



2023

Annual Report



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Management Report 2023



Main indicators

Thousand Euro	2021	2022	2023	YoY change
Total Net Assets	667,493	745,485	690,089	-7.4%
Average Net Assets	616,504	744,241	707,581	-6.5%
Turnover	750,451	872,590	852,764	-2.3%
Turnover per employee	11,912	10,773	9,269	-14%
Loans and advances to customers	119,190	145,870	191,724	+31.3%
Loans and advances to other credit institutions	65,622	84,067	80,489	-4.3%
Deposits from other credit institutions	349,469	369,213	291,394	-21.1%
Deposits from customers	216,169	273,440	289,477	+5.9%
Transformation Ratio	32.7%	35.8%	46.8%	+11 p.p.
Impairment/Loans and advances to customers ratio	1.1%	1.2%	2.2%	+1 p.p.
Volume of documentary credit confirmations	223,166	324,518	115,735	-64.3%
Net interest income	5,524	10,480	21,215	+102.4%
Net operating income	9,573	15,821	23,307	+47.3%
Fixed costs	7,968	9,770	12,440	+27.3%
Fixed costs per employee	126	121	135	+12.1%
Fixed costs/Net interest income	144%	93%	58%	-34.6 p.p.
Net operating income per employee	152	195	253	+29.7%
Cost-to-income	83.2%	61.8%	53.4%	-8.4 p.p.
Profit/(loss) for the period	2,423	3,306	6,547	+98%
Return on total assets (ROA)	0.4%	0.4%	1%	+0.6 p.p.
Return on equity (ROE)	2.7%	3.7%	7.4%	+3.3 p.p.
Own funds	87,713	83,315	88,268	+6.0%
Solvency ratio (CET 1)	20.2%	18.7%	23.3%	+23.3 p.p.
Number of customers	2,737	3,102	5,114	+64.9%
Number of employees	63	81	91	+13.6%

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



Luís Filipe Rodrigues Lélis
Chairman of the Board of Directors

Omar José Mascarenhas de Morais Guerra
Chairman of the Executive Committee

At the start of 2023, the geopolitical and macroeconomic contexts were quite challenging on a global scale. The conflict between Russia and Ukraine had been raging for more than 10 months, in a stalemate with highly unpredictable consequences, whilst the world's main economies were faced with persistently high inflation and positive economic growth levels, albeit at increasingly low rates. The effects of a more restrictive monetary policy were beginning to be felt at macroeconomic level, following four rate hikes by the European Central Bank (from 0% to 2.5%) and seven hikes by the Fed (from 0.25% to 4.5%).

Throughout the year, while the world adapted to a scenario of lasting conflict in Europe, the main Central Banks maintained their aggressive stance on controlling inflation with the European Central Bank pushing through 6 more rate hikes (from 2.5% to 4.5%) and the Federal Reserve 4 more rate hikes (from 4.5% to 5.5%). Despite these sharp upward trends in a fairly short-term period, the economies managed to adjust and proved to be relatively resilient throughout the year, dispelling the most pessimistic scenarios of a hard landing. The Euro Zone has naturally been hit harder than the United States, particularly because Germany ended up being one of the countries most directly and indirectly affected by the conflict. The Euro Zone closed 2023 with its Gross Domestic Product growing by 0.5% (with zero growth in the last quarter of the year), whereas the United States grew by 2.5% (3.3% in the last quarter).

In the last quarter of the year, despite the increase in geopolitical tensions in the Middle East, tensions in energy prices have been contained on the inflation front. Although a positive development, there remain risks as to the behaviour of prices in the coming months and, consequently, as to when inflation might reach levels close to 2%.

The Portuguese economy performed favourably in 2023, closing the year with growth of 2.3%, slowing down compared to the year-on-year growth of 6.8% in 2022, but still a strong relative performance when compared to the vast majority of Euro Zone economies. The performance can be considered quite positive, given that it came on top of the year with the highest growth since 1987. By 2024, growth is expected to slow down, followed by a recovery in the following years.

The Angolan economy is expected to grow by 3.5% (IMF) in 2023, representing the second consecutive year of growth after five years of economic recession. Nevertheless, it was a very challenging year, with the government implementing significant reforms to improve macroeconomic management and public sector governance, resulting, *inter alia*, in a situation where there were difficulties in accessing foreign currency and a sharp devaluation of the Kwanza against the Euro and the Dollar, with significant impacts on inflation levels, completely reversing the trend observed in 2022.

In 2023, the third year of the Strategic and Business Plan (PEN 2021-2025) of Banco BAI Europa (BAIE or the Bank) was completed. For Banco BAI Europa, 2023 was a particularly special year as it celebrated its 25th anniversary in Portugal. It was also a special year because it was a record year in terms of profitability. Nevertheless, not all business lines performed favourably. In terms of the loan portfolio, growth was fairly consistent (+18.3%), based on a significant increase of approximately 31.3% in the Loans and Advances to Customers portfolio and a reduction of about 4.3% in Loans and Advances to Credit Institutions. In terms of Deposits, on the downside, there was a decline in the portfolio (-9.6%), with growth of about 5.9% in Deposits from Customers being insufficient to offset the fall of approximately 21.1% in Deposits from Other Credit Institutions, the latter being directly penalised by the current economic climate in Angola. This year was also marked by the intensification of the Bank's digital transformation, with heavy investment in the fields of Digital Channels, Payment Systems, Infrastructure and Information Security, which will be key to future competitiveness.

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On a commercial level, the number of Retail Customers grew by about 154.4 %, more than doubling the base, and the number of Corporate Customers by about 24.2 %, moving towards greater diversification of the sources of funding for the Bank's business. In terms of the institutional portfolio, there was also a 17.6% growth in the customer base, maintaining the trajectory set out at the beginning of the Strategic and Business Plan to position Banco BAI Europa as one of the benchmarks as a correspondent bank in Portuguese-speaking countries in Africa.

In 2023, BAI Europa's team grew in all areas. The Bank started the year with 81 employees and ended it with 91, five employees joined the commercial area, with the remaining joining the control and support areas.

We enter 2024 in a context as challenging, if not more so, than in 2023. We believe that the fourth year of implementation of the Strategic and Business Plan will be a strong year in terms of project deliveries, reaping the rewards of the investment of the previous three years. However, it will also be a year in which it is essential to maintain high standards of rigour in the management of business risks, with a special focus on the management of credit and interest rate risks, the latter of which we anticipate facing significant challenges in an environment in which a reversal of the rate cycle is expected.

Finally, it is important to emphasise the commitment, endurance, attitude and competence of the Banco BAI Europa team, without which it would have been impossible to achieve the goals we set ourselves. It is also important to acknowledge the trust that our Customers place in Banco BAI Europa every day, which encourages us and drives us to try to improve every day. We are also grateful for the support and cooperation of the Parent Company in Angola, which has been a very important strategic support and a cornerstone of our success.



1.

2023 Macroeconomic Framework

2023 Macroeconomic Framework

In 2023, inflationary dynamics and monetary policy remained a central concern for the global economy. Inflationary pressures, which in 2022 reached peaks not observed in several decades, have begun to ease, driven by lower energy prices and the progressive normalisation of global supply chains.

In the Euro Zone, the year-on-year change in the harmonised index of consumer prices (HICP) slowed to 2.9% at the end of the year, as opposed to the all-time high of 10.6% recorded in October 2022. In the US, the change in the consumer price index (CPI), which reached its highest value in 40 years in 2022, stood at 3.4% in that period.

Core inflation, which excludes food and energy prices, stood at 3.4 % in the Euro Zone and 3.9 % in the US. Simultaneously, the labour market in these economies remained strong, with unemployment rates standing at a relatively low 6.4% in the Euro Zone and 3.7% in the US. Core inflation showed a slower decline and remained below the inflation target, whereas the labour market remained strong. These factors contributed to the continuing restrictive monetary policy of central banks, albeit at a more moderate pace.

The US Federal Reserve (Fed) has slowed down the pace of increases in Fed funds rates, raising them four times a year until they reach 5.5% at the September 2023 meeting. In addition, the Fed accelerated the reduction of its asset purchase programme (APP), ceasing its monthly purchases of Treasury bonds and mortgage-backed securities in March and continuing to reduce its balance sheet by not reinvesting some of the maturing securities.

The European Central Bank (ECB) raised official interest rates by 200 basis points (b.p.) over the course of the year. The last interest rate change took place in September, with the key interest rates for the main refinancing operations, the marginal lending facility and the deposit facility at 4.5%, 4.75% and 4.0%, respectively. The ECB ended net asset purchases under its asset purchase programmes (APP) and ceased reinvestments related to its APP in July 2023, in order to gradually phase out this programme. The reinvestment of bonds from the pandemic emergency asset purchase programme (PEPP) will be maintained until the end of 2024.

In the October update of the IMF's forecasts for global economic growth, the global economy is expected to slow down in 2023, with growth falling by 0.5 percentage points to 3%. The US is expected to grow by 2.1% in 2023, whilst the Euro Zone is expected to grow at a more modest rate of 0.7%. Notwithstanding the slowdown, the performance of the global economy exceeded the expectations set at the beginning of the year, which were constrained by uncertainties associated with potential disruptions in the energy markets and the tightening of global monetary conditions.

I. Financial markets

The restrictive monetary policy applied by the main central banks continued to be one of the main factors influencing the international financial markets. In addition to monetary policy, some events created turmoil in the financial markets, such as the bankruptcy of some regional US banks and the financial problems faced by *Credit Suisse*, which initially led to a reduction in yields, particularly at shorter maturities. This adjustment was due to the expectation of a monetary policy geared towards financial stability, as opposed to fighting inflation. However, this decrease was temporary, as yields rebounded afterwards.

The year was also marked by a near-standstill of the US government in September 2023 and the debt ceiling crisis in the first half of 2023. These situations led to a gradual and generalised increase in sovereign yields, especially in the shorter maturities.

The imminent breach of the debt limit settled just two days before the deadline, and the weak framework of public accounts in the US, influenced *Fitch Ratings'* decision to downgrade the rating of the debt guaranteed by the US Treasury from AAA to AA+. However, although this downgrade initially led to selling pressure on bonds, the overall impact on the markets was limited¹.

The last few months of the year brought an unexpected change in investors' expectations about the future of monetary policy. Throughout the year, investors anticipated a sustained increase in interest rates by the central banks of the main global economies and the maintenance of these high levels for a long period. However, this outlook has evolved into the expectation that interest rates have already peaked and that there could be a start to a reduction at the beginning of next year. This reversal in monetary policy expectations resulted in an increase in risk appetite in the last two months of the year, reflected in the

¹ Considering that Standard and Poors had already taken a similar measure in 2011, and has maintained the rating ever since, this downgrade may have already been taken into account in the provisions and risk assessments of companies holding US Treasury bonds. It should also be noted that in November Moodys cut its outlook for US government-guaranteed debt from "stable" to "negative".

appreciation in several market segments, the depreciation of the US currency and a significant fall in yields in the bond markets in that period.

In the Euro Zone, the trend of a sharp rise in short-term yields and a fall in longer maturities was widespread. Germany's yield curve remained reversed, with the 10-year German bond yield falling from 2.44% at the start of the year to 1.96% at the end of the year, whereas 10-year Portuguese bonds fell from 3.45% to 2.56%.

The spread of peripheral countries' yields against Germany has moderated since the ECB announced the launch of the Transmission Protection Instrument (TPI). At the end of the year, this spread narrowed, as yields in the peripheral countries fell more sharply than those in Germany. In addition, concerns about the sustainability of Italy's public debt eased after Fitch and Moody's maintained their ratings on Italy's long-term debt.

On the money market, the 3, 6 and 12-month Euribor rates, the benchmarks for company and household debt at variable interest rates, stood at 3.92%, 3.90% and 3.58%, respectively, at the end of the year. Compared to the end of 2022, these rates increased by 1.79 p.p., 1.21 p.p. and 0.3 p.p., respectively. Market expectations for the 3-month Euribor, as implied in futures contracts, suggest that investors anticipate a downward trend for this rate over the next two years, which could reach 2.7% and 1.9% at the end of 2024 and 2025, respectively.

On the stock markets, the *STOXX600* (Euro Zone) and the *S&P 500* (USA) rose by 12% and 23%, respectively, in 2023, whilst the *Nasdaq 100* rose by 54 %. The Portuguese stock market also recorded a positive trend, with the PSI-20 rising more than 12% since the start of the year. On the foreign exchange market, the US dollar index fell by 3.5%, whilst the rate against the Euro depreciated by 3.1%, with one Euro standing at 1.10 USD at the end of the year.

II. Oil market

The oil market in 2023 was marked by its complexity and volatility, influenced by both global macroeconomic uncertainties and geopolitical developments. During the year, Brent prices fluctuated sharply, ranging between 70 and 96 USD per barrel. In average terms, the price of a barrel of Brent stood at 82 USD in 2023, a decrease of 19% compared to 2022, essentially reflecting a base effect.

From a macroeconomic standpoint, the expectation of a slowdown in the global economy, the technical recession in Germany, coupled with a slower-than-expected economic recovery in China during the first half of the year and the pace of interest rate rises in the main advanced economies, put downward pressure on oil prices.

Furthermore, the year 2023 also witnessed a significant increase in oil production by countries that are not members of the Organisation of the Petroleum Exporting Countries (OPEC), particularly the United States, whose production exceeded pre-pandemic levels in 2019.

OPEC members and allies (OPEC+) have endeavoured to implement measures to balance supply and demand in the market and contain the downward pressure on prices. In April, OPEC+ announced production cuts of 1.6 million barrels per day, which will continue until the end of 2023. In June, Saudi Arabia, followed by Russia, made additional voluntary production cuts. These cuts have been extended several times and will remain in force until the first quarter of 2024. In December, new production cuts were implemented by OPEC+ members for the first quarter of 2024, leading Angola to announce its withdrawal from OPEC+. Angola's withdrawal from OPEC in 2024 was due to disagreements over production quotas. OPEC+ proposed a quota of 1.11 million barrels (mbd), but Angola, which produced slightly more than this amount in November, claimed a capacity of 1.18 mbd.

The geopolitical climate, marked by the military conflict in Ukraine and tensions in the Middle East, continued to influence oil prices, both through the imposition or easing of restrictions on relevant producing countries and through changes in the geographical distribution of oil production and consumption. At the end of the year, the market was attentive to potential disruptions to maritime trade and rising supply costs, especially due to tensions in the Red Sea, a key route for oil and gas trade.

III. Development of the Angolan Economy

In 2023, the Angolan economy faced an adverse scenario, influenced by an unfavourable international outlook. The fall in the price of oil and the rise in international interest rates have combined with lower-than-expected domestic oil production and the Angolan government's onerous external debt servicing. This had a negative impact on external accounts and the foreign exchange market, with repercussions on various macroeconomic dimensions.

Although the average price of Angolan oil slightly exceeded the forecasts in the 2023 General State Budget (SB), production fell short of expectations due to significant maintenance interventions in the main oil blocks. In 2023, the average production of barrels of oil stood at 1,095,000 barrels per day, a reduction of 3.6% compared to 2022 and 7.6% lower than anticipated in the 2023 State Budget.

The resumption of foreign debt servicing, which had benefited from a moratorium in 2020, has put additional pressure on the Executive's management of foreign currency liquidity. This pressure intensified with the poor implementation of the planned external debt, as the Executive considered the associated costs to be prohibitive for the sustainability of public finances.

As a result, a considerable portion of oil revenues and foreign currency deposits in the Single Treasury Account, previously the main source of foreign currency in the foreign exchange market, was used to meet commitments to external creditors. The failure to allocate these resources to the foreign exchange market aggravated the imbalance between the demand for and supply of foreign currency.

The volume of transactions recorded on the Bloomberg FXGO platform totalled USD 9,293 million, a decrease of USD 4,854 million compared to 2022. The National Treasury was responsible for more than three quarters of this reduction in the supply of foreign currency. As a result, the Kwanza depreciated significantly, approximately 40% against the Euro and the US dollar.

The maximum depreciation of the Kwanza took place between May and June, with the changes from July onwards being more controlled. However, this recent stabilisation was mainly due to dysfunctions in the foreign exchange market. The entry into force of Directive 07-2023 has limited the way in which oil and diamond companies offer foreign currency through the BMatch command on the Bloomberg FXGO platform. This measure brought the foreign exchange market to a standstill and reduced access to foreign currency, due to operational and compliance issues. Consequently, the market became less fluid, leading to a backlog and some sales by oil companies to the National Bank of Angola (BNA).

To contain exchange rate pressure, the BNA adopted measures such as direct intervention in the market with the sale of more than USD 400 million at the beginning of June; the provision of securities in foreign currency (USD 322 million), purchased with national currency by the different economic players; and an increase in the requirements for access to the marginal lending facility.

At the end of the third quarter, the current account surplus contracted by 73% year-on-year, due to the fall in oil exports (-32%). Other relevant items were external disbursements, which contracted by 72%, and outflows for interest payments and debt amortisation, which increased by 102% and +33%, respectively.

In terms of tax bills, the Government began the first phase of the strategy to gradually eliminate fuel subsidies, with the aim of completely liberalising prices by 2025. Simultaneously, in order to cope with the increase in financial expenditure and the reduction in oil revenues, the Government took some corrective measures, such as suspending public investment projects with a rate of implementation below 80% and freezing non-essential recurrent expenditure. The Government² anticipates a budget deficit of 0.1% of Gross Domestic Product (GDP), whilst the ratio of public debt to GDP may have risen from 69.9% in 2022 to 83.9% in 2023.

The cut in fuel subsidies and the depreciation of the exchange rate contributed to the acceleration in inflation. In May, the year-on-year change in the Consumer Price Index (CPI) interrupted the downward trend it had been on the previous year and began to accelerate strongly to 20.1% at the end of the year. Consequently, at the last meeting of the Monetary Policy Committee in 2023, the BNA adopted a restrictive stance: (i) increased the coefficient of reserve requirements in national currency by 1 percentage point to 18%, eliminated the custodian fee on surplus reserves and increased the key interest rates, leaving the BNA rate at 18% and the marginal lending and liquidity absorption facilities at 18.5% and 17.5%, respectively.

The economy grew by 0.6% in the first three quarters of the year, with the contraction in the oil sector (-3.9%) dampening the growth seen in the non-oil economy (2.3%). For the last three months of the year, there is a consensus in the market that the non-oil economy could slow down, as a result of the effects of the strong depreciation of the currency, the less fluid foreign exchange market, the acceleration of inflation and the cut in public spending.

Despite this scenario, the international rating agencies have not made any significant adjustments to Angola's credit ratings.

IV. Development of the Portuguese Economy

In the first three quarters of the year, the Portuguese economy grew by 2.4% year-on-year. This growth is mainly due to the contribution of net external demand (3.4%), more specifically the contribution of exports of services (+14%), in which tourism-related services feature prominently.

The tourism sector has shown the best performance since statistics have been recorded. By December 2023, a total of 77.2 million overnight stays and 30.0 million guests had been recorded, representing a respective increase of 10.7% and 14.9% compared to the same period in 2022. The tourism sector income totalled Euro 5.7 billion for the same period, up 20.4% year-on-year.

Domestic demand also made a positive contribution to GDP growth, growing by 0.8% year-on-year. Consumption by households and public administrations recorded year-on-year growth rates of 1.1% and 0.9%, respectively, which offset the 0.3% contraction in investment.

Inflation peaked in October 2022 (10.6%), following a downward trend. At the end of the year, year-on-year growth in the Harmonised Index of Consumer Prices (HICP) was 1.9%, a considerable drop from its peak in 2022. The reduction in inflation is largely due to the significant drop in energy prices, attributable to the base effect, and the adoption of the Zero VAT policy in May. Considering underlying inflation, which excludes unprocessed food and energy prices, the year-on-year slowdown was 3.3%, down 2.2 p.p. on the end of the previous year.

In the public accounts, the budget balance, calculated by the National Statistical Institute (INE) from a national accounts standpoint, shows a surplus of close to Euro 6.6 billion up to September. This surplus is equivalent to 3.3% of GDP, 0.7 p.p. more than in the same period last year. This performance is the result of a combination of an increase in total revenue (9.3%) and slower growth in expenditure (7.2%).

The rise in revenue is mainly reflected in the increase on income and wealth taxes (+11.4%), on production and imports (5.4%) and on contributions (+10.6%). The increase in expenditure is connected to the increase in interest costs, staff costs (the Public Administration pay rise package), social benefits (the mid-term updating of pensions and the increase in the number of pensioners).

Public debt has also improved. In 2023, public debt, according to the Maastricht approach, totalled Euro 263 billion, which represents a nominal contraction of 1.9% compared to the same period last year. The 2024 State Budget anticipates that the ratio of public debt to GDP should close the year at 103%, and this deleveraging process is justified by the forecast of a primary balance higher than interest expenditure, combined with economic growth and inflation.

The sound performance of public finances and economic growth had a positive impact on three rating agencies' assessment of the rating and outlook for Portuguese long-term debt. In July 2023, DBRS adjusted the long-term debt rating from "A (low)" to "A", keeping the outlook at "stable". In September 2023, Standard & Poor's maintained the rating at BBB+, changing the outlook from "stable" to "positive", whilst Fitch upgraded the long-term debt rating to A-, with a stable outlook. Moody's, for its part, upgraded to "A3" with a "stable" outlook in its November assessment, following a "positive" outlook in its first assessment of the year.

According to the December Economic Bulletin, the Banco de Portugal expects real GDP to grow by 2.1% in 2023 and to slow down to 1.2% in 2024. This revision reflects a less intense contribution from domestic demand, impacted by worsening financing conditions and a tighter monetary policy. In the labour market, job creation is projected to be almost flat, and the unemployment rate is expected to rise slightly to 7.2% in 2024.

Inflation is expected to be temporarily higher throughout 2024, as a result of temporary effects on energy and food prices, converging to 2% in 2025.

² Perspectives taken from the macro-executive programme presented in the report on the grounds of the 2024 State Budget proposal.

V. Framework of the Portuguese Banking Sector

The banking sector's performance and soundness indicators for the first three quarters of 2023 show improvements in several dimensions. Compared to the same period last year, highlights include the following:

- Profitability showed significant progress, with return on capital and return on assets reaching 14.6% and 1.25%, respectively. This progress is largely due to the positive impact of interbank interest rates on net interest income. This offset the growth in operating costs and provisions and impairment and contributed to a 12.7 percentage point reduction in the cost-to-income ratio, which stood at 37.2%.
- The non-performing loans (NPL) ratio, before and after impairment, stood at 2.9% and 1.3%, respectively, continuing the downward trend that began in 2016. There was a reduction in non-performing loans, in gross terms, both in the corporate segment (-0.4 percentage points to a ratio of 5.9%) and in the retail segment (down 0.1 p.p. to 2.3%). In the latter case, it is worth mentioning that this ratio remained at 1.2% for mortgages and fell by 0.7 p.p. to 6.4% for consumer and other loans.
- The transformation ratio continued its downward trend, standing at 79.1%, considerably below the regulatory limit. The liquidity coverage ratio, in turn, remained substantially above the regulatory minimum, reaching 232.8%, benefiting from the increase in highly liquid securities and the decrease in liquidity outflows. This lower pressure on deposits was influenced by the cap on the remuneration of savings certificates offered by the Treasury. It should be noted that at the beginning of the year there was strong demand for savings certificates, due to the more attractive returns offered by these instruments compared to term deposits offered by the main banks.
- The sector's solvency levels remained at robust levels, with total own funds and Tier 1 core capital standing at 18.9% and 16.4%, respectively. The leverage ratio decreased to 7.2%, remaining above the regulatory requirement of 3% introduced in June 2021.

Million Euro	2021	2022	1Q/2023	2Q/2023	3Q/2023
Balance sheet data					
Total Assets	444,890	442,446	434,133	433,363	434,546
Loans and advances to customers	246,895	252,931	251,625	251,212	249,769
Liabilities	407,902	406,484	397,340	395,836	396,150
Deposits from customers	304,281	323,368	315,057	316,304	315,935
Deposits from central banks	41,671	15,979	12,777	5,923	4,697
Equity	36,988	35,962	36,794	37,528	38,396
Equity/Total assets	8.3%	8.1%	8.5%	8.7%	8.8%
Deposits from customers/Total Assets	68.4%	73.1%	72.6%	73%	72.7%
Liquidity indicators					
Transformation Ratio	81.1%	78.2%	79.9%	79.4%	79.1%
Funding gap	(57,386)	(70,436)	(63,432)	(65,092)	(66,166)
Liquidity coverage ratio (LCR)	260.0%	229.3%	218.3%	218.3%	232.8%
Solvency and leverage indicators					
Solvency ratio (CET 1)	15.5%	15.4%	15.6%	16.4%	16.4%
RWAs	181,700	175,600	175,900	176,300	173,200
RWAs (in % of total assets)	44.0%	43.2%	44.1%	44.2%	43.3%

Source: Summary of Banking Sector Indicators - 2023³rd Quarter, Associação Portuguesa de Bancos (Portuguese Banking Association)

Million Euro	2020	2021	2022	2023 (Jan.-Sep.)
Income statement data				
Net interest income	6,172	6,130	7,502	8,920
Net commissions	2,833	3,057	3,272	2,391
Net gains/(losses) on financial operations	122	655	452	393
Net operating income	9,366	10,060	11,646	12,087
Operating costs	5,410	5,372	5,893	4,500
Impairment losses	2,851	976	900	949
Profit before tax	757	2,923	4,248	5,714
Net profit/(loss)	195	1,998	3,142	4,082
Net interest income (in % of BP)	65.9%	60.9%	64.4%	73.8%
Cost-to-income ratio	57.8%	53.4%	50.6%	37.2%
Profitability ratios				
ROE	0.5%	5.4%	8.7%	14.6%
ROA	0.0%	0.5%	0.69%	1.25%

Source: Summary of Banking Sector Indicators - 2023³rd Quarter, Associação Portuguesa de Bancos (Portuguese Banking Association)



2.

Legal and Regulatory Framework

Legal and Regulatory Framework

Since the beginning of the 20th century, banking has been one of the key elements of the economic model. It is subject to prudential and behavioural rules to ensure that financial institutions act in accordance with the rules, thereby striving for economic stability and protecting the interests of service providers and their customers.

In recent years, the banking sector has been set on a challenging course by increased Oversight, digital innovation and increased competition. Recently, social responsibility policies have been strengthened, in line with the critical need to contribute to and ensure sustainable environmental, social and ethical development. This has led financial institutions to adopt systematic changes to their operating and business models.

After 2022, marked by the conflict between Russia and Ukraine and the inflationary pressure generated thereby, 2023 followed the same unstable trend, insofar as the risks to financial stability remained high, and the cycle of rising interest rates continued. This resulted from the persistence of geopolitical tensions between Russia and Ukraine and Israel and Palestine, inflationary pressures and the continued instability of the international financial markets, the closure of three banks in the United States and Switzerland, as well as the crisis in the Chinese real estate market, which led to countless requests for insolvency and a lack of stability in banking activity.

As a result of the events highlighted, over the course of 2023, there was a significant regulatory burden associated with different issues that impacted BAIE's activity, including the Restrictive Measures and Sanctions applied, as well as the following initiatives:

- **Instruction No. 2/2023** – Establishes new rules on opening and operating current accounts in Euro with the Banco de Portugal and regulates the use of TARGET;
- **Instruction No. 3/2023** – Establishes new rules on membership, requirements and transaction processing times for the core cash account co-management service provided by the Banco de Portugal;
- **Instruction No. 19/2023** – Sets out the extension to 48 transactions of the annual limit for interbank transfers included in the minimum banking services account when carried out via home-banking or the institutions' own applications and the new poster model and information document model;
- **Ministerial Order No. 292-A/2023** – Established the limits for the compensation due to the employee for the additional costs of remote working, which does not qualify as income for tax purposes or as a basis for social security contributions;
- **Notice No. 7/2023** – Regulates the periodic reporting of information on concentration risk to the Banco de Portugal for supervisory purposes and subsequently repeals Banco de Portugal Instruction no. 5/2011, of March 15;
- **Guideline (EU) No. 2023/2415** – Amends Guideline (EU) No. 2022/912 on a new generation Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET);

- **Law No. 24/2023** – Established that credit institutions may not charge a commission of more than 10% of the Social Support Index (IAS) as part of probate processes for the death of a current account holder;
- **CL/2023/00000025** – It includes a set of recommendations to ensure that the impacts on customers associated with phishing are minimised;
- **Instruction No. 11/2023** – The Relevant Reporting System for Supervised Entities (*Sistema de Informação Relevante de Entidades Supervisionadas* (SIRES)) makes it possible to authenticate the identity of interlocutors by electronic means and through an appropriate system;
- **Decree-Law No. 34/2023** – Creates the Cyber Academy and Innovation Hub, whose mission is to promote and carry out activities of public interest in the areas of cybersecurity and cyberdefence and their interfaces with other sectoral policies;
- **Instruction No. 9/2023** – Establishes the rules for reporting information on payment systems and instruments;
- **Instruction No. 10/2023** – Establishes the rules for the Action Plan for Default Risk (*Plano de Acção para o Risco de Incumprimento* (PARI)) and the Extrajudicial Procedure for the Settlement of Defaults (*Procedimento Extrajudicial de Regularização de Situações de Incumprimento* (PERSI)) reporting;
- **CL/2023/00000020** – Contains guidelines on the interest rate risk and credit spread of activities not included in the trading book;
- **RPB Public Consultation** – The Banco de Portugal has published for public consultation a draft Instruction defining a new annual reporting model for AML/CFT and a draft Notice amending Notice No. 1/2022;
- **Instruction No. 27/2023** – Establishes that the contribution rate for each participating institution in force in 2024 is 0.0009% and that the minimum contribution is EUR 600.00;
- **Instruction No. 28/2023** – Establishes that the base rate in force in 2024 for calculating periodic contributions to the Resolution Fund is 0.032%;
- **Notice No. 8/2023** – Sets out the minimum requirements for recording information on subcontracting agreements and the format for reporting this information to the Banco de Portugal;
- **Law no. 81/2023** – Transposes Directive No. 2020/284 concerning the introduction of certain requirements applicable to payment service providers with a view to combating Value Added Tax (VAT) fraud in e-commerce.





3.

Business Model

Business Model

In 2021, BAIE launched the implementation of its revised Business Model, based on the strategy outlined within the Strategic and Business Plan (PEN), discussed and approved by shareholders at the beginning of the second quarter of 2021 (General Meeting of April 2021), which included the following elements:

- a. the change in the Bank's financing structure, based on the growth in customer deposits and, consequently, in the loan portfolio;
- b. obtaining new and diversified sources of funding that:
 - i. allows reducing the dependence on BAI Angola, in terms of financing the Bank's activity (a situation also flagged as a weakness by the Banco de Portugal under the SREP – Supervisory Review and Evaluation Process);
 - ii. are less punitive in terms of 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 securities to meet liquidity ratios.

In order to materialise the new strategy described above, BAIE's Management decided to make changes to its Business Model, which essentially consist of the following:

- 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 Bank's business strategy aims to develop activity in specific market segments, seeking to adopt the quality of services provided to its customers as a differentiating line. The implementation of this strategic guideline should be based on the adoption of a conservative risk profile that will ensure the Bank's ability to continue as a going concern, in terms of profitability and solvency, under any 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 Euro Zone, 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.

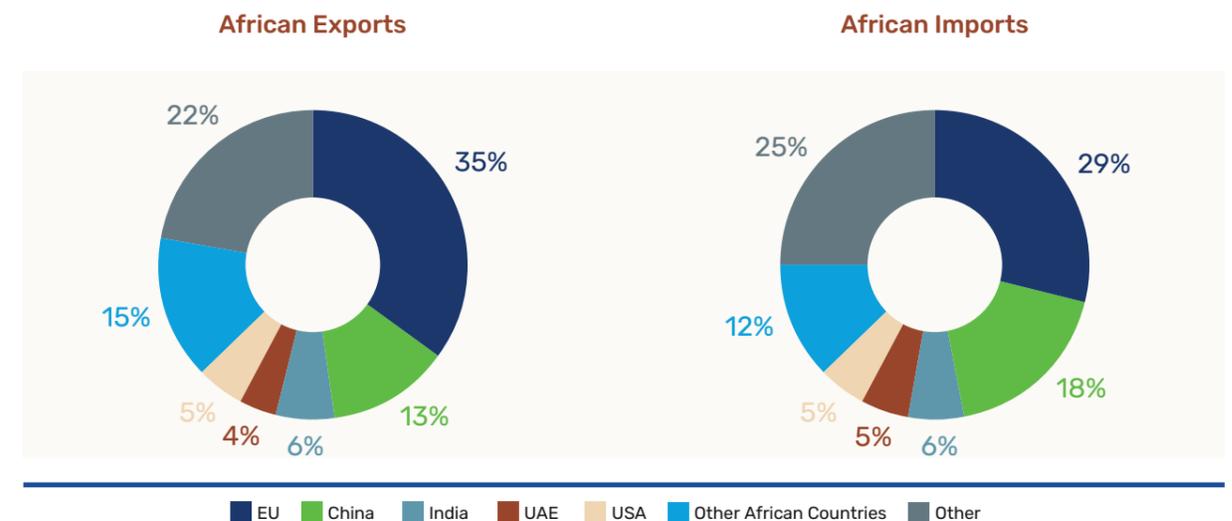
Structured Credit

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 35% of exports and 29% of imports in 2022.



Source: International Trade Centre

Portugal's exports to Africa

In 2022, the largest exporter of EU goods to Africa was France (Euro 30 billion), with a market share of 16.5%, whilst Portugal (Euro 5.7 billion) ranked 7th with a share of 3.1%.

Country	EUR million	% Share EU
France	22,964	16.5
Germany	20,298	13.01
Italy	16,840	11.9
Spain	15,752	11.1
Belgium	13,889	11.1
The Netherlands	12,987	9.7
Portugal	4,469	3.1
Poland	3,451	2.4
Greece	2,748	2.1
Sweden	2,587	1.9

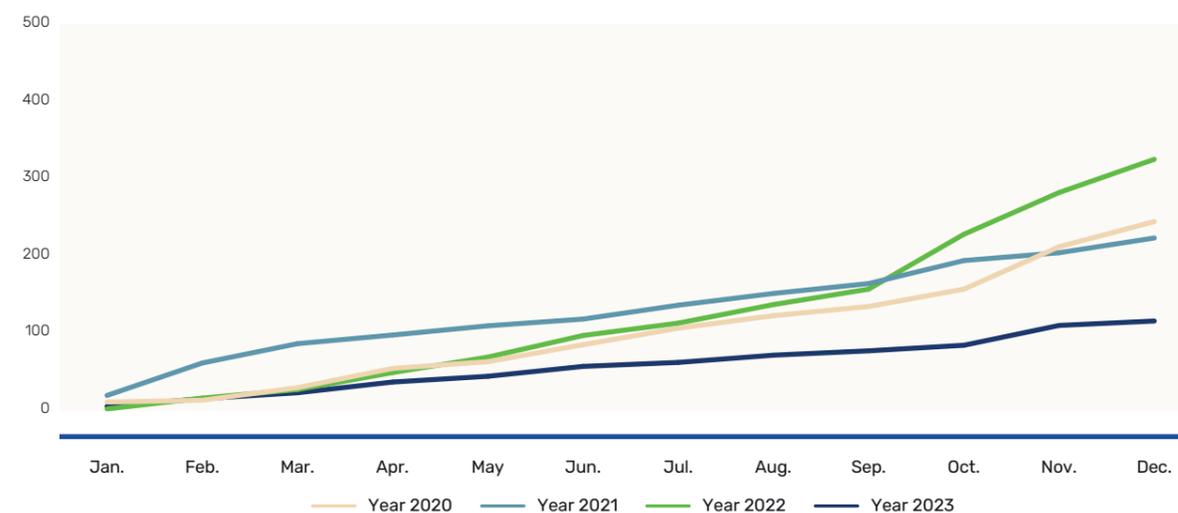
Source: International Trade Centre

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;
- **Letters of credit:** confirmation of letters of credit;
- **Irrevocable credit facilities:** Issue of irrevocable credit facilities under letters of credit opened by correspondent banks;
- **Discount of letters of credit:** Advance payment of the amount of the letter of credit to the exporter before the maturity date;
- **Financing:** Granting a short-term credit to the importing bank (the issuing bank) which issued a letter of credit to an exporter (the recipient of the letter of credit);
- **Transfer of funds:** Transfer of 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 DCs (million Euro)**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, 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.

2. Retail Banking

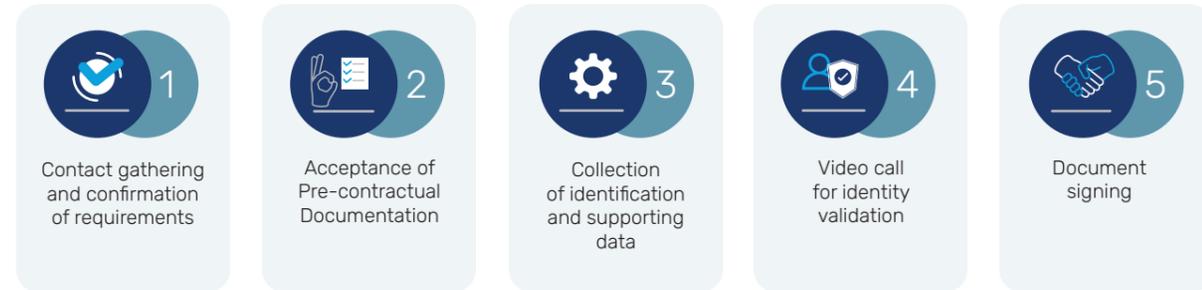
BAIE segments its Retail customer base into Retail, Affluent, Premium and Employees of the BAI Group, focusing on the offer of savings solutions for resident and non-resident customers, namely residents in Angola, BAI customers or employees.

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

In 2023, the Bank continued its digital strategy to attract customers, namely through remote account opening (digital onboarding). At the beginning of 2024, the restructuring of Internet Banking (BAI Europa Directo) and the launch of the App are expected to be completed.

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 3 holders.

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



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:



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.

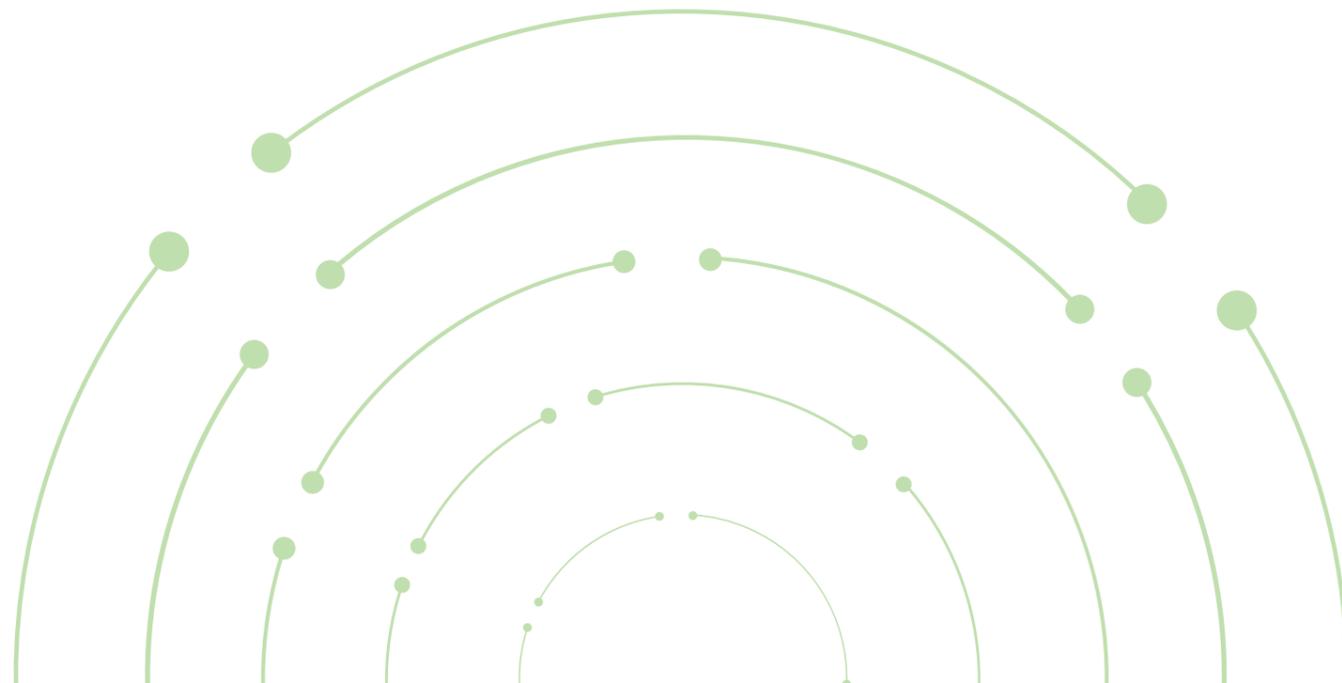
BAIE figures in 2023

20 Institutional customers

89 RMAs established with other counterparties worldwide

Main services

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





4.

Business Development

Business Development

Commercial Banking and Correspondent Banking Department (DCC)

Following the redesign of the business areas that led to the setting up of the Commercial Banking and Correspondent Banking Department and its 3 functional units: Retail Banking Unit, Corporate Banking Unit and Institutional Banking Unit, 2023 proved to be the year to consolidate market positioning within the framework of the 2021-2025 strategic plan.

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 3 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 food trade fairs (Gulfood and Anuga) represented by joint delegations – Corporate and Institutional – where some of the main players in this market are present. The institutional presence in Angola and Cape Verde was strengthened, and the process of geographic expansion was initiated through a reinforced approach, which began in 2021, to the Mozambican and Santomean markets. 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. In this respect, 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 BAIE Ambassadors in identifying companies with a dominant position in the import business.

As a result of the strengthening of the positioning in trade finance, BAIE received the news of the award for “Best Trade Finance Bank Portugal 2023” 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 2023, 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 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 and Premium 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 3,310 new accounts for Retail customers (+224.8% YoY) and to achieve 40.2% growth in deposit taking – current and term deposits – (Euro 175.01 million compared to Euro 125.57 million in 2022).

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 with a view to achieving greater sector diversification and better monitoring of the customer base.

In terms of offer, there was a strengthening of BAIE's value proposition 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 sectoral scope and the maturities of the operations, which also allowed us to broaden the offer and reduce sectoral 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 125.15 million, which represents a growth of Euro 14.76 million compared to the 2022 year-end (Euro 87.99 million); a total of Euro 102.62 million in deposits (demand and term), which represents a growth of Euro 32.39 million compared to 2022 and a total of 305 letters of credit were pre-financed, for a volume of Euro 53.27 million and USD 83.52 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, 5 international roadshows were held, which enabled 75 face-to-face meetings to be held with customers and potential customers from the Institutional segment.

Three new partnerships were also forged with multilateral entities with a view to joining Trade Finance Facility Programmes, and contacts were strengthened to open a USD account with a leading US bank.

Operational connection with customers continued to be strengthened through several meetings/calls between BAIE's operational departments and customers, with a view to promoting operational excellence and the service provided.

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

A technical assistant was admitted to the UBI team, allowing greater emphasis to be placed on both the onboarding process of new customers and on the RMA remediation process, as well as on updating the legal representatives of the vostro accounts.

The year ended with a total of 20 institutional customers, which represents an addition of 4 new customers to the portfolio, 2 in Angola, 1 in São Tomé and Príncipe and 1 in Cape Verde.

In 2023, a total volume of Euro 118.85 million in letters of credit was confirmed, and a total of 78,285 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 2023, 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 2023, the LCR was 257% (in December 2022 it was 443%).

Regarding 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 2023, the NSFR was 139% (in December 2022 it was 120%).

In this context, in the course of 2023, BAIE was able to increase stable funding, with customer deposits increasing by 14% and deposits from institutional customers decreasing by 1.9%.

Notwithstanding the challenges during 2023, 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 (79% 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 in international financing transactions in Africa for more than USD 55 million. In Europe, the Bank participated in four Schuldschein loans on the primary market, amounting to approximately Euro 12.5 million.

As part of its financing operations in Africa, the Bank participated in loans to financial institutions in the amount of USD 25 million, multilateral/supranational institutions in the amount of USD 15 million and corporate financing in Angola in the amount of USD 15 million.

In relation 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, the following events took place during 2023:

- **Armed Forces Project:** Commercial contract between Simportex and All2IT for the implementation of a data centre and software platform. During 2023, the financing was fully disbursed, with the Bank's participation totalling Euro 24.4 million.
- **Muxima Project:** Public works contract between the Office of Special Works and the Casais Angola Consortium and Omatapalo for the construction of infrastructure in the village of Muxima. On 5 April 2023, a loan agreement worth Euro 112.2 million was signed between the Republic of Angola, represented by the Ministry of Finance, and the Banking Syndicate, with the Bank acting as agent for the loan and with a shareholding of Euro 70.9 million.
- **Fortaleza Penedo Project:** Commercial contract signed between the Ministry of Public Work and Territorial Planning of Angola and Mota Engil Engenharia e Construção, S.A. for the contract to restore and equip the São Francisco de Penedo Fortress in Luanda Province. On 20 April 2023, a loan agreement worth Euro 31.9 million was signed between the Republic of Angola, represented by the Ministry of Finance, and the Banking Syndicate, with the Bank contributing Euro 9.5 million.
- **Conduril Project:** Public works contract between the Ministry of Agriculture and Forestry and Conduril Engenharia, S.A., for the supply of services for the construction of the Chicomba Water Dam. In the first phase – Drought – the Bank provides financing to the Syndicate for a total amount of Euro 66.8 million (participating with Euro 26.3 million) and acting as the Agent Bank for the financing. The contractual formalisation of the financing should take place at the beginning of 2024.





5.

Human Capital and Sustainability (ESG = E+S+G)

Human Capital and Sustainability (ESG = E+S+G)

Framework

The year 2023 was marked by political and economic changes on a global scale. These changes have had an impact on economic and social activity, causing consequences and challenges in all sectors.

BAI Europa maintained its ongoing commitment to implementing the strategic plan, with an emphasis on internal employee development and team consolidation, strengthening BAIE's culture.

Alongside the measures already implemented in 2022, the challenge for 2023 was to maintain the Human Capital development strategy, following the axes of the five areas of intervention: Feedback & Development; Culture Strengthening; Engagement & Retention; Recognition and Social Responsibility, strengthening BAI Europa's mission – "To be the European presence of the BAI Group with a customer-focused and results-driven approach, to contribute to employee development, to meet shareholder expectations and to be a benchmark in the provision of quality customised service."

With a strong commitment and focus on Human Capital, where a close-knit culture promotes collaboration, agility and flexibility between teams, BAIE's values – Demand, Rigour, Agility, Respect and Ethics – have played a key role in the growth and consolidation of the team and in valuing all its members as key players in its sustained development.

In line with the previous year and with a clear focus on the areas of intervention, several initiatives were implemented to strengthen BAIE's mission and values, with a view to improving its capitalisation.

In addition to maintaining the initiatives implemented throughout 2023, several in-house training initiatives were carried out in the Feedback & Development area of intervention. These included Assessor Training, aimed at managers in order to ensure clarity and objectivity at all stages of performance assessment, stressing their role in team development; Self-Awareness Training, aimed at leaders, providing tools for self-awareness and effective time and team management; and finally, Feedback Training for Growth, offered to all employees, with the aim of equipping them with feedback techniques to promote personal and professional growth. As usual, the Performance Appraisal System was implemented on an annual basis, in which goals were set, interim feedback sessions were held with a view to aligning the goals set, and interim and end-of-year performance appraisal meetings were held.

To strengthen the institution's culture, an annual internal communication plan was developed, with a roadmap of all the initiatives carried out by Human Capital. These actions were designed with the aim of consolidating BAIE's culture, promoting regular communication and proximity between employees. In addition, a weekly internal communication programme entitled "What's up BAIE!" was set up, sharing content related to the initiatives carried out and with employees. The *A Voz do BAIE!* newsletter was maintained on a quarterly basis, as were individual meetings with employees, which began at the end of 2022, with the clear aim of bringing the Human Capital Unit (HCU) closer to all employees. The tradition of 3 Corporate Events continued in 2023 – the *Kick-Off* at the beginning of the year, with a focus on work and team building, as well as two other occasions that bring together all employees and governing bodies: the *Summer is Here!* event and the Christmas Party. As part of Strengthening Culture, events were organised solely for the Bank's management team to strengthen teamwork, with two activities held off-site.

With the aim of creating a differentiated value proposition in the Engagement & Retention area, we intensified our focus on the onboarding process for new employees. There has been a strengthening in the transfer of culture and integration, leading to surveys to obtain insights that will allow us to assess and subsequently act on satisfaction in relation to recruitment and onboarding processes.

With a view to boosting interaction between employees and disseminating the different initiatives, the Intranet was created along with groups on social media platforms, helping to improve internal communication and bring employees closer together, as well as encouraging them to engage in sports and informal gatherings in after-work activities.

In 2023, two internal processes concerning recruitment and internal mobility were set up with the aim of enhancing the Bank's Human Capital. These processes aim not only to ensure access to recruitment opportunities, but also to establish a structured plan for sharing candidates and internal mobility opportunities, serving as a foundation for strengthening identification with the institution's values and culture.

Recognition is increasingly playing a pivotal role in valuing and celebrating employees' contributions and achievements. As a result, the +Team Player Award was created quarterly and is voted on by all employees, acknowledging the employee who best embodies all the Bank's values, promoting cooperation, collaboration and communication. As in the previous year, the Career Awards were presented at the Christmas party to recognise employees who have worked for BAIE for 5, 10, 15, 20 and 25 years.

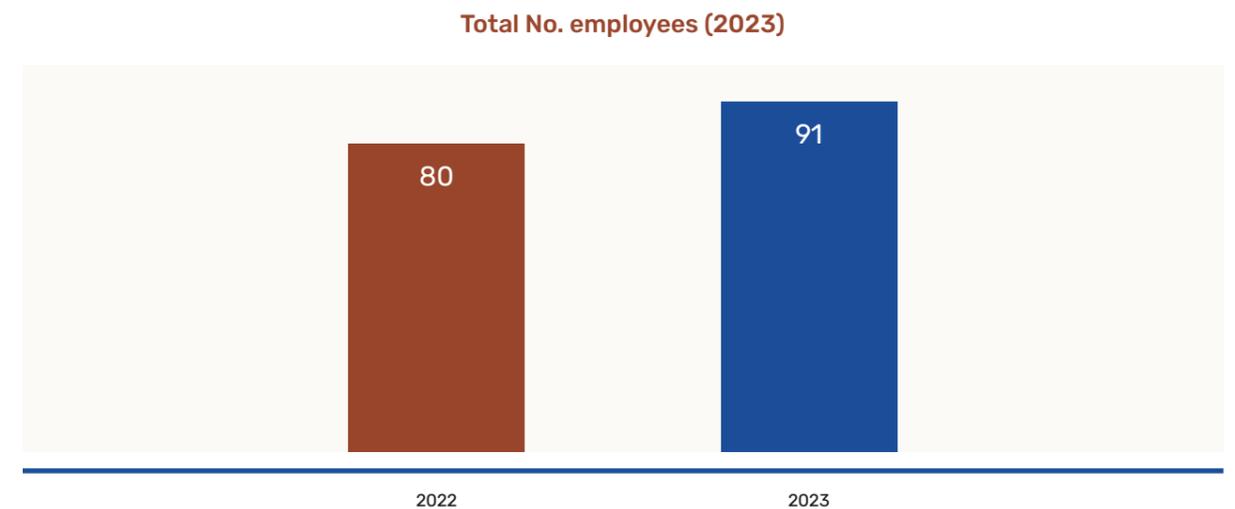
In terms of Social Responsibility and in close connection and commitment to our values, BAIE supported the *Renascer* Association, a non-profit Private Social Solidarity Institution (IPSS). The Association's main mission is to serve the community through its social programmes of rehabilitation and social reintegration, including the distribution of food parcels and support to the local community, aiding 41 families.

As part of its commitment to the health and well-being of its employees, the institution has teamed up with the Portuguese League Against Cancer, making a donation as well as promoting in-house actions to raise awareness of the disease.

For the second year running, and through a partnership between BAI Europe and ISCTE – *Instituto Universitário de Lisboa*, two merit scholarships were awarded to deprived higher education students, promoting equal opportunities and supporting the individual efforts of students during the academic year. At the end of 2023, through the *Vida e Paz* Community, the Bank's employees carried out a voluntary action at the 35th Christmas Party for homeless people, divided into different areas that collaborated for a common purpose.

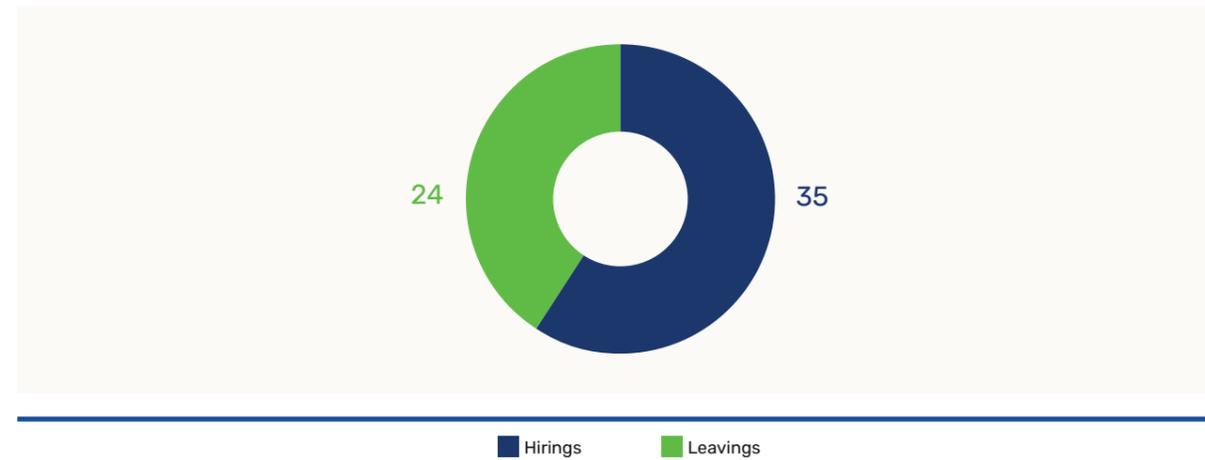
Human capital development

BAIE ended the 2023 financial year with 91 employees, a growth of 13.5% compared to 2022.



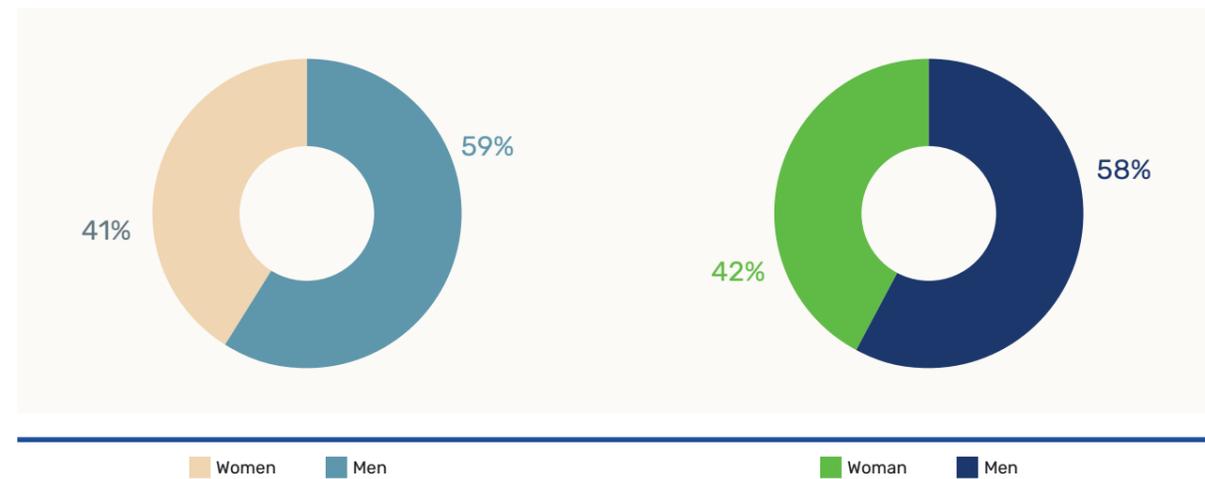
In 2023, there were 35 hirings and 24 leavings of employees. As in 2022, the majority of hirings were in the business, control and technology areas, accounting for 85.7% of all new admissions. In terms of leavings, technology and control areas accounted for 75%.

Hirings and Leavings (2023)

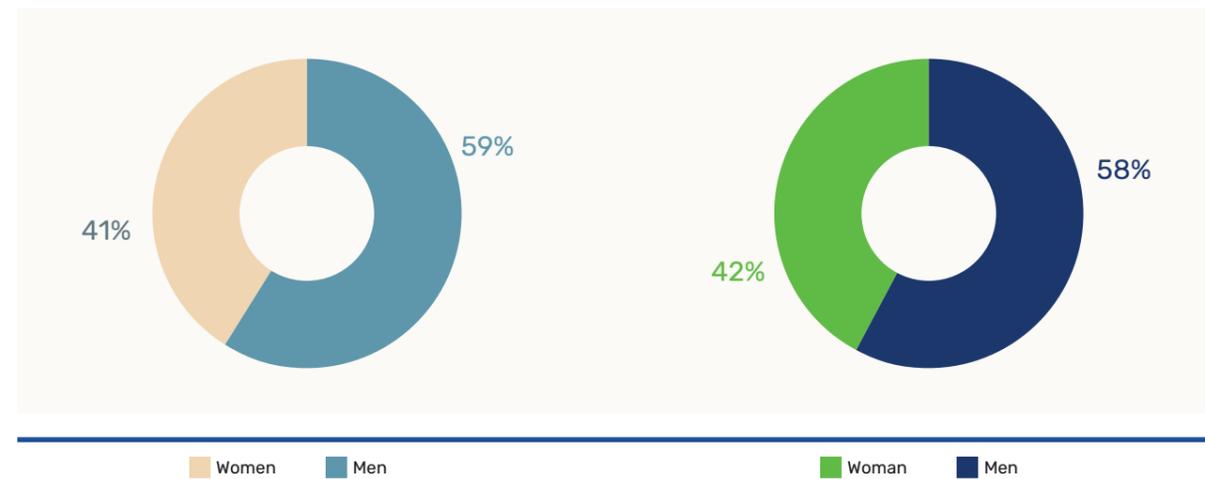


The hiring of new staff has contributed to a more balanced evolution of gender diversity at the Bank. Given the same period last year, at the end of 2023, the BAIE's structure has an average age of 36, and is made up of 42% female and 58% male members.

Gender Diversity (2022)

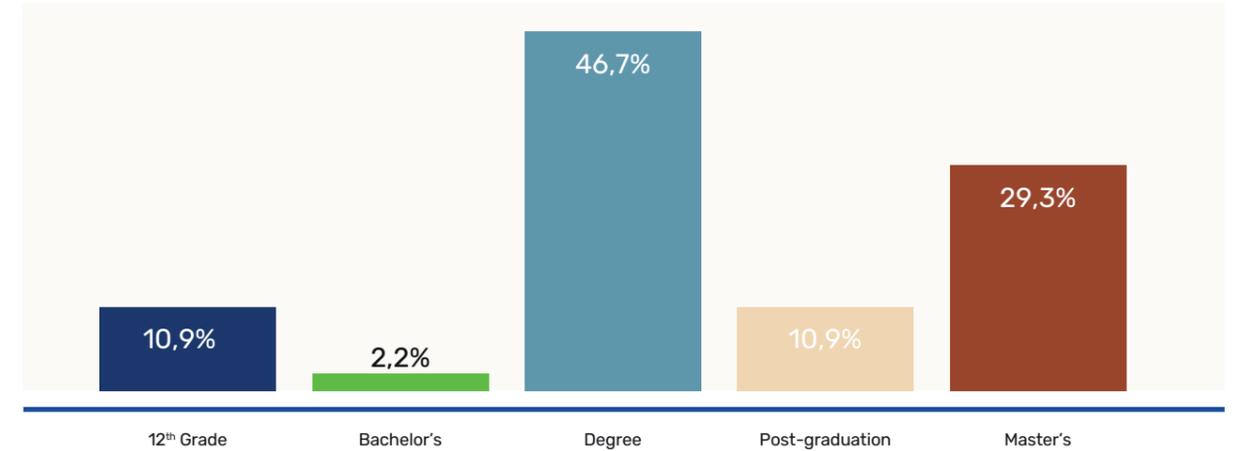


Gender Diversity (2023)



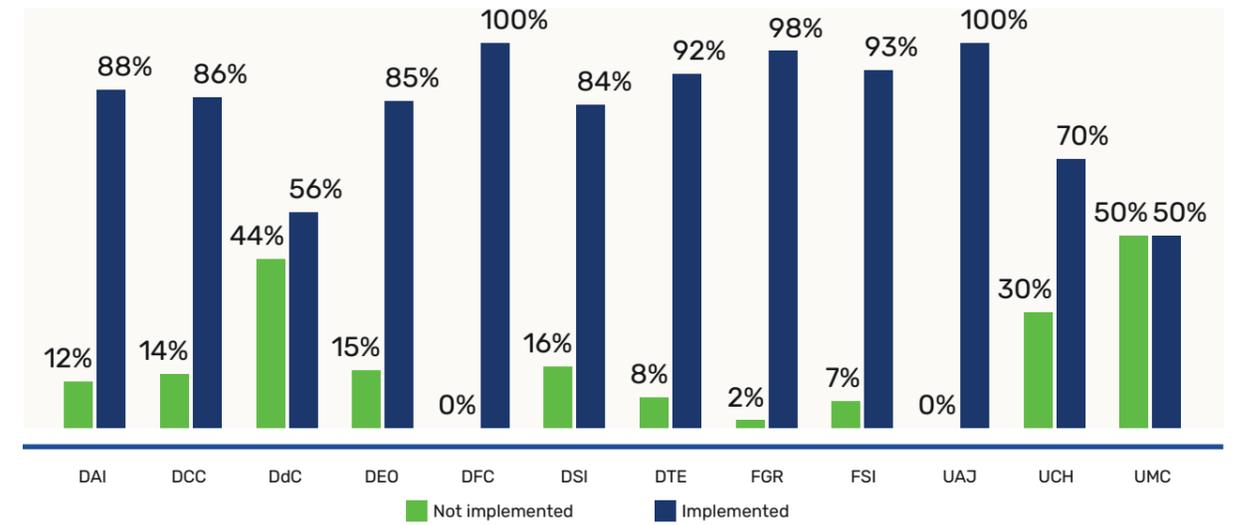
Of the total head count of 91 employees, 89% have a permanent labour contract (open-ended) working 100% full-time. In terms of education levels, the Bank will end 2023 with 86.9% of employees with higher education qualifications, with 29.3% having completed a master's degree.

Level of education (2023)



In 2023, approximately 82% of the annual training plan was implemented. Training courses were developed in-house as well as by external entities in order to develop the potential of employees.

Training Plan (2023)



Environmental (E)

Sustainability and Social Impact are incorporated in one of the 5 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 in BAIE’s Strategic and Business Plan, seeking to translate it into tangible actions that meet the expectations and demands of the Bank’s stakeholders. To this end, the following Sustainable Development goals have been defined for the BAIE in 2023:



4 QUALITY EDUCATION
Involvement with ISCTE and continuing training for employees, this goal coincides is in line with the values included in BAIE’s mission;
Promoting financial literacy initiatives in schools (workshops), LinkedIn and social activities.



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Syndicated financing under state agreements for Angola’s socio-economic development, financing of SMEs that support economic development and the continuous improvement of people’s living conditions.



14 LIFE BELOW WATER
Joint measures with the OceanHero association and environmental volunteering initiatives, in line with the BAIE group’s vision in which the ocean unites the geographies of the entire Group.

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 2023, with particular emphasis on the following:

 <p>March Disposal of single-use cups, straws and sugar sachets</p>	 <p>March Restructuring of the Sustainability and Social Responsibility page on the public website</p>	 <p>April Replacing capsule coffee machines with bean-to-cup machines</p>
 <p>April Support to Associação Renascer</p>	 <p>May Cleaning Mata dos Medos</p>	 <p>June Awards of 2 merit scholarships to disadvantaged University students</p>
 <p>October Donation to the Portuguese League Against Cancer</p>	 <p>December Training session on Green Hydrogen</p>	 <p>December Volunteering with the Comunidade Vida e Paz</p>



The initiatives illustrated above resulted in a substantial improvement in BAI Europa's performance in terms of various indicators, which the Bank considers decisive within the scope of its environmental responsibility strategy. Below are some of the main KPIs that illustrate the developments observed between 2021 and 2023:



Operational energy consumption:

2021: 36.29 tonnes of CO₂
2022: 31.48 tonnes of CO₂
2023: 00.53 tonnes of CO₂



Electricity generated:

2022: From September 2022, electrical energy 100% generated from renewable sources
2023: With the expansion of its facilities in Lisbon, BAIE no longer operates with 100% renewable energy. Nevertheless, about 80% comes from these sources



Water saving:

2022: Maintenance of flush cisterns and installation of flow reducers that saved 30% of the water in toilets and pantry
2023: Flush cisterns and flow reducer maintenance

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:



Vehicle fleet

- For the second half of 2021, all replacements for BAIE's vehicle fleet are based on hybrid or electric vehicles. As the vehicle fleet is comprised of vehicles under operating lease agreements for periods of 4 years, the process of replacing the fleet will be completed in 2025.
- In the first half of 2023, 6 electric chargers were installed at BAIE's Lisbon facilities, totalling 6 charging units.



Analysis of energy consumption and operational energy sources

- CO₂ 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;
- CO₂ emissions in 2022: 31.48 tonnes – It proved possible to reduce CO₂ emissions by 13.25% despite the fact that, for most of 2022, the return to the office was a certainty and that Banco BAI Europa is growing rapidly in number of employees. From September 2022, BAIE will only operate with 100% renewable energy, thus eliminating this source of CO₂ 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 CO₂ reduction was 32.81%.
- CO₂ emissions in 2023: 00.53 tonnes – Effective from October 2023, and with the expansion of the facilities in Lisbon, BAIE will no longer operate with 100% renewable energy. However, nearly 80% comes from these sources, with a significant impact on CO₂ and other greenhouse gas emissions, totalling a reduction of 98.32% compared to consumption in 2022.



Limit non-reusable items

- Replacing sugar packets with sugar bowls.
- Eliminating disposable cups and straws.
- Replacing capsule coffee machines in pantries with bean-to-cup machines, in order to eliminate capsule waste.



ESG tip of the week

- Internal communication, on a monthly basis, on topics aimed at raising awareness and increasing the knowledge of employees about energy and waste consumption, saving and production, among other topics related to Social and Governance factors.



External Communication

- Restructuring the institutional website page dedicated to Sustainability and Social Responsibility in order to showcase BAIE's work in this field.



Training activities

- An in-house training activity was held on 4 December, attended by more than 50 participants from the *Associação Portuguesa para a Promoção do Hidrogénio*, with the aim of increasing knowledge about the role of green hydrogen in the energy transition.



Volunteering activities

- On 26 May, a clean-up initiative was organised in Mata dos Medos, on the Costa da Caparica, in collaboration with the ICNF (*Instituto da Conservação da Natureza e das Florestas*) and involving 35 employees, with a view to protecting biodiversity and the native forest.
- Increased communication on the impact of installing the OceanHero extension in your browser (for every 5 browser searches with this extension, OceanHero funds the collection of a plastic bottle by deprived people, who thereby benefit directly and indirectly from this clean-up in coastal areas).
- OceanHero is a social enterprise, with no equivalent in the Portuguese regulatory framework, but similar in action to a NGO (environmental non-governmental organisation), which invests all its proceeds (advertising in browsers, paid for by companies), obtained from searches carried out by users using browsers with the add-on installed. With these proceeds, they fund the collection of plastic bottles from rivers, beaches and oceans by people from underprivileged coastal communities in developing countries. As a result, with this indirect support from BAIE employees, 1,457 bottles have been collected since April 2022. This polluting and abandoned plastic is valued and becomes a resource for people in environmentally, socially and economically vulnerable situations in different regions of the planet, simultaneously supporting local communities and global ocean health.

Governance (G)

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".

As part of its environmental responsibility strategy, and in order to continue the work developed over the last year, by 2024 BAIE plans, with the support of specialised external consultants, to define its Sustainability strategy and create a Sustainability report based on the implementation of the European Central Bank's guidelines in which the regulator expects climate and environmental risks to play a fundamental role in defining entities' strategies and business plans. The following process was defined:

Background, trends and diagnosis



Next steps 2024

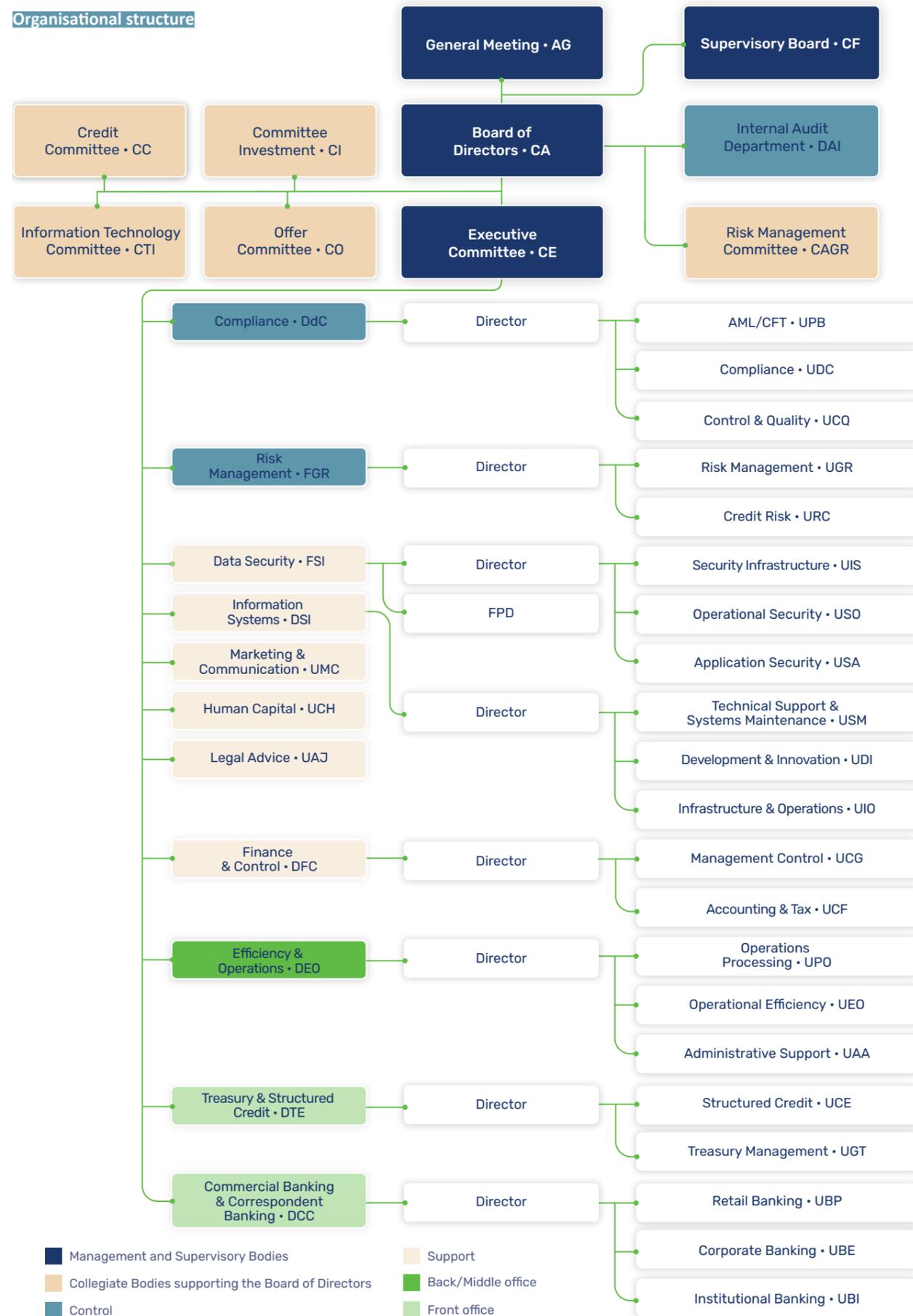
Sustainability risks must be systematically analysed and taken into account in risk calculations and risk matrices. The regulator expects that risk scenarios associated with sustainability will be integrated into the definition of management and capital strategies. It will therefore be necessary to gauge how sustainability issues affect BAIE's performance, positioning and business development, and to consult its stakeholders in order to understand their perception of the impact of the business on the economy, people and the environment.

With the increasing focus of regulatory and stakeholder concern regarding the management of sustainability risks to the business, organisations should include the following topics in their risk management framework:

1. Development of a sustainability strategy or expansion/derivation of the current strategy;
2. Clear division of responsibilities based on ESG issues;
3. Introducing sustainability into the internal governance system;
4. Structured risk analysis and transfer of ESG factors to existing risk parameters;
5. Extension of the risk strategy to consider the timeframe of sustainability risks, in particular with KPIs and the application of medium- to long-term structural risk parameters;
6. Integration of ESG risks into the business process (credit design) and decision-making;
7. Expansion of methodological tools – Stress tests, scenario analysis, regulations and economic outlooks at the Internal Capital Adequacy Assessment Process (ICAAP);
8. Consideration of Sustainability risks in internal control systems; and
9. Develop external reporting systems (Pillar 3 or non-financial reporting).



Organisational structure



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 the 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. All 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 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 control functions. In the event of a tied vote, the Chairman of the Executive Committee has a casting vote.

The director in charge for second-line 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 Efficiency and Operations Department (DEO). It is chaired by the Chief Executive Officer, the director responsible for the information systems areas.

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.

The CI is responsible, namely, for analysing and approving investment strategies in accordance with future expectations in relation to macroeconomic scenarios, as well as approving/vetting 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 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. This document is then validated by the DAI.

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 (second-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 2023:

Policy Definition

The Bank's remuneration policy was defined 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), where remuneration with a variable component is payable, the following criteria for deferred payment shall apply:

- 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 Board of Directors.

On an annual basis, under the terms of Article 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). For this purpose, the Board of Directors, together with the opinion of the Supervisory Board and the joint opinion of the Heads of the Audit, Compliance and Risk Management Functions, submits a statement to the shareholders, together with information enabling them to assess the overall cost of the remuneration and incentive structure and the extent to which risk-taking is encouraged and controlled.

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 allocation of the variable remuneration is performed annually based on that assessment and on 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 35%. 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.

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.

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 2024 to approve the remuneration policy 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 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.

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.

The training plan is defined annually by the Board of Directors and includes induction and training objectives for the members of the corporate bodies. This plan is updated in line with legal and regulatory changes, changes in governance, strategic changes, 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 high-potential employees 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.

In drawing up the succession plan, the Board of Directors shall define the skills and competencies necessary to ensure, in particular, the existence of adequate expertise to perform the function concerned, availability and independence, considering, as far as possible, the principle of balanced representation of men and women.

The Board of Directors ensures the reassessment of the succession plan, based on a prior opinion of the Supervisory Board. The reassessment should take place once a year, preferably during the third quarter of each year and whenever justified.

2.6. Prevention of situations of conflicts of interest

In situations involving conflicts of interest, the Bank will always act 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 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.



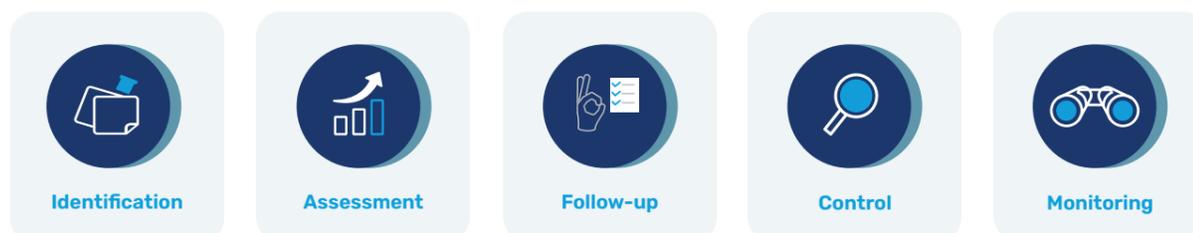
6.

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:



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. Reputation 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 on 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 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 on 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 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 on 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 BAIE are operational risk, information security and information technology risk, strategy risk, reputation risk, compliance risk and ESG risk.

Operational Risk

Operational risk is defined as the risk of negative impacts on profit or loss or on 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 on 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 on 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 on 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 on 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 on 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 on equity, arising from breaches or non-compliance with laws, regulations, specific provisions, 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 on equity.

ESG Risk

ESG risk is defined as the risk of negative impacts on profit or loss or on 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 Function, ensured by the Compliance Department (DdC), 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, reputation 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 DdC, together with the FGR, 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).





7.

Financial Analysis

Financial Analysis

A brief financial analysis of BAIE's activity in 2023 is provided below.

Income Statement			
Euro	31 Dec. 23	31 Dec. 22	YoY Change
Interest and similar income	35,164,580	15,244,734	+131%
Interest and similar expense	(13,950,080)	(4,764,932)	+193%
Net Interest Income (NII)	21,214,500	10,479,802	+102%
Financial Operations (FO)	976,663	2,014,867	-51%
Gross Profit (NII+FO)	22,210,164	12,494,669	+78%
Net fee and commission income/(expense) (NFCIE)	3,248,469	4,154,673	-22%
Other Operating Income/(expense) (OPIE)	(2,151,601)	(828,760)	+160%
Net Operating Income (NOI=NII+NFCIE+OPIE)	23,307,032	15,820,582	+47%
Fixed Costs (FC)	(11,060,381)	(8,804,356)	+26%
EBITDA (NOI-FC)	12,246,651	7,016,226	+74%
Depreciation for the period (D)	(1,379,862)	(965,311)	+43%
Net provisions and impairment	(1,813,508)	(1,612,141)	+13%
Profit before tax	9,053,281	4,438,774	+106%
Taxes	(2,506,291)	(1,132,910)	+121%
Profit/(loss) for the period	6,546,990	3,305,864	+98%
Cost to income [(FC+D)/NOI]	53.4%	61.8%	-8 p.p.

In a financial year marked by the stagnation of the economy in the second and third quarters of 2023, with slight growth in the last quarter reflecting the decline in external demand, the cumulative effects of inflation and the tightening of monetary policy, which affected the financing conditions of economic agents, BAIE's "Profit before tax" in 2023 totalled Euro 9,053 thousand, representing a significant increase of 106% compared to 2022, as well as "Profit/(loss) for the year", which reached Euro 6,546 thousand, representing an increase of nearly 98% compared to the same period last year.

"Net interest income" reached Euro 21,214 thousand, which represents a substantial increase of +102% compared to 2022, to which the effect of the rise in interest rates contributed, above all, as well a significant increase in the customer loan portfolio, despite a reduction in the balance sheet. 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 increased by 131% in 2023, to Euro 35,164 thousand.

As for the margin debt, the change was +193% compared to the same period of the previous year, mainly due to the increase in costs related to interest and expenses with deposits from customers, whose volume has increased substantially. 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.

"Income from financial operations" decreased -51% year-on-year, driven by the decrease in income from foreign exchange operations (Euro -965 thousand compared to 2022), due to the foreign exchange market situation in Angola. Furthermore, there was also a reduction in the realised gains/(losses) in the portfolio of financial assets at fair value (Euro -198 thousand compared to 2022), through a strategy adopted to replace the amount invested in some bonds with IMM operations with higher yields.

"Net fee and commission income/(expense)" reached Euro 3,248 thousand, a decrease of approximately -22% compared to that observed in 2022. This was mainly due to a reduction of -14% in commissions on documentary credits (there was a decrease of -64% in the volume of confirmations of documentary credit letters, in line with the unfavourable context in Angola in 2023), whereas commissions received for processing operations fell by -24% in 2023, as a result of a lower volume of payment orders (-20%).

In 2023, "Other operating income" increased compared to the net expense in the previous year (+160%), explained by the following effects: i) an increase in operating expenses with operations subject to tax, in the amount of Euro 847 thousand, explained by the decrease in the pro-rata VAT rate; and ii) BAIE, in 2022, presented capital gains in the amount of Euro 379 thousand from the sale of the financial participation that BAIE held in a management company.

In 2023, "Fixed costs" increased by 26%, compared to the same period of the previous year, due to the variation in the following items:

- General and administrative expenses (+32%), due to an increase of Euro 521 thousand in expenses with projects and external advisory (including recruitment and selection processes). Additionally, there was an increase in advertising costs of approximately Euro 285 thousand in order to continue the process of growth and implementation of the BAIE brand, and an increase in IT costs, in the amount of Euro 253 thousand, with the continued digitalization of the Bank;
- Staff costs (+22%), due to the growth in the Bank's human capital structure during the period, as defined in the Bank's strategic plan (91 employees at the 2023 year-end, compared to 81 employees at 2022 year-end), as well as an increase in variable remuneration in 2023.

Regarding "Net provisions and impairment", the item presents an increase of +12.5% in 2023, explained by the following effects: (i) an increase in impairment, to the amount of Euro 595 thousand, due to the review of risk factors associated with Angola; ii) reversal of provisions relating to documentary credits (in the amount of Euro 754 thousand), due to a very significant reduction of Trade Finance activity and increased level of collateralization of off-balance exposures.

Despite the increase in the cost structure (Euro +2,256 thousand compared to 2022), reflecting BAIE's investment inherent to the strategic and business plan, the significant growth in net operating income (approximately Euro 7,486 thousand in 2023), allowed the cost-to-income ratio to be reduced by approximately 8 p.p. compared to the same period last year.

Balance sheet			
Euro	31 Dec. 23	31 Dec. 22	YoY Change
Financial Assets:			
Cash and cash equivalents	72,897,245	74,635,816	-2.3%
Other loans and advances to credit institutions	223,674,811	270,987,405	-17.5%
Loans and advances to customers	191,678,572	145,870,044	+31.3%
Financial assets not held for trading mandatorily measured at fair value through profit or loss	220,692	389,216	-43.3%
Financial assets at fair value through other comprehensive income	82,786,402	108,688,812	-23.8%
Other financial assets at amortised cost	109,557,802	135,900,332	-19.4%
Other financial assets at fair value through profit or loss	3,420	349,517	+99%
Total Financial Assets	680,818,944	736,821,142	-7.6%
Non-financial assets			
	9,269,677	8,663,950	+7%
Total Assets	690,088,621	745,485,092	-7.4%
Financial Liabilities:			
Deposits from credit institutions	291,393,592	369,212,958	-21.1%
Deposits from customers	289,476,691	273,439,896	+5.9%
Other financial liabilities	3,420	349,517	+99%
Total Financial Liabilities	580,873,703	643,002,371	-9.7%
Other non-financial liabilities			
	11,696,884	14,046,089	+16.7%
Total Liabilities	592,570,587	657,048,460	+10.9%
Share capital	42,000,000	42,000,000	0%
Revaluation reserves	(2,723,325)	(5,171,273)	-47.3%
Other reserves and retained earnings	51,694,369	48,302,041	+7%
Profit/(loss) for the period	6,546,990	3,305,864	+98%
Total Equity	97,518,034	88,436,632	-9.3%
Total Liabilities and Equity	690,088,621	745,485,092	-7.4%

In 2023, BAIE's balance sheet decreased (-7.4%), driven by the value of the following items: i) portfolio of "Other loans and advances to credit institutions (Euro -47,313 thousand compared to 2022); ii) portfolio of financial assets at fair value through other comprehensive income (Euro -25,903 thousand compared to 2022); iii) portfolio of financial assets at amortized cost (Euro -26,342 thousand euros); offset by iv) portfolio of "Loans and advances to customers" (Euro +45,809 thousand compared to 2022).

Despite an increase in the volume of BAIE's "Loan" portfolios, in line with the guidelines of the strategic and business plan, this resulted in a positive change in the Bank's overall transformation ratio, from 35.8% in 2022 to 46.8% in 2023. This increase was mainly due to the "customer transformation ratio" (+12.8 p.p. compared to the same period last year), and the "Credit Institution transformation ratio" also increased (+4.9 p.p. year-on-year).

In 2023, the profile of the BAIE's "Bond" portfolio did not change significantly compared to the same period last year. However, there was a trade-off between items of "Financial assets at fair value through other comprehensive income" (Euro -25,902 thousand compared to 2022) and "Other financial assets at amortised cost" (Euro +26,341 thousand compared to 2022) remains to the extent that the Bank intends the profitability of these instruments to be effective through the underlying yields. It should be noted that, for "Other financial assets at amortised cost", there was a positive variation of Euro +20,521 thousand relating to bonds and commercial paper and there was a negative change of Euro -47,462 thousand was recorded relating to discounts on documentary letters of credits.

As for the liability structure, in 2023 there was a decrease in the volume of deposits from credit institutions (-21%) in line with the asset structure with other loans and advances to credit institutions and an increase in deposits from customers (+5.9%), reflecting BAIE's growth strategy in relation to deposit-taking. 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 21.2%, above the 18.7% in the previous year. This variation is explained by the decrease in BAIE's activity, whose impact on risk-weighted assets causes puts pressure on this indicator. However, the solvency ratio remains comfortably above the regulatory minimum limit.

Furthermore, the ROE showed significant growth, increasing by 3.1 p.p. (6.8% in 2023, compared to 3.7% in 2022). This reflects BAIE's efforts throughout this financial year to manage its resources more efficiently and, consequently, to increase the return on its equity.

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 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. 23	31 Dec. 22
Total own funds (1+2+3+4)	88,268,483	83,315,012
1. Base Own funds (Tier 1)	88,268,483	83,315,012
Base Own funds Core (Common Equity Tier 1 – CET 1)	88,268,483	83,315,012
Paid-up share capital (Note 19)	42,000,000	42,000,000
Legal reserve (Note 19)	8,932,706	8,932,706
Deferred tax reserve	874,705	
Unrealised losses on financial assets at fair value through other comprehensive income	(107,110,353)	(92,177,942)
Unrealised losses on financial assets at fair value through other comprehensive income	103,222,776	86,632,550
Adjustment for credit risk – Securities at FVOCI (IFRS 9)	(83,014)	(109,777)
Adjustments of Base Own funds Core (CET 1) due to prudential filters	289,546	374,118
Deferred tax assets that depend on future profitability	(722,625)	(747,533)
Retained earnings (Note 19)	41,586,919	38,281,055
Net intangible assets (Note 12)	(1,811,984)	(908,446)
Actuarial losses with liabilities related to pensions (Notes 19 and 30)	1,174,744	1,088,280
Other transitional adjustments	(84,938)	-
2. Complementary Own funds (Tier 2)	-	-
Provisions for general credit risks (Note 17)	-	-
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 2023 and 2022 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, so the profit/(loss) for this period is not eligible for own funds.

	31 Dec. 23	31 Dec. 22
Total own funds	88,268,483	83,315,012
Requirements for credit risk (on-balance and off-balance sheet) and operational risk	416,759,958	445,003,807
Total own funds ratio	21.2%	18.7%
Base own funds ratio (Tier 1)	21.2%	18.7%
Common equity Tier 1 ratio (CET 1)	21.2%	18.7%

During 2023 and 2022, the Bank complied with all capital requirements defined by the banking supervision entity, Banco de Portugal, in accordance with applicable laws and regulations.

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 6,546,990 for 2023 be applied as follows:

Transfer to Retained Earnings	Euro 5,892,291
Transfer to Legal Reserves	Euro 654,699

Other Information

i. Subsequent events:

Subsequent events are disclosed in the Notes to the Financial Statements, namely in Note 35 (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;
- In addition to contracting demand and term deposits under the same conditions as 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.

Notes to the Management Report

1. In compliance with Article 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 2023, and in accordance with Article 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. Shares	%
Banco Angolano de Investimentos, S.A.	7,999,996	99.99995

Lisbon, 26 February 2024

The Board of Directors

Luís Lélis
Chairman of the Board of Directors

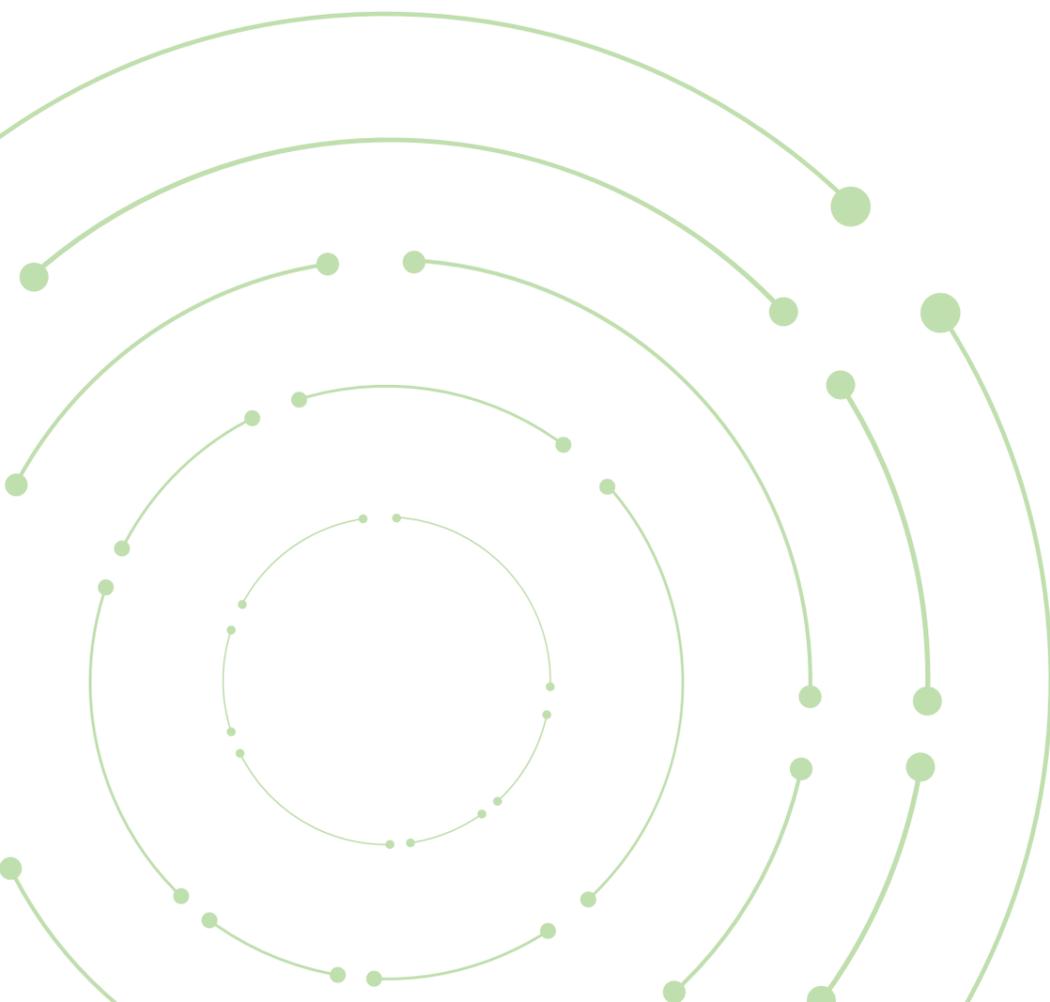
Omar Guerra
Chairman of the Executive Committee – CEO

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



8.

Financial Statements

Financial Statements as at 31 December 2023

Statements of financial position as at 31 December 2023 and 2022

Amounts expressed in Euro	Notes	31 Dec. 2023			31 Dec. 2022
		Amount before impairment and amortisation	Impairment and amortisation	Net value	
Assets					
Cash and deposits at central banks	3	4,875,071	-	4,875,071	4,436,230
Loans and advances to credit institutions repayable on demand	4, 17	68,033,655	(11,481)	68,022,174	70,199,586
Financial assets not held for trading mandatorily measured at fair value through profit or loss	5	220,692	-	220,692	389,216
Other financial assets at fair value through profit or loss	6	3,420	-	3,420	349,517
Financial assets at fair value through other comprehensive income	7, 19	82,786,402	-	82,786,402	108,688,812
Financial assets at amortised cost					
Other loans and advances to credit institutions	8, 17	224,034,313	(359,502)	223,674,811	270,988,152
Loans and advances to customers	9, 17	195,983,259	(4,304,687)	191,678,572	145,870,044
Other financial assets at amortised cost	10, 17	90,527,860	(98,501)	90,429,359	69,907,929
Other property, plant and equipment and right-of-use assets	11	5,556,668	(2,995,517)	2,561,151	2,484,976
Intangible assets	12	3,267,032	(1,455,048)	1,811,984	908,446
Deferred tax assets	13, 28	1,597,330	-	1,597,330	2,407,486
Other assets	14, 17	24,116,292	(1,688,637)	22,427,655	68,854,698
Total Assets		701,001,994	(10,913,373)	690,088,621	745,485,092

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 2023 and 2022

Amounts expressed in Euro	Notes	31 Dec. 2023	31 Dec. 2022
Liabilities			
Other financial liabilities at fair value through profit or loss	6	3,420	349,517
Deposits from other credit institutions	15	291,393,592	369,212,958
Deposits from customers and other loans	16	289,476,691	273,439,896
Provisions	17	1,868,997	2,296,890
Current tax liabilities	13, 28	1,235,689	679,076
Deferred tax liabilities	18	8,592,198	11,070,123
Total Liabilities		592,570,587	657,048,460
Equity			
Share capital	19	42,000,000	42,000,000
Revaluation reserves	19	(2,723,325)	(5,171,273)
Legal reserves	19	8,932,706	8,932,705
Retained earnings	19	42,761,663	39,369,335
Net profit/(loss) for the period	19	6,546,990	3,305,865
Total Equity		97,518,034	88,436,632
Total Liabilities + Total Equity		690,088,621	745,485,092

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

Income statements for the periods ended 31 December 2023 and 2022

Amounts expressed in Euro	Notes	31 Dec. 2023	31 Dec. 2022
Interest and similar income - effective rate	20	35,164,580	15,271,876
Interest and similar expense	20	(13,950,080)	(4,792,073)
Net interest income	20	21,214,500	10,479,803
Fees and comission income	21	4,438,114	5,384,379
Fees and comission expense	21	(1,189,645)	(1,229,706)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	22	(120,641)	63,293
Net gains/(losses) arising from other assets and liabilities measured at fair value through profit or loss	23	-	8,303
Net gains/(losses) arising from financial assets mandatorily measured at fair value through profit or loss	23	(4,351)	1,238
Net gains/(losses) arising from financial assets at amortised cost	24	143,993	40,027
Net gains/(losses) arising from foreign exchange differences	2, 3	976,663	1,942,033
Net gains/(losses) arising from the sale of other assets	11	-	(935)
Other operating income/ (expense)	25	(2,151,601)	(867,852)
Net operating income		23,307,032	15,820,583
Staff costs	26	(6,737,091)	(5,534,662)
General administrative expenses	27	(4,323,290)	(3,269,694)
Depreciation for the period	11, 12	(1,379,862)	(965,311)
Provisions net of reversals and recoveries	17	427,893	(326,204)
Impairment on financial assets not measured at fair value through profit or loss			
Financial assets at fair value through other comprehensive income	17	84,572	173,776
Financial assets at amortised cost			
Impairment on loans and advances net of reversals and recoveries	17	(2,532,975)	(388,486)
Impairment on other financial assets net of reversals and recoveries	17	207,002	(161,235)
Impairment on non-financial assets	17	-	(909,992)
Profit before tax		9,053,281	4,438,775
Taxes	28	(2,506,291)	(1,132,910)
Current	28	(2,431,383)	(1,350,843)
Deferred	13, 28	(74,908)	217,934
Profit after tax		6,546,990	3,305,865
Net profit/(loss) for the period		6,546,990	3,305,865
Earnings per share		0.78	0.39

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

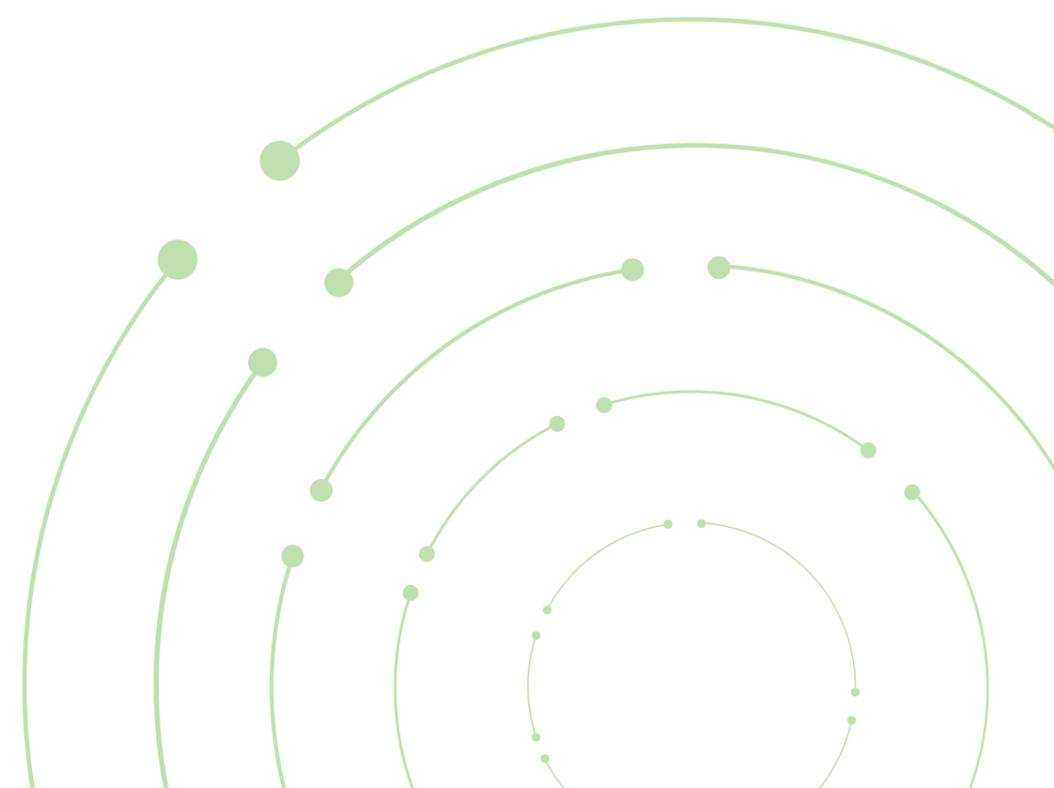
Statements of comprehensive income for the periods ended 31 December 2023 and 2022

Amounts expressed in Euro	Notes	31 Dec. 2023	31 Dec. 2022
Profit/(loss) for the period		6,546,990	3,305,865
Items that will not be reclassified into the income statement			
Accumulated actuarial gains and losses on long-term benefits	19	86,464	648,767
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	19	3,267,768	(8,154,676)
Impairment	19	(84,572)	(173,776)
Tax effect	13, 19	(735,248)	1,834,802
Profit/(loss) not included in the income statement		2,534,412	(5,844,883)
Comprehensive income for the period		9,081,402	(2,539,018)

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors



Statements of changes in equity for the periods ended 31 December 2023 and 2022

Amounts expressed in Euro	Notes	Share capital	Retained earnings	Legal reserve	Revaluation reserve	Net profit/(loss) for the period	Total Equity
Balances as at 1 January 2022		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	19	2,000,000	-	-	-	(2,000,000)	-
Revaluation reserves	19	-	-	-	(6,493,650)	-	(6,493,650)
Accumulated actuarial gains and losses on long-term benefits	19	-	648,767	-	-	-	648,767
Net profit/(loss) for 2022		-	-	-	-	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
Appropriation of 2022 profits into retained earnings and legal reserve		-	2,975,278	330,587	-	(3,305,865)	-
Capital increase by appropriation of profits	19	-	-	-	-	-	-
Revaluation reserves	19	-	-	-	2,447,948	-	2,447,948
Accumulated actuarial gains and losses on long-term benefits	19	-	86,463	-	-	-	86,463
Net profit/(loss) for 2023	19	-	-	-	-	6,546,990	6,546,990
Comprehensive income		-	86,463	-	2,447,948	6,546,990	9,081,401
Balance as at 31 December 2023		42,000,000	42,431,076	9,263,293	(2,723,325)	6,546,990	97,518,034

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

Cash flow statements for the periods ended 31 December 2023 and 2022

Amounts expressed in Euro	Notes	31 Dec. 2023	31 Dec. 2022
Operating activities			
Interest, commissions and other income received	20 and 21	39,624,843	20,274,918
Interest, commissions and other expense paid	20 and 21	(15,492,224)	(7,099,829)
Income from foreign exchange and other financial operations	2,3	976,663	1,942,033
Payments to employees and suppliers	26 and 27	(11,060,381)	(8,772,584)
Net cash flow arising from operating activities before changes in assets and liabilities		14,048,901	6,344,538
Decreases/(increases) in:			
Other financial assets at amortised cost	10	(20,416,286)	(58,459,878)
Other loans and advances to credit institutions	8	47,534,762	(106,784,923)
Loans and advances to customers	9	(48,309,409)	(26,678,306)
Other assets	15	46,264,590	(52,636,626)
Net cash flows arising from operating assets		25,073,658	(244,559,733)
Increases/(decreases) in:			
Deposits from other credit institutions and central banks	15	(77,894,049)	18,892,531
Deposits from customers	16	16,036,814	56,943,665
Other liabilities	18	1,056,236	(2,478,244)
Net cash flows arising from operating liabilities		(60,800,999)	73,357,952
Income tax payment	13 and 28	(1,139,522)	(1,095,822)
Other taxes and contributions paid	24	(1,771,050)	(1,247,814)
Gross cash flows from operating activities		(2,910,572)	(2,343,636)
Investing activities			
Income arising from financial assets at amortised cost	24	143,993	-
Income arising from financial assets at fair value through other comprehensive income	22	(120,641)	64,846
Income arising from financial assets at fair value through profit or loss	23	4,351	-
Acquisitions of financial assets at fair value through other comprehensive income, net of disposals	7	25,902,410	(105,571,590)
Acquisitions of other financial assets at fair value through profit or loss net of disposals	6	(514,620)	189,503
Acquisition of property, plant and equipment and intangible assets, net of disposals	11 and 12	(2,176,597)	(934,403)
Dividends received		-	-
Net cash flows from investing activities		23,238,896	104,891,536
Financing activities			
Payments on lease liabilities	18	(466,227)	(362,348)
Net cash flows arising from financing activities		(466,227)	(362,348)
Net changes in cash and cash equivalents		(1,816,343)	(62,671,691)
Cash and cash equivalents at the beginning of the period	3 and 4	74,725,069	137,396,760
Cash and cash equivalents at the end of the period	3 and 4	72,908,726	74,725,069

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors



9.

Notes to the Financial Statements

Notes to the Financial Statements as at 31 December 2023

(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). The company has its head office in Lisbon 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. Basis 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 the 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 2023 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 2023. 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 26 February 2024 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 that future taxable income will exist and based on tax legislation in force or legislation already published for future application, as well as the requirements set in IAS 12 (Note 13). 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 30). 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:

Quoted prices (Level 1)

This category includes Financial Instruments with quoted prices 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 quoted 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 inputs (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. Over-the counter (OTC) derivatives; 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 unobservable inputs (Level 3)

This level includes valuations determined using 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 17).

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 based on 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.

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 them 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 forbore.

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 1 non-performing payment 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 forbore 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 are 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, BAIE includes forward-looking information both in the 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. For credit portfolio exposures subject to Angola risk, due to the absence of a history of defaults and the unavailability of historical information on defaults in the corporate and retail segments, the Bank uses a historical series associated with the Angola sovereign 5-year credit default swap (5Y CDS) to calculate the forward-looking adjustment factor.

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) customers/economic groups with stage downgrades, with exposure exceeding Euro 500 thousand; ii) customers/economic groups with exposure of Euro 1 million or above; iii) stage 3 customers and those restructured due to financial difficulties, irrespective of the amount of exposure. 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 2023 and 2022, 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 hold 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 on 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.

O 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 2023 and 2022, 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 15) and from customers (Note 16).

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.

2.5. 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 29).

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 property, plant and equipment 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 2.13. 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 2023.

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 2023.

2.8. Income 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 profit, 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 relating to temporary differences arising on initial recognition of assets and liabilities are not recorded on transactions that do not affect the accounting result or taxable profit.

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 ACTV.

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 from 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 end-of-career bonuses 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.

Accordingly, the Bank records the amount of the liabilities calculated as a charge payable (Note 18) against the income statement. Payments made to employee are deducted from the provision recorded.

The Bank's staff costs include the following costs relating to liabilities for end-of career bonuses:

- 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 26) 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 17).

As there were no Contingent Liabilities in 2023 and 2022, these are not disclosed.

2.11. 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 21).

2.12. 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.

2.13. 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 2023 and 2022.

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 property, plant and equipment", *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 lease agreements. The Bank uses judgement when assessing whether it is reasonably certain to exercise the renewal 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. Subsequent Events

The Bank analyses events occurring after the statement of financial position, *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 35).

3. Cash and deposits at central banks

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Cash	232,839	162,440
Deposits repayable on demand at the Banco de Portugal	4,642,232	4,273,790
	4,875,071	4,436,230

The balance "Deposits repayable on demand at the Banco de Portugal" includes deposits set up to meet 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 Eurosystem (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 interest rate defined by ECB for the deposit facility (DF).

This system, which came into force on 30 October 2022, 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).

As at 31 December 2023, the multiplier set by the ECB is 0 (zero). Since 21 September 2023, the benchmark interest rate for the MRO and DF is 4.50% and 4.00%, respectively.

4. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Loans and advances to credit institutions in Portugal		
Deposits repayable on demand	33,319,273	59,393,698
Loans and advances to credit institutions abroad		
Deposits repayable on demand	34,714,382	10,903,506
Cheques to be settled	-	(8,365)
Impairment losses (Note 17)	(11,481)	(89,253)
	68,022,174	70,199,586

5. Financial assets mandatorily measured at fair value through profit or loss (FVTPL)

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Equity instruments		
Issued by national private entities	54,869	54,869
Issued by foreign private entities	50,436	52,252
Debt instruments		
Issued by foreign private entities	113,676	107,337
Other – investment funds		
Issued by foreign private entities	1,711	174,758
	220,692	389,216

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 2023, 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 the investment in a private equity investment fund in which a significant part has been distributed (Note 33).

6. Other financial assets and liabilities at fair value through profit or loss

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023		31 Dec. 2022	
	Assets	Liabilities	Assets	Liabilities
Other financial assets at fair value through profit or loss				
Investment funds				
Non-resident	3,420	-	349,517	-
Other financial liabilities at fair value through profit or loss				
Structured financial resources	-	(3,420)	-	(349,517)
	3,420	(3,420)	349,517	(349,517)

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

In 2023, the Fund distributed capital, resulting in changes in the fair value through profit or loss associated with financial assets and liabilities in the amounts of Euro 346,097 and Euro -346,097 respectively (Note 33).

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

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

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Financial assets at fair value through other comprehensive income (IFRS)		
Debt instruments		
Issued by national public entities	6,297,503	5,994,221
Issued by national private entities	22,386,235	26,252,408
Issued by foreign public entities	11,535,474	27,490,883
Issued by foreign private entities	41,813,131	48,022,729
Interest receivable	754,059	928,571
Revenue with deferred income from operating assets	-	-
Total gross amount	82,786,402	108,688,812

In 2023 and 2022, 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 (Note 29). As at 31 December 2023 and 2022, 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 22). In 2023 and 2022, the Bank did not receive dividends from assets at fair value through other comprehensive income.

As at 31 December 2023 and 2022, 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 17).

8. Financial assets at amortised cost – Other loans and advances to credit institutions

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Other loans and advances to credit institutions in Portugal		
Very-short-term loans and advances	139,149,321	164,080,822
Deposits	-	18,751,172
Subordinated loans and advances	4,014,932	4,112,676
Interest receivable	103,127	54,858
Other loans and advances to credit institutions abroad		
Very short-term loans and advances	-	-
Deposits	-	-
Loans and advances	80,489,013	84,067,129
Interest receivable	389,199	613,697
Deferred commissions	(111,280)	(153,868)
Total gross amount	224,034,312	271,526,486
Impairment (Note 17)	(359,501)	(538,334)
Total net of impairment	223,674,810	270,988,152

The amount corresponding to "Subordinated loans" and advances is a set of collateral deposits (Note 29), 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 two 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 granted to two South African banks, one loan to an Egyptian bank, one loan to a British bank, four loans to three Mauritian banks, one loan to a Nigerian bank and eight loans to an Angolan bank.

Changes in impairment during 2023 and 2022 are disclosed in Note 17.

9. Financial assets at amortised cost – Loans and advances to customers

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Loans not represented by securities		
Domestic loans		
Loans and advances	90,216,675	89,571,768
Current account loans	9,086,131	4,732,453
Other loans and advances	538	-
Foreign loans		
Loans and advances	95,539,929	52,960,309
Current account loans	-	295,331
Overdue loans and interest	127,356	26,717
Capital subtotal	194,970,629	147,586,578
Interest receivable	1,660,871	746,901
Prepaid interest	(27,452)	(7,446)
Monthly commissions	(620,790)	(684,277)
Interest and commission subtotal	1,012,629	55,178
Total gross exposure	195,983,258	147,641,756
Impairment for credit risk	(4,304,686)	(1,771,712)
Total net exposure	191,678,572	145,870,044

Changes in impairment for "Loans and advances to customers" during 2023 and 2022 are disclosed in Note 17.

The item "Overdue loans and interest" is mainly due to six financings in the total amount of Euro 126,626 which were settled in the beginning of 2024.

As at 31 December 2023 and 2022, this balance has the following structure by business sector:

Amounts expressed in Euro	31 Dec. 2023		31 Dec. 2022	
Trade and repair	42,785,658	21.9%	35,286,047	23.9%
Real Estate activities	31,629,321	16.2%	25,478,710	17.3%
Construction	29,000,438	14.9%	22,854,600	15.5%
Other business services	24,089,981	12.4%	20,216,052	13.7%
Food, beverage and tobacco industries	8,317,812	4.3%	11,417,518	7.7%
Financial and insurance activities	18,110,516	9.3%	9,757,858	6.6%
Public administration (regional and local)	22,648,414	11.6%	8,906,152	3.2%
Manufacturing industries	1,197,577	0.6%	-	-
Manufacture of transportation equipment	8,000,000	0.0%	-	-
Other activities and Retail	4,269,797	2.2%	4,727,675	3.2%
Transportation and storage	979,166	0.5%	4,518,752	3.1%
Accommodation, catering and similar activities	3,941,949	2.0%	4,423,212	3.0%
	194,970,629	100.0%	147,586,578	100.0%

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

In 2023, the amount of "Other business services" amount refers to activities of head offices and management advisory.

10. Other financial assets at amortised cost

"Other financial assets at amortised cost" are analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Securities issued by residents		
Debt instruments	2,057,000	2,057,000
Issued by other national public entities	-	-
From other residents	7,828,246	13,301,871
Non-subordinated debt		
Securities issued from non-Residents	-	-
Non-subordinated debt	79,167,175	54,157,255
Interest receivable	821,806	448,659
Prepaid interest	761,885	267,146
Deferred charges expenses	(108,252)	(120,357)
	90,527,860	70,111,574
Impairment on other financial assets at amortised cost	(98,501)	(203,645)
	90,429,359	69,907,929

As at 31 December 2023 and 2022, "Debt instruments – Issued by other national public entities" refers to a bond issue of Portuguese public debt.

As at 31 December 2023 and 2022, "Debt instruments – From other residents" refers to investments in commercial paper issues that the Bank subscribed in the primary market.

As at 31 December 2023, "Securities issued by non-residents – Other non-residents – Non-subordinated debt" refers to bond issues.

11. Other property, plant and equipment and right-of-use assets

The changes in these balances during 2023 were as follows:

Amounts expressed in Euro	31 Dec. 2022			Write-offs			Sales			31 Dec. 2023			
	Gross amount	Accumulated amortisation and impairment	Net amount	Acquisitions	Amortisation for the period	Accumulated amortisation and impairment	Write-offs	Gross amount	Accumulated amortisation and impairment	Net amount	Gross amount	Accumulated amortisation and impairment	Net amount
Properties in use													
Leasehold improvements	854,353	(377,662)	476,691	268,847	(92,316)	-	-	-	-	-	1,123,201	(469,979)	653,222
Equipment													
Furniture and material	185,005	(102,448)	82,557	100,200	(24,303)	-	-	-	-	-	285,205	(126,751)	158,454
Machinery and tools	14,611	(8,907)	5,704	10,182	(3,373)	-	-	-	-	-	24,793	(12,280)	12,513
IT equipment	1,017,554	(612,603)	404,951	118,096	(196,775)	-	(75,724)	-	-	-	1,059,927	(809,378)	250,549
Indoor facilities	9,906	(4,423)	5,483	-	(990)	-	-	-	-	-	9,906	(5,413)	4,493
Safety equipment	6,137	(6,137)	-	4,232	(784)	-	-	-	-	-	10,369	(6,921)	3,448
Other equipment	11,170	(174)	10,996	-	-	-	-	-	-	-	11,168	(174)	10,995
Right-of-use assets													
Real Estate	2,369,574	(1,062,490)	1,307,084	342,985	(343,565)	16,444	(21,820)	-	-	-	2,690,741	(1,389,611)	1,301,129
Vehicles	465,993	(274,483)	191,510	123,903	(67,064)	166,536	(248,536)	-	-	-	341,359	(175,011)	166,349
	4,934,303	(2,449,327)	2,484,976	968,444	(729,169)	182,980	(346,080)	-	-	-	5,556,668	(2,995,517)	2,561,151

"Right-of-use assets" corresponds essentially to leased properties, namely the Bank's head office in Lisbon (2 floors), a representative office in Oporto, and a residual number of vehicles. These assets are amortised according to the lease term of each agreement, as described in the accounting policy of Note 2.13.

The changes in this balance during 2022 were as follows:

Amounts expressed in Euro	31 Dec. 2021					Write-offs		Sales			31 Dec. 2022		
	Gross amount	Accumulated amortisation and impairment	Net amount	Acquisitions	Amortisation for the period	Gross amount	Accumulated amortisation and impairment	Gross amount	Accumulated amortisation and impairment	Net amount	Gross amount	Accumulated amortisation and impairment	Net amount
Properties in use													
Leasehold improvements	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	-	(274,669)	-	-	-	-	-	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	(671,909)	(277,604)	276,561	-	-	-	4,934,303	(2,449,327)	2,484,976

12. Intangible assets

The changes in these balances during 2023 were as follows:

Amounts expressed in Euro	31 Dec. 2022						Write-offs		Sales			31 Dec. 2023			
	Gross amount	Accumulated amortisation and impairment	Net amount	Acquisitions	Amortisation for the period	Impairment	Transfers (Net amount)	Gross amount	Accumulated amortisation and impairment	Gross amount	Accumulated amortisation and impairment	Net amount	Gross amount	Accumulated amortisation and impairment	Net amount
Automatic data processing systems (software)	1,712,801	(804,355)	908,446	1,659,772	(650,693)	-	-	(105,541)	-	-	-	-	3,267,032	(1,455,048)	1,811,984
	1,712,801	(804,355)	908,446	1,659,772	(650,693)	-	-	(105,541)	-	-	-	-	3,267,032	(1,455,048)	1,811,984

In 2023, the amount of acquisitions is essentially due to the investment made under the BAIE's strategic plan.

The changes in these balances during 2022 were as follows:

Amounts expressed in Euro	31 Dec. 2021					Write-offs		Sales			31 Dec. 2022				
	Gross amount	Accumulated amortisation and impairment	Net amount	Acquisitions	Amortisation for the period	Impairment	Transfers (Net amount)	Gross amount	Accumulated amortisation and impairment	Gross amount	Accumulated amortisation and impairment	Net amount	Gross amount	Accumulated amortisation and impairment	Net amount
Automatic data processing systems (software)	1,546,903	(1,013,890)	533,013	668,835	(293,402)	-	-	(502,937)	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

13. Tax assets and liabilities

These balances are analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Deferred tax assets	1,597,330	2,407,486
	1,597,330	2,407,486
Current tax liabilities		
Income tax payable (IRC)	(1,235,689)	(679,076)
	(1,235,689)	(679,076)

a. The amount of income tax payable (IRC) for 2023 and 2022 is presented as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Corporate Income Tax (IRC)	(2,200,470)	(1,234,654)
Payments on account	1,089,270	664,293
Additional payments on account	99,000	45,747
	(1,012,200)	(524,614)
Surcharge	(139,324)	(81,462)
Autonomous taxation	(84,165)	(73,000)
Income tax payable (IRC)	(1,235,689)	(679,076)

During 2023, the changes in deferred taxes were as follows:

Amounts expressed in Euro	31 Dec. 2022		Profit/(or loss)	31 Dec. 2023	
	Opening balance	Reserves		Closing balance	
Deferred tax assets					
Financial assets at fair value through other comprehensive income	1,609,953	(735,248)	-		874,705
Financial assets mandatorily measured at fair value through profit or loss (Note 21)	111,760	-	(2,141)		109,619
Impairment (Note 18)	660,341	-	(101,044)		559,297
Provisions for other risks (Note 18)	-	-	27,000		27,000
End-of-career bonus (ACTV)	5,791	-	223		6,014
Pension funds and post-employment benefits	19,641	-	1,053		20,694
	2,407,486	(735,248)	(74,908)		1,597,330
Deferred tax liabilities					
Financial assets at fair value through other comprehensive income (Note 20)	-	-	-		-
	2,407,486	(735,248)	(74,908)		1,597,330

As at 31 December 2023, the amount of the item "Deferred tax assets – Financial assets at fair value through other comprehensive income" of Euro 874,705 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 2023, amounted to Euro 3,887,576 (Note 19).

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

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Deferred tax assets		
For more than 12 months	1,597,330	2,407,486
Deferred tax liabilities		
For more than 12 months	-	-
	1,597,330	2,407,486

14. Other assets

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Letters of credit		
Discounts	19,307,608	66,016,074
Debtors and other investments		
FCGT Contributions	15,051	15,539
Government sector		
Value added taxes (VAT) receivable	41,514	723,378
Other (a)	1,389,130	425,000
Other sundry debtors (b)	1,065,288	1,097,512
Other income receivable		
Documentary credits	270,181	162,377
Deferred charges expenses		
With active operations		
Insurance	95,887	97,617
Other administrative costs (c)	300,690	168,416
Pension liabilities and other benefits (Notes 2.10.1., 21 and 31)		
Past service liabilities	(1,655,538)	(1,499,941)
Pension fund assets	3,255,885	3,000,909
Post-employment benefits	(91,971)	(87,292)
Interbank transactions	122,567	269,001
Total gross amount	24,116,292	70,388,590
Impairment	(1,688,637)	(1,533,892)
Total net of impairment	22,427,655	68,854,698

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 as 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 (2022: Euro 425,000) was set up for a possible loss on the collection of this asset. This item also includes an amount of Euro 964,131 relating to a reimbursement process with the Portuguese Tax Authorities, which is ongoing and which the Bank considers to be fully recoverable and has therefore not recorded an impairment loss.

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 (2022: Euro 857,114) 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. in 2022, for which payment was agreed to be made in 3 years.

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

As at 31 December 2023, the amount corresponding to the equity value of the pension fund exceeds the liability assumed by the Bank for past services in Euro 1,655,538.

15. Deposits from central banks and other credit institutions

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Deposits from credit institutions in Portugal		
Repayable on demand	35,256	11,314
Deposits from credit institutions abroad		
Repayable on demand	55,366,570	80,195,553
Term deposits	234,499,548	287,920,979
Interest payable	1,492,218	1,085,112
	291,393,592	369,212,958

The amount of Euro 114,682,986 included in the item "Deposits from credit institutions abroad – term deposits", is collateralising liabilities with loans and advances to customers, other loans and advances to credit institutions, open documentary credits and irrevocable credit facilities (Note 29).

16. Deposits from customers and other loans

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Deposits repayable on demand		
From other residents	15,509,279	31,354,067
From non-residents	57,491,091	95,422,810
Term deposits		
From emigrants	20,000	20,000
From other residents	60,547,210	43,023,886
From non-residents	152,850,721	102,411,515
Other deposits	(1,088)	-
Interest payable	3,059,478	1,207,618
	289,476,691	273,439,896

The amount of Euro 8,916,741 (31 December 2022: Euro 6,540,211) included in the balance "Deposits from customers and other loans" is collateralising liabilities with loans and advances to customers and irrevocable credit facilities (Note 29).

17. Provisions and impairment

The changes in these balances during 2023 were as follows:

Amounts expressed in Euro	31 Dec. 2022	Charge for the period	Adjustments / (Reversals)	Recoveries / (Charge-off)	Transfers	31 Dec. 2023
	Opening balance					Closing balance
Impairment						
Loans and advances to credit institutions repayable on demand (Note 3)	89,252	173,446	(251,217)	-	-	11,481
Financial assets at fair value through other comprehensive income (Notes 7 and 19)	374,118	39,883	(124,455)	-	-	289,546
Other financial assets at amortised cost (Note 10)	203,646	110,720	(215,865)	-	-	98,501
Other loans and advances to credit institutions (Note 8)	538,334	396,567	(575,399)	-	-	359,502
Loans and advances to customers (Note 9)	1,771,712	5,291,244	(2,758,269)	-	-	4,304,687
Impairment on other assets (Note 14)	1,533,891	179,165	(24,419)	-	-	1,688,637
Total impairment	4,510,954	6,191,025	(3,949,624)	-	-	6,752,354
Provisions						
Bank guarantees and letters of credit	387,155	499,857	(538,103)	-	-	348,909
Off-balance sheet liabilities	673,823	90,356	(693,364)	-	-	70,815
Subtotal provisions resulting from the impairment model	1,060,978	590,213	(1,231,467)	-	-	419,724
Other provisions	1,235,912	312,631	(99,270)	-	-	1,449,273
Subtotal other provisions	1,235,912	312,631	(99,270)	-	-	1,449,273
Total provisions	2,296,890	902,844	(1,330,737)	-	-	1,868,997
Total provisions and impairment	6,807,844	7,093,869	(5,280,361)	-	-	8,621,351

The changes in these balances during 2022 were as follows:

Amounts expressed in Euro	31 Dec. 2021	Charge for the period	Adjustments / (Reversals)	Recoveries / (Charge-off)	Transfers	31 Dec. 2022
	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 charge for the period and reversals of impairment and provisions occurred in 2023 and 2022 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 2023, and the deterioration of Angola's Country Risk Premium. These impacts are cumulative for the growth of the portfolio during 2023.

The balance "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 data quality 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.

18. Other liabilities

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Creditors and other contributions		
Government sector		
Tax withholding	349,751	210,819
Social security contributions	123,509	111,939
Other contributions	1,562	1,432
Third-party collections	2,255	2,162
Other health services contributions (SAMS)	27,900	25,388
Sundry creditors (a)	56,440	-
Expenses payable		
Staff costs		
Holiday allowance and other allowances (b)	349,637	302,848
Charges with deferred variable remuneration (c)	1,149,450	683,725
Other expenses payable	359,732	422,269
Rents payable (d)	1,534,016	1,553,989
Revenue with deferred income		
From guarantees provided (Note 29)	23,107	29,168
From documentary credits (Note 29)	154,338	738,801
Long-term benefits – end-of-career bonuses	26,731	25,739
Interbank transactions pending settlement (e)	4,433,770	6,961,844
	8,592,198	11,070,123

- As at 31 December 2023, the amount disclosed under "Sundry creditors" concerns essentially to amounts payable to suppliers, without seniority.
- 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.
- The item "Charges with deferred variable remuneration" includes the amounts of variable remuneration payable to members of the Board of Directors and the Management Team, as defined in the Bank's Remuneration Policy (Note 26).
- As at 31 December 2023, "Rents payable" refers to the amount of lease liabilities recognised under IFRS 16 and as described in accounting policy of Note 2.13.
- As at 31 December 2023, the amount of operations pending settlement relates essentially to balances in the interbank clearing system, which are settled on the first following working day. This item also includes an amount of Euro 1,146,968 relating to the return/refund to institutional customers.

Lease liabilities, presented by residual term, are as follows:

Amounts expressed in Euro	Real Estate	Vehicles	Total
Maturity of lease liabilities			
Below 1 year	21,699	4,845	26,544
1 to 5 years	1,364,348	116,511	1,480,859
Above 5 years	-	26,613	26,613
Total Lease Liabilities in the Statement of Financial Position as at 31 December 2023	1,386,047	147,969	1,534,016

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

Amounts expressed in Euro	
31 December 2022	1,553,989
Additions	533,630
Disposals	(87,376)
Accrued interest	-
Payments	(466,227)
31 December 2023	1,534,016

19. Equity

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Share capital	42,000,000	42,000,000
Revaluation reserves		
Financial assets measured at fair value through other comprehensive income		
Debt instruments (Note 7)	(3,887,576)	(7,155,344)
Credit risk adjustment of financial assets at fair value through other comprehensive income (IFRS 9) (Note 7)	289,546	374,118
Deferred tax reserves (Note 13)		
Financial assets measured at fair value through other comprehensive income	874,705	1,609,953
Revaluation reserves	(2,723,325)	(5,171,273)
Other reserves and retained earnings		
Legal reserves	8,932,706	8,932,706
Retained earnings		
Approved	38,670,802	35,364,937
Changes in accounting policies		
IFRS1 Transition adjustments - NCA (in 2006)	830,264	830,264
Elimination of corridor approach 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 29)	1,174,742	1,088,278
Adjustment of accounting errors (in 2012)	2,249,114	2,249,114
	51,694,369	48,302,040
Profit/(loss) for the period	6,546,990	3,305,864
	97,518,034	88,436,631

As at 31 December 2023, the item "Revaluation reserves - Financial assets measured at fair value through other comprehensive income" presents a positive change of Euro 3,267,768 explained by the valuation of the portfolio of Assets at fair value through other comprehensive income compared to the previous year (Note 7).

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 2023, Banco Angolano de Investimentos, S.A., a credit institution resident in Angola, holds 99.9997% of the Bank's capital.

In accordance with Article 97 of the General Regime for Credit Institutions and Financial Companies "(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 must allocate no less than 10% of net profits for each financial year to a legal reserve, up to a limit equal to the value of the share capital or the sum of free reserves established and retained earnings, if higher.

In 2023, the change in revaluation reserves was as follows:

Amounts expressed in Euro	31 Dec. 2023
Opening balance as at 1 January 2023	(5,171,273)
Changes in fair value	3,147,127
Disposals	120,641
Deferred taxes recorded in the period in reserves	(735,248)
Credit risk adjustment of financial assets at fair value through other comprehensive income (Note 18)	(84,572)
Closing balance as at 31 December 2023	(2,723,325)

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

Amounts expressed in Euro	31 Dec. 2022
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)

20. Net interest income

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Interest and similar income from		
Financial assets at amortised cost		
Other loans and advances to credit institutions	15,835,288	5,429,542
<i>Of which: interest on assets (a)</i>	121,484	27,142
Loans and advances to customers	11,066,255	5,053,933
<i>Of which: commissions received at amortised cost</i>	804,115	712,916
Other financial assets at amortised cost	1,682,991	503,230
Financial assets at fair value through other comprehensive income	6,580,046	4,285,171
	35,164,580	15,271,876
Interest and similar expense from		
Financial liabilities measured at amortised cost		
Deposits from other credit institutions	(9,703,385)	(3,392,210)
Deposits from customers	(4,187,204)	(1,085,430)
Interest expense over assets	-	(212,552)
Interest on leases (b)	(50,201)	(49,125)
Commissions paid at amortised cost from:		
Portfolio Management Commission	-	(45,600)
Loans and advances to customers	(9,290)	(7,156)
	(13,950,080)	(4,792,073)
Net interest income	21,214,500	10,479,803

- 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).
- The balance "Interest on leases" refers to interest expense related to lease liabilities recognised under IFRS 16, as mentioned in accounting policy of Note 2.13.
- Management fee related to the portfolio of financial assets measured at fair value through other comprehensive.

The significant change in Net Interest Income between 2022 and 2023 is essentially due to the change in monetary policy of the main central banks, which adopted a contractionary approach in 2023 in response to the inflationary pressures resulting from the conflicts between Russia and Ukraine and also more recently from the conflict in the Middle East.

21. Fees and commissions income/expense

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Fees and commissions income		
On guarantees provided	2,739,157	3,163,442
On commitments assumed with third parties	16,491	16,952
On services rendered	1,682,466	2,203,985
	4,438,114	5,384,379
Fees and commissions expense		
On services rendered by third parties	(1,188,908)	(1,229,670)
On transactions performed by third parties	(737)	(36)
	(1,189,645)	(1,229,706)
	3,248,469	4,154,673

The "Balance on guarantees provided" includes income from services and commissions associated with guarantees and securities provided and open documentary credits (Note 29).

22. 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:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Net gains/(losses) arising from financial assets measured at fair value through other comprehensive income		
Debt instruments		
Resident	(35,254)	64,634
Non-resident	(85,387)	(1,341)
	(120,641)	63,293

In 2023, "Net gains/(losses) arising from financial assets at fair value through other comprehensive income" are primarily explained by losses on the disposal of debt instruments.

23. Net gains/(losses) arising from financial assets mandatorily measured at fair value through profit or loss

This balance is analysed as follows:

Montantes expressos em Euro	31 Dec. 2023	31 Dec. 2022
Net gains/(losses) arising from financial assets measured at fair value through profit or loss		
Equity instruments		
Resident	6,662	-
Non-resident	-	2,733
Debt instruments		
Non-resident	(11,013)	(1,495)
Other – investment funds		
Non-resident	-	8,303
	(4,351)	9,541

In 2023, the Bank earned dividends from Fomentinvest in the amount of Euro 6,662.

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

In 2023, the value of the financial assets mandatorily measured at fair value through profit or loss, whose valuation is performed using methods and parameters not observable in the market, is shown in Note 33.

24. Net gains/(losses) arising from financial assets measured at amortised cost

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Net gains/(losses) arising from financial assets measured at amortised cost		
Debt instruments		
Resident	-	-
Non-resident	143,993	40,027
	143,993	40,027

The balance "Net gains/(losses) arising from financial assets measured at amortised cost" includes the amount of Euro 143,993, which is justified by the sale of a security in 2023.

25. Other operating income/(expense)

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Other operating income		
Investments in associates (Note 13)	-	379,027
Recovery of bad debts	15,000	-
Income from services rendered	8,800	9,291
Other operating income	119,833	68,196
	143,633	456,514
Other operating expense		
Contributions	(13,145)	(4,845)
Contributions to the Deposit Guarantee Fund	(1,537)	(1,200)
Contributions to the Single Resolution Fund	(2,956)	(86,957)
Contributions to the Resolution Fund	(280,750)	(280,750)
Indirect taxes and fees		
Value added tax (IVA)	(948,199)	(297,976)
Extraordinary contribution over the banking sector	(715,913)	(568,845)
Other indirect taxes and fees	(106,938)	(56,387)
Other charges and operating expenses	(225,796)	(27,406)
	(2,295,234)	(1,324,366)
	(2,151,601)	(867,852)

As at 31 December 2023, the Bank does not hold any investments in subsidiaries and associates.

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 item "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 is based 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 are levied on the liabilities of the member credit institutions, in accordance with Article 10 of the aforementioned 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 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.

26. Staff costs

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Remunerations of the Management and supervisory bodies	1,274,195	1,082,900
Remunerations of employees	3,760,032	3,184,019
Mandatory social security charges	1,447,485	1,120,934
Pension plan liabilities:		
ACTV pension plans (Defined benefit) (Note 31)	-	34,593
Directors Pension Plan	37,595	27,026
Other staff costs	217,784	85,190
	6,737,091	5,534,662

The number of Bank employees is detailed as follows:

	31 Dec. 2023		31 Dec. 2022	
	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	3	3
Senior management	9	9	10	9
Other middle management and employees	76	82	65	72
Total	91	97	81	87

Annual remuneration paid to members of the corporate bodies

In accordance with the provisions of Article 47 of the Banco de Portugal Notice No. 3/2020 and Article 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:

Amounts expressed in Euro	2023			2022			2023			2022		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Executive Directors												
António Manuel Pinto Duarte (a) (Vice-Chairman)		3,267	3,267	-	-	-	-	6,607	6,607	-	-	-
Omar José Mascarenhas de Morais Guerra (a) (b) (Chairman of the Executive Committee)	235,200	50,000	285,200	235,200	117,600	352,800	235,200	5,867	241,067	235,200	50,000	285,200
Henrique Manuel Forte Carvalho da Silva (a) (Member)		2,667	2,667	-	-	-	-	4,800	4,800	-	-	-
Henrique José Camejo Gonçalves (b) (Member)	179,200	50,000	229,200	179,200	89,600	268,800	179,200	-	179,200	179,200	50,000	229,200
Nuno Alexandre de Almeida Leal (b) (Member)	196,000	50,000	246,000	196,000	98,000	294,000	196,000	-	196,000	196,000	50,000	246,000
Non-Executive Directors												
Luís Filipe Rodrigues Léris (b) (Chairman of the Board of Directors)	75,000	-	75,000	75,000	-	75,000	75,000	-	75,000	75,000	-	75,000
César Abel Rodrigues Gonçalves (c) (Independent member)	60,000	-	60,000	60,000	-	60,000	60,000	-	60,000	60,000	-	60,000
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	48,000	-	48,000	48,000	-	48,000
Pedro Cabrita (a) (b) (Member)	39,000	-	39,000	39,000	-	39,000	39,000	-	39,000	39,000	-	39,000
Ana Gomes (b) (d) (Member)	39,000	-	39,000	39,000	-	39,000	29,250	-	29,250	29,250	-	29,250
Henrique Marçal (a) (e) (Chairman)		-	-		-	-	11,250	-	11,250	11,250	-	11,250
	931,400	155,933	1,087,333	931,400	305,200	1,236,600	934,922	17,274	950,174	932,900	150,000	1,082,900

(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, ceased on 31 March 2022)

The Variable Remuneration awaits approval at the General Shareholders' Meeting to be held in March 2024.

In 2023, 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 20,374 (Euro 16,212 in 2022) and Euro 17,220 (Euro 10,813 in 2022), 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 30).

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 30), 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 47 of the Banco de Portugal Notice No. 3/2020 and Article 450 of Regulation (EU) No. 575/2013, of the European Parliament and of the Council, of 26 June, the aggregate remuneration of employees performing control functions, namely, the risk management function, compliance and internal audit, is presented below:

Amounts expressed in Euro	2022						2023					
	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.	194,187	5,333	199,521	194,187	13,000	207,187	181,588	20,000	201,588	181,588	20,000	201,588

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

Amounts expressed in Euro	2022						2023					
	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	415,043	13,733	428,777	415,043	106,000	521,043	442,079	125,500	567,579	442,079	125,500	567,579

Deferred variable remuneration is detailed in Note 18.

27. General and administrative expenses

This balance is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Specialised services	3,092,075	2,423,833
Communication	239,428	209,396
Insurance	136,742	151,752
Training	121,762	136,319
Rental costs	103,071	74,552
Water, energy and fuel	60,757	73,927
Travel, hotel and representation costs	145,455	64,659
Maintenance and repair	53,507	63,074
Consumables	16,184	51,144
Advertising costs	349,898	18,206
Other	4,411	2,832
	4,323,290	3,269,694

In 2023, "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 66-A (1)(b) of the Portuguese Commercial Companies Code, the total fees invoiced in 2023 by the Statutory Auditors Firm, Ernst & Young Audit & Associados – SROC, S.A., are detailed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Statutory Audit of Annual Accounts	111,400	107,400
Limited Review	25,000	25,000
Reliability Assurance Services (ISAE 300)	18,150	16,500
	154,290	148,900

As at 31 December 2023 and 2022, in addition to the Statutory Audit, the audit services include (i) the review of the interim financial statements (June), (ii) 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)(ISAE 3000) and (iii) 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".

28. Income taxes

The nominal tax rate is detailed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
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 profit 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 87-A of CIR, as amended by Law No. 114/2017 29/12, in 2023 and 2022, 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 profit subject to and not exempt, and the rates for 2023 financial year were disclosed through Circular Letter No. 2024 of 05 February 2024.

During 2023 and 2022, 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:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Current taxes		
For the period	(2,423,959)	(1,389,116)
Changes related to previous periods	(7,424)	388,273
Deferred taxes		
Record and reversal of temporary differences	(74,908)	217,934
Total income tax expense	(2,506,291)	(1,132,910)
Profit before tax	9,053,281	4,438,774
Tax burden	27.7%	25.5%

The reconciliation between the nominal tax rate and the effective tax rate in 2023 and 2022 is presented as follows:

Amounts expressed in Euros	31 Dec. 2023		31 Dec. 2022	
	Rate	Tax	Rate	Tax
Profit before tax		9,053,281		4,438,774
Tax based on the nominal rate – First tax bracket	0.0%	-	0.0%	-
Tax based on the nominal rate – Tax bracket above	-21.0%	(1,901,189)	-21.0%	(897,954)
Changes in equity not reflected on net profit	0.0%	-	0.0%	-
Extraordinary contribution over the banking sector	-1.7%	(150,729)	-2.7%	(119,517)
Provisions and adjustments of asset values	-1.6%	(143,493)	-13.4%	(594,990)
Other taxable income and expenses	-0.7%	(63,721)	-0.4%	(16,543)
Pension funds and other benefits	0.0%	(1,430)	0.3%	13,115
Taxable provisions in previous taxable periods	3.10%	279,455	10.0%	444,131
Tax benefits	0.30%	30,566	0.7%	31,274
Elimination of international double taxation	0.20%	19,485	0.5%	23,735
Autonomous taxation and surcharges	-5.40%	(492,904)	-6.1%	(272,367)
Tax adjustments of previous periods	-0.10%	(7,423)	0.9%	38,273
Deferred taxes:				
Financial assets mandatorily measured at fair value through profit or loss	0.00%	(2,141)	-0.1%	(6,219)
Provision for non-deductible loans and write-offs	-1.10%	(101,044)	6.0%	265,963
Provisions for other risks	0.30%	27,000	-0.6%	(27,513)
ACTV end-of-career bonus	0.00%	223	0.0%	(1,255)
Pension funds and post-employment benefits	0.00%	1,053	-0.3%	(13,042)
	-27.7%	(2,506,291)	-25.5%	(1,132,909)

29. Off-balance sheet items

This balance is analysed as follows

Amounts expressed in Euros	31 Dec. 2023	31 Dec. 2022
Contingent liabilities		
Guarantees and commitments (a)	5,721,537	8,145,895
Open documentary credits (a)	34,314,604	139,675,459
Assets provided as collateral (Notes 6, 7 and 9)	4,036,704	4,134,447
Securities	500	500
Import documentary credits (a)	929,441	-
Commitments to third parties		
Irrevocable credit facilities (a)	20,622,950	38,921,806
Commitments from third parties		
Irrevocable credit facilities	31,674,208	32,814,551
Assets and guarantees received as collateral (Notes 15 and 16)	353,974,684	380,396,784
Exchange transactions to be settled	26,058,470	32,567,763
	477,333,097	636,657,204

a. Items identified are subject to the accounting of impairment, calculated in accordance with the disclosed in Note 2.5.

"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 2023 and 2022, "Assets and guarantees received as collateral" is analysed as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Collaterals (Notes 8, 15 and 16)	91,928,940	134,228,647
Pledge and security deposits	101,514,008	-
Mortgages (Real estate and land)	-	99,391,565
Collateral for other assets (Note 5)	650,000	-
Commitments and other personal guarantees	159,881,736	146,776,571
	353,974,684	380,396,784

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.

30. 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 on the evolution of the average life expectancy (65 years). This amendment means that the retirement pension payable between the age of 65 (in case of disability) and the new normal retirement age by the Social Security, will be borne entirely by BAIE, without any deduction being made from the Social Security pension.

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 2023 and 2022, employees and pensioners who benefit from pension plans financed by the pension fund are:

	31 Dec. 2023	31 Dec. 2022
Employees – workforce	7	7
Pensioners	1	1
Old age retirement pensioners	3	3
Former employees	21	21

As at 31 December 2023 and 2022, the main actuarial and financial assumptions used for calculating pension liabilities are:

	Assumptions		Verified	
	31 Dec. 2023	31 Dec. 2022	31 Dec. 2023	31 Dec. 2022
Verified financial assumptions:				
Fund income rate	3.59%	3.72%	3.59%	3.72%
Wage growth rate	2.00%	2.00%	2.00%	2.00%
Technical interest rate	3.59%	3.72%	3.59%	3.72%
Pension growth rate	1.75%	1.50%	1.75%	1.50%
Verified demographic assumption:				
Mortality table	TV 88/90	TV 88/90	-	-
Disability table	Suisse Re 2001	Suisse Re 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 2023 and 2022, 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 2023 is 20 years.

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

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Past service liabilities with medical care – SAMS (Notes 14 and 18)	98,084	87,292
Changes in loss/(gains) for the period	5,815	(57,964)
Past service liabilities with end-of-career bonus – ACTV (Note 18)	26,731	25,739
Changes in loss/(gains) for the period	992	(5,578)

The financial coverage of past service liabilities is as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Total past liabilities		
Liabilities with payment of pensions	234,476	230,867
Liabilities with past services of active employees	1,421,062	1,269,074
	1,655,538	1,499,941

As at 31 December 2023, 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:

Amounts expressed in Euro	- 0.25%	+ 0.25%
Impact on liabilities of the change in the discount rate	(78,529)	83,958
Total	(78,529)	83,958

Pension fund assets are as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Pension fund assets		
Opening balance	3,000,909	3 415,292
Net income from pension funds		(390,063)
Pension fund contributions	280,343	-
Retirement pensions paid by the pension fund		(10,844)
Survival pensions paid by the pension fund	(11,353)	(13,476)
Commissions	(14,014)	-
Closing balance	3,255,885	3,000,909
<i>Of which: on-hold balance for Complementary Plan</i>	-	-
	3,255,885	3,000,909
Coverage level according to actuarial report	196.7%	200.1%
Minimum liability level to be covered [95% of (b) + 100% of (a)]	1,584,485	1,436,487
Required value to be transferred to the pension funds	-	-

In 2023 and 2022, 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 2023 and 2022, the financial statements included the following items related to the coverage of pension liabilities:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Total liabilities		
Total liabilities for pensions payable	234,476	230,867
Total liabilities for past services	1,421,062	1,269,074
	1,655,062	1,499,941
Pension fund assets (Note 18)	3,255,885	3,000,909
Provision for liabilities with retirement pensions (Note 18)	1,655,538	1,499,941
Actuarial gains/(losses) recognised in retained earnings (Note 19):	-	
Annual change	(86,463)	(648,769)
Accumulated amount (Note 19)	(1,174,742)	1,088,278

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 26) with the Bank's retirement pensions liabilities in 2023 and 2022 are as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Net financial costs:		
Current service expense	14,751	28,932
Interest expense	55,284	33,847
Expected income from pension fund assets	82,950	20,663
Contributions from employees	-	-
Total	152,984	83,442

The changes during 2023 and 2022, in the present value of liabilities for past services, were as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Liabilities at the beginning of the period	1,499,940	2,520,976
Current service expense	14,751	28,932
Interest expense	55,284	33,847
Expected income from pension fund assets	(82,950)	(20,663)
Actuarial gains/(losses) recognised under retained earnings (Note 20)	(86,463)	(648,769)
Retirement pensions paid by the pension fund	(11,353)	(10,844)
Survival pensions paid by the pension fund	(14,014)	(13,476)
Net income of the Fund	280,343	(390,063)
Commissions	-	-
Liabilities at the end of the period	1,655,538	1,499,940

The actuarial deviations occurred in 2023 and 2022 were recorded as follows:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Actuarial gains/(losses)		
Related to differences between assumptions and realised values	(86,463)	(648,769)
Total	(86,463)	(648,769)

As at 31 December 2023 and 2022, the items comprising the value of the pension fund assets are as follows:

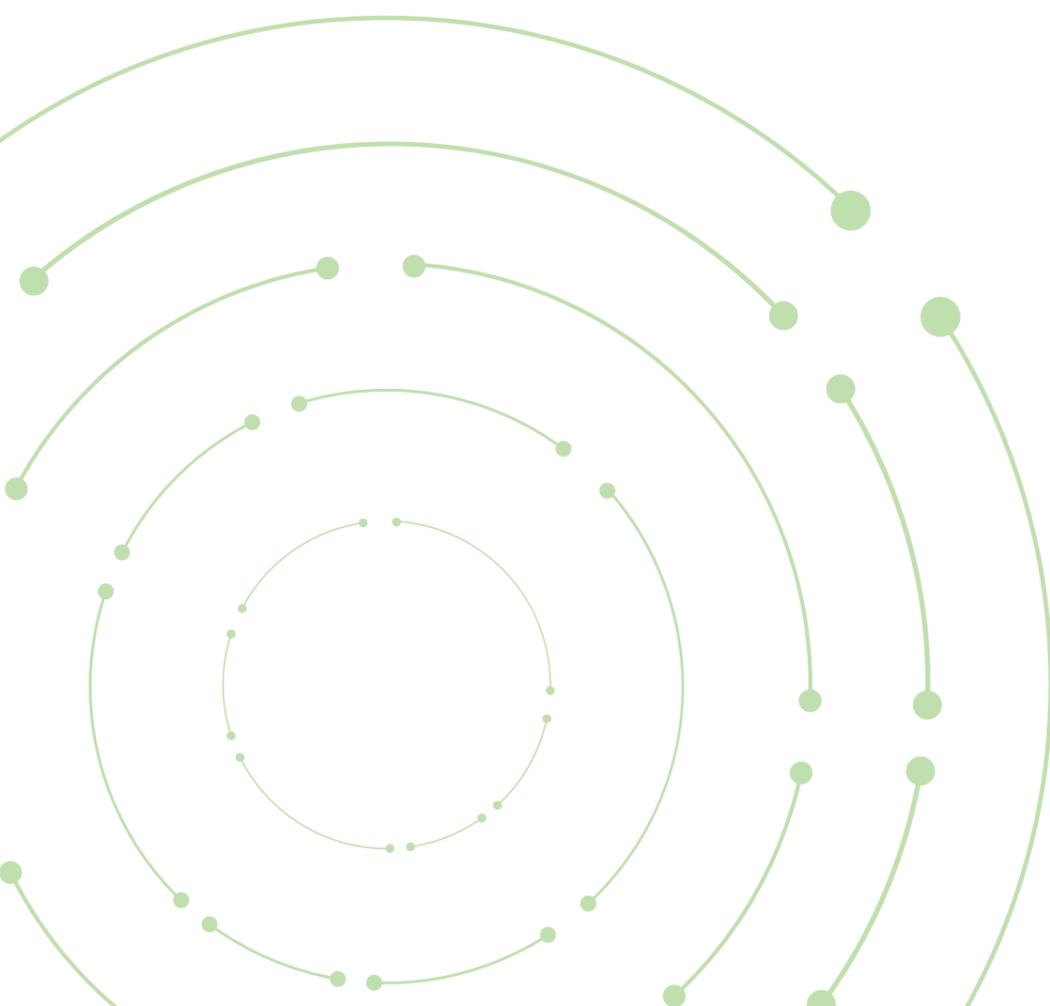
	31 Dec. 2023	31 Dec. 2022
Liquidity	1.32%	2.31%
Bonds	67.39%	66.14%
Shares	26.83%	26.70%
Real estate and hedge funds	4.47%	4.85%
Total	100.00%	100.00%

31. Related parties

Under IAS 24, the companies controlled by the BAI Group, the Directors of BAI Group companies 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 2023, the Bank's statement of financial position, income statement and off-balance sheet items include the following balances with related entities:

Amounts expressed in Euro	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)	-	-	254,149	-	254,149
Other loans and advances to credit institutions (Note 8)	-	-	-	-	-
Financial assets mandatorily measured at fair value through profit or loss (Note 5)	-	-	113,676	-	113,676
Loans and advances to customers (Note 9)	-	1,104,335	-	2,344,412	3,448,747
Other assets (includes letters of credit)	-	-	3,112,837	-	3,112,837
Liabilities					
Deposits from credit institutions (Note 15)	-	-	214,873,830	-	214,873,830
Deposits from customers and other loans (Note 16)	-	7,969,163	9,692	10,550,122	18,528,977
Other financial liabilities at fair value through profit or loss (Note 6)	-	-	3,420	-	3,420
Other liabilities (Note 18)	-	-	-	-	-
Off-balance sheet items (Note 29)					
Guarantees and commitments					
Granted	-	-	2,789,929	-	2,789,929
Received	-	-	836,217	-	836,217
Open documentary credits	-	-	11,136,012	-	11,136,012
Assets and guarantees received as collateral	-	1,055,000	65,610,860	2,722,670	69,388,530
Irrevocable credit facilities					
Granted	-	-	-	10,000	10,000
Received	-	-	31,774,208	-	31,774,208
Total	-	10,128,498	330,514,830	15,627,204	356,270,533
Income					
Interest and similar income (Note 20)	-	23,968	27,217	117,615	168,800
Fees and commission income (Note 21)	-	1,519	2,402,017	10,217	2,413,753
Expenses					
Interest and similar expense (Note 20)	-	(135,373)	(6,076,710)	(238,275)	(6,450,358)
Financial assets mandatorily measured at fair value through profit or loss (Note 25)	-	-	6,340	-	6,340
Staff costs (Note 26)	-	-	-	-	-
General and administrative expenses (Note 27)	-	-	-	-	-
Fees and commission income (Note 26)	-	(15)	-	(1)	(16)
Loan impairment net of reversals and recoveries (Note 17)	-	20,885	-	-	20,885
Total	-	(89,016)	(3,641,136)	(110,444)	(3,840,596)



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:

Amounts expressed in Euro	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
Other assets (includes letters of credit)	-	-	13,060,300	-	13,060,300
Liabilities					
Deposits from credit institutions (Note 15)	-	-	207,019,351	-	207,019,351
Deposits from customers and other loans (Note 16)	-	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 18)	-	14,820	-	-	14,820
Off-balance sheet items (Note 29)					
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 20)	-	8,609	-	45,660	54,259
Fees and commission income (Note 21)	-	1,132	2,356,177	7,945	2,365,254
Expenses					
Interest and similar expense (Note 20)	-	(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 23)	-	-	11,224	-	11,224
Staff costs (Note 26)	-	-	(72,545)	-	(72,545)
General and administrative expenses (Note 27)	-	(5,123)	-	-	(5,123)
Fees and commission income (Note 26)	-	(8)	(30)	(1)	(39)
Loan impairment net of reversals and recoveries (Note 17)	-	-	(65,140)	252	(64,888)
Total	-	(13,599)	151,664	48,712	186,777

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.

32. Risk Management

The Bank is subject to several risks in its banking activity, which makes the definition of a Risk Management policy that ensures the effective implementation of the risk management system particularly important, namely through the continuous monitoring of its adequacy and effectiveness, seeking to identify, assess, monitor and control all materially relevant risks to which the institution is subject, both internally and externally.

The main types of financial risk to which the Bank is exposed in the course of its business are set out below, namely (i) Market risk, (ii) Liquidity and financing risk, (iii) Exchange rate risk, (iv) Interest rate risk and (v) Credit risk.

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 and therefore market risk is not considered.

Liquidity and financing risk

Liquidity and financing risk is defined as the probability of negative impacts on profit or loss or 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 Treasury Management Unit (UGT), which is part of the Treasury and Structured Credit Department (DTE), based on maps produced daily with information on the Bank's liquidity gaps for different time horizons, on the 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 2023, the contractual residual terms of the financial instruments are as follows:

Amounts expressed in Euro	Below 3 months	3 to 12 months	1 to 5 years	Above 5 years or undetermined	Total
Assets					
Cash and deposits at central banks	4,875,071	-	-	-	4,875,071
Loans and advances to credit institutions repayable on demand	68,022,174	-	-	-	68,022,174
Financial assets mandatorily measured at fair value through profit or loss	-	-	113,676	107,016	220,692
Other financial assets at fair value through profit or loss	-	-	-	3,420	3,420
Financial assets at fair value through other comprehensive income	10,483,462	8,388,871	53,498,582	10,415,487	82,786,402
Other loans and advances to credit institutions	143,804,038	780,642	56,463,245	22,626,886	223,674,811
Loans and advances to customers	36,534,921	23,373,058	96,312,810	35,457,783	191,678,572
Other financial assets at amortised cost (a)	44,803,741	9,543,137	55,210,925	-	109,557,803
	308,523,406	42,085,708	261,599,238	68,610,592	680,818,945
Liabilities					
Other financial liabilities at fair value through profit or loss	-	-	-	(3,420)	(3,420)
Deposits from other credit institutions	(120,267,122)	(14,409,810)	(156,716,659)	-	(291,393,592)
Deposits from customers and other loans	(145,442,275)	(124,838,315)	(19,196,101)	-	(289,476,691)
Lease liabilities – IFRS 16 (Note 18)	-	-	(1,534,016)	-	(1,534,016)
	(265,709,398)	(139,248,125)	(177,446,776)	(3,420)	(582,407,719)
Foreign exchange operations pending settlement (net flow)	(31,907)	-	-	-	(31,907)
Difference/Gap	42,782,101	(97,162,416)	84,152,462	68,607,172	98,379,319
Difference/Accumulated Gap	42,782,101	(54,380,315)	29,772,147	98,379,319	

a. This item includes the amounts of Euro 90,429,359 and Euro 19,128,444 relating to securities recorded at amortised cost and to discounts on letters of credit, respectively.

As at 31 December 2022, the contractual residual terms of the financial instruments are as follows:

Amounts expressed in Euro	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 (a)	86,506,776	18,412,324	30,980,485	-	135,889,584
	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 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)
Passivos de locação – IFRS 16 (Note 18)	-	-	(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	

a. This item includes the amounts of Euro 69,907,929 and Euro 65,991,655 relating to securities recorded at amortised cost and to discounts on letters of credit, respectively.

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 exchange position due to significant changes in exchange rates. The risk of exchange concentration, which results from the concentration of the balance sheet in foreign currencies, is an integral part of this risk.

BAIE has a low-risk appetite and manages this risk so as to keep its exposure to exchange rate risk within conservative limits, considering the size and financial structure of the Bank.

Exchange rate risk is managed by the Treasury Management Unit (UGT), which is part of the Treasury and Structured Credit Department (DTE), and monitored by the FGR, both on a daily basis. The result of this monitoring is presented on a monthly basis at the Board of Directors and/or CAGR.

As at 31 December 2023, the breakdown by currency of financial instruments is as follows:

Amounts expressed in Euro	Euro	USD	Other	Total
Assets				
Cash and deposits at central banks	4,771,231	103,680	161	4,875,071
Loans and advances to credit institutions repayable on demand	13,373,715	53,682,892	965,566	68,022,174
Financial assets mandatorily measured at fair value through profit or loss	57,301	52,147	111,244	220,692
Other financial assets at fair value through profit or loss	-	3,420	-	3,420
Financial assets at fair value through other comprehensive income	43,604,252	39,182,151	-	82,786,402
Other loans and advances to credit institutions	128,430,811	95,244,000	-	223,674,811
Loans and advances to customers	147,494,553	44,229,887	-	191,724,440
Other financial assets at amortised cost	27,912,708	81,645,093	-	109,557,802
Investments in subsidiaries and associates	-	-	-	-
	365,619,528	314,122,447	1,076,971	680,818,945
Liabilities				
Other financial liabilities at fair value through profit or loss	-	(3,420)	-	(3,420)
Deposits from other credit institutions	(32,192,989)	(258,628,776)	(571,827)	(291,393,592)
Deposits from customers and other loans	(245,896,718)	(43,463,906)	(116,067)	(289,476,691)
Lease liabilities – IFRS 16 (Note 18)	(1,534,016)			(1,534,016)
	(279,623,723)	(302,096,103)	(687,894)	(582,407,720)
Spot foreign exchange transactions pending settlement (net amount)	11,509,040	(11,540,947)	-	(31,907)
	11,509,040	(11,540,947)	-	(31,907)
Difference/Gap (Open foreign exchange position)	N/A	485,397	389,076	874,474

As at 31 December 2022, the breakdown by currency of financial instruments is as follows:

Amounts expressed in Euro	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 18)	(1,553,989)			(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

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 BAIE, Euro and US dollars) the gaps of the various interest rate positions and their respective discount factor of parallel shocks are calculated (+/- 200 p.p.) 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 p.p. on the rates over those periods. However, with respect to BAIE's internal model, only the parallel shock to yield curves of +200 p.p. is applied, as this is the shock that BAIE considers most likely to occur in the current interest rate environment.

When applying its internal model for measuring interest rate risk, BAIE does not take off-balance-sheet items into account, since a large part of off-balance-sheet liabilities relate to confirmed documentary credits and the majority of off-balance-sheet assets relate to guarantees received (set up 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.

Interest rate risk is monitored by the UGR, whose work is presented twice a year at the CAGR.

As at 31 December 2023, the financial instruments subject to interest rate risk, by type of rate (fixed or variable) by currency, are as follows:

Amounts expressed in Euro	EUR		USD (In EUR)		Other currencies (In EUR)	Total (In EUR)
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate		
Total Assets	213,609,654	162,475,007	177,185,002	135,371,538	(25,941,959)	662,699,242
Cash and deposits at central banks	4,771,231	-	103,680	-	161	4,875,071
Loans and advances to credit institutions repayable on demand	13,373,715	-	53,682,892	-	965,566	68,022,174
Other loans and advances to credit institutions **	113,300,000	15,348,159	29,864,253	65,140,841	13	223,653,266
Securities portfolio *	48,304,869	20,000,000	78,448,964	28,403,489	(3,851,864)	171,305,457
Loans and advances to customers **	23,754,099	127,126,848	2,262,443	41,827,208	(127,325)	194,843,274
Other assets	10,105,741	-	12,822,770	-	(22,928,511)	-
Total Liabilities	(269,376,048)	-	(294,929,444)	-	-	(586,328,342)
Deposits from credit institutions and customers *	(275,006,306)	-	(300,644,180)	-	(627,039)	(576,277,524)
Other liabilities	5,630,257	-	5,714,736	-	(21,395,810)	(10,050,817)
Total off-balance sheet	63,085,185	-	107,580,273	-	(10,222,560)	160,442,898
Off-balance sheet	63,085,185	-	107,580,273	-	(10,222,560)	160,442,898

* Excludes interest receivable/payable.

** Excludes interest receivable, impairment and deferred income.

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:

Amounts expressed in Euro	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	-	149,258,439
Other assets	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 2023, 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
Euro	(4,002,651)	(2,561,288)
USD *	2,054,495	1,865,578
Total	(1,948,156)	(695,710)

* 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 property, plant and equipment 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 2023 and 2022, 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:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Outcome of the Supervisory standard shock		
Change in the economic value of the banking portfolio resulting from a parallel rise in the yield curve after the supervisory standard shock	(2,975,404)	(5,064,010)
Change in the economic value of the banking portfolio resulting from a parallel decline in the yield curve after the supervisory standard shock	180,705	2,912,228
Expected net interest income at 1 year without interest rate changes	10,772,195	14,121,252
Change in expected net interest income at 1 year resulting from a parallel rise in the yield curve after the supervisory standard shock	2,234,156	3,002,313
Change in expected net interest income at 1 year resulting from a parallel decline in the yield curve after the supervisory standard shock	(2,219,241)	(2,994,859)

As at 31 December 2023, the analysis of the impact on the Bank's economic value of a 2% parallel rise in benchmark interest rates is as follows:

Amounts expressed in Euro	31 Dec. 2023		
	BdP approach, Instruction No. 3/2020		Internal approach
	Prior Model (Without shock)	Post Model (Shock + 2%)	(Shock + 2%)
Overnight	(112,124,943)	(112,119,139)	(54,073,074)
Greater than overnight and until 1 month	242,929,116	242,830,604	243,599,935
Greater than 1 month and up to 3 months	(20,448,188)	(20,562,198)	61,919,733
Greater than 3 months and up to 6 months	24,951,108	24,697,570	32,734,634
Greater than 6 months and up to 9 months	(67,222,793)	(66,602,538)	(66,095,504)
Greater than 9 months and up to 12 months	(16,941,329)	(16,723,936)	(8,028,590)
Greater than 12 months and up to 1.5 years	(97,470,572)	(95,645,082)	(92,806,280)
Greater than 1.5 years and up to 2 years	(47,613,077)	(45,859,227)	(45,587,385)
Greater than 2 years and up to 3 years	43,752,609	41,765,020	42,114,137
Greater than 3 years and up to 4 years	16,149,360	15,072,359	15,558,870
Greater than 4 years and up to 5 years	10,962,012	10,023,891	10,261,391
Greater than 5 years and up to 6 years	2,812,290	2,520,242	2,573,969
Greater than 6 years and up to 7 years	1,831,496	1,611,145	1,668,974
Greater than 7 years and up to 8 years	5,578,823	4,803,461	4,811,232
Greater than 8 years and up to 9 years	979,866	829,720	846,127
Greater than 9 years and up to 10 years	658,537	548,561	548,735
Greater than 10 years and up to 15 years	1,795,027	1,437,384	1,447,391
Greater than 15 years and up to 20 years	(9,879)	(6,728)	-
Greater than 20 years	(621)	(423)	-
Net position	(9,431,158)	(11,379,314)	151,494,294

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:

Amounts expressed in Euro	31 Dec. 2022		
	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 months 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

Encumbered and non-encumbered assets

As at 31 December 2023 and 2022, in compliance with the guidelines of the European Banking Authority (EBA/GL/2014/3) and Instruction No. 28/2014 of the Banco de Portugal, dated 15 January 2015, the following table presents the information related to:

i. Bank assets which are encumbered and non-encumbered (Model A)

Amounts expressed in Euro	31 Dec. 2023				31 Dec. 2022			
	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	4,036,704	4,036,704	696,890,607	685,977,234	4,134,447	4,134,447	748,741,163	741,350,645
Equity instruments (Notes 7 and 10)	-	-	110,436	110,436	-	-	631,396	631,396
Debt securities (Notes 7 and 10)	21,772	21,772	173,406,166	173,307,665	21,772	21,772	178,885,951	178,682,306
Other assets	4,014,932	4,014,932	523,374,005	512,559,133	4,112,675	4,112,675	569,223,816	562,036,943

ii. Collateral received (Model B)

Amounts expressed in Euro	31 Dec. 2023		31 Dec. 2022	
	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	194,092,948	194,092,948	233,620,213	233,620,213
Equity instruments	-	-	-	-
Other assets	194,092,948	194,092,948	233,620,213	233,620,213

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 and at amortised cost.

Maximum exposure to credit risk

Description	31 Dec. 2023			31 Dec. 2022		
	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	68,033,655	11,481	68,022,174	70,288,839	89,253	70,199,586
Financial assets mandatorily at fair value through profit or loss	220,692	-	220,692	389,216	-	389,216
Other financial assets at fair value through profit or loss	3,420	-	3,420	349,517	-	349,517
Financial assets at fair value through other comprehensive income (3)	82,786,402	-	82,786,402	108,688,812	-	108,688,812
Other loans and advances to credit institutions	224,034,313	359,502	223,674,811	271,526,486	539,081	270,987,405
Loans and advances to customers	195,983,259	4,304,687	191,678,572	147,641,756	1,771,712	145,870,044
Other financial assets at amortised cost	109,835,468	277,665	109,557,802	136,127,648	227,317	135,900,332
Off-balance sheet						
Guarantees and securities	5,721,537	348,909	5,372,628	8,145,895	387,155	7,758,740
Commitments to third parties	20,622,950	70,815	20,552,135	38,921,806	673,823	38,247,983
	707,241,696	5,373,059	701,868,636	782,079,976	3,688,341	778,391,635

(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, impairment calculated for these financial assets is recorded in equity (fair value reserve)

The most significant credit exposures in the customer portfolio are loans 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, specific market performance and expectations, 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 terms of concentration risk, there are maximum exposure limits for each sector of activity. Exposure subject to credit risk, *i.e.*, total exposure, net of financial collateral (Deposits secured with BAIE, Bank Guarantees issued by other credit institutions, or insurance contracts) and of impairment, by sector of activity, must not exceed 20% of the total loan portfolio and financial assets at amortised cost, with the exception of the Trade and Retail sector, which has a limit of 25%.

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 2023, the exposure and impairment on financial assets (except the portfolio of loans and advances to customers) presents the following movements:

Amounts expressed in Euro	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	70,207,812	70,207,812	89,253	-	-	-	-	-	-	70,207,812	70,207,812	89,253
Changes in cash and cash equivalents	(2,185,638)	(2,185,638)	(77,771)	-	-	-	-	-	-	(2,185,638)	(2,185,638)	(77,771)
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2023	68,022,174	68,022,174	11,481	-	-	-	-	-	-	68,022,174	68,022,174	11,481
Other loans and advances to credit institutions												
Balance as at 1 January 2022	146,011,799	146,011,799	575,676	-	-	-	-	-	-	146,011,799	146,011,799	575,676
Changes in cash and cash equivalents	77,641,467	77,641,467	(181,677)	-	-	-	-	-	-	77,641,467	77,641,467	(181,677)
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2023	223,653,266	223,653,266	393,999	-	-	-	-	-	-	223,653,266	223,653,266	393,999
Other financial assets at amortised cost												
Balance as at 1 January 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
Changes in cash and cash equivalents	(27,529,226)	(30,887,993)	(78,291)	-	-	-	-	-	-	(27,529,226)	(30,887,993)	(78,291)
Stage change	-	-	11,067	1,801,329	1,724,881	(11,067)	-	-	-	1,801,329	1,724,881	-
Balance as at 31 December 2023	78,278,316	82,122,197	269,773	3,754,028	4,102,244	28,388	-	-	-	82,032,344	86,224,441	298,160
Other financial assets at amortised cost												
Balance as at 1 January 2022	69,516,126	69,516,126	201,311	-	-	-	-	-	-	69,516,126	69,516,126	201,311
Changes in cash and cash equivalents	19,536,296	19,536,296	(111,424)	-	-	-	-	-	-	19,536,296	19,536,296	(111,424)
Stage change	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2023	89,052,422	89,052,422	89,888	-	-	-	-	-	-	89,052,422	89,052,422	89,888

In 2022, the exposure and impairment on financial assets (except the portfolio of loans and advances to customers) presents the following movements:

Amounts expressed in Euro	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 cash and cash equivalents	(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 cash and cash equivalents	(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 cash and cash equivalents	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 2023, the exposure and impairment on the portfolio of loans and advances to customers and provisions for off-balance sheet exposures, presents the following movements:

Amounts expressed in Euro	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Balance Sheet – 2022	130,161,167	130,771,559	1,153,953	17,069,139	17,196,943	617,292	356,272	357,229	-	147,586,578	148,325,730	1,771,245
Changes in exposure	47,195,302	48,033,519	1,520,373	(490,272)	(416,239)	652,356	679,022	680,859	360,683	47,384,052	48,298,138	2,533,412
Stage improvements	2,718,827	2,736,420	10,424	(2,718,827)	(2,736,420)	(10,424)	-	-	-	-	-	-
Stage 2	2,718,827	2,736,420	10,424	(2,718,827)	(2,736,420)	(10,424)	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Stage deterioration	(266,000)	(266,240)	(119,808)	(3,550,000)	(3,576,849)	(894,212)	3,816,000	3,843,088	1,014,020	-	-	-
Stage 1	(266,000)	(266,240)	(119,808)	-	-	-	266,000	266,240	119,808	-	-	-
Stage 2	-	-	-	(3,550,000)	(3,576,849)	(894,212)	3,550,000	3,576,849	894,212	-	-	-
Balance Sheet – 2023	179,809,296	181,275,257	2,564,942	10,310,041	10,467,435	365,012	4,851,294	4,881,176	1,374,703	194,970,630	196,623,868	4,304,657

Amounts expressed in Euro	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
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
Changes in exposure	(19,365,633)	(6,218,592)	(567,709)	1,858,634	368,127	71,996	8,990	1,798	-	(17,498,009)	(5,848,667)	(495,713)
Stage improvements	361,607	72,321	313	(361,607)	(72,321)	(313)	-	-	-	-	-	-
Stage 2	361,607	72,321	313	(361,607)	(72,321)	(313)	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Stage deterioration	-	-	-	(104,824)	(9,776)	(43,200)	104,824	97,765	43,200	-	-	-
Stage 1	-	-	-	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	(104,824)	(9,776)	(43,200)	104,824	97,765	43,200	-	-	-
Balance Sheet – 2023	20,929,475	6,972,714	96,162	5,092,731	1,229,346	54,121	322,281	195,315	109,399	26,344,488	8,397,375	259,682

In 2022, the exposure and impairment on the portfolio of loans and advances to customers and provisions for off-balance sheet exposures, presents the following movements:

Amounts expressed in Euro	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
Changes 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	617,292	356,272	357,229	-	147,586,578	148,325,730	1,771,682

Amounts expressed in Euro	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
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
Changes 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	-	-	-	-
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

As at 31 December 2023, 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:

Amounts expressed in Euro	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 overdue	In default		
Loans and advances	270,608,349	270,608,349	-	4,851,294	4,851,294	-	-	-	-	-	-	3 816,000
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	22,648,414	22,648,414	-	-	-	-	-	-	-	-	-	-
Credit institutions	80,489,013	80,489,013	-	-	-	-	-	-	-	-	-	-
Other financial corporations	16,235,516	16,235,516	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	147,200,903	147,200,903	-	4,616,000	4,616,000	-	-	-	-	-	-	3 816,000
Of which SMEs	58,223,672	58,223,672	-	3,816,000	3,816,000	-	-	-	-	-	-	3,816,000
Households	4,034,503	4,034,503	-	235,294	235,294	-	-	-	-	-	-	-
Debt securities	171,084,765	171,084,765	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	40,405,967	40,405,967	-	-	-	-	-	-	-	-	-	-
Credit institutions	61,264,087	61,264,087	-	-	-	-	-	-	-	-	-	-
Other financial corporations	10,353,191	10,353,191	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	59,061,520	59,061,520	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	26,022,207			322,281								322,281
Central banks	-	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
General governments	-	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
Credit institutions	3,923,529	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
Other financial corporations	-	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
Non-financial corporations	21,685,177	-	-	320,281	n/a	n/a	n/a	n/a	n/a	n/a	n/a	320,281
Households	413,500	-	-	2,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000
Total	467,715,321	441,693,114	-	5,173,575	4,851,294	-	-	-	-	-	-	4,138,281

As at 31 December 2023, 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:

Amounts expressed in Euro	Gross credit						Impairment				Collateral				
	Productive exposures		Non-productive exposures		Productive exposures		Non-productive exposures		Write-offs	Pro-ductive exposures	Non-pro-ductive exposures				
	Stage 1	Stage 2	Stage 2	Stage 3	Stage 1	Stage 2	Stage 2	Stage 3							
Loans and advances	270,608,349	257,569,489	13,038,860	4,851,294	-	4,851,294	3,286,246	2,921,234	365,012	1,374,703	-	1,374,703	-	141,155,296	13,433,877
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	22,648,414	22,648,414	-	-	-	-	155,539	155,539	-	-	-	-	-	21,515,994	-
Credit institutions	80,489,013	77,760,194	2,728,819	-	-	-	356,292	356,292	-	-	-	-	-	-	-
Other financial corporations	16,235,516	16,235,516	-	-	-	-	1,511,007	1,511,007	-	-	-	-	-	-	-
Non-financial corporations	147,200,903	140,529,220	6,671,683	4,616,000	-	4,616,000	1,082,422	898,389	184,033	1,374,703	-	1,374,703	-	115,586,803	12,528,900
Of which SMEs	58,223,672	51,551,989	6,671,683	3,816,000	-	3,816,000	460,256	276,224	184,033	1,014,020	-	1,014,020	-	87,129,020	12,528,900
Households	4,034,503	396,145	3,638,357	235,294	-	235,294	180,986	7	180,980	-	-	-	-	4,052,500	904,977
Debt securities	171,084,765	167,330,738	3,754,028	-	-	-	388,048	359,660	28,388	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	40,405,967	40,405,967	-	-	-	-	20,605	20,605	-	-	-	-	-	-	-
Credit institutions	61,264,087	61,264,087	-	-	-	-	76,999	76,999	-	-	-	-	-	-	-
Other financial corporations	10,353,191	10,353,191	-	-	-	-	7,977	7,977	-	-	-	-	-	-	-
Non-financial corporations	59,061,520	55,307,492	3,754,028	-	-	-	282,466	254,078	28,388	-	-	-	-	-	-
Off-balance-sheet exposures	26,022,207	20,929,475	5,092,731	322,281	-	322,281	150,283	96,162	54,121	109,399	-	109,399	-	7,542,820	153,758
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	3,923,529	3,923,529	-	-	-	-	34,497	34,497	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	21,685,177	16,855,946	4,829,231	320,281	-	320,281	111,159	61,621	49,538	109,399	-	109,399	-	7,193,320	151,758
Households	413,500	150,000	263,500	2,000	-	2,000	4,627	44	4,583	-	-	-	-	349,500	2,000
Total	467,715,321	445,829,702	21,885,619	5,173,575	-	5,173,575	3,824,576	3,377,055	447,521	1,484,102	-	1,484,102	-	148,698,116	13,587,635

In 2023, 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 and advances to customers whose terms have been renegotiated are no longer considered overdue and are treated as new loans and advances in accordance with Note 2.4.1.2., in particular paragraph iv) which states that 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 will give rise to the recognition of a new contract.

As at 31 December 2023, exposures associated with loan operations in the portfolio whose terms and conditions have been renegotiated due to the customer's economic difficulties can be found in paragraph e) in the following tables.

Approval of credit granting is primarily the responsibility of the members of the Executive Committee, depending on the amounts involved, and internal regulations provide for maximum exposure limits per customer or group of connected customers. 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 URC.

For the Market Room operations, URC ensures the regular independent assessment of the financial position of each counterparty (institution/entity), proposing exposure limits for each of these counterparties, for approval in the Credit Committee.

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 the 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 to cover other customer exposures.

Credit and concentration risks are monitored daily by the UGR and monthly by the Board of Directors/CAGR.

Quantitative disclosures on credit risk management policy

a. Detail of exposures (excluding monthly commissions and advance interest) and impairment:

Amounts expressed in Euro	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 days overdue	In compliance > 90 days overdue
Public administration (regional and local)	22,648,414	22,648,414	-	-	-	-	-	155,539	155,539	-	-
Construction and Commercial Real Estate (CRE)	61,732,895	55,932,895	5,800,000	-	-	-	-	1,282,482	1,282,482	-	-
Corporate	106,319,524	100,831,841	5,392,694	94,989	266,000	-	-	2,685,649	2,685,649	-	-
Other	4,269,797	396,145	3,841,285	32,367	-	-	-	180,986	174,805	6,181	-
Total 2023	194,970,630	179,809,296	15,033,978	127,356	266,000	-	-	4,304,657	4,298,476	6,181	-

Amounts expressed in Euro	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 days overdue	In compliance > 90 days 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	-
Other	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

b. Detail of the portfolio by level of risk:

Amounts expressed in Euro	Exposure as at 31-Dec.-2023				Impairment as at 31-Dec.-2023			
	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
b) Detail of exposures and impairment by segment								
Public administration (regional and local)	22,648,414	-	-	22,648,414	155,539	-	-	155,539
Construction and Commercial Real Estate (CRE)	55,932,895	2,250,000	3,550,000	61,732,895	367,498	20,772	894,212	1,282,482
Corporate	100,831,841	4,421,683	1,066,000	106,319,524	2,041,898	163,261	480,491	2,685,649
Other	396,145	3,638,357	235,294	4,269,797	7	180,980	-	180,986
Total 2023	179,809,296	10,310,041	4,851,294	194,970,630	2,564,942	365,012	1,374,703	4,304,657

Amounts expressed in Euro	Exposure as at 31-Dec.-2022				Impairment as at 31-Dec.-2022			
	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
b) Detail of exposures and impairment by segment								
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
Other	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

As at 31 December 2023, 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:

Amounts expressed in Euro	31 Dec. 2023											
	Construction and CRE			Corporate			Other			Public Administration		
Year of production	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2014	-	-	-	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	3	501,536	146,675	-	-	-
2016	-	-	-	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	1	160,500	33,612	-	-	-
2018	-	-	-	-	-	-	-	-	-	-	-	-
2019	1	435,000	808	5	2,978,465	17,312	1	196,079	-	-	-	-
2020	-	-	-	4	2,687,856	106,692	1	-	-	-	-	-
2021	6	30,152,919	1,007,886	7	17,043,882	101,639	2	41,872	7	1	22,648,414	155,539
2022	4	6,665,519	31,118	6	16,158,394	131,355	4	3,012,394	-	-	-	-
2023	38	24,479,457	242,670	119	67,450,927	2,327,650	7	357,417	692	-	-	-
Total	49	61,732,895	1,282,482	142	106,319,524	2,685,649	19	4,269,797	180,986	1	22,648,414	155,539

Amounts expressed in Euro	31 Dec. 2022											
	Construction and CRE			Corporate			Other			Public Administration		
Year of production	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	11,388,678	112,050	119	44,360,689	116,924	6	3,513,882	437	-	-	-
Total	51	52,821,345	374,585	140	80,888,283	931,086	15	4,689,312	225,986	2	9,187,640	240,025

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:

Amounts expressed in Euro	31 Dec. 2023		31 Dec. 2022	
	Gross loans	Total impairment	Gross loans	Total impairment
Angola (AGO)	54,060,995	642,379	13,118,684	302,679
Austria (AUT)	5,000,000	23,534	5,000,000	18,896
Belgium (BEL)	5,000,000	25,220	5,000,000	18,729
Czech Republic (CSK)	5,000,000	24,493	-	-
Cayman Islands (CYM)	13,374,408	1,501,667	3,780,547	424,358
Germany (DEU)	3,000,000	14,757	1,875,117	7,347
Spain (ESP)	144,495	108	138,960	41
France (FRA)	5,000,000	24,578	5,000,000	18,648
Ireland (IRL)	2,262,443	11,526	-	-
The Netherlands (NLD)	2,000,000	10,188	-	-
Portugal (PRT)	99,323,179	2,025,649	94,304,812	960,487
United States of America (USA)	805,110	557	4,076,547	8,851
Switzerland (CHE)	-	-	15,016,150	11,415
Monaco (MCO)	-	-	275,762	231
Total	194,970,630	4,304,657	147,586,578	1,771,682

Detail of gross amount of credit exposure by business sector, including interest receivable:

Amounts expressed in Euro	31 Dec. 2023		31 Dec. 2022	
	Gross loans	Total impairment	Gross loans	Total impairment
Financial and insurance activities	18,110,516	1,517,595	9,766,658	440,269
Real Estate activities	31,629,321	1,015,988	29,208,948	302,051
Public administration (regional and local)	22,648,414	155,539	9,187,640	240,025
Accommodation, catering and similar activities	3,941,949	114,200	4,420,334	134,967
Trade and repair	42,785,658	717,762	35,195,727	215,856
Construction	29,000,438	263,973	22,812,848	71,621
Manufacture of transportation equipment	8,000,000	39,335	5,000,000	18,648
Leather, wood and cork industries	503,137	1,148	799,547	912
Food, beverage and tobacco industries	8,317,812	20,676	3,480,833	37,685
Chemical industry	599,999	1,373	1,875,117	7,347
Machinery and equipment	94,440	-	176,833	58
Other activities and Retail	19,089,982	246,399	4,689,312	225,986
Other business services	4,269,797	180,986	16,453,496	65,014
Transportation and storage	979,166	5,188	4,519,284	11,243
Total	194,970,630	4,304,657	147,586,578	1,771,682

d. Detail of the restructured credit portfolio, by restructuring measure applied:

Amounts expressed in Euro	31 Dec. 2023									
	Performing loans			Non-performing loans			Total			
	Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Term extension	1	266,240	119,808	-	-	-	1	266,240	119,808	
Total	1	266,240	119,808	-	-	-	1	266,240	119,808	

Amounts expressed in Euro	31 Dec. 2022									
	Performing loans			Non-performing loans			Total			
	Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Term extension	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-

e. Changes in inflows and outflows in the restructured credit portfolio:

Amounts expressed in Euro	31 Dec. 2023	31 Dec. 2022
Opening balance	-	6,185,023
Restructured loans for the period	266,000	-
Accrued interest of the restructured credit portfolio	240	-
Settlement of restructured loans (partial or total)	-	6,185,023
Closing balance	266,240	-

f. Detail of the fair value of the collateral underlying the loan portfolio by segment:

31 Dec. 2023												
Amounts expressed in Euro	Construction and CRE				Corporate				Other			
	Real Estate		Other real collateral		Real Estate		Other real collateral		Real Estate		Other real collateral	
Fair value	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount
< M€ 0.5	1	280,627	-	-	1	315,119	-	-	-	-	-	-
>= M€ 0.5 and < M€ 1	1	587,125	-	-	2	1,271,034	-	-	-	-	-	-
>= M€ 1 and < M€ 5	3	11,353,605	-	-	4	13,277,601	-	-	-	-	-	-
>= M€ 5 and < M€ 10	2	12,891,000	1	150,000	1	7,469,638	-	-	-	-	-	-
>= M€ 10 and < M€ 20	3	35,202,280	-	-	1	18,865,980	-	-	-	-	-	-
>= M€ 20 and < M€ 50	-	-	-	-	-	-	-	-	-	-	-	-
< M€ 50	-	-	-	-	-	-	-	-	-	-	-	-
Total	10	60,314,636	1	150,000	9	41,199,372	-	-	-	-	-	-

31 Dec. 2022												
Amounts expressed in Euro	Construction and CRE				Corporate				Other			
	Real Estate		Other real collateral		Real Estate		Other real collateral		Real Estate		Other real collateral	
Fair value	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount
< M€ 0.5	2	773,151	-	-	1	375,700	-	-	-	-	-	-
>= M€ 0.5 and < M€ 1	2	1,260,286	-	-	-	-	-	-	-	-	-	-
>= M€ 1 and < M€ 5	1	2,972,363	-	-	2	4,458,860	-	-	-	-	-	-
>= M€ 5 and < M€ 10	2	13,452,165	-	-	1	5,203,000	-	-	-	-	-	-
>= M€ 10 and < M€ 20	4	49,016,180	1	1,200,000	-	-	-	-	-	-	-	-
>= M€ 20 and < M€ 50	-	-	-	-	1	21,873,600	-	-	-	-	-	-
Total	11	67,474,145	1	1,200,000	5	31,911,160	-	-	-	-	-	-

In 2023, 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:

31 Dec. 2023											
Amounts expressed in Euro	Construction and CRE					Corporate					
	Ratio	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.		35,103,575	35,103,575	-	290,028	n.a.	91,095,843	90,814,897	-	2,350,878
With other collateral	n.a.		-	-	-	-	n.a.	3,031,841	3,031,841	-	-
LTV < 60%	4		11,828,462	11,828,462	-	936,892	5	5,606,981	5,606,981	-	189,592
LTV >= 60% and < 80%	4		12,891,171	12,891,171	-	46,741	1	1,735,083	1,735,083	-	105,246
LTV >= 80% and < 100%	1		1,800,312	1,800,312	-	8,317	1	3,630,948	3,630,948	-	34,944
LTV >= 100%	4		109,375	109,375	-	504	3	1,218,827	1,218,827	-	4,988
Total	13		61,732,895	61,732,895	-	1,282,482	10	106,319,524	106,038,577	-	685,649

31-Dec.-22											
Amounts expressed in Euro	Construction and CRE					Corporate					
	Ratio	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 collateral	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

33. Fair value of financial assets and liabilities (IFRS 13)

As at 31 December 2023, the fair value of financial assets and liabilities is analysed as follows:

Amounts expressed in Euro	Measured at Fair Value					Total Balance Sheet value	Fair Value
	Amortised cost	Quoted prices (Level 1)	Valuation models with observable inputs	Valuation models with unobservable inputs			
			(Level 2)	(Level 3)			
Cash and deposits central banks	4,875,071	-	-	-	-	4,875,071	4,875,071
Loans and advances to credit institutions repayable on demand	68,022,174	-	-	-	-	68,022,174	68,022,174
Other loans and advances to credit institutions	223,674,811	-	-	-	-	223,674,811	223,674,811
Financial assets at fair value through profit or loss	-	-	113,676	110,436	-	224,112	224,112
Financial assets at fair value through other comprehensive income	-	82,786,402	-	-	-	82,786,402	82,786,402
Other financial assets at amortised cost	90,429,359	-	-	-	-	90,429,359	89,666,884
Hedging derivatives	-	-	-	-	-	-	-
Loans and advances to customers	191,678,572	-	-	-	-	191,678,572	191,678,572
Other assets	22,427,655	-	-	-	-	22,427,655	22,427,655
Financial assets	601,107,642	82,786,402	113,676	110,436	-	684,118,156	683,355,681
Deposits from central banks and other credit institutions	(291,393,592)	-	-	-	-	(291,393,592)	(291,393,592)
Liabilities represented by securities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	(3,420)	-	(3,420)	(3,420)
Deposits from customers and other loans	(289,476,691)	-	-	-	-	(289,476,691)	(289,476,691)
Hedging derivatives	-	-	-	-	-	-	-
Financial liabilities associated with transferred assets	-	-	-	-	-	-	-
Financial liabilities	(580,870,283)	-	-	(3,420)	-	(580,873,703)	(580,873,703)

The Bank's financial instruments are essentially subject to a variable rate of return, therefore the Bank considers that the relevant price conditions (interest rates applied) do not differ significantly from market rates. In this context, the balance sheet value is a reasonable estimate of the net present value (fair value).

The weight of fixed-rate operations in the "Loans and advances to customers" item is 13.7% of total loans. For operations that fall into this situation, due to the type of operation and their maturity, there are no relevant differences in their fair value.

The weight of operations with a maturity of more than 1 year in "Deposits from customers and other loans" is 6.6% of the total amount and only 1% relates to operations that began in years prior to 2023. There are no significant differences in their fair value.

Deposits from central banks and other credit institutions is mainly made up of financial instruments with a maturity of up to 1 year or very close to 1 year. Considering that applicable interest rates are renewed for periods of less than one year, there are no significant differences in their fair value.

As at 31 December 2022, the fair value of financial assets and liabilities is analysed as follows:

Amounts expressed in Euro	Measured at Fair Value					Total Balance Sheet value	Fair Value
	Amortised cost	Quoted prices (Level 1)	Valuation models with observable inputs	Valuation models with unobservable inputs			
			(Level 2)	(Level 3)			
Cash and deposits central banks	4,436,230	-	-	-	-	4,436,230	4,436,230
Loans and advances to credit institutions repayable on demand	70,199,586	-	-	-	-	70,199,586	70,199,586
Other loans and advances to credit institutions	270,988,152	-	-	-	-	270,988,152	270,988,152
Financial assets at fair value through profit or loss	-	-	107,337	631,396	-	738,733	738,733
Financial assets at fair value through other comprehensive income	-	108,688,812	-	-	-	108,688,812	108,688,812
Other financial assets at amortised cost	69,907,929	-	-	-	-	69,907,929	68,578,612
Hedging derivatives	-	-	-	-	-	-	-
Loans and advances to customers	145,870,044	-	-	-	-	145,870,044	145,870,044
Other assets	68,854,698	-	-	-	-	68,854,698	68,854,698
Financial assets	630,256,639	108,688,812	107,337	631,396	-	739,684,184	738,354,868
Deposits from central banks and other credit institutions	(369,212,958)	-	-	-	-	(369,212,958)	(369,212,958)
Liabilities represented by securities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	(349,517)	-	(349,517)	(349,517)
Deposits from customers and other loans	(273,439,896)	-	-	-	-	(273,439,896)	(273,439,896)
Hedging derivatives	-	-	-	-	-	-	-
Financial liabilities associated with transferred assets	-	-	-	-	-	-	-
Financial liabilities	(642,652,854)	-	-	(349,517)	-	(643,002,371)	(643,002,371)

The information below provides a breakdown of each item of all financial assets and liabilities measured at fair value, by type of valuation method:

Amounts expressed in Euro	31 Dec. 2023			
	Level 1	Level 2	Level 3	Total
Financial assets mandatorily measured at fair value through profit or loss (Note 5)				
Equity instruments	-	-	105,305	105,305
Debt instruments	-	113,676	-	113,676
Investment funds	-	-	1,711	1,711
Other financial assets at fair value through profit or loss				
Investment funds (Note 6)	-	-	3,420	3,420
Financial assets at fair value through other comprehensive income (Note 7)				
Debt instruments	82,786,402	-	-	82,786,402
Total	82,786,402	113,676	110,436	83,010,514
Other financial liabilities at fair value through profit or loss				
Structured financial resources received (Note 6)	-	-	(3,420)	(3,420)
Total	-	-	(3,420)	(3,420)

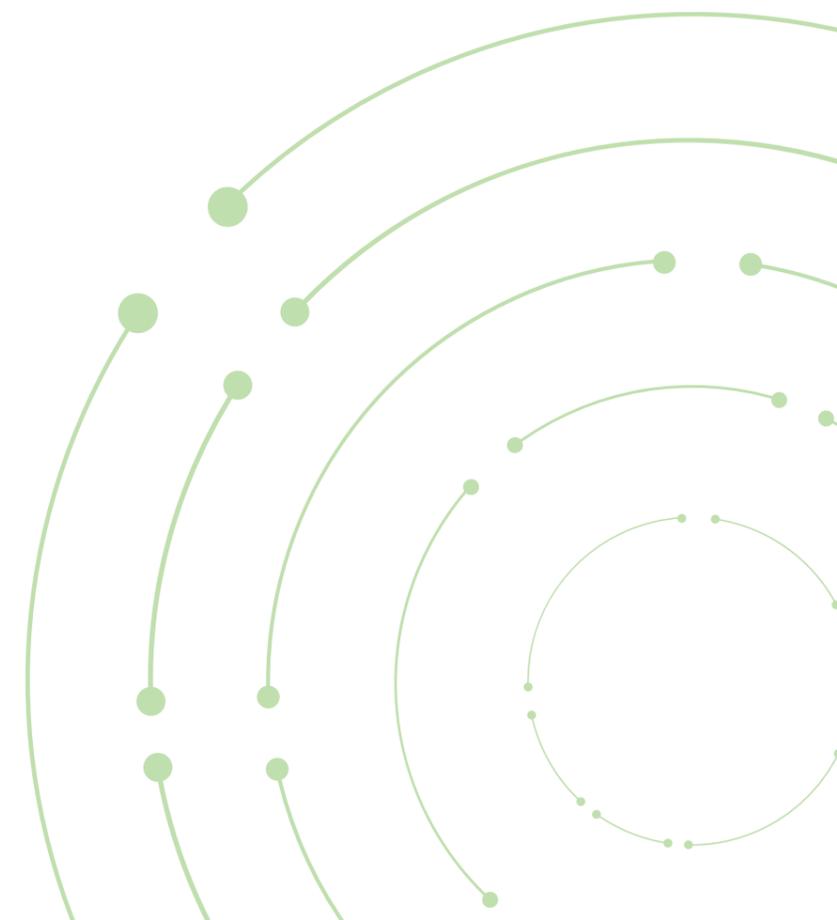
Amounts expressed in Euro	31 Dez. 2022			
	Level 1	Level 2	Level 3	Total
Financial assets mandatorily measured at fair value through profit or loss (Note 5)				
Equity instruments	-	-	107,121	107,121
Debt instruments	-	107,337	-	107,337
Investment funds	-	-	174,758	174,758
Other financial assets at fair 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)

As at 31 December 2023 and 2022, the exposures of financial instruments measured using the level 1 valuation method have the following credit quality:

Amounts expressed in Euro	31 Dec. 2023		31 Dec. 2022	
	Securities (level 1)		Securities (level 1)	
Grade	Exposure (accrued interest included)	Impairment	Exposure (accrued interest included)	Impairment
Prime	408,966	91	379,086	93
High grade	1,227,221	297	15,365,851	1,005
Upper medium grade	19,062,661	5,057	21,214,298	6,784
Lower medium grade	34,513,930	32,514	38,002,482	40,527
Speculative	5,165,039	36,367	11,256,977	89,236
Highly Speculative	2,050,035	3,943	-	-
Substantial risks	-	-	-	-
Extremely speculative	-	-	-	-
Unrated	20,358,548	219,893	22,470,118	236,473
Total	82,786,402	298,160	108,688,812	374,118

There were no transfers between rating levels, as the nature of the financial instruments did not change significantly.

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 2023 and 2022 can be analysed as follows:

Amounts expressed in Euro	31 Dec. 2023			Total
	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	
Opening balance	281,879	349,517	(349,517)	281,879
Acquisitions	-	-	-	-
Exits by maturity	-	-	-	-
Exits by settlements	(166,975)	(333,951)	333,951	(166,975)
Transfer by acquisitions	-	-	-	-
Transfer by exits	-	-	-	-
Changes in fair value (Note 23)	(6,662)	(333,951)	-	(6,662)
Exchange rate revaluation	(1,225)	(12,147)	12,147	(1,225)
Closing balance	107,017	3,420	(3,420)	107,017

Amounts expressed in Euro	31 Dec. 2022			Total
	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	
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

Assets classified as level 3 under "Other financial assets at fair value through profit or loss" relate exclusively to investment units in a Private Equity fund in the amount of Euro 3,420 (31 December 2022: Euro 349,517), 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 Notes 5 and 6.

As at 31 December 2023 and 2022, 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.

34. Recently issued accounting standards and interpretations

34.1. 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.

34.2. Accounting standards and interpretations applicable to the 2023 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 2023:

Standard/Interpretation	Description
IFRS 17 - Insurance Contracts	IFRS 17 superseded IFRS 4 and applies to all insurance contracts (<i>i.e.</i> , life, non-life, direct insurance and reinsurance), irrespective of the type of entities that holds 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	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 overlay the classification of a financial asset in the comparative period(s) presented in the initial application of 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	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	The amendment clarifies the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. Additionally, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.
Amendments to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction	The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. 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 particularly important when determining the existence of temporary differences on initial recognition of the asset or liability, as the initial recognition exception does not apply to transactions that give rise to equal taxable and deductible temporary differences. The applicable transactions include the recording of (i) right-of-use assets and lease liabilities; (ii) provisions for decommissioning, restoration or similar liabilities, and the corresponding amounts recognised as part of the cost of the related asset, when on the date of initial recognition, they are not relevant for tax purposes. This amendment applies retrospectively.
Amendments to IAS 12 - International Tax Reform - Pillar Two Model Rules	These changes are part of the implementation of the OECD's Global Anti-Base Erosion (Globe) rules, which may have significant impacts on the calculation of deferred taxes that are difficult to estimate at the time these changes were issued. These amendments introduce a temporary exception to the accounting for deferred taxes arising from the OECD Pillar Two Model Rules, and additionally establish new specific disclosure requirements for the affected entities.

These standards and amendments had no material impact on the Bank's financial statements.

34.3. 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
Amendments to IAS 1 – Presentation of Financial Statements – Classification of liabilities as current and non-current	1 January 2024	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 applies retrospectively.
Amendments to IFRS 16 – Lease liability in a sale and leaseback	1 January 2024	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. 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. This amendment applies retrospectively.

The Bank has not early applied any of these standards in the financial statements for the twelve-month period ended 31 December 2023. No material impacts are expected on the financial statements as a result of their non-adoption.

34.4. Standards and interpretations already issued but not yet endorsed by the European Union

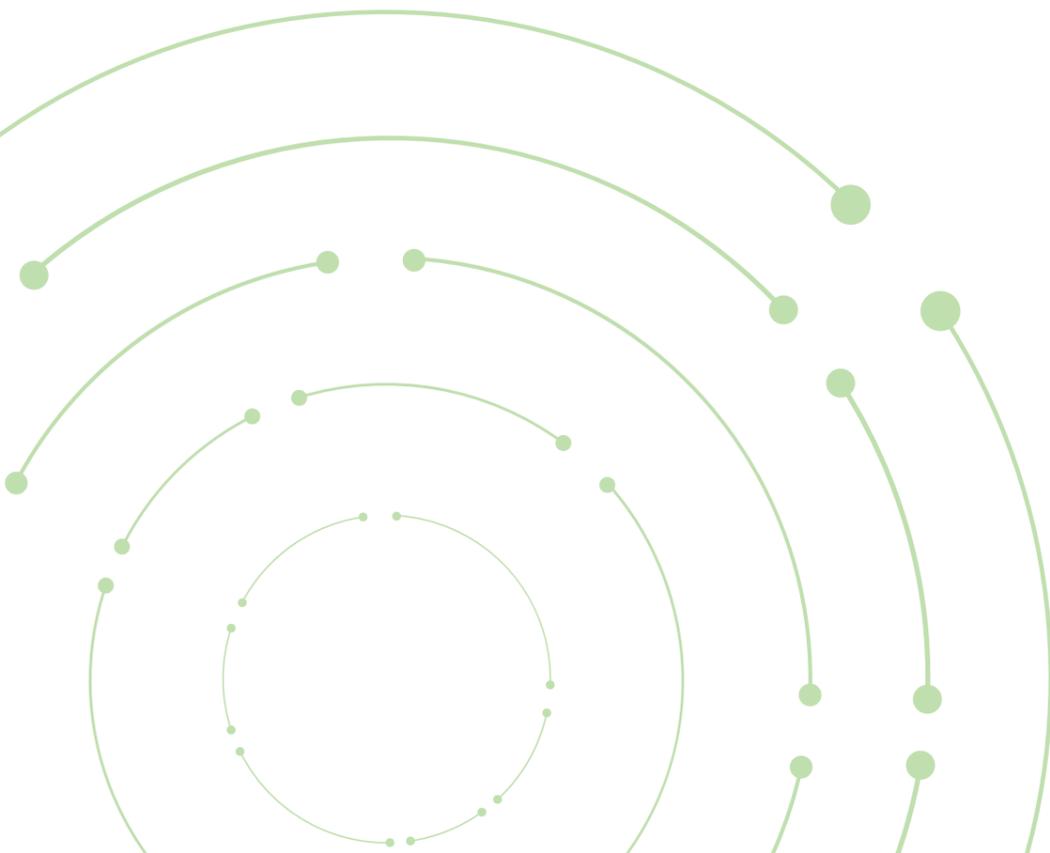
The following standards, interpretations, amendments and revisions with mandatory application in future financial years have not, to the date of approval of these financial statements, been endorsed by the European Union:

Standard/Interpretation	Description
Amendments to IAS 7 and IFRS 7 – Disclosures: Supplier finance arrangements	These amendments to IAS 7 <i>Statement of Cash Flows</i> and IFRS 7 <i>Financial Instruments: Disclosures</i> , aim to clarify the features of a supplier finance arrangement and introduce additional disclosure requirements when such arrangements exist. The disclosure requirements are intended to help users of financial statements understand the effects of supplier finance arrangements on the entity's liabilities, cash flows and exposure to liquidity risk. The amendments are effective for annual periods beginning on or after 1 January 2024. Early adoption is permitted, however it must be disclosed.
Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability	This amendment aims to clarify how to assess the exchangeability of a currency, and how the exchange rate should be determined when there is a long-term lack of exchangeability. The amendment specifies that a currency is exchangeable when an entity is able to exchange that currency for the other currency within a period that allows for normal administrative management, through markets or exchange mechanisms that create enforceable rights and obligations. When a currency is not exchangeable at the measurement date, an entity estimates the spot exchange rate as the rate that would have applied to an orderly transaction between market participants at the measurement date and that would faithfully reflect the economic conditions prevailing. The amendments also state that an entity can use an observable exchange rate without making any adjustment. The amendments are effective for annual periods beginning on or after 1 January 2025. Early adoption is permitted, however the transition requirements applied must be disclosed.

These standards have not yet been endorsed by the European Union and, therefore, were not applied by the Bank in the twelve-month period ending 31 December 2023. No material impacts are expected on the financial statements as a result of their non-adoption.

35. 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





10.

Statutory Auditors' Report and Supervisory Board Report



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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 2023 (showing a total of 690.088.621 euros and a total equity of 97.518.034 euros, including a net profit for the year of 6.546.990 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 material 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 2023, 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 2023, presents an amount of 191.679 thousand of euros (145.870 thousands of euros as of 31 December 2022), corresponding to credit to customers, net impairment, amounting to 4.305 thousands of euros as of 31 December 2023 (1.772 thousands of euros as of 31 December 2022). The detail of the accounting policies, methodologies, concepts and assumptions used are disclosed in the accompanying notes of the financial statements (Note 2.4.1.3, Note 9 and Note 17).	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: <ul style="list-style-type: none"> Analytical review procedures regarding the evolution of credit impairment losses levels, comparing it with the same period and with the expectations formed, which are to highlight the understanding of the variations

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Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
<p>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 2023. 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.</p> <p>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.</p> <p>The use of alternative approaches, models or assumptions may have a material impact on the estimated losses value.</p> <p>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.</p>	<p>occurred in the credit portfolio and changes in the assumptions and methodologies on impairment losses;</p> <ul style="list-style-type: none"> 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 2023 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



Banco BAI Europa, S.A.
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31 December 2023

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



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- ▶ 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; and
 - 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.



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Lisbon, 28 February 2024

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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2023 ANNUAL REPORT

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