,250**	11,250	-	**11,250**	45,000	-	**45,000**	45,000	-	**45,000**
	934,922	**17,274**	**950,174**	**932,900**	**150,000**	**1,082,900**	**818,255**	**16,731**	**832,965**	**816,234**	**150,000**	**966,234**

(a) Mandate 2017/2020 (appointed on 16 May 2017)
(b) Mandate 2021/2024 (appointed on 5 April 2021, beginning on 8 October 2021)
(c) Mandate 2021/2024 (appointed on 23 June 2021, beginning on 8 October 2021)
(d) Mandate 2017/2020 (appointed on 16 May 2017, beginning on 1 April 2022)
(e) Mandate 2021/2024 (appointed on 5 April 2021, beginning on 31 March 2022)

In 2022, additional cash remuneration not included in the remuneration disclosed above was also paid to directors Omar Guerra and Nuno Leal in the amounts of Euro 16,212.44 (Euro 12,017 in 2021) and Euro 10,813.17 (Euro 10,111 in 2021), respectively, relating to a supplementary retirement plan under a defined contribution scheme, under the terms indicated below, in the form of acquisition, on behalf of the beneficiary, of investment units of a pension fund.

Remuneration expenses presented above do not include the mandatory social security charges paid by the Bank, which generally correspond to amounts resulting from rates ranging from 16.4% to 23.75%, applied over remuneration paid to corporate bodies.

With exception of two members of the Board of Directors, the Bank does not undertake any commitments regarding retirement or disability pensions, early retirement or survival, advances, loans or guarantees of any sort to the members of the Boards of Directors and Supervisory Board. The Bank undertakes the commitment for retirement or disability, early retirement or survival of Omar Guerra and Nuno Leal, under the terms agreed in the scope of the ACTV (Note 31).

After 2015, executive directors with an employment agreement suspended with the Bank and who, by virtue of this quality, benefit from the pension plan applicable to most of the Bank's employees covered by social security by ACTV (Note 31), are entitled to a supplementary pension benefit under a defined contribution plan for which the Bank contributes with 7% of the total amount of remuneration paid in the previous year. These contributions are made through the acquisition, on behalf of the beneficiary, of investment units of the pension fund that finances the retirement pension liabilities of the Bank's employees, under the terms agreed within the terms of the ACTV, or of another open pension fund available in the market.

In accordance with Article No. 47 of the Banco de Portugal Notice No. 3/2020 and Article No. 450 of Regulation (EU) No. 575/2013, of the European Parliament and of the Council, of 26 June, the following the aggregate remuneration of employees performing control functions, namely, the risk management function, compliance and internal audit, is presented below:

	2021						2022					
	Gross remuneration paid			Expenses with remunerations			Gross remuneration paid			Expenses with remunerations		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Aggregate remuneration of employees performing control functions under Notice no. 3/2020	216,658	13,000	**229,658**	216,658	13,000	**229,658**	194,187	5,333	**199,521**	194,187	13,000	**207,187**

In accordance with Article No. 47 of the Banco de Portugal Notice No. 3/2020 and Article No. 450 of Regulation (EU) No. 575/2013, of the European Parliament and of the Council, of 26 June, it is presented below the aggregate remuneration of employees performing top management functions, except those responsible for control functions (indicated above), and who are indicated in BAIE's remuneration policy as having a significant impact on the Bank's risk profile.

	2021						2022					
	Gross remuneration paid			Expenses with remunerations			Gross remuneration paid			Expenses with remunerations		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Aggregate remuneration of senior management employees **not** performing control functions but having a significant impact on the Bank's risk profile	397,546	106,000	**503,546**	397,546	106,000	**503,546**	415,043	13,733	**428,777**	415,043	106,000	**521,043**

Deferred variable remuneration is detailed in Note 19.

28. GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Specialised services	2,423,833	2,316,250
Communication	209,396	179,003
Maintenance and repair	151,752	33,886
Travel, accommodation and representation costs	36,319	53,008
Insurance	74,552	113,317
Rental costs	73,927	59,223
Advertising costs	64,659	4,001
Training	63,074	32,932
Water, energy and fuel	51,144	54,696
Consumables	18,206	7,274
Other	2,832	8,962
	3,269,694	**2,862,552**

In 2022, Specialised services presents a significant increase over the same period of last year, mainly due to the need for advisory services and IT support tools for the implementation of new products and other projects of a legal and regulatory nature.

In compliance with Article No. 66-A (1)(b) of the Portuguese Commercial Companies Code, the total fees invoiced in 2022 by the Statutory Auditors Firm, Ernst & Young Audit & Associados – SROC, S.A., are detailed as follows:

	31-Dec.-22	31-Dec.-21
Statutory Audit of Annual Accounts	107,400	97,400
Limited Review	25,000	-
Reliability Assurance Services (ISAE 300)	16,500	16,500
	148,900	**113,900**

As at 31 December 2022 and 2021, in addition to the Statutory Audit, the audit services include the review of the interim financial statements (June), the Process of Quantification of Impairment of the Loan Portfolio as at 30 June and 31 December (Instruction No. 18/2018 of the Banco de Portugal which revokes Instruction No. 5/2013 of the Banco de Portugal) and the review of the financial reporting for the purposes of the Statutory Audit of BAIE's parent company.

Costs incurred for these services are recorded under Specialised services.

29. INCOME TAXES

The nominal tax rate is detailed as follows:

	31-Dec.-22	31-Dec.-21
Corporate Income Tax (IRC)	21.0%	21.0%
Municipal Surcharge	1.5%	1.5%
State Surcharge	3% to 9%	3% to 9%

The amount of current taxes refers to the sum of tax related to the taxable income for the period, if applicable, the tax rate in force on the balance sheet date, municipal and state surcharges (if applicable) and autonomous taxation.

The State Surcharge is an additional rate only applicable to the taxable income exceeding Euro 1,500,000. Pursuant to Article No. 87-A of CIRC, as amended by Law No. 114/2017 – 29/12, in 2019 and 2018, taxable income exceeding Euro 1,500,000 and up to Euro 7,500,000 is levied at an additional rate of 3% and taxable income exceeding Euro 7,500,000 and up to Euro 35,000,000 is levied at an additional rate of 5%, taxable income exceeding Euro 35,000,000 is levied at a rate of 9%.

The Municipal Surcharge is a tax established under Law No. 73/2013, of 3 September, which is levied on taxable income subject to and not exempt, and the rates for 2021 financial year were disclosed through Circular Letter No. 20250, of 31 January 2023.

In 2022 and 2021, costs with income taxes recognised in profit or loss, as well as the effective tax rate measured by the ratio between tax credits and the profit for the period before that charge, are presented below:

	31-Dec.-22	31-Dec.-21
Current taxes		
For the period	(1,389,116)	(889,911)
Changes related to previous periods	38,273	(12,437)
Deferred taxes		
Record and reversal of temporary differences	217,934	(42,959)
Total income tax expense	**(1,132,910)**	**(945,307)**
Profit before tax	4,438,775	3,368,402
Tax burden	**25.5%**	**28.1%**

In 2022, the negative change of 1.7 p.p. concerning the effective tax rate is related to the reversal of relevant amounts provisioned in previous years, which had been taxed under Corporate Income Tax.

The reconciliation between the nominal tax rate and the effective tax rate in 2022 and 2021 is presented as follows:

	31-Dec.-22		31-Dec.-21	
	Rate	Tax	Rate	Tax
Profit before tax		**4,438,774**		**3,368,402**
Tax based on the nominal rate – First tax bracket	0.0%	-	0.0%	-
Tax based on the nominal rate – Tax bracket above	-21.0%	(897,954)	-21.0%	(707,364)
Changes in equity not reflected on the net profit	0.0%	-	0.0%	1,616
Extraordinary contribution over the banking sector	-2.7%	(119,517)	-4.6%	(156,161)
Provisions and adjustments of asset values	-13.4%	(594,990)	-10.4%	(351,761)
Other taxable income and expenses	-0.4%	(16,543)	-5.9%	(200,107)
Pension funds and other benefits	0.3%	13,115	0.1%	2,823
Taxable provisions in previous taxable periods	10.0%	444,131	20.0%	674,708
Tax benefits	0.7%	31,274	0.2%	5,463
Elimination of international double taxation	0.5%	23,735	0.0%	1,325
Autonomous taxation and surcharges	-6.1%	(272,367)	-4.8%	(160,454)
Tax adjustments of previous periods	0.9%	38,273	-0.4%	(12,437)
Deferred taxes:				
Financial assets mandatorily measured at fair value through profit or loss	-0.1%	(6,219)	0.0%	886
Provision for non-deductible loans and write-offs	6.0%	265,963	-2.0%	(66,210)
Provisions for other risks	-0.6%	(27,513)	0.8%	27,514
ACTV end-of-career bonus	0.0%	(1,255)	0.0%	133
Pension funds and post-employment benefits	-0.3%	(13,042)	-0.2%	(5,281)
	-25.5%	**(1,132,909)**	**-28.1%**	**(945,307)**

30. OFF-BALANCE SHEET ITEMS

This balance is analysed as follows:

	31-Dec.-22	31-Dec.-21
Contingent liabilities		
Guarantees and commitments (a)	8,145,895	9,318,246
Open documentary credits (a)	139,675,459	62,510,317
Assets provided as collateral (Notes 6, 7 and 9)	4,134,447	3,270,544
Securities	500	500
Import documentary credits	-	1,990,217
Commitments to third parties		
Forward contracts on deposits	-	28,253,576
Irrevocable credit facilities (a)	38,921,806	45,351,259
Commitments from third parties		
Irrevocable credit facilities	32,814,551	30,902,349
Assets and guarantees received as collateral (Notes 16 and 17)	380,396,784	188,678,357
Exchange transactions to be settled	32,567,763	3,002,158
	636,657,204	**373,277,522**

a) Items identified are subject to the accounting of impairment, calculated in accordance with the disclosed in Note 2.5 (2022: Euro 186,743,160 and 2021: Euro 117,179,822).

Commitments to third parties – Irrevocable credit facilities refer to credit facilities granted irrevocably to customers, which are not being drawn.

The amount disclosed under Commitments from third parties – Irrevocable credit facilities refer to credit facilities granted to the Bank.

As at 31 December 2022 and 2021, Assets and guarantees received as collateral is analysed as follows:

	31-Dec.-22	31-Dec.-21
Collaterals (Notes 8, 16 and 17)	134,228,647	33,596,572
Pledge and security deposits	-	6,391
Mortgages (Real estate and land)	99,391,565	54,795,747
Commitments and other personal guarantees	146,776,571	100,279,647
	380,396,784	**188,678,357**

Collaterals received relate to term deposits made with the Bank and are valued by the respective amounts presented in the balance sheet. Mortgages on real estate and land are recorded at the value of the valuations carried out by independent specialised technicians, in compliance with the requirements of the Banco de Portugal Circular Letter No. 6/2018, which replaced the revoked Circular Letter No. 2/2014 /DSP, regarding the seniority of the valuations. Pledges and security deposits of equity and debt securities relate to guarantees received to cover the risk of credit transactions to customers, which are valued at net book value. Commitments and other personal guarantees also relate to guarantees received to cover the risk of credit transactions to customers and are valued at the value of the liability to be covered, which is outstanding on the reference date.

31. EMPLOYEE BENEFITS

As described in Note 2.10.1, the Bank grants to its employees covered by the ACTV or to their families, cash benefits for old age retirement or disability, early retirement or survival, under the terms agreed within the ACTV attached to the subscription contract to the Pension Fund of *Ocidental - Sociedade Gestora de Fundos de Pensões, S.A.*

With the release of Decree-Law No. 1-A/2011, of 3 January, the employees covered by the ACTV who were active on 4 January 2011, are now covered by the General Social Security System (RGSS), for the benefit of old age retirement and in cases of maternity, paternity and adoption leaves, whose costs the Bank no longer must bear. Accordingly, the defined benefit plan for the employees covered by the ACTV relating to the old age retirement benefit, is now financed by the Pension Fund, for the liabilities for services rendered up to that date, and by the Social Security, for the responsibilities for services rendered after that date. However, as at 4 January 2011, liabilities for death and disability, survival, as well as for old-age supplementary pension remain as liabilities of the Pension fund, with the purpose to match the retirement of the participants in the Pension Fund to the values of the current pension plan.

With the release of Decree-Law No. 167-E/2013 and Ordinance No. 378-G/2013, the normal retirement age in the RGSS was changed, becoming variable and depending now on the evolution of the average life expectancy (65 years). This amendment means that the retirement pension payable between the age of 65 (presumable disability) and the new normal retirement age by the Social Security will be borne in full by BAIE, without the Social Security pension being deducted.

The calculation of the amount of liabilities for past services of Bank employees is made in accordance with IAS 19.

Ocidental - Sociedade Gestora de Fundos de Pensões, S.A. is the entity responsible for preparing the actuarial valuations necessary for the calculation of pension and retirement pension liabilities, as well as for managing the pension fund.

The actuarial valuation method used is the Projected unit credit.

As at 31 December 2022 and 2021, employees and pensioners who benefit from pension plans financed by the pension fund are:

	31-Dec.-22	31-Dec.-21
Employees – workforce	7	8
Pensioners	1	1
Old age retirement pensioners	3	3
Former employees	21	20

As at 31 December 2022 and 2021, the main actuarial and financial assumptions used for calculating pension liabilities are:

	Assumptions		Verified	
	31-Dec.-22	31-Dec.-21	31-Dec.-22	31-Dec.-21
Verified financial assumptions:				
Fund income rate	3.72%	1.35%	3.72%	1.35%
Wage growth rate	2.00%	2.00%	2.00%	2.00%
Technical interest rate	3.72%	1.35%	3.72%	1.35%
Pension growth rate	1.50%	1.50%	1.50%	1.50%
Verified demographic assumption:				
Mortality table	TV88/90	TV88/90		
Disability table	SuisseRe 2001	SuisseRe 2001		
Normal retirement age	65 years	65 years		
Percentage of married couples	80.00%	80.00%		

Under the ACTV Pension Plan, the actuarial study that was the basis for the accounting records, as at 31 December 2022 and 2021, includes the total service period in the banking sector of all BAIE's employees on those dates. For the population consisting of the Fund's former employees, the period considered for the purpose of calculating liabilities was the service period in BAIE. The duration of the fund's liabilities in December 2021 is 24.7 years.

In addition, the Bank recognises liabilities for post-employment medical care (SAMS) and long-term employee benefits (ACTV seniority premium). The amount of liabilities with SAMS and seniority premiums is as follows:

	31-Dec.-22	31-Dec.-21
Past service liabilities with medical care – SAMS (Notes 15 and 19)	87,292	145,256
Changes in loss/(gains) for the period	(57,964)	(15,777)
Past service liabilities with end-of-career bonus – ACTV (Notes 15 and 19)	25,739	31,317
Changes in loss/(gains) for the period	(5,578)	588

The financial coverage of past service liabilities is as follows:

	31-Dec.-22	31-Dec.-21
Total past liabilities		
Liabilities with the payment of pensions	230,867	285,652
Liabilities with past services of active employees	1,269,074	2,235,325
	1,499,941	**2,520,976**

As at 31 December 2022, the sensitivity analysis to changes in the technical interest rate and its impact in terms of past total liabilities under IAS 19 is as follows:

	- 0.25%	+ 0.25%
Impact on liabilities of the change in the discount rate	(77,243)	72,186
Total	**(77,243)**	**72,186**

Pension fund assets are as follows:

	31-Dec.-22	31-Dec.-21
Pension fund assets		
Opening balance	3,415,292	3,352,332
Net income from pension funds	(390,063)	89,114
Pension fund contributions		
Retirement pensions paid by the pension fund	(10,844)	(12,916)
Survival pensions paid by the pension fund	(13,476)	(13,238)
Commissions		
Closing balance	3,000,909	3,415,292
Of which: on-hold balance for Complementary Plan	–	–
	3,000,909	**3,415,292**
Coverage level according to actuarial report	200.1%	141.8%
Minimum liability level to be covered [95% of (b) + 100% of (a)]	1,436,487	2,409,210
Required value to be transferred to the pension funds	–	–

In 2022 and 2021, there were no contributions to the Pension Fund. The increase in liabilities was partially offset by the increase in the Fund's net income.

In addition to the ACTV Pension Plan, BAIE granted to its employees a supplementary pension until 30 June 2005, provided for in the Complementary Plan to ACTV. Under this plan, workers bound on that date are entitled to a supplementary retirement and survival's pension, calculated based on the length of service provided in BAIE and the salary received up to that date. Considering that according to the Collective Membership Agreement these liabilities should be transferred to an individual membership or to another pension fund that complies with the legislation in force, in 2010 the respective individual memberships were transferred in the amount corresponding to Euro 93,633.

As at 31 December 2022 and 2021, the financial statements included the following items related to the coverage of pension liabilities:

	31-Dec.-22	31-Dec.-21
Total liabilities		
Total liabilities for pensions payable	230,867	285,652
Total liabilities for past services	1,269,074	2,235,325
	1,499,941	**2,520,976**
Pension fund assets (Note 19)	3,000,909	3,415,292
Provision for liabilities with retirement pensions (Note 19)	1,499,941	2,520,976
Actuarial gains/(losses) recognised in retained earnings (Note 20):		
Annual change	(648,769)	440,882
Accumulated amount (Note 31)	1,088,278	439,511

In the composition of the pension fund assets there are no: i) assets being used by the Bank; and ii) securities issued by the Bank.

The amounts reflected in Staff costs (Note 27) with the Bank's retirement pensions liabilities in 2022 and 2021 are as follows:

	31-Dec.-22	31-Dec.-21
Net financial costs:		
Current service expense	28,932	33,554
Interest expense	33,847	24,623
Expected income from pension fund assets	20,663	2,776
Contributions from employees	-	-
Total	**83,442**	**60,953**

The changes during 2022 and 2021, in the present value of liabilities for past services, were as follows:

	31-Dec.-22	31-Dec.-21
Liabilities at the beginning of the period	**2,520,976**	**2,843,496**
Current service expense	28,932	33,554
Interest expense	33,847	24,623
Expected income from pension fund assets	(20,663)	(2,776)
Actuarial gains/(losses) recognised under retained earnings (Note 20)	(648,769)	(440,882)
Retirement pensions paid by the pension fund	(10,844)	(12,916)
Survival pensions paid by the pension fund	(13,476)	(13,238)
Net income of the Fund	(390,063)	89,114
Commissions	-	-
Liabilities at the end of the period	**1,499,941**	**2,520,976**

The actuarial deviations occurred in 2022 and 2021 were recorded as follows:

	31-Dec.-22	31-Dec.-21
Actuarial gains/(losses)		
Related to differences between assumptions and realised values	(648,769)	(440,882)
Total	**(648,769)**	**(440,882)**

As at 31 December 2022 and 2021, the items comprising the value of the pension fund assets are as follows:

	31-Dec.-22	31-Dec.-21
Liquidity	2.31%	4.16%
Bonds	66.14%	62.04%
Shares	26.70%	29.24%
Real estate and hedge funds	4.85%	4.56%
Total	**100.00%**	**100.00%**

32. RELATED PARTIES

Under IAS 24, the companies controlled by the BAI Group, the Directors of BAI Group companies, the associated company Founton Ltd (BAIE's financial holding sold during 2019) and other entities with significant influence over BAIE, namely companies of the Sonangol group, BAI's reference shareholder, BAIE's parent company, are considered related parties of BAIE.

As at 31 December 2022, the Bank's statement of financial position, income statement and off-balance sheet items include the following balances with related entities:

	Associates	Corporate bodies of BAI Group	Companies from BAI Group	Other related parties	Total
Assets					
Loans and advances to credit institutions repayable on demand (Note 4)	-	-	250,612	-	250,612
Other loans and advances to credit institutions (Note 8)	-	-	-	-	-
Financial assets mandatorily measured at fair value through profit or loss (Note 5)	-	-	107,337	-	107,337 –
Loans and advances to customers (Note 9)	-	963,078	-	2,545,833	3,508,911
Investments in subsidiaries and associates (Note 13)	-	-	-	-	-
Other assets (includes letters of credit)	-	-	13,060,300	-	13,060,300
Liabilities					
Deposits from credit institutions (Note 16)	-	-	207,019,351	-	207,019,351
Deposits from customers and other loans (Note 17)	-	7,350,749	9,824	15,680,543	23,041,115
Other financial liabilities at fair value through profit or loss (Note 6)	-	-	349,517	-	349,517
Other liabilities (Note 19)	-	14,820	-	-	14,820
Off-balance sheet items (Note 30)					
Guarantees and commitments					
Granted	-	-	3,188,588	-	3,188,588
Received	-	-	913,388	-	913,388
Open documentary credits	-	-	113,927,212	-	113,927,212
Assets and guarantees received as collateral	-	410,000	49,221,826	2,820,332	52,452,158
Irrevocable credit facilities					
Granted	-	-	-	7,861	7,861
Received	-	-	32,814,551	-	32,814,551
Total	**-**	**8,738,646**	**420,862,506**	**21,127,114**	**450,728,266**
Income					
Interest and similar income (Note 21)	-	8,609	-	45,660	54,269
Fees and commission income (Note 22)	-	1,132	2,356,177	7,945	2,365,254
Expenses					
Interest and similar expense (Note 21)	-	(18,209)	(2,078,022)	(5,144)	(2,101,375)
Net gains/(losses) arising from financial assets mandatorily measured at fair value through profit or loss (Note 24)	-	-	11,224	-	11,224
Staff costs (Note 27)	-	-	(72,545)	-	(72,545)
General and administrative expenses (Note 28)	-	(5,123)	-	-	(5,123)
Fees and commission income (Note 22)	-	(8)	(30)	(1)	(39)
Loans impairment net of reversals and recoveries (Note 18)	-	-	(65,140)	252	(64,888)
Total	**-**	**(13,599)**	**151,664**	**48,712**	**186,777**

As at 31 December 2021, the Bank's statement of financial position, income statement and off-balance sheet items include the following balances with related entities:

	Associates	Corporate bodies of BAI Group	Companies from BAI Group	Other related parties	Total
Assets					
Other loans and advances to credit institutions (Note 8)	-	-	52,041	-	52,041
Financial assets mandatorily measured at fair value through profit or loss (Note 5)	-	-	296,840	54,869	351,709
Loans and advances to customers (Note 9)	-	246,212	2,250,986	9,171,583	11,668,781
Investments in subsidiaries and associates (Note 13)	-	-	-	-	-
Other assets (letters of credit)	-	-	14,063,983	-	14,063,983
Liabilities					
Deposits from credit institutions (Note 16)	-	-	213,693,053	-	213,693,053
Deposits from customers (Note 17)	9	9,650,449	979,235	12,738,060	23,367,753
Other liabilities (Note 19)	-	40,734	5,087	8,215	54,036
Off-balance sheet items (Note 30)					
Guarantees and commitments	-	-	2,754,724	-	2,754,724
Open documentary credits	-	-	48,777,856	-	48,777,856
Assets and guarantees received as collateral	-	-	19,875,796	50,000	19,925,796
Irrevocable credit facilities					
Granted	-	42,500	10,000	50,000	102,500
Received	-	-	30,902,349	-	30,902,349
Total	**9**	**9,979,895**	**333,661,949**	**22,072,727**	**365,714,580**
Income					
Interest and similar income (Note 21)	-	3,610	148,776	359,845	512,231
Fees and commission income (Note 22)	-	533	2,791,254	5,701	2,797,488
Expenses					
Interest and similar expense (Note 21)	-	(56,895)	(394,524)	(10,619)	(462,038)
Net gains/(losses) arising from financial assets mandatorily measured at fair value through profit or loss (Note 24)	-	-	13,173	-	13,173
General and administrative expenses (Note 28)	-	-	-	(48,224)	(48,224)
Fees and commission income (Note 22)	-	(3)	(500)	-	(503)
Loans impairment net of reversals and recoveries (Note 18)	-	(19,597)	2,841	129,063	112,307
Total	**-**	**(72,352)**	**2,561,020**	**435,766**	**3,421,523**

As mentioned in Note 2.3. and in the Income Statement, Net gains/(losses) arising from foreign exchange differences concern essentially to net gains/(losses) arising from foreign exchange transactions with BAI Group entities.

Balances and transactions with other related parties refer essentially to companies of the BAI Group, BAI's parent company.

33. FINANCIAL INSTRUMENTS: DISCLOSURES (IFRS 7)

In addition to other disclosures already made in this respect throughout some of the previous Notes, we present below additional information required under IFRS 7 and, with regard to credit risk, the disclosures required under IFRS 9, Instruction No. 20/2019 of the Banco de Portugal and Circular Letter No. 2018/00000062 which replaced Circular Letter No. 2/2014/DSP, of 26 February.

OWN FUNDS (REGULATORY CAPITAL)

The legislation incorporating the Capital Accord (Basel III) entered into force on 1 January 2014 through the legislative package established by Regulation (EU) No. 575/2013 (CRR) of the European Parliament and the Council and Directive 2013/36/EU of the European Parliament and the Council (CRD IV), both approved on 26 June, and the latter still required to be transposed into national legislation by Decree-Law No. 157/2014 of 24 October. Additionally, Regulation (EU) No. 2019/876 of the European Parliament and the Council introduced amendments to the Capital Requirements Regulation (CRR) during 2019.

The risk management system adopted by BAIE is described in the Management Report, a document that is issued together with these financial statements.

The Banco de Portugal issued guidelines on the transition requirements regarding the implementation of IFRS 9. These guidelines allowed a choice between two approaches for recognising the impact on regulatory capital of the adoption of the standard:

i. Transition period of the total impact over a period of 5 years, based on the following percentages for some components: 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022;

ii. Recognition of the full impact on the date of adoption.

The Bank decided to adopt the second approach, therefore, the impact of the adoption of IFRS 9 on the Bank's regulatory capital was fully recognised at the date of adoption of IFRS 9 (1 January 2018).

Under Notice No. 10/2017 and of the CRR, the Bank's own funds and capital requirements are presented as follows:

	31-Dec.-22	31-Dec.-21
Total own funds (1+2+3+4)	**83,315,012**	**87,623,462**
1. Base Own funds (Tier 1)	**83,315,012**	**87,623,462**
Base Own funds Core (Common Equity Tier 1 - CET 1)	**83,315,012**	**87,623,462**
Paid-up share capital (Note 20)	42,000,000	40,000,000
Legal reserve (Note 20)	8,932,706	8,690,394
Unrealised losses on financial assets at fair value through other comprehensive income	(92,177,942)	(31,562,351)
Unrealised gains on financial assets at fair value through other comprehensive income	86,632,550	32,561,683
Adjustment for credit risk – Securities at FVOCI (IFRS 9)	(109,777)	547,894
Adjustments of Base Own funds Core (CET 1) due to prudential filters	374,118	(215,185)
Deferred tax assets that depend on future profitability	(747,533)	(579,600)
Retained earnings (Note 20)	38,281,055	38,100,248
Net intangible assets (Note 12)	(908,446)	(533,013)
Actuarial losses with liabilities related to pensions (Notes 20 and 31)	1,088,280	439,511
Other transitional adjustments	-	173,880

(To be continued)

(Continued)

	31-Dec.-22	31-Dec.-21
2. Complementary Own funds (Tier 2)	-	-
Provisions for general credit risks (Note 18)	-	-
3. Risks covered by own funds	-	-
4. Deduction from total own funds	-	-
Net value of real estate acquired in loan repayment over 2 years ago.	-	-

a) Profit/(loss) for the period for 2022 and 2021 will only be eligible for own funds after the date of issue of the respective limited review report by the Statutory Auditor of the Bank. In 2022, the Bank did not issue a half-yearly report, therefore the profit/(loss) for this period is not eligible for own funds.

	31-Dec.-22	31-Dec.-21
Total own funds	83,315,012	87,623,462
Requirements for credit risk (asset and off-balance sheet weighted) and operational risk	445,003,807	407,616,813
Total own funds ratio	18.7%	21.5%
Base own funds ratio (Tier 1)	18.7%	21.5%
Common equity Tier 1 ratio (CET 1)	18.7%	21.5%

During 2022 and 2021, the Bank complied with all capital requirements defined by the banking supervision entity, the Banco de Portugal, in accordance with applicable laws and regulations.

MARKET RISK

Market risk arises from changes in the price of instruments resulting from changes in interest rates, exchange rates, stock prices or commodity prices. In the Bank's current balance sheet management strategy, the asset that is most vulnerable to market changes is the loan portfolio and other securities (Notes 7 and 10) which are classified either as financial assets at fair value through other comprehensive income or as other financial assets measured at amortised cost. The risk analysis of these financial instruments is carried out from a credit risk perspective instead from a market risk perspective, considering that the position adopted for these assets is done from an investment perspective and does not aim for the generation of capital gains with anticipated sale. In addition, there is a portfolio of equity securities that represents a portion without any significant expression of the total assets of the Bank. Consequently, its monitoring does not require the development of a specific risk management model.

As a result of legislative amendments incorporating the Basel III Capital Accord (Regulation (EU) No. 575/2013 (CRR) of the European Parliament and of the Council, of 26 June, complemented by the Commission's Delegated Regulation (EU) 2015/61, of 10 October 2014), after 1 October 2015, it became mandatory the constitution of a high quality liquid assets (HQLA) portfolio to meet the short-term liquidity coverage ratio (LCR), i.e., to cover net cash requirements for a 30-day period, and the HQLA portfolio cannot be less than the amount corresponding to 25% of the total expected cash outflows for that period. With the introduction of this prudential liquidity requirement, the Bank has invested in eligible assets for this purpose, thus extending the securities portfolio classified as Financial Assets at Fair Value through Other Comprehensive Income (FAFVOCI).

In the most recent exercise performed by BAIE, market risk is not considered material, as the Bank does not have a trading book investment strategy, thus not considering the market risk.

LIQUIDITY AND FINANCING RISK

Liquidity and financing risk is defined as the likelihood of negative impacts on profit or loss or on equity resulting from the Bank not having liquid funds to meet its financial liabilities upon maturity. An integral part of this risk is the risk of liquidity and financing concentration, which results from the concentration of sources of liquidity in a reduced number of counterparties or geographies.

BAIE assumes a low-risk appetite, ensuring for this purpose the management of this risk based on the maintenance of a prudent net position, in order to guarantee the fulfilment of the financial obligations at maturity. Regarding the risk of liquidity and financing concentration, given the framework of the Financial Group of which BAIE is part, the Board of Directors has defined the objective of adopting a moderate risk appetite in view of the concentration of liquidity sources in Angola.

The management of liquidity risk overlaps with interest rate risk management, so that the hedging between assets and liabilities with respect to maturity terms or any possible interest rate review should only be performed after the defined liquidity limits have been met.

Liquidity risk is managed on a daily basis by the Market Room based on maps produced daily with information on liquidity gaps for different time horizons, the Bank's LCR and NSFR (Net Stable Funding Ratio) and monitored daily by the FGR. On a monthly basis, the FGR presents the results of its daily monitoring at the CAGR.

As at 31 December 2022, the contractual residual terms of the financial instruments are as follows:

	Below 3 months	3 to 12 months	1 to 5 years	Above 5 years or undetermined	Total
Assets					
Cash and deposits at central banks	4,436,230	-	-	-	4,436,230
Loans and advances to credit institutions repayable on demand	70,199,586	-	-	-	70,199,586
Financial assets mandatorily measured at fair value through profit or loss	-	-	107,337	281,879	389,216
Other financial assets at fair value through profit or loss	-	-	-	349,517	349,517
Financial assets at fair value through other comprehensive income	5,225,445	16,724,069	64,266,322	22,472,977	108,688,812
Other loans and advances to credit institutions	199,846,229	99,802	23,479,974	47,562,147	270,988,152
Loans and advances to customers	22,961,884	18,554,703	69,025,476	35,327,982	145,870,044
Other financial assets at amortised cost	86,506,776	18,412,324	30,980,485	-	135,899,584
	389,176,150	**53,790,898**	**187,859,593**	**105,994,502**	**736,821,142**
Liabilities					
Other financial liabilities at fair value through profit or loss	-	-	-	(349,517)	(349,517)
Deposits from Central Banks	-	-	-	-	-
Deposits from other credit institutions	(259,234,422)	(14,430,819)	(95,547,716)	-	(369,212,958)
Deposits from customers and other loans	(168,729,685)	(79,030,509)	(25,589,610)	(90,091)	(273,439,896)
Lease liabilities – IFRS 16 (Note 19)	-	-	(1,553,989)	-	(1,553,989)
	(427,964,108)	**(93,461,329)**	**(122,691,316)**	**(439,608)**	**(644,556,360)**
Foreign exchange operations pending settlement (net flow)	(34,449)	-	-	-	(34,449)
Difference/Gap	**(38,822,407)**	**(39,670,431)**	**65,168,277**	**105,554,894**	**92,230,333**
Difference/Accumulated Gap	**(38,822,407)**	**(78,492,838)**	**(13,324,561)**	**92,230,333**	

As at 31 December 2021, the contractual residual terms of the financial instruments are as follows:

	Below 3 months	3 to 12 months	1 to 5 years	Above 5 years or undetermined	Total
Assets					
Cash and deposits at central banks	69,738,598	-	-	-	69,738,598
Loans and advances to credit institutions repayable on demand	67,587,133	-	-	-	67,587,133
Financial assets mandatorily measured at fair value through profit or loss	-	-	182,510	372,689	555,199
Other financial assets at fair value through profit or loss	-	-	-	313,715	313,715
Financial assets at fair value through other comprehensive income	69,224,910	15,110,460	93,796,837	35,866,303	213,998,510
Other loans and advances to credit institutions	62,014,443	-	35,942,188	65,800,454	163,757,085
Loans and advances to customers	15,536,016	18,620,529	57,870,587	27,163,141	119,190,273
Other financial assets at amortised cost	23,952,379	-	2,048,080	-	26,000,459
	308,053,479	**33,730,989**	**189,840,202**	**129,516,302**	**661,140,973**
Liabilities					
Other financial liabilities at fair value through profit or loss	-	-	-	(313,715)	(313,715)
Deposits from Central Banks	-	-	-	-	-
Deposits from other credit institutions	(349,468,936)	-	-	-	(349,468,936)
Deposits from customers and other loans	(117,752,005)	(51,169,684)	(47,247,457)	-	(216,169,146)
Lease liabilities – IFRS 16 (Note 19)	-	-	-	(1,916,337)	(1,916,337)
	(467,220,941)	**(51,169,684)**	**(47,247,457)**	**(2,230,052)**	**(567,868,134)**
Foreign exchange operations pending settlement (net flow)	(2,158)	-	-	-	(2,158)
Difference/Gap	**(156,169,619)**	**(17,438,695)**	**142,592,745**	**127,286,250**	**93,270,681**
Difference/Accumulated Gap	**(156,169,619)**	**(176,608,314)**	**(34,015,570)**	**93,270,681**	

CURRENCY RISK

Within the current currency risk management policy, exchange position limits are established and therefore the various currency exchange positions in the Bank's balance sheet and its currency performance in the market are monitored on a daily basis. Considering the exposure limits established, liquidity needs per currency, and the performance of the various currencies in the market, foreign exchange positions are hedged economically, either through trading in the spot currency market or through the use of derivative financial instruments.

Exchange rate risk is managed by the Market Room and monitored by the FGR, both on a daily basis. On a monthly basis, the FGR presents the results of this monitoring at the CAGR.

As at 31 December 2022, the breakdown by currency of financial instruments is as follows:

	Euro	USD	Other	Total
Assets				
Cash and deposits at central banks	4,358,955	77,134	141	4,436,230
Loans and advances to credit institutions repayable on demand	6,876,139	62,453,648	869,799	70,199,586
Financial assets mandatorily measured at fair value through profit or loss	57,968	227,010	104,237	389,216
Other financial assets at fair value through profit or loss	-	349,517	-	349,517
Financial assets at fair value through other comprehensive income	46,855,079	61,833,733	-	108,688,812
Other loans and advances to credit institutions	135,824,755	133,584,477	1,578,920	270,988,152
Loans and advances to customers	120,681,064	25,188,980	-	145,870,044
Other financial assets at amortised cost	34,222,853	101,676,732	-	135,899,585
Investments in subsidiaries and associates	-	-	-	-
	348,876,814	**385,391,231**	**2,553,097**	**736,821,142**
Liabilities				
Other financial liabilities at fair value through profit or loss	-	(349,517)	-	(349,517)
Deposits from other credit institutions	(42,676,237)	(324,431,674)	(2,105,046)	(369,212,958)
Deposits from customers and other loans	(229,180,187)	(44,138,918)	(120,791)	(273,439,896)
Lease liabilities – IFRS 16 (Note 19)	(553,989)	-	-	(1,553,989)
	(273,410,413)	**(368,920,109)**	**(2,225,837)**	**(644,556,360)**
Spot foreign exchange transactions pending settlement (net amount)	16,266,657	(16,301,106)	-	(34,449)
	16,266,657	**(16,301,106)**	**-**	**(34,449)**
Difference/Gap (Open foreign exchange position)	**N/A**	**170,016**	**327,260**	**497,275**

As at 31 December 2021, the breakdown by currency of financial instruments is as follows:

	Euro	USD	Other	Total
Assets				
Cash and deposits at central banks	69,697,578	40,657	363	69,738,598
Loans and advances to credit institutions repayable on demand	13,081,210	53,073,854	1,432,069	67,587,133
Financial assets mandatorily measured at fair value through profit or loss	55,444	203,491	296,265	555,199
Other financial assets at fair value through profit or loss	-	313,715	-	313,715
Financial assets at fair value through other comprehensive income	65,452,330	148,546,181	-	213,998,510
Other loans and advances to credit institutions	13,060,845	150,696,240	-	163,757,086
Loans and advances to customers	93,068,504	26,121,770	-	119,190,273
Other financial assets at amortised cost	26,000,459	-	-	26,000,459
Investments in subsidiaries and associates	3,949	-	-	3,949
	280,420,318	**378,995,907**	**1,728,698**	**661,144,923**

(To be continued)

(Continued)

	Euro	USD	Other	Total
Liabilities				
Other financial liabilities at fair value through profit or loss	-	(313,715)	-	(313,715)
Deposits from other credit institutions	(16,309,448)	(331,768,411)	(1,391,078)	(349,468,936)
Deposits from customers and other loans	(163,440,532)	(52,600,696)	(127,919)	(216,169,146)
Lease liabilities – IFRS 16 (Note 19)	(1,916,337)	-	-	(1,916,337)
	(181,666,317)	**(384,682,821)**	**(1,518,996)**	**(567,868,134)**
Spot foreign exchange transactions pending settlement (net amount)	1,500,000	(1,502,158)	-	(2,158)
	1,500,000	**(1,502,158)**	**-**	**(2,158)**
Difference/Gap (Open foreign exchange position)	**N/A**	**(7,189,072)**	**209,701**	**(6,979,371)**

INTEREST RATE RISK

Interest rate risk occurs whenever there is a mismatch between assets and liabilities, or financial instruments recorded off-balance sheet sensitive to changes in interest rate levels. For the purpose of monitoring, in addition to using the prudential approach defined by the Banco de Portugal in its Instruction No. 3/2020, of 14 December, the Bank developed a model of analysis (internal approach) that performs on a monthly basis the measurement of interest rate risk by applying the discount factors to daily net cash flows (gap/position), i.e., to its specific residual repricing period, for all financial instruments considered by BAIE as sensitive to interest rate effect.

In terms of the approach suggested by the Banco de Portugal, for each materially relevant currency (in the case of BAI Europa, Euro and US dollars) the gaps of the various interest rate positions and their respective discount factor of parallel shocks are calculated (+/- 200 basis points) in the interest rate curve, in the net interest income and in the Bank's own funds. Cash flows in Euro and US dollars are discounted based on Bloomberg's risk-free yield curves with an impact of +/- 200 basis points on the rates over those periods. However, with respect to the BAIE internal model, parallel shock is only applied in yield curves of +200 basis points since it is the shock that the BAIE considers more plausible to occur in the current context of interest rates.

When applying its internal model for measuring interest rate risk, BAIE does not take off-balance-sheet items into account, since 83% of the off-balance-sheet liabilities relate to confirmed documentary credits and 68% of the off-balance-sheet assets relate to guarantees received (of which 41% were provided to cover documentary credits). In view of the above, and given the nature of its off-balance sheet items, the Bank considers that these instruments are not subject to interest rate risk.

In its internal model for measuring interest rate risk, BAIE also does not consider the elements that are included in the balance sheet items Other Assets and Other Liabilities because it considers that those are not transactions subject to interest rate risk.

The Bank's internal regulations establish prudent exposure limits, which do not allow the existence of significant amounts of medium and long-term fixed rate operations.

The interest rate risk is monitored by the UGR, which on a monthly basis presents the results at the CAGR.

As at 31 December 2022, the financial instruments subject to interest rate risk, by type of rate (fixed or variable) by currency, are as follows:

	EUR		USD (in EUR)		Other currencies (in EUR)	Total (in EUR)
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate		
Total Assets	**239,978,417**	**113,631,599**	**271,939,873**	**134,275,695**	**2,555,284**	**762,380,868**
Cash and deposits at central banks	4,358,955	-	82,271	-	141	4,441,367
Loans and advances to credit institutions repayable on demand	6,884,364	-	66,613,061	-	869,800	74,367,225
Other loans and advances to credit institutions**	136,300,000	-	63,000,000	79,000,000	1,578,479	279,878,479
Securities portfolio*	51,330,362	12,983,446	84,754,458	36,408,160	104,237	185,580,663
Loans and advances to customers**	21,835,419	100,648,153	7,907,331	18,867,535	1	149,258,439
Other assests	19,269,317	-	49,582,753	-	2,627	68,854,697
Total Liabilities	**(277 335,897)**	**-**	**(374,590 303)**	**-**	**390,657**	**(651,535 542)**
Deposits from credit institutions and customers*	(270,702,333)	-	(391,903 336)	-	-	(662,605 669)
Other liabilities	(6,633,564)	-	17,313,034	-	390,657	11,070,127
Total off-balance sheet	**(2,186,103)**	**-**	**(78,257 032)**	**-**	**153,309,617**	**72,866,482**
Off-balance sheet	(2,186,103)	-	(78,257 032)	-	153,309,617	72,866,482

* Excludes interest receivable/payable.
** Excludes interest receivable, impairment and deferred income.

As at 31 December 2022, the impact of the +2% parallel shock on yield curves on the economic value of financial instruments subject to interest rate risk, using BAIE's internal approach and the approach provided for in Instruction No. 3/2020 of the Banco de Portugal (BdP Approach), is as follows:

Currency	+200 bp	
	BdP Approach	Internal approach
EUR	(2,608,559)	(3,108,348)
USD *	(792,563)	(697,191)
Total	**(3,004,840)**	**(3,805,539)**

* Amounts expressed in Euro

In accordance with Instruction No. 3/2020 of the Banco de Portugal, the analysis of interest rate risk does not include the following accounting items: Other tangible assets and right-of-use assets; Intangible assets; Current and deferred tax assets; Other financial liabilities at fair value through profit or loss; Provisions and Current and deferred tax liabilities.

As at 31 December 2022 and 2021, the result of the application of the standard shock (BdP Approach, Instruction No. 3/2020), in the economic value and the expected net interest income for one year, is as follows:

Outcome of the Supervisory standard shock	31-Dec.-22	31-Dec.-21
Change in the economic value of the banking portfolio resulting from a parallel rise in the yield curve after the supervisory standard shock	(5,064,010)	(1,340,254)
Change in the economic value of the banking portfolio resulting from a parallel decline in the yield curve after the supervisory standard shock	2,912,228	(1,825,772)
Expected net interest income at 1 year without interest rate changes	14,121,252	2,351,729
Change in expected net interest income at 1 year resulting from a parallel rise in the yield curve after the supervisory standard shock	3,002,313	3,096,261
Change in expected net interest income at 1 year resulting from a parallel decline in the yield curve after the supervisory standard shock	(2,994,859)	(3,047,560)

As at 31 December 2022, the analysis of the impact on the Bank's economic value of a 2% parallel rise in benchmark interest rates is as follows:

	31-Dec.-22		
	BdP approach, Instruction No. 3/2020		Internal approach
	Prior Model (Without shock)	Post Model (Shock + 2%)	(Shock + 2%)
Overnight	(112,099,468)	(94,496,251)	(132,124,156)
Greater than overnight and until 1 month	232,633,617	232,395,047	232,395,047
Greater than 1 month and up to 3 months	(111,310,757)	(110,342,387)	(41,110,102)
Greater than 3 months and up to 6 months	9,472,129	9,274,224	20,007,576
Greater than 6 months and up to 9 months	(2,777,695)	(3,072,865)	(17,220,443)
Greater than 9 months and up to 12 months	16,359,294	15,004,993	23,333,551
Greater than 12 months and up to 1.5 years	(50,847,835)	(47,664,613)	(46,666,808)
Greater than 1.5 years and up to 2 years	(20,930,556)	(17,811,585)	(17,329,925)
Greater than 2 years and up to 3 years	40,426,486	34,743,082	39,368,531
Greater than 3 years and up to 4 years	30,358,542	25,319,356	25,634,560
Greater than 4 years and up to 5 years	11,181,535	9,076,183	9,236,646
Greater than 5 years and up to 6 years	8,073,255	6,125,446	6,190,685
Greater than 6 years and up to 7 years	2,050,588	1,497,154	1,508,419
Greater than 7 years and up to 8 years	1,543,469	1,068,755	1,088,897
Greater than 8 years and up to 9 years	5,681,353	3,746,393	3,760,065
Greater than 9 years and up to 10 years	1,358,643	858,241	858,241
Greater than 10 years and up to 15 years	3,096,605	1,761,389	1,761,389
Greater than 15 years and up to 20 years	(486)	(220)	-
Greater than 20 years	(260)	(103)	-
Net position	**64,268,461**	**67,482,239**	**110,692,173**

As at 31 December 2021, the analysis of the impact on the Bank's economic value of a 2% parallel rise in benchmark interest rates is as follows:

	31-Dec.-21		
	BdP approach, Instruction No. 3/2020		Internal approach
	Prior Model (Without shock)	Post Model (Shock + 2%)	(Shock + 2%)
Overnight	20,026,195	49,994,164	(12,369,618)
Greater than overnight and until 1 month	48,785,131	48,731,055	50,427,503
Greater than 1 month and up to 3 months	99,913,470	106,208,611	160,897,345
Greater than 3 months and up to 6 months	13,592,169	16,739,514	30,056,335
Greater than 6 months and up to 9 months	(10,455,242)	(10,355,044)	(8,085,866)
Greater than 9 months and up to 12 months	(10,285,448)	(10,193,904)	(9,630,205)
Greater than 12 months and up to 1.5 years	(26,300,249)	(25,965,096)	(19,470,378)
Greater than 1.5 years and up to 2 years	(49,931,790)	(56,838,676)	(56,363,751)
Greater than 2 years and up to 3 years	(37,848,168)	(36,069,016)	(36,265,187)
Greater than 3 years and up to 4 years	(1,286,673)	(1,401,115)	(1,012,566)
Greater than 4 years and up to 5 years	3,951,471	3,539,019	3,999,681
Greater than 5 years and up to 6 years	6,075,312	5,509,451	6,155,514
Greater than 6 years and up to 7 years	8,413,119	7,421,438	8,556,424
Greater than 7 years and up to 8 years	1,152,907	995,722	1,180,992
Greater than 8 years and up to 9 years	932,759	781,723	955,712
Greater than 9 years and up to 10 years	5,301,516	4,343,300	5,266,816
Greater than 10 years and up to 15 years	2,665,956	2,009,620	2,590,596
Greater than 15 years and up to 20 years	(721)	(469)	-
Greater than 20 years	-	-	-
Net position	**74,701,713**	**105,450,296**	**126,889,348**

ENCUMBERED AND NON-ENCUMBERED ASSETS

As at 31 December 2022 and 2021, in compliance with the guidelines of the European Banking Authority (EBA/GL/2014/3) and Instruction No. 28/2014 of the Banco de Portugal, of 15 January 2015, the following table presents the information related to:

i. Bank assets which are encumbered and non-encumbered (Model A)

	31-Dec.-22				31-Dec.-21			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
Assets	4,134,447	4,134,447	748,741,163	741,350,645	3,270,544	3,270,544	667,075,882	661,330,892
Equity instruments (Notes 7 and 10)	-	-	631,396	631,396	-	-	572,074	572,074
Debt securities (Notes 7 and 10)	21,772	21,772	178,885,951	178,682,306	21,772	21,772	225,325,127	225,315,805
Other assets	4,112,675	4,112,675	569,223,816	562,036,943	3,248,772	3,248,772	441,178,681	435,443,013

ii. Collateral received (Model B)

	31-Dec.-22		31-Dec.-21	
	Fair value of the encumbered collateral received or debt securities issued	Fair value of the encumbered collateral received or debt securities issued and encumbered	Fair value of the encumbered collateral received or debt securities issued	Fair value of the encumbered collateral received or debt securities issued and encumbered
Collateral received	233,620,213	233,620,213	88,398,710	88,398,710
Equity instruments	-	-	6,391	6,391
Other assets	233,620,213	233,620,213	88,392,319	88,392,319

iii. There are no encumbered assets, encumbered collateral received and associated liabilities in accordance with Model C.

iv. Information related to the importance of the encumbrance on assets (Model D)

The Institution's level of encumbrance on assets, as measured by the relative weight of the assets encumbered in the Bank's total assets, is less than 1%. Collateral received from customers is not reflected in the Bank's balance sheet and is not available for encumbrance since the Bank is not authorised to sell those assets or providing them again as collateral, except in the event of default by the owner of the security deposit.

CREDIT RISK AND CONCENTRATION CREDIT RISK

Overall, the credit risk on the Bank's assets is represented by three large groups of credit operations, namely: i) exposure to credit institutions, mainly in the interbank money market; ii) loans and advances to customers represented (or not) by securities; and iii) financial assets at fair value through other comprehensive income.

MAXIMUM EXPOSURE TO CREDIT RISK

	31-Dec.-22			31-Dec.-21		
	Gross exposure (1)	Provisions and impairment	Effective exposure (2)	Gross exposure (1)	Provisions and impairment	Effective exposure (2)
Assets						
Loans and advances to credit institutions repayable on demand	70,288,839	89,253	70,199,586	67,658,162	71,029	67,587,133
Financial assets mandatorily at fair value through profit or loss	389,216	-	389,216	555,199	-	555,199
Other financial assets at fair value through profit or loss	349,517	-	349,517	313,715	-	313,715
Financial assets at fair value through other comprehensive income (3)	108,688,812	-	108,688,812	213,998,510	-	213,998,510
Other loans and advances to credit institutions	271,526,486	539,081	270,987,405	164,306,194	549,108	163,757,086
Loans and advances to customers	147,641,756	1,771,712	145,870,044	120,573,499	1,383,226	119,190,273
Other financial assets at amortised cost	136,127,648	227,317	135,900,332	26,074,737	74,278	26,000,459
Off-balance sheet						
Guarantees and securities	8,145,895	387,155	7,758,740	9,318,246	418,791	8,899,455
Commitments to third parties	38,921,806	673,823	38,247,983	45,351,259	22,391	45,328,868
	782,079,976	**3,688,341**	**778,391,635**	**648,149,521**	**2,518,823**	**645,630,698**

(1) Gross exposure: Balance sheet value before provisions and impairment.

(2) Effective exposure: Gross exposure net of provisions and impairment.

(3) In accordance with IFRS 9, the impairment calculated for these financial assets is recorded in equity (fair value reserve).

The portfolio of loans and advances to customers consists almost entirely of loans and advances to companies and public entities (Note 9). The current credit risk management process for customers is based on the specific characteristics of the customer and the product, and of the credit cycle. Credit risk analyses are carried out based on the customer's updated financial information as well as on other additional information (management skills, future expectations, performance and expectations of the specific market, competitive capacity, forecast cash flows, etc.). Periodically, customers are asked for updated financial information for the purpose of monitoring the quality of exposure risk.

In addition, maximum exposure limits are defined by:

i. Business sector and by country, net of collateral (deposits pledged to BAIE, Bank Guarantees issued by other credit institutions, or insurance contracts) and of impairment, not exceeding 20% of the total loan portfolio. In view of the increased risk in the real estate sector, and considering the current macroeconomic framework, specific indicators were defined for granting and subsequent monitoring in order to maintain a conservative risk level, i.e., in addition to the 20% limit, there is also a 60% limit in terms of the amount of own funds

For exposures to credit institutions, counterparty limits are defined based on the financial information available to the credit institution, including the respective rating assigned by international agencies. On a regular basis, counterparty limits are reviewed through internal analysis based on up-to-date market financial information and its counterparties.

The portfolio of financial assets at fair value through other comprehensive income consists essentially of investment grade bonds (financial sector, telecommunications, and other industries), sovereign bonds and multilateral investment grade agencies with relatively short-term residual maturities.

In 2022, the exposure and impairment of financial assets (except the portfolio of loans and advances to customers) presents the following movements:

	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Loans and advances to credit institutions repayable on demand												
Balance as at 1 January 2022	**67,587,133**	**67,587,133**	**71,029**	-	-	-	-	-	-	**67,587,133**	**67,587,133**	**71,029**
Changes in cash and cash equivalents	2,620,678	2,620,678	18,223	-	-	-	-	-	-	2,620,678	2,620,678	18,223
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	**70,207,812**	**70,207,812**	**89,253**	-	-	-	-	-	-	**70,207,812**	**70,207,812**	**89,253**
Other loans and advances to credit institutions												
Balance as at 1 January 2022	**164,226,876**	**98,658,145**	**536,552**	-	-	-	-	-	-	**164,226,876**	**98,658,145**	**536,552**
Changes in loans and advances	(18,215,077)	47,353,654	39,124	-	-	-	-	-	-	(18,215,077)	47,353,654	39,124
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	**146,011,799**	**146,011,799**	**575,676**	-	-	-	-	-	-	**146,011,799**	**146,011,799**	**575,676**
Financial assets at fair value through other comprehensive income												
Balance as at 1 January 2022	**211,256,477**	**210,179,033**	**494,713**	**2,075,354**	**1,972,925**	**53,181**	-	-	-	**213,331,831**	**212,151,958**	**547,894**
Changes in financial assets	(105,448,935)	(97,168,844)	(157,716)	(122,655)	404,439	(13,726)	-	-	-	(105,571,591)	(96,764,405)	(171,442)
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	**105,807,541**	**113,010,190**	**336,997**	**1,952,699**	**2,377,364**	**39,454**	-	-	-	**107,760,240**	**115,387,553**	**376,452**
Other financial assets at amortised cost												
Balance as at 1 January 2022	**11,056,247**	**11,024,430**	**9,322**	-	-	-	-	-	-	**11,056,247**	**11,024,430**	**9,322**
Changes in financial assets	58,459,879	58,491,696	191,989	-	-	-	-	-	-	58,459,879	58,491,696	191,989
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	**69,516,126**	**69,516,126**	**201,311**	-	-	-	-	-	-	**69,516,126**	**69,516,126**	**201,311**

In 2021, the exposure and impairment of financial assets (except the portfolio of loans and advances to customers) presents the following movements:

	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Loans and advances to credit institutions repayable on demand												
Balance as at 1 January 2021	128,465,124	128,446,192	50,784	-	-	-	-	-	-	128,465,124	128,446,192	50,784
Changes in cash and cash equivalents	(60,877,991)	(60,877,991)	20,245	-	-	-	-	-	-	(60,877,991)	(60,877,991)	20,245
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	67,587,133	67,732,842	71,029	-	-	-	-	-	-	67,587,133	67,732,842	71,029
Other loans and advances to credit institutions												
Balance as at 1 January 2021	112,464,350	112,535,301	153,561	-	-	-	-	-	-	112,464,350	112,535,301	153,561
Changes in loans and advances	51,762,527	51,923,736	382,991	-	-	-	-	-	-	51,762,527	51,923,736	382,991
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	164,226,876	164,459,038	536,552	-	-	-	-	-	-	164,226,876	164,459,038	536,552
Financial assets at fair value through other comprehensive income												
Balance as at 1 January 2021	139,026,724	140,560,118	343,952	-	-	-	-	-	-	139,026,724	140,560,118	343,952
Changes in financial assets	74,305,107	71,591,840	203,942	-	-	-	-	-	-	74,305,107	71,591,840	203,942
Stage change	(2,075,354)	(1,972,925)	(53,181)	2,075,354	1,972,925	53,181	-	-	-	-	-	-
Balance as at 31 December 2021	211,256,477	210,179,033	494,713	2,075,354	1,972,925	53,181	-	-	-	213,331,831	212,151,958	547,894
Other financial assets at amortised cost												
Balance as at 1 January 2021	9,963,499	9,913,698	11,568	-	-	-	-	-	-	9,963,499	9,913,698	11,568
Changes in financial assets	16,115,937	16,133,920	62,710	-	-	-	-	-	-	16,115,937	16,133,920	62,710
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	26,079,436	26,047,618	74,278	-	-	-	-	-	-	26,079,436	26,047,618	74,278

In 2022, the exposure and impairment of the portfolio of loans to customers and provisions for off-balance sheet exposures, presents the following movements:

	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Balance Sheet – 2021	108,562,658	108,848,364	978,526	4,278,971	4,294,560	225,457	8,066,643	8,068,440	179,214	120,908,272	121,211,364	1,383,196
Change in exposure	26,438,156	26,811,895	316,100	6,437,381	6,499,936	125,044	(6,197,230)	(6,197,465)	(52,657)	26,678,306	27,114,367	388,486
Stage improvements	2,361,111	2,366,657	5,593	(491,699)	(495,682)	120,963	(1,869,412)	(1,870,975)	(126,556)	-	-	-
Stage 2	2,361,111	2,366,657	5,593	(2,361,111)	(2,366,657)	(5,593)	-	-	-	-	-	-
Stage 3	-	-	-	1,869,412	1,870,975	126,556	(1,869,412)	(1,870,975)	(126,556)	-	-	-
Stage deterioration	(7,200,758)	(7,255,358)	(146,266)	6,844,486	6,898,129	146,266	356,272	357,229	-	-	-	-
Stage 1	(7,200,758)	(7,255,358)	(146,266)	7,200,758	7,255,358	146,266	-	-	-	-	-	-
Stage 2	-	-	-	(356,272)	(357,229)	-	356,272	357,229	-	-	-	-
Balance Sheet – 2022	130,161,167	130,771,559	1,153,953	17,069,139	17,196,943	617,729	356,272	357,229	-	147,586,578	148,325,730	1,771,682

	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Off-Balance Sheet – 2021	52,072,509	5,863,530	10,438	1,604,140	341,527	13,411	228,327	357,555	66,201	53,904,976	6,562,612	90,050
Change in exposure	(10,804,184)	7,599,219	666,357	763,564	348,014	(1,011)	(21,860)	(263,803)	(2)	(10,062,480)	7,683,430	665,344
Stage improvements	-	-	-	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Stage deterioration	(1,334,824)	(343,765)	(13,239)	1,332,824	341,765	13,239	2,000	2,000	-	-	-	-
Stage 1	(1,334,824)	(343,765)	(13,239)	1,334,824	343,765	13,239	-	-	-	-	-	-
Stage 2	-	-	-	(2,000)	(2,000)	-	2,000	2,000	-	-	-	-
Off-Balance Sheet – 2022	39,933,501	13,118,984	663,557	3,700,528	1,031,306	25,638	208,467	95,752	66,199	43,842,497	14,246,042	755,394

In 2021, the exposure and impairment of the portfolio of loans and advances to customers and provisions for off-balance sheet exposures, presents the following movements:

	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Balance Sheet – 2020	54,732,197	54,597,197	870,495	18,777,014	18,369,549	696,953	12,309,649	12,309,649	1,976,282	85,818,860	85,276,395	3,543,731
Change in exposure	50,685,034	51,085,360	103,398	(9,348,874)	(8,903,885)	(307,624)	(6,246,747)	(6,246,506)	(1,956,308)	35,089,412	35,934,969	(2,160,535)
Stage improvements	3,145,427	3,165,808	4,633	(3,145,427)	(3,165,808)	(4,633)	-	-	-	-	-	-
Stage 2	3,145,427	3,165,808	4,633	(3,145,427)	(3,165,808)	(4,633)	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Stage deterioration	-	-	-	(2,003,741)	(2,005,297)	(159,239)	2,003,741	2,005,297	159,239	-	-	-
Stage 1	-	-	-	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	(2,003,741)	(2,005,297)	(159,239)	2,003,741	2,005,297	159,239	-	-	-
Balance Sheet – 2021	108,562,658	108,848,364	978,526	4,278,971	4,294,560	225,457	8,066,643	8,068,440	179,214	120,908,272	121,211,364	1,383,196

	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impair-ment	Exposure	EAD	Impair-ment	Exposure	EAD	Impair-ment	Exposure	EAD	Impair-ment
Off-Balance Sheet – 2020	**32,093,213**	**1,839,389**	**35,701**	**573,214**	**126,443**	**16,942**	**296,784**	**66,963**	**66,199**	**32,963,210**	**2,032,795**	**118,842**
Change in exposure	19,699,723	3,968,227	(29,896)	1,310,499	270,999	160,341	(68,457)	290,592	(159,237)	20,941,766	4,529,817	(28,792)
Stage improvements	279,573	55,915	4,633	(279,573)	(55,915)	(4,633)	-	-	-	-	-	-
Stage 2	279,573	55,915	4,633	(279,573)	(55,915)	(4,633)	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Stage deterioration	-	-	-	-	-	(159,239)	-	-	159,239	-	-	-
Stage 1	-	-	-	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	(159,239)	-	-	159,239	-	-	-
Off-Balance Sheet – 2021	**52,072,509**	**5,863,530**	**10,438**	**1,604,140**	**341,527**	**13,411**	**228,327**	**357,555**	**66,201**	**53,904,976**	**6,562,612**	**90,050**

As at 31 December 2022, the Bank has a balance in the amount of Euro 26,717 in overdue loans and interest in the portfolio of loans and advances to customers.

As at 31 December 2022, in compliance with Instruction No. 11/2021 of the Banco de Portugal, of 28 July 2021, the following information is presented:

a) Credit quality of productive and non-productive exposures and respective provisions, for days overdue:

a) Detail of exposures by type and segment	Productive exposures			Non-productive exposures								
		In compliance or < 30 days overdue	> 30 days overdue and < 90 days overdue		Unlikely to comply, in compliance or < 30 days overdue	> 90 days and < 180 days overdue	> 180 days and < 1 year overdue	> 1 year and < 2 years overdue	> 2 years and < 5 years overdue	> 5 years and < 7 years overdue	> 7 years over-due	In default
Loans and advances	**231,297,435**	**231,297,435**	-	**356,272**	**356,272**	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General Governments	9,187,640	9,187,640	-	-	-	-	-	-	-	-	-	-
Credit institutions	84,067,129	84,067,129	-	-	-	-	-	-	-	-	-	-
Other financial corporations	6,141,658	6,141,658	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	121,077,059	121,077,059	-	-	-	-	-	-	-	-	-	-
Of which SMEs	56,309,724	56,309,724		-	-	-	-	-	-	-	-	-
Households	10,823,950	10,823,950	-	356,272	356,272	-	-	-	-	-	-	-
Debt securities	**177,276,366**	**177,276,366**	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General Governments	38,944,185	38,944,185	-	-	-	-	-	-	-	-	-	-
Credit institutions	60,994,960	60,994,960	-	-	-	-	-	-	-	-	-	-
Other financial corporations	5,789,409	5,789,409	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	71,547,813	71,547,813	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	**46,859,212**			**208,467**								**208,467**
Central banks	-	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
General Governments	16,960,883	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
Credit institutions	3,225,183	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
Other financial corporations	5,625,352	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
Non-financial corporations	18,389,795	-	-	206,467	n/a	n/a	n/a	n/a	n/a	n/a	n/a	206,467
Households	2,658,000	-	-	2,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000
Total	**455,433,014**	**408,573,802**	-	**564,740**	**356,272**	-	-	-	-	-	-	**208,467**

As at 31 December 2022, the off-balance sheet exposure in default relates to irrevocable credit facilities from a customer whose balance sheet exposure is classified under Stage 3.

b) Productive and non-productive exposures and related provisions:

b) Detail of exposures and impairment by segment	Gross credit						Impairment						Write-offs	Collateral	
	Productive exposures			Non-productive exposures			Productive exposures			Non-productive exposures				Productive Exposures	Non-productive Exposures
		Stage 1	Stage 2		Stage 2	Stage 3		Stage 1	Stage 2		Stage 2	Stage 3			
Loans and advances	**231,297,435**	**214,228,296**	**17,069,139**	**356,272**	-	**356,272**	**1,771,245**	**1,153,953**	**617,292**	-	-	-	-	**126,150,856**	**937,559**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General Governments	9,187,640	9,187,640	-	-	-	-	240,025	240,025	-	-	-	-	-	23,171,070	-
Credit institutions	84,067,129	84,067,129	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	6,141,658	6,141,658	-	-	-	-	429,951	429,951	-	-	-	-	-	-	-
Non-financial corporations	121,077,059	107,931,384	13,145,674	-	-	-	852,007	460,689	391,318	-	-	-	-	99,147,286	-
Of which SMEs	56,309,724	44,336,549	11,973,174	-	-	-	607,111	247,729	359,382	-	-	-	-	70,833,826	-
Households	10,823,950	6,900,485	3,923,465	356,272	-	356,272	249,262	23,288	225,974	-	-	-	-	3,832,500	937,559
Debt securities	**177,276,366**	**175,323,668**	**1,952,699**	-	-	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General Governments	38,944,185	38,756,159	188,026	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	60,994,960	60,994,960	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	5,789,409	5,789,409	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	71,547,813	69,783,140	1,764,673	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	**46,859,212**	**43,158,684**	**3,700,528**	**208,467**	-	**208,467**	**689,195**	**663,557**	**25,638**	**66,199**	-	**66,199**		**2,136,578**	**135,944**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
General Governments	16,960,883	16,960,883	-	-	-	-	19,030	19,030	-	-	-	-		-	-
Credit institutions	3,225,183	3,225,183	-	-	-	-	-	-	-	-	-	-		-	-
Other financial corporations	5,625,352	5,625,352	-	-	-	-	631,165	631,165	-	-	-	-		-	-
Non-financial corporations	18,389,795	14,957,267	3,432,528	206,467	-	206,467	29,161	11,683	17,479	66,199	-	66,199		1,900,078	133,944
Households	2,658,000	2,390,000	268,000	2,000	-	2,000	9,839	1,680	8,160	-	-	-		236,500	2,000
Total	**455,433,014**	**432,710,648**	**22,722,366**	**564,740**	-	**564,740**	**2,460,441**	**1,817,510**	**642,931**	**66,199**	-	**66,199**	-	**128,287,434**	**1,073,503**

In 2022, the Bank did not obtain any collateral or guarantees through taking ownership and execution proceedings.

Restructured loans operations (deferred operations) were identified in accordance with Implementing Regulation (EU) 2015/1278 of the Commission, of 9 July 2015, which establishes the definition of deferred Exposures (credit restructured due to financial difficulties of the customer).

According to the above-mentioned Regulation, the deferral measures are concessions made to a debtor who is going through or will soon be experiencing difficulties in meeting their financial commitments ("financial difficulties"). A concession may relate to one of the following actions:

a) changes to the terms and conditions of such contracts (in particular, the extension of repayment periods, introduction of grace periods, interest capitalisation, reduction of interest rates, forgiveness of interest or capital) considering that the debtor would be unable to meet due to his financial difficulties resulting in an insufficient debt service capacity and that would not be granted if the debtor did not go through those financial difficulties;

b) full or partial refinancing of a problematic debt contract, which would not be granted if the debtor did not go through those financial difficulties.

A customer is considered to be in financial difficulties when he/she has defaulted on any of his/her the financial obligations to the institution or if it is foreseeable, in view of the information available, that this will occur.

The Bank's restructuring procedures include extension of initial payment conditions, change and deferral of initially scheduled payments and increasing collateral. Restructuring practices and policies are based on criteria which, from the Bank's management point of view, indicate that payments are likely to continue. The risk associated with the restructuring measures applied relates mainly to the inability to comply with the new payment plans agreed, despite the restructuring carried out. Following a loan restructuring, the Bank continues to monitor the customer's financial situation, as well as compliance with the new financial plan, in order to anticipate/avoid possible defaults.

Loans granted to customers whose terms have been renegotiated, are no longer considered overdue and are treated as new loans after increase of guarantees or full payment of interest and other overdue charges.

Not all of the renegotiated loans would be fully past due at the reference date if the renegotiation had not taken place.

As at 31 December 2022, there were no loan operations in the portfolio whose terms and conditions had been subject to renegotiation due to the customer's economic difficulties, see (e) and (f) below). As at 31 December 2022, the non-restructured loan operations that are classified as Stage 3 amounted to Euro 565,692.

Regarding the Commercial Banking and Investment Banking operations, the Credit Risk Unit (URC) of the Credit Risk Department (FGR) is responsible for ensuring: (i) the detailed and independent assessment of the credit risk inherent to each credit transaction proposed by these areas; (ii) compliance with the business strategy defined by the Board of Directors and the prudential rules established by the banking supervision entity; (iii) ongoing monitoring of credit portfolio risk; and (iv) the follow-up of recovery processes in case of default.

Approval of credit granting is primarily the responsibility of the members of the Board of Directors, the Board of Directors, or the Credit Committee, depending on the amounts involved, and internal regulations provide for maximum exposure limits per customer, group of connected customers, and per business sector by geography. With regard to some credit operations for certain amounts, the Credit Committee has authorised that the decision to grant a loan be taken jointly by the heads of the DCC, DTE and FGR (URC).

For the Market Room operations, FGR (URC) ensures the regular independent assessment of the financial situation of each counterparty (institution/entity), proposing exposure limits for each of these counterparties, for approval in the Credit Committee.

FGR (URC) confirms the valuation of guarantees associated with all exposures (financial entities and non-financial entities) during the term of those operations, as well as the registration and updating of the collaterals' amount in the IT system.

The amount of real guarantees reflects its fair value being recorded in off-balance sheet items. For purposes of impairment analysis, the amount of the credit covered by the collateral received is limited to the amount of the liability and cannot be considered for the coverage of other exposures of the customers.

FGR (URC) makes a monthly estimate of impairment losses for all exposures with credit risk. Every six months, it prepares a more detailed report of the impairments and provisions made, as well as possible write-off proposals , which are assessed and approved by the Bank's Credit Committee. This report is analysed by External Auditors, by the Supervisory Board and by the Banco de Portugal.

The write-off is proposed for operations that are considered totally irrecoverable, considering the position of legal services attached to the respective litigation.

Credit and concentration risks are monitored daily by FGR (UGR) and monthly by CAGR.

QUANTITATIVE DISCLOSURES ON CREDIT RISK MANAGEMENT POLICY

a) Detail of exposures (excluding monthly commissions and advance interest) and impairment:

a) Detail of exposures and impairment by segment	Total exposure	Credit in compliance				Credit in default		Impairment			
		< 30 days overdue (without signs)	< 30 days overdue (with signs)	> 30 days and < 90 days overdue	Of which restructured	> 90 days overdue	Of which restructured	Total impairment	In compliance < 30 days overdue	In compliance 30-90 overdue	In compliance > 90 dias overdue
Public administration (regional and local)	9,187,640	9,187,640	-	-	-	-	-	240,025	240,025	-	-
Construction and Commercial Real Estate (CRE)	52,821,344	42,993,344	9,828,000	-	-	-	-	374,585	374,585	-	-
Corporate	80,888,283	77,570,608	3,317,674	-	-	-	-	930,649	506,291	424,358	-
Others	4,662,595	409,575	4,253,020	-	-	26,717	-	226,423	225,986	-	437
Total 2022	**147,559,861**	**130,161,167**	**17,398,695**	**-**	**-**	**26,717**	**-**	**1,771,682**	**1,346,887**	**424,358**	**437**

a) Detail of exposures and impairment by segment	Total exposure	Credit in compliance				Credit in default		Impairment			
		< 30 days overdue (without signs)	< 30 days overdue (with signs)	> 30 days and < 90 days overdue	Of which restructured	> 90 days overdue	Of which restructured	Total impairment	In compliance < 30 days overdue	In compliance 30-90 overdue	In compliance > 90 dias overdue
Public administration (regional and local)	5 771,416	5 771,416	-	-	-	-	-	223,240	223,240	-	-
Construction and Commercial Real Estate (CRE)	39 398,683	37 192,126	2 206,557	-	-	6 018,755	6 018,755	80,872	80,872	-	-
Corporate	67 964,777	65 369,573	2 595,203	-	-	-	-	853,171	853,171	-	-
Others	1 754,642	229,543	1 525,099	-	44 146	-	-	225,912	225,912	-	-
Total 2021	**114 889,517**	**108 562,658**	**6 326,859**	**-**	**44 146**	**6 018,755**	**6 018,755**	**1 383,196**	**1 383,196**	**-**	**-**

b) Detail of the portfolio by level of risk:

b) Detail of exposures and impairment by segment	Exposure as at 31-Dec.-22				Impairment as at 31-Dec.-22			
	Assets without significant deterioration of credit risk (Stage 1)	Assets with significant deterioration of credit risk (Stage 2)	Assets in default (Stage 3)	Total	Assets without significant deterioration of credit risk (Stage 1)	Assets with significant deterioration of credit risk (Stage 2)	Assets in default (Stage 3)	Total
Public administration (regional and local)	9,187,640	-	-	9,187,640	240,025	-	-	240,025
Construction and Commercial Real Estate (CRE)	42,993,344	9,828,000	-	52,821,344	141,990	232,595	-	374,585
Corporate	77,570,608	3,317,674	-	80,888,283	771,926	158,723	-	930,649
Others	409,575	3,923,465	356,272	4,689,312	12	226,411	-	226,423
Total 2022	**130,161,167**	**17,069,139**	**356,272**	**147,586,578**	**1,153,953**	**617,729**	**-**	**1,771,682**

b) Detail of exposures and impairment by segment	Exposure as at 31-Dec.-21				Impairment as at 31-Dec.-21			
	Assets without significant deterioration of credit risk (Stage 1)	Assets with significant deterioration of credit risk (Stage 2)	Assets in default (Stage 3)	Total	Assets without significant deterioration of credit risk (Stage 1)	Assets with significant deterioration of credit risk (Stage 2)	Assets in default (Stage 3)	Total
Public administration (regional and local)	5,771,416	-	-	5,771,416	223,240	-	-	223,240
Construction and Commercial Real Estate (CRE)	37,192,126	2,206,557	6,018 755	45,417,438	63,871	17,002	-	80,872
Corporate	65,369,573	591,462	2,003,741	67,964,777	691,108	2,824	159,239	853,171
Others	229,543	1 480,953	44,146	1 754,642	307	205,631	19,974	225,912
Total 2021	**108,562,658**	**4,278,971**	**8,066,643**	**120,908,272**	**978,526**	**225,457**	**179,214**	**1,383,196**

As at 31 December 2022, there are customers whose exposure is classified under Stage 3, although they do not present any default or restructuring due to financial difficulties, through individual credit analysis.

Detail of the credit portfolio by segment and year of production:

Year of production	31-Dec.-22											
	Construction and CRE			Corporate			Other			Public Administration		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2013	-	-	-	-	-	-	1	14,382	1,478	1	1,757,922	197,991
2014	-	-	-	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	3	596,800	169,251	-	-	-
2016	-	-	-	1	323,259	662	-	-	-	-	-	-
2017	-	-	-	-	-	-	1	203,300	54,808	-	-	-
2018	1	875,000	651	1	876,395	155,906	1	16	-	-	-	-
2019	2	1,052,500	2,676	8	8,719,703	142,119	1	296,894	-	-	-	-
2020	1	795,130	2,466	4	4,305,521	132,305	-	-	-	-	-	-
2021	9	38,710,037	256,743	7	22,302,715	383,170	2	64,039	12	1	7,429,717	42,034
2022	38	11,388,677	112,050	119	44,360,689	116,924	6	3,513,882	437	-	-	-
Total	**51**	**52,821,344**	**374,585**	**140**	**80,888,283**	**931,086**	**15**	**4,689,312**	**225,986**	**2**	**9,187,640**	**240,025**

Year of production	31-Dec.-21											
	Construction and CRE			Corporate			Other			Public Administration		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2011	-	-	-	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	2	81,557	11,330	1	3,310,966	213,321
2014	-	-	-	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	4	755,980	165,204	-	-	-
2016	-	-	-	1	669,728	1,090	-	-	-	-	-	-
2017	-	-	-	-	-	-	1	246,100	49,071	-	-	-
2018	2	8,643,755	3,376	1	2,044,922	155,906	-	-	-	-	-	-
2019	3	2,670,862	4,659	9	14,282,337	172,539	2	368,774	1	-	-	-
2020	1	1,554,053	2,997	12	6,726,234	165,580	-	-	-	-	-	-
2021	46	32,548,767	69,840	41	44,241,556	358,056	3	302,231	306	1	2,460,450	9,920
Total	**52**	**45,417,438**	**80,872**	**64**	**67,964,777**	**853,171**	**12**	**1,754,642**	**225,912**	**2**	**5,771,416**	**223,240**

c) Detail of the gross amount of credit exposure and impairment assessed on an individual basis:

Detail of gross amount of credit exposure by geography:

Country	31-Dec.-22		31-Dec.-21	
	Gross loan	Total impairment	Gross loan	Total impairment
Angola (AGO)	13,118,684	302,679	7,296,515	448,846
Portugal (PRT)	94,304,812	960,487	84,158,997	481,595
United States of America (USA)	4,076,547	8,851	3,143,210	3,208
Cayman Islands (CYM)	3,780,547	424,358	6,527,333	419,705
Spain (ESP)	138,960	41	-	-
Switzerland (CHE)	15,016,150	11,415	9,340,755	5,537
Monaco (MCO)	275,762	231	441,462	2,725
France (FRA)	5,000,000	18,648	5,000,000	10,766
Belgium (BEL)	5,000,000	18,729	5,000,000	10,813
Austria (AUT)	5,000,000	18,896	-	-
Germany (DEU)	1,875,117	7,347	-	-
Total	**147,586,578**	**1,771,682**	**120,908,272**	**1,383,196**

Detail of gross amount of credit exposure by business sector, including interest receivable:

Business sector	31-Dec.-22		31-Dec.-21	
	Gross loan	Total impairment	Gross loan	Total impairment
Financial and insurance activities	9,766,658	440,269	12,305,111	459,773
Real Estate activities	29,208,948	302,051	21,243,670	31,303
Public administration (regional and local)	9,187,640	240,025	5,771,416	223,240
Accommodation, catering and similar activities	4,420,334	134,967	3,838,707	162,585
Trade and repair	35,195,727	215,856	23,966,050	180,754
Construction	22,812,848	71,621	21,446,784	31,311
Manufacture of transportation equipment	5,000,000	18,648	5,000,000	10,766
Leather, wood and cork industries	799,547	912	520,427	1,257
Food, beverage and tobacco industries	3,480,833	37,685	4,308,333	7,301
Chemical industry	1,875,117	7,347	-	-
Machinery and equipment	176,833	58	150,000	19
Other activities and Retail	4,689,312	225,986	1,754,642	225,912
Other business services	16,453,496	65,014	15,679,980	41,401
Transportation and storage	4,519,284	11,243	4,923,152	7,573
Total	**147,586,578**	**1,771,682**	**120,908,272**	**1,383,196**

d) Detail of the restructured credit portfolio, by restructuring measure applied:

Measure	31-Dec.-22								
	Performing loans			Non-performing loans			Total		
	Number of operations	Exposure	Impair-ment	Number of operations	Exposure	Impair-ment	Number of operations	Exposure	Impair-ment
Term extension	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Measure	31-Dec.-21								
	Performing loans			Non-performing loans			Total		
	Number of operations	Exposure	Impair-ment	Number of operations	Exposure	Impair-ment	Number of operations	Exposure	Impair-ment
Term extension	1	44,146	19,974	1	6,018,755	-	2	6,062,901	19,974
Total	**1**	**44,146**	**19,974**	**1**	**6,018,755**	**-**	**2**	**6,062,901**	**19,974**

e) Changes in inflows and outflows in the restructured credit portfolio:

	31-Dec.-22	31-Dec.-21
Opening balance	**6,185,023**	**11,702,781**
Restructured loans for the period	-	-
Accrued interest of the restructured credit portfolio	-	122,121
Settlement of restructured loans (partial or total)	6,185,023	5,639,880
Closing balance	**-**	**6,185,023**

f) Detail of the fair value of the collateral underlying the loan portfolio by segment:

Fair value	31-Dec-2022											
	Construction and CRE				Corporate				Other			
	Real Estate		Other real collateral		Real Estate		Other real collateral		Real Estate		Other real collateral	
	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount
< 0,5 M€	2	773,151	-	-	1	375,700	-	-	-	-	-	-
>= 0,5 M€ and < 1 M€	2	1,260,286	-	-	-	-	-	-	-	-	-	-
>= 1 M€ and < 5 M€	1	2,972,363	-	-	2	4,458,860	-	-	-	-	-	-
>= 5 M€ and < 10 M€	2	13,452,165	-	-	1	5,203,000	-	-	-	-	-	-
>= 10 M€ and < 20 M€	4	49,016,180	1	1,200,000	-	-	-	-	-	-	-	-
>= 20 M€ and < 50 M€	-	-	-	-	1	21,873,600						
Total	**11**	**67,474,145**	**1**	**1,200,000**	**5**	**31,911,160**	**-**	**-**	**-**	**-**	**-**	**-**

Fair value	31-Dec-2021											
	Construction and CRE				Corporate				Other			
	Real Estate		Other real collateral		Real Estate		Other real collateral		Real Estate		Other real collateral	
	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount
< 0,5 M€	-	-	-	-	1	424,400	1	135,000	-	-	1	441,460
>= 1 M€ and < 5 M€	1	2,207,400	-	-	2	6,078,770	-	-	-	-	-	-
>= 5 M€ and < 10 M€	2	10,459,400	-	-	-	-	-	-	-	-	-	-
>= 10 M€ and < 20 M€	2	27,597,655	-	-	-	-	-	-	-	-	-	-
Total	**5**	**40,264,455**	**-**	**-**	**3**	**6,503,170**	**1**	**135,000**	**-**	**-**	**1**	**441,460**

In 2022, there were no significant changes in the quality of the collateral underlying the credit portfolio, resulting from a deterioration in its value or from any changes in internal standards or procedures.

g) Loan-to-value (LTV) ratio by segment:

Ratio	31-Dec.-22									
	Construction and CRE					Corporate				
	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment
No associated collateral	n.a.	28,612,395	28,612,395	-	91,430	n.a.	72,163,346	72,163,346	-	754,287
With other real collaterals	n.a.	-	-	-	-	n.a.	127,776	127,776	-	-
LTV <60%	8	13,889,846	13,889,846	-	246,229	2	2,929,424	2,929,424	-	130,339
LTV >= 60% and < 80%	2	9,200,000	9,200,000	-	33,028	2	150,000	150,000	-	536
LTV >= 80% and < 100%	-	-	-	-	-	2	5,517,736	5,517,736	-	45,924
LTV >= 100%	3	1,119,103	1,119,103	-	3,898	-	-	-	-	-
Total	**13**	**52,821,344**	**52,821,344**	**-**	**374,585**	**6**	**80,888,283**	**80,888,283**	**-**	**931,086**

Ratio	31-Dec.-21									
	Construction and CRE					Corporate				
	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment
No associated collateral	n.a.	26,223,768	26,223,768	-	54,034	n.a.	64,664,036	64,664,036	-	691,822
With other real collaterals	n.a.	-	-	-	-	n.a.	150,000	150,000	-	19
LTV <60%	4	9,574,915	9,574,915	-	19,302	2	1,147,000	1,147,000	-	2,091
LTV >= 60% and < 80%	2	9,618,755	3,600,000	-	7,537	1	2,003,741	2,003,741	-	159,239
LTV >= 80% and < 100%	-	-	-	-	-	-	-	-	-	-
LTV >= 100%	-	-	-	-	-	-	-	-	-	-
Total	**6**	**45,417,438**	**39,398,683**	**-**	**80,872**	**3**	**67,964,777**	**67,964,777**	**-**	**853,171**

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (IFRS 13)

The Bank does not disclose the difference between the book value and the fair value of the financial assets measured at amortised cost, because these financial instruments do not have an active market available and we understand that the respective price conditions (interest rates applied) do not differ significantly from market rates, as well as financial instruments with longer maturity are subject to variable remuneration rates and instruments with fixed remuneration have a maturity of less than 6 months. Thus, the Net Present Value (alternative valuation technique for calculation of fair value) corresponds, in general, to the amount presented in the balance sheet.

The information below provides a breakdown of each item of all financial assets and liabilities measured at fair value, by type of valuation method:

	31-Dec.-22			
	Level 1	Level 2	Level 3	Total
Financial assets mandatorily measured at fair value through profit or loss (Note 5)				
Equity instruments	-	-	107,121	107,121
Debt instruments	-	107,337	-	107,337
Investment funds	-	-	174,758	174,758
Other financial assets at fair value through profit or loss				
Investment funds (Note 6)	-	-	349,517	349,517
Financial assets at fair value through other comprehensive income (Note 7)				
Debt instruments	108,688,812	-	-	108,688,812
Total	**108,688,812**	**107,337**	**631,396**	**109,427,545**
Other financial liabilities at fair value through profit or loss				
Structured financial resources received (Note 6)	-	-	(349,517)	(349,517)
Total	**-**	**-**	**(349,517)**	**(349,517)**

	31-Dec.-21			
	Level 1	Level 2	Level 3	Total
Financial assets mandatorily measured at fair value through profit or loss (Note 5)				
Equity instruments	-	-	101,502	101,502
Debt instruments	-	296,840	-	296,840
Investment funds	-	-	156,857	156,857
Other financial assets at fair value through profit or loss				
Investment funds (Note 6)	-	-	313,715	313,715
Financial assets at fair value through other comprehensive income (Note 7)				
Debt instruments	214,012,468	-	-	214,012,468
Total	**214,012,468**	**296,840**	**572,074**	**214,881,382**
Other financial liabilities at fair value through profit or loss				
Structured financial resources received (Note 6)	-	-	(313,715)	(313,715)
Total	**-**	**-**	**(313,715)**	**(313,715)**

As at 31 December 2022 and 2021, the exposures of financial instruments measured using the level 1 valuation method have the following credit quality:

Grade	31-Dec.-22		31-Dec.-21	
	Securities (level 1)		Securities (level 1)	
	Exposure (accrued interest included)	Impairment	Exposure (accrued interest included)	Impairment
Prime	379,086	93	67,509,017	2,242
High grade	15,365,851	1,005	20,609,939	3,065
Upper medium grade	21,214,298	6,784	35,339,178	10,082
Lower medium grade	38,002,482	40,527	41,520,003	35,682
Speculative	11,256,977	89,236	10,415,263	89,315
Highly Speculative	-	-	-	
Substantial risks	-	-	-	-
Extremely speculative	-	-	-	-
Unrated	22,470,1180	236,473	-	-
Total	**108,688,812**	**374,118**	**214,172,046**	**547,894**

There were no transfers between levels of classification since the nature of the financial instruments did not have significant changes.

The Bank's assets and liabilities at fair value are accounted in accordance with the hierarchy defined in IFRS 13 – Fair Value, which is detailed in Note 2.2.

The movement of financial assets measured using methods with parameters not observable in the market (level 3) in 2022 and 2021 can be analysed as follows:

	31-Dec.-22			
	Financial assets at fair value through profit or loss	Other financial assets at fair value through profit or loss	Other financial liabilities at fair value through profit or loss	Total
Opening balance	**258,359**	**313,715**	**(313,715)**	**258,359**
Acquisitions	-	-	-	-
Exits by maturity	-	-	-	-
Exits by settlements	-	-	-	-
Transfer by acquisitions	-	-	-	-
Transfer by exits	-	-	-	-
Changes in fair value (Note 24)	10,928	16,390	(16,390)	10,928
Exchange rate revaluation	12,592	19,412	(19,412)	12,592
Closing balance	**281,879**	**349,517**	**(349,517)**	**281,879**

	31-Dec.-21			
	Financial assets at fair value through profit or loss	Other financial assets at fair value through profit or loss	Other financial liabilities at fair value through profit or loss	Total
Opening balance	**265,104**	**294,405**	**(294,405)**	**265,104**
Acquisitions	-	-	-	-
Exits by maturity	-	-	-	-
Exits by settlements	-	-	-	-
Transfer by acquisitions	-	-	-	-
Transfer by exits	-	-	-	-
Changes in fair value (Note 24)	(22,618)	(5,254)	5,254	(22,618)
Exchange rate revaluation	15,873	24,564	(24,564)	15,873
Closing balance	**258,359**	**313,715**	**(313,715)**	**258,359**

Assets classified as level 3 under the Financial assets at fair value through profit or loss category include investment units in a Private Equity fund in the amount of Euro 174,758 (31 December 2021: Euro 156,857).

Assets classified as level 3 under the category of Other financial assets at fair value through profit or loss relate exclusively to financial investments in a Private Equity fund in the amount of Euro 349,517 (31 December 2021: Euro 313,715), which are directly related and guaranteed by Other financial liabilities at fair value through profit or loss, which use that fund as underlying asset, in the same amount, as referred in Note 5.

As at 31 December 2022 and 2021, the fair value of assets and liabilities is the result of the quotation provided by the respective management companies, which assess the assets and liabilities of these funds using internal methodologies that incorporate several assumptions and parameters not observable in the market, we consider that it is not reasonable to carry out a sensitivity analysis to the main variables underlying the quotations calculated by these entities.

35. RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

35.1. VOLUNTARY POLICY CHANGES

During the period there were no voluntary changes in accounting policies, compared to those considered in the preparation of the previous year financial information.

35.2. ACCOUNTING STANDARDS AND INTERPRETATIONS APPLICABLE TO THE 2022 PERIOD

The following standards, interpretations, amendments and revisions endorsed by the European Union have mandatory application for the first time in the financial year beginning 1 January 2022

Standard/Interpretation	Description
Amendments to IFRS 3 – Reference to the Conceptual Framework	This amendment updates the references to the Framework in the text of IFRS 3 and no changes have been made to the accounting requirements for business combinations. It also clarifies the accounting treatment to be adopted for liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately as opposed to those included in a business combination. The amendment shall be applied prospectively.
Amendments to IAS 16 – Proceeds before Intended Use	Clarifies the accounting treatment given to any proceeds obtained from the sale of items resulting from the test phase production of property, plant and equipment, prohibiting their deduction from the acquisition cost of the assets. The entity recognises the proceeds from the sale of such products and the costs of their production in profit or loss.
Amendments to IAS 37 – Onerous Contracts – Costs of fulfilling a contract	This amendment specifies that in assessing whether a contract is onerous, only costs directly related to the fulfilment of the contract can be considered, such as incremental costs related to direct labour and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses of property, plant and equipment used to fulfil the contract. General and administrative expenses do not relate directly to a contract and are excluded unless they are explicitly charged to the counterparty in accordance with the contract. This amendment should be applied to contracts which, at the beginning of the first annual reporting period to which the amendment is applied, still include unfulfilled contractual obligations, without there being a need to restate the comparative.
Amendments to IFRS 1 – Subsidiary as a first-time adopter of IFRS (included in the annual improvements for the 2018-2020 cycle)	This amendment clarifies that when the subsidiary elects to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements (assuming no adjustment to the consolidation process has occurred), the measurement of the cumulative translation differences can be made at the amounts that would be recorded in the consolidated financial statements, based on the parent company's date of transition to IFRS.
Amendments to IFRS 9 – Derecognition of financial liabilities – Fees in the '10 per cent' test for derecognition of financial liabilities (included in the annual improvements for the 2018-2020 cycle)	This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are materially different from the terms of the original financial liability. This improvement clarifies that under derecognition tests performed on renegotiated liabilities, only fees paid or received between the borrower and the lender should be included, including fees paid or received by either the borrower or lender on the other's behalf.
Amendments to IAS 41 – Taxation in fair value measurement (included in the annual improvements for the 2018-2020 cycle)	This amendment removes the requirement in paragraph 22 of IAS 41 to exclude cash flows related to income taxes in the fair value measurement of biological assets, ensuring consistency with the principles of IFRS 13.
Amendments to IFRS 16 – Leases – COVID-19-Related Rent Concessions beyond 30 June 2021	On 28 May 2020, the amendment to IFRS 16 entitled 'COVID-19 related concessions' was issued and introduced the following practical expedient: a lessee can choose not to assess whether a COVID-19 related rental concession is a lease modification. Lessees that elect to apply this expedient account for the change to rental payments resulting from a COVID-19 related concession in the same way as they account for a change that is not a lease modification in accordance with IFRS 16. Initially, the practical expedient applied to payments originally due by 30 June 2021, however, due to the prolonged impact of the pandemic, on 31 March 2021, it was extended to payments originally due by 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. The practical expedient can be applied only if all the following conditions are met: • the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; • any reduction in lease payments affects only payments due on or before 30 June 2022; and • there is no substantive change to other terms and conditions of the lease.

These standards and changes had no material impact on the Bank's financial statements.

35.3. STANDARDS, INTERPRETATIONS, AMENDMENTS AND REVISIONS THAT WILL COME INTO EFFECT IN FUTURE FINANCIAL YEARS

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have, up to the date of approval of these financial statements, been endorsed by the European Union:

Standard/Interpretation	Applicable in the European Union for financial years beginning on or after	Description
IFRS 17 – Insurance Contracts	1 January 2023	IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), irrespective of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.
Amendments to IFRS 17 – Insurance Contracts – Initial application of IFRS 17 and IFRS 9 – Comparative information	1 January 2023	This amendment to IFRS 17 relates to the presentation of comparative information for financial assets on initial application of IFRS 17. The amendment adds a transition option that allows an entity to apply an overlay in classifying a financial asset in the comparative period(s) presented in initially applying IFRS 17. The overlay allows all financial assets, including those held in relation to non-contract activities within the scope of IFRS 17 to be classified, on an instrument-by-instrument basis, in the comparative period(s) based on a reasonable expectation of how these assets would be classified on initial application of IFRS 9.
Amendments to IAS 1 – Disclosure of accounting policies	1 January 2023	These amendments are intended to assist the entity in disclosing 'material' accounting policies, previously referred to as 'significant' policies. However due to the inexistence of this concept in IFRS standards, it was decided to replace it by the concept "materiality", a concept already known to users of financial statements. In assessing the materiality of accounting policies, the entity must consider not only the size of transactions but also other events or conditions and the nature of these.
Amendments to IAS 8 – Definition of Accounting Estimates	1 January 2023	The amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Additionally, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.
Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023	The amendments clarify that payments settling a liability are tax deductible, however it is a matter of professional judgement whether such deductions are attributable to the liability that is recognised in the financial statements or to the related asset. This is important in determining whether there are temporary differences in the initial recognition of the asset or liability. According to these amendments, the initial recognition exception is not applicable to transactions that originated equal taxable and deductible temporary differences. It is only applicable if the recognition of a leasing asset and a leasing liability gives rise to taxable and deductible temporary differences that are not the same.

The Bank has not early applied any of these standards in the financial statements for the twelve months period ended 31 December 2022. No material impacts on the financial statements are expected as a result of its adoption.

35.4. STANDARDS AND INTERPRETATIONS ALREADY ISSUED BUT NOT YET ENDORSED BY THE EUROPEAN UNION

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have not, to the date of approval of these financial statements, been endorsed by the European Union:

Standard/Interpretation	Description
Amendments to IAS 1 – Presentation of Financial Statements – Classification of liabilities as current and non-current	This amendment intends to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity must defer its settlement, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists but should not consider whether the entity will exercise that right), or by events that occur after the reporting date, such as the breach of a covenant. However, if the right to defer settlement for at least twelve months is subject to compliance with certain conditions after the balance sheet date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or non-current. This amendment also includes a new definition of "settlement" of a liability and is of retrospective application.
Amendments to IFRS 16 – Lease liability in a sale and leaseback	This amendment specifies the requirements regarding the subsequent measurement of lease liabilities, related to sale and leaseback transactions (sale & leaseback) that qualify as "sale" in accordance with the principles of IFRS 15, focusing on variable lease payments that do not depend on an index or a rate. On subsequent measurement, seller-lessees shall determine "lease payments" and "revised lease payments". In subsequently measuring lease liabilities, seller-lessees shall determine "lease payments" and "revised lease payments" in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in the income statement, any gain or loss relating to the partial or full "sale", as required by paragraph 46(a) of IFRS 16. The amendment shall be applied prospectively.

These standards have not yet been endorsed by the European Union and therefore have not been applied by the Bank for the twelve months ended 31 December 2022. No material impacts on the financial statements are expected as a result of its adoption.

36. SUBSEQUENT EVENTS

Subsequent to the balance sheet date and before the Financial Statements were authorised for issue, there were no material transactions and/or events which should be disclosed.

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STATUTORY AUDITORS' **REPORT**

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In case of doubt, the Portuguese version prevails)*

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Banco BAI Europa S.A. (the Bank), which comprise the Statement of Financial Position as of 31 December 2022 (showing a total of 745.485.092 euros and a total equity of 88.436.632 euros, including a net profit for the year of 3.305.865 euros), the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

1. Impairment losses on loans and advances to clients

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
Loans and Advances to clients, as described in Note 9 to the Financial Statements, as of 31 December 2022, presents an amount of 145.870 thousand of euros (119.190 thousands of euros as of 31 December 2021), corresponding to credit to customers, net impairment, amounting to 1.772 thousands of euros as of 31 December 2022 (1.383 thousands of euros as of 31 December 2021). The detail of the accounting policies, methodologies, concepts and assumptions used are disclosed in the accompanying notes of the financial statements (Note 2.4.1, Note 9 and Note 18).	We carried out the identification and evaluation of the audit risk which led to the definition of the audit approach to respond to the risk of material misstatement. This approach included (i) an overall response with effect on the way the audit was conducted and (ii) a specific response that resulted in the design and subsequent implementation of additional procedures that included testing of substantify controls and procedures, including: ▸ Analytical review procedures regarding the evolution of credit impairment losses levels, comparing it with the same period and with the expectations formed, which

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The impairment losses of loans and advances to clients represents the Bank's management best estimate of the expected loss of the credit portfolio to clients with reference to 31 December 2022. For the calculation of this estimate, Bank's management established assumptions, used external models (ECAIs), interpreted concepts and developed a model for calculation expected loss. In addition to the complexity of the models described, their use requires processing of a significant amount of data that is not always available in the Bank's central systems, such as information on risk parameters. The use of alternative approaches, models or assumptions may have a material impact on the estimated losses value. Given the degree of subjectivity and complexity involved, the use of alternative approaches, models or assumptions may have a material impact on the estimated impairment amount, which, together with its materiality, determines that we consider this topic as a key audit matter.	are to highlight the understanding of the variations occurred in the credit portfolio and changes in the assumptions and methodologies on impairment losses; ▸ We have obtained an understanding of the internal control procedures in the process of calculation impairment losses and the methodology of calculation of impairment losses, regarding the attribution of responsibilities in the performance of these functions and methodologies applied. ▸ We selected a sample of clients subject to individual analysis of impairment losses, for evaluation of the assumptions used by management in the quantification of the impairment loss. This analysis included the following: (i) the validation of information with business models, with the economic and financial situation of debtors and with collateral assessment reports; (ii) inquiry with the Bank's experts to determine the defined recovery strategy and (iii) confirm the assumptions applied; ▸ With the support of internal risk specialists, we evaluated the reasonableness of the parameters used in the calculation of the impairment losses, highlighting the following procedures performed: i) understanding of the methodology formalized and approved by management and comparison with the one effectively used; ii) evaluation of changes to models to determine parameters to reflect the expected loss; iii) analysis of the changes made during the financial year 2022 to the risk parameters (PD, LGD and EAD); (iv) on a sampling basis, comparison of the data used in the clearance of risk parameters with source information; and v) inquiries to the experts responsible for the models, particularly regarding the methodology of incorporating prospective information given the current macroeconomic context; ▸ We have obtained the understanding and evaluated the design of the ECL model, recomputed the calculation, compared parameters used with the results of the ECL model, through the reconciliations prepared by the Bank, with the source information, evaluated the assumptions used to fill gaps in the data, compared the parameters used with the results of the estimation models, compared the results with the values in the financial statements; and ▸ Analysis of disclosures included in the accompanying notes of the financial statements, based on the requirements of international financial reporting standards and accounting records.

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

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

The supervisory body is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the financial statements of the

current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and

- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

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

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

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

- We were appointed as auditors of the Bank for the first time in the shareholders' general meeting held on the 16th of May 2017 for a mandate from 2017 to 2020. We were appointed in the shareholders' general meeting held on the 5th of April 2021 for a mandate from 2021 to 2024.
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional scepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Bank on this date;
- We declare that we have not provided any prohibited services as described in article 5 of the Regulation (EU) n.º 537/2014 of the European Parliament and the Council, of 16 of April 2014, and we have remained independent of the Group in conducting the audit; and
- We declare that, in addition to the audit, we provided the Bank with the following services as permitted by law and regulations in force:
  - Procedures for issuing the semi-annual evaluation report of the process of quantifying the impairment of the Bank's credit portfolio pursuant to Banco de Portugal Instruction 5/2013, republished by Banco de Portugal Instruction 18/2020;
  - Limited review prepared in accordance with ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, on the reporting package prepared by Banco BAI Europa, for the purposes of the parent company's consolidation procedures; and
  - Agreed-upon procedures with Management to respond to the supervisory measures of Banco de Portugal related with Anti money laundering and terrorist financing matters.

Banco BAI Europa, S.A.
Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2022

Lisbon, 3 March 2023

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

(Signed)

Silvia Maria Teixeira da Silva - ROC n.º 1636
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2022 FINANCIAL STATEMENTS

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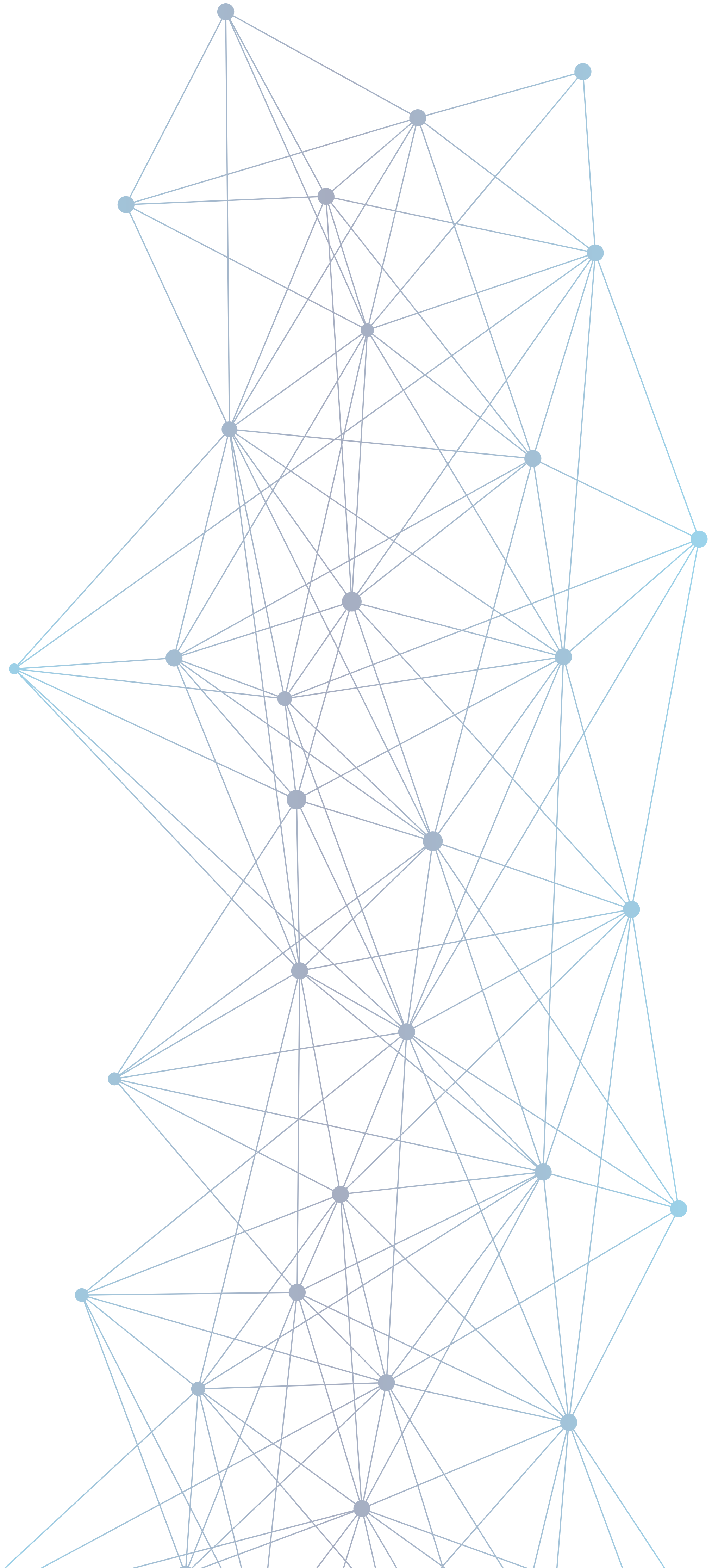


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