

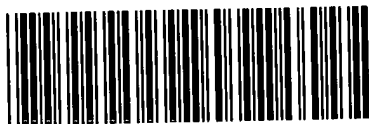
Finantia UK Limited

(Registered Number: 2856884)

Report and Financial Statements

31 December 2021

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Finantia UK Limited
(Registered Number: 2856884)

Company Information

Directors

L Antas
A Guerreiro
D Guerreiro
M J Hamilton
D Pfeiffer

Company Secretary

TMF Corporate Administration Services Ltd
8th Floor, 20 Farringdon Street,
London EC4A 4AB
United Kingdom

Registered Office

11 Austin Friars
London
EC2N 2HG

Independent auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

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Strategic Report

The Directors present their strategic report for the year ended 31 December 2021.

Principal Activities

The main activities of Finantia UK Limited ("the Company") are fixed income trading and investments and the provision of support and advice for the investment activities of the Banco Finantia S.A. Group ("the Group"), incorporated in Portugal. The ultimate parent company of the Group is Banco Finantia, S.A., a Portuguese bank regulated by the Bank of Portugal. The Company is regulated by the Financial Conduct Authority (FCA) and is authorised to conduct investment business in the United Kingdom.

The Company works in close liaison with the Group in relation to investment management decisions related to its business strategy.

Business review

The Directors review the performance of the business with reference to their key performance indicators.

The profit for the year, after taxation, is US\$ 14,178k (2020: US\$ 6,130k). This increase was mainly due to the increase in turnover, the increase in net interest margin as well as to the decrease in impairment on financial assets.

Total assets of the Company increased from US\$ 872,164k in 2020 to US\$ 966,805k in 2021, which was mainly due to the increase of the investment's portfolio.

The Company complied with all liquidity and capital adequacy requirements throughout the year, keeping a liquidity position and its capital adequacy consistently sound throughout 2021. The Company's regulatory capital resources were US\$ 138,133k as at the year-end (2020: US\$ 134,338k). Total capital ratio and CET1 capital ratio both reached 17.1%, which includes the net profit for the year, above the minimum requirement of 8.0% and 4.5%, respectively.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly related to its exposure to credit, liquidity, foreign exchange, interest rate and capital risk.

Throughout 2021, the COVID-19 pandemic continued to affect the economic environment and, in late February 2022 (as further described below in the section "post balance sheet events"), the Russian invasion of Ukraine and implementation of broad Russian sanctions has impacted the markets. The Company is assessing the impact of the sanctions already imposed, and potential future escalations, on our exposures and counterparty relationships.

The Company has in place a financial risk management program that seeks to limit the adverse effects of these principal risks on its financial performance. The financial risk management program is closely coordinated with the financial risk management activities of the Group. Details of these financial risk management activities are set out in note 15 – Financial risk management.

Capital Requirements Regulations 2013

The disclosure requirements stipulated by the Capital Requirements (Country-by-Country Reporting) Regulations 2013 are as follows:

<i>\$'000 when applicable</i>	31.12.2021	31.12.2020
Turnover	6,887	5,383
Profit after tax	14,178	6,130
Tax paid	3,213	3,034
Number of employees	7	8
Subsidies received	-	-

All of the taxes were paid in the United Kingdom.

Section 172(1) statement

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- > the likely consequences of any decision in the long term;
- > the interests of the Company's employees;
- > the need to foster the Company's business relationships with suppliers, counterparties and others;
- > the impact of the Company's operations on the community and the environment;
- > the desirability of the Company maintaining a reputation for high standards of business conduct; and
- > the need to act fairly as between members of the Company.

The Directors also took into account the views and interests of a wider set of stakeholders, including shareholders, regulators, counterparties, suppliers and employees.

The Company aims to create value for its stakeholders, balanced across both the short and the long term. Company engage with its stakeholders to better inform them of its activities and to create mutually supportive opportunities and outcomes for them.

Considering this broad range of interests is an important part of the way the Board makes decisions, although in balancing those different perspectives it will not always be possible to deliver everyone's desired outcome.

The Board will sometimes engage directly with certain stakeholders on certain issues, but the size and distribution of our stakeholders and of Company means that stakeholder engagement often takes place at an operational level.

The Board considers and discusses information from across the organization to help it understand the impact of Company's operations, and the interests and views of our key stakeholders. It also

reviews strategy, financial and operational performance, as well as information covering areas such as key risks, and legal and regulatory compliance. This information is provided to the Board through reports sent in advance of each Board meeting, and through in-person presentations.

As a result of these activities, the Board has an overview of engagement with stakeholders, and other relevant factors, which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006.

Strategy and Future Developments

The directors have reviewed the Company's strategy and business model, and it is closely aligned to that of Banco Finantia S.A. Group, which is focused on the following targets:

- > To increase the Group's international presence in core markets;
- > To diversify the Group's funding sources; and
- > To reach to a broader number of counterparties and clients.

The directors expect the Company's activities to continue to focus on trading and investment in fixed income securities during 2022 and beyond, consolidating its strategy to increase profitability.

The directors are satisfied that the Company has a robust business model and business strategy in order to consolidate its activities, operating within the strategic priorities of the Banco Finantia S.A. Group of companies.

The global environment remains quite uncertain and volatile. Several factors related with Covid-19 could still impair global growth in 2022. Furthermore, in late February 2022, the Russian invasion of Ukraine and implementation of broad Russian sanctions has impacted the markets. In response to Russia's invasion, the US, EU, UK and other countries across the world imposed severe sanctions against Russia's financial system and on Russian government officials and business leaders. The Russian government has also imposed certain countermeasures, which include restrictions relating to foreign currency accounts and security transactions.

In this context, the Company will have a cautious posture, capitalizing on its flexible business posture, strong capital base and highly cost-efficient structure, which shall continue to prove very effective. Overall, the Company plans to continue to pursue its successful strategy to focus on fixed income capital markets operations and to expand financial advisory services. Given its human resources, existing infrastructure and strong capital base, the Company has the capabilities to adapt its strategic orientation to the evolving situation, to continue to expand its client base, the number of its operations and its earning assets.

The Group's platforms in Portugal, Spain, UK and US, a cadre of internationally trained and experienced staff and strong relationships with a variety of clients, institutions and counterparties worldwide give the Group strong competitive advantages.

Post Balance Sheet Events

In late February 2022, the Russian invasion of Ukraine and implementation of broad Russian sanctions has impacted the markets. In response to Russia's invasion, the US, EU, UK and other countries across the world imposed severe sanctions against Russia's financial system and on Russian government officials and business leaders. The sanctions included limitations on the ability of Russian banks to access the SWIFT financial messaging service and restrictions on transactions with the Russian central bank. The Russian government has also imposed certain countermeasures, which include restrictions relating to foreign currency accounts and security transactions. The Company is assessing the impact of the sanctions already imposed, and potential future escalations, on our exposures and client relationships.

The Company has assessed this event as a non-adjusting post balance sheet event.

The Company has undertaken a detailed review of the potential impacts of this event and continues to monitor developments closely. Further consideration in respect of the impact assessment taken and how this has been considered in respect of forming a conclusion in respect of the going concern assumption for the Company is set out in note 20 on page 48.

With the exception of these events and considerations, no other post balance sheet events affecting the financial statements or related disclosures have occurred to date.

By order of the Board



D. Guerreiro
Director
19 April 2022

Directors' Report

The directors present their report and audited financial statements of Finantia UK Limited ("the Company") for the year ended 31 December 2021.

Directors of the Company

During 2021 and until the date of this report the directors that served the Company are: L Antas, A Guerreiro, D Guerreiro, M J Hamilton and D Pfeiffer.

Results and dividends

Profit for the financial year after tax was US\$ 14,178k (2020: US\$ 6,130k). Dividends of US\$ 7,997k were declared and paid in 2021 (2020: US\$ 15,000k). Considering the current uncertain macroeconomic circumstances, it is proposed that the profit for the financial year 2021 to be transfer to reserves.

Events since the balance sheet date

On the 2nd March 2022, the Board of Directors decided to increase the share capital of the Company by US\$ 20,000k, through the issuance of 20,000,000 new shares of US\$ 1 each. These shares were allotted to Banco Finantia, S.A. and Finantia Holdings, B.V., the shareholders of the Company, in their proportion of percentage in share capital.

Going concern

The Company's business activities, together with factors likely to affect its future development and position, are set out in the Strategic Report. In addition, notes 14 to 16 to the financial statements include details of the Company's objectives, policies and processes in relation to managing its risks and its exposure to credit, market, interest rate, liquidity, foreign exchange, and capital risks.

The Company is expected to generate positive cash flows from its regular trading activities for the foreseeable future. The Company generates its own operational cash flow and is expected to be profitable next year.

The directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and for at least 12 months from the date of the approval and signing of the balance sheet. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Auditors

Ernst & Young LLP were appointed auditors on 4 February 2015. A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 2. The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and, the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board


D. Guerreiro
Director
19 April 2022

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period.

In preparing these financial statements the directors are required to:

- > select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- > make judgements and accounting estimates that are reasonable and prudent;
- > present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- > provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- > in respect of the financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation(EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- > in respect of the company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements and
- > prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information.

Independent auditor's report

Opinion

We have audited the financial statements of Finantia UK Limited for the year ended 31 December 2021 which comprise of the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 20 – subsequent events of the financial statements, where are presented scenarios on the potential impact on the Company's regulatory ratios arising from exposure to assets of countries involved in the military operation in Ukraine. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have

performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are 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 (UK) 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

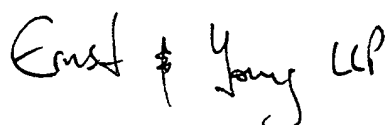
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are United Kingdom Generally Accepted Accounting Practice, the Companies Act 2006, Corporation tax legislation, the Financial Conduct Authority's Handbook, and the Financial Services and Markets Act 2000 (FSMA).
- We understood how Finantia UK Limited is complying with those frameworks by making enquiries of management, those responsible for legal and compliance matters and those charged with governance to understand how the Company maintains and communicates its policies and procedures. We corroborated our enquiries through our review of Board minutes, relevant policies and correspondence with regulators.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override. We considered the controls, including entity level controls, that the Company has established to address risks identified by the Company, or that otherwise seek to prevent, deter or detect fraud. We evaluated management's incentive, rationale and opportunities for fraudulent manipulation of the financial statements. Our procedures involved testing, on a sample basis, manual journals posted to revenue and manual journals posted as part of the financial statement closing process. In addition, we performed testing on a sample of manual journals based on fraud risk criteria such as journals posted by unauthorised personnel and to unusual accounts. We performed test of details on revenue recognition by agreeing revenue samples to third party supporting documentation. We incorporated unpredictability into the nature, timing and extent of our testing.
- Based on this understanding we designed our audit procedures to identify known or suspected instances of noncompliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance and management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with regulators, reviewing internal audit reports and minutes of the Board and sub-committee meetings. We considered the results of our audit procedures to either corroborate or provide contrary evidence, including identifying any unusual transactions, which was then followed up.
- The company is a regulated entity under the supervision of the Financial Conduct Authority. As such, the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Andrew Stevenson (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 April 2022

Notes:

1. The maintenance and integrity of the Finantia UK Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Statement of comprehensive income
for the years ended 31 December 2021 and 2020**

		2021	2020
	Notes	\$'000	\$'000
Net trading income	2	6,810	5,267
Net fees and commissions	3	77	116
Turnover		6,887	5,383
Interest income	4	27,555	29,379
Interest expense	4	(11,131)	(14,998)
Net interest margin		16,424	14,381
Gross profit		23,311	19,764
Administrative expenses	5	(2,794)	(2,231)
Profit on ordinary activities before impairment and taxation		20,517	17,533
Impairment on financial assets	10	(3,066)	(9,982)
Profit on ordinary activities before taxation		17,451	7,551
Tax on profit on ordinary activities	8	(3,273)	(1,421)
Profit for the financial year		14,178	6,130
Other comprehensive income:			
Items that may subsequently be reclassified to profit or loss			
Gains / (losses) on re-measurement of financial assets at fair value through other comprehensive income		(8,680)	84
Tax on net revaluation on financial assets at fair value through other comprehensive income	8	1,638	(195)
Other comprehensive income for the year		(7,042)	(111)
Total comprehensive income for the year		7,136	6,019

Notes on pages 16 to 48 form an integral part of these financial statements

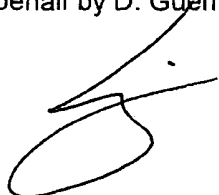
All of the Company's results were derived from continuing operations during the above financial years.

**Statement of financial position
for the years ended 31 December 2021 and 2020**

		2021	2020
	Notes	\$'000	\$'000
Non-current assets			
Tangible fixed assets	9	468	668
Investments	10	677,600	534,334
Debtors	11	32,305	27,060
Total non-current assets		<u>710,373</u>	<u>562,062</u>
Current assets			
Current tax assets		365	431
Deferred tax assets	8	230	-
Investments	10	48,963	46,506
Debtors	11	204,354	259,661
Cash at bank and in hand	12	2,520	3,504
Total current assets		<u>256,432</u>	<u>310,102</u>
Total assets		<u>966,805</u>	<u>872,164</u>
Creditors: amounts falling due within one year			
Repurchase agreements with fellow Group undertakings	13	30,363	112,235
Repurchase agreements with non-Group undertakings	13	507,765	398,814
Other creditors	13	22,142	14,902
Deferred tax liability	8	-	1,428
Creditors: amounts falling due after more than one year			
Repurchase agreements with non-Group undertakings	13	144,447	106,836
Other creditors	13	123,480	98,480
Total liabilities		<u>828,197</u>	<u>732,695</u>
Capital and reserves			
Share capital	14	125,000	125,000
Fair value reserve	14	290	7,332
Retained earnings	14	13,318	7,137
Total equity		<u>138,608</u>	<u>139,469</u>
Total liabilities and equity		<u>966,805</u>	<u>872,164</u>

Notes on pages 16 to 48 form an integral part of these financial statements

Approved and authorised by the Board of Directors at a meeting on 19 April 2022 and signed on its behalf by D. Guerreiro.



**Statement of changes in equity
for the years ended 31 December 2021 and 2020**

	Share capital	Fair value reserve	Retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000
At 1 January 2020	125,000	7,443	16,007	148,450
Profit for the financial year	-	-	6,130	6,130
Other comprehensive income	-	(111)	-	(111)
Total comprehensive income for the year	-	(111)	6,130	6,019
Dividend paid	-	-	(15,000)	(15,000)
At 31 December 2020	125,000	7,332	7,137	139,469
Profit for the financial year	-	-	14,178	14,178
Other comprehensive income	-	(7,042)	-	(7,042)
Total comprehensive income for the year	-	(7,042)	14,178	7,136
Dividend paid	-	-	(7,997)	(7,997)
At 31 December 2021	125,000	290	13,318	138,608

Notes on pages 16 to 48 form an integral part of these financial statements

1. Accounting policies

The financial statements of Finantia UK Limited (the "Company") for the year ended 31 December 2021 were authorised for issue by the board of directors on 19 April 2022 and the balance sheet was signed on the board's behalf by Mr. David Guerreiro. Finantia UK Limited is a company incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with applicable accounting standards.

The results of Finantia UK Limited are included in the consolidated financial statements of Banco Finantia S.A. which are available from Rua General Firmino Miguel, 5, 1st floor, Lisbon, Portugal.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2021. The financial statements are prepared in US Dollar and are rounded to the nearest thousand ("'\$000'" or "k").

1.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with FRS 101.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets measured at fair value through other comprehensive income, trading securities and certain other financial assets and liabilities at fair value through profit or loss and all derivative contracts, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1.2.

The following exemptions from the requirements of IFRS disclosures have been applied in the preparation of these financial statements, in accordance with FRS 101:

- (a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined);
- (b) Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities), provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- (c) Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - (iii) paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period);

- (d) The following paragraphs of IAS 1, 'Presentation of financial statements': i) 10(d) (statement of cash flows); ii) 16 (statement of compliance with all IFRS); iii) 38A (requirement for minimum of two primary statements, including cash flow statements); iv) 38B–D (additional comparative information); and v) 111 (cash flow statement information).
- (e) IAS 7, 'Statement of cash flows';
- (f) Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- (g) Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);
- (h) The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group;
- (i) The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations', can be omitted, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- (j) The requirements of paragraph 33(c) of IFRS 5 'Non-current assets held for sale and discontinued operations' can be omitted, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- (k) The following paragraphs of IAS 1, 'Presentation of financial statements': i) 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements); and ii) 40A–D (requirements for a third statement of financial position);
- (l) Paragraph 18A of IAS 24, 'Related party disclosures', related to key management services provided by a separate management entity.
- (m) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).

New standards, amendments and IFRIC interpretations

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2:

In August 2020, IASB Issued 'Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform Phase 2' in order to address financial reporting issues arising from the replacement of interbank offered rates (IBORs). The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The Company adopted the Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on 1 January 2021. The adoption had no material impact to the Company's financial position, results of operation or cash flows (see note 19).

Other new standards and amendments that are effective for annual periods beginning after 1 January 2022, with earlier application permitted, are set out below.

Effective 1 January 2022:

- > Reference to the Conceptual Framework (Amendments to IFRS 3).
- > Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS16).
- > Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- > Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS16).
- > Fees in the “10 per cent” test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

Effective 1 January 2023:

- > IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts).
- > Definition of Accounting Estimates (Amendments to IAS 8).
- > Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- > Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The Company is assessing the effect of adopting these standards and amendments on its financial statements but do not expect the effect to be material.

1.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reports for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

- (a) The judgements, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements relate to deferred tax assets or liabilities. Deferred tax assets or liabilities are recognised for all unused tax losses or gains to the extent that it is probable that taxable profit or loss will be available against which the losses or gains can be utilised. Significant management judgement is required to determine the amount of deferred tax assets or liabilities that can be recognised based upon the likely timing and level of future taxable profits or losses together with future tax planning strategies.
- (b) The following estimates are dependent upon assumptions, which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

> Fair value of financial instruments

The fair value of financial assets and financial liabilities recorded on the balance sheet are derived from observable market data from active markets and present value approaches where future cash flows are estimated and then discounted using risk-adjusted interest rates based on instruments with similar risk characteristics and currency.

In accordance with IFRS 13 Fair Value Measurement, the Company categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. The valuation techniques for level 2 and, particularly, level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information.

> Impairment losses on financial assets

IFRS 9 expected credit loss approach applies to financial assets including finance lease receivables, recorded at amortised cost or fair value through other comprehensive income; loan commitments and financial guarantees that are not measured at fair value through profit or loss are also in scope. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to, amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

The calculation of the company's expected credit loss (ECL) allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

- i) Definition of default: the probability of default (PD) of an exposure, both over a 12-month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in note 1.3.
- ii) Lifetime of an exposure: the PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.
- iii) Significant increase in credit risk: performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition. The Company uses quantitative indicators together with qualitative indicators to determine whether there has been a SICR for an asset. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.
- iv) Probability of Default (PD): the assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not generally available and consequently management judgement has been used to determine a reasonable basis for estimating the original PD. Management

used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

- v) Forward looking information: the measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

1.3 Summary of significant accounting policies

a) Foreign currencies

The Company's functional currency and presentation currency is US dollar. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The Company does not apply hedge accounting of foreign exchange risks in its company financial statements.

b) Turnover

Turnover is comprised of net trading income and net fees and commissions.

Net trading income

Net trading income includes the net realised profit arising from transactions in securities, the changes in fair value from derivative financial instruments and the gains and losses from foreign exchange.

Net fees and commissions

Fees and commissions are paid for brokerage services rendered by affiliated group undertakings regarding investment activities.

Fees and commissions earned/paid over the period in which services are provided / received are recognised over the period the services are provided / received.

c) Net interest income

Interest income and expense are recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method, except for those classified at fair value through profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross

carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability, including early redemption fees, and related penalties, and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account.

Interest income from non-credit impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset; for credit impaired financial assets, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses.

d) Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- > where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- > in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- > deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date.

e) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation, which is provided on a straight-line basis over the estimated useful lives of the assets. The useful lives of the assets are as follows:

Furniture, fixtures and fittings	8 years
Office equipment	10 years
Office refurbishments	10 years
Computer equipment and software	4 years

The cost includes original purchase price of the asset and costs attributable to bringing the assets to its working condition for its intended use.

f) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to resell. In assessing value in use, the estimated future cash flows are discounted to their present value. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

g) Financial instruments

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest.

The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset. Derivatives are recognised on a trade date basis.

Subsequent measurement

Financial instruments measured at fair value through profit or loss (FVTPL)

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss.

Trading securities, which are principally for the purpose of selling in the short term or which are part of a portfolio which is managed for short-term gains, are measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and

dividend income are recognised in the statement of comprehensive income within net trading income.

Financial liabilities are measured at fair value through profit or loss where they are trading liabilities or where they are designated at fair value through profit or loss in order to reduce an accounting mismatch; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for. Financial liabilities measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses are recognised in the statement of comprehensive income within net trading income in the period in which they occur, except that gains and losses attributable to changes in own credit risk are recognised in other comprehensive income, unless doing so would create or enlarge an accounting mismatch in which case they are recognised in the statement of comprehensive income.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Company establishes a fair value by using valuation techniques.

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Such assets are carried at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

Financial assets at fair value through other comprehensive income (FVTOCI)

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs.

Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the statement of comprehensive income. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of comprehensive income. The Company recognises a charge for expected credit losses in the statement of comprehensive income. As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, it is reflected in other comprehensive income, specifically the fair value reserve – the reserve is comprised of the gains/losses, EIR adjustments and impairment on FVTOCI instruments.

Derecognition of financial instruments

A financial asset is derecognised when (i) the rights to receive cash flows from the asset have expired or (ii) the Company has transferred its rights to receive cash flows from the asset or has

assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses. Expected credit losses are recognised for financial assets at amortised cost and financial assets measured at fair value through other comprehensive income. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative parameters based probability of default (PD) movements linked to external credit ratings together with qualitative indicators such as watch lists and other indicators of historical delinquency, credit weakness or financial difficulty. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1. Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due.

The expected forward-looking and point-in-time loss is determined based on the market-based curve spreads considered for each instrument. The methodology developed is based on the construction of the temporal structure of the PD implicit in the market curves, in this manner incorporating forward-looking and point-in-time information, given that it reflects the current economic environment as well as future market expectations. This information is made available

by entity or segmented based on currency, economic sector and rating. If a specific curve is not available for the instrument, a generic curve is assigned according to the asset segment analysed.

Purchased or originated credit-impaired financial assets (POCI) are financial assets that are purchased or originated at a deep discount that reflects incurred credit losses. At initial recognition, POCI assets do not carry an impairment allowance; instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate. All changes in lifetime expected credit losses subsequent to the assets' initial recognition are recognised as an impairment charge.

A financial asset is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income.

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

h) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all of the risks and rewards of ownership.

The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

i) Fair value measurement

Fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. Fair value price is obtained from quoted market prices or broker/dealer prices in active markets, if available, or are based on the established price of recent market transactions or in its absence on the usage of valuation techniques.

Valuation techniques include net present value calculation procedures using direct observable market inputs. If a reliable market can readily be identified for a security, the fair value is determined by reference to its market value. If a reliable market cannot readily be identified for the financial instrument but can be identified for its components or for a similar instrument, its fair value is determined by reference to the market value of its components or of the similar instrument.

j) Trade and other debtors

Trade debtors, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

k) Leasing and hire purchase commitments

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 9 Tangible fixed assets and are subject to impairment in line with the Bank's policy as described in Note 1.3.f) – Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

l) Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported on the balance sheet when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

m) Derivatives and hedge accounting

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

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

Hedge accounting

Derivative financial instruments used for hedging purposes may be classified as hedging instruments provided that they cumulatively meet the following conditions:

- > Existence of an economic relationship between the hedged element and its hedging;
- > The effects inherent in the evolution of credit risk may not dominate the changes in value resulting from this relationship; and
- > Establishment of a hedging ratio between hedged and hedging items that is equivalent to that actually applied by the institution in the management of the economic hedges that are intended to be replicated.

The application of hedge accounting remains optional, but may no longer be discontinued while the requirements for its application continue to be verified.

> Fair value hedge

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

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

n) Current and non-current classification

In accordance with IAS 1.60, the Company has presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statement of financial position.

An asset is classified as current when: (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle; (b) it holds the asset primarily for the purpose of trading; (c) it expects to realise the asset within twelve months after the reporting period; or (d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability shall be classified as current when: (a) it expects to settle the liability in its normal operating cycle; (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting period; or (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

2. Net trading income

\$'000	31.12.2021	31.12.2020
Net profit from securities transactions	8,161	9,805
Net changes in derivatives fair value	(1,064)	(5,212)
(Losses)/gains on foreign exchange	(287)	672
Other income	-	2
	6,810	5,267

Net profit from securities transactions relate to gains and losses realised on the sale and purchase of fixed income securities.

(Losses)/gains on foreign exchange represents foreign exchange movements on financial instruments, predominantly from the investment portfolio of financial assets at fair value through other comprehensive reserve.

The directors are of the opinion that the Company's principal activities are managed on a global basis and therefore an analysis of profit/(loss) before taxation and net assets by geographical region has not been provided.

3. Net fees and commissions

\$'000	31.12.2021	31.12.2020
Fees and commissions payable to group undertakings	(20)	(39)
Fees and commissions payable to non-group undertakings	(52)	-
Fees and commissions receivable from / (payable to) non-group undertakings	149	155
	77	116

4. Net interest income

\$'000	31.12.2021	31.12.2020
Interest receivable and similar income	27,555	29,379
Interest payable and similar expense	(11,131)	(14,998)
	16,424	14,381

As at 31 December 2021, interest receivable and similar income includes the amount of US\$ 2,095k (31 December 2020: US\$ 4,707k) regarding operations with fellow group undertakings.

As at 31 December 2021, interest payable and similar expense includes the amount of US\$ 6,410k (31 December 2020: US\$ 5,502k) regarding operations with fellow group undertakings.

As of 31 December 2021, the interest receivable and the interest payable recognised using the effective interest rate amounted to US\$ 27,546k (2020: US\$ 29,198k) and US\$ 5,690k (2020: US\$ 10,883k), respectively.

5. Administrative expenses

\$'000	31.12.2021	31.12.2020
Staff costs (note 6)	1,155	1,068
Depreciation of tangible fixed assets (note 9)	203	201
Auditor's remuneration: audit of the financial statements	99	98
Auditor's remuneration: audit related assurance service	24	32
Other general expenditure	1,313	832
	2,794	2,231

Other general expenditures includes sundry administrative expenses essential to the regular activity of the Company.

6. Staff costs

The monthly average number of persons employed by the Company (including directors) during the year was 7 (2020: 8).

The aggregate payroll costs (including directors) were as follows:

\$'000	31.12.2021	31.12.2020
Wages and salaries	700	857
Social security costs	100	127
Other pension costs	26	35
Other staff costs	329	49
	1,155	1,068

The Company contributes to a defined contribution pension scheme on a monthly basis, on behalf of its employees, including one of its directors. During 2021, the Company paid US\$ 26k (2020: US\$ 35k). There are no amounts pre-paid or outstanding relating to pensions plans.

7. Directors emoluments

\$'000	31.12.2021	31.12.2020
Directors emoluments regarding services to the Company	192	184
Directors emoluments regarding contributions to pension schemes	5	7
	<u>197</u>	<u>191</u>

During the year, two directors were members of a defined contribution pension scheme.

Highest paid director

\$'000	31.12.2021	31.12.2020
Emoluments for services to the Company	117	109
Emoluments regarding compensation to pension schemes	5	5
	<u>122</u>	<u>114</u>

8. Tax on profit on ordinary activities

(a) Tax charged to the statement of comprehensive income

\$'000	31.12.2021	31.12.2020
Current tax		
UK Corporation tax at 19% on taxable profits for the year	3,314	1,499
Adjustments in respect of previous periods	(39)	(22)
Effect of exchange rate on current tax	18	(24)
Total current tax	<u>3,293</u>	<u>1,453</u>
Deferred tax		
Origination and reversal of temporary differences	39	(4)
Adjustment in respect of prior years	-	(28)
Impact of change in tax rates	(59)	-
Total deferred tax	<u>(20)</u>	<u>(32)</u>
Tax on profit on ordinary activities	<u>3,273</u>	<u>1,421</u>

(b) Tax relating to items charged or credited to other comprehensive income

\$'000	31.12.2021	31.12.2020
Deferred tax		
Unrealised gain/(loss) on financial assets at fair value through other comprehensive income	(1,649)	16
Rate change	11	179
	(1,638)	195
Current tax		
Tax reclassified from available-for-sale financial assets	-	-
	-	-
Tax debit/(credit) in the statement of other comprehensive	(1,638)	195

(c) Reconciliation of the total tax charge

The effective tax rate for the year is the standard rate corporation tax of 19% (2020: 19%) in the UK.

\$'000	31.12.2021	31.12.2020
Factors affecting the tax charge for period		
Profit on ordinary activities before tax	17,450	7,551
Profit calculated at UK standard rate of corporation tax of 19% (2019: 19%)	3,316	1,435
Effects of:		
Expenses not deductible for tax purposes	37	60
Adjustments in respect of previous periods - current tax	(39)	(22)
Adjustments in respect of previous periods - deferred tax	-	(28)
Impact of change in tax rates	(59)	-
Effect of exchange rate on current tax	18	(24)
Total tax charge for period	3,273	1,421

(d) Change in Corporation Tax rate

The headline rate of UK corporation tax is currently 19%. Temporary differences at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

On 3 March 2021 it was announced that the UK corporation tax rate would increase from 19% to 25% from 1 April 2023. Following substantive enactment of Finance Bill 2021 the corporation tax rate will increase from 19% to 25% from 1 April 2023.

(e) Deferred tax

<i>\$'000</i>	31.12.2021	31.12.2020
Deferred tax liability		
Financial assets at fair value through other comprehensive income	(82)	(1,720)
	<u>(82)</u>	<u>(1,720)</u>
Deferred tax asset		
Decelerated capital allowances	16	16
Transitional adjustment relating to IFRS 9	296	276
	<u>312</u>	<u>292</u>
Deferred tax asset / (liability) as at 31 December	230	(1,428)

Deferred tax movement can be analysed as follows:

<i>\$'000</i>	2021	2020
Balance as at 1 January	(1,428)	(1,265)
Profit and loss account	(39)	4
Financial assets at fair value through other comprehensive income	1,649	(16)
Rate change	48	(151)
Balance as at 31 December	<u>230</u>	<u>(1,428)</u>

The deferred tax at 31 December 2021 amounts to US\$ 230k (2020: US\$ (1,428)k). This comprises a deferred tax asset in relation to decelerated capital allowances US\$ 16k, a deferred tax liability in respect of the revaluation of financial assets at fair value through other comprehensive income in reserves US\$ (82)k, and a deferred tax asset related to the Transitional adjustment relating to IFRS 9 US\$ 296k.

9. Tangible fixed assets

	Furniture, fixtures and fitting & office equipment	Office refurbishme nts	Right of use assets	Computer equipment and software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost:					
At 1 January 2021	133	392	830	757	2,112
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
FX variations	-	-	(3)	-	(3)
At 31 December 2021	<u>133</u>	<u>392</u>	<u>827</u>	<u>757</u>	<u>2,109</u>
Depreciation:					
At 1 January 2021	120	308	261	755	1,444
Depreciated charge	5	27	169	2	203
Disposals	-	-	-	-	-
FX variations	-	1	(7)	-	(6)
At 31 December 2021	<u>125</u>	<u>336</u>	<u>423</u>	<u>757</u>	<u>1,641</u>
Carry amount:					
At 31 December 2021	<u>8</u>	<u>56</u>	<u>404</u>	<u>-</u>	<u>468</u>
At 31 December 2020	<u>13</u>	<u>84</u>	<u>569</u>	<u>2</u>	<u>668</u>

10. Investments

Investments classified as non-current assets relate to amounts falling due after more than one year, as follows:

\$'000	31.12.2021	31.12.2020
Financial assets at fair value through other comprehensive income	442,517	488,850
Financial assets at amortised cost	235,083	45,484
	677,600	534,334

Investments classified as current assets relate to amounts falling due within one year, as follows:

\$'000	31.12.2021	31.12.2020
Financial assets at fair value through other comprehensive income	15,924	17,593
Financial assets at amortised cost	33,039	28,913
	48,963	46,506

Financial assets at fair value through other comprehensive income comprise listed fixed income securities and purchased loans, which by type of issuer can be analysed as follows:

\$'000	31.12.2021	31.12.2020
Fixed income securities:		
Sovereigns	159,206	106,665
Financial institutions	78,906	120,860
Corporates	211,239	265,098
	449,351	492,623
Loans:		
Sovereigns	5,378	5,276
Financial institutions	-	-
Corporates	3,712	8,544
	9,090	13,820
	458,441	506,443

Fair value has been determined by reference to quoted market prices.

Financial assets at amortised cost comprise listed fixed income securities and purchased loans, which by type of issuer can be analysed as follows:

\$'000	31.12.2021	31.12.2020
Fixed income securities:		
Sovereigns	5,374	5,452
Financial institutions	39,187	-
Corporates	141,314	11,219
	185,875	16,671
Loans:		
Sovereigns	20,264	12,295
Financial institutions	30,179	19,642
Corporates	31,804	25,789
	82,247	57,726
	268,122	74,397

Financial assets at amortised cost includes investments in non-derivative financial assets with fixed payments that are not quoted in an active market, which are carried at amortised cost and are classified as hold to collect and hold to collect and sell.



The movement in the impairment of the investments portfolio in the financial years ended 31 December 2020 and 2021 may be analysed as follows:

	Stage 1		Stage 2		Stage 3		POCI		Total	
	Asset	ECL	Asset	ECL	Asset	ECL	Asset	ECL	Asset	ECL
At 1 January 2020	534,777	2,135	15,282	131	14,291	5,170	-	-	564,350	7,436
Transfer from Stage 1 to Stage 3	(3,482)	(24)	-	-	3,482	24	-	-	-	-
Transfer from Stage 1 to Stage 2	(24,791)	(521)	24,791	521	-	-	-	-	-	-
Transfer from Stage 3 to POCI	-	-	-	-	(8,779)	2,408	-	-	(8,779)	2,408
POCI	-	-	-	-	-	-	6,882	1,430	6,882	1,430
Impact on ECL of stage transfers	-	(545)	-	521	-	2,432	-	1,430	-	3,838
Charge for the year net of reversals	-	2,076	-	1,468	-	2,604	-	-	-	6,149
Total profit and loss impairment charge	-	1,531	-	1,989	-	5,036	-	1,430	-	9,986
Charge in net exposure	41,071	-	(10,784)	-	166	(5,356)	-	-	30,453	(5,356)
At 31 December 2020	547,574	3,665	29,290	2,121	9,160	4,850	6,882	1,430	592,906	12,066
Transfer from Stage 1 to Stage 2	(3,220)	(2,208)	3,220	2,208	-	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	(3,220)	(2,208)	3,220	2,208	-	-	-	-
Transfer from Stage 2 to Stage 1	8,401	105	(8,401)	(105)	-	-	-	-	-	-
Impact on ECL of stage transfers	-	(2,103)	-	(105)	-	2,208	-	-	-	-
Charge for the year net of reversals	-	3,023	-	(1,161)	-	328	-	874	-	3,064
Total profit and loss impairment charge	-	920	-	(1,266)	-	2,536	-	874	-	3,064
Charge in net exposure	168,575	(28)	(12,632)	-	(3,375)	(769)	(6,882)	(2,304)	145,686	(3,101)
At 31 December 2021	721,331	4,557	8,257	855	9,005	6,618	-	-	738,593	12,030

The caption 'Change in net exposure' includes net exposures acquisitions, disposals and foreign exchanges variations.

As of 31 December 2020, Stage 3 assets includes the amount of US\$ 5,452k related to financial assets acquired or originated with credit impairment (POCI) which resulted from a debt restructuring process. The caption charge in net exposure in stage 3, includes the amount of US\$ 5,529k of impairment write-offs.

11. Debtors

Debtors classified as non-current assets relate to amounts falling due after more than one year, as follows:

\$'000	31.12.2021	31.12.2020
Reverse repurchase agreements with fellow group undertakings	29,861	27,060
Derivative financial instruments	2,444	-
	32,305	27,060

Debtors classified as current assets relate to amounts falling due within one year, as follows:

\$'000	31.12.2021	31.12.2020
Reverse repurchase agreements with fellow group undertakings	192,146	258,526
Amounts due from market counterparties	12,144	1,084
Derivative financial instruments	49	34
Amounts owed by Group undertakings	15	17
	204,354	259,661

As at 31 December 2021, debtors are presented net of impairment on financial assets on the amount of US\$ 17k (2020: US\$ 16k). In 2021, the charges for the year, net of reversals amounted to US\$ (2)k (2020: US\$ (4)k).

There are no past due balances from debtors as at 31 December 2021 and 2020.

Except for the reverse repurchase agreements with fellow group undertakings, the effective interest rate on trade debtors is zero (2020: zero) and there is no material differences between the carrying value and the fair value. The effective interest rate for reverse repurchase agreements with fellow group undertakings is 0.77% (2020: 1.09%), and these operations are collateralised by fixed income securities with a fair value of US\$ 255,609k (2020: US\$ 356,965k).

Derivative financial instruments and hedge accounting

Derivative contracts are financial instruments that derive their value from an underlying rate or price. The Company has entered into various derivative contracts to manage the exposure to interest rate and foreign exchange risks. Hedging transactions comprise derivatives used to hedge specific interest rate mismatches.

The table shows the fair values of derivative financial instruments, recognised as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions at the year-end and are indicative of neither the market risk nor the credit risk.

Fair value has been determined using discounted cash flow models applying risk-adjusted interest rates as appropriate.

\$ '000	2021			2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives						
Foreign exchange swaps	14,043	49	-	10,813	34	16
Interest rate swaps	466,191	2,444	7,963	257,542	-	19,198
	480,234	2,493	7,963	268,355	34	19,214
Of which: hedging derivatives						
Interest rate swaps	453,258	2,437	7,684	256,066	-	19,122
	453,258	2,437	7,684	256,066	-	19,122

Foreign exchange swaps, represents a contract between two parties and consists in the swap of currencies at a determined forward exchange rate. It is an agreement for cash flow exchange, in which one of the parts agrees to pay interest on the principal in one currency, in exchange of receiving interest on the principal in another currency. In the end of the operation, the principal in foreign currency is paid and the principal in domestic currency is received. The purposes of these operations are the hedging and management of the liquidity risk inherent to future receipt and payments in foreign currency, through the elimination of the uncertainty of the future value of particular exchange rates.

Interest rate swap, which in conceptual terms consists of a contract between two parties who agree to exchange (swap) between them, for a specified amount and period of time, periodic fixed rate for floating rate payments. Involving only one currency, this kind of instrument is mainly directed at the hedging and management of the interest rate risk related to a fixed rate loan or advances income or the cost that one party is required to make in a future period.

Fair value hedges

In line with the accounting policy explained in Note 1.3.k, the Company enters into micro fair value hedge relationships to protect itself against changes in the fair value of financial assets due to movements in interest rates. The financial instruments hedged for interest rate risk in a micro fair value hedge relationships are fixed income securities in both the financial assets at fair value through other comprehensive income and the financial assets at amortised cost portfolios. The Company uses interest rate swaps to hedge interest rate risk.

The impacts of the hedge relationships referred to above, and outstanding in 2021 and 2020, can be analysed as follows:

\$ '000	31.12.2021	31.12.2020
Gains/(losses) in hedging instruments	1,357	(567)
Gains/(losses) in hedged items	(1,352)	566
Securities in the financial assets at amortised cost portfolio	5	(1)
Gains/(losses) in hedging instruments	11,445	(11,375)
Gains/(losses) in hedged items	(11,133)	11,375
Securities in the financial assets at fair value through other comprehensive income portfolio	312	-
Ineffectiveness from fair value hedges	317	(1)

In accordance with its hedging strategy, the Company matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations.

Hedge ineffectiveness can arise from:

- > Differences in timing of cash flows of hedged items and hedging instruments;
- > Different interest rate curves applied to discount the hedged items and hedging instruments;
- > Derivatives used as hedging instruments having a non-nil fair value at the time of designation; and
- > The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items.

A breakdown of the nominal amount of the interest rate swaps designated as hedging instruments can be analysed as follows:

\$'000	31.12.2021	31.12.2020
Up to 3 months	-	-
From 3 to 12 months	18,144	-
From 1 to 5 years	119,426	141,573
Over 5 years	315,688	114,493
	453,258	256,066

For fixed income securities classified as 'financial assets at amortised cost (see Note 10) the accumulated hedge adjustment as at 31 December 2021 amounted to a loss of US\$ 672k (2020: gain of US\$ 680k). During the year the Company recognised a loss in the amount of US\$ 1,352k (2020: gain of US\$ 566k) related to the fair value change of the hedge items.

In addition, and for fixed income securities classified as 'financial assets at fair value through other comprehensive income', the Company recognised in 2021 gains on hedging instruments amounting to US\$ 11,445k (2020: losses of US\$ 11,375k) and losses on the respective hedged items of US\$ 11,133k (2020: gains of US\$ 11,375k). These gains in hedged items attributable to the hedged risks have been reclassified from the fair value reserve to profit or loss. When the hedged assets are derecognised the respective amount in fair value reserve is reclassified to profit or loss, this reclassification in 2021 amounted to US\$ 1,856k (2020: US\$ 4,273k).

12. Cash at bank and in hand

\$'000	31.12.2021	31.12.2020
Cash with Group undertakings	1,817	2,270
Cash with non-Group undertakings	703	1,234
	2,520	3,504

Cash is callable on demand.

13. Creditors

Amounts falling due within one year:

\$'000	31.12.2021	31.12.2020
Repurchase agreements with fellow Group undertakings	30,363	112,235
Repurchase agreements with non-Group undertakings	507,765	398,814
Amounts owed to Group undertakings	21,295	623
Amounts due to market counterparties	82	14,137
Derivative financial instruments	632	16
Sundry creditors	133	126
	560,270	525,951

Amounts falling due after more than one year:

\$'000	31.12.2021	31.12.2020
Repurchase agreements with non-Group undertakings	144,447	106,836
Amounts owed to Group undertakings	115,913	78,855
Amounts due to market counterparties	236	427
Derivative financial instruments	7,331	19,198
	267,927	205,316

Except for the repurchase agreements with fellow Group undertakings, the effective interest rate on creditors is zero (2020: zero) and there is no material differences between the carrying value and the fair value.

The effective interest rate for repurchase agreements with fellow Group undertakings is 0.43% and with non-group Group undertakings is 0.81% (2020: 0.98% and 1.19% respectively). These operations with fellow Group undertakings are collateralised by securities with a fair value of

US\$ 36,911k and with non-group Group undertakings with a fair value of US\$ 768,037k (2020: US\$ 148,157k and US\$ 643,238k respectively).

Derivative financial instruments are held at fair value, with associated gains and losses recognised through profit and loss. All other liabilities are recorded at amortised cost.

Amounts due to market counterparties includes lease liabilities. A breakdown of the lease liabilities amount can be analysed as follows:

\$'000	31.12.2021	31.12.2020
Up to 3 months	46	46
From 3 to 12 months	139	138
From 1 to 5 years	236	427
Over 5 years	-	-
	421	611

In 2021, the Company had total cash outflows for leases in the amount of US\$191k (2020: US\$162k).

14. Share capital and reserves

\$'000	31.12.2021	31.12.2020
Authorised		
Ordinary shares of US\$1 each:		
At 31 December	125,000	125,000
Allotted, issued and fully paid		
Ordinary shares of US\$1 each:		
At 31 December	125,000	125,000

Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements established by the Capital Requirements Regulation ("CRR") that enforced since January 1, 2014 the Basel III framework (Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013). The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Financial Conduct Authority in supervising the Company.

The primary objectives of the Company's capital management policy are to ensure that the Company complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and to maximise shareholder value.

The Company manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

Regulatory capital

The Company's regulatory capital can be analysed as follows:

Capital structure		
\$'000	31.12.2021	31.12.2020
Share capital	125,000	125,000
Retained earnings	13,318	2,540
Fair value reserve	290	7,332
Additional value adjustment (AVA)	(475)	(534)
Common Equity Tier 1 (CET1) Capital	138,133	134,338

Regulatory capital consists only of CET 1 capital, which comprises share capital, retained earnings including current year profit and accumulated other comprehensive income. The AVA adjustment deduction is made to CET 1 capital in accordance with the CRR.

Risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees and by taking into account market related risks such as foreign exchange and interest rate position risks, and counterparty risk, if considered under the trading book.

15. Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including foreign exchange and interest rate risk) and capital risk. The Company operates a comprehensive risk management programme, which is carried out by the directors in the context of the Group's risk management activities. This focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Financial instruments

The Company finances its activities with a combination of repos and equity. Overdrafts are used to satisfy short-term cash flow requirements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and foreign exchange risks arising from the Company's operations and its sources of finance.

Financial instruments give rise to credit, liquidity, foreign exchange, interest rate and capital risk information on how these risks arise is set out below, as are the objectives, policies and processes for their management.

Use of derivatives

The Company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. The Company also uses interest rate swaps in order to hedge interest rate exposures from its fixed income securities portfolio.

(a) Credit risk

Credit risk is managed on Group basis and covers Finantia UK Limited. Credit risk arises from cash, deposits with banks and financial institutions, the Company's Investment portfolio comprising of fixed income financial instruments and loans, as well as other outstanding receivables and committed transactions. The approval of credit operations is carried out according to a set of internal principals and procedures embodied in the Banco Finantia Group's Credit Rules and Regulations and utilizes, amongst other measures, a "Risk Adjusted Pricing Model". This model is used primarily for risk management, as opposed to for impairment assessments, for which external market data is primarily used.

Credit risk is the risk that the counterparties to the Company's financial assets may default. During the year, the Company recorded a US\$ 3,066k impairment loss, which resulted from the IFRS 9 expected credit loss model (2020: US\$ 9,982k).

The amounts in the table below show the Company's gross maximum exposure to credit risk without taking account of any collateral or economic hedges in place:

\$'000	31.12.2021	31.12.2020
Investments	726,563	580,840
Debtors	236,659	286,721
Cash and banks	2,520	3,504
Total exposure	965,742	871,065
Collateral	255,609	356,965

As at 31 December 2021 the caption debtors include the carrying amount of US\$ 222,007k (31 December 2020: US\$ 285,586k) regarding reverse repurchase agreements with fellow Group undertakings (see note 11).

The captions above include approximately 0% of direct exposure to sovereign debt of the Russian Federation, 0.52% to sovereign debt of the Republic of Ukraine and 0.37% to debt of entities domiciled in Belarus, which as of December 31, 2021, add-up to a total of 0.89% of direct exposure to these three geographies, which as of March 31, 2022 was approximately 0.31%. Additionally, these categories include exposure to debt issued by entities domiciled in the European Union and the United Kingdom and which present risk related to the aforementioned countries, which as of 31 December 2021 was 7.87% and as of 31 March 2022 was 5.44%. The direct and indirect exposure to these geographies relates to fixed-income securities (Eurobonds in USD and EUR), with no other exposures, active or passive, with entities in these countries.

(b) Market risk
Interest rate risk

The Company has interest bearing assets. Interest bearing assets include cash balances, all of which earn interest at a fixed or floating rate. The Company has a policy of maintaining deposits at fixed rates to ensure certainty of future interest cash flows. Additionally, and in order to hedge the interest rate risk from its fixed income due to movements in interest rates, as explained in Note 11, the Company uses interest rate swaps. The directors will revisit the appropriateness of this policy should the Company's operations change in size or nature.

Foreign exchange risk

The Company is exposed to foreign exchange risk mainly from its fixed income securities portfolio held in foreign exchange currency (euros). The Company hedges its foreign exchange risk through derivative contracts (foreign exchange swaps) as explained in Note 11. The directors will revisit the Company's exposure to foreign exchange risk should the Company's operations change in size or nature.

(c) Liquidity Risk

Liquidity risk is managed through maintaining sufficient cash and investing in mainly highly liquid instruments such as short-term money market instruments. The Company's funding arises primarily from the regular settlement of market counterpart trades, as well as amounts due from the activities and relationships with Banco Finantia S.A. Group entities.

Analysis of liabilities by remaining maturities

The table below summarises the maturity of the Company liabilities at 31 December 2021 and 2020 based on contractual undiscounted repayment obligations.

\$'000	2021				
	Repayable on demand	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years
Repurchase agreements	-	221,698	316,430	144,447	-
Amounts owed to Group undertakings	-	13,788	7,507	115,913	-
Amounts due to market counterparties	-	-	82	236	-
Corporate tax liability	-	-	-	-	-
Deferred tax liability	-	-	-	-	-
Derivative financial instruments	-	-	632	6,193	1,138
Sundry creditors	-	133	-	-	-
	-	235,619	324,651	266,789	1,138

	\$'000	2020			
		Repayable on demand	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years
Repurchase agreements	-	227,801	283,248	106,836	-
Amounts owed to Group undertakings	-	623	-	78,855	-
Amounts due to market counterparties	-	13,999	138	427	-
Corporate tax liability	-	-	-	-	-
Deferred tax liability	-	1,428	-	-	-
Derivative financial instruments	-	16	-	10,679	8,520
Sundry creditors	-	126	-	-	-
	-	243,993	283,386	196,797	8,520

The Company received US\$ 255,609k (2020: US\$ 356,965k) of securities as collateral in reverse repo transactions under rehypothecation agreements with Group companies (see note 11). The collateral received is not recognised on balance sheet as it does not meet the recognition criteria under IFRS 9.

The Company posted US\$ 36,911k (2020: US\$ 148,157k) of securities as collateral in repo transactions under rehypothecation agreements with Group companies (see note 13). This collateral posted remains on balance sheet as it does not meet the de-recognition requirements under IFRS9.

The amount of US\$ 5,680k (2020: US\$ 83,514k) of the collateral received in has been posted out to group entities under rehypothecation agreements. All of the assets posted by the Company as collateral on repurchase agreements with fellow Group companies is eligible to re-posted under re-hypothecation agreements.

16. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- > **Level 1 financial instruments** – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Company has access to at the measurement date, or prices matching those disclosed by market participants that are usually market makers in the respective assets/liabilities when the market is considered active.

- > **Level 2 financial instruments** – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. Adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument.
- > **Level 3 financial instruments** – Those that include one or more unobservable input that is significant to the measurement as a whole.

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

\$'000	31.12.2021			31.12.2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Derivative financial instruments	-	2,493	-	-	34	-
FVTOCI – Fixed income securities	265,094	183,245	1,012	255,870	234,643	2,110
FVTOCI – Loans and receivables	-	9,090	-	-	13,820	-
Liabilities						
Derivative financial instruments	-	7,963	-	-	19,214	-

Specifically for fixed income securities, Level 1 includes quoted prices in official markets and those disclosed by market providers that are usually market makers in the respective assets/liabilities when the market is considered as active, Level 2 includes securities whose valuation is obtained through quotes published by independent entities but whose markets are not considered as official markets or have a lower level of liquidity and Level 3 includes the remaining securities whose valuation is obtained one or more unobservable input that is significant to the measurement as a whole.

As of December 31, 2021, the Company classified as Level 3, impaired financial instruments involved in restructuring lawsuits due to financial difficulties and for which it was not possible to assess their fair value based on observable market prices and representative of transactions carried out in the market. In these cases, the fair value of the instruments was determined based on the use of valuation techniques that consider the expected future cash flows updated based on a discount rate representative of the risk of the respective exposures.

During 2021, the amount of US\$ 1,012k (2020: US\$ 2,110k) was transferred to Level 3, relating to impaired financial instruments involved in restructuring lawsuits due to financial difficulties and for which it was not possible to carry out an assessment of their fair value with the purpose of observable and representative market prices based on transactions carried out on the market. As of December 31, 2020, these instruments were classified as Level 2 in the amount of US\$ 3,120k.

Fair value of financial instruments not measured at fair value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

\$'000	31.12.2021				31.12.2020			
	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3
Assets								
Financial assets at amortised value	268,122	123,085	143,518	1,375	74,397	-	67,404	5,452
Debtors ^{a)}	234,166	234,166	-	-	286,687	286,687	-	-
Cash at bank and in hand	2,520	2,520	-	-	3,504	3,504	-	-
Liabilities								
Creditors ^{a)}	820,234	820,234	-	-	712,053	712,053	-	-

^{a)} excluding derivative financial instruments which are measured at fair value

Below are the methodologies and assumptions used to determine fair values for the above financial instruments, which are not recognized and measured at fair value in the Company's financial statements.

These fair values were calculated for disclosure purposes only. Management have assessed that the carrying value of these financial instruments is a reasonable approximation of the fair value.

Short-term financial assets and liabilities: For financial assets and financial liabilities that have a short-term maturity (less than one year), the carrying amounts, which are net of impairment, are a reasonable approximation of their fair value. Such instruments include: cash at bank and in hand, debtors and creditors. Such amounts have been classified as Level 1 on the basis that no adjustments have been made to the balances in the statement of financial position.

Loans and receivables: For fixed income securities the fair value was estimated based on prices/market quotes, using the same methodology as for the fair value through other comprehensive income instruments.

17. Related party disclosures

During the year, the Company did not enter into any transactions with a related party. At the balance sheet date, the Company did not have any balance with related parties.

As per note 1, the Company is taking advantage of the disclosure exemptions available over IAS 24 relating to transactions that occur within a group of entities with a common parent, who report the related party transaction of that group at the consolidated level.

18. Ultimate parent company and controlling party

The immediate and ultimate parent undertaking and controlling party is Banco Finantia S.A. (which is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2021), which is incorporated in Portugal. The consolidated financial statements for Banco Finantia Group can be obtained from Banco Finantia S.A., Rua General Firmino Miguel 5-1, 1600 Lisbon, Portugal.

19. Interest rate benchmark reform

The following table includes disclosures of both derivatives and non-derivative instruments that continue to reference significant interest rate benchmarks subject to interest rate benchmark reform as at 31 December 2021. The amounts provide an indication of the extent of Company's exposure to the IBOR benchmarks that are due to be replaced. Amounts are in respect of financial instruments that contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark.

<i>\$'000</i>	LIBOR (USD)	EONIA (EUR)
Financial assets at fair value through other comprehensive income	9,090	-
Financial assets at amortised cost	37,945	5,538
Non-derivative financial assets	47,035	5,538
Reverse repurchase agreements	99,739	-
Non-derivative financial liabilities	99,739	-
Interest rate swaps derivatives (notional)	400,500	-

20. Subsequent events

On February 24, 2022, the Russian Federation invaded Ukraine, triggering a conflict involving three countries: Russia, Ukraine and Belarus. In response, several economic sanctions were approved with the aim of impacting the economies of Russia and Belarus by a group of countries which include NATO countries, European Union and other countries. There is a possibility that the Company will be impacted by losses in assets exposed to those countries, as a result of the aforementioned economic sanctions as well as through the destruction that has taken place in Ukraine with the conflict.

The Company's direct and indirect exposure to the Russian Federation, Republic of Ukraine and Belarus, as at 31 December 2021, relates to fixed-income securities (Eurobonds in USD and EUR), with no other exposures, asset or liability, with entities of these countries (see note 15).

In this context, and in order to assess the potential impact of this conflict on its activity, the Company prepared two stress scenarios, the first taking into account that there has been, to date, no declared default on the securities of the referenced issuers, which presupposes the application of a one-year probability of default in line with the current international ratings of these securities (PD = 30%) and a loss given default of 45% (regulatory LGD), in line with the guidelines of the "foundation internal" approach ratings-based" provided for in the Basel Accord, and a second, a more adverse scenario, which considers a default probability of 100%, with the same LGD level. In both scenarios, the Company continues to present a CET1 ratio considerably above the regulatory minimum, with the impact of the first scenario being a decrease of 97 bps on the CET1 ratio and the second scenario a decrease of 336 bps, which as of 31 December 2021 would place the CET1 ratio by 16.2% or 13.8%, respectively. In view of the above, and taking into account the information available at the time on the evolution of this situation, the probability of a significant impact on the Company's activity is not to be expected.

On the 2nd March 2022, the Board of Directors decided to increase the share capital of the Company by US\$ 20,000k, through the issuance of 20,000,000 new shares of US\$ 1 each. These shares were allotted to Banco Finantia, S.A. and Finantia Holdings, B.V., the shareholders of the Company, in their proportion of percentage in share capital.