Banco Montepio

Valores que crescem consigo.

REPORT AND ACCOUNTS 2019

This report is the English version of the document “Relatório e Contas 2019” published by Banco Montepio in the Portuguese Securities Commission (CMVM) website in accordance with Portuguese Law. Should there be any doubt or contradiction between documents, the aforementioned Portuguese version prevails.

CONTENTS

PART I – MANAGEMENT REPORT ... 4
MESSAGE OF THE CHAIRMAN ... 6
GOVERNING BODIES ... 9
KEY INDICATORS ... 12
LANDMARKS 2019 ... 14
THE BANCO MONTEPIO GROUP ... 18
GROUP STRUCTURE ... 18
THE BANK MONTEPIO BRAND ... 19
PEOPLE ... 22
CHANNELS, NETWORKS AND CUSTOMER RELATIONSHIP ... 27
INNOVATION AND QUALITY ... 31
BUSINESS ENVIRONMENT ... 34
ECONOMY ... 34
FINANCIAL SYSTEM ... 36
MAIN RISKS AND UNCERTAINTIES FOR 2020 ... 37
TRANSFORMATION PLAN ... 40
BUSINESS SEGMENTS ... 44
RETAIL BANKING ... 46
CORPORATE AND INVESTMENT BANKING ... 46
SOCIAL ECONOMY ... 47
SUBSIDIARIES ... 58
INTERNATIONAL ACTIVITY ... 63
OUTLOOK ... 65
FINANCIAL ANALYSIS ... 69
CAPITAL ... 70
LIQUIDITY ... 71
BALANCE SHEET ... 73
EARNINGS ... 85
PENSION FUND ... 93
RISK MANAGEMENT ... 96
RISK RATINGS ... 117
NON-FINANCIAL STATEMENT ... 120
FRAMEWORK DECREE-LAW NO. 89/2017 ... 120
RESPONSIBLE BUSINESS ... 120
VALUE CREATION FOR EMPLOYEES ... 123
VALUE CREATION FOR SOCIETY ... 127
CORRELATION TABLE WITH DECREE-LAW No. 89/2017 ... 134
GLOSSARY ... 135
CONSOLIDATED FINANCIAL STATEMENTS FOR 2019 ... 137
PROPOSAL FOR THE APLICATION OF RESULTS – Individual Basis ... 140
PART II – FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS ... 141
CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ... 143
FINANCIAL STATEMENTS AND NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS ... 353
STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION ISSUED BY THE BOARD OF DIRECTORS ... 535
COMPLIANCE WITH THE RECOMMENDATIONS REGARDING INFORMATION TRANSPARENCY AND ASSET VALUATION ... 537
ALTERNATIVE PERFORMANCE MEASURES ... 541
ACTIVITY REPORT AND OPINION OF THE SUPERVISORY BODY ... 550
ANNUAL REPORT OF THE AUDIT COMMITTEE ... 550
OPINION OF THE AUDIT COMMITTEE ... 565
STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT TO THE CONSOLIDATED FINANCIAL STATEMENTS ... 569
STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT TO THE FINANCIAL STATEMENTS ... 582
PART III – CORPORATE GOVERNANCE REPORT ... 594

PART I

MANAGEMENT REPORT

Banco Montepio

MESSAGE OF THE CHAIRMAN

MESSAGE OF THE CHAIRMAN

The year of 2019 represents a period of adjustments, placed in a process that is expected to be of recovery of the levels of efficiency and profitability of Banco Montepio. Thus, the accounts presented in this report continue to strongly reflect the costs of the credit policies endorsed in the past and the necessary fine-tuning of the selectivity criteria, already embarked upon in previous years. This was also the first year of implementation of the Transformation Plan, which aims to introduce a strategic and thorough redesign of work organisation, commercial policies and operational processes, with a view to taking the bank to higher levels of efficiency and quality in all their aspects, in particular in the services provided to customers. It was also a year of adjustments in the institution's internal governance, with the completion of the Committees of the Board of Directors (statutorily and regulatorily established), and with the stabilisation, at the end of the year, of their composition in terms of executive and non-executive members. This framework enables total concentration, during the year underway and in future years, on the demanding tasks required to reinforce the bank's presence in the markets of individuals and companies, and restore the quantitative positions compatible with its potential dimension, while never losing sight of the necessary improvement of asset quality.

I continue to believe that, alongside the indispensable improvement of efficiency, Banco Montepio has the conditions and obligation to have a stronger presence in the national banking market, benefiting from the skills and dedication of its employees, from its origin, unique features and the prestige accomplished over its history of more than 175 years, indeed, celebrated precisely in 2019. Its enviable customer base, and the potential and unique differentiation of its product offer arising from its insertion in the Montepio Group, of mutualist nature, confers a cutting edge that must be the basis for a more intense relationship with its customers, thus enabling the achievement of productivity and profitability gains that are comparable with those of the most efficient operators of the system. Banco Montepio must stand out due to being different in terms of both its commercial offer and the values that it pursues, having goals consistent with its nature and origins, and also filling voids where the competitors are less present.

It is in this perspective that we reinforcing the human and material resources allocated to the social economy, where financial innovation and the provision of complementary services should lead to a stronger presence of the bank in a sector that is particularly cherished. The establishment of small commercial units in geographic areas that are less well served in terms of banking offer – never overlooking the analysis of their economic feasibility – is part of this policy, accomplished in 2019 with the opening of the first seven proximity branches.

Particularly relevant, was the start of activity, in May 2019, of Banco de Empresas Montepio (BEM), by reconversion of Montepio Investimento, which aims to significantly strengthen the Group's presence in the corporate segment, where loss of market share has been persistent for some years now. BEM emerged from an original vision in the current banking context: being a bank directed at companies, providing them with a complete service that goes far beyond those typical of the traditional commercial banking sector. As such, it is expected that BEM could play a significant role in the restructuring and recapitalisation of the Portuguese business sector, combining all the available instruments. The results obtained in a little over six months of activity have been particularly encouraging, and have enabled: (i) reversing the downward trend of the corporate business shown by the Banco Montepio Group over the last few years; (ii) restoring the customer base that the Group had lost; (iii) attracting new customers of major quality; (iv) improving the quality of the loan portfolio; (v) stimulating the international business; (vi) carrying out and raising important investment banking operations in different areas – capital market, corporate finance, financial advisory services, structured loans; and (vii) establishing relations with a base of key investors. These results, which extended into the initial months of 2020 with a turnaround of the downward trend in market share, created a legitimate expectation on the contribution of BEM to assert the Banco Montepio Group in the corporate segment, where the future reserves special challenges.

When talking of 2020 and what is expected from Banco Montepio, we should not forget that, at a time of reporting the results of the previous year, we are certainly undergoing one of the most difficult and complex periods of our economic history, in the midst of a pandemic, the consequences of which are still largely unpredictable. Portuguese companies and, by entrainment the banking sector, shall experience impacts of a scale that may be unpredictable, but shall certainly be significant. The destiny of both sectors is indeed closely linked, which is why the banks shall have to closely monitor the evolution of the situation of companies and their customers, and find the best ways and the best instruments not only to get through this period, but also to find new routes of development in the following period. With the shock suffered by many Portuguese companies, with the public support measures that shall inevitably emerge, the Banco Montepio Group's competence and skills shall be crucial in the efficient investment of the public and private funds that shall enable reconstructing the financial structure of viable companies and fostering a new surge of investment, leading to a new paradigm of financial solidity and competitiveness. It is also our responsibility to contribute to ensuring that this unfortunate period shall give rise to a better future, based on consistent foundations drawn from the lessons offered by the past.

On behalf of the Board of Directors, I wish to thank all the employees of the Banco Montepio Group for their dedication and effort placed at the service of this institution, during a particularly demanding year. I would also like to thank our Auditors and Supervisors for the critical but always cooperative and constructive way in which they performed their duties in relation to Banco Montepio. Special reference should be made to Banco de Portugal, whose follow-up of the process of stabilisation of the corporate governance of our institution proved crucial. Finally, I would like to express my gratitude to our shareholders and, in particular, Montepio Geral Associação Mutualista, with its more than six hundred thousand associates (almost entirely our customers) that merit all the dedication and competence that the Board of Directors can place in driving the destinies of Banco Montepio.

GOVERNING BODIES

GOVERNING BODIES

As at 31 December 2019, Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter referred to as "CEMG" or "Banco Montepio") had a one-tier governance (Anglo-Saxon) model, as established in paragraph b) of number 1 of article 278, article 423-B and following of Section III and article 446-A and following of Section VII of the Commercial Companies Code, with a Board of Directors that includes the Audit Committee (elected at the General Meeting from among the non-executive members) and a Statutory Auditor. Thus, the composition of the governing bodies of Banco Montepio for the term of office 2018-2021 was as follows:

BOARD OF THE GENERAL MEETING

Chairman	António Manuel Lopes Tavares
Secretary	Cassiano da Cunha Calvão

BOARD OF DIRECTORS

Chairman	Carlos Manuel Tavares da Silva[1]
Non-Executive Members	Amadeu Ferreira de Paiva Carlos Francisco Ferreira Alves[2] José da Cunha Nunes Pereira[3] Manuel Ferreira Teixeira Pedro Jorge Gouveia Alves Rui Pedro Brás de Matos Heitor Vítor Manuel do Carmo Martins
Executive Chairman	Pedro Manuel Moreira Leitão[4]
Executive Vice-Chairman	Dulce Maria Pereira Cardoso Mota Jorge Jacinto[5]
Executive Members	Carlos Miguel López Leiria Pinto[6] Helena Catarina Gomes Soares de Moura Costa Pina José Carlos Sequeira Mateus Leandro Rodrigues da Graça Silva Nuno Cardoso Correia da Mota Pinto Pedro Miguel Nunes Ventaneira

[1] Mr. Carlos Tavares held office as Chairman of the Executive Committee, in an arrangement of accumulation of duties with the position of Chairman of the Board of Directors, under the terms authorised by Banco de Portugal, up to 11 February 2019.

[2] Mr. Carlos Ferreira Alves, elected at the Universal General Meeting of 30 October 2018, was authorised by Banco de Portugal on 27 December 2018, having taken office on 15 January 2019.

[3] Mr. José Nunes Pereira, elected at the Universal General Meeting of 05 December 2019, was authorised by Banco de Portugal on 16 March 2020, having taken office on 01 April 2020.

[4] Mr. Pedro Leitão, elected at the Universal General Meeting of 5 December 2019, was authorised by Banco de Portugal on 21 December 2019, having taken office as Chairman of the Executive Committee on 9 January 2020.

[5] Mrs. Dulce Mota, elected by unanimous resolution in writing of 23 November 2018, was authorised by Banco de Portugal on 8 January 2019, having taken office 9 January 2019. In the capacity of Vice-Executive Chairman, she performed the duties of Chairman of the Executive Committee, under a replacement arrangement, during the period from 11 February 2019 to 8 January 2020.

[6] Mr. Carlos Leiria Pinto resigned from his position taking effect on 31 March 2020.

Audit Committee

Chairman	Manuel Ferreira Teixeira[7]
Members	Amadeu Ferreira de Paiva Carlos Francisco Ferreira Alves José da Cunha Nunes Pereira Vítor Manuel do Carmo Martins

Statutory Auditor

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., represented by:

- José Manuel Henriques Bernardo, enrolled at the Statutory Auditors Association (OROC) under number 903 and at the Securities Commission (CMVM) under number 20160522
- Carlos José Figueiredo Rodrigues, enrolled at the Statutory Auditors Association (OROC) under number 1737 and at the Securities Commission (CMVM) under number 20161347

[7] Mr. Manuel Ferreira Teixeira was appointed Chairman of the Audit Committee, taking effect on 1 October 2019, following the resignation from office of Luís Eduardo Henriques Guimarães, non-executive member who was Chairman of the Audit Committee up to 30 September 2019, inclusively.

KEY INDICATORS

Banco Montepio

KEY INDICATORS

	2017	2018	2018 Restated	2019	Change 19/18
ACTIVITY AND RESULTS (million euros)					
Total assets	20 200	18 351	18 332	17 740	(3.2%)
Loans to customers (gross)	13 727	13 068	13 068	12 239	(6.3%)
Customers' deposits	12 561	12 575	12 575	12 525	(0.4%)
Net income	6	13	14	22	59.6%
SOLVENCY [(a)]					
Common Equity Tier 1 ratio	13.2%	13.5%	13.3%	12.4%	(0.9 p.p.)
Tier 1 ratio	13.2%	13.5%	13.3%	12.4%	(0.9 p.p.)
Total Capital ratio	13.3%	14.1%	13.9%	13.9%	0.0 p.p.
Leverage ratio	7.6%	7.8%	7.6%	7.0%	(0.6 p.p.)
Risk weighted assets (million euros)	11 875	10 759	10 731	10 299	(4.0%)
LIQUIDITY RATIOS					
Loans to customers (net) / Customers' deposits [(b)]	103.7%	96.4%	96.2%	91.5%	(4.7 p.p.)
Loans to customers (net) / On-balance sheet customers' resources [(c)]	92.4%	88.7%	88.5%	82.4%	(6.1 p.p.)
CREDIT QUALITY					
Cost of credit risk	0.7%	0.5%	0.5%	1.0%	0.5 p.p.
Ratio of loans and interest overdue by more than 90 days	7.5%	7.0%	7.0%	5.6%	(1.4 p.p.)
Coverage of loans and interest overdue by more than 90 days	107.4%	103.4%	106.4%	113.2%	6.8 p.p.
Non-performing exposures (NPE) [(d)] / Gross customer loans	16.4%	14.4%	14.4%	12.2%	(2.2 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	44.9%	50.3%	51.7%	52.1%	0.4 p.p.
NPE (d) coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	87.0%	86.2%	87.7%	87.2%	(0.5 p.p.)
Forborne exposures [(d)] / Gross customer loans	8.2%	7.2%	7.2%	7.1%	(0.1 p.p.)
PROFITABILITY AND EFFICIENCY					
Total operating income / Average total assets [(b)]	2.5%	2.0%	2.0%	2.3%	0.3 p.p.
Net income before income tax / Average total assets [(b)]	0.2%	0.3%	0.3%	0.2%	(0.1 p.p.)
Net income before income tax / Average total equity [(b)]	3.0%	3.5%	3.6%	2.9%	(0.7 p.p.)
Cost-to-income (Operating costs / Total operating income) [(b)]	53.0%	68.8%	68.8%	59.2%	(9.6 p.p.)
Cost-to-Income, excluding specific impacts [(e)]	67.2%	69.3%	69.3%	69.5%	0.2 p.p.
Staff costs / Total operating income [(b)]	44.5%	41.3%	41.3%	36.7%	(4.6 p.p.)
EMPLOYEES AND DISTRIBUTION NETWORK (Number)					
Employees					
Group Banco Montepio total	4 189	3 944	3 944	3 962	18
Banco Montepio	3 630	3 566	3 566	3 563	(3)
Branches					0
Domestic network - Banco Montepio	324	324	324	332	8
Of which: Proximity Branches	-	-	-	7	-
Of which: BEM Business Centres	-	-	-	2	-
International Network	34	24	24	24	0
Finibanco Angola [(f)]	24	24	24	24	0
Banco Terra [(g)]	10	-	-	-	-
Representation Offices - Banco Montepio	5	5	5	5	0

(a) Pursuant to CRD IV / CRR (phasing-in). The ratios reflect adhesion to the special regime of deferred tax assets.
(b) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.
(c) Total on-balance sheet customers' resources = Customers' deposits and debt securities issued. Computed in accordance with the Financial Statements annexed to this report.
(d) EBA definition.
(e) Excludes results from financial operations and other operating results. (net gains arising from the sale of other financial assets and other operating income).
(f) Includes corporate centres.
(g) As of 31 December 2018 Banco Terra does not include the consolidation perimeter of the Banco Montepio Group.

LANDMARKS 2019

LANDMARKS 2019

- **Election of new members of the governing bodies**

  In conformity with the authorisations granted by Banco de Portugal, in beginning of 2019 the following members of the Board of Directors of Banco Montepio commenced the term of office 2018/2021:

  - Mrs. Dulce Maria Pereira Mota Jorge Jacinto, took office as Executive Director on 9 January 2019;
  - Mr. Carlos Francisco Ferreira Alves took office as non-executive member of the Audit Committee on 15 January 2019.

  In 2020, at a meeting of the Board of Directors held on 9 January, the nomination was approved of Mr. Pedro Manuel Moreira Leitão as Chairman of the Executive Committee for the remaining period of the term of office 2018/2021.

  On 1 April 2020, Mr. José da Cunha Nunes Pereira took office as Non-Executive Director of the Board of Directors of Banco Montepio.

- **Nomination of the members of the Remunerations, Nominations and Assessment Committee**

  The Remunerations, Nominations and Assessment Committee, established in article 19 of the Articles of Association of Banco Montepio, had its composition approved by resolution of the Board of Directors of 7 February 2019 (Mr. Amadeu Ferreira de Paiva, Mr. Carlos Ferreira Alves and Mr. Manuel Ferreira Teixeira), and its Regulations by resolution of the Board of Directors during the session of 21 February 2019. It was initially chaired by Mr. Amadeu Paiva and, from 1 October 2019 onwards, by Mr. Manuel Ferreira Teixeira.

- **Creation of the Corporate Governance, Ethics and Sustainability Committee**

  The Corporate Governance, Ethics and Sustainability Committee was created by resolution of the Board of Directors during the session of 27 June, under the terms of article 18 of the Regulations of the Board of Directors, which determined, on 10 July 2019, the appointment of Mr. Carlos Tavares to perform the duties of Chairman of the Committee, and of Mr. Carlos Ferreira Alves and Mr. Rui Heitor as members, having also approved its Regulations.

- **Change of Image**

  At the beginning of 2019, the trade name “Caixa Económica Montepio Geral” gave way to “Banco Montepio” reflecting the internal transformation that the Bank is developing based on a new vision: a Portuguese and independent bank, increasingly closer to the Portuguese people. The new image is differentiated from the image of the parent company - Montepio Geral Associação Mutualista.

- **Launch of Banco de Empresas Montepio**

  In May 2019, the Banco Montepio Group strengthened its positioning in the corporate segment with the announcement of Banco Empresas Montepio (BEM), the trade name of Montepio Investimento, S.A. BEM is 100% controlled by Banco Montepio and was launched under the Transformation Plan in a group perspective with specialization of services under the Bank Montepio Group.

- **Opening of proximity branches**

  Affirming local banking, “banking of relations and proximity” as a strategic pillar, during 2019, Banco Montepio opened seven branches dedicated to proximity and convenience, in locations with a low offer of financial services.

- **Issuances: Subordinated debt and Mortgage bonds**

  In March 2019, Banco Montepio issued 100 million euros of subordinated debt, with a maturity period of 10 years. This issuance is eligible to reinforce tier 2 own funds (Tier 2).

  In November 2019, Banco Montepio issued 500 million euros of mortgage bonds, placed on the market. Investor demand was six times higher than the value of the issuance, clearly reflecting the success of this public offer, with the interest rate standing at 0.125%, a value below that initially projected, and corresponding to a level greatly below that of the previous operation conducted at the end of 2017, where the rate was 0.875%.

- **Intended non-consolidation of Finibanco Angola S.A.**

  In May 2019, the subsidiary Montepio Holding, SGPS, S.A. started negotiations with the shareholders of Banco de Negócios Internacional, S.A. (Angola) with a view to a merger between Finibanco Angola S.A. and Banco de Negócios Internacional, S.A. (Angola), thus maintaining the intended non-consolidation of this equity stake, pursuant to the applicable accounting policy.

- **Sale of portfolio of non-performing loans and real estate properties**

  Under the strategy of continuous reduction of non-productive assets, Banco Montepio carried out the following operations:

  - The sale of a portfolio of non-performing loans took place on 12 July 2019, in the form of direct sale. The gross value sold amounted to 321 million euros, primarily composed of loans on the balance sheet corresponding to around 270 million euros and the rest being loans written off from the assets (off balance sheet), of a portfolio entailing approximately 13 thousand contracts;
  - On 30 September 2019, Banco Montepio disposed of a portfolio of real estate assets, referred to as “BRICK” with a gross book value of 104 million euros, composed of 1,084 real estate properties, of predominantly residential use, dispersed throughout Portuguese territory.

- **Annual General Meeting**

  Banco Montepio held the ordinary general meeting of shareholders on 27 May 2019, with the following decisions having been taken:

  1. Management Report and Accounts of 2018, including the management report, the individual and consolidated accounts, the corporate governance report and other documents related to corporate information, supervision and audit – Approved unanimously;

  2. Proposal of the Board of Directors for application of results on an individual basis, for the financial year of 2018 – Approved unanimously;

3. Vote of praise to the Board of Directors and its members for the manner in which they managed the company during the financial year of 2018 and to the Audit Committee for the way they performed their duties during this same financial year – Approved unanimously;
4. Statement on the Remuneration Policy of Members of the Management and Supervisory Bodies in 2018 – Approved unanimously;
5. Remuneration Policy of Members of the Management and Supervisory Body of Caixa Económica Montepio Geral – Approved unanimously;
6. Election of the Statutory Auditor for the three-year period 2019-2021 of PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. – Approved unanimously.

- **Universal General Meeting**

  On 5 December 2019, a Universal General Assembly was held, called in an extraordinary manner and not requiring the established formalities, with the representation of all the shareholders owning the share capital, with the following decisions having been taken:

1. Amendment of the Articles of Association of Banco Montepio - article 8, number 3, paragraph a), article 12, number 1, article 14, number 2, article 20, number 1 and 2, and article 25, number 2 – Approved unanimously.
2. Election of the new directors for the Board of Directors of Banco Montepio: Mr. Pedro Manuel Moreira Leitão, Mr. António Manuel Egídio dos Reis and Mr. José da Cunha Nunes Pereira, the last being for the Audit Committee – Approved unanimously.

THE BANCO MONTEPIO GROUP

THE BANCO MONTEPIO GROUP

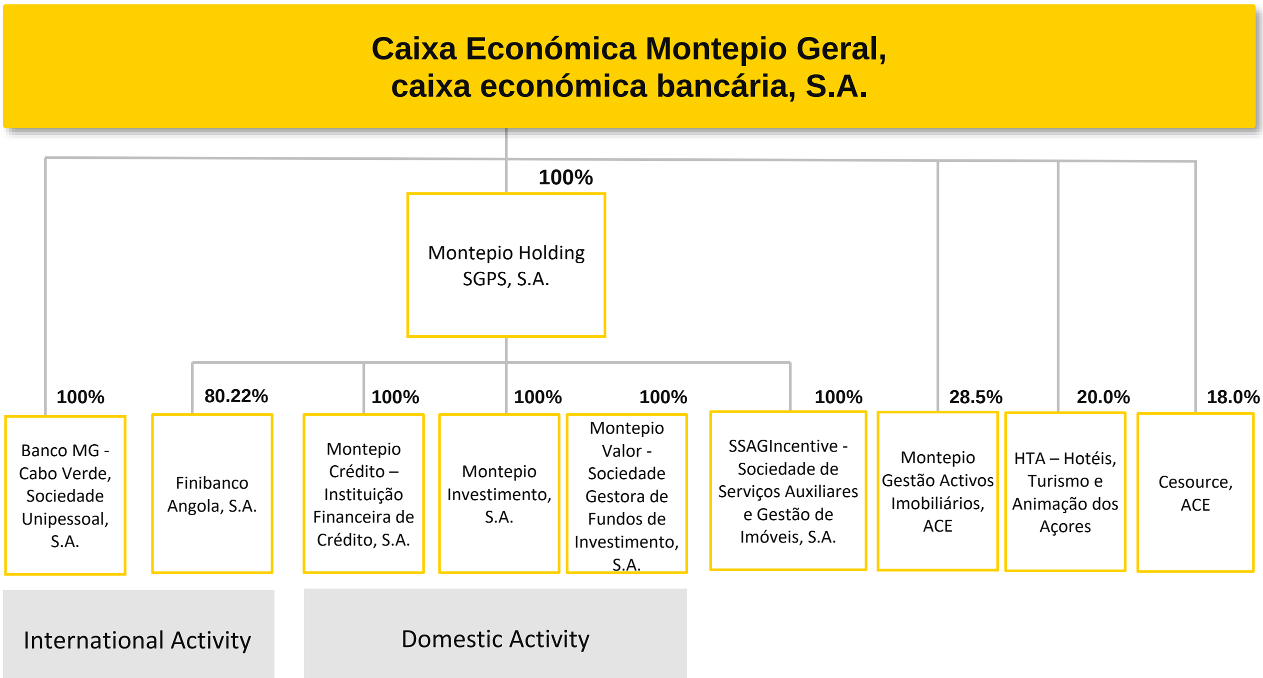
GROUP STRUCTURE

Pursuant to Decree-Law 190/2015, of 10 September, which approved the legal system of Savings Banks, Caixa Económica Montepio Geral is henceforth considered a savings bank, with its transformation into a public limited company arising from the same legal provision. Following this process, its current corporate name is Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Banco Montepio holds a number of equity stakes in entities, which seek to offer the Customers a broad and diversified range of banking and financial products and services, and contribute with their earnings to the mutualist goals. The Banco Montepio Group thus presents itself as one of the most differentiated banking and financial groups, aligned with its mutualist nature, which lend it unique features and an unmatched position in its activity sector and in Portuguese society.

As at 31 December 2019, the Banco Montepio Group was composed of the entities presented below:

- Full consolidation: Caixa Económica Montepio Geral, caixa económica bancária, S.A.; Montepio Holding, Sociedade Gestora de Participações Sociais, S.A.; Banco Montepio Geral Cabo Verde, Sociedade Unipessoal S.A.; Finibanco Angola, S.A.; Montepio Crédito - Instituição Financeira de Crédito, S.A.; Montepio Investimento, S.A. (Banco de Empresas Montepio); Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A., and SSAGINCENTIVE – Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.
- Consolidation by the equity method: Montepio Gestão de Activos Imobiliários, ACE; HTA – Hotéis, Turismo e Animação dos Açores, S.A. and; Cesource, ACE.



(% of capital share)

Under the strategic redefinition of its international subsidiaries, and with a view to refocusing the approach to the African market, a series of steps are being developed aimed at the deconsolidation of the subsidiary Finibanco Angola which, as at 31 December 2019, the Banco Montepio Group controlled and held an effective stake of 80.22%.

Considering the decisions taken by the Board of Directors, as well as the provisions in International Financial Reporting Standard (IFRS) 5, the activities developed by this subsidiary have been deemed discontinued operations since the end of 2016. Accordingly, in the income statement, the earnings of Finibanco Angola are henceforth stated in an operating account heading named “Income of discontinuing operations” and, in the balance sheet under the headings named “Non-current assets held for sale – Discontinuing operations” and “Non-current liabilities held for sale – Discontinuing operations”.

As at 31 December 2019, Banco Montepio Group's consolidation perimeter includes other entities consolidated by the full method, namely: Montepio Arrendamento I, II e III – Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional (FIIAH); Polaris – Fundo de Investimento Imobiliário Fechado; PEF – Portugal Estates Fund and Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (FEIIA); Pelican Mortgages No 3; Pelican Mortgages No 4; Aqua Mortgages No 1; Pelican Mortgages No 5; Pelican Mortgages No 6; and Pelican Finance No 1.

THE BANK MONTEPIO BRAND

175 YEARS OLD – A NEW IMAGE

In 2019, the year of commemoration of the 175 years of existence of Banco Montepio, the Banco Montepio brand presents itself to the market with a new image, in which its logo is the most visible face of the transformation that Banco Montepio continues to carry out, in line with the goal of protecting and strengthening its reputation as a distinctive brand in the banking sector.

Banco Montepio

The brand's evolution to its current identity reflects Bank Montepio's new vision: a national and independent bank, increasingly closer to the Portuguese. The new image respects the institution's historic and chromatic heritage, but has evolved towards representing the strength and confidence of a bank prepared to face the challenges of the future.

The pelican, ancestral symbol of the brand, represents strength and trustworthiness. Blue, inherited from Montepio's history, is the legacy that conveys trust, security and determination. And the new yellow, more optimistic and energic, symbolises proximity, innovation and renovation. The promise of a future is revealed in the brand signature, which is kept: “Valores que crescem consigo” (Values that grow with you).

The year of 2019 was also the year that the SuperBrand distinction was awarded for the 10th time, marking the recognition of the action of excellence of Banco Montepio in the banking sector. Superbrands® is an independent international organisation dedicated to identifying and promoting Brand of Excellence in eighty-nine countries, with selection criteria, based on studies conducted among consumers and the opinion of the Superbrands Council.

PROTECTION AND REINFORCEMENT OF BRAND REPUTATION

Throughout 2019, Banco Montepio achieved positive media performance, as a result of its proactive communication of strategic topics for the institution and of interest for its stakeholders. These topics included rebranding, which took place in early 2019, and the creation of a network of branches dedicated to proximity and convenience.

Other topics strengthened the image of the Banco Montepio brand throughout 2019 such as the issuance of subordinated debt, the issuance of mortgage bonds, the sale of portfolios of non-performing loans and the disclosure of results of Banco Montepio.

Various promotional product campaigns were also noteworthy, such as the Housing Loan campaign, under the delineated strategy, with an anchor product with a central relationship with the Customers, a segment where Banco Montepio has traditionally shown an outstanding market share. This was also the case of the launch of the debit card adapted for the visually impaired, the support to social economy projects such as the Magic Glow-Worm, and, in the area of entrepreneurship and innovation, the "Montepio Acredita Portugal" (Montepio Believes Portugal) competition, among others.

Moreover, it is also important to highlight the communication of a series of initiatives developed throughout 2019, such as the Trainee programme, which contributed to strengthen the positioning of Banco Montepio as an Employer Brand.

CAMPAIGNS AND PARTNERSHIPS

The first campaign held in 2019 presented and reinforced the recent change of image of Banco Montepio, which was followed by a campaign allusive to Housing Loans, highlighting the expression “O Banco que Vive Connosco” (The Bank that Lives with Us). This was then followed by the Personal Credit campaign, under the motto “O Banco que está ao meu lado” (The Bank that is at my side), which positions the Bank as a partner in the life of everyone, with solutions for various needs and always present at all times, like a member of the family.

At the end of 2019, was launched the campaign “Abrigado pela ajuda” (a play on the words thank you and sheltered for your help), symbolic, but big in purpose: to challenge civil society to support homeless people. This campaign embraced the cause of people in a situation of semi-homelessness with a donation made to the charitable institution Comunidade Vida e Paz and Associação dos Albergues Nocturnos do Porto (association of night shelters of Porto), because it only takes a small gesture to make a differences in the life of these people, whether in the form of donations of cash, food, clothing or simply time.

The indices of brand visibility in communication and reputation progressed in 2019, and likewise the perception of the Bank's image. According to the Brand Score 2019 study, Banco Montepio increased its campaign recall scores and showed a positive trajectory in all aspects of image, standing out from the competition in the attributes of young bank, excellent attendance, professionalism, benefits to customers and sustainability. The image values most associated to the brand are proximity, professionalism, excellent attendance and digital, and the Bank also improved its positioning with respect to ethics, environmental sustainability and good corporate governance.

“O Banco Explica” (The Bank Explains) and “Que barulho é este?” (What noise is this?)

The new editorial project arising from a partnership between Banco Montepio and Rádio Renascença was launched in June 2019: “O Banco Explica” (The Bank Explains). This is a financial literacy project with duration of six months, which includes weekly broadcasts with tutorial contents, recorded by Banco Montepio at Rádio Renascença studios, in question/answer format, covering around 40 topics, from spreads to direct debits, the Revised Payment Services Directive (PSD2) and Housing Loans.

In just three minutes, the initiative seeks to simplify the banking topics, endowing the Portuguese with knowledge that will enables them to take more conscious and informed financial decisions.

The second series of the broadcast game “Que barulho é este, na RFM?” (What noise is this on RFM?) started in October 2019 and, as had been the case of the first series, featured Banco Montepio as its official sponsor. The Bank's association to this competition, which put the Portuguese “guessing noises” to win prizes, strengthened the brand's reputation in the country, especially among younger audiences.

Real Estate Fair of Portugal

As in previous years, Banco Montepio, in collaboration with Montepio Gestão de Activos Imobiliários, attended this leading national fair of the real estate sector. The optimistic yellow stand, with four fronts, the logo standing out in an upper middle plane, reflected the new visual positioning of the brand. With a renovated and dynamic design, using audiovisual means, the Banco Montepio brand did not go unnoticed among the investors, entrepreneurs and public in general.

EMPLOYER BRAND

New Trainee Programme image

In order to draw the brand closer to the academic world, enhancing its visibility, and recruit trainees to specialized areas of the Bank, the second edition of the Banco Montepio Trainees Programme was launched, accompanied by a new graphic line that is more contemporary, with strong colours creating a young, direct and modern appearance, while the promise 'Dá valor ao teu futuro' (Value your future) reinforces the signature of Banco Montepio 'Valores que crescem consigo' (Values that grow with you).

PEOPLE

The scenario of changes imposed by Banco Montepio's Transformation Plan, aimed at capacity building for the new challenges and attainment of the aspired and necessary goals, to a large extent determined the initiatives carried out in the area of people management throughout 2019.

Firstly, the renaming of the Human Resources Department to People Management Department sought to reflect a change that brought with it not only the reorganisation of its structure, but also the repositioning of its action, towards an effective improvement of response levels under its duties and responsibilities, alongside the search for the organisational solutions that Banco Montepio needs to accomplish its mission. Furthermore, the area of internal communication is now part of the People Management Department, with a view to strengthening pride in the culture of Banco Montepio and its employer branding, very especially among the segment of young university talent.

Having given its first steps in 2018, the consolidation of the performance management model was continued in 2019, in order to make it more perceptible by those being assessed and those assessing, and position it as a structural process and a valuable instrument for people management, giving it the purpose and consequence that should underlie a system of this nature.

Recognising the importance of the rejuvenation of its staff, Banco Montepio completed the trainee process, which had begun various years previously, with the incorporation of the majority in its permanent staff.

Likewise, in this context, the Bank laid the foundations to start a new trainee programme in 2020, which aims to be more consequent, due to the experience gained, so as to become a reference entity in the capture of talent.

Also in the field of recruitment, the initiatives prioritise the filling of vacancies due to retirement or other motives, as well as the areas that had lacunas of technical and leadership skills, which Banco Montepio did not have. In order to carry out this management, the recruitment model was reviewed, which incorporated new approaches, strengthening the skills of the technical personnel of the People Management Department with a view to achieving this desideratum.

Internal mobility, as a factor of growth and professional valorisation, and primary source of recruitment for completing the necessary skills in each areas of action, is of necessary relevance and acuity, with the reinforcement of initiatives aimed at their improvement. In this regard noteworthy the 32 processes carried out in 2019, not only covering Banco Montepio, but also the different companies of the Banco Montepio Group.

Recognising the importance of the creation of horizons of development and professional evolution, a talent management programme was designed with a view to integrating the employees recognised as having the basic characteristics for career progression, which shall start in 2020 as a pilot, thus laying the foundations for the future. It is expected that this programme should constitute a differentiating feature of Banco Montepio in its people management.

Concerning benefits and support to the Employees, the investment levels that have been channel to this area were maintained. In particular, this involves the support given to the Employees' children who are studying, with its scope covering all compulsory education and with improvement of the criteria of distribution of some of its components, as well as incentives for the commercial areas, announced at a meeting of managers organised for all the managers at a national level.

In the area of culture and internal communication, “breakfasts with the President” were organised to draw the younger generations closer to the senior management of the organisation, lunches of the Board of Directors with the commercial network, in a decentralised manner countrywide, monthly conferences referred to as “M Talks” on a variety of topics linked to leadership and innovation, as well as participation in experiential training programmes such as the Bright Challenge and Global Management Challenge.

The Mentorship Programme for Montepio Women was continued, aimed at strengthening their communication and leadership skills, and launching a baby kit for all Employees who become parents.

In the organisational sphere and concerning the creation of reference frameworks to target the action of people management in some issues considered relevant for the purposes pursued by Banco Montepio, various policies and regulations were reviewed and new ones prepared, namely the remuneration policy of employees and the remuneration policy of key employees, the guidelines for attribution of vehicles, the policy on performance, the policy on mobility and the policy on social support. All of these initiatives shall be continued in 2020.

Balance between professional and personal life was chosen as one of the focus points of action in the follow-up of the staff of Banco Montepio, with the promotion of a series of aggregate initiatives, in particular the “Semana do Bem-Estar” (Wellbeing Week), which involved, among other aspects, workshops on varied topics, such as nutritional education, healthy habits and physical exercise, with high participation rates by the employees across all levels of the organisation.

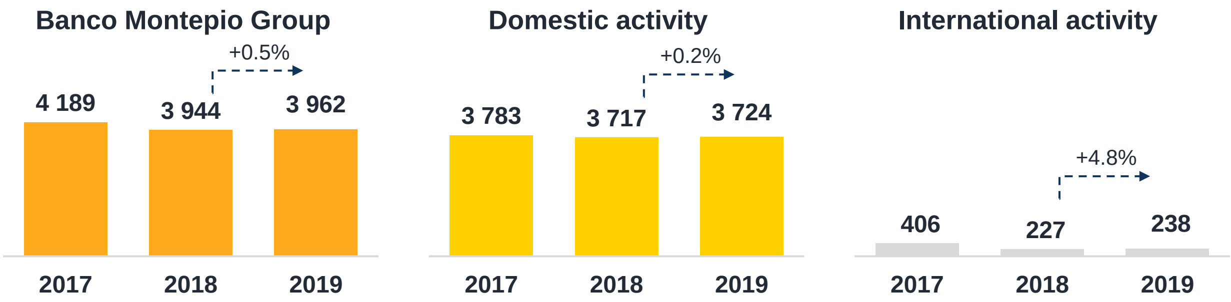
With a specific structure that acts in supporting and creating extraprofessional solutions for the Employees and their families, - Social Services-, stand out a series of initiatives developed during 2019: the Staff social gathering which was held during a weekend at a hotel, special access to the circus for children during the Christmas season, holidays camps, within a very diversified range on offer.

Institutional relations with the structures representing the workers were characterised by dialogue and search for platforms of understanding, and for the solutions that at any particular time may best meet the interests of the institution and its Employees.

The foundations were laid for an organisational diagnosis, to be accomplished in 2020, and that shall encourage the participation of all the Employees, so as to have a broad spectrum of opinions from which to draw sustained conclusions. This shall enable triggering the initiatives that respond to their main concerns and allow directing the action of Banco Montepio towards their fears and expectations, so as to achieve the results and goals defined by the institution.

Regarding the evolution of the staff, at the end of 2019, the Banco Montepio Group had a total of 3,962 Employees, having recorded an increase of 0.5% in relation to the same period of 2018, to a large extent explained by the stimulation of the activity of some subsidiaries.

EMPLOYEES EVOLUTION



As at 31 December 2019, the subsidiaries in Portugal recorded an increase of twelve Employees in comparison with the same period of 2018, as a result of the reduction of two Employees at Montepio Crédito and five employees at Montepio Valor, combined with the increase of nineteen Employees at Montepio Investimento.

In the international activity, Finibanco Angola recorded an increase of eleven Employees as at 31 December 2019 compared to the end of 2018.

	2017		2018		2019		Change 19/18	
	No.	%	No.	%	No.	%	No.	%
Domestic Activity	**3 783**	**90.3**	**3 717**	**94.2**	**3 724**	**94.0**	**7**	**0.2**
Banco Montepio (1)	3 630	86.7	3 566	90.4	3 563	89.9	(3)	(0.1)
Internacional Activity	**406**	**9.7**	**227**	**5.8**	**238**	**6.0**	**11**	**4.8**
Banco MG Cabo Verde	2	0.0	2	0.1	2	0.1	0	0.0
Finibanco Angola	223	5.3	225	5.7	236	6.0	11	4.9
Banco Terra (2)	181	4.3	0	0.0	0	0.0	0	-
Total	**4 189**	**100.0**	**3 944**	**100.0**	**3 962**	**100.0**	**18**	**0.5**

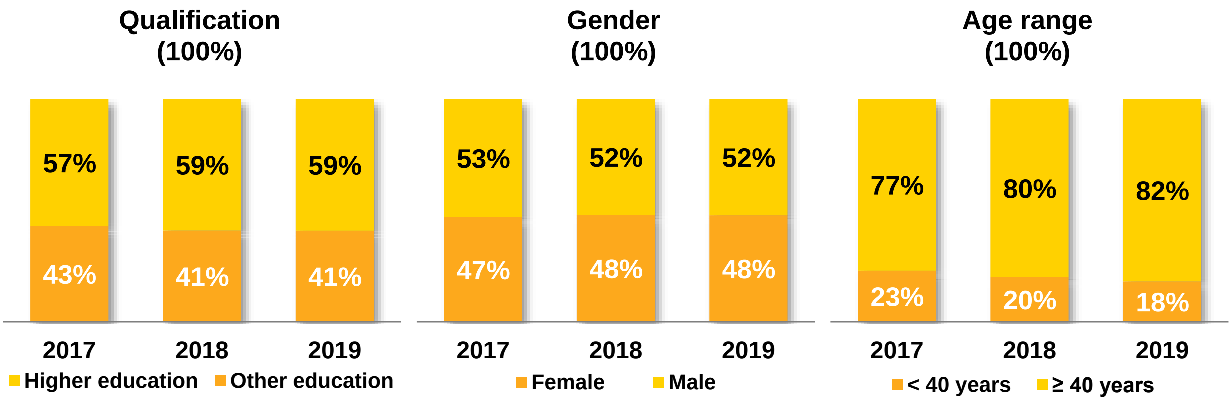
(1) Includes employees from Representation Offices. (2) On 31 December 2018 Banco Terra ceased to be part of the consolidation perimeter of the Banco Montepio Group.

	2017	2018	2019	Change 19/18	
				No.	%
Other Group entities (1)	**171**	**172**	**184**	**12**	**7.0**
Montepio Crédito	128	126	124	(2)	(1.6)
Montepio Valor	38	41	36	(5)	(12.2)
Montepio Investimento	5	5	24	19	>100

(1) Includes assignments from Banco Montepio employees.

Concerning the distribution of Employees by type of qualification and by gender, at the end of 2019 there were no changed recorded in relation to the same period of 2018. However, with respect to age structure, there was an increase in the proportion of Employees aged 40 years old or more, from 80% in 2018 to 82% in 2019.

DISTRIBUTION OF BANCO MONTEPIO EMPLOYEES



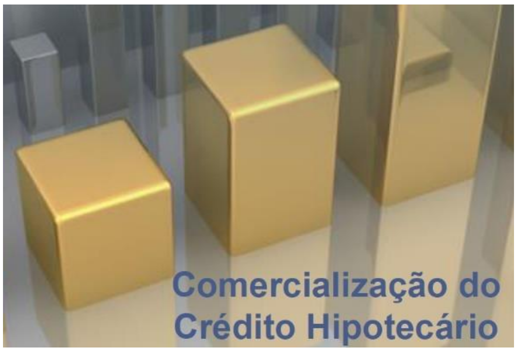
Human Resources

The Montepio Academy continues to evolve as a strategic and integrating pillar for the valorisation of the Employees of Banco Montepio, covering numerous initiatives aimed at boosting their development, in line with the organisation's Talent Management Model.

During 2019, there was an increase of the total participations, hours of training and number of actions in relation to the same period of 2018.

The 835 actions carried out involved 88.8% of the Employees of Banco Montepio and recorded 53,796 participations, covering a total of 133,921 hours of training.

The Compliance School continued to have a very strong focus in the series of initiatives developed by the Academia Montepio (Montepio Academy). In order to comply with the legal obligations and commitments undertaken with supervisory bodies, the main topics addressed referred to the Marketing of Mortgage Loans, Continuous Training on the Markets in Financial Instruments Directive (MiFID II), Knowledge of Euro Notes, and Knowledge of Metal Euro Coins.



In the Functional School, particular reference is made to the new training programme for recently recruited Employees of the commercial area, primarily aimed at supporting their integration in the position, providing them with a general understanding of the main areas of banking activity and, at the same time, giving them the necessary knowledge to enable their use of the business information and support systems.

This training includes an external component, focused on the framework of the financial system, with duration of 28 hours, ministered by the Instituto de Formação Bancária (Bank Training Institute), and an internal component of 7 hours, ministered by members of in-house specialist teams, for presentation of the main products and investments of the institution.

Cybersecurity issues were also particularly relevant in the topics developed by this School throughout 2019. The course of awareness-raising on the risks inherent to the actions of all the Employees was also offered, in order to endow the employees with the appropriate tools and knowledge for them to conduct their activity in a secure manner, protecting themselves and avoiding behaviours that cause damage to the organisation.

The entire set of initiatives developed by the Montepio Academy in 2019 continued to prioritise the construction of contents in-house and in e-learning format, combined with training through physical attendance, essentially directed at spreading it throughout the organisation with a multiplier effect.

Training indicators

	2017	2018	2019	change 19/18 (%)
Number of actions	1 174	684	835	22.1
Training hours	230 624	74 034	133 921	80.9
Number of participants	3 613	3 373	3 165	(6.2)
Number of participations	49 529	26 619	53 796	>100
Investment in training (thousand euros)	518	564	545	(3.4)
Employees covered by training	**99.5%**	**94.6%**	**88.8%**	**(5.8 p.p.)**

CHANNELS, NETWORKS AND CUSTOMER RELATIONSHIP

CHANNELS AND NETWORKS

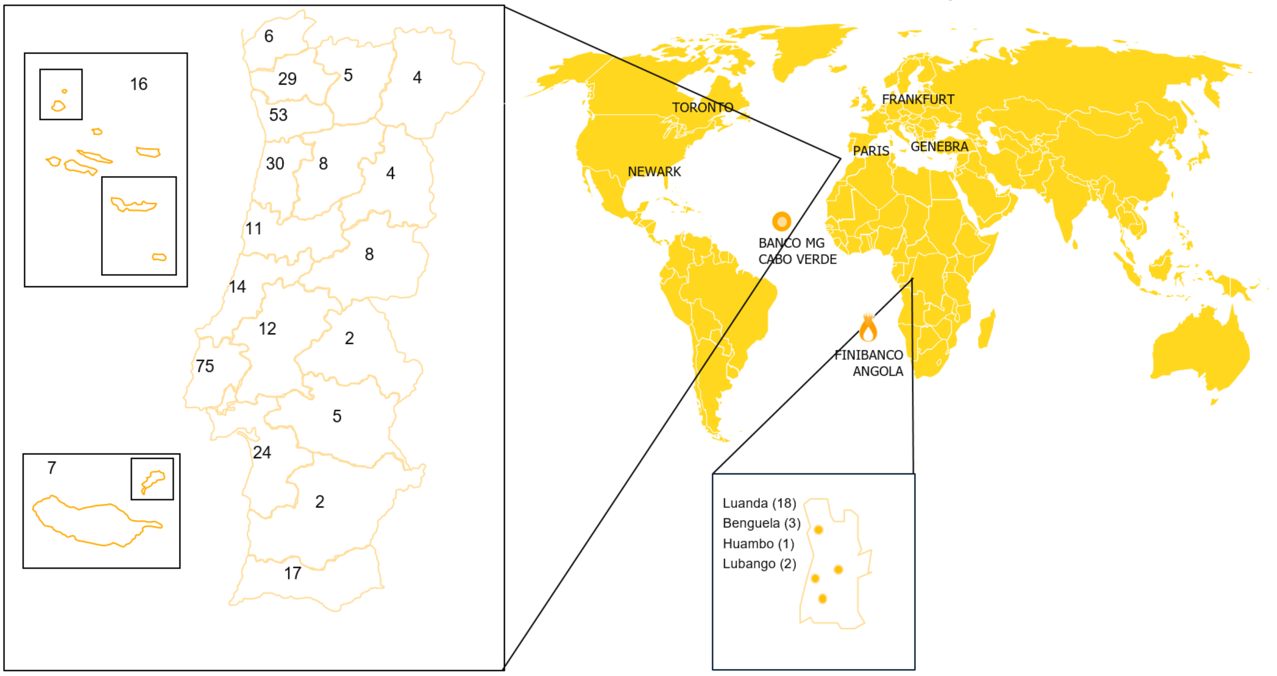
As at 31 December 2019, Banco Montepio held a network of 332 branches in Portugal, of which 7 were proximity and convenience branches, and 2 were business centres of Banco BEM (Lisbon and Faro). In the international activity, Finibanco Angola's distribution network had a total number of 24 branches (including 5 business centres), in line with the number recorded at the end of 2018. As at 31 December 2019, Banco Montepio maintained its 5 representation offices (Frankfurt, Geneva, Paris, Newark and Toronto), which ensure the presence of Banco Montepio among communities that are resident abroad.

No. of Branches and Representation Offices

	2017	2018	2019
Domestic network	324	324	332
Of which: Proximity Branches	-	-	7
Of which: BEM Business Centres	-	-	2
International network	34	24	24
Finibanco Angola [a]	24	24	24
Banco Terra [b]	10	-	-
Representation Offices	5	5	5

(a) Includes Corporate Centers. (b) As of 31 December 2018 Banco Terra does not include the consolidation perimeter of the Banco Montepio Group.

Branches (by districts and autonomous regions) **Representation Offices**



Banco Montepio also offers its Individual and Business customers a series of complementary channels of distribution of products and services being marketed and for customer relations, namely "Serviço Montepio24" (Montepio24 Service) by telephone, web, text messages, app and the recent dedicated channel "Connect24", the internal network of "Chave24" automatic tellers, the automated teller machines (ATMs) and automatic payment terminals (POS).

CUSTOMER MANAGERS

Banco Montepio's network of customer managers involved a total of 491 managers at the end of 2019, showing a reduction of 13 managers in relation to the same period of 2018. The heavier reduction in the Retail Banking segment is linked to the creation of Banco de Empresas Montepio (BEM) and consequent reorganisation of the segment at Banco Montepio, aimed at increasing the level of specialization and capacity of response to the needs of Portuguese companies. This reorganisation was reflected in the distribution of managers, namely 183 managers assigned to Small Businesses, 45 to Small and Medium-Sized Companies with turnover of less than 20 million euros, 29 to Institutional and Social Economy, and 34 to Small, Medium-Sized and Large Companies (with turnover equal to or more than 20 million euros). The Individuals segment had 200 managers in 2019, offering a personalised service and greater proximity to the Customer, factors that characterise Banco Montepio.

No. of Managers per customer segment

	2017	2018	2019	Change 19/18	
				Amount	%
Retail Banking	**471**	**464**	**428**	**(36)**	**(7.8)**
Individuals	205	201	200	(1)	(0.5)
Small Business	189	185	183	(2)	(1.1)
Companies [a]	77	78	45	(33)	(42.3)
Social Economy	**31**	**31**	**29**	**(2)**	**(6.5)**
Institutions and Social Economy [b]	31	31	29	(2)	(6.5)
Corporate Banking	**9**	**9**	**34**	**25**	**>100**
Companies [c]	9	9	34	25	>100
Total managers	**511**	**504**	**491**	**(13)**	**(2.6)**

(a) Turnover less than EUR 20 million

(b) Includes Microcredit managers.

(c) Turnover of EUR 20 million or more.

Note: Does not include managers of preventive credit monitoring.

COMPLEMENTARY CHANNELS

MONTEPIO 24

The "Serviço Montepio24" (Montepio24 Service), corresponding to a multichannel platform that includes the remote channels, recorded an increase of active Customers at the end of 2019 compared to the number recorded at the end of 2018, with a total number of 300,140 users in the Individuals segment (+4.8%) and 59,839 in the Corporate segment (+5.2%).

Distribution by Channel and by Customer Segment

Distribution Channel / Segment	Serviço M24	Phone24	Net24	SMS24	Netmóvel24
Individuals	300 140	21 002	223 935	550	193 227
Companies	59 839	5 316	57 934	10	18 186

Connect24 was provided in the first half of 2019; this is a dedicated channel where the Customers can authenticate themselves and authorise access to information and banking operations when requested by certified entities, thus meeting the Open Banking requirements. In 2019, Connect24 recorded a total of 2,643 consents and 414,515 operations derived from Third Party Providers (TPP)/Banks. Among the operations carried out through this channel, special reference is made to the “Movement Query”, primarily made by banks, via consent given by the Customers of Banco Montepio.

AUTOMATED TELLER MACHINES (ATM)

Montepio's total number of automated teller machines (ATMs) at the end of 2019 amounted to 965 machines, of which 380 were installed in branches and 585 were available at external locations. In net terms, the number of machines had fallen by 8 when compared to the same period of 2018, essentially due to the internal programme of optimisation of the total amount of machines.

Banco Montepio's market share in terms of number of ATMs stood at 8.1% at the end of 2019, compared to 8.4% recorded for the same period of 2018. The total number of machines available in the national market of the SIBS (Interbank Services Society) Global Network increased by 309 machines, to reach a total of 11,956 as at 31 December 2019.

The Chave24 internal network amounted to a total number of 343 installed machines, of which 285 are ATMs, 8 are Selfcheques and 50 are Bank Book updating machines.

POINT-OF-SALE TERMINALS (POS)

Banco Montepio's total number automatic payment terminals at point-of sale (POS) grew by 1.7% in 2019 compared to the number recorded at the end of 2018, with a total of 23,710 terminals installed.

Banco Montepio's market share in terms of number of POS stood at 6.5% at the end of 2019, compared to 6.8% recorded at the end of2018. The total number of machines available in the national market of the SIBS Global Network increased by 18,114 machines, compare to the number recorded at the end of 2018, reaching a total of 362,322 units (+5.3%).

CUSTOMER RELATIONSHIP

Cards

Banco Montepio's card business recorded an increase of 3.5% in 2019 in relation to the number recorded at the end of 2018, compared to 5.2% increase in the market, according to data provided by SIBS. Transaction value increased by 15.9% at Banco Montepio in relation to the amount observed at the end of 2018, compared to a 9.7% increase in the market.

Proximity and Convenience Branches

In 2019, in less urban zones of the country, a new concept was conceived of a branch aimed at being closer to people, especially those that most need proximity banking services. Seven branches were opened under this new model (Viseu-Abraveses, Fão, Covilhã-Ferro, Ferreira do Alentejo, Oiã, Pedras Salgadas and Avanca), enabling the populations to have Banco Montepio right next to them during daily life. This project entails proximity and convenience branches, with differentiated opening hours and shared management with nearby branches, accomplishing one of the measures of Banco Montepio's Transformation Plan.

Strong Authentication – Montepio24 Channels

PSD2 establishes compulsory strong authentication from 14 September 2019 onwards, pursuant to which the Montepio24 Service channels also began to require strong authentication upon login, every 90 days, in addition to the usual requirement of confirmation of outbound operations of assets. To this end, the authentication procedure is presented upon login using the web channel. These new rules enable making the electronic payment services more secure for the Customers of Banco Montepio.

Management of Functionalities and Limits – Montepio24 Channels

In the second half of 2019, the Montepio24 service channels provided, to individual and corporate customers, the possibility of disabling and enabling operations that they wish to make, through the Management of Functionalities, and adjustment of the maximum limit of the operations to their usual needs, through the Management of Limits, respecting the maximum limit per operation and per channel.

Warning Service – Montepio24 Channels

In the second half of 2019, the Montepio24 service channels started to offer individual and corporate customers the possibility of subscription to the Warning Service and the parameterisation of warnings related to payment operations, continuing the steps taken to make the electronic payment services even more secure.

COMPLAINTS MANAGEMENT

Banco Montepio views all the complaints received as an opportunity to continuously improve service quality and deepen relations with its Customers.

The Customer Office is responsible for the management of complaints, with its mission being to propose and implement the Complaints Management Policy of the Banco Montepio Group, ensuring the reception and handling of complaints, as well as the respective response to the Complainant and/or Supervisory Entities.

During 2019 there was an increase in the number of complaints received (new cases) of 41.1% compared to the same period of 2018. In 2019, the number of complaints submitted directly to Banco de Portugal fell by 3.2%, while the complaints presented in the Complaints Book increased by 37.5% in relation to 2018, with this evolution having been influenced by the possibility from July 2019 onwards of submitting complaints through the Electronic Complaints Book.

Indicators on Complaints

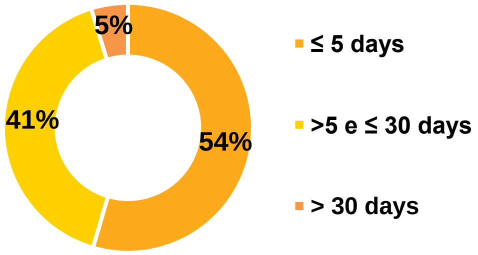
	2017	2018	2019	Change 19/18	
				Amount	%
Total Complaints	**4 988**	**4 029**	**5 685**	**1 656**	**41.1**
Of which:					
Banco de Portugal	465	316	306	(10)	(3.2)
Complaints Book	585	542	745	203	37.5

Note: Refers to complaints concerning Banco Montepio.

Regarding the response time recorded in 2019, 54% of new complaints were answered within 5 business days or less and 95% within 30 days. The average response time stood at 9 business days. With respect to complaints made via Banco de Portugal and the Complaints Book, the average response time stood at between 17 and 9 business days, respectively, below the legally required time limits (20 and 15 business days).

New Complaints in 2019

Average response time (business days)



Banco Montepio aims to ensure high levels of quality, transparency and rigour in the marketing of its products and services. Therefore, Banco Montepio's Customer Office continuously promotes recommendations and warnings, aimed at eliminating the causes of the submitted complaints at their point of origin.

INNOVATION AND QUALITY

In pursuing the Transformation Plan in course at Banco Montepio, a series of measures were identified to accomplish business, leveraged on simplification and digital transformation.

To this end, and as recommended in the Transformation Plan, without forgetting the importance and capillarity of the Banco Montepio branch network, two modernisation initiatives were provided in the fourth quarter of 2019 taking two products of the traditional banking sector for individuals – Housing Loans and Personal Credit – to the non-presential channels of Banco Montepio:

- Personal Credit Online – enables contracting personal credit in a manner 100% online, with total autonomy and security.
- Conditional Approval of Housing Loan – process designed to, at an initial stage of the granting of credit, to give the Customer a clear notion of its expected approval, thus providing the customer with reasonable security to proceed with the purchase of the house. The set of declarative data that is usually collected for credit simulation now also includes a query in real time to the credit centralisation of Banco de Portugal, which enables, once the veracity and accuracy of the conveyed declarative data has been confirmed, and after assessment of the real estate property, advancing with the credit granting process.

Following on from the priorities defined in the Transformation Plan, Banco Montepio started a series of initiatives to facilitate and improve the integration (onboarding) of individual and corporate customers, and the maintenance of Customer data.[8] These processes were redesigned in an omnichannel approach and shall be provided in the digital channel, reflected in a better experience due being more convenient and simple for the Customer.

With a view to improving operating efficiency, and in order to capture productivity gains, the first initiatives of robotization of processes were completed, with priority given to back-office processes.

Throughout 2019, Banco Montepio continued its investment effort in data support solutions, information management and analytical models, namely concerning risk management, with a project having been carried

[8] Onboarding is a directed implementation that guides a new customer in the use of a product or service of a company.

out aimed at the thorough modernisation of the current solutions and the implementation of solutions that shall enable Banco Montepio to strengthen its processes of governance and data quality.

At the same time, in the area of security, a new fraud prevention platform was implemented using the automation of knowledge (machine learning), aimed at enhancing security in the use of Banco Montepio's non-presential channels.

BUSINESS ENVIRONMENT

BUSINESS ENVIRONMENT

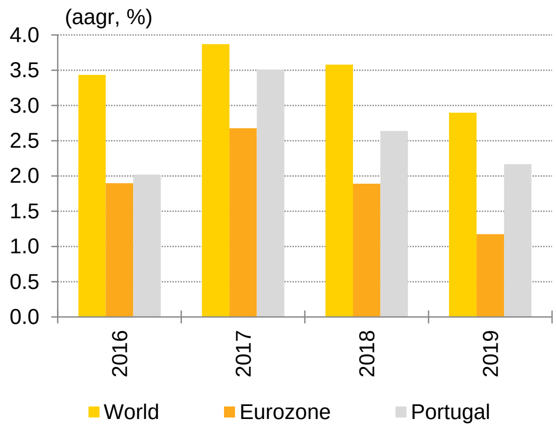
ECONOMY

World economy

In the recent World Economic Outlook (WEO) of April 2020, the International Monetary Fund (IMF) estimated the likely scale of the impact of the novel coronavirus (Covid-19) pandemic to be a 3.0% contraction of the world economy in 2020, followed by a partial recovery based on a 5.8% expansion of Gross Domestic Product (GDP) in the following year. This is a considerable downward revision, as in the update made in January, when the outbreak was still practically confined to China, the IMF projected an economic expansion of 3.3% in 2019 and 3.6% in the following year. The IMF noted that this would be the first time in almost a century that the advanced economies and the emerging markets would be simultaneously in recession. The IMF forecasts, for example, that the eurozone as a whole should contract by 7.5% this year. With Italy having been the European country most afflicted by the pandemic, it is natural that the IMF should foresee that this shall be the economy most penalised by the outbreak, having predicted that Italian GDP should shrink by 9.1% in 2020. Likewise, Germany (-7.0%), France (-7.2%) and the USA (-5.9%) are likely to experience significant contractions. In contrast, China is predicted to grow, but only by 1.2%, well below the 6.1% expansion achieved in 2019.

The IMF stressed that the world changed dramatically during the three months that elapsed since the last report (published in January 2020), highlighting that this is a crisis like no other, pointing to three reasons for such: *i*) the economic decline caused by the health crisis shall be heavier than the losses that triggered the financial crisis of 2007/08; *ii*) as in a war or political crisis, severe uncertainty persists on the intensity and duration of this economic shock; *iii)* this is a crisis in which it is much more difficult to put in place economic stimulus measures than other crises, because the economic paralysis arises precisely from the containment measures enforced. As such, the chief economist of the IMF advances that it is very likely that this year the global economy shall experience its worst recession since the Great Depression.

Gross Domestic Product (GDP)



Source: Thomson Reuters and IMF.

Economy of the Eurozone

The economy of the Eurozone continued its recovery throughout 2019, having, however (according to Eurostat data adjusted for seasonality and business days), recorded an annual average growth of GDP of 1.2%, lower than that observed in the previous year (+1.9%). This was in a year marked by sequential growth of GDP lower than that observed in the recent past, of merely 0.3% and 0.1% in the last two quarters of the year, after having grown by 0.2% in the second quarter and 0.4% in the first quarter. Throughout 2019, the European Central Bank (ECB) maintained its expansionary monetary policy, not having changed its reference rates: the interest rate of the main refinancing operations (refi rate) at 0.00%, but having reduced the deposit rate from -0.40% to -0.50% and resumed the asset purchase programme (APP II), with the average rate of monthly purchases established at 20 billion euros but without end date, in contrast to previous programmes.

Portuguese Economy

At a national level, after three years of recession, the Portuguese economy returned to growth in 2014 (+0.9%), having continued the process of gradual recovery during the following years, with 1.8% growth in 2015 and 2.0% in 2016, and accelerated strongly in 2017 to 3.5% (the strongest growth rate since 2000): +3.8%), but having decelerated in 2018, with GDP having grown by 2.6% (revised from +2.4%), and again in 2019, with growth of 2.2%. The growth of the economy in 2019 only reflected the positive contribution of domestic demand of 2.7 p.p., with the reduction of this contribution (+3.1 p.p. in 2018) primarily reflecting the slowdown of private consumption, but also the slight deceleration of public consumption, with gross fixed capital formation (GFCF) having accelerated and the investment in inventories maintaining its positive contribution. For 2020, it is notable that the expected strong negative impact of the coronavirus pandemic on the activities most related to tourism, as well as all other activities (particularly following the contingency measures implemented by the Government), have led us to make a strong downward revision of our outlook on the country's growth, in a context extremely marked by uncertainty. Naturally, neither shall the Government's previous budgetary goals be achieved, due to lower revenues and higher expenses channelled towards combating not only this public health crisis but also the ensuing economic crisis. In any case, these budgetary deviations should be placed in context with the European solutions for combating the crisis. However, it should be noted that the process of budgetary adjustment continued throughout 2019, continuing the positive year of 2018, which had been preceded by a strong exacerbation in 2017, essentially due to the impact of the recapitalisation of Caixa Geral de Depósitos (CGD). In 2019, in the State Budget 2020 (OE 2020), the Government estimated that the budget deficit should have fallen to 0.1% of GDP (-0.4% in 2018), with the data in the meantime disclosed by the Portuguese National Statistics Institute (INE) subsequently pointing to a budget surplus of 0.2% of GDP. In the labour market, the unemployment rate fell from 7.0% in 2018 to 6.5% in 2019, thus continuing the downward trend since the historic maximum peak reached in early 2013 (17.5%), but unemployment should increase significantly in 2020. Inflation, measured by the annual average rate of change in the consumer price index (CPI), stood at 0.3% in 2019, 0.7 p.p. less than that recorded for 2018 (+1.0%, after +1.4% in 2017), while core inflation (excluding the more volatile prices of energy and unprocessed food products) fell to 0.5% in 2019 (+0.7% in 2018 and +1.1% in 2017).

Other economies

In relation to other economies, it should be noted that in Angola, GDP is estimated to have experienced an annual average contraction of 1.5%, showing a worsening scenario (-1.2% in 2018). Cape Verde showed GDP growth of 5.7% in 2019, accelerating in relation to the 4.5% of 2018. Both economies should decline in 2020.

Financial markets

The year of 2019 showed a positive evolution in financial markets sentiment due to its very favourable performance, particularly in terms of the equity market. Very positive movements were observed in the main share indices, in the USA, where there was significant appreciation of the Dow Jones (+22.3%), S&P 500 (+28.9%) and Nasdaq (+35.2%), with all the indices having reached historic peaks close to the end of the year. In Europe, the Eurostoxx 50 also advanced strongly (+24.8%), more than double that observed in the United Kingdom's FTSE 100 (+12.1%) and the Portuguese PSI-20 (+10.2%). In Asia, the Japanese Nikkei 225 rose 18.2% and the Chinese Shanghai Composite advanced by 22.3%. The MSCI index for emerging markets rose 15.4%, contributing to the even stronger thrust of the MSCI world index (+24.1%). The yield rates of German debt increased marginally in the short-term (two years), but declined in the long-term (10 years), becoming more negative, while in the USA they fell in both cases. The spreads at 10 years of the debt of the peripheral countries of the eurozone in relation to German debt narrowed and the spreads of the corporate credit market (credit default swaps) revealed similarly favourable performances. The yield rates of Portuguese debt at 10 years decreased from 1.722% at the end of 2018 to 0.442% at the end of 2019, having recorded historically minimum levels on 15 August (0.071%). Euribor rates fell slightly in 2019, having hit historically minimum levels on 3 September (3-month Euribor at -0.448%, and 6-month Euribor at -0.448%) and on 21 August (12-month at -0.399%), reflecting the highly expansionary monetary policy followed by the ECB. The Libor of the dollar also fell in all maturity periods, as a consequence of the three consecutive cuts in the target for fed funds, carried out in 2019, with the markets expecting a pause, at least until the end of 2020, in line with Powell's statements in that regard. Commodities showed considerable increases in composite indices, essentially reflecting the increasing oil prices.

The financial market sentiment was underpinned: *i*) by the rapid response of the main central banks to the global slowdown; *ii*) by the signs that the international slowdown shall not only be combated using monetary policy but also through budgetary policy; *iii*) by the favourable developments in the trade war from the second half of the year onwards, embodied in the signing of an agreement between the USA and China, with its “Phase one” having been signed on 15 January 2020; *iv*) by the absolute majority conquered by the Conservative Party in the British parliamentary elections, which led to diminished uncertainty about Brexit; *v*) by the peaceful commencement of the term of office of Christine Lagarde in the position of President of the European Central Bank (ECB); *vi*) by the maintenance of the favourable climate in relations between the USA and North Korea; *vii*) by the budget prospects of Italy which, with the fall of the previous government, is no longer the focus of attention of the investors; *viii*) by the changes of government in Greece, supporting a very favourable evolution of the spreads of the country's debt. Nonetheless, it was dampened by the materialisation of the risks of slowdown previously signalled for 2019, in relation to some of the main world economies, as a corollary: *i*) of the installed global trade war; *ii*) of the geopolitical risks present in various geographic zones (e.g. tensions in Syria; Turkey; USA/Iran relations, Russia/West tension; instability in Catalonia; dragging on of the Brexit process); *iii*) of the turbulence in the emerging markets, especially the crises in Turkey and Argentina.

FINANCIAL SYSTEM

The year of 2017 was a year of capitalisation of the Portuguese banking system, namely through the: *i*) share capital increase operation by BCP (1.3 billion euros); *ii*) accomplishment of the 1st and 2nd stages of CGD's recapitalisation plan, of the accumulated amount of 4.444 billion euros; *iii*) completion of the public offer of CaixaBank over BPI; *iv*) share capital increase operation by Caixa Económica Montepio Geral (250 million euros); *v*) acquisition of Banco Popular by Banco Santander S.A. in the context of a resolution measure applied to the former; and *vi*) completion of the sale of NovoBanco to Lone Star. The year of 2018 was marked by stabilisation, with only the last phase of the recapitalisation plan of CGD having been finalised, through the issuance of 500 million euros of securities representing tier 2 own funds. In turn, 2019 was a year of consolidation of the profits of the key players of the Portuguese banking system.

According to Banco de Portugal, in the fourth quarter of 2019, the total assets of the banking system had decreased by 1.3% in relation to the previous quarter. This evolution was largely associated to the divestment of subsidiaries located abroad by one of the main Portuguese banks and, additionally, to the reduction of exposure to non-productive assets, namely the sale of non-performing loans portfolios. The evolution of the assets in the last quarter of the year reflected the reduction of the portfolio of loans to customers (-1.3%) and the exposure to public debt securities (-3.9%). In relation to the end of 2018, the total assets of the banking system had increased by 1.9%.

The non-performing loans (NPL) ratio continued on its downward trend, standing at 6.1% at the end of 2019, well below the 9.4% observed at the end of 2018. This improvement was due to a strong reduction of the stock of non-performing loans of non-financial companies (NFC) and individuals, enabling the attainment of an NPL ratio net of impairments of 3.0% (4.5% at the end of 2018). Since the peak, observed in June 2016, the non-performing loans ratio has fallen by 11.0 p.p.. In the segment of individuals, the NPL ratio fell from 5.1% at the end of 2018 to 3.7% at the end of 2019, while the segment of NFC showed a reduction of the NPL ratio from 18.5% to 12.3%.

The liquidity position of the banking system continued to be at comfortable levels, with a loan-to-deposit ratio of 87.3% at the end of 2019, despite the reduction (89.0% at the end of 2018), and a liquidity coverage ratio of 218.4%, above the closing value of 2018 (196.4%), benefiting from the evolution of the highly liquid assets. The funding obtained from central banks diminished, to stand at 4.4% of the assets (5.3% at the end of 2018).

In 2019, the return on assets (ROA) increased in relation to 2018, standing at 0.75%. The return on equity (ROE) increased to 8.1%. The evolution of the ROA primarily reflected a net reversal of provisions and, to a lesser extent, the growth of the results of financial operations and net interest income. However, this positive contribution to the ROA was attenuated by an increase of impairments, and, to a less extent, by the growth of operating costs and by a deterioration of the heading of other results. The cost-to-income ratio fell by 1.1 p.p., to stand at 59.2%, as a result of the increase of total operating income having been higher than the increase of operating costs. The cost of credit risk stood at 0.50%, having increased by 0.09 p.p. in relation to 2018, due to the impairments for credit having grown more than the growth of the portfolio of loans to customers.

The ratio of total own funds and the ratio of common equity tier 1 (CET 1) stood at 16.7% and 14.1%, respectively, having increased by 1.5 p.p. and 0.9 p.p. This evolution was primarily influenced by the decrease of risk-weighted assets. The leverage ratio increased, having shifted from 7.3% at the end of 2018 to 7.8% at the end of 2019, continuing to be significantly above the reference minimum defined by the Basel Committee on Banking Supervision (3.0%), which shall become a mandatory requirement from the starting date of application of the new Capital Requirements Regulation (CRR), on 28 June 2021.

MAIN RISKS AND UNCERTAINTIES FOR 2020

In the updating of the World Economic Outlook of the IMF in April, the focus of the risks and uncertainties was completely dominated by the developments and estimates of real impact of the Covid-19 pandemic. As noted above, the IMF advanced that it is very likely that this year the global economy shall experience its worst recession since the Great Depression. The IMF believes that there shall be a partial recovery in 2021 in relation to the recession forecast for 2020. Nonetheless, the level of this recovery is still dependent on a series of variables which, at present, are still impossible to know in all their magnitude. The IMF stresses that the scenario of 2020 could further worsen according to the evolution of a series of factors: *i)* prolonging of the containment measures; *ii)* severity of the impact on developing economies; *iii)* deterioration of funding conditions; and *iv)* supplementary degradation of the confidence in the result of the progressive closure of companies and increased unemployment.

According to the IMF, how the world will be once the Covid-19 pandemic is overcome remains a great unknown: how will people behave and what will be the structure of the economy, and what will be the risks and opportunities emerging from this crisis. It should be noted that the IMF forecasts a loss of worldwide GDP of close to 9 trillion dollars caused by the pandemic, representing around 10% of global production. On the other hand, the IMF considers that we may witness a worldwide economic recovery of a scale never experienced before.

TRANSFORMATION PLAN

TRANSFORMATION PLAN

2019 was the first year of implementation of the Transformation Plan.

With an ambitious vision and a timeline of 5 years, the Transformation Plan seeks to establish new ways of working that lead to an appropriate level of results, making the Bank more competitive, efficient and digital, focused on the quality of service to the Customer.

The Transformation Plan defines the vision and business goals for the medium and long-term, aimed at:

- Making Banco Montepio's business model evolve so that it is economically viable in the long term and gives rise to clear dynamics of creation of value for the shareholder, always maintaining the appropriate safety margins on internal and regulatory prudential limits, a solid short-term liquidity position and a suitable balance sheet structure in the medium and long term;
- Strengthening Banco Montepio's position as a reference financial institution, by supporting the social economy, working among segments of the population that are least benefited by banking services;
- Developing new value propositions and service models, affirming itself as a reference bank for small and medium-sized enterprises (SMEs) and for the different segments of individual Customers;
- Simultaneously, increasing the efficiency and efficacy of the commercial, service and group support structures, using recent technologies and new ways of working;
- Strengthening Banco Montepio's strategic pillar as a “banking system of relations and proximity” both for individuals and companies, enabling it to affirm itself as a modern institution based on traditional values, adjusting its product and service offer and the channels used to the different Customer segments;
- Reinforcing the quality of the assets, focusing on the sustained improvement of credit quality ratios and the continuous reduction of concentration of risk in the activity sectors of construction and real estate development.

Its development is based on 4 pillars – Business, Strengthening of the Balance Sheet, Organisation and Support – which are reflected in 12 macro initiatives, with a detailed implementation schedule for 411 measures involving a multidisciplinary team of more than 100 people who ensure their implementation and control.

At the end of 2019 close to 66% of these measures had already been implemented and 31% were underway with only 3% of the initially foreseen measures not yet having started. Among these, and in order to make both the granularity of some and the relevance of others as a landmark in our history more perceptible, the following are highlighted:

Value and Business Proposition

- Launch of the Banco de Empresas Montepio (BEM) and opening of the new “Espaços Empresa” (business centres), in close collaboration with Banco Montepio and;
- Launch of the new trade name “Banco Montepio” and subsequent alteration of luminous signs and billboards at branches and buildings of own use, of the image on the digital channels, on institutional letters and bank cards;
- Preparation of a Strategic Marketing Plan and accomplishment of the portfolio distribution/classification by Customers with a view to providing better service and drawing the Bank closer to its customers according to their nature and needs;
- Launch of the new contracting model and approval for housing loans, aimed at greater speed in the process and improved Customer service;
- Concentration of specialized credit at Montepio Crédito;
- Creation of the Business Committee and Distribution of the product.

Strengthening of the Balance Sheet

- Review of the Credit Regulation and Policy;
- Review of the Recovery Plan;
- Approval of the Banco Montepio Group's Data Management Policy and Risk Appetite Policy;
- Restructuring of the Credit Recovery Area;
- Process of sale of assets with high risk-weighted assets and low profitability;
- Early Warning Signs (EWS) model and preventive credit management (companies);
- Approval of the new commercial strategy for the management of real estate properties.

Organisation, Network and Omnichannel

- New organisational structure derived from the reorganisation of the commercial areas and centralised support services;
- Opening of proximity branches (Abraveses, Fão, Ferro, Ferreira do Alentejo, Oiã, Pedras Salgadas and Avanca), enabling serving populations locally that are lacking in access to financial services;
- Technology and Digitalisation Innovation Plan;
- Online account opening by videoconference and consumer credit online;
- Establishment of a complementary grouping of companies (ACE) of Shared Services.

Support and Systems

- Concentration of central services at the buildings in Lisbon and Porto, and release of real estate properties for own use;
- Migration of the SIM front-office system and full renovation of the branch equipment;
- Approval of the Strategic Plan of Systems and Innovation;
- Implementation of the green vehicle fleet;
- Launch of the automation/artificial intelligence project.

Banco Montepio accelerates Digital Transformation with Artificial Intelligence solutions

During the first quarter of 2019, Banco Montepio and IBM established a partnership to collaborate in digital transformation, optimisation of the Customer experience and innovation in business processes and model through artificial intelligence and implementation of cognitive technology (Cognitive Process Automation - CPA), to accelerate the innovation and automation strategy of Banco Montepio.

With the introduction of this technology, in brief, when the Customers call Banco Montepio, they will be attended by M.A.R.I.A. (Montepio’s Automated Real-time Interaction Assistant), a virtual agent with artificial intelligence that seeks to revolutionise customer attendance. M.A.R.I.A. is a voice-answering unit that uses a natural language, with the capacity to deal with various topics simultaneously, recognising how people speak and adjusting the type of answer. As a result, it is possible to create virtual conversations that meet the Customer's requirements without having to resort to a human operator, improving resolution on first contact.

By providing a virtual agent like M.A.R.I.A., Banco Montepio aims to improve the implementation of the contact, offering the Customer an experience that is more empathetic, personalised and with gradual construction of trust.

Cognitive process automation components deal with automated business processes that require decision-making capabilities. The ultimate goal of this technology is to train virtual robots in order to ensure the execution of systematic tasks such as scheduling, task searches, completion of forms and others. This enables the Employees of Banco Montepio to concentrate on carrying out more complex activities, reducing human error and optimising the performance and satisfaction of its people.

BUSINESS SEGMENTS

BUSINESS SEGMENTS

The Banco Montepio Group is one of the main Portuguese financial groups that develops a series of banking and financial service activities, with special focus on retail banking in Portugal, but also abroad.

The Group's business segments cover: in domestic activity, Commercial Banking, comprised of Retail Banking, the Social Economy, Specialized Credit, developed by Montepio Crédito, and Asset Management promoted by Montepio Valor, Corporate and Investment Banking, developed by Banco de Empresas Montepio, as well as complementary services, ensuring through SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A., and; aboard, the activity developed by the subsidiaries Finibanco Angola and Banco Montepio Geral Cabo Verde.

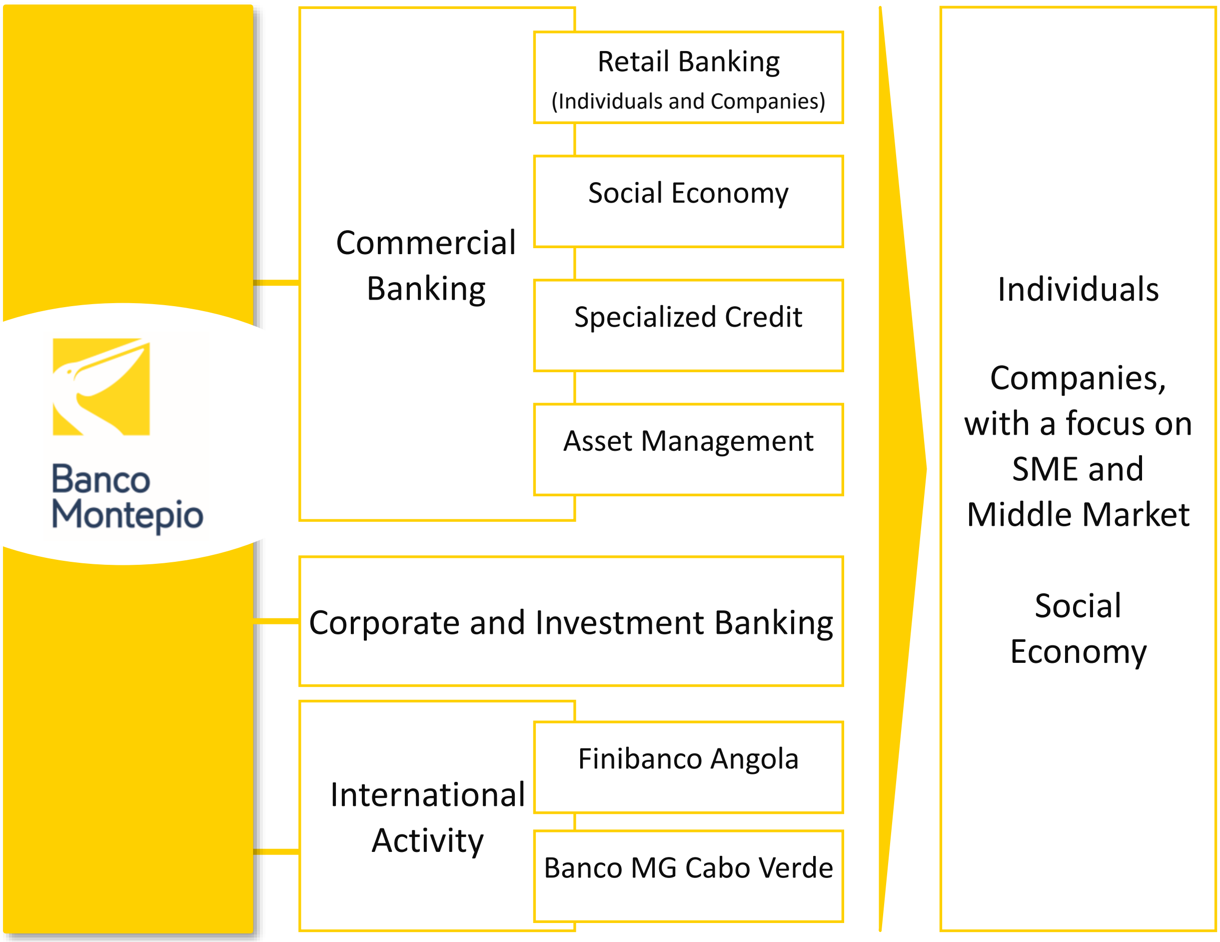
The Group's target customer segments consist of Individuals, Companies, especially small and medium-sized enterprises, the middle market, and the Social Economy. Banco Montepio's business model is Customer driven, focused on the well-being of families, on supporting the social economy and on attention to the needs of small and medium-sized enterprises and based on values of proximity, trust, solidity, transparency, tradition, innovation and inclusion.

Banco Montepio provides a series of banking products and financial services that include the entire offer inherent to the universal banking activity, namely the capture of deposits, credit concession and financial services for companies and individuals, custody and, furthermore, the marketing of investment funds and life and non-life insurance.

Its international activity has been developed through Finibanco Angola, Banco MG Cabo Verde and by its representation offices. The equity stake in Finibanco Angola is currently reduced significantly, pursuant to the strategic redefinition of the international holdings, in particular for the African market.

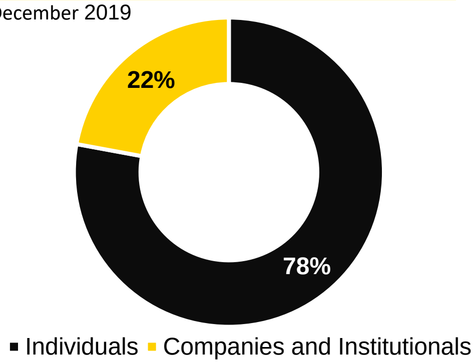
As at 31 December 2019, the operations in Portugal accounted for 97.9% of total assets, 100.0% of total loans to customers (gross) and 98.9% of total customer deposits. As at 31 December 2019, Banco Montepio had a network of 332 branches in Portugal, serving 1,519.9 thousand Customers, of which 155.4 thousand are Companies and 1,360.5 thousand are Individuals, with market shares of 5.8% in Deposits and 5.7% in Loans to customers.

BUSINESS SEGMENTS OF THE BANCO MONTEPIO GROUP

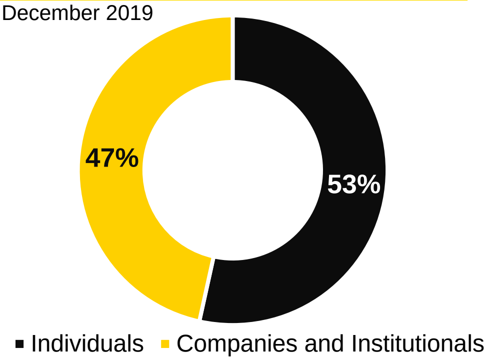


As at 31 December 2019, Bank Montepio's customer deposits stood at 12.5 billion euros, with individual Customers representing 78.0% of this amount, and gross loans to customers reaching 12.2 billion, where 53% are individual Customers and 47% are corporate and institutional Customers.

Structure of Customers' Deposits
31 December 2019



Structure of Loans to Customers' (gross)
31 December 2019



RETAIL BANKING

The Retail Banking segment corresponds to the entire activity developed by the Group with individual Customers, sole proprietorships, small and medium-sized enterprises allocated to this segment and microenterprises, commercially referred to as the segment of Individuals and Small Businesses, essentially originated through the branch network, electronic channels and network of promotors. The financial information of this segment covers, among other aspects, products and services such as housing loans, personal or consumer credit, demand and term deposits, and other investment of savings, retirement solution products, like "PPR" (retirement saving plans), debit and credit cards, services for management of accounts and means of payment, services for placement of investment funds and for purchase and sale of securities and custody, loans for treasury and investment purposes, commercial discount, leasing, factoring and renting, as well as the placement of insurance and non-financial services.

A list of key indicators of the Retail Banking segment is given below, in accordance with the segmental reporting of IFRS 8 and presented in the notes to the financial statements of this report.

Summary of indicators - Retail Banking (million euros)

	2018 Restated*	2019	Y.oY. Change Amount	Y.oY. Change %
Income Statement				
Net interest income	216.3	200.0	(16.3)	(7.5)
Net fees and commissions	105.8	102.4	(3.4)	(3.2)
Total operating income	322.4	302.6	(19.8)	(6.1)
Operating costs	177.4	191.7	14.3	8.1
Operating income before impairment	145.0	110.9	(34.1)	(23.5)
Balance Sheet				
Loans to customers (gross)	8 984	8 624	(360.9)	(4.0)
Customers' deposits	10 721	10 908	187.4	1.7

* 2018 proforma data in order to ensure data comparability, given the transfer of customers between reportable segments, resulting from the internal reorganization of the Commercial Departments.

CORPORATE AND INVESTMENT BANKING

The Corporate and Investment Banking segment (companies included in economic groups with turnover equal to or more than 20 million euros) aggregates the activity provided by the Group to small, medium-sized and large companies, with booking at BM and BEM, through the commercial structure dedicated to this segment, as well as the business with the institutional Customers, namely of the financial sector, and the activity currently developed in the area of Investment Banking. The products and services offered include, in particular, those related to current-account credit facility and investment credit, commercial discount, guarantees provided, leasing, factoring, renting, operations abroad, such as documentary credit, cheques and remittances, payment and receipt services, cards and custody services.

The Corporate and Investment Banking segment includes the Commercial Banking component that operates, under the Group's cross-selling strategy, as a distribution channel for products and services of other companies of the Group, as well as the Investment Banking business, with activity in the areas of Corporate Finance, Capital Markets, Structured loans, Financial Advisory and Business Studies and Information.

A list of key indicators of the Corporate and Investment Banking segment is given below, in accordance with the segmental reporting indicated in IFRS 8 and presented in the notes to the financial statements of this report.

Summary of indicators - Corporate and Investment Banking (million euros)

	2018 Restated*	2019	Y.oY. Change Amount	Y.oY. Change %
Income Statement				
Net interest income	38.5	42.8	4.3	11.0
Net fees and commissions	13.0	10.8	(2.2)	(16.7)
Total operating income	50.3	52.2	1.9	3.7
Operating costs	13.6	7.8	(5.8)	(42.6)
Operating income before impairment	36.8	44.4	7.6	20.8
Balance Sheet				
Loans to customers (gross)	2 000	1 748	(252.4)	(12.6)
Customers' deposits	459	306	(153.6)	(33.4)

* 2018 proforma data in order to ensure data comparability, given the transfer of customers between reportable segments, resulting from the internal reorganization of the Commercial Departments.

All other segments, namely comprising specialized credit and asset management, are analysed individually herein, by the respective subsidiary in the “Subsidiary companies” section of this report.

In Angola and Cape Verde, the Group is represented by locally based financial institutions offering an extensive range of financial products and services to individuals and companies. The international activity is analysed in the “International activity” section of this report.

SOCIAL ECONOMY

The Social Economy segment reinforces Banco Montepio's role as a reference agent of the social economy, in the market and with the different stakeholders, incorporating the activity related to the Social Economy and Public Sector business areas. The key indicators of this segment are presented in the table below.

Summary of indicators - Social Economy (million euros)

	2018 Restated*	2019	Y.oY. Change Amount	Y.oY. Change %
Income Statement				
Net interest income	6.3	4.7	(1.6)	(25.5)
Net fees and commissions	1.1	1.1	0.0	(1.4)
Total operating income	7.4	5.8	(1.6)	(22.0)
Operating costs	4.3	3.2	(1.1)	(24.7)
Operating income before impairment	3.1	2.6	(0.5)	(18.2)
Balance Sheet				
Loans to customers (gross)	128	134	6.2	4.8
Customers' deposits	655	605	(50.0)	(7.6)

* 2018 proforma data in order to ensure data comparability, given the transfer of customers between reportable segments, resulting from the internal reorganization of the Commercial Departments.

The main highlights of 2019 are presented below with respect to the Banco Montepio Group's offer of financial products and services, by segment of target customers: Individuals, Companies and Social Economy.

INDIVIDUALS

Banco Montepio's offer for the Individuals segment continues to prioritise the encouragement of saving, namely through the attraction and retention of resources, by providing deposits with different features and maturity periods, as well as the stimulation of credit solutions that meet the needs of the Customers and families.

DEPOSITS

In order to encourage saving habits among the younger segments, Banco Montepio continued to offer the Segment of Minors (from 0 to 17 years old) a unique offer called "Conta Cresce" (Grow Account), which has a Demand Deposit account and two Term Deposit accounts ("Poupança Cresce 1 ano" (Grow Saving 1 year) and "Poupança Cresce 3 anos" (Grow Saving 3 years).

To make saving easier, the commemorative edition of the 175 years of the physical piggy bank was on offer, for the younger cohort and for all collector Customers of the Montepio brand.

Bank Montepio strengthened the materialisation of the concept of “offering saving” by continuing to provide, via web, on "Serviço Montepio24" (Montepio24 Service), the obtaining of “vouchers-poupança” (saving vouchers), which enable offering any person the first step to topping up or starting saving.

INVESTMENT AND PENSION FUNDS

Ensuring the continuity of the offer of Investment Funds, Banco Montepio promoted the marketing of Securities Investment Funds managed by Montepio Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A., and two Real Estate Investment Funds, "Fundo Valor Prime" (Prime Value Fund) and "Fundo VIP" (VIP Fund), each managed by the holding companies Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. and SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.

Reference is made to the attribution of awards to the following Investment Funds during 2019:

- Fundo Montepio Ações (Montepio Shares Fund), which managed by Montepio Gestão de Activos received the award of "Melhor Fundo Nacional Ações Europa" (Best National Shares Europe), attributed by Morningstar, in the context of the Morningstar Portugal Fund Awards 2019;
- "Fundo VIP" (VIP Fund) managed by SILVIP, which won the award of best “Fundo de Investimento Imobiliário Aberto” (Open Real Estate Investment Fund), attributed by APFIPP - Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios (Portuguese Association of Investment Funds, Pensions and Assets) in partnership with Jornal de Negócios, under the “Melhores Fundos 2018” (Best Funds 2019) awards.

The campaign promoted by Futuro - Sociedade Gestora de Fundos de Pensões, S.A., named “Dê mais brilho à sua Reforma” (Give your Pension a new shine) was carried out at the end of 2019, aimed at stimulating and encouraging saving in a perspective of investment for retirement pension through occasional or periodic deposits of sums in "PPR/PPA" (retirement saving plan/saving in shares plan) Pension Funds. Noteworthy is the "Fundo PPR 5 Estrelas" (5 Star Retirement Savings Plan Fund), which commemorated its 30th anniversary in 2019.

PUBLIC SUBSCRIPTION OFFERS

Banco Montepio a Placement Entity in Public Subscription Offers of Bonds, offered its Customers, during 2019, the opportunity of subscription of bonds of four nationally renowned entities and diversification of their investments.

PAYMENT MEANS

In 2019, Banco Montepio continued to provide prepaid cards, inclusively for delivery to the winners of the 2nd season of the programme “Que barulho é este” (What noise is this), a game broadcast on radio RFM, promoted by Rádio Renascença Lda.

INSURANCE

Concerning Bancassurance, the policy of simplification of services and processes was continued in partnership with the Montepio Group's insurers, Lusitania, Companhia de Seguros S.A. and Lusitania Vida, Companhia de Seguros, S.A., with a view to increasing the efficiency and improving the Customers' experience. Business support promotional campaigns were carried out, in particular the “Bons Condutores” (Good Drivers) campaign and preferential conditions for electric vehicles, in the automobile sector, as well as differentiated conditions in insurance of the health sector ("Saúde Flex" (Flex Health), "Sorriso Garantido" (Guaranteed Smile) and "Saúde + Fácil" (Easier Health)).

COMMERCIAL SOLUTIONS

In 2019, Banco Montepio continued to offer "Solução Consigo" (Solution with You), which facilitates the daily management of the Customer. "Solução Consigo" (Solution with You) gathers together the products and services most used in the daily life of the Customers, at a more appealing price than if they were acquired individually.

CREDIT

In credit to individuals, Banco Montepio aims to reposition itself as a specialist bank in the Housing Loan product. Considering that the relevant factors in the choice of a housing loan are the price, the service and the relationship established between the Bank and Customer, various initiatives were developed in 2019 with a view to boosting the housing loan solutions. Special reference is made of the new promotional conditions of Housing Loans, with 5 new conditions having been created for purchasing a house, namely, "Troca de Casa" (House Change), "Jovem" (Young), "Transferência de Outras Instituições de Crédito" (Transfers from Other Credit Institutions), "Crédito e Casas Sustentáveis" (Credit and Sustainable Houses) and "Família" (Family), also enabling cumulative conditions so as to make the offer even more appealing to the Customers.

During 2019, Personal Credit was redesigned, with new lending conditions having been created, such as the broadening of the conditions of eligibility and maximum ceiling for lending consumer credit (Personal Credit and/or Credit Card), thus enabling access to credit by a higher number of Customers.

COMPANIES

Banco Montepio's offer for the Companies segment continues focused on simplification, consistency and easy use as critical success factors for differentiation in the segment, through a commercial model based on specialization and size of the Customers.

CREDIT

Banco Montepio strengthened its participation in public sector initiatives directed at stimulating the financing of companies in different aspects, in particular:

- **"Linha de Crédito Capitalizar 2018" (Capitalise Credit Line 2018)**

With a total amount standing at 2,400 million euros, this line lends continuity to the "Linha de Crédito Capitalizar" (Capitalise Credit Line), whose ceiling was exceeded in 2018, creating beneficial financing conditions for small and medium-sized enterprises (SMEs), enabling them to sustain a strategy of growth.

- **"Linha de Crédito – Capitalizar Turismo 2018/2019" (Credit Line – Capitalise Tourism 2018/2019)**

This line essentially aims to support investment in the creation or redevelopment of enterprises and establishment of tourist interest, under the ”Programa Capitalizar Turismo” (Capitalise Tourism Programme) announced by the Government. Note should be made of the possibility of financing debt service, in situations when it appears to be overly demanding in view of the level of cash flow generated by the company.

- **"Linha de Apoio ao Desenvolvimento de Negócio 2018 (ADN 2018)" (Business Development Support Line 2018 (ADN 2018))**

This line aims to support the activity of SMEs, with turnover up to 150 million euros and which are not part of corporate groups with consolidated turnover of more than 200 million euros.

- **"Linha de Crédito Capitalizar Mais" (Capitalise More Credit Line)**

With an overall allocation of 1,000 million euros, this credit lines aims to promote support to SMEs with projects to strengthen business capacity-building for the development of new products and services or with innovations in terms of processes or products. This line enables associating a complementary financial instrument to the Incentive System for Productive Innovation ("SI Inovação"), with a view to leveraging the financial resources available and the respective investment.

RENTING

Banco Montepio continues to support Customers who want to use one or various vehicles for personal or commercial purposes through the Vehicle Operational Renting service. This motor vehicle solution, through the integrated offer of services provided by Montepio Crédito, S.A., contributes in an effective manner to

the rational management of the Customers' vehicles, in particular via the offer of the most recent range of electric vehicles, associating efficacy to sustainability.

“PROGRAMA FINCRESCE | PME LÍDER 2019” (FINCRESCE | SME LEADER 2019 PROGRAMME)

Banco Montepio maintains its agreement with IAPMEI - Agência para a Competitividade e Inovação, I. P. in the renovation of the “Programa Fincresce” (Fincresce Programme), thus contributing to distinguish companies with a superior performance in different activity sectors in Portugal, by attributing “PME Líder” (Leader SME) and “PME Excelência” (Excellent SME) Statuses.

SERVIÇOS

- **Automatic Payment Terminal (POS)**

With the aim of simplifying and expediting the payments received by Company Customers, Banco Montepio continues to provide this equipment in the modes of Fixed POS (automatic payment terminal at point of sale based on fixed communications), GPRS Mobile POS (automatic payment terminal at point of sale based on mobile communications, permitting relocation to the consumer to carry out the payment) and WI-FI POS (automatic payment terminal at point of sale based on fixed communications, enabling total mobility, as it works via Wi-Fi). In the second half of 2019, the Temporary POS service was provided, specifically designed for temporary events and seasonal business ventures that require this equipment for a brief period of time. This new service, with the distinctive feature of being able to use the equipment during 3 months (and successively for equal periods), has no customer loyalty charge, enables total mobility, facilitates transactions, reduces the risk of transporting cash and permits immediate credit to the account.

- **"Serviço Net Global" (Net Global Service)**

Banco Montepio provides, for a single monthly fee, an unlimited series of transfers via web, telephone and app for Customers that have joined the "Serviço Montepio24 Empresas" (Companies Montepio24 Service). After activation, the service is valid for all the current accounts held by the company. For all other functionalities (Urgent Transfers, SPGT Transfers or Transfers of credit SEPA+ by XML File - payments and collection), not included in the service, the defined price list is maintained.

SOCIAL ECONOMY

Banco Montepio believes that the Social Economy is one of the fundamental pillars to add value to the Portuguese economy and, for this reason, in complementarity with the proximity service offered by the branch network, it has a Department dedicated to the Social Economy (DCESSP - Direção Comercial da Economia Social e Setor Publico - Social Economy and Public Sector Commercial Department), created specifically to meet the needs of the institutions of this sector.

The DCESSP – which upholds the Social Economy as differentiating pillar of Banco Montepio – is composed of Employees with commercial and technical duties, with 27 commercial managers dedicated to Customers of the Social Economy and Public Sector and 4 managers dedicated to Microcredit and Social Entrepreneurship, responsible for monitoring the Customers, attracting new Customers, commercial stimulation and attraction of business.

Social sector institutions can count on a dedicated partner that offers specific financing solutions for the Social Economy, agreements with beneficial conditions, assistance on the formalisation of applications to specific programmes, a specialized offer of unique products and services that is unique in the national banking system and an experienced team with specific knowledge of the sector and its different spheres of action.

Banco Montepio is committed to being on the side of the Social Economy institutions at all times. This is its genesis, a bank of people for people which, for 175 years, has been adding value to the Portuguese economy and with the Social Economy values strongly rooted in its culture since the very beginning. For this reason, and in performing its role as the Social Economy Bank, Banco Montepio continued to support social projects, as responses to the social challenges and enhancers of development and social inclusion.

The main initiatives supported during 2019 are highlighted below:

- **E-Social**, a communication platform of Banco Montepio directed at all stakeholders of the Social Economy. Present on the digital social networks Facebook, Instagram, Twitter and Youtube, E-Social aims to stimulate and disseminate the Social Economy and its participants in the most varied forms of action. This platform operates as a meeting point of causes, initiatives, projects, challenges, exhibition and disclosure of what is best done in the Social Economy, in Entrepreneurship and Social Innovation in Portugal.
- **"XIII Congresso Nacional das Misericórdias"** (**XIII National Congress of the Misericórdias)**, a major gathering of solidarity which is organised every two years by the "União das Misericórdias Portuguesas" (Union of the Portuguese Misericórdias) as an instrument promoting the values and activities of the Misericórdias. As was the case in the last congresses held, this initiative counted on the support of Banco Montepio. The National Congress, dedicated to the topic "Rigour, Commitment and Mission", was held between 7 and 10 February 2019 at the "Palácio de Congressos do Algarve" (Algarve Congress Palace), in Albufeira.
- **"Confederação Portuguesa Economia Social" (Portuguese Social Economy Confederation)**, the confederation that congregates the entities representing the different families of the Social Economy in Portugal, promoted the "Jornada Nacional de Reflexão" (National Reflection Day) "A Economia Social no Portugal 2030" (The Social Economy in Portugal 2030) on 29 March 2019 at "Centro Social Paroquial de Azambuja" (Azambuja Parish Social Centre). This initiative was supported by Banco Montepio through provision of materials for the participants.
- **"Pirilampo Mágico 2019" (Magic Glow-Worm 2019)**, one of the most emblematic solidarity campaigns carried out in Portugal, which was supported by Banco Montepio for the third year consecutively. By joining the Magic Glow-Worm cause, Banco Montepio participated in the campaign's opening session on 8 May 2019 and provided mascots at its branches from the north to the south of the country, including in the archipelagos of the Azores and Madeira. The "Pirilampo Mágico" (Magic Glow-Worm) campaign, promoted by the "Federação Nacional das Cooperativas de Solidariedade Social" (FENACERCI - National Federation of Social Solidarity Cooperatives), aims to raise funds for "Cooperativas de Educação e Reabilitação de Cidadãos Inadaptados" (CERCI - Cooperatives for Education and Rehabilitation of Inadapted Citizens), as well as to inform and elevate the awareness of public opinion about the issues involved for persons with intellectual disability and/or multiple disabilities, seeking to safeguard the right to equal opportunities and the exercise of full citizenship.
- "**Confederação Nacional das Instituições de Solidariedade (CNIS)" (National Confederation of Social Solidarity Institutions (CNIS))**, the representative structure of "Instituições Particulares de

Solidariedade Social (IPSS)" (Private Social Solidarity Institutions) in Portugal promoted the Seminar “Garantir os Valores com Sustentabilidade Financeira – Desafio para as Instituições” (Assuring Values with Financial Sustainability) and the "XIII Festa da Solidariedade" (XIII Solidarity Festival), held on 7 June 2019, in Vila Real. Banco Montepio once again supported this gathering with a view to strengthening its positioning in the Social Economy sector, as well as its relations of partnership with this umbrella entity.

- **"Encontro Avós e Netos" (Grandparents and Grandchildren's Gathering)**, which was supported by Banco Montepio, took place on 26, 27 and 28 September 2019, at "Feira de Artesanato do Estoril" (FIARTIL - Estoril Handicraft Fair). This initiative aimed to highlight the value of the role of grandparents in society, offering an exchange of experiences between the different generations. The revenue from the entrance ticket of the event was fully donated to the Portuguese Red Cross and the charity "Associação Nuvem Vitória".
- **"V Fórum Economia Social" (V Social Economy Forum)** organised by Unitate - Social Economy Network, aimed to congregate the different stakeholders of the Social Economy sector, promoting debate and reflection around the topic of “Respeitar o Passado, Garantir o Futuro” (Respecting the Past, Guaranteeing the Future). Banco Montepio supported and attended the event, which has held on 5 December 2019, at Coimbra Business School – Instituto Superior de Contabilidade e Administração de Coimbra.
- **"Portugal Economia Social" (Portugal Social Economy)** is a multidisciplinary event that aims to promote, boost and qualify the Social Economy sector as a solution for new social problems and adjustment of services to needs in favour of the country's economic and social development. In 2019, this event highlighted the importance of social responsibility in companies and its impact on society in general and on the most deprived communities in particular. This event, which was supported by Banco Montepio, took place on 10 and 11 December 2019, at "Centro de Congressos de Lisboa" (Lisbon Congress Centre).

Support to Entrepreneurship and Social Innovation

During 2019, Banco Montepio once again revealed strong dynamism in the context of entrepreneurship and social innovation, by financing and supporting social incubators, entrepreneurship competitions and social entrepreneurship projects. Social entrepreneurship is the umbrella term for a series of initiatives whose ultimate goal is the generated social impact. Intrinsically linked to innovation, social entrepreneurship initiatives represent creative solutions to resolve the most diverse social challenges, promoting equal opportunities and a more inclusive and closer society.

Banco Montepio, as a Social Entrepreneurship Partner, has actively participated in various dynamics of development of technology-based and innovative ideas, projects and business ventures, in particular:

- **"Montepio Acredita Portugal" (Montepio Believes Portugal)**, the largest entrepreneurship competition of Portugal and the second largest worldwide, promoted by the non-profit organisation "Acredita Portugal", in partnership with Banco Montepio. Throughout the three years of partnership, which entailed the 7th, 8th and 9th editions of the "Montepio Acredita Portugal" competition, the following results were observed:

- 34,803 applications to the "Montepio Acredita Portugal" competition. In addition to the Social Entrepreneurship category, a category supported by Banco Montepio, the competition accepts applicants from all business areas such as technology, mobility, trade, services, industry, health, education, communication and sustainability, also providing tools that enable developing the applicant's business ideas;

- 4,673 applications to the Social Entrepreneurship category, a category supported by Banco Montepio which, once again, received the highest number of applicants of this competition. The significant increase of applicant projects in the area supported by Banco Montepio revealed an extra interest in the business area. The highlight given by the Social Entrepreneurship Award enabled boosting the projects of this area, which, following the competition, henceforth have tools to create business plans, mentorship and offers of services to develop them.

Banco Montepio, as a Social Investor, has closely followed the best practices in the area of social investment and taken on the role of the Social Economy Bank, and developed various initiatives:

- **“Projetos de Impacto” (Impact Projects)**, a joint initiative of Banco Montepio and "Santa Casa da Misericórdia de Lisboa" (SCML) aimed at stimulating social investment by financing projects that represent innovative responses and solutions to the challenges of contemporary society and enables fighting against the different forms of social exclusion. This initiative shall enable supporting projects with impact on society in each of the defined areas of social inclusion, education, employment and health, boosting growth, sustainability and innovation in the Social Economy. Banco Montepio and SCML share the same interest in performing the role of social investor through the private investment of 1,350 thousand euros in Impact Projects;
- **“Títulos de Impacto Social” (TIS) (Social Impact Bonds)**, a financing instrument provided by "Estrutura de Missão Portugal Inovação Social (EMPIS - Portugal Social Innovation Mission Structure) aimed at financing, by the contracting of payment by results, innovative projects driven towards the obtaining of social results and efficiency gains in priority areas of public policy such as social protection, employment, health, justice and education. Banco Montepio was the first Bank in Portugal to invest in Social Impact Securities. The "Projeto Família" (Family Project), co-invested by Banco Montepio and the Calouste Gulbenkian Foundation, is a social innovation project which promotes a methodology that is internationally recognised for its efficacy in preventing the institutionalisation of children and young people at risk;
- **“Parcerias para o Impacto” (PPI) (Partnerships for Impact)**, an EMPIS financing instrument aimed at the creation, development and growth of social innovation projects, in format of co-financing with social investors, stimulating the philanthropy of impact and contributing to a more stable, effective and durable funding model. Banco Montepio is also a co-investor of the Social Innovation Centre of the Eugénio de Almeida Foundation, located in Évora. This project is a centre which supports entrepreneurs and other regional players, who want to test, develop or consolidate innovative projects and initiatives, with sustainable business models, focused on social impact, with potential scalability, and that contribute to resolve social problems in zones of low-density territories.

Banco Montepio, as a Social Innovation Partner stands out in the following actions:

- **"Casa do Impacto" (Impact House)**, where Banco Montepio, as the only partner bank, is a member of the Board of Curators of the "Casa do Impacto" (Impact House) project, a reference of Social Innovation in Portugal. Created by “Santa Casa da Misericórdia de Lisboa” (SCML), "Casa do Impacto" seeks to foster innovative solutions to resolve social problems and needs with a view to building a more charitable and sustainable society;
- **"Incubadora Regional de Impacto Social" (IRIS - Social Impact Regional Incubator)** is an entity that aims to capture ideas and projects, and support the creation, development and acceleration of social innovation and social entrepreneurship initiatives, promoted by the European Investment Bank Institute and by the "Associação do Parque de Ciência e Tecnologia do Porto" (Porto Association of Science and Technology Parks). IRIS, located in Amarante, relies on Banco Montepio as a partner;
- "**Incubadora de Inovação Social do Baixo Alentejo" (IISBA - Lower Alentejo Social Innovation Incubator)** is a project of the "Centro Social Nossa Senhora da Graça" (Our Lady of Grace Social Centre), created to foster entrepreneurship and social innovation in the district of Beja. Banco Montepio is a partner of this incubator, which primarily aims to stimulate the social economy, foster job creation for young people and modernisation of the existing social solutions.

Microcredit

- Banco Montepio's Microcredit area, which combines the financial component to the solidarity component, promotes inclusion through own job creation with a team of specialized managers working nationwide who follow up the business ideas from their very beginning, cooperate and guide the entrepreneurs and, together, find the best solutions for each case. Underlying Banco Montepio's strategy of action are frameworks of partnership or collaboration with entities of national, district or local scope, which are distinguished by their experience in the field of social entrepreneurship and protocolled funding lines. In this way, Banco Montepio has contributed to boosting the growth of people and ideas, creating business, generating employment and producing wealth and creating value for society.
- In 2019, Banco Montepio continued to focus on the "Programa de Apoio ao Empreendedorismo e à Criação do Próprio Emprego" (Programme to Support Entrepreneurship and Own Job Creation), a protocol established with Instituto do Emprego e Formação Profissional, I.P. (IEFP) and the four Mutual Guarantee Companies (Norgarante, Garval, Lisgarante and Agrogarante) which contains two distinct credit lines for different amounts: *Microinvest* and *Invest+*.
- In the area of investment in Microcredit, in 2019, Banco Montepio supported:

119 Projects

More than 2 million euros of financing

171 work stations

The microcredit training actions ministered to partner entities, like "Acredita Incubação" (Believe Incubation), is an example of Banco Montepio's initiatives of support, aimed at placing the participants, through a team of specialized managers, in contact with various topics and players linked to the areas of microcredit and social entrepreneurship in Portugal.

Sustainability

Banco Montepio's social responsibility strategy, incorporated in the strategy defined by the Montepio Group for the time horizon 2019-2021 is based on sustained development as a driver of change and recognises four axes of action: the affirmation of identity, focus on people, cooperation, partnership and value chain, and environmental promotion.

From 2019, the DCESSP became the department responsible for promoting, assuring and strengthening Banco Montepio's role as a reference agent for sustainability in the market and with the different stakeholders. For each axis of intervention for sustainable development, the DCESSP, in articulation with the People Management Department, the Communication and Brand Department, the Operational Marketing Department, the Transformation and Innovation Centre, the Risk Department, the Shared Services Unit and the Central Procurement Department, defined the strategic goals, actions to be developed, key performance indicators (KPI) and targets to be achieved.

Among the various actions delineated for accomplishment in 2019, the DCESSP, in articulation with the areas mentioned above, identified a series of initiatives, in particular:

- **Affirmation of Identity**, promoting the consolidation of the economic sustainability and social responsibility of the Montepio Group as a reference brand. In this regard, noteworthy the signing of the Charter of Commitment to Sustainable Funding in Portugal; the support to 119 projects, through provision of over 2 million euros of microcredit loans, which enabled the creation of 171 jobs; participation in conferences and seminars directed at social inclusion and sustainable finance, the Impact Projects; Social Impact Bonds (TIS); and Partnerships for Impact (PPI).

- **Focus on People**, maintaining and reinforcing the humanisation of the relations between the Montepio Group and its different stakeholders, namely through the provision of a subsidised Housing Loan line for disabled persons aged more than 18 years and with an officially declared disability above 60%; an adapted debit card for the visually impaired; Education Social Vouchers, in partnership with UP Portugal, which, similarly to meals cards, are a form of companies and entities obtaining tax benefits and simultaneously supporting their Employees with expenses related to education; a Gender Equality Plan, aimed at promoting the Gender and Equality Plan Audit Course, the Montepio Women's Meeting and the 2nd Edition of the “Mulheres Montepio” (Montepio Women) Mentorship Programme, and the Annual Conference of the PWN (Professional Women's Network); a Rounding Programme, which consists of an automatic programme of free and optional subscription, through which benefits can be obtained from the rounding of the value of purchases made at automatic payment terminals at point of sale of the Multibanco and Visa networks, Service Payments, Purchases and Mobile Phone Charging made at cash machines of the Mltibanco or Chave 24 networks, in national territory; and the preparation of a code of conduct which includes a series of requirements establishing respect for human rights and the environment.

- **Cooperation, partnership and value chain**, promoting cooperation and partnership between the different economic sectors and an ethical supplier management policy, in favour of the sustainable development of the country. In this regard, Banco Montepio supported the following initiatives: "Montepio

Acredita Portugal" (Montepio Believes Portugal), the largest entrepreneurship competition of Portugal and the second largest worldwide, promoted by the non-profit organisation Acredita Portugal, in partnership with Banco Montepio; the Corporate Voluntary Programme of the Montepio Group, one of the main instruments for accomplishment and extension of partnerships among the main stakeholders and the community in general, and the largest creator of social capital, human and solidarity value for society; the 1st edition of the Montepio Group Family Volunteering event, incorporated in the Wellbeing Week, promoted by the People Management Department in partnership with the Social Responsibility Office, Social Services and Association of Pensioners.

- **Environmental promotion**, defining and putting into practice a policy of environmental sustainability, providing, in this context, the Housing Loan Line for Sustainable Houses, for real estate properties with energy certificate classification A and A+; the Credit Line for Decarbonisation and Circular Economy, after suspension of the marketing of the Protocolled Line for Energy Efficiency; adopting digital transformation initiatives such as the reduction of the printing of physical leaflets; the dematerialisation of the opening and maintenance of current accounts; preference given to digital documentation; disclosure of the advertising banner on subscription to the digital account statement on the website, Net24, App and Chave 24; beginning of the conversion of the motor vehicle fleet into electric and hybrid vehicles aimed at reducing the carbon footprint, by replacing 145 vehicles, which correspond to 23% of the total fleet, and to be pursued as the operating lease contracts of the vehicles are renewed; the elimination of plastic cups for drinking water, which was reflected in the annual reduction of around 400,000 plastic cups; the integration of reputation risk in the risk management framework; the replacement of plastic cups and straws by paper cups and wooden straws for coffee consumption, which was reflected in the elimination of the annual consumption of around 598,400 plastic cups to drink coffee; the concentration of services in central buildings, with the consequent closing of facilities in 2018 with impact in 2019; and the distribution of glass bottles and cups for the meeting rooms.

SUBSIDIARIES

Montepio Investimento, S.A. – Banco de Empresas Montepio

In 2019, Montepio Investimento, S.A., a bank 100% controlled by Banco Montepio, through Montepio Holding, SGPS, S.A., pursued its action aimed at Corporate Banking ("Commercial Banking") and Investment Banking, aimed at enlarging the Group's offer of products and services directed at the corporate segment, especially the SME and middle market segments. On 4 June 2019 it adopted the trade name of Banco de Empresas Montepio ("BEM"), henceforth developing, in an integrated and multidisciplinary perspective, Commercial Banking activities (for companies included in economic groups with turnover higher than 20 million euros) and Investment Banking, aimed at placing on the market an offer of services of complete, integrated and overall value.

The Corporate Banking area supports customer companies throughout all the stages of their business cycle, with specific solutions for every need, namely in areas related to international trade, factoring and treasury management. The Investment Banking area (which incorporates the areas of Corporate Finance, Capital Market, Advisory Services, Financial Structuring, and Debt and Equity Distribution) supports restructuring, capitalisation and enhancement of the robustness of companies, thus contributing to investment and sustainable growth of the Portuguese private sector. For such, BEM has a team of specialized professionals working side by side in permanent coordination, to assure that the Customers receive an overall and personalised service.

From February 2020 onwards, BEM provided 6 Business Centres, distributed throughout the country, where dedicated managers receive their Customers, identify their needs, present value propositions while cultivating relations of proximity. The opening of two more Business Centres is planned for 2020.

As at 31 December 2019, the Net assets of Banco de Empresas Montepio stood at 210.3 million euros, showing an increase of 11.0 million euros (5.5%) in relation to the value of 199.3 million euros at the end of 2018.

Net loans to customers amounted to 75.2 million euros as at 31 December 2019, compared to 26.9 million euros recorded at the end of 2018, showing an increase of 48 million euros. Up to September 2019, the loan portfolio of BEM was limited to movable and immovable property leasing under amortisation. The first credit operation, under the new business model, was contracted at the end of September 2019, initiating a gradual and sustained growth of the loan portfolio.

As at 31 December 2019, Equity (183 million euros) constituted the main source of asset financing, representing 87.2% of Total assets (92.7% at the end of 2018).

In the business model adopted for the corporate and investment banking area, BEM monitors companies with a turnover equal to or higher than 20 million euros in all aspects of the relationship, although the transactionality of these companies (deposits, current accounts, cards, automatic payment terminals at point of sale, etc.) are assured by Banco Montepio, through the same commercial agents (belonging to the two banks).

In 2019, the first year of activity of BEM, under the new business model, which incorporates the Corporate and Investment Banking areas, the evolution of the operational component was marked by the necessary additional operating costs and by the preservation of the level of revenues, with the Customers managed by

BEM having contributed with around 52.2 million euros of total operating income to the consolidated figure of the Banco Montepio Group, compared to 50.3 million euros in 2018 (as shown in the table presented in the "Business Segments" section of this report).

With respect to BEM when considered separately, special reference is also made to the negative effect on operating income of the devaluation of assets belonging to the historical legacy of Montepio Investment, in particular the holdings in the Business Restructuring Funds which started activity in 2012 (2.4 million euros recorded in Net gains/ (losses) from financial assets and liabilities at fair value through profit or loss). Only the exclusion of this effect would take the Total operating income to figures higher than those recorded in 2018, despite this being the first year of activity of the Bank in this new configuration.

The key indicators of BEM are presented in the following table:

Activity and Results (million euros)

	2017	2018	2018 Restated*	2019	Change 19/18	
					Amount	%
Total assets	225.3	199.7	199.3	210.3	11.0	5.5
Loans to customers (net)	38.4	27.4	26.9	75.2	48.3	>100
Equity	188.2	185.2	184.9	183.3	(1.6)	(0.9)
Total operating income	5.6	2.7	2.7	2.5	(0.2)	(7.1)
Operating costs**	1.7	1.2	1.2	2.9	1.7	>100
Operating income before impairment	3.9	1.5	1.5	(0.5)	(2.0)	(<100)

* Restatement of the year of 2018 as described in the Financial Analysis chapter.
** Includes Staff costs, General and administrative expenses and Depreciation and amortisation.

Montepio Crédito – Instituição Financeira de Crédito, S.A.

Montepio Crédito – Instituição Financeira de Crédito, S.A. (Montepio Crédito), 100% controlled by Banco Montepio, through Montepio Holding, SGPS, S.A., offers specialized credit in the automobile, home and services sectors, and equipment, complemented by a set of solutions for Customers that are individuals, companies and institutions of the Social Economy sector. The specialized credit segment shows one of the vertices of the Banco Montepio Group's Transformation Plan, reflecting the focus on consumer credit.

As a result of the repositioning made in terms of the Banco Montepio Group and the strong and solid relations established with its partners, based on the experience acquired over the years, Montepio Crédito has developed a specialized offer of solutions and credit in the following areas: Automobile, Health, Automobile Repair, Telecommunications and Furniture for the segment of individuals; and Logistics, Water, Transport, Energy, Energy Efficiency and Industry for the segment of companies.

Montepio Crédito has an extensive team of professionals in the networks in which it operates, in order to provide the best service and support to its Customers, through the diversity of its specialized offer in the areas of personal credit, loans linked to an asset, movable property leases and operating leases (renting). The entire team relies on the centralised support of a specialized back-office.

As at 31 December 2019, the Net assets amounted to 587.5 million euros, showing an increase of 8.1 million euros (+1.4%) in relation to the value of 579.4 million euros recorded at the end of 2018.

Loans granted to customers (net of impairments) reached 468.1 million euros as at 31 December 2019, representing an increase of 8.2% in relation to the value of 432.8 million euros recorded in the same period of 2018.

Equity stood at 52.9 million euros, showing an increase of 3.1 million euros (+6.2%) in relation to the value of 49.8 million euros recorded at the end of 2018, underpinned by the increased of Other reserves and retained earnings.

Total operating income reached 16.7 million euros in 2019, comparing favourably to the 14.8 million euros recorded in 2018, essentially due to increased Net interest income of 3.7 million euros, despite the reduction of Net gains/(losses) from assets and liabilities at fair value through profit or loss of 2.1 million euros.

Operating costs amounted to 11.6 million euros in 2019, corresponding to an increase of 0.4 million euros (+3.5%) in relation to the same period of 2018, caused by the increased General administrative expenses of 0.3 million euros (+4.9%) and Depreciation and amortisation of 0.2 million euros (+54.9%), associated to the containment of Staff costs, which fell by 19.9 thousand euros (-0.3%).

The favourable evolution of Total operating income led to Operating income without impairment stand at 5.0 million euros in 2019, compared to 3.6 million euros recorded in 2018 (+1.4 million euros).

The key indicators of Montepio Crédito are presented in the following table:

Activity and Results (million euros)

	2017	2018	2018 Restated*	2019	Change 19/18	
					Amount	%
Total assets	442.5	489.7	579.4	587.5	8.1	1.4
Loans to customers (net)	406.3	432.8	432.8	468.1	35.3	8.2
Equity	44.1	51.1	49.8	52.9	3.1	6.2
Total operating income	15.5	16.1	14.8	16.7	1.9	12.3
Operating costs**	10.7	11.3	11.2	11.6	0.4	3.5
Operating income before impairment	4.9	4.8	3.6	5.0	1.4	39.9

* Restatement of the year of 2018 as described in the Financial Analysis chapter.

** Includes Staff costs, General and administrative expenses and Depreciation and amortisation.

Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A.

Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. (Montepio Valor) is 100% controlled by Montepio Holding SGPS, S.A., with its corporate object being the management of real estate investment funds.

The Net assets of Montepio Valor stood at 6.5 million euros as at 31 December 2019, corresponding to an increase of 16.7% in relation to the value of 5.5 million euros stated at the end of 2018.

Assets under management amounted to 400.8 million euros as at 31 December 2019 showing a reduction of 109.0 million euros (-21.4%) in relation to the value of 509.8 million euros recorded at the end of 2018, due to the reduction of the capital of the "Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional" (FIIAH – Closed Real Estate Investment Funds for Residential Rental) which showed surplus liquidity (-169 million euros), attenuating the positive contributions of the entry of "Fundo Imourbe – Fundo de Investimento Imobiliário Fechado" (Imourbe Fund – Closed Real Estate Investment Fund) (+16.6 million euros), the appreciation of the "Fundos Valor Prime – Fundo de Investimento Imobiliário Aberto" (Prime Value Funds – Open Real Estate Investment Fund) (+26.7 million euros), "Fundinvest – Fundo de Investimento Imobiliário Fechado" (Fundinvest – Closed Real Estate Investment Fund) (+6.5 million euros) and "Polaris – Fundo de Investimento Imobiliário Fechado" (Polaris – Closed Real Estate Investment Fund) (+1.3 million euros).

As at 31 December 2019, Equity (4.7 million euros) constituted the main source of asset financing, representing 73.0% of Total assets (79.0% at the end of 2018).

In 2019, Total operating income reached 5.0 million euros reflecting an increase of 0.7 million euros (+16.8%) in relation to the value of 4.3 million euros recorded in 2018, sustained by the performance of Net fees and commissions which grew by 0.9 million euros (+22.0%), notwithstanding the reduction of Net interest income (-111.8%) and Other operating income (-79.6%).

Operating costs amounted to 3.6 million euros in 2019, compared to 3.4 million euros stated in 2018, corresponding to an 8.7% increase as a result of the higher Staff costs (+35.6%) and Depreciation and Depreciation amortisation (+455.3%), and despite the reduction recorded in General administrative expenses (-16.5%).

The increased Depreciation and amortisation was caused by the application of IFRS 16 from 1 January 2019 onwards, which now includes 161.0 thousand euros related to the heading Amortisations of finance lease assets, of which 114.9 thousand euros refer to real estate properties and 46.1 thousand refer to vehicles.

The favourable evolution of Total operating income, which more than offset the increase recorded in operating costs, led to Operating income without impairment having increased by 1.4 million euros in 2019 (+0.4 million euros in relation to the same period of 2018).

The key indicators of Montepio Valor are presented in the following table:

Activity and Results (million euros)

	2017	2018	2019	Change 19/18	
				Amount	%
Assets under management	486.3	509.8	400.8	(109.0)	(21.4)
Total assets	5.8	5.5	6.5	1.0	16.7
Equity	4.9	4.4	4.7	0.3	7.8
Total operating income	4.2	4.3	5.0	0.7	16.8
Operating costs*	3.3	3.4	3.6	0.2	8.7
Operating income before impairment	0.9	1.0	1.4	0.4	45.3

* Includes Staff costs, General and administrative expenses and Depreciation and amortisation.

SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.

SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. (SSAGINCENTIVE), is 100% controlled by Banco Montepio through Montepio Holding SGPS, S.A., with its corporate object being the transaction and management of real estate properties.

As at 31 December 2019, the Assets of SSAGINCENTIVE amounted to 58.0 million euros, showing a 3.0% decline in relation to the value of 59.8 million euros recorded at the end of 2018.

The heading of Inventories refers to the acquisitions made from Banco Montepio, namely related to real estate properties intended for sale, in particular divisions of properties stated at market value. As at 31 December 2019 the heading of Inventories amounted to 40.6 million euros, of which 21.6 million euros refer to buildings and 19.0 million euros refer to plots of land, showing a reduction of 6.9 million euros in relation to the value of 47.5 million euros recorded as at 31 December 2018, as a result of the sales occurred throughout 2019.

As at 31 December 2019, Equity (57.8 million euros) constituted the main source of asset funding, representing 99.7% of Total assets (identical weight at the end of 2018).

Sales and services rendered stood at 5.1 million euros in 2019, representing an increase of 1.2 million euros compared to the value stated in 2018, corresponding to the amounts derived from inventory sales, under the current business activity of SSAGINCENTIVE.

The heading of Cost of goods sold and materials consumed reached 5.1 million euros in 2019, compared to 3.6 million euros in 2018, and represents the acquisition cost of the real estate properties sold, after deduction of their impairment.

The heading of Impairment of inventories amounted to a cost of 1.9 million euros in 2019, compared to the cost of 0.8 million euros recorded in 2018, as a result of the reinforcement of the impairment of real estate properties for trading observed throughout 2019.

The heading of Other income stood at 0.1 million euros in 2019 (0.2 million euros in 2018) and includes the refunding of tax related to real estate properties sold and income obtained from real estate properties.

The heading of Other costs, which includes costs related to the maintenance, legalisation and promotion of the sale of real estate properties, amounted to 0.5 million euros in 2019, compared to 0.6 million euros in 2018.

Total operating income stood at -2.2 million euros in 2019, compared to the value of -0.9 million euros recorded in 2018, particularly as a result of the higher level of impairment of inventories stated in the year.

The key indicators of SSAGINCENTIVE are presented in the following table:

Activity and Results (million euros)

	2017	2018	2019	Change 19/18	
				Amount	%
Total assets	61.4	59.8	58.0	(1.8)	(3.0)
Inventories	51.8	47.5	40.6	(6.9)	(14.5)
Equity	61.2	59.7	57.8	(1.9)	(3.0)
Total operating income	(3.0)	(0.9)	(2.2)	(1.3)	(<100)

INTERNATIONAL ACTIVITY

The international activity of the Banco Montepio Group has been conducted by the subsidiaries Finibanco Angola, S.A., Banco MG Cabo Verde, Sociedade Unipessoal, S.A., with Banco Terra, S.A. having been sold in December 2018, thus no longer being included in the Group's consolidation perimeter as at 31 December 2018.

In the context of the strategic redefinition of its international shareholdings, Banco Montepio is undergoing negotiations with a view to re-focusing its approach to the African market, and thus accentuating the domestic focus of the Group's activity.

Finibanco Angola, S.A., 80.22% held by Banco Montepio, is a universal bank supporting small and medium-sized enterprises, individuals and Angolan foreign trade with special incidence on transactions between Portugal and Angola, which seeks to leverage its competitive advantage on the quality of its service. Under its strategy, Finibanco Angola seeks to advise and finance individual customers and micro-enterprises, promoting viable business initiatives.

Finibanco Angola completed 11 years of activity in 2019, having been incorporated on 4 September 2007 and having started its activity in the city of Luanda on 9 June 2008. The expansion of the distribution network, levered on experience and the favourable evolution of its activity, has been accomplished through own funding, aimed at proximity to its customers, and had a total of 24 branches and business centres as at 31 December 2019.

Banco MG Cabo Verde, S.A., 100% held by Banco Montepio, provides a broad offer of specialized financial products and services for the segments of individuals, institutions or companies with international vocation, diversified investment and saving solutions, as well as capital and liquidity management solutions.

The key indicators of the international activity are presented below:

Activity and Results (million euros)

	As reported (1)		On comparable basis (2)			Change 19/18	
	2017	2018	2017	2018	2019	Amount	%
Total assets	405.0	369.6	351.2	369.6	404.7	35.1	9.5
Loans to customers (net)	76.2	41.0	42.0	41.0	42.1	1.1	2.7
Customers' deposits	313.6	284.4	287.4	284.4	299.1	14.7	5.2
Total operating income	19.7	31.9	13.0	26.8	25.5	(1.3)	(4.7)
Operating costs	14.4	15.2	7.9	9.4	11.2	1.8	20.3
Cost-to-Income	73.0%	47.7%	60.9%	34.9%	44.1%	0.1	9.2 p.p.
Net income	2.4	7.8	2.3	8.3	9.8	1.5	18.7

Note: For comparative purposes, the financial statements of 2017, 2018, and 2019 of Finibanco Angola and 2017 and 2018 of Banco Terra were converted using the same exchange rates: AOA / EUR 540,817; MZN / EUR 70,278. (1) Includes Finibanco Angola, Banco MG Cabo Verde and Banco Terra. (2) Includes Finibanco Angola and Banco MG Cabo Verde.

The total Assets of the international activity of the Banco Montepio Group reached 404.7 million euros as at 31 December 2019, compared to 369.6 million euros recorded at the end of 2018, showing an increase of 9.5%. This evolution was driven by the 27.6% increase observed in Finibanco Angola in relation to the value achieved at the end of 2018, despite the 12.3% reduction recorded in the Total assets of Banco MG Cabo Verde in this period.

The Loans to customers of the international activity recorded as at 31 December 2019 showed an increase of 2.7% in relation to the value at the end of 2018, in evolving from 41.0 million euros as at 31 December 2018 to 42.1 million euros as at 31 December 2019. This evolution was exclusively caused by the increase recorded in Loans to customers by Finibanco Angola, as Banco MG Cabo Verde has no values recorded under this heading.

Customer deposits captured by the subsidiaries forming the international activity of the Banco Montepio Group amounted to 299.1 million euros as at 31 December 2019, corresponding to an increase of 5.2% in relation to the value of 284.4 million euros recorded as at 31 December 2018. This reflects, on the one hand, the 27.7% increase in Customer deposits at Finibanco Angola which evolved from 125.9 million euros as at 31 December 2018 to 160.8 million euros as at 31 December 2019, representing 53.8% of the total deposits of the international activity, and, on the other hand, the 12.7% reduction in Customer deposits at Banco MG Cabo Verde which stood at 138.3 million as at 31 December 2019 compared to 158.5 million euros as at 31 December 2018.

The Total operating income of the international activity in 2019 amounted to 25.5 million euros, compared to 26.8 million euros recorded in 2018. This represents a reduction of 4.7%, which was underpinned by the lower Net interest income which reached 12.4 million euros (-9.3%), Net fees and commissions which amounted to 2.9 million euros (-50.7%) and Other operating income which remained negative at 1.4 million euros (-52.4%), notwithstanding the Results from foreign exchange differences which reached 11.6 million euros (+42.8%).

At Finibanco Angola, Total operating income stood at 24.9 million euros in 2019, representing a 6.4% reduction in relation to the 26.6 million euros recorded in 2018, reflecting the reductions observed in Net interest income, Net fees and commissions, and Other operating income, notwithstanding the increase in Results from foreign exchange differences.

At Banco MG Cabo Verde, Total operating income stood at 0.7 million euros, representing an increase of 0.5 million euros compared to the value recorded in the same period of 2018 based on the favourable evolution of Net interest income.

Operating costs of the international activity stood at 11.2 million euros, revealing an increase of 20.3% in relation to the 9.4 million euros recorded in 2018, caused by increases observed in Staff costs (+11.2%) and in Depreciation and amortisation (+222.3%), while General administrative expenses stabilised (0.3%).

At Finibanco Angola, Operating costs increased by 23.6% in 2019 compared to the value recorded in 2018, while at Banco MG Cabo Verde they fell by 17.2%, reflecting the evolution of the business and the features of the corresponding markets. At Finibanco Angola the increase observed in Operating costs in 2019 was caused by the increases recorded in Staff costs (+11.4%), General administrative expenses (+3.9%) and Depreciation and amortisation (+224.4%) in comparison to 2018. At Banco MG Cabo Verde the year-on-year reduction in Operating costs in 2019 was caused by the decreases recorded in the components of General administrative expenses (-24.8%) and Depreciation and amortisation (-4.2%), notwithstanding the increase recorded in Staff costs (+7.2%).

As a result of this evolution, the cost-to-income ratio of the international activity in 2019 stood at 44.1%, compared to 34.9% recorded in 2018.

In 2019 the net income of the international activity of the Banco Montepio Group reached 9.8 million euros (8.3 million euros in 2018), without considering non-controlling interests and exchange rate effects, with positive results in Angola and Cape Verde (9.7 million euros and 0.1 million euros respectively).

OUTLOOK

The Banco Montepio Group's activity during the next few years aims towards convergence with the targets defined in the Transformation Plan approved by the Board of Directors, embodied in the favourable evolution of the main performance and activity indicators, namely growth of net interest income and of fees and commissions, on the one hand, and the improvement of the cost-to-income ratio, on the other hand. The defined goals are based on the optimisation of the value and business proposition, arising from the streamlining of the processes inherent to the commercial activity, especially the development of synergies of the installed capacity for the business areas of companies and individuals banking, with a view to the recovery of market share.

Concerning the commercial business, the strategic plan is based on significant growth of the loan portfolio leveraged by an effort to stimulate the segment of individuals and on a clear focus of the business on the corporate segment, boosted by the start-up of the new business model for BEM in the second half of 2019.

In the segment of individuals, it is expected that there shall be an increase of the share of new loan production, in particular for housing loans and consumer credit, with the latter being leveraged on the experience of Montepio Crédito. In the corporate segment, the increased market share is planned to occur through the positive contribution of the different areas, reflecting the focus on BEM, the optimisation of the marketing dynamics in retail banking and the growth of the corporate component of the social economy sector, benefiting from the positioning and historical roots of the Banco Montepio Group.

The ambition to strengthen total operating income through fees and commissions is embodied, on the one hand, in the growth of turnover, and on the other hand, in the positive contribution of new business areas, through a competitive value proposition suited to each segment according to the life cycle and financial profile of the different types of customers. Thus, capitalising the customer base of a bank that has been operating for more than 175 years in the Portuguese financial market.

The evolution of the portfolio of deposits is in line with the goal of strengthening customer funds as the main source of funding of the commercial activity, with a balanced Loan-to-deposit ratio, with the integrated management of the liquidity strategy, taking into account the continuous assessment of the existing funding conditions and sources in the market.

Concerning the deleveraging of non-core assets, the Banco Montepio Group upheld the ambition to attain the specific plans, especially the reduction of non-performing loans and exposure to real estate risk.

The strategic goals point to sustainability underpinned by recurrent results, the optimisation of the commercial gap and application of surplus liquidity, the increased weight of the productive assets in the balance sheet, careful capital management in view of the expected return so as to enable increasing profitability and boosting the Group's value for all stakeholders.

The current scenario derived from the socioeconomic impacts of the Covid-19 pandemic point to worrying international macroeconomic and financial projections, with an imminent recession of unpredictable but significant proportions, that shall affect the different business segments, leading to the need to review the business plan that was delineated in a different context, namely:

- With respect to the commercial business, more specifically in terms of loans granted: the publication of Decree-Law 10-J/2020 – Legal moratorium, as well as the signing of private moratoria with APB (the Portuguese Banking Association) and ASFAC (the Association of Specialised Credit Institutions), shall be directly reflected in terms of liquidity, via lower repayment of the instalments of the loan portfolio. The Group had comfortable liquidity levels, embodied in a liquidity coverage ratio of close to 180% at the end of the year.
- Concerning the capital and liquidity components, in line with the decision taken by the European Central Bank for significant institutions, Banco de Portugal authorised that less significant credit institutions subject to its supervision, which includes Banco Montepio, may operate temporarily at a lower level than that recommended for own funds (Pillar 2 Guidance) and for the combined reserve of own funds, and with liquidity levels lower than those of the required liquidity coverage ratio.
- As for liquidity, reference should also be made to the European Central Bank announcement on the implementation of a series of flexibilisation measures with positive impacts in terms of the liquidity buffers in the financial system, aimed at mitigating negative effects of the novel coronavirus on the financial situation of the Eurosystem's monetary policy counterparts, namely via the reduction of the valuation margins (haircuts) applicable to tradable and non-tradable assets given as collateral, the increased limit of concentration of unsecured debt instruments issued by credit institutions, the enhanced flexibility of the rules of mobilisation of individual credit rights, the enhanced flexibility of the rules of mobilisation of portfolios of credit rights, and by the acceptance of guarantees of public entities and public debt securities. These measures have an additional positive impact on the Group's liquidity position.
- Concerning total operating income, materially significant negative impacts are expected in terms of fees and commissions, namely in income arising from financial transactions, in view of the legal

measures imposed and the abrupt reduction of economic activity during the state of emergency, where the recovery rate is difficult to predict.

- In terms of the cost of risk, via the borrowers' lower capacity to comply with their debt service, notwithstanding the governmental and sectoral initiatives underway, as well as the downward pressure on real estate prices.
- In terms of the deleveraging of non-core assets, implying the need to revisit the plan to reduce non-performing loans, as well as the plan to reduce the exposure to real estate risk.

FINANCIAL ANALYSIS

FINANCIAL ANALYSIS

In view of the decisions taken by the Board of Directors and the provisions in IFRS 5, the activities developed by Finibanco Angola S.A. has been deemed as discontinuing operations since the end of 2016.

In the income statement, and whenever applicable, the net income of this subsidiary is stated under an operating account heading named “Income from discontinuing operations” and, the assets and liabilities are recorded in the balance sheet, respectively, under the headings named “Non-current assets held for sale – Discontinuing operations” and “Non-current liabilities held for sale – Discontinuing operations”.

During 2019, Banco Montepio reviewed the models and processes used to calculate the impairment for credit risks pursuant to IFRS 9, namely involving the definitions of staging and Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The results obtained from this review determined the need for Banco Montepio to restate the financial statements as at 31 December 2018. Under this review, impacts were ascertained stated in the accounting of equity as at 1 January 2018 as well as in the subsequent movements recorded in the income statement of 2018 and 2019, although without significant effects as shown in the following tables and in the notes to the financial statements.

The impacts of this restatement in the consolidated financial statements of 2018 are presented in detail in the explanatory note to the accounts on a consolidated basis. Although the restatement configures impacts of low materiality in the financial statements, the analysis of this chapter shows, for comparative effects, and whenever relevant, the profit and loss account and the different balance sheet headings reported and on a restated basis for 2018.

Events occurred after the reporting date of the financial statements that are not considered adjusting events, if significant, are disclosed in the notes to the financial statements.

As is well known, the extent of the spreading achieving by the virus named Covid-19 led the World Health Organisation to declare it a pandemic. Over the last few weeks, sensitive developments have occurred in various countries, including in Portugal, Angola and Cape Verde, where it is expected that the pandemic shall lead to adverse impacts, both direct and indirect, in different sectors of economic activity.

In this context, bearing in mind not only the activity developed by Banco Montepio but also the available information up to the present date, the Board of Directors does not expect material effects on the financial statements of 2019 due to the pandemic. However, in view of the uncertainty of these effects, at this moment in time, it is not possible to estimate and quantify the future impacts of Covid-19 on the Portuguese, Angolan and Cape Verdean economies, where the Group operates, and in particular in terms of the banking business and development of the Banco Montepio Group's activity. Therefore, the Board of Directors shall continue to appraise this situation carefully throughout 2020.

CAPITAL

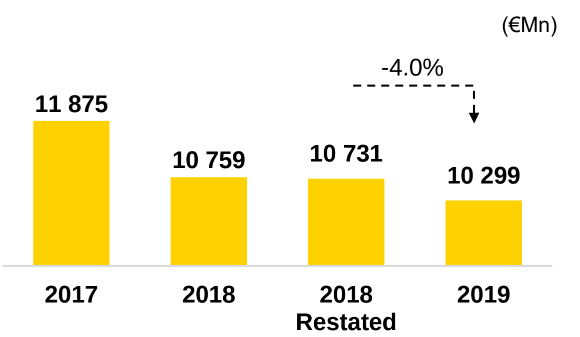
In line with the Transformation Plan presented at the end of 2018, Banco Montepio continued in 2019 to implement a series of measures aimed at strengthening the capital levels, in particular those related to balance sheet management and the organic generation of capital.

As at 31 December 2019, the Common Equity Tier 1 (CET1) and Total Capital ratios of Banco Montepio, pursuant to the phasing-in rules, stood at 12.4% and 13.9%, respectively, compared to 13.3% and 13.9% at the end of 2018.

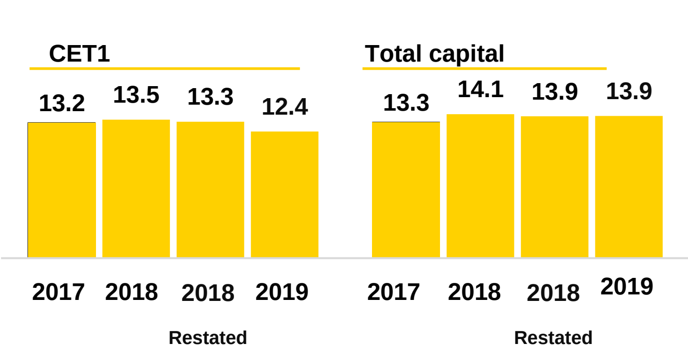
Total own funds stood at 1,430 million euros as at 31 December 2019, compared to 1,487 million euros as at 31 December 2018, reflecting, on the one hand, the reduction of tier 1 own funds, to a large extent caused by the regulatory deductions, namely the acceleration of the deduction of deferred tax assets, as well as the impact of the Pension Fund and, in the opposite direction, by the reinforcement of tier 2 own funds following the issuance of subordinated debt of 100 million euros carried out in the first half of 2019.

Through a denominator effect, the capital ratios benefited from the positive impact of the reduction of 432 million euros of risk-weighted assets (RWA), as a result of the sale of non-strategic assets, in particular the sales of non-performing loans and real estate assets, and an efficient management of the allocation of risk in the portfolios of credit and debt securities.

Risk-weighted assets (*phasing-in*)



Capital ratios (*phasing-in*)*



(*) Ratios include the accumulated net income for the period.

On a fully implemented basis, as at 31 December 2019, the CET1 ratio stood at 11.2% and the Total Capital ratio at 12.8%, with the differences in relation to the phasing-in capital ratios currently being explained by the component of IFRS 9.

The leverage ratio, pursuant to the phasing-in rules, stood at 7.0% as at 31 December 2019, compared to 7.6% at the end of 2018, being above the benchmark minimum defined by the Basel Committee on Banking Supervision (3%).

As at 31 December 2019, the capital ratios reported by Banco Montepio were above the required prudential levels for the total capital requirement (including combined reserves), pursuant to the decision disclosed for the financial year of 2019 by Banco de Portugal, as the authority responsible for Banco Montepio's supervision on a consolidated basis, in the context of the annual supervisory process named Supervisory Review and Evaluation Process (SREP), under Pillar 2.

CAPITAL AND CAPITAL REQUIREMENTS

(million euros)

	2017	2018	2018 Restated	2019	Change 19/18 Amount	%
Total own funds						
Common Equity Tier 1	1 572	1 457	1 430	1 274	(156)	(10.9)
Tier 1	1 572	1 457	1 431	1 274	(157)	(10.9)
Total Capital	1 580	1 513	1 487	1 430	(57)	(3.8)
Risk-weighted assets	**11 875**	**10 759**	**10 731**	**10 299**	**(432)**	**(4.0)**
Phasing-in ratios						
Common Equity Tier 1	13.2%	13.5%	13.3%	12.4%	(90) pb	
Tier 1	13.2%	13.5%	13.3%	12.4%	(90) pb	
Total Capital	13.3%	14.1%	13.9%	13.9%	0 pb	
Fully implemented ratios						
Common Equity Tier 1	11.6%	11.4%	11.2%	11.2%	0 pb	
Tier 1	11.7%	11.4%	11.2%	11.2%	0 pb	
Total Capital	11.9%	12.0%	11.7%	12.8%	110 pb	
Leverage ratios						
Phasing-In	7.6%	7.8%	7.6%	7.0%	(60) pb	
Fully implemented	6.8%	6.6%	6.4%	6.4%	0 pb	

Note: The ratios include the accumulated net income for the period.

LIQUIDITY

During 2019, Banco Montepio continued to develop a series of initiatives aimed at upholding the robust liquidity position, with levels greatly above the regulatory limits in force and in line with the strategic goals of the Transformation Plan.

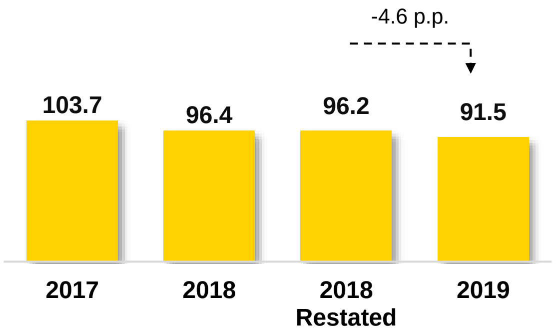
The management of Banco Montepio's balance sheet led to the Liquidity Coverage Ratio (LCR) reaching 179.9% as at 31 December 2019, having evolved favourably in relation to the ratio of 160.5% recorded as at 31 December 2018, thus standing 79.9 p.p. above the minimum regulatory requirement of 100% applicable in 2019.

The performance of Customer deposits, on the one hand, and the slowdown of Loans to customers, on the other hand, led to a loan-to-deposit ratio, calculated in accordance with Banco de Portugal Instruction number 16/2004, of 91.5% as at 31 December 2019, compared to 96.2% as at 31 December 2018.

Loans to deposits ratio

Loans to customers, net / Customers' deposits [(a)]

(%)



(a) Pursuant toBanco de Portugal instruction No. 16/2004, in its current version.

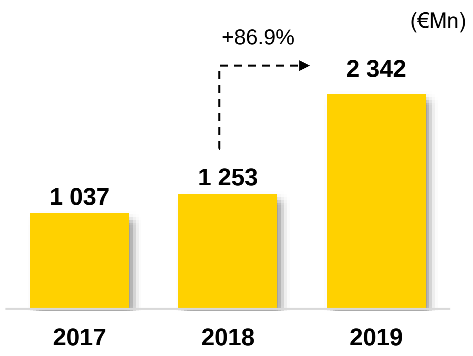
LOANS TO DEPOSITS RATIOS

	2017	2018	2018 Restated	2019	Change 19/18
Loans to customers (net) / Customers' deposits [a]	103.7	96.4	96.2	91.5	(4.6 p.p.)
Loans to customers (net) / Total on-balance sheet customers' resources [b]	92.4	88.7	88.5	82.4	(6.1 p.p.)

(a) Pursuant to Banco de Portugal Instruction No.16/2004, in its current version.
(b) Total On-Balance Sheet Customers' Resources = Customers' resources + debt securities issued. Computed in accordance with the Financial Statements annexed to this report.

The total value of the pool of eligible assets at the end of 2019 recorded an increase in relation to 31 December 2018 of the value of 985 million euros, reflecting Banco Montepio's strategy of investment in liquid assets, in a perspective of the integrated management of liquidity and funding sources. As at 31 December 2019, the value of the pool of collateral for Eurosystem operations stood at 3,633 million euros, compared to 2,648 million euros recorded at the end of 2018. The use of European Central Bank funds at the end of 2019 was 104 million euros lower than the value at the end of 2018. The use of Eurosystem monetary policy operations falls under the support given to the economy, with a view to optimising the long-term funding, namely through participation in TLTRO-II (Targeted Longer-term Refinancing Operations), in the context of the non-conventional expansionary monetary policy measures implemented by the ECB. In terms of available collateral for obtaining liquidity, the value of the eligible assets increased by 86.9% 2019 by shifting from 1,253 million euros the end of 2018 to 2,342 million euros as at 31 December 2019.

Pool of Eligible Assets for Refinancing Operations with the ECB



POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(million euros)

	2017	2018	2019	Change 19/18	
				Amount	%
Pool of eligible assets [a]	2 595	2 648	3 633	985	37.2
Use of the pool	1 558	1 395	1 291	(104)	(7.5)
Pool of available assets	**1 037**	**1 253**	**2 342**	**1 089**	**86.9**

(a) Includes eligible assets, free of charge, for operations in the MIC (Collateralized Interbank Market).

The repurchase operations with counterparts (also referred to as repos), which stood at 873 million euros as at 31 December 2018, were reduced during 2019, explaining the decrease observed in funds from other credit institutions, under the established strategy for liquidity management and funding sources.

In the interbank money market, Banco Montepio did not show any assignment or taking of funds. In the interbank money market of foreign currency, Banco Montepio showed a position of 31 million American dollars assigned at the average rate of 2%.

BALANCE SHEET

In 2019, Banco Montepio continued the process started under the Transformation Plan, with a view to the development and implementation of an economically sustainable business model, which ensures stable profitability and focus on reducing non-performing exposures and enables the organic growth of capital levels and liquidity buffers.

Accordingly, the deleveraging of the balance sheet continued, materialised in the reductions of non-performing assets and in the ongoing strengthening of its liquidity position, through the capture and retention of customer deposits, and the active management of the securities portfolio, contributing to ensure the regulatory capital and liquidity levels in force at comfortable levels.

In this regard, we highlight the issuance of 100 million euros of subordinated debt for the period of 10 years, which is eligible to strengthen tier 2 own funds, carried out in the first half of 2019, which enabled diversifying the financing sources with a view to complying with the regulatory requirements and attaining the business goals.

Furthermore, during the second half of the year, the Banco Montepio Group divested a series of real estate assets in a wholesale operation to institutional investors, for the total gross value of 104 million euros. Special note should also be made of the sale of a portfolio of non-performing loans (NPL) for the gross value of 321 million euros in July 2019. This sale, together with other delineated initiatives, namely the strengthening of the recovery of organic loans, enabled Banco Montepio to comply with its plan to reduce NPL, which reached a stock of 1,488 million euros at the end of 2019.

On the other hand, the negotiations continued with the shareholders of Banco de Negócios Internacional, S.A. (Angola) with a view to a merger with Finibanco Angola S.A. and consequent deconsolidation of this subsidiary from the Banco Montepio Group.

SYNTHETIC BALANCE SHEET

(million euros)

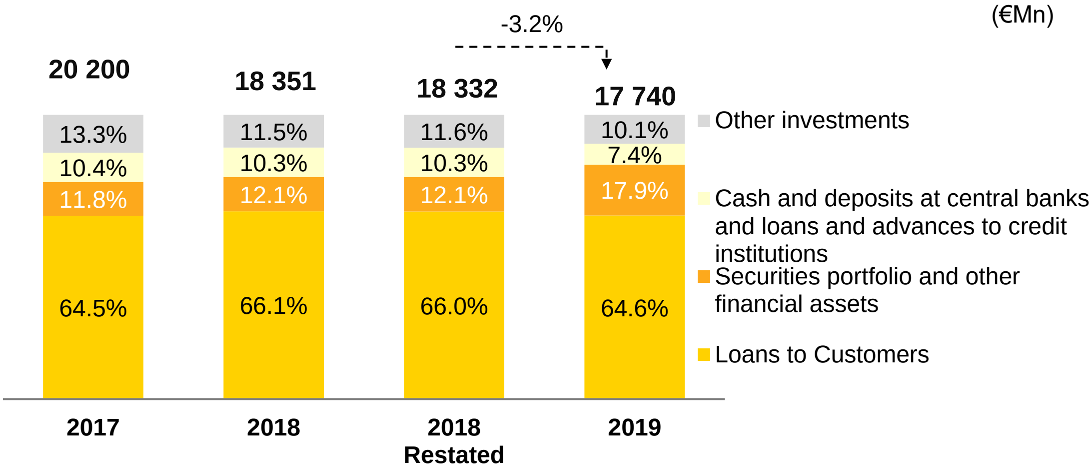
	2017	2018	2018 Restated	2019	Change 19/18 Amount	Change 19/18 %
Cash and deposits at central banks and loans and advances to credit institutions	2 096	1 899	1 899	1 309	(590)	(31.1)
Loans to customers	13 029	12 123	12 095	11 465	(630)	(5.2)
Securities portfolio and other financial assets*	2 385	2 216	2 216	3 179	963	43.5
Non current assets held for sale and investment properties	1 281	991	991	145	(846)	(85.4)
Non current assets held for sale - Discontinuing operations	474	295	295	217	(78)	(26.5)
Current and deferred tax assets	473	471	480	450	(30)	(6.3)
Other	461	356	356	975	619	>100
Total assets	**20 200**	**18 351**	**18 332**	**17 740**	**(592)**	**(3.2)**
Deposits from central banks and OCI	3 345	2 641	2 641	1 813	(828)	(31.3)
Customers' resources	12 561	12 575	12 575	12 525	(50)	(0.4)
Issued debt	1 780	1 144	1 144	1 548	404	35.3
Non current liabilities held for sale - Discontinuing operations	330	194	194	134	(60)	(30.7)
Other	421	260	261	268	7	2.5
Total liabilities	**18 437**	**16 814**	**16 815**	**16 288**	**(527)**	**(3.1)**
Share capital*	2 420	2 420	2 420	2 420	0	0.0
Reserves, retained earnings and other	(664)	(896)	(917)	(990)	(73)	(8.0)
Net income	6	13	14	22	8	59.6
Total equity	**1 763**	**1 537**	**1 517**	**1 452**	**(65)**	**(4.3)**
Total liabilities and equity	**20 200**	**18 351**	**18 332**	**17 740**	**(592)**	**(3.2)**

* Includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest).

ASSETS

The Net assets stood at 17,740 million euros as at 31 December 2019, compared to the value of 18,332 million euros as at 31 December 2018.

Assets structure



The evolution of the Net assets shows a reduction of 590 million euros (-3.2%) in relation to the value at the end of 2018. The variation of the Assets was due to the reduction of the headings of Loans to customers, which was to some extent affected by the deleveraging of non-performing loans, and by the reduction of Cash and deposits at central banks and loans and advances to other credit institutions, reflecting the management of the liquidity position, which was offset by the increase of the Portfolio of securities and other instruments.

It should be highlighted that, in relation to the same period of the previous year, the reduction observed in Non-current assets held for sale is primarily related to the reclassification of the real estate component to the heading of other assets. Nevertheless, it is important to stress that the Bank pursued its strategy to reduce real estate risk, reflected in a reduction of net exposure of almost 250 million euros, of which 104 million euros are attributable to the wholesale of real estate properties in the operation named Brick.

CASH AND DEPOSITS AT CENTRAL BANKS AND LOANS AND ADVANCES TO OTHER CREDIT INSTITUTIONS

The aggregate of the headings of Cash and deposits at central banks and Other credit institutions (OCI) includes the balances recorded under Cash and deposits at central banks and Loans and advances to credit institutions.

As at 31 December 2019, the liquidity deposited at central banks and other credit institutions stood at 1,309 million euros, compared to 1,899 million euros recorded at the end of 2018. This corresponds to a reduction of 590 million euros (-31.1%), justified by the decrease in the headings of Cash and deposits at central banks and Deposits at other credit institutions, not offset by the increase recorded in the heading of Loans and advances to credit institutions.

LOANS TO CUSTOMERS

As at 31 December 2019, Loans to customers (gross) reached 12,239 million euros, representing a decrease of 6.3% in relation to the 13,068 million euros recorded as at 31 December 2018. This reveals, on the one hand, the policy of risk management and repricing in granting loans, and on the other hand, the loans written off from the assets (write-offs) and the sales of non-performing loans conducted throughout 2019.

As a result of the measures that have been implemented, there has been a reduction, both of the number of new contracts[9] moving into default (-24.2%), and of the value in default (-12.5%).

Throughout 2019, Banco Montepio continued to perfect the process of approval, granting and control of loans with a view to accomplishing the strategic goal of improving asset quality and, in this way, foster an improvement in the credit quality indicators, based on a reduction of risk concentration, in particular in the construction and real estate activity sectors.

As at 31 December 2019, the loan portfolio recorded a reduction of 829 million euros in relation to the end of 2018, showing the reduction of loans granted to individuals, both for housing purposes (-6.9%), which continues to show a higher level of repayment than of new operations raised, and for loans granted for other purposes (-36.1%). In the meantime, loans granted to companies continued to be in line with the values recorded in 2018 (restated), a portfolio of non-performing loans (Atlas II operation) was sold for the gross value of 321 million euros, and loans were written off from the assets to the value of 90.9 million euros.

Under Banco Montepio's Transformation Plan the improvement of credit quality is also based on a more effective and integrated management of non-performing exposures, by maximising recoveries and corporate finance solutions, benefiting from the strategic focus on the segments of individuals, companies especially small and medium-sized enterprises (SMEs) and Social Economy entities.

[9] Contracts of more than 90 days, excluding demand deposits and cards.

LOANS TO CUSTOMERS

(By sector of activity)

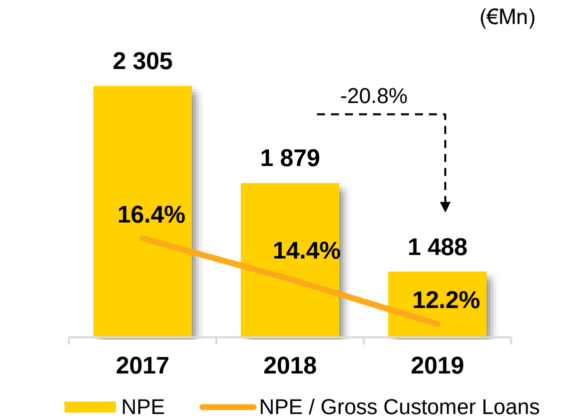
(million euros)

	2018	2018 Restated	2019	Change 19/18 Amount	%
Individuals	**7 384**	**7 384**	**6 546**	**(838)**	**(11.3)**
Housing loans	6 252	6 252	5 823	(429)	(6.9)
Others	1 132	1 132	723	(409)	(36.1)
Companies	**5 684**	**5 684**	**5 693**	**9**	**0.2**
Manufacturing industries	933	933	927	(6)	(0.6)
Wholesale and retail trade	863	863	852	(11)	(1.2)
Construction and Public works, and Real estate activities	1 529	1 529	1 454	(75)	(4.9)
Accommodation and catering activities	432	432	440	8	1.9
Transportation and storage	410	410	365	(45)	(11.0)
Business Services	395	395	397	2	0.4
Other collective service activities	169	169	114	(55)	(32.7)
Others	952	952	1 144	192	20.2
Gross loans	**13 068**	**13 068**	**12 239**	**(829)**	**(6.3)**
Balance sheet impairment	**945**	**972**	**775**	**(197)**	**(20.3)**
Net loans	**12 123**	**12 095**	**11 465**	**(630)**	**(5.2)**

The proportion of Non-Performing Exposures (NPE) to total gross loans to customers stood at 12.2%, compared to 14.4% as at 31 December 2018, revealing the favourable evolution of the reduction of non-performing exposures stock in relation to the value recorded at the end of 2018, which stood at 1,488 million euros as at 31 December 2019, despite the reduction of the portfolio of gross loans to customers which negatively impacted the ratio.

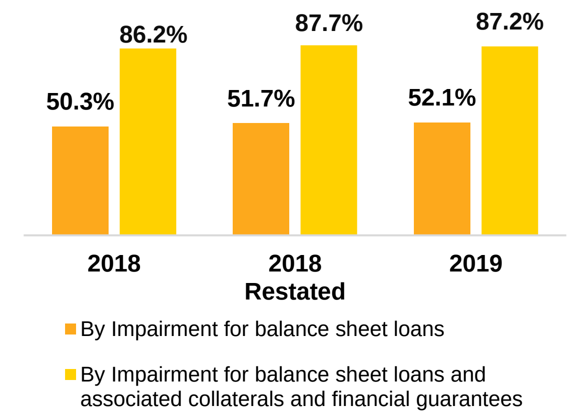
Notwithstanding the sales of non-performing loans, there was a significant improvement of the ratios of coverage of non-performing exposures by impairment and by asset-backed and financial collateral. The Transformation Plan of Banco Montepio foresees a downward trend of the ratio of non-performing exposures supported by higher rates of remedy and recovery of loans in default and by the selective sale of non-performing exposures.

Non-performing exposures (NPE)*



* EBA definition

NPE coverage*



* EBA definition

The coverage of non-performing exposures by impairment for loans and associated collateral and financial guarantees on the balance sheet stood at 87.2% as at 31 December 2019, compared to 87.7% as at 31 December 2018, while the coverage for balance sheet impairments stood at 52.1%, compared to 51.7% recorded as at 31 December 2018.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

In the context of strategy of rebalancing the asset structure, Banco Montepio continued, throughout 2019, to identify and implement measures aimed at improving the liquidity levels and active management of the Portfolio of securities and other instruments.

As at 31 December 2019, the portfolio of securities and other instruments amounted to 3,179 million euros, compared to 2,216 million euros as at 31 December 2018. The evolution of the portfolio of securities and other instruments in relation to 2018 reveals, on the one hand, the increase of the portfolio of Financial assets at fair value through other comprehensive income of 1,415 million euros, influenced by the acquisition of public and corporate debt instruments, and on the other hand, the reduction of the portfolio of Other financial assets at amortised costs, derived from the reduction of bonds of national public issuers, and of the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss, in this case determined by the reduction of the component of variable yield securities, related to participation units in funds.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

(million euros)

	2017	2018	2019	Change 19/18	
				Amount	%
Financial assets held for trading	184	24	36	12	51.2
Financial assets at fair value through other comprehensive income	2 201	444	1 859	1 415	>100
Other financial assets at amortised cost	-	1 256	899	(357)	(28.4)
Financial assets not held for trading mandatorily at fair value through profit or loss*	-	492	385	(107)	(21.8)
Total Securities portfolio and other financial assets	**2 385**	**2 216**	**3 179**	**963**	**43.5**

* Includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest).

In analysing the securities portfolio by type of instrument, year-on-year growth of 1,068 million euros is observed in bonds and other debt instruments, which includes Portuguese and Spanish public debt, that led to the increase recorded in the portfolio of securities and other instruments (+43.5% in relation to December 2018).

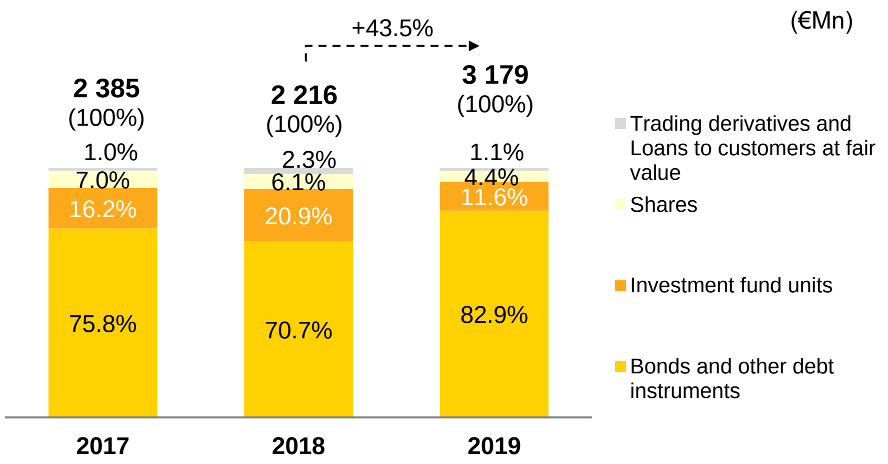
SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS BY TYPE OF INSTRUMENT

(million euros)

	2017	2018	2019	Change 19/18	
				Amount	%
Bonds and other debt instruments	1 808	1 567	2 635	1 068	68.2
Shares	167	133	141	8	6.4
Investment fund units	385	464	369	(95)	(20.5)
Trading derivatives	25	24	23	(1)	(3.1)
Loans to customers at fair value	-	28	11	(17)	(60.7)
Total Securities portfolio and other financial assets	**2 385**	**2 216**	**3 179**	**963**	**43.5**

The structure of the portfolio of securities and other instruments remained, as at 31 December 2019, primarily composed of bonds and other debt instruments, whose total weight in the portfolio increased to 82.9%. In turn, the proportion of investment fund units and shares decreased to 11.6% and 4.4% of the portfolio, respectively.

Structure of the Securities portfolio and other financial assets

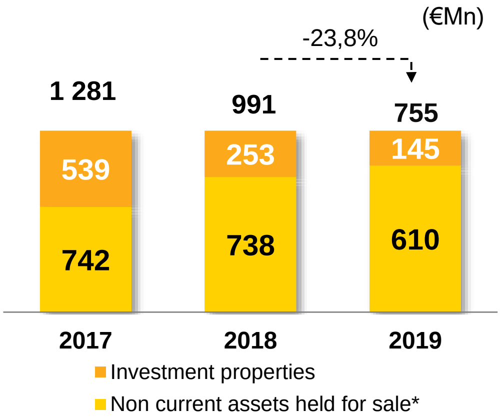


NON CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

The aggregate of the headings of Non-current assets held for sale and Investment properties was influenced by the reclassification of the Non-current assets held for sale related to real estate properties held, to the heading of Other assets, but without change of the strategy to reduce exposure to real estate risk.

The evolution of the exposure to real estate asset, incorporating the aforesaid reclassification for purposes of comparability, showed a year-on-year decrease of 23.8% as at 31 December 2019, in having shifted from 991 million euros at the end of 2018 to 755 million euros as at 31 December 2019, in line with the guideline for the integrated management of real estate properties and consequent reduction of exposure to this activity sector.

Exposure to real estate assets



* including the amount reclassified to other assets

The heading of Non-current assets held for sale, together with the value reclassified to the heading of Other assets, essentially shows the value associated to real estate properties derived from the dissolution of loan contracts with customers, which decreased by 17.3% in evolving from 738 million euros as at 31 December 2018 to 610 million euros at the end at December 2019. This evolution reveals the effect of the credit recovery and good performance of the sales of real estate properties made in the retail market.

Investment properties, a heading that records the real estate properties held by the Real Estate Investment Funds in Banco Montepio's consolidation perimeter, decreased by 42.8%, in evolving from 253 million euros as at 31 December 2018 to 145 million euros as at 31 December 2019, continuing to accomplish the goal of reducing exposure to real estate risk.

NON CURRENT ASSETS HELD FOR SALE – DISCONTINUING OPERATIONS

As at 31 December 2019, the heading of Non-current assets held for sale - discontinuing operations amounted to 217 million euros, and corresponds to the value of the assets recorded by the Group's operations in Angola, after having been adjusted for the necessary movements of the consolidation process, having been stated following the application of IFRS 5, as indicated in Note 61 of the notes to the consolidated financial statements.

CURRENT AND DEFERRED TAX ASSETS

As at 31 December 2019, the aggregate of Current and deferred tax assets amounted to 450 million euros, compared to 480 million euros as at 31 December 2018.

According to the respective accounting policy, Deferred tax is calculated based on the tax rates that are expected to be in force on the date of the reversal of the temporary differences, which correspond to the rates approved or substantially approved on the reporting date.

OTHER

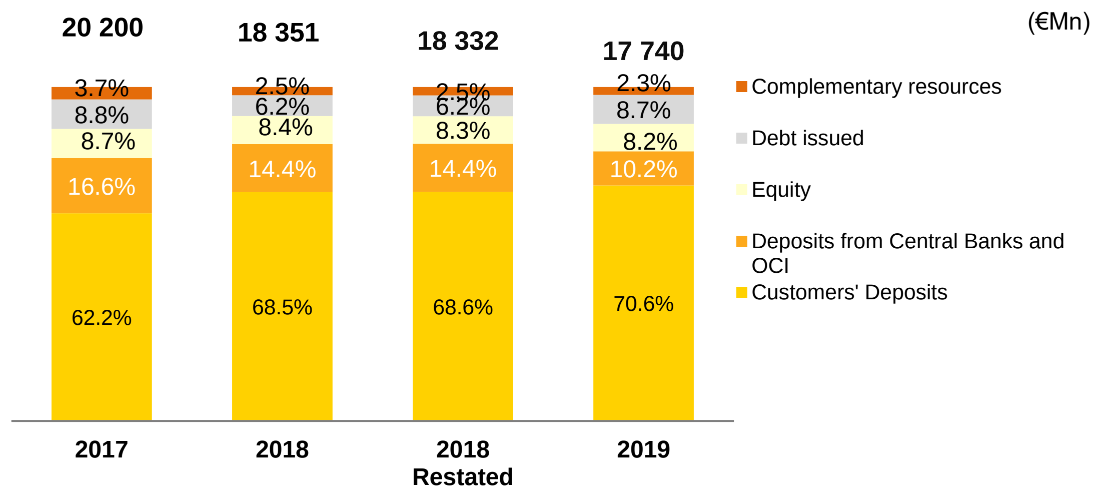
The aggregate Other, presented in the Assets of the synthetic balance sheet, stood at 975 million euros as at 31 December 2019, of which 610 million euros correspond to real estate properties held for sale reclassified from the heading of non-current assets held for sale to Other assets.

Excluding the effect of the previously mentioned reclassification, the aggregate Other reached 365 million euros, compared to 356 million euros as at 31 December 2018. This aggregate incorporates the headings of Assets with repurchase agreements, Hedging derivatives, Other tangible assets, Intangible assets, Investments in associates and Other assets. The increase recorded in this aggregate at the end of December 2019, in relation to the value recorded as at 31 December 2018, was caused by the increase of 18 million euros in Other tangible assets, 2 million euros in Intangible assets and 5 million euros in Hedging derivatives.

LIABILITIES

As at 31 December 2019, total Liabilities stood at 16,288 million euros, revealing a decrease of 527 million euros (-3.1%) in relation to the value of 16,815 million euros recorded as at 31 December 2018. This was due, on the one hand, to the decrease recorded in Resources of central banks and other credit institutions (-828 million euros), in Customers' resources (-50 million euros) and in Non-current liabilities held for sale - discontinuing operations (-60 million euros), and on the other hand, the increase of Issued debt (+404 million euros) and the aggregate Other presented in the Liabilities of the synthetic balance sheet (+7 million euros). As at 31 December 2019, Equity financed 8.2% of the Assets and Customer deposits continued to be the main source of balance sheet funding, accounting for 70.6% of total liabilities and equity.

Liabilities and Equity Structure



DEPOSITS FROM CENTRAL BANKS AND OCI

As at 31 December 2019, the funding obtained from central banks and other credit institutions amounted to 1,813 million euros, compared to 2,641 million euros recorded at the end of 2018, revealing a reduction of 31.3%. This heading incorporates funds taken at the ECB, which amounted to 1,291 million euros as at 31 December 2019, compared to 1,395 million euros as at 31 December 2018 (-7.5%), and the funding obtained from Other credit institutions which stood at 522 million euros as at 31 December 2019, which compares with

1,245 million euros at the end of 2018 (-58.1%), primarily reflecting the reduction of 740.6 million euros recorded in the heading of Sales operations with repurchase agreement.

CUSTOMERS' RESOURCES

Throughout 2019, Banco Montepio developed a series of initiatives aimed at capturing and retaining customer resources, under its liquidity risk management strategy.

Total customers' resources amounted to 13,496 million euros at the end of December 2019, of which 12,679 million euros correspond to customers' resources on the balance sheet, with 98.8% referring to customer deposits.

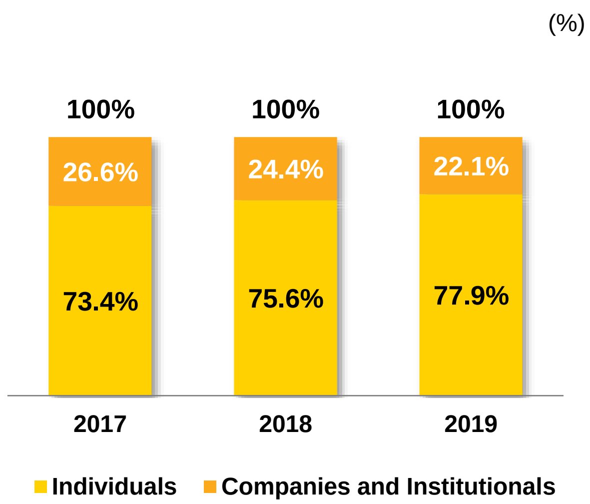
As at 31 December 2019, Customer deposits stood at 12,525 million euros, essentially concentrated in individual customers, a segment that has continued predominant in representing 77.9% of total deposits.

As at 31 December 2019, Customer deposits remained relatively stable, as a whole, in relation to the value at the end of 2018, in a context of interest rates at historically low levels and a more competitive environment.

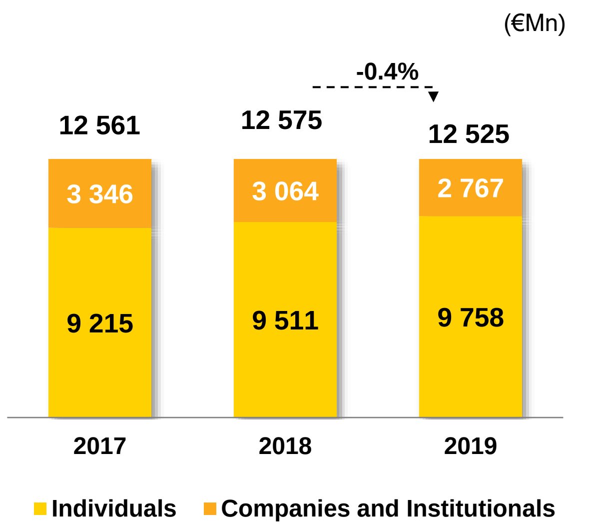
As at 31 December 2019, the heading of Securities placed with customers stood at 154 million euros, compared to 181 million euros as at 31 December 2018, reflecting the maturity of securitised debt.

Off-balance sheet resources reached 817 million euros as at 31 December 2019, compared to 676 million euros recorded at the end of 2018, representing an increase of 20.9%, due to the increases recorded in the Securities and Real Estate Investment Funds and in the Pension Funds, despite the reduction observed in Capitalisation insurance.

Customer' deposits structure



Customer' deposits



CUSTOMERS' RESOURCES

(million euros)

	2017	2018	2019	Change 19/18 Amount	%
Customer Deposits	**12 561**	**12 575**	**12 525**	**(50)**	**(0.4)**
Sight Deposits	3 509	3 999	4 617	618	15.5
Term Deposits	9 052	8 576	7 908	(668)	(7.8)
Securities placed with Customers	617	181	154	(27)	(15.0)
Total On-Balance sheet resources	**13 178**	**12 756**	**12 679**	**(77)**	**(0.6)**
Off-Balance sheet resources	709	676	817	141	20.9
Total Customers' resources	**13 887**	**13 432**	**13 496**	**64**	**0.5**

ISSUED DEBT

The heading of Issued debt incorporates the amounts recorded in the balance sheet related to Debt securities issued and Subordinated debt.

As at 31 December 2019, the value of Issued debt increased by 404 million euros (+35.3%) to stand at 1,548 million euros, compared to 1,144 million euros recorded as at 31 December 2018, as a result of the increase recorded both in Debt securities issued (+296 million euros) and in Other subordinated debt (+108 million euros). The evolution observed in Debt securities issued reveals, on the one hand, the reduction in relation to the end of 2018 of Cash bonds (-117.4 million euros) and Securitisations (-88.9 million euros), and on the other hand, the increase of Mortgage bonds (+502.3 million euros). The increase recorded in Other subordinated debt in relation to 31 December 2018 was caused by the issuance of 100 million euros of subordinated debt, under the Euro Medium-Term Note Programme (EMTN) of Banco Montepio.

NON CURRENT LIABILITIES HELD FOR SALE – DISCONTINUING OPERATIONS

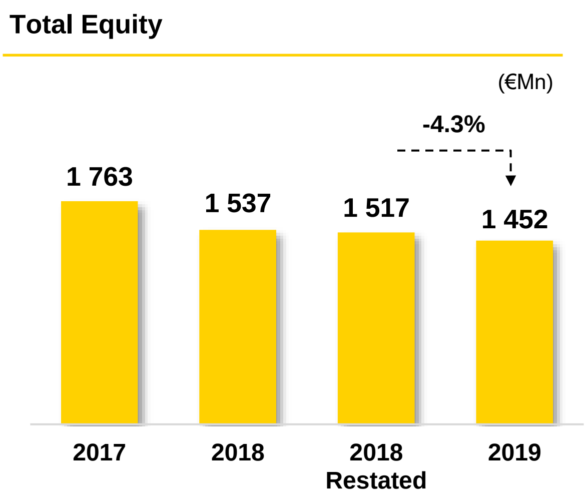
As at 31 December 2019, the heading of Non-current liabilities held for sale - discontinuing operations amounted to 134 million euros, and corresponds to the value of the liabilities recorded by the Group's operations in Angola, after having been adjusted for the necessary movements of the consolidation process, having been stated following the application of IFRS 5, as indicated in Note 61 of the notes to the consolidated financial statements.

OTHER

The aggregate Other, presented in the Liabilities of the synthetic balance sheet, reached 268 million euros as at 31 December 2019, compared to 261 million euros as at 31 December 2018. This aggregate incorporates the headings of Financial liabilities held for trading, Hedging derivatives, Provisions, Current tax liabilities and Other liabilities.

TOTAL EQUITY

Total equity stood at 1,452 million euros as at 31 December 2019, reflecting a 4.3% decrease in relation to the value of the end of 2018, caused by the adverse impacts related to negative actuarial deviations of 77 million euros and the recording of negative foreign exchange reserves of 27 million euros, notwithstanding the favourable effect of the fair value reserves of 20 million euros and the net income of 21.7 million euros recorded in 2019.



EARNINGS

Banco Montepio recorded a consolidated net income of 21.7 million in 2019, compared to the value of 12.5 million euros recorded in 2018 (and with the restated value of 13.6 million euros in 2018). The evolution of the net income in 2019 reflected the positive effect associated to the increased operating profit before impairments, despites the reduction of the income from discontinuing operations.

SYNTHETIC INCOME STATEMENT

(million euros)

	2017	2018	2018 Restated	2019	Change 19/18 Amount	Change 19/18 %
Net interest income	**266.2**	**248.1**	**248.1**	**236.8**	**(11.3)**	**(4.6)**
Commercial net interest income	279.0	256.9	256.9	244.9	(12.0)	(4.7)
Net fees and commissions	119.8	118.4	118.4	121.5	3.1	2.7
Core total operating income	**386.0**	**366.5**	**366.5**	**358.3**	**(8.2)**	**(2.2)**
Income from equity instruments	12.6	8.1	8.1	7.6	(0.5)	(5.6)
Results from financial operations	70.7	10.9	10.9	49.9	39.0	>100
Other operating income	35.9	(8.1)	(8.1)	13.7	21.8	>100
Total operating income	**505.2**	**377.4**	**377.4**	**429.5**	**52.1**	**13.8**
Staff Costs	156.2	156.0	156.0	157.6	1.6	1.0
General and administrative expenses	87.0	77.7	77.7	65.5	(12.2)	(15.7)
Depreciation and amortization	24.8	25.9	25.9	31.2	5.3	20.6
Operating costs	**268.0**	**259.6**	**259.6**	**254.3**	**(5.3)**	**(2.0)**
Net operating income before provisions and impairments	**237.2**	**117.8**	**117.8**	**175.2**	**57.4**	**48.7**
Net provisions and impairments	191.4	93.5	92.1	141.1	49.0	53.2
Share of profit of associates under the equity method	0.2	0.2	0.2	0.2	0.0	36.8
Net income before income tax	**46.0**	**24.5**	**25.9**	**34.3**	**8.4**	**32.4**
Income tax	(42.4)	(44.8)	(45.2)	(22.7)	22.5	49.8
Net income after income tax from continuing operations	**3.6**	**(20.3)**	**(19.3)**	**11.6**	**30.9**	**>100**
Income from discontinuing operations	4.1	36.1	36.2	12.6	(23.6)	(65.1)
Non-controlling interests	1.4	3.3	3.3	2.5	(0.8)	(24.4)
Net Income	**6.4**	**12.5**	**13.6**	**21.7**	**8.1**	**59.6**

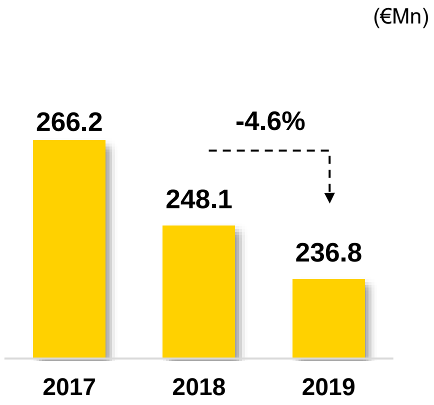
TOTAL OPERATING INCOME

Total operating income amounted to 429.5 million euros in 2019, compared to the value of 377.4 million euros recorded in 2018, showing an increase of 13.8% underpinned by the favourable evolution of the Results from financial operations, Other operating income and Net fees and commissions, despite the adverse contributions of Net interest income and Income from equity instruments.

NET INTEREST INCOME

Net interest income stood at 236.8 million euros in 2019, compared to the value of 248.1 million euros recorded in 2018. The evolution of Net interest income was adversely affected by the reduction of the interest related to the loan portfolio and the cash and deposits at other credit institutions, and by the increased interest paid for the subordinated debt, and positively affected by the reduction achieved in the interest paid for the resources of other credit institutions, for customer deposits and issued senior debt.

Net interest income



In 2019 there was a decrease in the interest of the portfolio of Loans to customers of 34.2 million euros, expressing the reduction of the portfolio's balance (volume effect), reflecting the deleveraging of non-performing loans, as well as the evolution of the average interest rate (price effect) from 2.26% in 2018 to 2.19% in 2019, in a context in which the main reference rates continue on negative ground.

The interest received recorded under cash and deposits essentially reflect the interest of funds taken at the ECB. In this respect, the reduction in interest of 8.3 million euros in relation to 2018 was primarily due to the income of 7.7 million euros recorded in the first half of 2018 arising from the *a posteriori* recalculation of the applicable interest and taking retroactive effect in the context of the existing mechanism in funds taken from the ECB.

Excluding the effect of the recalculation of the interest, the net interest income in 2019 would have diminished by 3.6 million euros in relation to the same period of 2018 (-1.5%).

In 2019, Net interest income benefited from the positive impact of the cost reduction associated to Customer deposits of 22.1 million euros, via the price effect, showing the impacts of the reduction of the average rate, from 0.45% in 2018 to 0.27% in 2019, revealing the management of the pricing applied in the capture of new deposits, as well as in the renovation of existing deposits, leading to an increase of the average balance of customer deposits between the two periods under review.

The interest paid for issued senior debt contributed positively to the evolution of Net interest income in falling by 8.3 million euros in 2019 compared to 2018, via the volume effect and price effect, with the average interest rate having evolved from 1.42% in 2018 to 0.97% in 2019, reflecting the settlement upon maturity of some issuers.

Net interest income also benefited from the reduction of costs related to interest of resources from other credit institutions of 7.9 million euros, via the volume and price effect, with the average interest rate having fallen from 0.95% in 2018 to 0.72% in 2019.

The cost reduction referred to above enables accommodating the increased interest related to issued subordinated debt (+10.7 million euros in 2019 compared to 2018), as a result of the issuance of subordinated debt of 100 million euros in the first quarter of 2019.

In 2019, the Net interest income margin stood at 1.43%, in line with the value recorded in 2018, primarily revealing the context of low interest rates and the highly competitive environment, which continues to constraint the performance of net interest income.

BREAKDOWN OF NET INTEREST INCOME

(million euros)

	2018			2019		
	Avg. amount	Avg. rate (%)	Interest	Avg. amount	Avg. rate (%)	Interest
Assets						
Cash and deposits [1)]	1 371	1.01	14.0	1 111	0.51	5.7
Loans and advances to OCI	324	0.78	2.6	262	0.91	2.4
Loans to customers	13 709	2.26	313.8	12 570	2.19	279.6
Securities portfolio	1 733	0.67	11.7	2 396	0.57	13.8
Other assets at fair value	12	2.77	0.3	22	1.12	0.3
Other (includes derivatives)			19.3		-	14.7
subtotal	17 149	2.08	361.7	16 361	1.91	316.5
Liabilities						
Resources from central banks	1 540	0.32	5.0	1 385	0.24	3.3
Resources from OCI	1 637	0.95	15.8	1 082	0.72	7.9
Customers' deposits	12 390	0.45	56.9	12 566	0.27	34.8
Senior debt	1 287	1.42	18.6	1 051	0.97	10.3
Subordinated debt	91	1.24	1.1	132	8.84	11.8
Other (includes derivatives)			16.2			11.6
subtotal	16 945	0.66	113.6	16 216	0.48	79.7
Net interest income		**1.43**	**248.1**		**1.43**	**236.8**

1) In 2018, the impact of the recalculation of interest on borrowings with the ECB, including that relating to prior periods, was disclosed.

DETAILED EVOLUTION OF NET INTEREST INCOME BETWEEN 2018 AND 2019

(million euros)

		Volume effect	Price effect	Residual effect	Total
Assets					
Cash and deposits		(2.7)	(7.0)	1.4	(8.3)
Loans and advances to OCI		(0.5)	0.4	(0.1)	(0.2)
Loans to customers		(26.1)	(8.8)	0.6	(34.2)
Other assets at fair value		4.5	(1.8)	(0.6)	2.1
Securities portfolio		0.3	(0.2)	(0.1)	0.0
Other (includes derivatives)		0.0	0.0	(4.6)	(4.6)
	subtotal	(16.6)	(30.0)	1.4	(45.2)
Liabilities					
Resources from central banks		(0.5)	(1.3)	0.1	(1.7)
Resources from OCI		(5.4)	(3.9)	1.4	(7.9)
Customers' deposits		0.8	(22.6)	(0.3)	(22.1)
Senior debt		(3.4)	(5.9)	1.0	(8.3)
Subordinated debt		0.5	7.0	3.2	10.7
Other (includes derivatives)		0.0	0.0	(4.6)	(4.6)
	subtotal	(4.9)	(30.4)	1.3	(33.9)
Change in net interest income		**(11.7)**	**0.4**	**0.0**	**(11.3)**

INCOME FROM EQUITY INSTRUMENTS

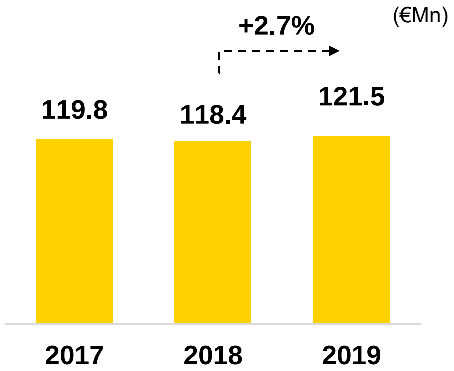
The heading of Income from equity instruments includes the income associated to variable yield securities, namely shares related to investments stated in the portfolio of assets available for sale. The value recorded in 2019 amounted to 7.6 million euros compared to 8.1 million euros stated in 2018, which includes 2.4 million euros related to dividends received from the company Almina (3.3 million euros as at 31 December 2018) and 3.9 million euros related to dividends received from the company Monteiro Aranha, S.A. (4.3 million euros as at 31 December 2018).

NET FEES AND COMMISSIONS

Under the Transformation Plan, the strategy delineated for the progression of fees and commissions is underpinned by the ongoing management of pricing by its suitability to Banco Montepio's value proposition for each segment, defined according to its life cycle and financial profile, as well as by the growth of the first bank share, inducing a progressive increase of the base of customers with higher transaction and binding levels.

The Net fees and commissions related to services rendered to customers stood at 121.5 million euros in 2019, compared to 118.4 million euros recorded in 2018, representing an increase of 3.1 million euros, supported by the favourable evolution of Market fees[10] (+2.2 million euros) and Payment service fees[11] (+4.0 million euros), which more than offset the reduction recorded in Other fees[12] (-2.3 million euros) and Credit fees (-0.8 million euros).

Net fees and commissions



RESULTS FROM FINANCIAL OPERATIONS

The Results from financial operations stood at 49.9 million euros in 2019, compared to 10.9 million euros recorded in 2018, reflecting, on the one hand, the increased earnings from Portuguese public debt, which amounted to 42.0 million euros (+33.8 million euros) and foreign exchange revaluation (+6.1 million euros), and on the other hand, the reduction of the earnings of financial assets and liabilities at fair value through profit or loss (-3.8 million euros).

RESULTS FROM FINANCIAL OPERATIONS

(million euros)

	2017	2018	2019	Change 19/18	
				Amount	%
Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss	(14.8)	12.3	8.5	(3.8)	(30.7)
Net gains / (losses) from financial assets at fair value through other comprehensive income	83.6	5.6	42.3	36.7	>100
Net gains / (losses) from foreign exchange differences	1.9	(7.0)	(0.9)	6.1	87.1
Results from financial operations	**70.7**	**10.9**	**49.9**	**39.0**	**>100**
of which: Results from the sale of Portuguese public debt	73.4	8.2	42.0	33.8	>100

OTHER RESULTS

The heading of Other results incorporates the Results from sale of other assets and Other operating income, which include, among others, the income obtained from the revaluation of investment properties, from services rendered, from investment property rents and from the reimbursement of expenses, as well as the costs related to banking sector contributions, the Deposit Guarantee Fund and loan recovery services.

In 2019, Other results showed a favourable evolution in relation to 2018, in evolving from -8.1 million euros to 13.7 million euros (+21.8 million euros). This evolution was particularly influenced by the capital gains generated by the sale of debt instruments measured at amortised cost, of which 10.0 million euros are related to the divestment of Portuguese public debt bonds, by the capital gains of 10.6 million euros from the

[10] Includes fees for management, administration and custody of assets and operations on securities.
[11] Includes fees for deposit, custody, administration and collection of values, account maintenance, management, annuities, withdrawals subject to fees and commissions and credit card incidences.
[12] Includes fees for insurance mediation, provision of banking service and operations provided on account of third parties.

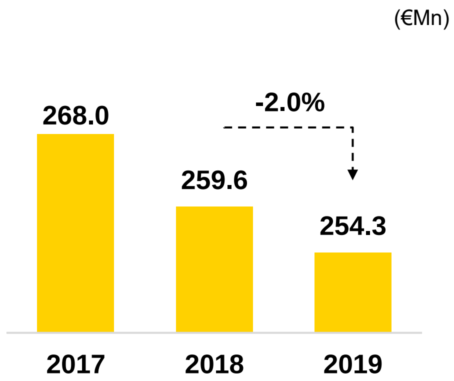
divestment of a portfolio of loans to customers that were in default (Atlas II operation) and by the reduction of the contributions to the Single Resolution Fund and of the Banking Sector of 2.8 million euros. On the other hand, the evolution of Other results was adversely influenced by the exacerbation of the negative value of the heading of Sale of other assets of -9.8 million euros (by including the earnings of the sale of real estate properties, derived from the transfer from the balance of Non-current assets held for sale to the heading of Other assets, which in 2018 is presented in the heading of Sale of non-current assets for sale), by the increased contribution to the Resolution Fund of 1.6 million euros, and by the reduction of the income from rents, as a consequence of the deconsolidation of "Fundo Valor Prime - Fundo de Investimento Imobiliário Aberto" (Prime Value Fund - Open Real Estate Investment Fund), of 3.9 million euros.

OPERATING COSTS

In 2019, Operating costs amounted to 254.3 million euros, representing a 2.0% reduction in relation to the value recorded in 2018, sustained by the reduction of General administrative expenses of 12.2 million euros (-15.7%) despite the increase recorded in Staff costs of 1.6 million euros (+1.0%) and in Amortisation and depreciation of 5.3 million euros (+20.6%).

The level of Operating costs reflects the effort that has been made by Banco Montepio to streamline the structure and optimise costs, in a context of essential investments for banking activity and for fulfilment of the regulatory and compliance activity.

Operating costs



In 2019, Staff costs stood at 157.6 million euros, compared to 156.0 million euros in 2018, as a result of the increase of 3.2 million euros related to Remunerations and 0.5 million euros of mandatory social security charges, largely offset by the reduction of costs related to the Pension Fund of 2.1 million euros.

General administrative expenses stood at 65.5 million euros in 2019, evolving favourably in relation to the value of 77.7 million euros recorded in 2018, basically reflecting the reduction of costs related to rents of 8.5 million euros associated to the adoption of IFRS 16, the decreased costs related to specialized services of 1.8 million euros, the decreased maintenance and repair costs of 1.6 million euros, and the increased communication and dispatch costs of 0.6 million euros.

Following the application of IFRS 16 from 1 January 2019, the Amortisation and depreciation showed a 20.6% increase in relation to the value recorded in 2018, to reach the total value of 31.2 million euros in 2019, due to having included 7.2 million euros related to the heading of Use-of-right assets, which essentially correspond to real estate properties (branches and central buildings) and to the fleet of company vehicles.

In 2019, the cost-to-income ratio, excluding the Results from financial operations and Other results (Results from sale of other assets and Other operating income), stood at 69.5%, compared to 69.3% calculated in 2018.

OPERATING COSTS

(million euros)

	2017	2018	2019	Change 19/18 Amount	%
Staff Costs	156.2	156.0	157.6	1.6	1.0
General and administrative expenses	87.0	77.7	65.5	(12.2)	(15.7)
Depreciation and amortisation	24.8	25.9	31.2	5.3	20.6
Operating costs	**268.0**	**259.6**	**254.3**	**(5.3)**	**(2.0)**
Efficiency ratios					
Cost-to-income (Operating costs / Total operating income) (a)	53.0%	68.8%	59.2%	(9.6 p.p.)	
Cost-to-income, excluding specific impacts (b)	67.2%	69.3%	69.5%	0.2 p.p.	

(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.

(b) Excludes results from financial operations and Other income (proceeds from the sale of other assets and other operating income).

IMPAIRMENTS AND PROVISIONS

The allocations for Impairments and provisions amounted to 141.1 million euros in 2019, reflecting an increase of 49.0 million euros (+53.2%) in relation to the same period of the previous year (restated), driven by the increase of Loan impairment of 48.0 million euros and the Impairment of other financial assets of 6.6 million euros, notwithstanding the reduction of Impairment of other assets of 1.5 million euros and Other provisions of 4.1 million euros.

The allocations for Loan impairment incorporate the result of the individual analysis made to significant exposures and which showed signs of impairment, on the one hand, and the value derived from the impairment model used to calculate the impairment associated to homogeneous populations, on the other hand, pursuant to accounting policy 1. c) described in the notes to the financial statements.

In 2019, Loan impairment stood at 120.3 million euros, compared to the value of 72.3 million euros recorded in 2018 (+48.0 million euros), as a result of the higher allocation for the year net of reversals of impairment of loans to customers. At the same time, Loans to customers (gross) decreased by 829 million euros. The two combined effects led the cost of credit risk to stand at 1.0%, compared to 0.5% in 2018.

The Impairment of other financial assets stood at 9.5 million euros, having increased by 6.6 million euros in relation to the value of 2.9 million euros recorded in 2018. This is explained, on the one hand, by the increased allocation for the year net of reversals for impairment of financial assets at fair value through other comprehensive income (+7.7 million euros), and on the other, by the decreased allocation for the year net of reversals for impairment of other financial assets at amortised cost (-1.1 million euros).

In relation to the Impairment of other assets, the value stated in 2019 stood at 11.7 million euros, representing a reduction of 1.5 million euros in relation to the value recorded in 2018. Following the transfer of Non-current assets held for sale to the heading of Other assets, the value of the impairment of these assets was also stated in Other assets.

In turn, Other provisions amounted to -0.4 million euros in 2019, revealing a reduction of 4.1 million euros compared to the value of 3.7 million euros recorded in the same period of 2018. This evolution was fundamentally caused by the lower allocation for the year to Provisions for other risks and costs, despite the higher allocation to Provisions for guarantees and commitments undertaken.

IMPAIRMENT AND PROVISIONS

(million euros)

	2017	2 018	2018 Restated	2 019	Change 19/18 Amount	Change 19/18 %
Loan impairment	160.7	73.2	72.3	120.3	48.0	66.3
Other financial assets impairment	7.8	2.9	2.9	9.5	6.6	>100
Other assets impairment	12.6	13.2	13.2	11.7	(1.5)	(11.3)
Other provisions	10.3	4.2	3.7	(0.4)	(4.1)	(<100)
Total net provisions and impairment	**191.4**	**93.5**	**92.1**	**141.1**	**49.0**	**53.2**

INCOME TAX

Current and deferred taxes for 2019 amounted to 22.7 million euros, compared to 45.2 million euros stated in 2018, having been calculated in conformity with the International Accounting Standards (IAS) and observing the tax system applicable to each subsidiary of the Banco Montepio Group.

Deferred tax assets arise from the fact that, in some particular circumstances, the accounting treatment diverges from the tax framework, thus giving rise to the statement of deferred tax assets associated to temporary differences.

INCOME FROM DISCONTINUING OPERATIONS

The heading of Income from discontinuing operations incorporate the net income for the period of the subsidiary Finibanco Angola, S.A. attributable to the Banco Montepio Group following the application of the accounting policy defined in IFRS 5, which stood at 12.6 million euros in 2019.

NON-CONTROLLING INTERESTS

The Non-controlling interests recorded in 2019 correspond to the portion of equity held by third parties in the subsidiary Finibanco Angola, S.A.

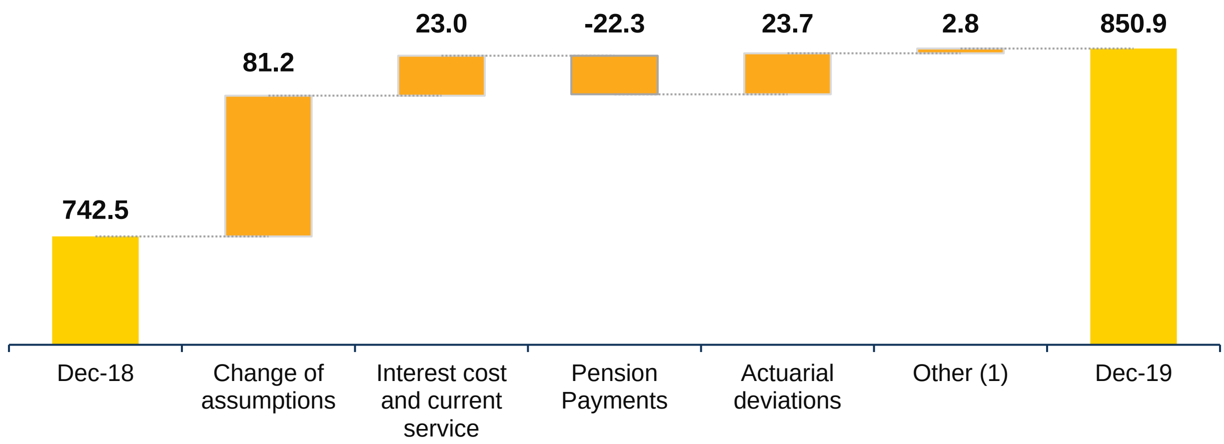
PENSION FUND

The liabilities related to retirement and survivor's pensions amounted to 850.9 million euros as at 31 December 2019, compared to 742.5 million euros recorded as at 31 December 2018, showing an increase of 108.4 million euros.

The evolution of the liabilities was driven, on the one hand, by the effect associated to the change of the actuarial assumption of the discount rate, which is reflected in an increase of liabilities of 81.2 million euros, and by the increases derived from the cost of interest and current service 23.0 million euros and by the negative actuarial deviations of 23.7 million euros, and, on the other hand, by the payment of pensions in the period of the value of 22.3 million euros, as illustrated by the following chart.

Evolution of pension liabilities in December 2019

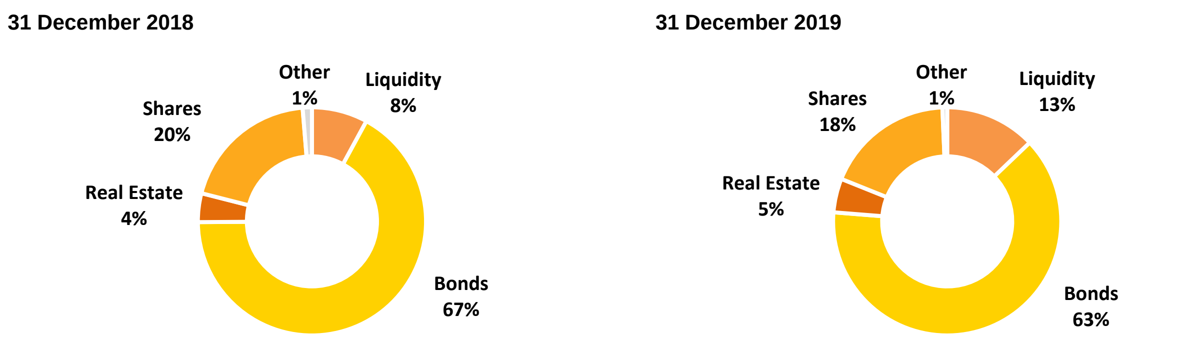
(€Mn)



(1) Includes participants' contributions, early retirement, rescissions by mutual agreement and others.

The value of the Pension Fund's assets increased by 15.3%, reaching the total value of 837.1 million euros as at 31 December 2019, compared to 725.8 million euros recorded at the end of 2018, continuing to show a conservative distribution, with 63% of these assets invested in Bonds compared to 67% in 2018.

Distribution of the pension fund assets portfolio



The evolution of the key indicators of the Pension Fund for 2017, 2018 and 2019 are presented below, namely its liabilities, assets and their funding levels.

PENSION FUND

(million euros)

	2017	2018	2019	Change 19/18	
				Amount	%
Total liabilities	740.8	742.5	850.9	108.4	14.6
Minimum liabilities to be financed	718.5	720.8	825.5	104.7	14.5
Value of the Pension Fund's assets	733.9	725.8	837.1	111.3	15.3
Coverage:					
Minimum liabilities (1)	105.9%	103.1%	103.2%	0.1 p.p.	
Total liabilities (2)	102.7%	100.1%	100.1%	0.0 p.p.	

(1) Also considering, in 2017, 2018 and 2019, the component directly financed by Banco Montepio referring to employees who are temporarily suspended from employment contracts and the contribution to Social Welfare Services (defined contribution).

Banco Montepio's total liabilities were entirely funded, with a coverage level of 100.1% as at 31 December 2019.

Pursuant to Banco Montepio's accounting policy, and following the appraisal made on the adequacy of the actuarial assumptions, the discount rate was changed to 1.50% in 2019, compared to 2.25% in 2018 (2.10% in 2017), taking into consideration the evolution occurred in the key market indices related to high quality bonds and the duration of the Pension Fund’s liabilities. As at 31 December 2019 and 2018, the average duration of the liabilities related to Bank Montepio Group Employee pensions is 19.7 years, including assets and pensioners.

The main actuarial assumptions used to determine the liabilities in 2017, 2018 and 2019 were the following:

ACTUARIAL ASSUMPTIONS

	2017	2018	2019
Financial Assumptions			
Salary growth rate	1.00%	1.00%	0.75%
Pension growth rate	0.50%	0.50%	0.50%
Rate of return of Fund assets	2.10%	2.25%	1.50%
Discount rate	2.10%	2.25%	1.50%
Revaluation rate			
Salary growth rate Social security	1.50%	1.50%	1.50%
Pension growth rate	1.00%	1.00%	1.00%
Demographic assumptions and valuation methods			
Mortality table			
Men	TV 88/90	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90 -3 years	TV 88/90 -3 years
Actuarial Valuation Methods (1)	UCP	UCP	UCP

(1) UCP - Projected Credit Unit

The information presented above is supplemented by the details presented in Note 50 to the consolidated financial statements.

RISK MANAGEMENT

RISK MANAGEMENT

The Banco Montepio Group's risk management framework entails a series of policies and procedures and the definition of limits concerning risk appetite (RAS – Risk Appetite Statement), as well as the establishment of controls that enable, in an appropriate and integrated manner, identifying, assessing, monitoring, mitigating and reporting the risks derived from the activities developed in the different business lines and entities of the Group. Risk management falls under the overall strategy, embodied in the definition of risk appetite in its various dimensions, in consolidated terms and for the different entities comprising the Group.

INTERNAL CONTROL SYSTEM

In line with Banco de Portugal Notice 5/2008 and all other provisions, the internal control system is defined as the series of strategies, systems, processes, policies and procedures established within the Banco Montepio Group for the purpose of ensuring:

a) An efficient and profitable performance of the activity, in the medium and long term, which guarantees the effective use of the assets and resources, the continuity of the business and actual survival of the Group, through the adequate management and control of the risks of the activity, the prudent and appropriate evaluation of the assets and liabilities, as well as the implementation of mitigation mechanisms against non-authorised, intentional or negligent uses;

b) The existence of financial and management information which is complete, pertinent, reliable and timely, to support decision-making and control processes, both at an internal and external level;

c) Respect for the applicable legal and regulatory provisions including those relative to the prevention of money laundering and terrorism financing, as well as the professional and ethical standards and practice, the internal and statutory rules, the rules on conduct and relations with customers, the guidelines of the governing bodies, the disclosure of relevant information on related parties namely pursuant to articles 85 and 109 of the Legal Framework of Credit Institutions and Financial Companies (as indicated in Note 52 of the notes to the consolidated financial statements) and the recommendations of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS), in order to protect the Group's reputation and prevent it from being applied penalties.

Accordingly, the internal control system is based on:

a) An adequate control environment supported by a well-defined organisational structure, safeguarding the separation of functions and a code of conduct applicable to all the employees that defines the standards of ethics, integrity and professionalism;

b) A robust risk management system, aimed at the identification, evaluation, follow-up and control of all risks which might influence the strategy and goals defined by the Group;

c) An efficient information and communication system, implemented to guarantee the collection, processing and exchange of relevant, encompassing and consistent data, within a period of time and manner allowing for the effective and timely management and control of the activity and of the Group's risks;

d) An effective monitoring process, implemented with a view to ensuring the adequacy and effectiveness of the actual internal control system over time, which guarantees, in particular, the timely identification of any flaws so as to strengthen the internal control system.

The following three control functions support the internal control system: risk management function, compliance function and internal audit function aimed at ensuring the effective management and control of the risks associated to the Banco Montepio Group's activity, including the branches abroad. These three functions of Banco Montepio ensure the corporate function and alignment at the Group level, notwithstanding the existence of local functions in different entities of the Group. In this way, the internal control system is applied in a consistent manner in the Group's entities, safeguarding compliance with the legal and regulatory requirements of the different jurisdictions.

RISK MANAGEMENT SYSTEM

The Banco Montepio Group has a risk management system that constitutes one of the pillars on which the internal control system is sustained, consisting of a series of processes that enable ensuring the correct comprehension of the material risks to which the institution is exposed. The risk management system aims to identify, assess, monitor and control all the material risks to which the institution is exposed, both via internal and external means, in order to ensure that they stay within the levels previously defined by the management body and which should not affect the institution's financial situation.

The risk management strategy is established in conformity with the Banco Montepio Group's risk appetite statement, considering aspects of solvency, liquidity, profitability and asset quality, as well as other financial and non-financial risks.

The risk management function, which is performed by the Risk Department (DRI) at Banco Montepio, is responsible for the effective application of the risk management system. The risk management function consists of one of the three key functions on which Banco Montepio's internal control system is based, simultaneously with the compliance and audit functions. Together, these functions constitute the three elements of the model of 3 lines of defence established by the guidelines of the European Banking Authority (EBA) on internal governance best practice.

The risk function operates as a second line of defence of the internal control system, ensuring the existence of an appropriate risk management system and aimed at obtaining a vision of the overall risk profile of the institution, while challenging and supporting the business lines in the implementation of the first line processes of control. The main responsibilities of Banco Montepio's risk management function, in conformity with the internal regulation of the function and the organic statutes, and taking into account the regulatory framework and the EBA guidelines are as follows:

a) Promote the implementation of the Banco Montepio Group's risk policies approved by the Board of Directors in the context of the risk management and control function;
b) Ensure the appropriate identification of the nature of the risks underlying the activity of the entities comprising the Group, the assessment and precise measurement of the magnitude of these risks, as well as the monitoring and effective control of the respective impact;

c) Monitor the approved risk appetite indicators, proposing, where necessary, the measures that ensure their compliance;
d) Support the Executive Committee in taking decisions of material influence in the Group's risk profile; and
e) Ensure compliance with the legislation and regulations in force.

In the area of the risk management function, the following developments took place during 2019:

- Review of the model for calculating profitability and pricing adjusted to the risk of the credit operations.
- Strengthening of the processes for calculation and reporting interest rate risk, pursuant to the new Banco de Portugal Instruction number 34/2018 and most recent EBA guidelines.
- Continuation of the implementation of a new definition of default in conformity with the EBA guidelines.
- Start of the updating/review of the impairment model for homogenous populations and for individually significant customers;
- Beginning of the updating/review of the rating models of Banco Montepio and strengthening of the procedures for monitoring the performance of the models;
- Strengthening of business support processes, namely through the review of the credit risk warning system and implementation of new simulators of housing loans, consumer credit and online credit.
- Review of the key operational risk indicators (Key Risk Indicators - KRI), reviewing some of the measurements and limits of risk acceptance/appetite, and adding new indicators related to the main macroprocesses of Banco Montepio.
- Updating and review of the Maps on Risks and Controls and Self-Assessments of the areas, derived from the changes promoted under the Transformation Plan.
- Review of the Business Impact Analyses (BIA) and requirements relative to the more critical areas in the context of Business Continuity, through workshops promoted by the Operational Risk Department.
- Conduct of a self-assessment exercise on operational risk associated to information and communication technologies, in a scenario of growing digitalisation of the operative processes and in a context of growing importance of this specific risk.
- Adjustment of processes to the activity of BEM, in accordance with the new strategy.
- Reinforcement and improvement of the risk management information system and reporting produced by the Risk Department.
- Updating and review of internal rules and regulations on various processes related to risk management.

The compliance function (control of compliance), as an integral part of the internal control system, and operating as a second line of defence, undertakes responsibility for the management of compliance risk, i.e. the risk of legal or regulatory penalties, financial or reputation loss, as a consequence of breach of laws, regulations, specific determinations, contracts, rules of conduct and relations with customers, ethical principles or internal rules of Banco Montepio.

Compliance risk is mitigated by promoting a culture of ethics and compliance, and by independent, permanent and effective intervention of the compliance function. To this end, Banco Montepio has a policy dedicated to Compliance Risk – Policy and Methodological Approach for Management of Compliance Risk – which is communicated to all the institution's Employees. This policy underlies the endorsement of a compliance culture, based on the identification, assessment, monitoring and mitigation of compliance risk.

The Compliance function is independent from the organic units, with authority and its own status, being endowed with its own human resources, solely allocated to performance of the function.

The executed activities are identified with appraisal of aspects that contribute to the characterisation of compliance risk, especially in the annual training plan of the Employees and in institutional processes, associated to products and services with the consolidation of the process of prior analysis and monitoring of the offer of products and services of Banco Montepio, duties of disclosure of information to Customers and, in general, providing specialized support on matters of control and compliance.

The compliance function is entrusted with preparing and submitting a report to the Management and Supervisory Body, at least once a year, identifying any non-compliance and the corresponding recommendations, aimed at correcting the breaches and flaws identified in the context of compliance risk.

In 2019, under its activities, particular note is made of the initiatives taken in the pursuit of continuous improvement processes associated to the provisions in the “European Banking Authority Guidelines on internal governance (EBA/GL/2017/11)” and in the “European Banking Authority Guidelines on product oversight and governance arrangements for retail banking products (EBA/GL2015/18)”, aimed at the optimisation of the product governance process to ensure that the products continue to offer the customers fair value and meet their needs in a consistent manner. In the context of anti-money laundering and the combat of terrorist financing (AML/CTF), during 2019, Banco Montepio, in compliance with the legislation in force, worked on updating the policies associated to this topic and kept the focus on reinforcing the corresponding procedures and controls, aimed at appropriate and efficient mitigation of money laundering and terrorist financing risk. To this end, the effort was maintained to adapt the installed tools and systems in order to ensure their complete adequacy to the legal and regulatory requirements.

The current policies were also strengthened on issues of prevention of market abuse, remunerations and incentives, prevention of conflicts of interest and whistleblowing.

The compliance function is active in the ongoing follow-up of legislative and regulatory changes and in the adjustment of Banco Montepio's activity so as to ensure timely compliance with the legal framework in force. In this regard, we highlight the developments carried out to respond to the new regulatory challenges on matters of "Digital Economy" and the digitalisation of the financial system pursuant to the Payments Services Directive 2 - PSD 2 transposed to Decree-Law 91/2018 of 12 November, in the area of Insurance distribution with the publication of Law 7/2019 of 16 January, and Prevention of Money Laundering and Terrorist Financing, pursuant to the Banco de Portugal Notice referred to above.

In compliance with the duties to which it is subject, Banco Montepio maintains close collaboration with the sector, judicial and police authorities, having promoted the reporting of suspicious operations related to criminal activities and/or the financing of terrorism, under the terms defined in the applicable legislation.

The internal audit function, conducted by the Audit and Inspection Department (DAI), is of permanent nature and provides, in an independent and objective manner, assessment and consulting services aimed at enhancing value and improving the operationality of the Banco Montepio Group.

The internal audit function assists the Banco Montepio Group in achieving its objectives through the use of a systematic and disciplined approach to assess and improve the efficacy of the risk management, internal control and governance processes.

The internal audit function constitutes an integral part of the process of monitoring the internal control system and, as a third line of defence, assesses all of the processes and organic units of Banco Montepio, including the risk management function and the compliance function, and the subsidiaries incorporated in the Banco Montepio Group.

Its scope of action includes all the entities included in Banco Montepio's consolidation perimeter and in which Banco Montepio holds the majority of the capital or controls the management.

Regarding the branches abroad, if they have their own audit functions, the corporate internal audit function is attributed to Banco Montepio's Audit and Inspection Department, which will ensure the functional coordination of the local audit functions, in order to assure the alignment of practices and procedures at the Group level, and may include the conduct of local audit actions.

The Audit and Inspection Department may also audit organic units/entities that are outside the scope referred to above, but which provide essential services to the Banco Montepio Group under outsourcing arrangements.

Risk Appetite Framework (RAF)

The RAF constitutes the main element of the Group's risk management system, being a general approach, according to which the risk appetite and strategy are established, communicated and monitored, including the necessary policies, processes, controls and systems. The risk limits underlying the risk management strategy and the maintenance of appropriate levels of capital and liquidity are documented in a Risk Appetite Statement (RAS) approved by the management bodies. The risk management system is part of the internal control system of the Banco Montepio Group, whose objective is the development of the activity in a sustained manner in line with the established RAS.

The evolution of the Banco Montepio Group’s risk profile is regularly monitored in relation to the established risk appetite, with the respective reporting to the management body and monitoring by the supervisory body.

RISK MANAGEMENT GOVERNANCE MODEL

Banco Montepio's Risk Department (DRI) is a first-line organic unit in in Banco Montepio's structure, being responsible for the risk management function, with hierarchical reporting to one of the members of the Executive Committee. It reports functionally to the Board of Directors, under which are the Audit Committee, the Bank's supervisory body, and the Risk Committee, the specialized advisory body of the Board of Directors and Executive Committee on matters of risk, to which the Risk Department also reports functionally in performing its duties. The hierarchical and functional reporting lines are described in the internal governance structure defined in the Risk Management Policy of the Banco Montepio Group.

The Board of Directors is responsible for the strategy and policies to be adopted regarding risk management. This includes the approval of policies at the highest level that should be followed in risk management. The risk management function reports functionally to the Risk Committee, composed exclusively of non-executive Directors.

The management bodies of the Banco Montepio Group's subsidiaries are responsible for approving their own risk management strategies, in line with the business strategy defined for the subsidiary and in consolidated terms, as well as the Banco Montepio Group's overall risk strategy.

Audit Committee

The Audit Committee is Banco Montepio's supervisory body, whose duties include supervision of the Company's administration, supervision of the audit activities, the process of preparation and disclosure of financial information, the efficacy of the systems of internal control, risk management, control of compliance and the activity and independence of the statutory auditor and external auditor.

Risk Committee

The Board of Directors appoints the Risk Committee, including the nomination of its Chairman, whose duties, exercised in an independent form, are established in the respective articles of association. The mission of the Risk Committee is to permanently monitor the definition and implementation of the institution's risk strategy and risk appetite, and check that they are compatible with the medium and long-term sustainable strategy and with the action programme and budget that have been approved, advising the Executive Committee and Board of Directors in these spheres.

Risk Department

The Risk Department (DRI) is Banco Montepio's unit responsible for performing the risk management function, being entrusted with monitoring all the financial and operational risks, exercising its function in an independent manner and in conformity with best practices and the regulatory requirements. The Risk Department carries out the analysis and management of risks, providing advice to the management body, namely through proposed rules and management models for the different risks, the preparation of management reports to substantiate the decisions taken, and participation in the Supporting Committees of the Board of Directors and to the Executive Committee. The Risk Department also ensures compliance with the set of prudential reports to the supervision authority, namely in the area of capital requirements, control of major risks, liquidity risk, interest rate risk, country risk, counterparty risk, self-assessment of the adequacy of capital and liquidity, Market Discipline, Recovery Plan and Resolution Plan.

Supporting Committees of the Executive Committee

Committees providing support to the Executive Committee have been constituted, as forums of debate and support to decision-making, through formulation of proposals and recommendations in the areas of their scope of intervention. The Committee for Credit holds weekly meetings, where loan operations are appraised and decided in accordance with the policy and regulation on loan concession. The Capital, Assets and Liability Committee (CCAP) is responsible for the follow-up of the management of the Capital, Balance Sheet and Income Statement. Its duties include, in particular, the issue of proposals or recommendations with a view to the management of liquidity or capital positions, considering the scenarios of evolution of the activity, the macroeconomic context and the indicators relative to the real and projected evolution of the different risks. Under its risk management function, the Risk Department also participates in the Impairment Committee, as well as in the regular meetings concerning Business Continuity, of the Office for Crisis Management and Monitoring of the Pension Fund.

Subsidiary Companies

In order to ensure an effective management of the risks associated to the Group's activities, the Risk Department is responsible for ensuring that all Banco Montepio Group companies, including those located abroad, adopt risk management systems that are coherent with one another and in conformity with the requirements defined in Banco Montepio's Internal Regulation of the risk management system, in the Banco Montepio Group's Overall Risk Policy and in all the other applicable internal policies and rules, without prejudice to the respective legal and regulatory framework. The Risk Department is responsible for monitoring the risk management activity of Banco Montepio Group companies, on a consolidated and individual basis, with a view to ensuring the consistency of the risk concepts used, the methodologies of identification, assessment and control of risk, the supporting regulations and respective processes for monitoring the risk profile, as well as compliance with the applicable regulatory and prudential requirements, namely in consolidated terms. These activities should be conducted directly by the risk management functions of these entities, except in those for which Banco Montepio's management body decides that the development of these responsibilities by Banco Montepio's Risk Department would be more effective and efficient.

Model Validation Office

The Model Validation Office is responsible for the independent validation of the models developed within the Group, ensuring compliance with the applicable internal and external requirements. This structure reports functionally to the Risk Committee and hierarchically to the director responsible for risk, thus safeguarding its independence in relation to other organic structures responsible for the development and monitoring of models.

The Model Validation Office is also responsible for the Group's model risk management, ensuring the updating of the Corporate Policy on Model Risk Management and compliance with the defined requirements, ensuring the existence of a centralised and updated inventory of the Group's models and checking the appropriate risk level classification of the models by the model owners, in accordance with the defined risk tiering method, with the continuous monitoring and reporting of model risk.

In the first half of 2019, the Model Validation Office completed a series of validation procedures relative to various models, among which particular reference should be made to the periodic validations of scoring models (behavioural and application housing, behavioural and application small business) and rating models (small, mid and large corporate), as well as the validation of the impairment model of IFRS 9 (in the components of ECL – Expected Credit Loss, PD – Probability of Default, LGD – Loss Given Default and SICR – Significant Increase of Credit Risk) relative to collective analysis.

In the second half of 2019, the Model Validation Office completed the validation procedures related to the initial validations of the applicational scoring models of Montepio Crédito, the models and methodologies associated to the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP), and the profitability model of the loan operations. Finally, during the second half of 2019, the Model Validation Office also started the validation procedures for the initial validations of the performance scoring models of Montepio Crédito. The action plans prepared for the model owners related to models with activated model risk limits were also validated.

With respect to its overall function of management of the Group's model risk, the Model Validation Office proceeded with the control of the inventory of models, the undertaking of follow-up of recommendations among the model owners and analysis of rating model overrides with the respective four-monthly reporting, and the monitoring of model risk limits. The action plans were approved by the Risk Committee and Executive Committee, thus activating the cycle of governance of management and control of the model risk limits defined and established in the Corporate Policy on Model Risk Management.

Information Management

Banco Montepio's data management policy is aligned with the reference framework referred to as DAMA-DMBOK (DAMA International Guide to Data Management Body of Knowledge) and BCBS 239 (Principles of effective risk data aggregation and risk reporting), which establish the guidelines and governance model in data management processes. During 2019, important investments were made in the modernisation of the technological infrastructure and in the acquisition of software tools to support the processes of governance and data quality that led to new progress in the effective implementation of the data policy of Banco Montepio.

The accomplishment of these initiatives demonstrates Banco Montepio's commitment to the effective support of a management strategy for its data, ensuring the reliability of the information in meeting the internal and external reporting requirements, promoting operational efficiency and assuring compliance with the regulatory requirements in this sphere.

CREDIT RISK

Credit risk is associated with the degree of uncertainty of the expected returns, by inability either of the borrower (or guarantor, if there is one), the issuer of a security or the counterparty in a contract to comply with the respective obligations. Credit risk management benefits from a robust process of credit analysis and decision-making, based on a series of tools to support the credit decision-making process. The quantification of credit risk is also supported by the model for calculating impairment losses.

During 2019, work continued on review of the credit risk management models and polices, accompanying the changes in the regulatory framework, and the guidelines issued by the national and European supervisors and regulators, and best market practices.

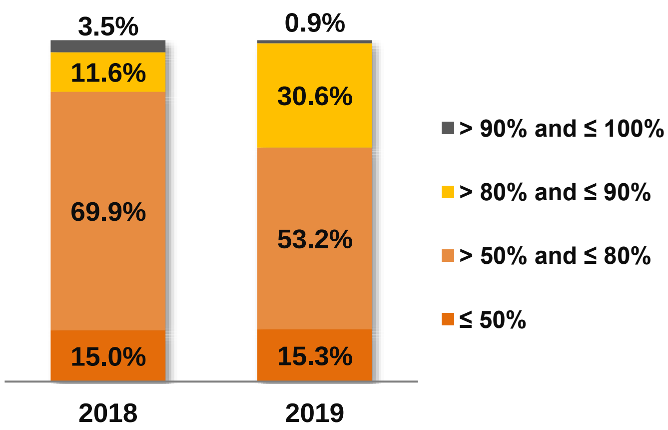
The decision-making process for loan operations is based on a series of policies using scoring models for the retail and business portfolios and rating models for the corporate segment. These models, developed based on internal historical data, enable obtaining an assessment, which is reflected in the attribution of a risk category to the customer/operation, aggregated in a single risk scale, representing the respective probability of default. The models in question are subject to validation by a unit that is independent from the area responsible for their development, which reports to the Risk Committee (composed of non-executive directors) and approves the respective validation reports and opinions for changing the models.

The implemented models are monitored on a monthly basis by the Risk Department, with a process existing for regular updating in light of the results obtained, business or regulatory alterations that imply the need to review these models.

In addition to the rating and scoring models, the decision-making process for loan operations is also based on certain filters or rules for rejection or escalation. Rejections or filters in terms of decision levels are determined by the occurrence of credit events in the financial system, breach of credit rules (for example, the indicator of the analysis of individual customer solvency defined by Banco de Portugal, named DSTI - Debt-Service-to-Income) and whenever the pricing associated to a particular operation represents a risk of adverse selection.

In the housing loan segment, the loans granted in 2019 recorded an increase, in relation to 2018, of the LTV ratio (Loan-to-Value – the loan value divided by the valuation of the collateral), to 71.6% (68.2% in 2018), excluding financing of real estate properties held by Banco Montepio, essentially explained by the component of own and permanent residence. It should be noted that the macro prudential recommendation of Banco de Portugal entered into force in July 2018 where, relative to compliance with the LTV criterion, the calculation of the ratio in this regard henceforth considers the value of the real estate property to be the lowest between the acquisition value and the assessment value, which naturally led to an increase in the disclosed ratio.

Distribution of the housing loan portfolio by LTV level



As at 31 December 2019, the weight of the non-performing exposures (NPE) measured based on the heading of Gross loans to customers recorded a reduction of 2.2 p.p. in relation to 31 December 2018, to stand at 12.2%. This evolution was caused, on the one hand, by the positive effect of the reduction of non-performing exposures, and on the other hand, by the adverse effect of the denominator of the ratio, derived from the contraction of the loan portfolio, which fell by approximately 829 million in the period.

The amount of impairments for credit risk reached 775 million euros as at 31 December 2019, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 113.2%, a reinforcement of 6.8 p.p. in relation to the end of 2018. Moreover, the coverage of non-performing exposures stood at approximately 52.1%, while the coverage ratio, also considering the associated total collateral and financial guarantees, reached 87.2%.

LOAN QUALITY INDICATORS

(million euros)

	2017	2018	2018 Restated	2019	Change 19/18 Amount	%
Gross loans to customers	13 727	13 068	13 068	12 239	(829)	(6.3)
Loans and interest overdue by more than 90 days	1 025	914	914	685	(229)	(25.1)
Loans impairment	1 101	945	972	775	(197)	(20.3)
Ratios (%)						
Cost of credit risk	0.7	0.5	0.5	1.0	0.5 p.p.	
Loans and interest overdue by more than 90 days	7.5	7.0	7.0	5.6	(1.4 p.p.)	
Non-performing exposures (NPE) [(a)] / Gross loans to customers	16.4	14.4	14.4	12.2	(2.2 p.p.)	
Forborne exposures [(a)] / Gross loans to customers	8.2	7.2	7.2	7.1	(0.1 p.p.)	
Coverage by Impairments for balance sheet loans (%)						
Loans and interest overdue by more than 90 days	107.4	103.4	106.4	113.2	6.8 p.p.	
Non-performing exposures (NPE) [(a)]	44.9	50.3	51.7	52.1	0.4 p.p.	
Non-performing exposures (NPE), also including associated collaterals and financial guarantees [(a)]	87.0	86.2	87.7	87.2	(0.5 p.p.)	

(a) EBA definition.

CREDIT CONCENTRATION RISK

Credit concentration risk arises from the existence of risk factors that are common or correlated between different entities or portfolios, to such an extent that the deterioration of any of these factors could have a simultaneous negative effect on the loan quality of each counterparty or on the earnings of each category of assets and liabilities. In a concentration scenario, the effect of the losses on a small number of exposures can be disproportionate, confirming the importance of the management of this risk in maintaining suitable solvency levels. At the Banco Montepio Group, the monitoring of concentration risk is primarily incident on credit concentration risks.

There are various procedures related to the identification, quantification and management of credit concentration risk. Credit concentration risk refers to the degree of concentration of the risk of default in the granted loan, derived from possible over-exposure to individual counterparties or groups of counterparties that are related to counterparties operating in the same activity sector, in the same geographic area or exposures with collateral or assets under common operation, excluding Group companies. In order to limit credit concentration risk due to exposure to a customer/group of interrelated customers, maximum exposure limits were defined for the aggregate positions of the credit and investment portfolios, for various entities of the Banco Montepio Group.

The management of concentration risk is carried out in a centralised manner, with regular monitoring of the risk indicators by the Risk Department. For the established Risk Appetite Statement (RAS), limits and objectives were defined for key indicators, with concentration risk being one of the relevant dimensions.

Credit concentration risk is monitored regularly, considering relevant risk indicators (individual and sector concentration) in comparison to previous periods so as to follow the evolution. The identification and monitoring of the largest exposures and most significant increased exposure of the loan portfolio are conducted monthly.

MARKET RISK

The concept of market risk reflects the potential loss that could be recorded by a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the different financial instruments comprising the portfolio, considering both the correlations that exist between them and their volatility.

Value-at-Risk (VaR) is one of the main indicators used to measure and monitor market risk. The Group calculates the VaR on a daily basis, both for its trading book and for the portfolio of financial assets at fair value through other comprehensive income. VaR is also calculated on a time horizon of 10 business days and at a 99% significance level, by the historical simulation method. The types of risk considered in this method are interest rate risk, exchange rate risk, price risk, spread risk and goods risk.

With respect to market risk information and analysis, there is regular reporting on Banco Montepio's own portfolios and those of other entities of the Group, with various risk limits being defined, including overall limits of VaR, by Issuer, by type/class of asset and Stop Loss and Loss Trigger limits for positions held for trading and in other comprehensive income.

The reports that are produced are used to control the different limits of exposure, analysing the risks of concentration, credit, interest rate and asset price variation, among others. These analyses consider the analysis of scenarios, namely the sensitivities of the securities portfolio to variations of interest rates and spreads, as well as analyses of stress scenarios based on extreme events occurred in the past.

Concerning market risk, in addition to reporting on the risk of Banco Montepio's overall portfolio, specific risk reports are also produced for the trading book and the proprietary portfolios of financial assets at fair value through other comprehensive income.

In order to ensure more effective risk management, the positions in portfolio are disaggregated into a portfolio of financial assets at fair value through other comprehensive income, portfolio of other financial assets at amortised cost, portfolio of financial assets not necessarily held for trading at fair value through profit or loss, and portfolio of assets held for trading (which exclude hedge coverages and fair value option), with risk limits being defined according to the type of portfolio. The thresholds applicable to the portfolios are defined in internal regulations, updated on an annual basis or other, whenever justified by alterations to market risk levels. Stop loss and loss trigger thresholds are also defined, applicable to the portfolios. Whenever any of these thresholds are reached, the re-examination of the strategy intrinsic to this position is compulsory.

Pursuant to the policy of investment in the banking book, there was an increase of exposure to sovereign debt, especially Portuguese, Spanish, Italian and Greek debt (in these last essentially treasury bills). The weight of bonds classified as investment grade in the total bond portfolio in December 2019 represented 84.2% (in relation to 90.2% in December 2018).

STRUCTURE OF THE BOND PORTFOLIO BY RATING CLASSES

(millions of euros)

Rating	Dec-18 Amount	Dec-18 %	Dec-19 Amount	Dec-19 %	Change Valor	Change %
AAA	-	-	8	0.3	8	-
AA+	1	0.1	1	-	0	0.0
AA	-	-	8	0.3	8	-
AA-	-	-	21	0.8	21	-
A+	2	0.1	18	0.7	16	>100
A	1	0.1	32	1.2	31	>100
A-	3	0.2	35	1.3	32	>100
BBB+	212	12.6	280	10.3	68	32.1
BBB	16	0.9	90	3.3	74	>100
BBB-	1 280	76.2	1 797	66.0	517	40.4
BB+	-	-	21	0.8	21	-
BB	-	-	21	0.8	21	-
BB-	-	-	-	-	0	-
B+	-	-	257	9.4	257	-
B	-	-	-	-		
B-	-	-	-	-	0	-
CCC+	-	-	-	-	0	-
CCC	-	-	-	-	0	-
CCC-	-	-	-	-	0	-
D	-	-	-	-	0	-
NR	52	3.0	46	1.6	(6)	(11.5)
Subtotal	**1 567**	**93.2**	**2 635**	**96.8**	**1 068**	**68.2**
Discontinuing subsidiaries	114	6.8	88	3.2	(26)	(22.8)
Total	**1 681**	**100.0**	**2 723**	**100.0**	**1 042**	**62.0**

In December 2019 the value of 2,723 million euros (31 December 2018: 1,681 million euros) includes the value of 88 million euros (31 December 2018: 114 million euros), which corresponds to the securities portfolio of Finibanco Angola, belonging to the subsidiary subject to the application of the accounting standard IFRS 5 and that is consequently recorded under discontinuing operations.

A summary of the VaR indicators as at 31 December 2018 and 2019 is presented below:

VaR INDICATORS (1)

	Dec-19		Dec-18	
	Banking Book	**Trading Portfolio**	**Banking Book**	**Trading Portfolio**
Market VaR (1) (2) (3)	**0.58%**	**1.93%**	**0.90%**	**0.17%**
Interest Rate Risk	0.63%	1.32%	0.41%	0.17%
Exchange Rate Risk	0.01%	1.12%	0.15%	0.00%
Price Risk	0.01%	0.74%	0.29%	0.00%
Credit risk (spread)	0.58%	0.63%	1.74%	0.00%
Commodity Risk	0.00%	0.00%	0.00%	0.00%

(1) - 10-day time horizon and significance level of 99%; As a % of total portfolio assets; Includes the portfolios of BM and BEM.

(2) Includes diversification effect.

(3) - Excludes positions of Finibanco Angola.

Moreover, analyses are also conducted of scenarios and stress (based on past extreme events) for the trading book to complement the analysis of all the other risk indicators.

EXCHANGE RATE RISK

Concerning the exchange rate risk of the banking book, in general, the different resources captured in different currencies are invested in assets in the respective money market for maturity periods that are not higher than those of the resources. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the investments and resources. The current foreign exchange exposure of the Banco Montepio Group in consolidated terms is essentially the result of the legacy positions derived from the conversion of the balances of the subsidiaries in their main currencies, namely the Kwanza and American Dollar, concerning Finibanco Angola. The Montepio Group also has foreign exchange exposure to the Brazilian Real due to its equity stake in the Brazilian company Monteiro Aranha.

Limits of exposure have been defined for the exchange rate risk of the banking book, which are monitored by the management bodies and Capital, Assets and Liability Committee (CCAP), where any overrunning of the established limits follows an established circuit, including approval by the management body or the implementation of measures to cover this risk.

The limits defined for exchange rate risk include limits of position by currency, in consolidated and individual terms, as well as in terms of VaR, and are also disaggregated in terms of the trading book and banking book.

INTEREST RATE RISK IN THE BANKING BOOK

The interest rate risk caused by operations of the banking book is assessed through risk sensitivity analysis, on an individual and consolidated basis for the subsidiaries included in the Group's consolidated balance sheet.

Interest rate risk is appraised in accordance with the impacts on net interest income, economic value and own funds caused by variations in market interest rates. The main risk factors arise from the mismatch between the interest rate revision periods and/or residual maturity between assets and liabilities (repricing risk), from non-parallel variations in interest rate curves (yield curve risk), from the nonexistence of perfect correlation between different indexers with the same repricing period (basis risk), and from the options associated to instruments which enable divergent action of agents depending on the level of rates that are contracted and applied at any given time (option risk).

Following the recommendations of Basel and Banco de Portugal Instruction number 34/2018, the Group calculates its exposure to balance sheet interest rate risk, at least quarterly, based on the methodology of the Bank of International Settlements (BIS), classifying all the headings of the assets, liabilities and off-balance sheet items which do not belong to the trading book, by repricing brackets.

In this context, limits are defined for exposure to interest rate risk factors which are monitored by the Capital, Assets and Liability Committee (CCAP), where any overrunning of the established limits, even if temporary, requires the approval of the management body or the implementation of measures to cover the exposure.

At the same time, a stress test is conducted with six shock scenarios in the interest rate curve. This test measures impacts on net interest income at one year and on the economic value of the shocks in the interest rate curve prescribed in the BIS document of April 2016 Standards – Interest rate risk in the banking book.

Based on the financial features of each contract, the respective expected cash flow projection is made, according to the rate repricing dates and any pertinent performance assumptions that are considered.

The table below presents a summary of the exposure to balance sheet interest rate risk, classifying all the headings of the assets, liabilities and off-balance sheet items, which do not belong to the trading book, by repricing brackets:

INTEREST RATE REPRICING GAPS IN DECEMBER 2019

(million euros)

	Residual maturities of repricing				
	Up to three months	**Three to six months**	**Six months to one year**	**One to five years**	**Over five years**
Assets	7 509	3 014	1 345	1 935	871
Off balance sheet	5	0	7	763	0
Total assets	**7 513**	**3 014**	**1 351**	**2 698**	**871**
Liabilities	3 170	1 935	2 432	3 590	53
Off balance sheet	753	0	0	0	1
Total liabilities	**3 923**	**1 935**	**2 432**	**3 590**	**55**
GAP (Assets - Liabilities) in Dec 2019	**3 590**	**1 079**	**(1 080)**	**(892)**	**816**
GAP (Assets - Liabilities) in Dec 2018	**5 210**	**1 306**	**(1 211)**	**(3 179)**	**907**

In view of the interest rate gaps observed as at 31 December 2018, an instantaneous and parallel positive shift of the interest rates by 100 basis points would lead to a variation of the impact on the expected economic value of the banking book of approximately -31.6 million euros.

LIQUIDITY RISK

Liquidity risk is assessed using regulatory indicators defined by the supervisory authorities and other internal measurements for which exposure limits are also defined. This control is reinforced by the execution of stress tests, aimed at characterising Banco Montepio's risk profile and ensuring that the Group meets its liabilities in the event of a liquidity crisis.

The objective of controlling the liquidity levels is to maintain a satisfactory level of disposable assets so as to meet financial needs in the short, medium and long term. Liquidity risk is monitored daily, with various reports being prepared for control and monitoring purposes and to support decision-taking within the Capital, Assets and Liability Committee (CCAP). Under the control of risk levels, limits are defined for various liquidity risk indicators, which are monitored through monthly reports.

The evolution of the liquidity situation is analysed, in particular, based on estimated future cash flow projections for various time horizons, considering Banco Montepio's balance sheet. The liquidity position of the day under review and the amount of assets that are considered highly liquid in the uncompromised securities portfolio are added to these projections so as to determine the accumulated liquidity gap for various time horizons.

Moreover, there is also monitoring of the level of compliance of the liquidity prudential indicators, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM), and of internal ratios such as, for example, ratios of loans to deposits, concentration of funding sources, short term funding and eligible assets.

In December 2019, the liquidity gaps up to 12 months were as presented in the table below.

LIQUIDITY POSITION GAPS IN DECEMBER 2019

(million euros)

Position reference date + forecast amount	Maturity periods				
	On sight and up to 1 week	Above 1 week and up to 1 month	Above 1 month and up to 3 months	Above 3 months and up to 6 months	Above 6 months and up to 12 months
Accumulated mismatches	3 580	3 571	3 551	3 525	3 474

Customer resources constitute the main source of funding, accounting for 76.9% of total funding sources in December 2019.

Liabilities	%
Resources from central banks	7.9
Resources from other credit institutions	3.3
Resources from Customers	76.9
Debt securities issued	8.5
Other liabilities	3.4
Total	**100.0**

The Liquidity Coverage Ratio (LCR) reached 179.9% in December of 2019, above the minimum requirement of 100%. Special note is also made to the strengthening of the commercial gap with the loan-to-deposit ratio, considering net loans and customer deposits, standing below 100%.

REAL ESTATE RISK

Real estate risk arises from possible negative impacts on Banco Montepio's net income or own funds, due to fluctuations in the market price of real estate assets.

Real estate risk arises from the real estate assets on the balance sheet, whether from properties given in lieu of repayment or judicial auction sale in the context of recovery procedures for loans or participation units of real estate funds held in the securities portfolio. These exposures are monitored based on analyses of scenarios that seek to estimate potential impacts of alterations in the real estate market on the portfolios of these real estate assets, providing necessary information for the definition of the real estate risk management policy.

During 2019, the Banco Montepio Group's exposure to real estate risk, in the components described above, fell by approximately 277 million euros, in shifting from 1,288 million euros at the end of 2018 to 1,010 million euros.

PENSION FUND RISK

Pension Fund risk arises from the potential devaluation of the fund's portfolio of assets or from the decrease of the corresponding expected returns, as well as from increased liabilities of this fund as a result of the evolution of the different actuarial assumptions. When faced with scenarios of this type, Banco Montepio is required to make unforeseen contributions, so as to maintain the benefits defined by the Fund.

The Pension Fund Monitoring Committee is responsible for the regular analysis and monitoring of the management of Banco Montepio's Pension Fund. Complementing the above, the Risk Department produces monthly reports on the evolution of the market value of the Pension Fund portfolio and associated risk indicators.

In 2019, the accumulated negative actuarial deviation of the Pension Fund stood at 301 million euros, with 78 million euros referring to 2019.

OPERATIONAL RISK AND BUSINESS CONTINUITY

Operational risk corresponds to the potential loss arising from failures or inadequacies in internal procedures, persons or systems, as well as potential losses derived from external events. Banco Montepio adopts the standard approach to quantify its own fund requirements for operational risk, supported by an implemented operational risk management system that is based on identifying, assessing, monitoring, measuring, mitigating and reporting this type of risk.

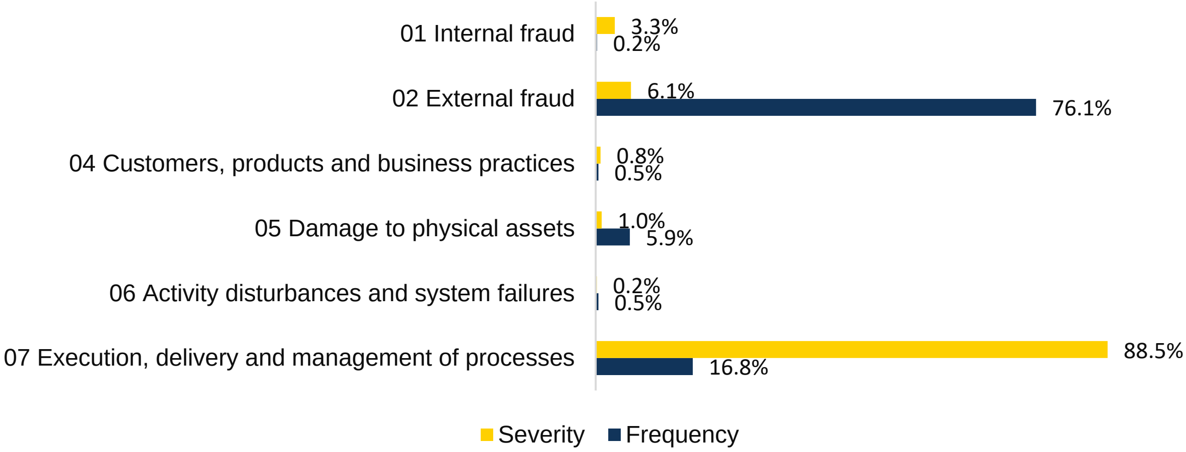
The implemented operational risk management model follows the principle of the 3 lines of defence.

The Risk Department performs the corporate function of operational risk management for Banco Montepio This is supported by specific employees within different organic units that assure the appropriate implementation of the operational risk management.

The assessment of the operational risk profile for new products, processes and systems and their monitoring, on a regular basis, has permitted the prior identification and mitigation of situations of operational risk.

With regard to the monitoring of operational risk in 2019, the activities of collection and analysis of loss events were maintained. In terms of exposure to operational risk, and considering their frequency and severity, the great majority of the events with financial impact show relatively low values (93% of the events with financial impact recorded a net loss of less than 5,000 euros). The highest severity assigned to the type "Execution, delivery and management of processes" is related to a single event of exceptional nature relative to a fine for which the respective provision was recorded, which took effect in the accounts of December 2018.

Operational Risk Typologies by Frequency and Severity 2019



One of the essential aspects in the management of this specific type of risk consists of the prior identification of relevant operational risks whenever a product, process or system is implemented or reviewed, and follow-up is ensured of action plans aimed at preventing or mitigating the effects of the materialisation of the risks with greatest frequency/severity of loss events or with higher residual value in the context of the self-assessment process.

Monitoring

Under the Operational Risk Management System of Banco Montepio, the key risk indicators (KRI) seek to monitor the factors of exposure associated to the main risks, enabling the measurement and follow-up of the risk appetite and anticipate the occurrence of losses through preventive actions.

To this end, a review of the key operational risk indicators was carried out, reviewing some of the current KRI, changing the measurement and limits of risk acceptance/appetite, and adding new indicators related to the main macroprocesses of Banco Montepio.

Self-assessment of Operational Risks

The operational risk management cycle implemented at Banco Montepio is based on the preparation of a map of activities and respective operational risks and controls, enabling the identification of the potential exposure of each body/organic unit to the operational risk, determination of its risk profile and prioritisation of any mitigation actions. The operational risks are mapped considering seven main categories: internal fraud; external fraud; employment and safety at work practices; Customer, products and commercial practices; damages to physical assets; disturbance of activities and system failures; and implementation, delivery and management of processes. The operational risks and respective controls are self-assessed regularly, as a rule in workshop arrangements with the representatives of each body/organic unit and the support of the Risk Department.

Based on the results of the self-assessments, conducted in terms of impacts and frequencies for the risks and percentage efficacy for the controls, a matrix of tolerance to residual risk is established, which will substantiate the risk level considered acceptable for the institution and will enable identifying any risks for which additional mitigation measures may need to be designed.

Following the alterations promoted under the Transformation Plan, the Maps of Risks and Controls and Self-Assessments were updated together with the staff involved of the respective areas.

Business Continuity Management

The cycle of business continuity management is supported by a series of activities of assessment, design, implementation and monitoring, integrated in a continuous improvement cycle aimed at making business processes more resilient, and ensuring the continuity of operations in the case of events that interrupt the activity.

The evolution of the sector, the actual internal alterations, the growing concern with the total range of assets to be protected, the quality of their protection and their cost--benefit ratio in comparison to other market players imply the pressing need for a periodic review of the business continuity management.

To this end, the Business Impact Analyses (BIA) and requirements relative to the more critical areas were reviewed, through workshops promoted by the Operational Risk Department.

With the growing digitalisation of the operative processes and in a context of growing importance of the operational risk associated to information and communication technologies, a self-assessment exercise was carried out regarding this specific risk.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The internal capital adequacy assessment process (ICAAP) is an essential component in the risk management of the Group, which seeks to ensure an analysis of the evolution occurred in the practices of qualitative and quantitative assessment of the risks to which the Group is exposed, the appraisal of the internal controls and effects which enable mitigating the exposure to risk, the simulation of adverse situations with impacts on the solvency of the Group and the assessment of the adequacy of internal capital.

Banco Montepio's ICAAP exercise is conducted at a consolidated level with the following main objectives:

- Promote ICAAP as a tool to support strategic decision-making in the Group;
- Stimulate a culture of risk that fosters the participation of the entire organisation in the management of the internal capital (management body, business areas and internal control functions);
- Assure the adequacy of the internal capital in relation to its risk profile and to its risk and business strategies;
- Assure an appropriate identification, quantification, control and mitigation of the material risks to which the Group is exposed;
- Assure proper documentation of the demonstrated results, by reinforcing the integration of the risk management processes in the risk culture of the Group and in decision-making processes;
- Foresee a contingency plan to assure the management of the activity and the adequacy of the internal capital in the event of a recession or crisis.

The results of the ICAAP enable investigating whether the Group’s capitalisation is, in a sustainable form, adequate to the risks derived from its activity. This capital adequacy is assessed based on the comparison between the available internal capital and the economic capital requirements, taking into account the risk appetite level established by the management body.

At a first stage, this entails identification, according to quantitative and qualitative criteria, of the material risks faced by the Group's activity, based on an internal risk classification. All the risks identified as material and the risks considered in Basel Pillar I, regardless of being considered material or not, are integrated in the ICAAP.

At a second stage, the material risks are modelled with a view to the quantification of the respective economic capital requirements, based on an extremely adverse scenario in line with the defined risk appetite level. The risks are thus incorporated through add-ons to the regulatory capital, whether via increased capital requirements for risks covered in Pillar I or via incorporation of capital requirements for other risks.

Capital adequacy is assessed based on the comparison between the economic capital requirements and the available internal capital to absorb risks, calculated considering the established risk appetite level.

The result of the capital adequacy assessment is complemented by the values obtained through reverse stress tests and under stress test scenarios. The objective is to assess the Group's capacity to absorb unexpected losses, where potential contingency plans should be identified to deal with any insufficiency of internal capital, duly aligned with other capital planning exercises, namely the Funding and Capital Plan and the Recovery Plan.

In light of the defined strategic plan that is reviewed periodically, no significant changes are foreseen in the materiality of the different types of risk. The regular process of internal capital assessment demonstrated that the Group continues to be adequately capitalised. Additionally, the Funding and Capital Plan foresees measures that will enable strengthening the Group's solvency levels.

STRESS TESTS

Pursuant to the regulatory terms, the Group conducts stress tests, under the Group's Recovery Plan, the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP) submitted to Banco de Portugal.

The Group's Recovery Plan involves analysis and measurement of impacts derived from adverse scenarios, considering systemic events, idiosyncratic events of the Group and a combination of both. This analysis gave rise to a series of strategic options and recovery measures to be placed in practice in order to assure the preservation and solidity of the Group's levels of capital, liquidity, profitability and operating activities, in the event of being faced with situations of contingency or financial crisis.

The ILAAP provides the Board of Directors, Executive Committee and supervisory body with an appropriate overview of the evolution of the liquidity and funding risk profile, as well as overall exposure to risk. Moreover, it also provides information on the available liquidity sources and the adequacy of liquidity of the Banco Montepio Group.

In order to assess capital insufficiency during periods of stress, ICAAP included the definition of a series of stress tests (reverse stress tests and adverse scenarios) on the risk quantification models and capital adequacy. The outcome of these tests enables confirming the adequacy of internal capital levels to the tested adverse scenarios.

In addition to the stress tests reported to Banco de Portugal, the Group regularly carries out other impact studies aimed at providing an analytical vision of its position in terms of liquidity, net income for the year and capital when subject to adverse scenarios arising from alterations in risk factors such as interest rates, credit spreads, repayment of deposits, margins of assessment of eligible assets applied by the ECB, ratings (of the Group and counterparties), portfolio loss ratios, collateral, among others.

The stress tests and analyses of adverse scenarios are disclosed and debated with the Group's management, with the conclusions drawn being subsequently incorporated in the strategic decision-making processes, more precisely in the determination of levels of solvency, liquidity, exposure to specific risks (counterparty and price risks) and overall risks (interest rate, exchange rate and liquidity risks).

The spreading of Covid-19 at a global level generated a health crisis that has also triggered a financial crisis of unique features, being an exceptional event not anticipated by the financial system, in general, and which led to the alteration of the outlook on financial performance and with expected impacts in terms of the evolution and risk profile of Banco Montepio.

The mechanisms and tools used during the stress tests supported the Bank's management under this scenario, namely in the more immediate effects in terms of liquidity and market risks.

Banco Montepio has contingency and business continuity plans for crisis situations, which were promptly activated in the current Covid-19 crisis, in order to mitigate the impacts in the operational and business component.

RISK RATINGS

RISK RATINGS

Rating events relative to the year of 2019

In a press release dated February 26, 2019, the financial rating agency Fitch Ratings announced the maintenance of the intrinsic rating (Viability Rating) of Banco Montepio at b+, having made a downward revision of the risk rating of Long-term senior unsecured debt from B+ to B-, removing it from Rating Watch Negative.

In a press release dated March 28, 2019, the financial rating agency DBRS announced an upward revision of the Long-Term Deposits of Banco Montepio to 'BB (high)' from BB and an upward revision of the risk rating of Short-Term Deposits to R-3 from R-4.

Both rating actions were triggered and are related to the entry into force of Law 23/2019, of 13 March 2019, that transposes into the Portuguese legal system Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017, which amends Directive 2014/59/EU, relative to the preference attributed to all depositors in relation to holders of senior debt (senior Unsecured) in insolvency and bank resolution procedures.

In a press release dated 9 October 2019, the financial rating agency Moody's presented the annual revision of risk ratings of Banco Montepio. The upward revision of the risk ratings attributed by the rating agency Moody's reflects the improvement of the operating environment in Portugal, combined with the progress achieved by Banco Montepio in reducing the risk of its balance sheet as a result of the implementation of the Transformation Plan. Accordingly, the following rating were upgraded:

- Adjusted Baseline Credit Assessment, upgraded from caa1 to b3;
- Baseline Credit Assessment, upgraded from caa1 to b3;
- Long-term Counterparty Risk Assessment, upgraded from B1(cr) to Ba3(cr);
- Long-term Counterparty Risk Rating, upgraded from B1 to Ba3;
- Junior Subordinate MTN, upgraded from (P)Caa3 to (P)Caa2;
- Subordinate MTN, upgraded from (P)Caa2 to (P)Caa1;
- Long-term Bank Deposit Ratings upgraded from B3 (under revision) to B1 (stable).

Following the enforcement of the previously mentioned Law 23/2019, which changes the position of certain debt instruments in the insolvency hierarchy, the rating agency Moody's made a downward review of the risk rating attributed to unsecured senior debt bonds (Senior Unsecured MTN), from (P)B3 to (P)Caa1.

On the same date, a new rating was attributed by Moody's, of (P)Caa1, to non-preferred senior debt (Junior Senior Unsecured MTN Program (Local Currency) to be issued under the Euro Medium Term Note (EMTN) programme approved by the Commission de Surveillance du Secteur Financier (CSSF). Non-preferred senior debt constitutes a new category of debt situated between preferred senior debt (senior unsecured debt) and subordinated debt, introduced in the Portuguese legal system through the publication of the previously mentioned Law 23/2019.

In a press release dated 11 October 2019, the financial rating agency Moody's upgraded the risk rating of Banco Montepio Mortgage Bonds by 2 buckets from A3 to A1, strengthening the classification of this type of debt in the investment grade category, which now rises to the upper bucket of class A (Upper Medium Grade).

This upgrade was caused by the improvement of the counterparty risk assessment of Banco Montepio and by the commitment to maintain a minimum over-collateralisation of 9% in the Mortgage Bonds Programme.

The risk ratings attributed to Banco Montepio by the rating agencies as at 31 December 2019 and 31 December 2018 are presented in the table below:

Risk Ratings								
Rating Agencies	Covered Bonds (CPT[1])		Long-term		Short-term		Outlook	
	31 December 2018	**31 December 2019**	31 December 2018	**31 December 2019**	31 December 2018	**31 December 2019**	31 December 2018	**31 December 2019**
Fitch Ratings	AA-	**AA-**	B+	**B-**	B	**B**	Stable	**Stable**
Moody's Investors Service	A3	**A1**	B3	**Caa1**	NP	**NP**	Positive	**Stable**
DBRS Ratings Limited	A	**A**	BB	**BB**	R-4	**R-4**	Negative	**Negative**

(1) Conditional Pass-through Covered Bond Programme.

NON-FINANCIAL STATEMENT

NON-FINANCIAL STATEMENT

FRAMEWORK DECREE-LAW NO. 89/2017

Banco Montepio is a reference financial institution, which closely monitors the evolution of its Customers: families, companies and institutions of the social economy. An institution with 175 years of history that upholds its traditions, but simultaneously rejuvenates, innovates and reflects on the elements of the process of economic growth, with a view to fostering economic, financial, environmental and social sustainability.

As an institution committed to the area of sustainability, Banco Montepio's strategy incorporates environmental and social concerns primarily concentrated on four axes of action: the affirmation of identity, focus on people, cooperation, partnership and value chain, and environmental promotion. In order to complement its strategy and commitment to sustainable development, Banco Montepio signed the Charter of Commitment to Sustainable Financing in Portugal, a document produced by the Reflection Group for Sustainable Financing, composed of the main players of the financial sector in Portugal and coordinated by the Ministry of the Environment and Energy Transition, in partnership with the Ministries of Finance and of the Economy. Banco Montepio's values of sustainability are present in its daily relations with its Customers and other stakeholders.

The non-financial statement of the Management Report for 2019 of Banco Montepio highlights responsible business, the policies and regulations related to the business, environmental and social practice, the combat of corruption and the creation of value for the Employees. The highlights presented on Banco Montepio's activity in these aspects permits compliance with the requirements of Decree-Law 89/2017, published on 28 July 2017, which foresees the disclosure of non-financial information, so as to enable understanding Banco Montepio's activities in matters of social responsibility and sustainability.

As in previous years, Banco Montepio collected and summarised the non-financial information from among the fully consolidated subsidiaries (see Group Structure section of this report), subsequently presenting the information in this chapter of the Management Report.

RESPONSIBLE BUSINESS

Aware that the banking sector performs a crucial role in the promotion of sustainable development, Banco Montepio is continuously dedicated to aligning its business strategy with the Sustainable Development Goals (SDG), enhancing the positive impacts, reducing the negative impacts and managing the risks for people and for the environment arising from its activities, products and services.

PROXIMITY AND FINANCIAL INCLUSION

In 2019, Banco Montepio continued to focus on the specialization of the offer and services, as well as on the management of a team of managers from the north to the south of the country with specific knowledge of the social economy sector and its distinct areas of action. During this year, Banco Montepio integrated the area of sustainability in the Microcredit, Entrepreneurship and Sustainability Department (DMES), integrated in the Social Economy and Public Sector Commercial Department (DCESSP). Supporting and contributing on a daily basis to the sustained growth of social economy institutions, Banco Montepio affirms the Social Economy as a differentiating pillar of the institution. Detailed information on the social economy area can be consulted in the Business Segments section of this report.

During 2019, Banco Montepio inaugurated seven branches dedicated to proximity and convenience primarily aimed at taking essential banking services to less urbanised zones and to the populations most in need of these services. With the motto "Estar mais onde os outros estão menos" (Being more where the others are less), these branches are located in Abraveses, Fão, Ferreira do Alentejo, Pedras Salgadas, Ferro, Oiã and Avanca.

Banco Montepio also continued to provide Minimum Banking Services, as a form of combating banking exclusion, and Overall Solutions, combining a series of products and services, with differentiated pricing, directed at the segment of individuals with different profiles of banking needs.

RESPONSIBLE OFFER

Under the offer of sustainable nature, Banco Montepio highlights the provision of the housing loan product: Sustainable Credit and House, directed at current and potential Customers who acquire real estate properties with energy certificate classification A and A+, and the credit line to support the purchase and installation of equipment that uses renewable energy, named Renewable Energy Credit. Banco Montepio also provides a leasing and renting offer for individuals and companies that may boost the use of electric vehicles. Detailed information on banking products directed at the Individuals segment can be consulted in the Business Segments section of this report.

For the Corporates segment, Banco Montepio emphasises Credit for Energy Efficiency, a credit line for companies that wish to invest in projects aimed at improving the energy performance of facilities. In addition to this product, special note is made of the Line to Support Qualification of the Offer - Environmental Sustainability in Tourism, a specific financial instrument designed for the financing of investment projects aimed at improving the environmental performance of small and medium-sized enterprises of the tourism sector. This is applicable to projects that contribute to the efficient management of water consumption and of the production of urban solid waste. On the other hand, Banco Montepio continuously participates in supporting the development of Companies and Institutions of the Social Economy, by providing various Protocolled Credit Lines with the most diverse entities in different regions of the country. In addition to more beneficial financing conditions, the Companies and Institutions of the Social Economy rely on Banco Montepio's monitoring throughout the entire process.

RISK MANAGEMENT

The Banco Montepio Group's risk management continues to include a series of policies, procedures, definition of limits concerning risk appetite, and controls that enable, in an appropriate and integrated manner, identifying, measuring, assessing, monitoring, mitigating and reporting the risks derived from the activities developed in the different business lines and entities of the Group. The different dimensions of risk covered by the risk management function and their governance can be consulted in the chapter on Risk Management of the Management Report, while this section highlights operational risk corresponding to matters of social responsibility.

The operational risk management cycle implemented at Banco Montepio is transversal to all the materially relevant activities developed at the institution. This process includes the preparation of a table of activities and respective operational risks and controls, enabling identification of the potential exposure of each body/organic unit to the operational risk, determination of its risk profile and prioritisation of any mitigation actions.

The operational risks are monitored considering the following main categories:

- Internal Fraud: Losses arising from acts aimed intentionally at the practice of fraud, the improper appropriation of assets or at circumventing regulations, legislation or internal polices/rules, which involve at least one Employee of the institution;

- External Fraud: Losses arising from acts aimed intentionally at the practice of fraud, the improper appropriation of assets or at circumventing legislation by third parties;

- Employment and occupational safety practices: Losses arising from acts that are not in conformity with the legislation or collective labour agreements, health and safety, the payment of personal injury or acts related to differentiation/discrimination;

- Customers, products and commercial practices: Losses arising from intentional non-compliance or due to negligence of a professional obligation relative to specific Customers, or due to the nature or design of a product;

- Damage to physical assets: Losses arising from damage or loss causes to physical assets by natural disasters or other events;

- Disturbance of activities and system failures: Losses arising from disturbance of commercial activities or system failures;

- Implementation, delivery and management of processes: Losses arising from failures in the processing of operations or in process management, as well as relations with commercial counterparts and suppliers;

Opinions were also issued on operational risk of preventive nature, about the organisation, products, processes and procedures, aimed at revealing risks and proposing controls to mitigates these risks and strengthen the products and processes.

COMBATING CORRUPTION AND ATTEMPTED BRIBERY

In the context of the fight against corruption and attempted bribery, namely in the combat of money laundering and terrorism financing, Banco Montepio has implemented policies relative to customer identification, analysis and monitoring of high-risk customers, customer acceptance, management of the risk of money laundering and terrorist financing. Apart from the policies mentioned above, reference is also made to the policies on sanctions, which aims to ensure compliance with the legislation in force, in line with best market practice.

Any non-compliance detected is subject to immediate remedies, and when deemed necessary, action plans are implemented to correct any situations requiring greater intervention.

OUR POLICIES

Banco Montepio has the following policies related to the business:

- Policy on management of the risk of money laundering and terrorist financing;
- Policy on analysis and monitoring of high-risk customers;

- Policy on customer acceptance;
- Policy on customer identification;
- Policy on sanctions;
- Policy on conflict of interest;
- Policy on prevention of market abuse.

OUR PERFORMANCE

During 2019, Banco Montepio maintained its dedication to endorsing measures that seek to raise the awareness of its Employees with respect to practices that promote conduct in conformity with the legislation in force. In order to ensure the ongoing surveillance of risky behaviour and conduct, the training on anti-corruption policies and procedures continued among the highlights during 2019.

For the indicator in question, Banco Montepio ministered a total of 1,782 hours of training in 2019, of which 252 hours were on prevention of money laundering and terrorist financing, 1,451 hours were on ethics, code and duty of conduct, and 79 hours were on MoneyGram – prevention of fraud.

VALUE CREATION FOR EMPLOYEES

HUMAN CAPITAL AND TRAINING

Under the Transformation Plan of Banco Montepio and the changes and challenges defined therein, the action of the People Management Department was reinforced through the integration of the area of Communication and Organisational Culture, carrying out actions that promote the strengthening of relations between the different areas of the Bank.

Banco Montepio acts preventatively towards encouraging the Employees to have ethical and sustainable practice, with creation of value for the business, having organised various specific training programmes throughout 2019, which involved 3,759 Employees. The following table presents the 13 training actions and their results.

Training actions in 2019	No. Actions	No. Training Hours	No. Employees covered
Montepio Women Mentoring Program	2	220	44
Harassment at Work	22	472	241
Support to the Design of Equality and Monitoring Plans	1	30	1
Business Continuity	12	90	69
Social Economy	1	1 080	6
MoneyGram - Fraud Prevention	8	79	43
Sustainability - Montepio Group	11	142	156
Ethics, Code and Duty of Conduct	38	1 451	462
Wellness, Health and Safety	9	157	15
Corporate Volunteering	1	2	1
Prevention of Money Laundering and Terrorist Financing	22	252	141
Cybersecurity Sensitivity	2	708	2 450
Awareness First Aid, Fire Fighting and Evacuation	15	952	130
Total	**144**	**5 635**	**3 759**

Throughout 2019, Banco Montepio continued to concentrate on developing the future integrated system for talent management. Focusing its efforts on this topic, the institution implemented the draft review and consolidated the performance management model, thus starting a pilot project for management of potential.

The continuous investment in the development of people is reflected in the different training initiatives, which amounted to 142,584 hours in the entire Banco Montepio Group, as shown in the table:

Total Training Hours in 2019	No. Actions	No. Training Hours	No. Participations
Banco Montepio:			
2017	1 174	230 624	49 529
2018	684	74 034	26 619
2019	835	133 921	53 796
Subsidiaries 2019:			
Montepio Crédito	29	5 335	605
Montepio Valor	29	1 120	99
Finibanco Angola	23	2 208	97
Total 2019	**916**	**142 584**	**54 597**

Other initiatives considered strategic in the area of people management were at the top of the priorities during 2019, namely in terms of fostering balance between the professional and personal life of the Employees.

PERFORMANCE MANAGEMENT

In 2019, the path continued towards consolidation of the 3D Model – the performance management system of Banco Montepio, which presents indicators with progressive increases in terms of participations. The 2019 cycle involved an assessment based on the profile of skills, and continuous reinforcement and encouragement of feedback conversations among line managers and employees.

In order to consolidate the performance management system as a structural process of people management, a review of its features was conducted during 2019. For such, focus group methodology was used to encourage a collaborative approach in this review. This work was the result of a revised methodology of definition of goals, which shall contribute to greater alignment of the entire organisation and shall be implemented in the 2020 assessment cycle.

OUR POLICIES AND REGULATIONS

Banco Montepio pursued the development and review of some of its policies and regulations under the plan to create reference frameworks to target the institution's people management action. Among the policies and regulations developed, special reference is made to the policy on remuneration of employees and key employees, the guidelines for attribution of vehicles, the performance policy, the mobility policy and the social support policies. There are also initiatives that shall be continued in 2020, namely, the completion of the review of the code of conduct and the finalisation of the performance management policy.

The review of the collective contracting agreement was completed and applied in 2019, with this agreement having initially taken effect on 1 January 2018.

OUR PRACTICES

Gender equality

In 2019, Banco Montepio started the 2nd edition of the "Programa de Mentoria Mulheres Montepio" (Montepio Women Mentorship Programme), with the participation of around 28 pairs of Mentors-Mentees. In order to make this initiative inclusive, this year's edition enabled male Employees in leadership positions to be Mentors in the Programme.

The main goals of the Montepio Women Mentorship Programme are to:

- Provide contact with Leading Women of Banco Montepio, promoting the sharing of knowledge, networking and the valorisation of role models in the institution;
- Fast-track the development of Montepio 'Women', increasing their chances of success;
- Endow the Mentees with personal and management skills, facilitating their personal and professional growth at Banco Montepio;
- Support Montepio 'Women" along their career path, namely in balancing their professional and personal life.

Working Conditions, Health and Safety

Banco Montepio aims to make workplaces safer, healthier and more productive, by fostering wellbeing, healthy lifestyles and developing a culture of risk prevention. Amongst the initiatives carried out in 2019, the following are worthy of mention:

- Personalised monitoring of serious situations of illness and individualised health promotion intervention meeting specific needs;
- Monitoring of psychosocial support, through casuistic and multidisciplinary analysis;
- Assessment and control of occupational risks, health monitoring, individualised ergonomic analyses of work stations for mitigation of the detected risks, ensuring the attribution of ergonomic equipment to Employees with specific risk factors, whenever necessary;
- Commemoration of World Day for Safety and Health at Work, this year dedicated to the theme of "Safety and Health and the Future of Work";
- Commemoration of the Month of the Heart through the launch of a "Mini Manual of Prevention of Cardiovascular Diseases";
- Annual vaccination campaign against seasonal flu, free of charge;
- Various informative actions on Health Promotion;
- Holding of the first edition of the "Wellbeing Week", an initiative dedicated to stimulating a culture of health and wellbeing, which involved the participation of more than 700 Employees in 37 different activities, in 11 cities of the country.

Reconciling Professional and Personal Life

Following up on the evolution of this topic, Banco Montepio kept the focus on the search for solutions that aim to increment its action in this sphere. Special note is made of the initiatives supporting parentality, the various exemptions and leave of absence, as well as flexible working hours according to the context and relevance of the motivation.

Workers Representation

Institutional relations with the structures representing the workers were characterised by dialogue and search for platforms of understanding, and for the solutions that best meet the interests of the institution and its Employees, manifest in the reviews of the Collective Agreement for 2018 and 2019.

OUR PERFORMANCE

The Banco Montepio Group presents information on the following indicators:

- Employees by type of contract, by gender and by the age group;
- Average training hours per year and per Employee.

Characterization of Employees: Domestic Activity

		Banco Montepio			Montepio Crédito			Montepio Valor		
		2017	2018	2019	2017	2018	2019	2017	2018	2019
Per type of contract	Permanent	3 580	3 486	3 527	125	124	122	22	22	21
	Contract	50	80	36	2	1	0	4	4	3
Per gender	Male	1 925	1 869	1 858	57	55	51	13	13	13
	Female	1 705	1 697	1 705	70	70	71	13	13	11
Per age group	18 to 39 years	836	715	647	41	31	26	15	15	12
	40 years or more	2 794	2 851	2 916	86	94	96	11	11	12
Per region	North	1 111	1 100	1 093	107	105	102	-	-	1
	Center	2 030	410	409	0	0	0	-	-	-
	South	331	1 913	1 916	20	20	20	-	26	23
	Islands	144	131	133	0	0	0	-	-	-
	International	14	12	12	-	-	-	-	-	-
Average training per employee	Average hours	63.8	21.9	43	37.7	40.8	43	9.7	17.6	41.5

Characterization of Employees: Internacional Activity

		Finibanco Angola			Banco Terra
		2017	2018	2019	2017
Per type of contract	Permanent	133	145	135	168
	Contract	90	80	101	13
Per gender	Male	119	120	119	103
	Female	104	105	117	78
Per age group	18 to 39 years	197	195	204	134
	40 years or more	26	30	32	47
Per region	Maputo	-			117
	Inhambane				8
	Sofala				9
	Manica				8
	Tete				23
	Nampula				16
	Luanda	200	202	213	-
	Benguela	12	13	13	
	Huambo	6	5	5	
	Huíla	5	5	5	
Training per year per employee	Average hours	68.8	16.7	23.0	3.5

Note: Banco Terra S.A. was sold in 2018, ceasing to be part of the consolidation perimeter of the Banco Montepio Group.

BENEFITS FOR EMPLOYEES

Under its people management and in-house social responsibility policies, Banco Montepio develops activities through its Social Services that aim to best meet the needs of its Employees and their families.

To this end, the intervention of the Social Services involves the organisation of holiday camps for the children of the Employees, trips and journeys for its retired former employees, the promotion of 4 canteens in the Lisbon and Porto regions, with meals at low prices, and the provision of exclusive benefits through a network of partnerships and protocols.

In the cultural sphere, we highlight the provision of more than 1,500 tickets at a lower cost to approximately 800 shows and exhibitions dispersed all over the country. Banco Montepio Social Services also provide more than 2,500 books for consultation at its two libraries located at the Lisbon and Porto premises.

Among the various initiatives developed throughout 2019, the following are worthy of mention:

- Christmas Parties in different zones of the country, namely the archipelagos of the Azores and Madeira, Lisbon, Porto, Central Zone and Algarve. As in the previous years, this initiative includes the provision of tickets to 8 institutions of the Social Economy;
- Camping at Ribeira de Pena and Herdade das Parchanas during Easter. In the summer, the camping took place in the Algarve;
- Trip to Serra da Estrela and to Aqueduto das Águas Livres in Lisbon;
- Journeys to various countries such as England (London), France (EuroDisney, in Paris) and Russia. In addition to the countries mentioned above, a cruise on the Mediterranean was also organised;
- National social gathering of Employees at Hotel Golf Mar, in Vimeiro.

Finally, following the logic of improving the benefits of the employees, agreements were also reached with entities, of local/national scope, which are reflected in the attribution of benefits that could be materialised in discounts on the final bill and/or in the improvement of the adopted product/service.

VALUE CREATION FOR SOCIETY

In order to create value for society, Banco Montepio has demonstrated its enormous concern for the community and the environment.

COMMUNITY

The Corporate Volunteering Programme of the Montepio Group is one of the main instruments for accomplishment and extension of partnerships among the main stakeholders and the community in general, and, at the same time, the largest creator of social capital, human value and solidarity for society.

In permitting the accomplishment of projects of Social Economy institutions that do not always have the human or financial means to carry them out, this programme promotes the development of personal and professional skills of the volunteers, increases motivation levels and strengthens the proximity of the Montepio Group and its teams to social initiatives developed throughout the entire country.

In 2019, Corporate Volunteering was enriched with a new “look” regarding its manner of acting, transforming and ensuring intervention in the areas of management and active assessment; alignment with public policies; multi-stakeholder vision; alignment with business ventures; and local and global development. This new conception of corporate volunteering stated a broader and transversal logic of action, ensuring a more comprehensive approach and structure of resources and people, extensive to the main entities comprising the Montepio Group, but also the search for new targets, which are the Group's base of sustainability, in this specific case, the families of the Employees and associates.

Concerning the external scope of reach, the new perspective of observation of corporate volunteering is a fundamental lever to intensify relations of proximity with local communities, through the social organisations implanted in the different regions, embodied in social intervention/inclusion/innovation voluntary projects at a local level. In this context, the “Montepio Group's Voluntary Day” was transformed into a “Montepio Group's Voluntary Month”, with the full application of strategic proposals and assessed, monitored and growing results.

In order to ensure the continuity of the voluntary action, the competence voluntary tools were strengthened, with special attention given to mutualist and financial literacy.

- Territories and partner entities of the Montepio Group in the context of the Montepio Group's Voluntary Month: 39 from the north to the south of the country, including the archipelagos of the Azores and Madeira;
- Number of partner entities involved in the *PIS* in 2019: 36;
- Number of entities benefited, for the first time, by the Montepio Group's Voluntary Work Programme: 20;
- Total volunteers: 750, of whom 640 volunteers belong to the staff of Banco Montepio and its subsidiaries.

In terms of competence voluntary action, reference is made to the participation of Montepio Group volunteers in Junior Achievement Portugal (JA Portugal), the largest and oldest worldwide organisation in the area of education towards an enterprising mentality and attitude which the Group has participated in since 2006, giving the Employees the opportunity to enrol as volunteers to continue making a difference. The mission of JA Portugal is to inspire and prepare children and young people to be successful in the global economy through transforming experiences based on three areas: Citizenship and Financial Literacy, Education for Entrepreneurism and Skills for Employability.

The year of 2019 ended with the attribution of the Elza Chambel Award, promoted by "Grace - Grupo de Reflexão e Apoio à Cidadania Empresarial" (Grace - Entrepreneurial Citizenship Reflection and Support Group), aimed at distinguishing and promoting an innovative voluntary project, seeking to raise the awareness of society on the importance of voluntary action as a form of active citizenship.

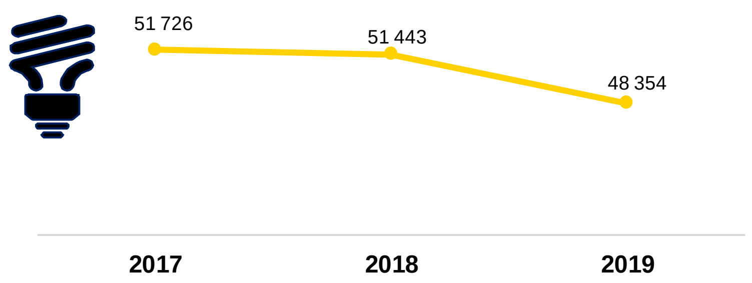
ENVIRONMENT

Concerning the environment, Banco Montepio has prioritised this topic with the aim of understanding the relationships between natural capital and the business as a pillar of growth and profitability, combined with strengthening the image. In this regard, Banco Montepio's intervention has implemented measures aimed at reducing energy and paper consumption, as well as the production of waste, in order to minimise CO_2 emissions.

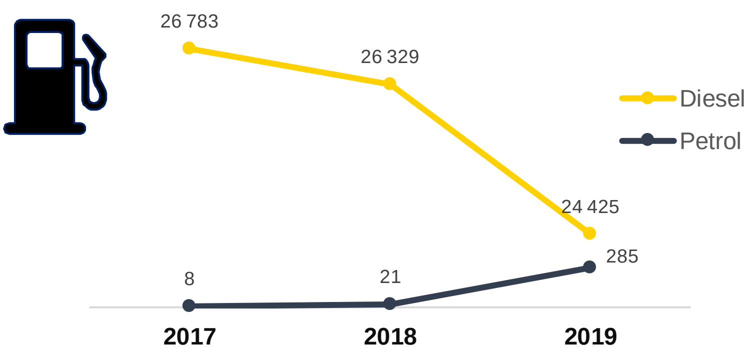
During 2019, Banco Montepio continued its intervention towards mitigating changes in natural resources, promoting energy efficiency gains, focusing on minimising CO_2 emissions, cutting paper consumption and managing waste in an efficient manner.

Electricity consumption fell by 6%, compared to 2018, reflecting the result of the centralisation of services and release of physical spaces, as well as the continued implementation of measures of replacement of obsolete equipment by more energy efficient equipment.

Electricity Consumption (GJ)



Fuel Consumption (GJ)

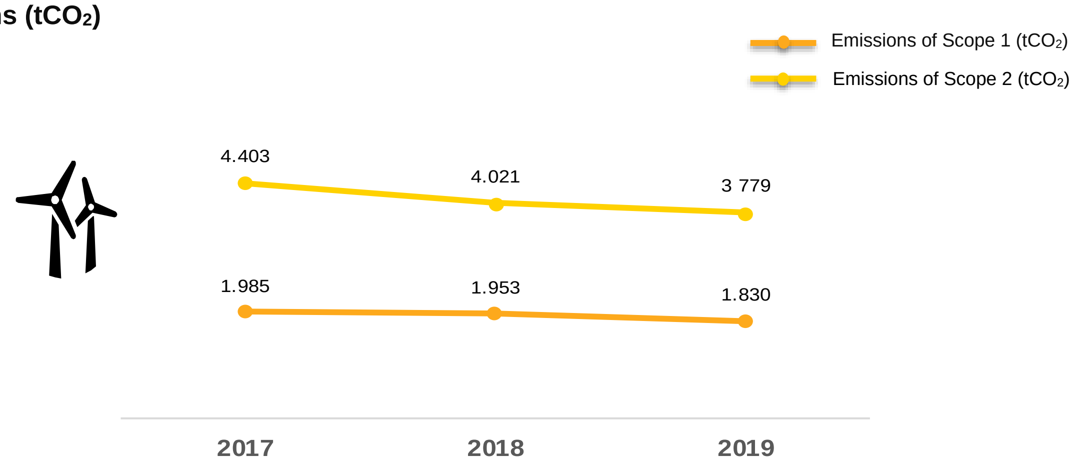


In relation to fuel consumption, the beginning of the replacement of combustion vehicles by electric and hybrid vehicles led to a 6% reduction in the fleet's fuel consumption.

Emission factors			
Energy	**Unit**	**Factor**	**Source**
Electricity	kg CO_2/GJ	78.2	International Energy Agency (2015) - CO_2 Emissions from Fuel Combustion
Diesel	Kg CO_2/GJ	74.1	APA (2017) Portuguese National Inventory Report on Greenhouse Gases, 1990-2015
Petrol	Kg CO_2/GJ	69.3	

In line with the reduction of total energy consumption (electricity and fuel), total CO_2 emissions fell by 365 tons in 2019 in relation to 2018, corresponding to a 6% decrease.

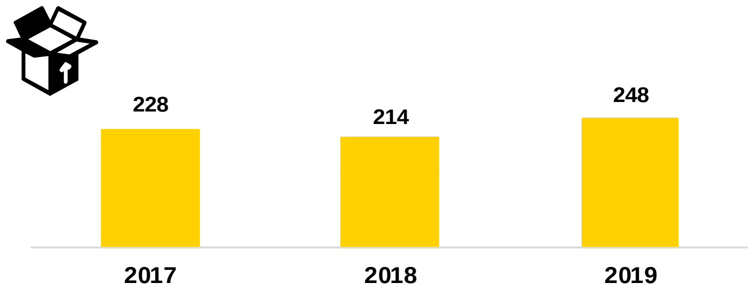
Emissions (tCO_2)



Conversion factors			
Energy	**Unit**	**Factor**	**Source**
Electricity	GJ/KWh	0.0036	International Energy Agency – Basic Conversions
Diesel	Density (Kg/l)	0.84	APA (2014) -Table of fuel density values (2013)
	PCI (GJ/t)	42.6	APA (2017) Portuguese National Inventory Report on Greenhouse Gases, 1990-2015 (pag.102)
Petrol	Density (Kg/l)	0.75	Decree-Law No. 142/2010, of 31 December
	PCI (GJ/t)	44	APA (2017) Portuguese National Inventory Report on Greenhouse Gases, 1990-2015 (pag. 102)

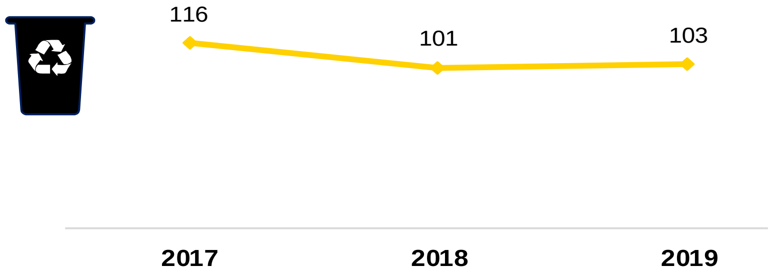
In 2019, paper consumption at Banco Montepio increased by 34 tons in relation to 2018. This evolution is related to the increased sending of mail to Customers in order to comply with legal requirements, notwithstanding the measures in progress concerning the dematerialisation of processes and increased use of digital banking by the Customers.

Paper Consumption (t)



The vast majority of the waste produced by Banco Montepio is considered non-hazardous with its final destination being valorisation. In 2019, paper collection increased by two tons, corresponding to a 2% increase in relation to 2018.

Waste (t)

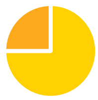
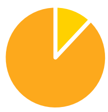
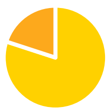


Main Environmental Initiatives Developed

Throughout 2019, Banco Montepio adopted a series of initiatives aimed at increasing energy efficiency, the appropriate use of resources and cost reduction, with the start-up of a green fleet implementation project, exclusively involving hybrid and electric vehicles.

Among the initiatives adopted, we highlight:

Executed   To be Executed

	Adopted Measures	Degree of Execution Dec.19
IT	• Server virtualisation with reduction of energy consumption;	
IT	• Substitution of core infrastructures (hardware) for equipment with greater energy efficiency	
Facilities	• Substitution of HVAC (with refrigerating gas R22) equipment at branches, for more efficient equipment with less aggressive gases for the environment, with plans to intervene in 142 items of equipment during the four-year period 2019-2022, and 18 having been completed at the end of 2019;	
Facilities	• Substitution of HVAC (with refrigerating gas R22) equipment at the building of Rua Castilho, for more efficient equipment with less aggressive gases for the environment;	
Materials	• Increase, compared to 2018, of the adhesion to digital documentation via NET24 (15% for individual customers and 16% for corporate customers);	Continuous Implementation
Materials	• Gradual dematerialisation of the Daily Movement of Documents (DMD) and of the accounts opening process, in substitution of the paper format.	Continuous Implementation

In the same context, Banco Montepio started a project to dematerialise processes aimed at improving Customer response times and reducing paper and energy consumption. In this project, the following points are noteworthy:

Process dematerialisation project	
What it is	• Collection of digital signatures, through tablet devices, which allows scanning the document and, at the same time, capturing the image, which will serve as proof for the Customer.
Objective	• Dematerialisation of processes, with elimination of paper printing and paper circulation; • Improvement of the Customer's day and experience; • Streamlining of the procedural handling, contributing towards the improvement of the service provided and cost reduction; • The implementation of this project includes other intangible gains; • Positioning of the Montepio brand with an image of modernity and innovation; • Environmental concern, contributing towards the reduction of the ecological footprint; • Monitoring of best market trends, to meet the Customers' expectations;
Results	• Reduction of paper consumption: more than 2,700,000 pages not consumed during the year, representing an increase of 73% in relation to the previous year; • Reduction of the cost of consumables linked to the generation of documents in paper format (printer toners, archive folders, among others).

OUR POLICIES

Banco Montepio has the following specific policies related to the environment:

- Code of Conduct, which includes a series of requirements stipulating respect for human rights and the environment.

OUR PERFORMANCE

Banco Montepio presents information on its subsidiaries relative to the following indicators:

- Total paper consumption;
- Total energy consumption inside the institution (including fuel, electricity, heating, chilling and steam).

Without prejudice to the continuous improvement that Banco Montepio aims to implement, this non-financial statement presents the relevant information for the most materially subsidiaries of Banco Montepio.

Total Consumption: Domestic activity

		Banco Montepio			Montepio Crédito		
		2017	2018	2019	2017	2018	2019
Paper	(ton)	228	214	248	10	9	6
Electricity	(kwh)	14 368 357	14 289 723	13 431 589	145 620	134 946	123 459
Fuel	(liters)	751 416	739 075	693 679	71 403	67 421	65 035

Total Consumption: International activity

		Banco Terra (Mozambique)			Finibanco Angola		
		2017	2018	2019	2017	2018	2019
Paper	(ton)	8			7	15	14
Electricity	(kwh)	481 313	(a)		1 068 104	856 423	750 013
Fuel	(liters)	57 449			327 713	186 182	191 123

(a) Banco Terra S.A. was sold in 2018, and is no longer part of the consolidation perimeter of Banco Montepio Group.

CORRELATION TABLE WITH DECREE-LAW No. 89/2017

Requirement	Response	Page
Corporate Model **DL 89/2017 - Article 3 (referring to article 508-G (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a)**		**Page**
Corporate model of the company	The Banco Montepio Group – Group structure	18
	Transformation Plan	39
	Business segments – retail banking; corporate banking; social economy; subsidiaries; international activity	46, 46, 47, 58, 63
	Responsible business	120
Diversity in governing bodies **DL 89/2017 - Article 4 (referring to Article 245 (1)(r) and (2) of the Central Securities Depository (CSD)) - Directive 2014/95/EU - Article 20 (1)(g)**		
Diversity policy applied by the company to its management and supervisory bodies	*Requirement not applicable to Banco Montepio*	-
Environmental issues **DL 89/2017 - Article 3 (2) (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a-e)**		
Specific policies related to environmental issues	Value creation for society – our policies	131
Results of the application of the policies	Value creation for society – environment	128
Main associated risks and the way in which those risks are managed	The Banco Montepio Group – risk management	95
	Responsible business – risk management	121
Key performance indicators	Value creation for society – environment – tables on consumptions	129
	Value creation for society – our performance	132
Social and employee-related issues **DL 89/2017 - Article 3 (2) (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1) (a-e)**		
Specific policies related to social and employee-related issues	Value creation for society – our policies	131
	Value creation for Employees – our policies	124
	Value creation for Employees – our policies and regulations	124
Results of the application of the policies	The Banco Montepio Group – people	22
	Value creation for society – community	127
	Value creation for Employees – human capital and training	123
	Value creation for Employees – performance management	124
	Value creation for Employees – our practices	125
Main associated risks and the way in which those risks are managed	The Banco Montepio Group – risk management	95
	Responsible business – risk management	121
Key performance indicators	The Banco Montepio Group – people – tables with the evolution of the Employees	22
	The Banco Montepio Group – people – charts with the distribution of Banco Montepio employees	25
	The Banco Montepio Group – people – table with indicators on training	25
	Value creation for society – our performance	132
	Value creation for Employees – human capital and training – table on training actions in 2019	124
	Value creation for Employees – our performance	126

Equality between men and women and non-discrimination Article 3 (2) of DL 89/2017 (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1) (a-e)		
Specific policies related to issues of equality between men and women and non-discrimination	Value creation for Employees – our policies and regulations	124
Results of the application of the policies	Value creation for Employees – our practices	125
Main associated risks and the way in which those risks are managed	The Banco Montepio Group – risk management	95
	Responsible business – risk management	121
Key performance indicators	The Banco Montepio Group – people – charts with the distribution of Banco Montepio employees	25
	Value creation for employees – our performance	126
Specific policies related to respect for human rights	Value creation for Employees – our policies and regulations	124
Results of the application of the policies	Value creation for Employees – our practices	125
Main associated risks and the way in which those risks are managed	The Banco Montepio Group – risk management	95
	Responsible business – risk management	121
Key performance indicators	Value creation for Employees – our performance	126
Specific policies related to the fight against corruption and attempted bribery	Responsible business – our policies	122
Results of the application of the policies	Value creation for the business – fight against corruption and attempted bribery	122
Main associated risks and the way in which those risks are managed	The Banco Montepio Group – risk management	95
	Responsible business – risk management	121
Key performance indicators	Responsible business – our performance	123
	Value creation for Employees – human capital and training – table on training actions in 2019	124

GLOSSARY

HVAC	Heating, ventilation and air conditioning
CO_2	Carbon dioxide
GJ	Gigajoule
Kg	Kilogram
Kwh	Kilowatt-hour
L	Litre
LED	Light-emiting diode
LCV	Lower calorific value
t	Ton

CONSOLIDATED FINANCIAL STATEMENTS FOR 2019

CONSOLIDATED FINANCIAL STATEMENTS FOR 2019

Banco Montepio

Consolidated Balance Sheet as at 31 December 2019 and 2018

(Euro thousand)

	2019	2018 Restated	1 January 2018 Restated
Assets			
Cash and deposits at central banks	1 003 649	1 610 635	1 733 628
Loans and deposits to credit institutions payable on demand	29 445	78 088	50 205
Other loans and advances to credit institutions	275 598	209 932	311 279
Loans and advances to customers	11 464 542	12 095 373	12 823 640
Financial assets held for trading	35 905	23 739	184 076
Financial assets at fair value through profit or loss	384 675	492 594	413 391
Financial assets at fair value through other comprehensive income	1 859 691	444 073	1 818 837
Hedging derivatives	11 148	5 666	-
Other financial assets at amortized cost	899 145	1 255 651	-
Investments in associated companies	4 439	4 282	4 097
Non-current assets held for sale	-	737 937	742 221
Non-current assets held for sale - discontinued operations	216 538	294 725	474 101
Investment properties	144 868	253 097	538 625
Other tangible assets	248 469	229 599	233 312
Intangible assets	33 839	32 326	31 371
Current tax assets	15 284	11 073	7 327
Deferred tax assets	434 665	469 023	499 055
Other assets	678 242	84 430	187 775
Total Assets	17 740 142	18 332 243	20 052 940
Liabilities			
Deposits from central banks	1 291 033	1 395 320	1 557 840
Deposits from other credit institutions	522 161	1 245 435	1 786 717
Deposits from customers	12 524 697	12 575 224	12 561 040
Debt securities issued	1 389 980	1 093 934	1 544 054
Financial liabilities held for trading	13 368	13 496	16 171
Hedging derivatives	547	-	1 663
Non-current liabilities held for sale - discontinued operations	134 429	193 995	330 392
Provisions	31 633	32 023	29 521
Current tax liabilities	1 783	10 960	5 217
Other subordinated debt	157 847	50 044	236 193
Other liabilities	220 676	204 906	370 871
Total Liabilities	16 288 154	16 815 337	18 439 679
Shareholders' Equity			
Share capital	2 420 000	2 420 000	2 420 000
Other equity instruments	6 323	6 323	6 323
Fair value reserves	809	(18 710)	17 946
Other reserves and Retained earnings	(1 008 378)	(919 841)	(863 693)
Consolidated net income for the financial year attributable to the Shareholder	21 684	13 583	
Total Equity Attributable to Shareholders	1 440 438	1 501 355	1 580 576
Non-controlling Interests	11 550	15 551	32 685
Total Shareholders' Equity	1 451 988	1 516 906	1 613 261
Total Liabilities and Shareholders' Equity	17 740 142	18 332 243	20 052 940

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

Banco Montepio

Consolidated income statement
for the financial years ended 31 December 2019 and 2018

(Euro Thousand)

	2019	2018
Interest and similar income	316 488	361 708
Interest and similar expense	79 677	113 604
Net interest income	236 811	248 104
Dividends from equity instruments	7 631	8 080
Net fee and commission income	121 540	118 399
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	8 510	12 273
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	42 269	5 626
Net gains/ (losses) arising from exchange differences	(906)	(7 000)
Net gains/ (losses) arising from sale of other financial assets	22 932	9 075
Other operating income/ (expense)	(9 304)	(17 205)
Total operating income	429 483	377 352
Staff costs	157 567	156 004
General and administrative expenses	65 489	77 726
Depreciation and amortisation	31 243	25 897
	254 299	259 627
Impairment of loans and advances	120 313	72 330
Impairment of other financial assets	9 474	2 865
Impairment of other assets	11 710	13 198
Other provisions	(400)	3 696
Operational income	34 087	25 636
Profit/ (loss) of associates under the equity method	208	252
Profit before income tax	34 295	25 888
Income Tax		
Current	(722)	963
Deferred	(22 017)	(46 119)
Profit/ (loss) after income tax from continuing operations	11 556	(19 268)
Profit/ (loss) from discontinued operations	12 625	36 156
Consolidated net profit/ (loss) after income tax	24 181	16 888
Consolidated net profit/ (loss) for the period attributable to the shareholder	21 684	13 583
Non-controlling Interests	2 497	3 305
Consolidated net profit/ (loss) for the period	24 181	16 888
Earnings per share (in Euro)		
From continuing operations		
Basic	0.005	-0.008
Diluted	0.006	-0.008
From discontinued operations	0.004	0.014
Basic	0.004	0.014
Diluted		

PROPOSAL FOR THE APLICATION OF RESULTS INDIVIDUAL BASIS

PROPOSAL FOR THE APLICATION OF RESULTS – Individual Basis

Considering the recommendations of the supervisory and regulatory authorities, the legal and statutory provisions referring to the Legal Reserve, the net income recorded by Caixa Económica Montepio Geral, caixa económica bancária, S.A. in the year of 2019 amounted to 21,683,953.56 euros on a consolidated basis and 12,970,780.28 euros on an individual basis, the Board of Directors proposes that, under the terms of paragraph f) of no. 5 of article 66, and for the purposes of paragraph b) of no. 1 of article 376 of the Commercial Companies Code, the following application is applied to the net income stated in the individual balance sheet:

(Euros)

APPLICATION OF RESULTS	AMOUNT
For Legal Reserve	1 297 078.03
To be transferred to Retained Earnings	11 673 702.25
NET INCOME OF THE YEAR ON AN INDIVIDUAL BASIS	**12 970 780.28**

BOARD OF DIRECTORS

Chairman	Carlos Manuel Tavares da Silva
Non-Executive Members	Amadeu Ferreira de Paiva Carlos Francisco Ferreira Alves José da Cunha Nunes Pereira Manuel Ferreira Teixeira Pedro Jorge Gouveia Alves Rui Pedro Brás de Matos Heitor Vítor Manuel do Carmo Martins
Executive Chairman	Pedro Manuel Moreira Leitão
Executive Vice-Chairman	Dulce Maria Pereira Cardoso Mota Jorge Jacinto
Executive Members	Helena Catarina Gomes Soares de Moura Costa Pina José Carlos Sequeira Mateus Leandro Rodrigues da Graça Silva Nuno Cardoso Correia da Mota Pinto Pedro Miguel Nunes Ventaneira

Lisbon, 30 April 2019

PART II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Banco Montepio

Consolidated income statement
for the financial years ended 31 December 2019 and 2018

(Euro Thousand)

	Notes	2019	2018
Interest and similar income	3	316 488	361 708
Interest and similar expense	3	79 677	113 604
Net interest income	3	236 811	248 104
Dividends from equity instruments	4	7 631	8 080
Net fee and commission income	5	121 540	118 399
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	6	8 510	12 273
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	7	42 269	5 626
Net gains/ (losses) arising from exchange differences	8	(906)	(7 000)
Net gains/ (losses) arising from sale of other financial assets	9	22 932	9 075
Other operating income/ (expense)	10	(9 304)	(17 205)
Total operating income		429 483	377 352
Staff costs	11	157 567	156 004
General and administrative expenses	12	65 489	77 726
Depreciation and amortisation	13	31 243	25 897
		254 299	259 627
Impairment of loans and advances	14	120 313	72 330
Impairment of other financial assets	15	9 474	2 865
Impairment of other assets	16	11 710	13 198
Other provisions	17	(400)	3 696
Operational income		34 087	25 636
Profit/ (loss) of associates under the equity method	18	208	252
Profit before income tax		34 295	25 888
Income Tax			
Current	33	(722)	963
Deferred	33	(22 017)	(46 119)
Profit/ (loss) after income tax from continuing operations		11 556	(19 268)
Profit/ (loss) from discontinued operations	61	12 625	36 156
Consolidated net profit/ (loss) after income tax		24 181	16 888
Consolidated net profit/ (loss) for the period attributable to the shareholder		21 684	13 583
Non-controlling Interests	47	2 497	3 305
Consolidated net profit/ (loss) for the period		24 181	16 888
Earnings per share (in Euro)			
From continuing operations			
Basic		0.005	-0.008
Diluted		0.006	-0.008
From discontinued operations		0.004	0.014
Basic		0.004	0.014
Diluted			

To be read with the notes attached to the Consolidated Financial Statements

Banco Montepio

Consolidated Statement of Comprehensive Income
for financial year ended 31 December 2019

(Euro thousand)

	Notes	2019 Continuing Operations	2019 Discontinued operations	2019 Total	2019 Shareholders	2019 Non-controlling interests
Items that may be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Debt instruments	45	26 807	-	26 807	26 807	-
Loans and advances to customers	45	(934)	-	(934)	(934)	-
Own credit risk	45	(13)	-	(13)	(13)	-
Taxes related to fair value changes	33	(9 934)	-	(9 934)	(9 934)	-
Exchange difference arising from the consolidation	45	-	(27 291)	(27 291)	(22 175)	(6 730)
		15 926	(27 291)	(11 365)	(6 249)	(6 730)
Items that will not be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Equity instruments	45	3 593	-	3 593	3 593	-
Actuarial gains/(losses) for the financial year	50	(77 830)	-	(77 830)	(77 830)	-
Taxes on changes in equity recorded against retained earnings	33	(2 404)	-	(2 404)	(2 404)	-
		(76 641)	-	(76 641)	(76 641)	-
Other comprehensive income/(loss) for the financial year		(60 715)	(27 291)	(88 006)	(82 890)	(6 730)
Consolidated net income for the financial year		11 556	12 625	24 181	21 684	2 497
Total consolidated comprehensive income/(loss) for the financial year		(49 159)	(14 666)	(63 825)	(61 206)	(4 233)

To be read with the notes attached to the Consolidated Financial Statements

Banco Montepio

Consolidated Statement of Comprehensive Income
for financial year ended 31 December 2018

(Euro thousand)

	Notes	2018 Continuing Operations	2018 Discontinued operations	2018 Total	2018 Shareholders	2018 Non-controlling interests
Items that may be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Debt instruments	45	(8 381)	-	(8 381)	(8 381)	-
Loans and advances to customers	45	(655)	-	(655)	(655)	-
Own credit risk	45	(142)	-	(142)	(142)	-
Taxes related to fair value changes	33	(404)	-	(404)	(404)	-
Exchange difference arising from the consolidation	45	-	(56 017)	(56 017)	(44 555)	(11 462)
Application of IAS 29 related to equity of Finibanco Angola, S.A.	61	-	9 961	9 961	7 991	1 970
		(9 582)	(46 056)	(55 638)	(46 146)	(9 492)
Items that will not be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Equity instruments	45	(27 074)	-	(27 074)	(27 074)	-
Gains from equity instruments	50	(35 411)	-	(35 411)	(35 411)	-
Disposal of Banco Terra		-	(5 038)	(5 038)	6 843	(11 881)
Taxes on changes in equity recorded against retained earnings	33	10 387	-	10 387	10 387	-
		(52 098)	(5 038)	(57 136)	(45 255)	(11 881)
Other comprehensive income/(loss) for the financial year		(61 680)	(51 094)	(112 774)	(91 401)	(21 373)
Consolidated net income/(loss) for the financial year		(140)	17 028	16 888	13 583	3 305
Total consolidated comprehensive income/(loss) for the financial year		(61 820)	(34 066)	(95 886)	(77 818)	(18 068)

To be read with the notes attached to the Consolidated Financial Statements

Banco Montepio

Banco Montepio

Consolidated Balance Sheet as at 31 December 2019 and 2018

(Euro thousand)

	Notes	2019	2018 Restated	1 January 2018 Restated
Assets				
Cash and deposits at central banks	19	1 003 649	1 610 635	1 733 628
Loans and deposits to credit institutions payable on demand	20	29 445	78 088	50 205
Other loans and advances to credit institutions	21	275 598	209 932	311 279
Loans and advances to customers	22	11 464 542	12 095 373	12 823 640
Financial assets held for trading	23	35 905	23 739	184 076
Financial assets at fair value through profit or loss	24	384 675	492 594	413 391
Financial assets at fair value through other comprehensive income	25	1 859 691	444 073	1 818 837
Hedging derivatives	26	11 148	5 666	-
Other financial assets at amortized cost	27	899 145	1 255 651	-
Investments in associated companies	28	4 439	4 282	4 097
Non-current assets held for sale	29	-	737 937	742 221
Non-current assets held for sale - discontinued operations	62	216 538	294 725	474 101
Investment properties	30	144 868	253 097	538 625
Other tangible assets	31	248 469	229 599	233 312
Intangible assets	32	33 839	32 326	31 371
Current tax assets	33	15 284	11 073	7 327
Deferred tax assets	33	434 665	469 023	499 055
Other assets	34	678 242	84 430	187 775
Total Assets		17 740 142	18 332 243	20 052 940
Liabilities				
Deposits from central banks	35	1 291 033	1 395 320	1 557 840
Deposits from other credit institutions	36	522 161	1 245 435	1 786 717
Deposits from customers	37	12 524 697	12 575 224	12 561 040
Debt securities issued	38	1 389 980	1 093 934	1 544 054
Financial liabilities held for trading	23	13 368	13 496	16 171
Hedging derivatives	26	547	-	1 663
Non-current liabilities held for sale - discontinued operations	62	134 429	193 995	330 392
Provisions	39	31 633	32 023	29 521
Current tax liabilities	-	1 783	10 960	5 217
Other subordinated debt	40	157 847	50 044	236 193
Other liabilities	41	220 676	204 906	370 871
Total Liabilities		16 288 154	16 815 337	18 439 679
Shareholders' Equity				
Share capital	42	2 420 000	2 420 000	2 420 000
Other equity instruments	43	6 323	6 323	6 323
Fair value reserves	45	809	(18 710)	17 946
Other reserves and Retained earnings	44 & 45	(1 008 378)	(919 841)	(863 693)
Consolidated net income for the financial year attributable to the Shareholder		21 684	13 583	
Total Equity Attributable to Shareholders		1 440 438	1 501 355	1 580 576
Non-controlling Interests	47	11 550	15 551	32 685
Total Shareholders' Equity		1 451 988	1 516 906	1 613 261
Total Liabilities and Shareholders' Equity		17 740 142	18 332 243	20 052 940

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

To be read with the notes attached to the Interim Consolidated Financial Statements

Banco Montepio

Consolidated Statement of Cash Flows
for financial years ended 31 December 2019 and 2018

(Euro thousand)

	2019	2018
Cash from operating activities		
Interest income received	295 733	327 931
Fee and commission income received	146 979	145 590
Interest expense paid	(68 567)	(126 827)
Fee and commission expense paid	(26 508)	(30 546)
Costs with staff and suppliers	(274 051)	(261 437)
Recovery of loans and interest	7 785	11 164
Other payments and receivables	(9 829)	(73 888)
Income tax payment	(14 110)	(4 163)
	57 432	(12 176)
(Increases)/Decreases in operating assets		
Loans and advances to credit institutions and customers	458 178	756 144
Deposits held for monetary control purposes	606 919	138 663
(Purchase)/Sale of financial assets held for trading	(7 411)	153 106
(Purchase)/Sale of financial assets at fair value through profit or loss	(365 418)	(7 802)
(Purchase)/Sale of financial assets at fair value through other comprehensive income	(973 153)	1 421 608
Interest received from financial assets at fair value through other comprehensive income	(1 240)	-
(Purchase)/Sale of hedging derivatives	3 193	3 209
(Purchase)/Sale of other assets at amortized cost	367 330	(1 257 945)
Other assets	197 056	29 255
	285 454	1 236 238
Increases/(decreases) in operating liabilities		
Deposits from customers	(44 140)	32 889
Deposits from credit institutions	(722 920)	(540 893)
Deposits from central banks	(100 000)	(150 000)
	(867 060)	(658 004)
	(524 174)	566 058
Cash from investing activities		
Non-current assets/liabilities held for sale - discontinued operations	23 377	87 378
Dividends received	7 631	8 080
Purchase of fixed assets and investment properties	(21 790)	(23 006)
Sale of fixed assets and investment properties	82 334	49 831
	91 552	122 283
Cash from financing activities		
Dividends paid	(2 002)	(2 792)
Other equity instruments	(321)	(322)
Issuance of cash bonds and subordinated debt (notes 38 & 40)	600 000	50 000
Repayment of cash bonds and subordinated debt (notes 38 & 40)	(202 884)	(684 654)
Finance lease agreements	(9 961)	-
	384 832	(637 768)
Effects of exchange rate changes on cash and cash equivalents	(906)	(7 000)
Net change in cash and cash equivalents	(48 696)	43 573
Cash and cash equivalents at the beginning of the financial year		
Cash (note 19)	194 597	178 927
Loans and deposits to credit institutions payable on demand (note 20)	78 074	50 185
	272 671	229 112
Cash and cash equivalents at the end of the financial year		
Cash (note 19)	194 530	194 597
Loans and deposits to credit institutions payable on demand (note 20)	29 445	78 088
	223 975	272 685

To be read with the notes attached to the Interim Consolidated Financial Statements

Banco Montepio

Consolidated Statement of Changes in Equity
for financial years ended 31 December 2019 and 2018

(Euro thousand)

	Share capital (note 42)	Other equity instruments (note 43)	Fair value reserves (note 45)	General and Legal reserves (note 44)	Retained earnings (note 45)	Consolidated net income/ (loss) for the financial year	Equity attributable to Shareholders	Non-controlling interests (note 47)	Total Shareholders' Equity
Balances as of 31 December 2017	**2 420 000**	**6 323**	**27 924**	**186 000**	**(916 598)**	**6 437**	**1 730 086**	**32 835**	**1 762 921**
Impact of transition to IFRS 9									
Gross value	-	-	(15 869)	-	(136 515)	-	(152 384)	(150)	(152 534)
Taxes	-	-	5 891	-	18 080	-	23 971	-	23 971
Balances as of 1 January 2018	**2 420 000**	**6 323**	**17 946**	**186 000**	**(1 035 033)**	**6 437**	**1 601 673**	**32 685**	**1 634 358**
Impact of transition to IFRS 9 - restated									
Gross value	-	-	-	-	(30 181)	-	(30 181)	-	(30 181)
Taxes	-	-	-	-	9 084	-	9 084	-	9 084
	-	**-**	**-**	**-**	**(21 097)**	**-**	**(21 097)**	**-**	**(21 097)**
Balances as of 1 January 2018 restated	**2 420 000**	**6 323**	**17 946**	**186 000**	**(1 056 130)**	**6 437**	**1 580 576**	**32 685**	**1 613 261**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(44 554)	-	(44 554)	(11 462)	(56 016)
Appropriation to retained earnings of net income of the previous financial year	-	-	-	-	6 437	(6 437)	-	-	-
Remeasurements in the financial year (note 50)	-	-	-	-	(35 411)	-	(35 411)	-	(35 411)
Taxes related to changes in equity recorded against retained earnings (note 33)	-	-	-	-	10 387	-	10 387	-	10 387
Changes in fair value (note 45)	-	-	(36 252)	-	-	-	(36 252)	-	(36 252)
Taxes on changes in fair value (notes 33 and 45)	-	-	(404)	-	-	-	(404)	-	(404)
IAS 29 impact related to the equity of Finibanco Angola S.A. (note 62)	-	-	-	-	7 991	-	7 991	1 970	9 961
Disposal of BTM	-	-	-	-	6 843	-	6 843	(11 881)	(5 038)
Consolidated net income for the financial year	-	-	-	-	-	13 583	13 583	3 305	16 888
Total comprehensive income/(loss) for the financial year	-	-	(36 656)	-	(48 307)	7 146	(77 817)	(18 068)	(95 885)
Change in the consolidation perimeter	-	-	-	-	(158)	-	(158)	799	641
Financial costs related to the issue of perpetual subordinated debt	-	-	-	-	(322)	-	(322)	-	(322)
Legal reserve	-	-	-	5 767	(5 767)	-	-	-	-
Reserves realized	-	-	-	-	235	-	235	-	235
Dividends paid	-	-	-	-	(1 669)	-	(1 669)	(1 123)	(2 792)
Other consolidation reserves	-	-	-	-	510	-	510	1 258	1 768
Balances as of 31 December 2018 restated	**2 420 000**	**6 323**	**(18 710)**	**191 767**	**(1 111 608)**	**13 583**	**1 501 355**	**15 551**	**1 516 906**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(20 561)	-	(20 561)	(6 730)	(27 291)
Appropriation to retained earnings of net income of the previous financial year	-	-	-	-	13 583	(13 583)	-	-	-
Remeasurements in the financial year (note 50)	-	-	-	-	(77 830)	-	(77 830)	-	(77 830)
Taxes related to changes in equity recorded against retained earnings (note 33)	-	-	-	-	(2 404)	-	(2 404)	-	(2 404)
Changes in fair value (note 45)	-	-	29 453	-	-	-	29 453	-	29 453
Taxes on changes in fair value (notes 33 and 45)	-	-	(9 934)	-	-	-	(9 934)	-	(9 934)
Consolidated net income for the financial year	-	-	-	-	-	21 684	21 684	2 497	24 181
Total comprehensive income/(loss) for the financial year	-	-	19 519	-	(87 212)	8 101	(59 592)	(4 233)	(63 825)
Financial costs related to the issue of perpetual subordinated debt	-	-	-	-	(321)	-	(321)	-	(321)
Legal reserve	-	-	-	202	(202)	-	-	-	-
Reserves realized	-	-	-	-	25	-	25	-	25
Dividends paid	-	-	-	-	(1 147)	-	(1 147)	(776)	(1 923)
Other consolidation reserves	-	-	-	-	118	-	118	1 008	1 126
Balances as of 31 December 2019	**2 420 000**	**6 323**	**809**	**191 969**	**(1 200 347)**	**21 684**	**1 440 438**	**11 550**	**1 451 988**

To be read with the notes attached to the Consolidated Financial Statements

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter “Banco Montepio”) is a credit institution, with registered office at Rua Castilho, no. 5, 1250-066, Lisbon, majority held by Montepio Geral Associação Mutualista (hereinafter “MGAM”), incorporated on 24 March 1844. It is authorized to operate in accordance with Decree-Laws no. 298/92, of 31 December, and no. 136/79, of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, Banco Montepio is authorized to perform banking operations in addition to those mentioned in its by-laws, if previously authorized by the Bank of Portugal. This fact leads to the practice of banking operations in general.

On 10 September 2015, Decree-Law no. 190/2015 was published, introducing amendments in the Legal Framework of Credit Institutions and Financial Companies and in the Mutual Association Code. Following the publication of this Decree-Law, Banco Montepio changed its classification to “caixa económica bancária”.

On 14 September 2017, the by-laws deed was executed, transforming Caixa Económica Montepio Geral into a public limited company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

The financial statements of Banco Montepio are consolidated in the financial statements of MGAM.

The following entities integrate the Group:

Montepio Holding, S.G.P.S, S.A.

Montepio Holding is the central entity of a group of companies offering a range of financial products and services to companies and investors, institutional and individuals.

Montepio Holding, S.G.P.S holds financial shareholdings of 100% of the share capital and voting rights of Montepio Investimento, S.A., Montepio Crédito – Instituição Financeira de Crédito, S.A., Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A. and Ssagincentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. and a shareholding of 80.22% in Finibanco Angola, S.A.

The various investees of Montepio Holding thus develop a varied set of activities, including the banking activity as well as asset management, the rendering of complementary financial services in the insurance, specialized consumer credit and long-term rental areas.

Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A.

Banco Montepio Geral Cabo Verde makes available to its customers a specialized product and service offer, varied investment and savings solutions, as well as capital and treasury management solutions.

Finibanco Angola, S.A.

Finibanco Angola obtains third-party funds in the form of deposits or other, which it applies, together with its own funds, in the granting of loans, in deposits at Banco Nacional de Angola, in loans and advances to credit institutions, on the acquisition of securities and other assets, activities which it is duly authorized to carry out. Finibanco Angola also renders other banking services and realizes various types of foreign-currency operations.

Montepio Crédito – Instituição Financeira de Crédito, S.A.

Montepio Crédito – Instituição Financeira de Crédito, S.A. (Montepio Crédito), 100% controlled by Montepio Holding, SGPS that, in turn, is 100% held by Banco Montepio, handles the specialized credit offer in the automobile, home and services, and equipment sectors, complemented by a number of solutions intended for individuals, companies and institutions of the Social Economy sectors. The specialized credit segment highlights one of the cornerstones of the Banco Montepio Group's Transformation Plan, reflecting the focus on consumer credit.

As a result of the repositioning carried out at the level of the Banco Montepio Group and the strong, solid relationship established with its partners, based on the experience acquired over the years, Montepio Crédito developed its offer of specialized credit solutions in the following areas: Automobile, Health, Automobile Repairs, Telecommunications and Furniture, for the retail segment; and Logistics, Water, Transport, Energy, Energy Efficiency and Industry, for the corporate segment.

Banco Empresas Montepio

Montepio Investimento, S.A., a bank 100% controlled by Montepio Holding, SGPS that, in turn, is 100% held by Banco Montepio, continued, in 2019, an intervention geared towards Investment Banking, with the objective of complementing the Group's offer of products and services. On 4 June 2019, it adopted the trade name Banco de Empresas Montepio, and started carrying out, in an integrated manner, the activities of Commercial Banking (for companies with a turnover exceeding Euro 20 million) and Investment Banking, with its activity extending to the areas of Corporate Finance, Capital Markets, Structured Financing, Financial Advisory Services and Corporate and Information Studies. In the area of commercial banking, the development of business areas related to the international trade, factoring and treasury management of companies is also noteworthy.

Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A.

Montepio Valor has as its corporate object the management of real estate investment funds, of note being Valor Prime (Fundo Aberto), three residential leasing funds ("FIIAH") and various closed funds for subscription by individuals.

Ssagincentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.

Ssagincentive has as its object the trading and management of real estate, as well as the management and acquisition for resale of real estate acquired by Group companies as a result of the recovery of credit granted by same.

Ssagincentive is also responsible for the acquisition for management or resale of real estate under litigation initiated by Group companies.

Montepio Gestão de Activos Imobiliários, ACE

Montepio Gestão de Activos Imobiliários has as its object the realization of the integrated management of the entire real estate asset portfolio of the Group.

H.T.A. – Hotéis, Turismo e Animação dos Açores, S.A

H.T.A. has as its main activity the promotion, realization, exploration and management of any tourism activities and investments, including the construction, remodelling and exploration of hotel, casino and gaming house units, the exploration of games of chance, the acquisition of real estate for resale, the import and export of goods, the explorations of spas, as well as all remaining activities related to those previously referred.

CESource

The purpose of this Grouping is to provide specialized services in the area of information technologies, contributing, through the optimization of such management, to the improvement of the conditions and means of the exercise or result of the economic activities of the members of this Grouping.

The remining entities of the consolidation perimeter are disclosed in note 61.

1 Accounting policies

a) Bases of presentation

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Council, of 19 July and Regulation no. 5/2015 of the Bank of Portugal, of 7 December, Banco Montepio Group's (hereinafter "Group") consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. The Group adopted in the preparation of the consolidated financial statements as at 31 December 2019 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2019.

The consolidated financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 30 April 2020 and shall be submitted to the General Meeting that has the power to change them. However, it is the opinion of the Board of Directors of Banco Montepio that these will be approved without significant changes. The consolidated financial statements are presented in Euro, rounded to the nearest thousand.

All references made to standards in this document relate to the respective version in force.

The financial statements were prepared on the going concern basis under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income. Financial assets and liabilities that are classified under hedge accounting are stated at fair value in respect of the risk that is being hedged.

The preparation of the financial statements in accordance with IFRS requires the Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. The associated estimates and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about the book values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The main estimates and assumptions involving a higher degree of judgment or complexity or where assumptions and estimates are considered to be significant are presented in the accounting policy described in note 1 aa).

Comparability of information

The Group adopted IFRS and interpretations of mandatory application for periods beginning on or after 1 January 2019, as described in note 56. The accounting policies have been applied consistently by all Group entities, and are consistent with those used in the preparation of the financial statements of the previous financial year, except for changes arising from IFRS 16 - Leases, effective as from 1 January 2019, which established new requirements regarding the scope, classification/recognition and measurement of leases.

On 1 January 2019, the Group realized a survey of existing contracts and used the practical expedient provided for in the standard, i.e. it only applied the standard to contracts that were previously identified as leases under IAS 17 - Leases and IFRIC 4 – Determining whether an arrangement contains a lease.

In accordance with IFRS 16, the Group applied this standard retrospectively with the impacts of the transition being recognized on 1 January 2019. Accordingly, the comparative information has not been restated.

Using the practical expedient available in the transition to IFRS 16, the Group recognized a liability corresponding to the present value of the future payments, using an incremental rate at the initial date of application of the standard, and the right-of-use of the underlying asset at the amount of the lease liability.

The impacts arising from the implementation of IFRS 16 as at 1 January 2019, as well as the reconciliation between balance sheet balances as at 31 December 2018 and balance sheet balances as at 1 January 2019, in accordance with IFRS 16, are detailed in note 58. The balances included in the financial statements as at 31 December 2018 are presented solely for comparative purposes.

Restatement of consolidated financial statements of previous periods

Impairment of the loans and advances to customers' portfolio

During 2019, following the adoption of IFRS 9 in the previous financial year, the Group revisited the models and procedures associated with the determination of impairment of the loans and advances portfolio. In this context, the procedures developed for model validation allowed it to identify a number of significant aspects that determined the need to review the models and methodologies implemented to assess impairment, including, in particular, the components of significant increase in credit risk, exposure at default (EAD) and loss given default (LGD).

The results obtained from this review determined the need for the Group to restate the consolidated financial statements with reference to 1 January 2018 and to 31 December 2018 to correct errors of previous periods, as defined in paragraph 5 of IAS 8, namely related to the accuracy of the mathematical approaches and the adequacy on the application of the accounting policies arising from IFRS 9. The consolidated statement of changes in equity and the consolidated balance sheet on 1 January 2018 and the consolidated statements of income, comprehensive income and changes in equity for financial year ended 31 December 2018, presented for comparative purposes, have been restated in accordance with IFRS.

In the scope of this review, impacts with accounting relevance on equity as at 1 January 2018 and also in the income statement for financial years 2018 and 2019 were determined.

The effects, on the consolidated balance sheet as at 1 January 2018 and as at 31 December 2018, of those impacts can be presented as follows:

(Euro thousand)

	31 December 2018	Impact of restatement	31 December 2018 restated	31 December 2017	Impact of IFRS 9	1 January 2018	Impact of restatement	1 January 2018 restated
Assets								
Cash and deposits at central banks	1 610 635	-	1 610 635	1 733 628	-	1 733 628	-	1 733 628
Loans and deposits to credit institutions payable on demand	78 088	-	78 088	50 205	-	50 205	-	50 205
Other loans and advances to credit institutions	209 932	-	209 932	312 203	(924)	311 279	-	311 279
Loans and advances to customers	12 123 212	(27 839)	12 095 373	12 996 529	(144 189)	12 852 340	(28 700)	12 823 640
Financial assets held for trading	23 739	-	23 739	184 076	-	184 076	-	184 076
Financial assets at fair value through profit or loss	492 594	-	492 594	414 845	(1 454)	413 391	-	413 391
Financial assets at fair value through other comprehensive income	444 073	-	444 073	1 818 837	-	1 818 837	-	1 818 837
Hedging derivatives	5 666	-	5 666	-	-	-	-	-
Other financial assets at amortized cost	1 255 651	-	1 255 651	-	-	-	-	-
Investments in associated companies	4 282	-	4 282	4 097	-	4 097	-	4 097
Non-current assets held for sale	737 937	-	737 937	742 221	-	742 221	-	742 221
Non-current assets held for sale - discontinued operations	294 725	-	294 725	474 475	(374)	474 101	-	474 101
Investment properties	253 097	-	253 097	538 625	-	538 625	-	538 625
Other tangible assets	229 599	-	229 599	233 312	-	233 312	-	233 312
Intangible assets	32 326	-	32 326	31 371	-	31 371	-	31 371
Current tax assets	11 073	-	11 073	7 327	-	7 327	-	7 327
Deferred tax assets	460 268	8 755	469 023	466 000	23 971	489 971	9 084	499 055
Other assets	84 430	-	84 430	192 273	(4 498)	187 775	-	187 775
Total Assets	18 351 327	(19 084)	18 332 243	20 200 024	(127 468)	20 072 556	(19 616)	20 052 940
Liabilities								
Deposits from central banks	1 395 320	-	1 395 320	1 557 840	-	1 557 840	-	1 557 840
Deposits from other credit institutions	1 245 435	-	1 245 435	1 786 717	-	1 786 717	-	1 786 717
Deposits from customers	12 575 224	-	12 575 224	12 561 040	-	12 561 040	-	12 561 040
Debt securities issued	1 093 934	-	1 093 934	1 544 054	-	1 544 054	-	1 544 054
Financial liabilities held for trading	13 496	-	13 496	16 171	-	16 171	-	16 171
Hedging derivatives	-	-	-	1 663	-	1 663	-	1 663
Non-current liabilities held for sale - discontinued operations	193 995	-	193 995	330 392	-	330 392	-	330 392
Provisions	31 080	943	32 023	27 096	944	28 040	1 481	29 521
Current tax liabilities	10 960	-	10 960	5 217	-	5 217	-	5 217
Other subordinated debt	50 044	-	50 044	236 193	-	236 193	-	236 193
Other liabilities	204 906	-	204 906	370 720	151	370 871	-	370 871
Total Liabilities	16 814 394	943	16 815 337	18 437 103	1 095	18 438 198	1 481	18 439 679
Shareholders' Equity								
Share capital	2 420 000	-	2 420 000	2 420 000	-	2 420 000	-	2 420 000
Other equity instruments	6 323	-	6 323	6 323	-	6 323	-	6 323
Fair value reserves	(18 710)	-	(18 710)	17 946	-	17 946	-	17 946
Other reserves and Retained earnings	(898 743)	(21 098)	(919 841)	(714 184)	(128 412)	(842 596)	(21 097)	(863 693)
Consolidated net income for the financial year	12 512	1 071	13 583	-	-	-	-	-
attributable to the Shareholder			-	-	-	-		-
Total Equity Attributable to Shareholders	1 521 382	(20 027)	1 501 355	1 730 085	(128 412)	1 601 673	(21 097)	1 580 576
Non-controlling Interests	15 551	-	15 551	32 836	(151)	32 685	-	32 685
Total Shareholders' Equity	1 536 933	(20 027)	1 516 906	1 762 921	(128 563)	1 634 358	(21 097)	1 613 261
Total Liabilities and Shareholders' Equity	18 351 327	(19 084)	18 332 243	20 200 024	(127 468)	20 072 556	(19 616)	20 052 940

The effects on the consolidated income statement as at 31 December 2018 of those impacts can be presented as follows:

(Euro thousand)

	31 December 2018	Impact of restatement	31 December 2018 restated
Interest and similar income	361 708	-	361 708
Interest and similar expense	113 604	-	113 604
Net interest income	248 104	-	248 104
Dividends from equity instruments	8 080	-	8 080
Net fee and commission income	118 399	-	118 399
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	12 273	-	12 273
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	5 626	-	5 626
Net gains/(losses) arising from exchange differences	(7 000)	-	(7 000)
Net gains/(losses) arising from sale of other financial assets	9 075	-	9 075
Other operating income/(expense)	(17 205)	-	(17 205)
Total operating income	377 352	-	377 352
Staff costs	156 004	-	156 004
General and administrative expenses	77 726	-	77 726
Depreciation and amortization	25 897	-	25 897
	259 627	-	259 627
Impairment of loans and advances	73 191	(861)	72 330
Impairment of other financial assets	2 865	-	2 865
Impairment of other assets	13 198	-	13 198
Other provisions	4 234	(538)	3 696
Operating income	24 237	1 399	25 636
Profits/(loss) of associates under the equity method	252	-	252
Profit/(loss) before income tax	24 489	1 399	25 888
Income Tax			
Current	963	-	963
Deferred	(45 791)	(328)	(46 119)
Income/(loss) after income tax from continuing operations	(20 339)	1 071	(19 268)
Income/(loss) from discontinued operations	36 156	-	36 156
Consolidated net income after income tax	15 817	1 071	16 888
Consolidated net income for the financial year attributable to the shareholders	12 512	1 071	13 583
Non-controlling Interests	3 305	-	3 305
Consolidated net income for the financial year	15 817	1 071	16 888

The effects on the consolidated statement of changes in equity as at 31 December 2018, of those impacts can be presented as follows:

(Euro thousand)

	Share capital	Other equity instruments	Fair value reserves	General and Legal reserves	Retained earnings	Consolidated net income/ (loss) for the financial year	Equity attributable to Shareholders	Non-controlling interests	Total Shareholders' Equity
Balances on 1 January 2018	**2 420 000**	**6 323**	**27 924**	**186 000**	**(916 598)**	**6 437**	**1 730 086**	**32 835**	**1 762 921**
Impact of transition to IFRS 9					-				
Gross value	-	-	(15 869)	-	(136 515)	-	(152 384)	(151)	(152 535)
Taxes	-	-	5 891	-	18 081	-	23 972	-	23 972
Balances on 1 January 2018	**2 420 000**	**6 323**	**17 946**	**186 000**	**(1 035 032)**	**6 437**	**1 601 674**	**32 684**	**1 634 358**
Impact of transition to IFRS 9 - restated					-				
Gross value	-	-	-	-	(30 181)	-	(30 181)	-	(30 181)
Taxes	-	-	-	-	9 084	-	9 084	-	9 084
	-	**-**	**-**	**-**	**(21 097)**	**-**	**(21 097)**	**-**	**(21 097)**
Balances on 1 January 2018 restated	**2 420 000**	**6 323**	**17 946**	**186 000**	**(1 056 129)**	**6 437**	**1 580 577**	**32 684**	**1 613 261**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(44 554)	-	(44 554)	(11 462)	(56 016)
Appropriation to retained earnings of net income of the previous financial year	-	-	-	-	6 437	(6 437)	-	-	-
Remeasurements in the financial year	-	-	-	-	(35 411)	-	(35 411)	-	(35 411)
Taxes related to changes in equity recorded against retained earnings (note 33)	-	-	-	-	10 387	-	10 387	-	10 387
Changes in fair value	-	-	(36 252)	-	-	-	(36 252)	-	(36 252)
Taxes on changes in fair value	-	-	(404)	-	-	-	(404)	-	(404)
IAS 29 impact related to the equity of Finibanco Angola S.A.	-	-	-	-	7 991	-	7 991	1 970	9 961
Disposal of BTM	-	-			6 843		6 843	(11 881)	(5 038)
Consolidated net income for the financial year	-	-	-	-	-	13 583	13 583	3 305	16 888
Total comprehensive income/(loss) for the financial year	-	-	(36 656)	-	(48 307)	7 146	(77 817)	(18 068)	(95 885)
Change in the consolidation perimeter	-	-	-	-	(158)	-	(158)	799	641
Financial costs related to the issue of perpetual subordinated debt	-	-	-	-	(322)	-	(322)	-	(322)
Legal reserve	-	-	-	5 767	(5 767)	-	-	-	-
Reserves realized	-	-	-	-	235	-	235	-	235
Dividends paid	-	-	-	-	(1 669)	-	(1 669)	(1 123)	(2 792)
Other consolidation reserves	-	-	-	-	510	-	510	1 258	1 768
Balances on 31 December 2018 restated	2 420 000	6 323	(18 710)	191 767	(1 111 607)	13 583	1 501 356	15 550	1 516 906

The effects on the consolidated statement of comprehensive income as at 31 December 2018, of those impacts can be presented as follows:

(Euro thousand)

	31 December 2018				
	Continuing Operations	**Discontinued operations**	**Total**	**Shareholders**	**Non-controlling interests**
Items that may be reclassified to the Income Statement					
Fair value reserves					
Financial assets at fair value through other comprehensive income and loans and advances to customers					
Debt instruments	(8 381)	-	(8 381)	(8 381)	-
Loans and advances to customers	(655)	-	(655)	(655)	-
Own credit risk	(142)	-	(142)	(142)	-
Taxes related to fair value changes	(404)	-	(404)	(404)	-
Exchange difference arising from the consolidation	-	(56 017)	(56 017)	(44 555)	(11 462)
Application of IAS 29 related to equity of Finibanco Angola, S.A.	-	9 961	9 961	7 991	1 970
	(9 582)	(46 056)	(55 638)	(46 146)	(9 492)
Items that will not be reclassified to the Income Statement					
Fair value reserves					
Financial assets at fair value through other comprehensive income and loans and advances to customers					
Equity instruments	(27 074)	-	(27 074)	(27 074)	-
Gains from equity instruments	(35 411)	-	(35 411)	(35 411)	-
Disposal of Banco Terra	-	(5 038)	(5 038)	6 843	(11 881)
Taxes on changes in equity recorded against retained earnings	10 387	-	10 387	10 387	-
	(52 098)	(5 038)	(57 136)	(45 255)	(11 881)
Other comprehensive income/(loss) for the financial year	(61 680)	(51 094)	(112 774)	(91 401)	(21 373)
Consolidated net income/(loss) for the financial year	(1 211)	17 028	15 817	12 512	3 305
Total consolidated comprehensive income/(loss) for the financial year	(62 891)	(34 066)	(96 957)	(78 889)	(18 068)
Adjustment to Consolidated net income for the financial year	1 071	-	1 071	1 071	-
Total consolidated comprehensive income/(loss) for the financial year restated	(61 820)	(34 066)	(95 886)	(77 818)	(18 068)

b) Bases of consolidation

The consolidated financial statements now presented reflect the assets, liabilities, income and expenses of Banco Montepio and its subsidiaries (“Group”), and the results attributable to the Group in respect of its financial investments in associated companies, as well as the book value of these financial investments measured under the equity method, for the financial years ended 31 December 2019 and 2018.

Subsidiaries

Subsidiaries are entities (including investment funds and securitization vehicles) controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns derived from its involvement with this entity, can appropriate these through the power it holds over the entity’s relevant activities (de facto control) and has the ability to allocate these variable returns through the power it holds over the entity’s relevant activities. As established in IFRS 10, the Group analyses the objective and the structuring of the manner the operations of an entity are developed in evaluating the control over same. The financial statements of the subsidiaries are consolidated by the full consolidation method as from the moment the Group acquires control until the moment that control ceases. The interests of third parties in these companies are presented in the caption Non-controlling interests.

Accumulated losses are attributed to non-controlling interests in the respective proportion, implying that the Group can recognize negative non-controlling interests.

In a step acquisition process resulting in the acquisition of control, the revaluation of any shareholding (elsewhere in this document also referred to as “investment” or “interest”) previously acquired is booked against the income statement when the goodwill is calculated. On a partial disposal resulting in loss of control over a subsidiary, the shareholding retained is revalued at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

Subsidiaries' accounting policies are changed, whenever necessary, to ensure that these are consistently applied by all Group companies.

Associated companies

Associated companies are accounted for under the equity method as from the date the Group acquires significant influence until the date it ceases to have such influence. Associated companies are entities in respect of which the Group has significant influence, but not control, over the financial and operating policy decisions of the investee. It is assumed that the Group has significant influence when it holds, directly or indirectly, 20% or more of the voting rights of the investee. If the Group holds, directly or indirectly, less than 20% of the voting rights of the investee, it is presumed that the Group does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence being held by the Group is usually evidenced by at least one of the following facts:

1. representation on the Board of Directors or equivalent management body of the investee;
2. participation in policy-making processes, including participation in decisions involving dividends or other distributions;
3. material transactions between the Group and the investee;

4. interchange of management personnel; and

5. provision of essential technical information.

The consolidated financial statements include the part that is attributable to the Group of the total reserves and results of the associated companies accounted for under the equity method. In applying the equity method, unrealized gains or losses on transactions between the Group and its associated companies are eliminated. Dividends attributed by the associated companies are deducted from the investment amount in the consolidated balance sheet. Associated companies' accounting policies are changed, whenever necessary, to ensure that these are consistently applied by all Group companies. When the Group's share of attributable losses exceeds its interest in an associated company, the book value of the investment, including any medium- or long-term interest in that associated company, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred in a legal or constructive obligation to assume these losses on behalf of an associated company.

Special purpose entities

The Group consolidates by the full consolidation method certain special purpose entities, namely vehicles and funds created as part of securitization operations, set up specifically to fulfil a narrow and well-defined objective, when the substance of the relationship with such entities indicates that the Group exercises control over their activities, i.e. when it holds most of the risks and rewards associated with their activities, namely through bonds issued with a greater degree of subordination.

Goodwill

Business combinations are recorded using the purchase method. The acquisition cost corresponds to the fair value, determined at the purchase date, of the assets transferred and the liabilities incurred or assumed. Costs directly related to the acquisition of a subsidiary are recognized directly in the income statement. The positive goodwill that results from acquisitions is recognized as an asset and carried at acquisition cost, not being subject to amortization. Goodwill arising on the acquisition of shareholdings in subsidiaries and associated companies is defined as the difference between the total value or the cost of the acquisition and the total or corresponding share of the fair value of the assets, liabilities and contingent liabilities of the investee, respectively, depending on the option taken. When at the date of acquisition of control the Group already holds a previously acquired shareholding, the fair value of such shareholding contributes to the determination of the goodwill or badwill. Negative goodwill arising on an acquisition is recognized directly in the income statement in the financial year the business combination occurs. The recoverable amount of the goodwill is assessed annually, regardless of the existence of any impairment triggers. Impairment losses determined are recognized in the income statement for the financial year. The recoverable amount is determined based on the highest between the value in use of the assets and their fair value less costs to sell, calculated using valuation methodologies supported by discounted cash-flow techniques, considering market conditions, the time value of money and the business risks. Goodwill is allocated to the cash-generating units to which it belongs for the purpose of carrying out impairment tests, which are performed at least once a year. Goodwill impairment losses are not reversible. When the Group reorganizes its activity, implying a change in the composition of its cash-generating units, to which goodwill has been allocated, the allocation of the goodwill to the new cash-generating units is revised whenever there is a rationale for such. The reallocation is made applying a relative fair value approach, of the new cash-generating units resulting from the reorganization. Goodwill is not adjusted in function of the final determination of the contingent purchase price paid, with such difference being booked in the income statement, or reserves if applicable, when the determination of the final contingent price occurs 1 year after the acquisition of control of the business, or if the determination of this price occurs less than 1 year after the referred date, when the adjustments relate to information obtained in respect of facts occurring after the date of the acquisition.

Acquisition and dilution of non-controlling interests

The acquisition of non-controlling interests that does not impact the control position of a subsidiary is accounted for as a transaction with shareholders and, as such, additional goodwill resulting from this transaction is not recognized. The difference between the acquisition cost and the fair value of the non-controlling interests acquired is recognized directly in reserves. Likewise, the gains and losses resulting from the sale of non-controlling interests, that does not impact the control position of a subsidiary, are always recognized against reserves.

Loss of control

The gains and losses resulting from the dilution or sale of part of a shareholding in a subsidiary, with loss of control, are recognized by the Group in the income statement.

On dilutions of controlling interests not resulting in a loss of control, the difference between the acquisition cost and the fair value of the non-controlling interests acquired is recognized against reserves.

Investments in foreign subsidiaries and associated companies

The financial statements of the foreign subsidiaries and associated companies of the Group are prepared in their functional currency, defined as the currency of the primary economic environment in which they operate or the currency in which the subsidiaries obtain their income or finance their activity. In the consolidation process, assets and liabilities, including goodwill, of foreign subsidiaries not considered as having a functional currency of a hyperinflationary economy, are converted into Euro at the official exchange rate in force at the balance sheet date.

If the functional currency of a foreign subsidiary is the currency of a hyperinflationary economy, then its financial statements are first adjusted to reflect the purchasing power as at the current balance sheet date and then converted into the reporting currency using the exchange rate in force as at the current balance sheet date.

Hence, non-monetary items are updated at the end of the reporting period through the application of a general price index, as from the acquisition date or the last revaluation date, whichever occurred most recently. Income and expense items, including other comprehensive income, are also updated, with the gain or loss on the net monetary position being calculated, and reflecting the gain or loss on the net monetary position of the foreign subsidiary.

As at 31 December 2018, for Angola, the inflation rate accumulated in the past three years came close to 100%, which corresponds to an objective quantitative condition, in addition to the existence of other conditions set forth in IAS 29, implying that the functional currency of Finibanco Angola, S.A.'s financial statements as at that date corresponds to the currency of a hyperinflationary economy, as was also the case as at 31 December 2017, as per note 62. Accordingly, the financial statements of Finibanco Angola, S.A. were adjusted by the inflation indices, before being transposed into the Group's presentation currency and before their integration in the consolidation, with: i) the amounts of the non-monetary balance sheet items of Finibanco Angola, S.A., at cost or cost less depreciation being restated by applying the general price index in Angola; and ii) the loss on the net monetary position being included in the net result of Montepio.

During financial year ended 31 December 2019, the conditions set out in IAS 29 for qualifying the Angolan economy as hyperinflationary were not met. The end of the application of IAS 29 is the result of an inflation rate in Angola at the end of 2019 of 16.9% and an accumulated inflation rate in the last three years lower than 100%. Thus, the Group ceased to apply the inflation indices with reference to 1 January 2019.

Regarding shareholdings in foreign currency that are consolidated in the Group accounts under the full consolidation and equity methods, the exchange differences between the conversion to Euro of the opening net assets at the beginning of the period and their value in Euro at the exchange rate ruling at the balance sheet date to which the consolidated accounts relate, are charged against reserves – exchange differences. Exchange differences resulting from hedging instruments related to shareholdings in foreign currency are booked in reserves resulting from those financial shareholdings. Whenever the hedge is not fully effective, the ineffective portion is accounted for in the income statement for the financial year.

The income and expenses of these investees are converted to Euro at an approximate rate to the rates ruling as at the dates of the transactions. Exchange differences resulting from the conversion to Euro of the results for the financial year, arising from the difference between the exchange rate used in the income statement and the exchange rate prevailing at the balance sheet date, are recognized in reserves - exchange differences.

On the disposal of financial shareholdings in foreign subsidiaries resulting in loss of control, the exchange differences related to the financial shareholding in the foreign operation and to the associated hedging operation previously recognized in reserves, are transferred to profit or loss as part of the gain or loss arising from the disposal.

Balances and transactions eliminated on consolidation

Intragroup balances and transactions, as well as any unrealized gains and losses arising from these transactions, are eliminated in the preparation of the consolidated financial statements. Unrealized gains and losses arising from transactions with associated companies and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

c) Financial instruments – IFRS 9

c.1) Classification of financial assets

The Group classifies its financial assets into one of the following valuation categories:

- Financial assets at amortized cost;
- Financial assets at fair value through other comprehensive income;
- Financial assets at fair value through profit or loss.

The classification requirements for debt and equity instruments are as follows:

c.1.1) *Debt instruments*

Debt instruments are instruments that meet the definition of financial liability from the issuer's perspective, such as loans, public and private bonds, and accounts receivable acquired from customers with non-recourse factoring contracts.

The classification and subsequent valuation of these instruments in the previous categories is based on the following two elements:

- the Group's business model for financial asset management, and
- the characteristics of the contractual cash flows from the financial assets.

Based on these elements, the Group classifies its debt instruments for valuation purposes into one of the following three categories:

a) Financial assets at amortized cost, when the following two conditions are met:
   - they are managed under a business model which objective is the holding of financial assets to receive contractual cash flows, and
   - the contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the principal outstanding.

   In addition to debt instruments managed based on a business model which purpose is to receive their contractual cash flows, which are recorded in the caption Other financial assets at amortized cost, the category of financial assets at amortized cost also includes Loans and advances to other credit institutions and Loans and advances to customers.

b) Financial assets at fair value through other comprehensive income, when the following two conditions are met:
   - they are managed under a business model which purpose combines the receipt of contractual cash flows from financial assets and their sale, and
   - the contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the principal outstanding.

c) Financial assets at fair value through profit or loss, whenever due to the Group's business model or the characteristics of their contractual cash flows, it is not appropriate to classify financial assets in any of the previous categories. At the transition date, to classify financial assets in this category, the Group also considered whether it expects to recover the book value of the asset through the sale to a third party.

   Also included in this portfolio are all instruments in respect of which any of the following characteristics are met:
   - that were originated or acquired for the purpose of being traded in the short term.
   - that are part of a group of identified and jointly managed financial instruments for which there is evidence of recent actions aimed at achieving short-term gains.

- that are derivative instruments that do not meet the definition of a financial collateral agreement and have not been designated as hedging instruments.

Assessment of the business model

The business model reflects the way the Group manages its assets from a cash flow generation perspective. Therefore, it is important to understand whether the Group's objective is only to receive contractual cash flows from assets or whether it intends to receive the contractual cash flows and the cash flows from the sale of the assets. If none of these situations apply (e.g. financial assets are held for trading), then financial assets are classified as part of “another” business model and recognized at fair value through profit or loss. Factors considered by the Group in identifying the business model for a set of assets include past experience of how (i) cash flows are received, (ii) how asset performance is assessed and reported to management, (iii) how risks are assessed and managed and (iv) how directors are remunerated.

Securities held for trading are held, primarily, for the purpose of being sold in the short term, or as part of a portfolio of jointly managed financial instruments, for which there is clear evidence of a recent pattern of short-term gains. These securities are classified under “other” business models and recognized at fair value through profit or loss.

The assessment of the business model does not depend on the intentions for an individual instrument, but rather for a set of instruments, taking into account the frequency, value, the timing of sales in previous financial periods, the reasons for such sales and the expectations regarding future sales. Infrequent, or insignificant, or near-maturity sales and those motivated by the increased credit risk of the financial assets, or to manage concentration risk, among others, may be consistent with the model of holding assets to receive contractual cash flows.

If a financial asset contains a contractual clause that may modify the timing or value of the contractual cash flows (such as early amortization or extension of the term), the Group determines whether the cash flows that will be generated during the life of the instrument, due to the exercise of said contractual clause, are only payments of principal and interest on the principal outstanding.

If a financial asset includes a periodic interest rate adjustment, but the frequency of such adjustment does not match with the reference interest rate term (for example, the interest rate is adjusted every three months), the Group assesses, on initial recognition, such inconsistency in the interest component to determine whether the contractual cash flows represent only payments of principal and interest on the principal outstanding.

Contractual conditions that, on initial recognition, have a minimal effect on cash flows or depend on the occurrence of exceptional or highly unlikely events (such as settlement by the issuer) do not preclude their classification in the portfolios at amortized cost or at fair value through other comprehensive income.

SPPI assessment

When the business model involves holding assets for the purpose of (i) receiving contractual cash flows or (ii) receiving contractual cash flows and selling these assets, the Group assesses whether the cash flows of the financial instrument correspond solely to payments of principal and interest on the principal outstanding (the "solely payments of principal and interest" ("SPPI") test). In this assessment, the Group considers whether the contractual cash flows are consistent with a basic loan agreement, i.e. the interest includes only considerations regarding the time value of money, credit risk, other normal credit risks and a profit margin that is consistent with a basic loan agreement. When the contractual terms introduce risk exposure or cash flow variability that is inconsistent with a simple loan agreement, the financial instrument is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether cash flows correspond solely to payments of principal and interest on the principal outstanding ("SPPI" test).

c.1.2) Equity instruments

Equity instruments are instruments that meet the definition of capital from the issuer's perspective, that is, they are instruments that do not contain a contractual obligation to pay and that show a residual interest in the issuer's net assets. An example of equity instruments are the ordinary shares.

Investments in equity instruments are an exception to the general valuation criteria described above. As a general rule, the Group exercises the option, on initial recognition, to irrevocably designate in the category of financial assets at fair value through other comprehensive income the investments in equity instruments that are not classified as held for trading and which, in the case of not exercising said option, would be classified as assets at fair value through profit or loss. Impairment losses (and impairment reversals) are not recorded separately from other fair value changes.

c.2) Classification of financial liabilities

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be realized through the delivery of cash or another financial asset, regardless of its legal form. Financial liabilities are classified in the following categories:

(i) Financial liabilities at amortized cost

This category includes deposits from central banks and other credit institutions, deposits from customers and other loans;

(ii) Financial assets held for trading

This category includes derivative financial instruments with a negative fair value, as per note 1 d);

(iii) Financial liabilities at fair value through profit or loss (Fair Value Option)

This category includes financial instruments designated by the Bank, on initial recognition, in this category provided that at least one of the following requirements is met:

- the financial liabilities are internally managed, valued and analysed based on their fair value;

- derivative operations are contracted to hedge these assets or liabilities, in this manner ensuring consistency in the valuation of assets or liabilities and the derivatives (countering accounting mismatch);

- the financial liabilities contain embedded derivatives.

c.3) Recognition and initial valuation of financial instruments

On initial recognition all financial instruments are recorded at fair value. For financial instruments that are not recorded at fair value through profit or loss, the fair value is adjusted by adding or subtracting transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, directly attributable transaction costs are recognized immediately in profit or loss.

Transaction costs are defined as costs directly attributable to the acquisition or disposal of a financial asset, or the issue or assumption of a financial liability, which would not have been incurred if the Group had not made the transaction. These include, for example, commissions paid to intermediaries (such as promoters) and mortgage formalization expenses.

Financial assets are recognized in the balance sheet on the transaction date - the date on which the Group undertakes to purchase the assets, unless there is a contractual stipulation or applicable legal figure stating that the transfer of the rights occurs at a later date.

On initial recognition, when the fair value of financial assets and liabilities differs from the transaction price, the entity shall recognize this difference as follows:

- When the fair value is evidenced by the quotation in an active market of an equivalent asset or liability (i.e. level 1 inputs) or based on a valuation technique that uses only observable market data, the difference is recognized as a gain or loss, and
- In the remaining cases, the difference is deferred, and the moment of the initial recognition of the gain or loss is determined individually. This difference may then be (i) amortized over the life of the instrument, (ii) deferred until the fair value of the instrument can be determined using observable market data, or (iii) recognized through the liquidation of the asset or liability.

c.4) Subsequent valuation of financial instruments

Subsequent to initial recognition, the Group values its financial assets at (i) amortized cost, (ii) fair value through other comprehensive income or (iii) fair value through profit or loss.

Amounts receivable from commercial operations that do not have a significant financing component and commercial loans and short-term debt instruments that are initially valued at transaction price or outstanding principal, respectively, are valued at said amount net of impairment losses.

Immediately after initial recognition, an impairment is also recognized for expected credit losses (ECL), of financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income, resulting in the recognition of an impairment loss when the asset is originated.

Financial liabilities are initially recorded at fair value less transaction costs incurred and subsequently at amortized cost, based on the effective interest rate method, except for financial liabilities designated at fair value through profit or loss, which are recorded at fair value.

c.5) Interest recognition

Interest income and expense on assets and liabilities measured at amortized cost is recognized in interest and similar income or interest and similar expense (net interest income) using the effective interest rate method. Interest on financial assets at fair value through other comprehensive income is calculated at the effective interest rate and recognized in net interest income as is that from financial assets and liabilities at fair value through profit or loss.

The effective interest rate is the rate that discounts the estimated future payments or receipts over the expected life of the financial instrument (or, where appropriate, over a shorter period) to the net present book value of the financial asset or liability.

For the determination of the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (e.g. prepayment options), but not considering any impairment losses. The calculation includes commissions paid or received as an integral part of the effective interest rate, transaction costs and all premiums or discounts directly related to the transaction, except in respect of financial assets and liabilities at fair value through profit or loss.

Interest income recognized in profit or loss associated with contracts classified in Stage 1 or 2 is calculated by applying the effective interest rate of each contract to its gross book value.

The gross book value of a contract is its amortized cost before deducting the respective impairment. For financial assets included in Stage 3, interest is recognized in profit or loss based on their book value net of impairment. Interest is always recognized prospectively, i.e., for financial assets that enter Stage 3, interest is recognized on the amortized cost (net of impairment) in the subsequent periods.

For financial assets originated or acquired in credit impairment (“POCI”), the effective interest rate reflects the expected credit losses determined based on the expected future cash flows receivable from the financial asset.

For derivative financial instruments, except for those classified as interest rate risk hedging instruments, the interest component is not separated from the changes in their fair value, being classified as Net gains/(losses) arising from assets and liabilities at fair value through profit or loss. For interest rate risk hedging derivatives associated with financial assets or financial liabilities recognized in the Fair Value Option category, the interest component is recognized in interest and similar income or interest and similar expense (net interest income).

c.6) Reclassifications between financial instrument categories

Reclassifications of financial assets can only occur when the Group changes its financial asset management business model, which changes are expected to be unusual. In this case, all affected financial assets shall be reclassified. The reclassification shall be applied prospectively from the date of the reclassification and there shall be no restatement of any previously recognized gains, losses (including impairment gains or losses) or interest. IFRS 9 does not permit the reclassification of investments in equity instruments measured at fair value through other comprehensive income or when the fair value option has been exercised for financial assets or liabilities. Financial liabilities may not be reclassified between categories.

c.7) Modification of loans

Occasionally, the Group renegotiates or modifies contractual cash flows from loans to customers. In this situation, the Group assesses whether the new contract terms are substantially different from the original terms. The Group makes this analysis considering, among others, the following factors:

- if the debtor is in financial difficulty, whether the modification only reduces the contractual cash flows to an amount that the debtor is expected to be able to pay;
- a significant new term such as profit sharing or an equity-based return that substantially affects credit risk has been introduced;
- a significant extension of the contract maturity when the debtor is not in financial difficulty;
- a significant change in interest rate;
- a change from the currency in which the credit was contracted;
- the inclusion of a collateral, a guarantee or another credit enhancement instrument that significantly affects the credit risk associated with the loan.

If the terms of the contract differ significantly, the Group derecognizes the original financial asset and recognizes the new asset at fair value, calculating its new effective interest rate. The renegotiation date is considered the initial recognition date for the purpose of calculating impairment and is also considered for the purpose of assessing whether a significant increase in credit risk has occurred. However, the Group also assesses whether the newly recognized financial asset is impaired on initial recognition, especially when the renegotiation is related to the fact that the debtor did not make the originally agreed payments. Differences in book value are recognized in profit or loss as a de-recognition gain or loss.

If the terms of the contract are not significantly different, the renegotiation, or modification, does not result in de-recognition and the Group recalculates the gross book value based on the revised cash flows of the financial asset and recognizes a gain or loss from this modification in profit or loss. The new gross book value is recalculated by discounting the modified cash flows at the original effective interest rate (or adjusted effective interest rate for impaired financial assets, originated or acquired).

Following the modification, the Group may determine that credit risk has significantly improved, and assets have moved from Stage 3 to Stage 2 (“ECL lifetime”) or from Stage 2 to Stage 1 (“ECL 12 months”). This situation can only occur when the performance of the modified asset is in accordance with the new contract terms for a period of twelve consecutive months. Additionally, the Group continues to monitor whether there has been a significant increase in the credit risk of these assets, applying specific models for modified assets.

c.8) De-recognition that does not result from a modification

Financial assets granted are derecognized when the associated cash flows are extinguished, collected or disposed of to third parties and (i) the Group substantially transfers all risks and rewards associated with holding the asset, or (ii) the Group neither transfers nor substantially holds all risks and rewards associated with holding the asset and does not control the asset. Gains and losses from the disposal of loans and advances to customers on a definitive basis are recorded in Other operating income/(expense). These gains or losses correspond to the difference between the sale value set and the book value of these assets, net of impairment losses.

The Group engages in transactions in which it has the contractual right to receive cash flows from assets but assumes a contractual obligation to channel those cash flows to other entities and substantially transfers all the risks and rewards. These transactions result in de-recognition of the asset if the Group:

- Does not have any obligation to make payments unless it receives equivalent amounts from the assets;
- It is prohibited from selling or pledging the assets;
- If it is obliged to remit any cash flow it receives from assets without material delays.

Guarantees granted by the Group (shares and bonds) through repurchase agreements and securities' lending and borrowing operations are not derecognized because the Group substantially holds all risks and rewards based on the pre-established repurchase price, thus not meeting the de-recognition criteria.

Financial liabilities are derecognized when the underlying obligation is settled, expires or is cancelled.

c.9) Write-off policy

The Group recognizes a loan write-off from assets when it has no reasonable expectation of fully or partially recovering that asset. This recognition occurs after all recovery actions performed by the Group turn out to be unsuccessful. Loans written off from assets are recorded in off-balance sheet accounts.

c.10) Impairment of financial assets

The Group determines impairment losses of debt instruments that are measured at amortized cost and fair value through other comprehensive income, as well as for other exposures that have an associated credit risk such as bank guarantees and commitments. The requirements of IFRS 9 have as their objective to recognize expected losses from operations, assessed on an individual or collective basis, considering all reasonable, reliable and duly substantiated information that is available, including forward-looking information.

Impairment losses of debt instruments that are measured at amortized cost are recognized against an accumulated impairment caption in the balance sheet, which reduces the book value of the asset, while impairment of assets measured at fair value through other comprehensive income is recognized against other comprehensive income.

Impairment losses of loans and advances to customers are recognized in the income statement in the caption Impairment of customers and that of the remaining financial assets in the caption Impairment of other financial assets. Impairment losses of exposures that have an associated credit risk and that are not positions recorded in assets are recorded as a provision in the caption Provisions under liabilities, in the balance sheet. The changes and reversals are recorded in the caption Other provisions in the income statement.

For the purpose of accounting for impairment losses of debt instruments, the following definitions shall be considered:

a) Credit losses: correspond to the difference between all cash flows owed to the Group, according to the contractual conditions of the financial asset, and all cash flows that the Group expects to receive (i.e., the total cash-flow shortfall), discounted at the original effective interest rate or, for financial assets purchased or originated in impairment with credit losses, at the effective interest rate adjusted for credit quality, or at the interest rate on the financial statements' reporting date, when it is variable.

   For commitments assumed, the contractual cash flows owed to the Group that are expected to be received in the event of the use of the commitment are compared with the cash flows expected to be received on the recognition of the asset. In the case of bank guarantees, the payments that the Group expects to make less the cash flows it expects to receive from the originator are considered.

   The Group estimates cash flows considering the contractual term defined for the operations. For the purpose of determining the cash flows, those arising from the sale of collateral received are also included, taking into account the flows that would be obtained from their sale, less the costs necessary to obtain, maintain and subsequently sell them, or other guarantees that may be part of the contractual conditions, such as financial collateral.

b) Expected credit losses: correspond to the weighted average of credit losses, using as weighting factor the probability of the occurrence of default events. The following distinction shall be taken into account: (i) expected credit losses over the lifetime of the operation: these are the expected credit losses that result from possible default events over the expected life of the operation; (ii) expected credit losses over a 12-month period: these are part of the expected credit losses over the life of the instrument representing the expected credit losses that result from default events of a financial instrument that may occur within the period of 12 months from the reference date.

c.10.1) Impairment model of loans and advances to customers

IFRS 9 considers the expected losses throughout the lifetime of the financial instruments. Thus, macroeconomic factors are considered when determining ECL, which changes have an impact on expected losses.

The impairment model is applicable to the following instruments of the Group that are not measured at fair value through profit or loss:

- Financial assets at amortized cost (including Loans and advances to customers, Loans and advances to credit institutions and Other financial assets at amortized cost);
- Financial assets classified as debt instruments at fair value through other comprehensive income;
- Commitments and financial guarantees issued.

No impairment is recognized on equity instruments since these are measured at fair value.

Instruments that are subject to impairment calculations are divided into three stages considering their credit risk level, as follows:

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

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

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

Banco Montepio

Calculation of ECLs

ECLs correspond to unbiased weighted estimates of credit losses that are determined as follows:

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

c.10.2) Definition of default

The Group aligned the definition used in the regulatory perspective with the accounting perspective, with financial assets classified in stage 3 corresponding to the internal definition of default.

c.10.3) Significant increase in credit risk (SICR)

In order to determine if a significant increase in credit risk has occurred since the financial instrument´s initial recognition (i.e. risk of default), the Group considers as relevant information all the information available and without costs and/or excessive effort, including both quantitative and qualitative information, as well as an analysis based on the Group´s history (expert judgment).

The identification of a significant increase in credit risk is performed by comparing:

- The exposure's risk rating at the reporting date, and
- The exposure's risk rating attributed at the initial moment of the exposure´s recognition.

The Group identifies the occurrence of a significant increase in credit risk through a comparison of the actual risk rating with the risk rating attributed at the contract's inception, with the change in the risk rating necessary to identify a significant increase in credit risk being lower the higher the original rating was.

When evaluating the significant increase in credit risk, the Group considers as a backstop the existence of arrears of more than 30 days, among others.

c.10.4) Credit risk levels

In accordance with the current management of the Group´s credit risk, each customer, and, consequently, respective exposure, is allocated to a risk level of its master scale.

The Group uses these risk levels as a primary factor for the identification of a significant increase in credit risk.

c.10.5) Inputs for the measurement of ECL

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

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

These parameters are obtained through internal statistic models, and other relevant historical data, based on the existing regulatory models adjusted in order to reflect the forward-looking information. The PDs are estimated based on a certain historical period and are calculated using statistical models. These models are based on internal data, including qualitative and quantitative factors. If a change in the degree of risk of the counterparty or the exposure occurs, the estimate of the associated PD is also changed.

The risk levels are a very important input for the determination of the PDs associated with each exposure. The Group collects default and performance indicators regarding its credit risk exposures through analyses by type of customers and products.

LGD is the magnitude of the loss that is expected to occur if the exposure enters in default. The Group estimates LGD parameters based on historical recovery rates after the counterparties' entry into default. The LGD models consider associated collateral and time in default as well as recovery costs. In case of contracts collateralized by real estate, LTV (loan-to-value) ratios are an extremely important parameter in the determination of the LGD.

The EAD represents the expected loss if the exposure and/or customer enters into default. The Group obtains the EAD values from the counterparty´s current exposure and from potential changes to its current value, permitted by the contractual conditions, including amortizations and prepayments. For commitments and financial guarantees, the EAD value includes both the amount of credit used as well as the expectation of the potential future value that may come to be used in accordance with the contract.

As described above, except for the financial assets that consider a 12-month PD because they do not present an increase in credit risk, the Group calculates the ECL considering the risk of default during the maximum maturity period of the contract or, in certain specific situations, based on the behavioural maturity.

Securitized loans not derecognized

The Group does not derecognize from assets the credits sold in securitization operations when:

- it maintains control over the operations;
- it continues to receive a substantial portion of their remuneration; and
- it maintains a substantial portion of the risk of the transferred credits.

Credits sold and not derecognized are recorded in the caption Loans and advances to customers and are subject to accounting criteria identical to those of other loan operations.

The maintenance of the risk and/or benefit is represented by the higher-risk bonds issued by the securitization vehicle. The amount recorded in the assets and liabilities of Banco Montepio's separate financial statements represents the proportion of the risk/benefit held by Banco Montepio (continuing involvement). The bonds issued by the securitization vehicles and held by Banco Montepio are eliminated in the consolidation process.

d) Derivative financial instruments and hedge accounting

The Group designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading derivatives.

Derivative hedging instruments are recorded at fair value and gains and losses from re-measurement are recognized in accordance with the hedge accounting model adopted by the Group. A hedging relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is evaluated on a continuous basis and effectively determined to be highly effective throughout the reporting period; and
- for hedges of a foreseeable expected transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange variations of monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated with the derivative is recognized in profit or loss for the financial year, as are the foreign exchange risk changes of the subjacent monetary items.

As provided for in IFRS 9, the Group opted to continue to apply the requirements for the application of hedge accounting established in the standard IAS 39.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recognized in profit or loss, together with changes in the fair value attributable to the hedged risk of the asset, liability or group of assets and liabilities related to the hedged risk. If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses of interest rate risk associated with the hedging item calculated up to the discontinuance of hedge accounting are amortized through profit or loss over the residual period of the hedged item.

Hedge effectiveness

For a hedging relationship to be classified as such, its effectiveness must be demonstrated. As such, the Group performs prospective tests at the start date of the hedging relationship, when applicable, and retrospective tests in order to demonstrate at each reporting date the effectiveness of the hedging relationship, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item in respect of the risk being covered. Any ineffectiveness calculated is immediately recognized in profit or loss when it occurs.

e) Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently of its legal form, evidencing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instrument issuance are recognized in equity as a deduction to the amount of the issue. Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs. Income from equity instruments (dividends) are recognized when the right to receive such income is established and are deducted from equity.

f) Financial and performance guarantees

Financial guarantees

Financial guarantees are contracts that require the issuer to make payments to compensate the holder for losses incurred as a result of breaches of the contractual terms of debt instruments, namely the payment of capital and/or interest. Financial guarantees issued are initially recognized at their fair value. Subsequently, these guarantees are measured at the higher of (i) the initially recognized fair value and (ii) the amount of any obligation arising from the guarantee contract, measured at the balance sheet date. Any change in the amount of the obligation associated with financial guarantees issued is recognized in profit or loss. Financial guarantees issued by the Group usually have a defined maturity and a periodic prepaid commission, which varies according to counterparty risk, amount and period of the contract. On that basis, the fair value of the guarantees on the date of their initial recognition is approximately equivalent to the amount of the initial commission received, considering that the agreed conditions are market conditions. Thus, the amount recognized on the contract date equals the amount of the initial commission received, which is recognized in profit or loss over the financial year to which it relates. Subsequent commissions are recognized in profit or loss in the financial year to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of one of the parties if same does not fulfil a contractual obligation. Performance guarantees are initially recognized at fair value, which is usually evidenced by the amount of commissions received over the term of the contract. Upon breach of contract, the Group has the right to revert the guarantee, and the amounts are recognized in Loans and advances to customers after the compensation of the losses has been transferred to the guarantee beneficiary.

g) Securities borrowing and repurchase agreement transactions

Securities borrowing

Securities lent under securities lending agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. Cash collateral received in respect of securities lent is recognized as a financial liability. Securities borrowed under securities' borrowing agreements are not recognized on-balance sheet. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either customers or credit institutions. Income and expenses arising from the securities' lending and borrowing business are recognized on an accrual basis over the period of the transactions and are included in interest and similar income or interest and similar expense (net interest income).

Repurchase agreements

The Group carries out acquisitions/sales of securities under reselling/repurchase agreements of substantially equivalent securities at a future date at a predetermined price.

The securities acquired subject to reselling agreements (reverse repos) at a future date are not recognized in the balance sheet. The amounts paid are recognized in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralized by the related securities.

Securities sold through repurchase agreements (repos) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. The proceeds from the sale of these securities are considered as deposits from customers or from other credit institutions.

The difference between the acquisition/sale and resale/repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest and similar income or interest and similar expense (net interest income).

h) Assets received in recovery of credit, non-current assets held for sale and discontinued operations

Non-current assets and groups of non-current assets held for sale (groups of assets together with their respective liabilities, which include at least one non-current asset) and discontinued operations are classified as held for sale when there is an intention to sell the referred assets and liabilities and when the referred assets or groups of assets are available for immediate sale and their sale is highly probable.

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to their subsequent disposal, which are available for immediate sale and which sale is highly probable. Immediately before their classification as non-current assets held for sale, the measurement of all the non-current assets or of all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and their fair value less costs to sell, except for deferred tax assets, employee-benefit related assets, financial assets in the scope of IFRS 9 and non-current assets at fair value according to IAS 40, with the unrealized losses being, in this manner, recorded in the profit or loss for the financial year. When the book value corresponds to the fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds to level 3.

Regarding the classification of financial shareholdings classified as held for sale:

I. in the case of subsidiaries, they continue to be consolidated up to the date of their disposal, with all their assets and liabilities being classified as Non-current assets held for sale and Non-current liabilities held for sale, measured at the lower of book value and fair value less costs to sell, with the recording of depreciation/amortization ceasing;

II. in the case of associated companies measured under the equity method, these are measured at the lower of book value and fair value less costs to sell, with the application of the equity method ceasing.

When, due to changes in circumstances of the Group, non-current assets held for sale and/or disposal groups no longer meet the conditions to be classified as held for sale, these are reclassified according to the underlying nature of the assets and measured at the lower of: i) the book value before they were classified as held for sale, adjusted for any depreciation/amortization costs, or revaluation amounts that would have been recognized had these assets not been classified as held for sale; and ii) the recoverable amounts of the items on the date they are reclassified according to their underlying nature. These adjustments shall be recognized in the income statement.

In the case of financial shareholdings in associated companies measured under the equity method, the cessation of their classification as held for sale implies the retrospective replacement of the equity method.

Although the Group intends to immediately sell all properties and other assets received in recovery of credit, during financial period 2019 the Group changed the classification of these assets from non-current assets held for sale to the caption Other assets, due to their length of stay in the portfolio exceeding 12 months. However, the accounting method has not changed from that laid down above, with these being recorded at initial recognition at the lower of their fair value less costs to sell and the book value of the loan being recovered.

i) Leases (IFRS 16)

Definition of lease

The new definition of lease entails a focus on the control of the identified asset, i.e. an agreement constitutes or contains a lease if it conveys the right to control the use of an identified asset, i.e. substantially obtaining all the economic benefits of using same and the right to direct the use of this identified asset for a certain period of time in exchange for consideration.

Impact from the lessee's perspective

The Group recognizes for all leases, except for leases with a period of less than 12 months or for leases relating to assets of a reduced unitary value:

- a right-of-use asset, initially measured at cost, taking into account the Net Present Value (NPV) of the lease liability, plus payments made (fixed and/or variable) minus lease incentives received, penalties for termination (if reasonably certain), as well as any estimated costs to be borne by the lessee with the dismantling and removal of the underlying asset and/or with the restoration of the location where it is located. It is subsequently measured according to the cost model (subject amortization according to the lease term of each agreement and to impairment tests);

- a lease liability, initially recorded at the present value of the future lease cash flows (NPV), which includes:

  - fixed payments, less lease incentives receivable;
  - variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date of the agreement;
  - the amounts to be paid by the lessee as residual value guarantees;
  - the exercise price of a call option if the lessee is reasonably certain to exercise that option;
  - payments of lease termination penalties, if the lease term reflects the exercise of a lease termination option by the lessee.

When it is not possible to easily determine the interest rate implicit in the lease (paragraph 26 of IFRS 16), lease payments are discounted at the lessee's incremental financing interest rate, which incorporates the risk-free interest rate curve (swap curve), increased by a Group risk spread, applied to the weighted average term of each lease agreement. For agreements with a termination date, such date is considered the lease termination date, and for other agreements without a termination date the period during which it will be enforceable is assessed. In the assessment of enforceability, the specific clauses of the agreements are considered as is the current legislation for Urban Leases.

It is subsequently measured as follows:

- by increasing its book value to reflect interest on same;
- by decreasing its book value to reflect lease payments;
- the book value is re-measured to reflect any revaluations or changes in the lease, as well as to incorporate the revision of lease payments that are, in substance, fixed payments and the revision of the lease term.

The Group re-measures a lease liability and calculates the related adjustment to the right-of-use asset whenever:

- there is a change in the lease term, or in the valuation of a call option on the underlying asset. In this situation, the lease liability is re-measured, discounting the revised lease payments and also using a revised discount rate;
- there is a change in the amounts payable under a residual value guarantee, or in the future lease payments resulting from a change in an index or rate used to determine such payments. In this situation, the lease liability is re-measured, discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments results from a change in variable interest rates, in which case a revised discount rate should be used);
- a lease agreement is modified but such modification in the lease is not accounted for as a separate lease. In this situation, the lease liability is re-measured, discounting the revised lease payments using a revised discount rate.

The Group did not make any adjustments for the financial years presented.

Right-of-use assets are amortized from the date of the agreement’s entry into force to the end of the useful life of the underlying asset, or until the end of the lease term, if earlier. If the lease transfers ownership of the underlying asset, or if the cost of the right-of-use asset reflects the fact that the Group will exercise a call option, the right-of-use asset shall be amortized from the date of the agreement's entry into force to the end of the useful life of the underlying asset. Amortization begins on the date of the lease agreement's entry into force.

The recording of the lease agreements in the consolidated income statement is made in the following captions:

(i) recording in Net interest income of the interest expense related to lease liabilities;

(ii) recording in Other general and administrative expenses of the amounts related to short-term lease agreements and low-value asset lease agreements; and

(iii) recording in Depreciation and amortization of the amortization cost for the financial year of the right-of-use assets.

The recording of the lease agreements in the consolidated balance sheet is made in the following captions:

(i) recording in Other tangible assets of the right-of-use assets recognized; and

(ii) recording in Other liabilities of the amount of the lease liabilities recognized.

As regards the classification of the cash flows originated by the lease agreements, these are recorded in the statement of cash flows:

(i) in the caption Cash flows, the caption Cash flows from operating activities – Costs with staff and suppliers includes amounts related to short-term and to low-value lease agreements;

(ii) the caption Finance lease agreements includes amounts related to payments of the capital portion of the lease liabilities, as detailed in the consolidated statement of cash flows.

Impact from the lessor's perspective

In accordance with IFRS 16, lessors will continue to classify leases as finance or operating, implying that there are no significant changes from that defined in IAS 17

j) Leases (IAS 17)

Until 31 December 2018, and according to IAS 17, leases are classified as finance leases whenever their terms substantially transferred all the risks and rewards associated with the ownership of the assets to the lessees. Agreements are also classified as finance leases where the analysis of one or more specific amendments to the agreement points to such a nature. The remaining leases are classified as operating. The classification of the leases is made in function of the substance and not the form of the agreements.

Finance leases

From the lessee's perspective, finance lease transactions are recorded at their inception as follows: the asset is recognized at the lower of the fair value of the leased asset and the present value of the future minimum lease payments. In the event of doubt, same is accounted for net of financial charges. Lease rentals are composed of the financial charge and the amortization of the capital outstanding. The financial charge is allocated to the financial periods during the lease term so as to produce a constant periodic rate of interest on the remaining liability balance for each period.

Fixed assets acquired through finance leases are depreciated over the lower of the asset's useful life and the lease period when the Group has no call option at the end of the lease, or over the estimated useful life, when the Group has the intention to acquire the assets at the end of the contract.

From the lessor's perspective, assets held under finance leases are recorded in the balance sheet as lease principal receivable at an amount equal to the net finance lease investment. Lease rentals are composed of the financial income and the amortization of the principal outstanding. The recognition of the financial income reflects a constant periodic rate of return on the remaining net investment of the lessor.

Operating leases

From the lessee's perspective, the Group holds various operating lease agreements of real estate and motor vehicles. The payments made in the scope of these lease agreements are recognized in the caption General administrative expenses, during the useful life of the agreement, with no inclusion in the balance sheet of either an asset or a liability associated with the agreement celebrated.

k) Net gains/(losses) arising from financial operations (Net gains/(losses) arising from financial assets at fair value through other comprehensive income and Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss)

Net gains/(losses) arising from financial operations include gains and losses arising from financial assets and financial liabilities at fair value through profit or loss, that is, fair value changes and interest on trading derivatives and embedded derivatives, as well as dividends received associated with these portfolios. This caption also includes gains and losses arising from the sale of debt instruments, of financial assets at fair value through other comprehensive income and of other financial assets at amortized cost. The changes in fair value of hedging derivatives and hedged items, when applicable to fair value hedging, are also recognized in this caption.

l) Fee and commission income

Fee and commission income are recognized as revenue from contracts with customers to the extent the performance obligations are met:

1. When obtained and to the extent the services are provided, they are recognized in income in the financial year to which they relate (for example: account maintenance fees);
2. When they result from the execution of a significant act they are recognized as income when the respective service is complete and are recorded in the income statement on being charged (for example: foreign currency exchange, consultancy or loan assemblage/syndication);
3. When they are an integral part of the effective interest rate of a financial instrument, they are recognized in net interest income. Their characteristics are:

    (i) Commissions received on credit operations realized that are not valued at fair value through profit or loss (for example: valuation of guarantees, preparation and processing of

Banco Montepio

documentation). These commissions are received in advance and are deferred and recognized over the life of the operation;

(ii) Commissions agreed for the commitment to provide financing and the granting of credit is likely. These are commissions are received in advance and are deferred over the expected life of the financing. If the commitment expires without the operation having materialized, the commission is recognized in profit or loss;

(iii) Commissions paid on the issuance of financial liabilities at amortized cost. These are included in the financial liabilities' amount, being recognized in profit or loss at the effective cost of the operation.

m) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognized in the Group's consolidated financial statements. Fee and commission income arising from this activity are recognized in the income statement in the period to which they relate.

n) Other tangible assets

Other tangible assets are recorded at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result for the Group. All repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred. Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful lives:

	Number of years
Buildings held for own use	50
Improvements in leasehold buildings	10
Other fixed assets	4 to 10

Improvements in leasehold buildings are accounted for as tangible fixed assets and are depreciated at the lower of the useful lives of the assets and the term of the lease. Expenses incurred with the dismantling or removal of these assets are considered as part of the initial cost of the respective assets when they constitute significant amounts. Whenever there is an indication that a tangible fixed asset might be impaired, its recoverable amount is estimated, and an impairment loss is recognized if the net value of the asset exceeds its recoverable amount (until 31 December 2018).

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use, this being calculated based on the present value of the future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life. The impairment losses of tangible fixed assets are recognized in profit or loss for the period. Gains or losses on the disposal of assets are determined by the difference between the realizable value and the book value of the asset and are recognized in the income statement.

o) Investment properties

Real estate owned by the investment funds consolidated by the Group are recognized as investment properties given that the main objective subjacent to these is capital appreciation on a long-term basis and not their sale in the short term nor their own use. These investments are initially recognized at their acquisition cost, including the transaction costs and subsequently revaluated at their fair value. The fair value of the investment property should reflect the market conditions at the balance sheet date. Changes in fair value are recognized in results in the financial year in which they occur, in the caption Other operating income/(expense). The fair value level according to the IFRS 13 hierarchy corresponds to level 3.

Fair value is determined by independent appraisers duly certified for the effect, and being registered with the CMVM (Portuguese Securities' Market Commission), using at least two of the following methods:

- Comparative market method - This method considers similar real estate transaction values comparable to the property under study obtained through market surveys carried out in the area where the property is located.
- Income method - This method aims to estimate the value of the property from the capitalization of its net income, discounted to the present moment, using the discounted cash-flow method, and should be used when the property is intended for lease, when the lease market is active for the type of property being valued or when the property is intended for economic exploration.
- Cost method - The cost method is the determination of the replacement value of the property under consideration taking into account the cost of building another one with the same functionality, net of the amount related to the functional, physical and economic depreciation/obsolescence verified.

For properties held by investment funds within the consolidation perimeter, and in accordance with Law no. 16/2015, of 24 February, their fair value is considered as the simple arithmetic average of two independent expert valuations, determined according to the best price that could be obtained if it were put up for sale, under normal market conditions, at the time of the valuations, which is reviewed at least once a year or, in the case of open-ended collective investment entities, based on the redemption periodicity if lower than that, and whenever there are acquisitions or disposals or significant changes in the value of the property.

p) Intangible assets

Software

The Group accounts as intangible assets the costs associated with software acquired from external entities and amortizes these on a straight-line basis over an estimated lifetime of between 3 and 6 years. The Group does not capitalize internal costs arising from software development.

q) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the trade date, with an insignificant risk of change in fair value, including cash and deposits with other credit institutions. Cash and cash equivalents exclude mandatory deposits (restricted balances) with Central Banks.

r) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to offset the recognized amounts and the transactions can be settled on a net basis, simultaneously.

s) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate as at the reporting date. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated into the respective functional currency at the foreign exchange rate on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency at the foreign exchange rate on the date that the fair value was determined and recognized against profit or loss, except for financial assets at fair value through other comprehensive income, for which the difference is recognized against equity.

t) Post-employment and long-term benefits

Defined benefit plans

Banco Montepio, Montepio Crédito and Montepio Valor have the responsibility to pay their employees old-age, disability and survival pensions, health benefits and death subsidy, in accordance with the terms and conditions of the Collective Labour Agreement (ACT) they signed. In 2016, amendments were made to this agreement, namely the change in the retirement age, in line with the General Social Security System and the attribution of an end-of-career award corresponding to 1.5 times the monthly remuneration received at the retirement date.

Arising from the signing of the Collective Labour Agreement (ACT) and subsequent amendments, the Group set up a Pension Fund to cover the liabilities assumed with pensions on retirement, disability and survival, healthcare benefits and death subsidy.

As from 1 January 2011, bank employees were integrated in the General Social Security System, which ensures their protection in maternity, paternity, adoption and old age. Protection associated with sickness, disability, survival and death remains under the banks' responsibility (Decree-Law no. 1-A/2011, of 3 January).

The contribution rate is 25.4%, 22.4% paid by the Group and 3.0% by the employees, replacing the Caixa de Abono de Família dos Empregados Bancários ("CAFEB") extinguished by the same Decree-Law. As a result, the pension rights of active employees came to be covered by the terms defined in the General Social Security System, considering the period of service rendered since 1 January 2011 and up to their retirement age. The differential vis-à-vis the minimum pension guaranteed, in accordance with the terms defined in the Collective Labour Agreement ("Acordo Colectivo de Trabalho") is supported by the banks.

Following the Government's approval of Decree-Law no. 127/2011, of 31 December, a three-party agreement between the Government, the Portuguese Bank Association and the Union of Bank Employees was established, regarding the transfer to the Social Security's domain of the liabilities with pensions under payment to retired employees and pensioners as at 31 December 2011.

This Decree-Law established that the liabilities to be transferred were the liabilities with pensions under payment, as at 31 December 2011, to retired employees and pensioners, at constant amounts (update rate of 0%) for the component foreseen in the Collective Labour Regulation Instrument ("IRCT"). The liabilities in respect of the updating of pensions, complementary benefits, contributions to the Social-Medical Assistance Services ("SAMS") on the retirement and survival pensions, death subsidy and the deferred survival pension are still under the responsibility of the Institutions.

In December 2016, the Group signed a new ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the General Social Security System, and the attribution of an end-of-career award which replaced the extinguished seniority bonus, as disclosed in note 50.

The actuarial calculation is made using the projected unit credit method and considering actuarial and financial assumptions, in accordance with the parameters required by IAS 19.

The liabilities are covered by the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The Group´s net liability regarding the defined benefit pension plan and other benefits is calculated separately for each plan by estimating the amount of future benefits that each employee will receive in return for his/her service in the current and prior financial years. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates associated with high-quality bonds and with a similar maturity to the date of termination of the plan's liabilities. The net liability is determined after deducting the fair value of the assets of the Pensions Fund.

The interest income/(expense) with the pension plan is calculated by multiplying the net asset/(liability) with retirement pensions (liabilities less the fair value of the Fund's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned above. On this basis, the net interest income/(expense) includes the interest expense associated with retirement pension liabilities and the corresponding share of the net interest from the Fund's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) gains and losses resulting from differences between the actuarial assumptions used and the amounts actually observed (experience gains and losses) and from changes in the actuarial assumptions and (ii) gains and losses arising from the difference between the corresponding share of the net interest from the Fund's assets and the amounts obtained, are recognized against equity under other comprehensive income.

The Group recognizes in its income statement a net total amount that includes (i) the current service cost, (ii) the net interest income/(expense) from the pension plan, (iii) the effect of early retirement, (iv) past service costs and (v) the effects of any settlement or curtailment occurring during the financial period. The costs of early retirements correspond to an increase in liabilities due to the employee's retiring before reaching retirement age.

Other benefits not related to pensions, namely retired employees' health expenses and benefits attributed to spouses and descendants by death and expenses with house loans, are also considered in the calculation of the liabilities.

Payments to the Pension Fund are made by the Group on an annual basis and according to a schedule of contributions drawn up in order to assure the solvency of the Fund. The liability related to pensions under payment must be funded at a minimum level of 100% and at 95% for past service costs of active employees.

Defined contribution plan

As at 31 December 2019 and 2018, the Group has a defined contribution plan for employees who were admitted after 3 March 2009. This plan, designated as contributory, receives monthly and equal contributions, based on the effective remuneration: 1.5% to be made by the company and 1.5% to be made by the employee.

Variable remuneration of employees and members of the Board of Directors (bonus)

In accordance with IAS 19 - Employee benefits, the variable remuneration (profit-sharing, bonuses and other) attributed to employees and to the members of the Board of Directors is recognized in profit or loss in the year to which it relates.

Employment termination benefits

The occurrence that gives rise to this obligation is the termination of the employment relationship between the Bank and the employee as a consequence of a Bank decision, the creation of a valid expectation for the employee or the decision of an employee to accept benefits for an irrevocable offer from the Bank in return for terminating the employment contract.

Employment termination benefits are recognized as a liability and a non-recurring cost from the moment when the Bank cannot withdraw the offer made to the employee or from the moment when the costs are recognized for a restructuring that includes the payment of benefits for termination of the employment contract. These benefits are recorded as a liability in the caption Charges payable - Staff costs in the balance sheet up to the time of their settlement or until their transfer to the Pension liabilities.

End-of-career award

As a result of the signing of the new ACT on 5 July 2016, the seniority bonus was extinguished and the Group paid its employees the proportional bonus that would be due up to the date of the entry into force of the new ACT. As a replacement for the seniority bonus, the new ACT provides for the Group to pay an end-of-career award due immediately prior to the employee's retirement if he retires at the Group's service, corresponding to 1.5 times the monthly remuneration at the time of payment.

The end-of-career award is accounted for by the Group in accordance with IAS 19 as another long-term employment benefit. The effects of the re-measurements and past service costs of this benefit are recognized in profit or loss for the year, treatment identical to that of the accounting model for seniority bonuses.

The amount the Group's liabilities with this end-of-career award is also periodically estimated using the projected unit credit method, using actuarial assumptions based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined based on the same methodology described for the calculation of retirement pension liabilities.

u) Income taxes

Until 31 December 2011, the Group was an entity exempt from Corporate Income Tax ("IRC"), in accordance with paragraph a) of no. 1 of article 10 of the IRC Code. This exemption had been recognized under an Order of 3 December 1993 of the Secretary of State for Tax Affairs and confirmed by Law no. 10-B/96, of 23 March, approving the State Budget for 1996.

With effect from 1 January 2012, the Group is now subject to the regime established by the Corporate Income Tax Code ("CIRC"). Additionally, deferred taxes resulting from timing differences between the accounting net income and the net income accepted by the Tax Authorities for IRC assessment purposes are accounted for whenever there is a reasonable probability that those taxes will be paid or recovered in the future. Income tax recognized in the income statement includes the current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case the corresponding income tax is recognized in equity. Deferred taxes recognized in equity arise from the revaluation of financial assets at fair value through other comprehensive income and from cash-flow hedging derivatives. Only deferred taxes related to fair value hedging derivatives are subsequently recognized in profit or loss at the same moment the gains and losses that originated the deferred taxes are recognized.

Current tax corresponds to the tax assessed on the taxable income for the financial period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxes assessed in respect of previous financial periods. Deferred taxes are calculated for timing differences between the book values of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes, using the tax rates approved or substantially approved at the balance sheet date and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for intangible assets with an indefinite life, which are not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither the accounting nor the taxable income and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the future, and to the extent that the Group does not exercise control over the period of the reversal of the differences. Deferred tax assets are recognized when it is probable that future taxable income will be available to absorb the deductible timing differences for taxation purposes (including reportable taxable losses).

As established in IAS 12, paragraph 74, the Group offsets the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In the year 2018, the Group became the dominant company of the Group subject to Corporate Income Tax under the Special Taxation Regime of Groups of Companies ("Regime Especial de Tributação dos Grupos de Sociedades" ("RETGS")), constituted by the companies in which it holds a shareholding equal to or higher than 75% and which meet the conditions provided for in article 69 and following the IRC Code.

The companies included in the RETGS calculate and record income tax as if they were taxed on a separate basis. The liabilities determined are, however, payable to the parent company of the tax group, the Group, which is responsible for the global calculation and self-assessment of the tax. Gains or losses arising from the application of this regime are recorded in each of the companies that originate them.

v) Segmental reporting

The Group adopted IFRS 8 – Operating Segments for the purpose of disclosing financial information by operating segments. An operating segment is a component of the Group: (i) that engages in business activities from which it may earn revenues or incur costs; (ii) which operating results are regularly reviewed by the main responsible for Group operating decisions regarding the allocation of resources to the segment and the assessment of it performance; and (iii) for which distinct financial information is available.

The Group controls its business activity through the following main segments: (i) Operating: Commercial Banking, Investment Banking, International Activity, Markets and Other Segments, and (ii) Geographic: Domestic Area and International Area (Angola and Cape Verde).

w) Provisions, contingent assets and liabilities

Provisions

Provisions are recognized when (i) the Group has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain liabilities), (ii) it is probable that its settlement will be required and (iii) a reliable estimate can be made of the amount of the obligation.

The measurement of provisions takes into consideration the principles defined in IAS 37 in respect of the best estimate of expected cost, the most likely result for the ongoing processes and considering the risks and uncertainties inherent to the process and taking into account the best information available as to the consequences of the event that led to its constitution. In cases where the discount effect is material, provisions correspond to the present value of the expected future payments, discounted at a rate that considers the risk associated with the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reversed through profit or loss in the proportion of the payments that cease to be probable. This caption also includes the impairment losses related to exposures that have an associated credit risk such as bank guarantees, and commitments assumed.

Contingent assets

A contingent asset is a possible asset that arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events that are not entirely under the control of the entity.

Contingent liabilities

A contingent liability is an obligation that is:

- Possible, which arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events, which are not entirely under the control of the entity; or
- Present, which arises from past events, but is not recognized because:
    - It is unlikely that an outflow of resources incorporating economic benefits will be required to settle that obligation;
    - The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements, being, in accordance with IAS 37, disclosed whenever the possibility of an outflow of resources encompassing economic benefits is not remote.

x) Statement of cash flows

The concepts used in the presentation of the statements of cash flow are as follows:

- Cash Flows: Cash and cash equivalents include cash, deposits at Central Banks and other credit institutions, very short-term investments at credit institutions and unpaid cheques;
- Operating Activities: the indirect method is used for the presentation of cash flows from operating activities, reflecting the flows of the typical activities of credit institutions, as well as other activities that do not qualify as investment or financing;
- Investment activities: the acquisition, sale or other disposals of long-term assets, such as financial shareholdings in subsidiaries and associated companies, the acquisition of tangible and intangible assets and other strategic investments not included in operating activities;
- Financing activities: activities that produce changes in the Group's medium- and long-term financing operations that are not part of the operating activities, such as securitized and subordinated debt, capital increases and dividend distributions.

y) Insurance and reinsurance brokerage services

The Group is duly authorized by the Insurance and Pension Funds Supervisory Authority ("Autoridade de Supervisão de Seguros e Fundos de Pensões" - "ASF") to provide insurance brokerage services, under the category of Tied Insurance Broker, in accordance with article 8, paragraph a), subparagraph i), of Decree-Law no. 144/2006, of 31 July, operating in the life and non-life insurance brokerage areas.

In the insurance brokerage services scope, the Group sells insurance contracts. As remuneration for the insurance brokerage services rendered, the Group receives brokerage commissions on insurance and investment contracts, which are defined in agreements/protocols established between the Group and the Insurance Companies.

The commissions received for the insurance brokerage services have the following typology:

1. commissions that include a fixed and a variable component. The fixed component is calculated by applying a predetermined rate to the amount of the subscriptions made by the Group and the variable component is calculated based on predetermined criteria, with the total annual commission being the sum of the commissions calculated monthly;
2. commissions in the form of profit-sharing in the results of the insurance contracts, which are calculated annually and paid by the Insurance Companies in the beginning of the year following that to which they relate.

Commissions received for insurance brokerage services are recognized on an accrual basis. Fees paid in a different period from that to which they relate are recorded as a receivable in the caption Other assets with a corresponding entry in the caption Fee and commission income - For insurance brokerage services.

z) Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the Group by the weighted average number of ordinary shares outstanding. For the calculation of diluted earnings per share, when applicable, the weighted average number of ordinary shares outstanding is adjusted to reflect the effect of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The effect of the dilution translates into a reduction in earnings per share resulting from the assumption that convertible instruments are converted or that the options granted are exercised.

aa) Subsequent events

The Bank analyses events occurred after the balance sheet date, that is, favourable and/or unfavourable events that occur between the balance sheet date and the date on which the financial statements were authorized for issue. Within this scope, two types of events can be identified:

i) those that provide proof of conditions that existed at the balance sheet date (events after the balance sheet date that give rise to adjustments); and

ii) those that are indicative of conditions that arose after the balance sheet date (events after the balance sheet date that do not give rise to adjustments).

Events that occur after the date of the financial statements that are not considered adjustable events, if significant, are disclosed in the notes to the financial statements.

bb) Significant judgements and estimates in the application of the accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors to apply judgment and make the necessary estimates in deciding which treatment is most appropriate. The most significant of these accounting estimates and judgments used in the application of the accounting policies by the Group are discussed in the following paragraphs in order to improve understanding of how their application affects the Group’s reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, the Group´s reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present the Group's financial position and results fairly in all material aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

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

The determination of impairment losses of financial instruments involves judgments and estimates regarding the following aspects, among others:

a) *Significant increase in credit risk:*

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

b) *Definition of asset groups with common credit risk characteristics:*

When the expected credit losses are measured on a collective basis, financial instruments are grouped based on common risk characteristics. The Group monitors the appropriateness of credit risk characteristics on a regular basis to assess whether they maintain their similarity. This is necessary to ensure that in the event of a change in credit risk characteristics, the asset segmentation is revised. This revision may result in the creation of new portfolios or the transfer of assets to existing portfolios that better reflect their credit risk characteristics.

c) *Definition of the number and relative weighting of prospective information for each type of product/market and determination of relevant prospective information:*

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

d) *Probability of default:*

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

e) Loss given default:

This corresponds to an estimate of the loss in a default scenario, being determined by the difference between the contractual and the expected cash flows that the Group expects to receive, through cash flows generated by the Customer's business or from the credit collateral. The calculation of the estimated loss given default is based, among other things, on the different recovery scenarios, historical information, the costs involved in the recovery process and the estimated valuation of the collateral associated with credit operations.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of the impairment losses recognized and presented in notes 21, 22, 25 and 27, with a consequent impact in the income statement of the Group.

Fair value of derivative financial instruments and other financial assets measured at fair value

Fair values are based on listed market prices, if available, being, in their absence, determined based either by recent transaction prices, similar and realized under market conditions or based on discounting techniques applied to future cash flows which take into account market conditions, time value, yield curve and volatility factors. These methodologies may require assumptions or judgments in the estimation of fair value.

Consequently, the use of different methodologies or of different assumptions or judgments in applying a particular model could result in financial results different from those reported in notes 23, 24 and 25.

The detail of the fair value calculation of derivative financial instruments and other financial assets carried at fair value is presented in note 49.

Entities included in the consolidation perimeter

For the purpose of determining the entities to include in the consolidation perimeter, the Group assesses whether it is exposed to, or has rights to, the variable returns from its involvement with the entity and can appropriate those variable returns through the power it holds over that entity (de facto control).

The decision as to whether an entity has to be consolidated by the Group requires the use of judgment, estimates and assumptions to determine the extent to which the Group is exposed to the variable returns and its ability to use its power to appropriate those returns.

Different assumptions and estimates could lead the Group to a different consolidation perimeter with a direct impact in the consolidated net income, as per note 61.

Income taxes

The Group is subject to the payment of corporate income taxes in several jurisdictions. Significant interpretations and estimates are required in determining the global amount of corporate income taxes. There are various transactions and calculations for which the assessment of the ultimate tax payable is uncertain during the ordinary course of business.

The Group complies with the guidelines of IFRIC 23 - Uncertainties related to the treatment of income tax related to the determination of taxable income, tax bases, tax losses to be carried forward, tax credits to be used and tax rates in scenarios of uncertainty regarding income tax treatment, with no material impact on its financial statements having resulted from the application of same.

Different interpretations and estimates could result in a different level of corporate income taxes, current and deferred, to those recognized in the period and presented in note 33.

This aspect has an increased relevance in the deferred tax recoverability analysis, in which the Group considers projections of future taxable income based on a set of assumptions, including estimated pre-tax income, adjustments to the tax base, the evolution of tax legislation and its interpretation. Accordingly, the recoverability of deferred tax assets depends on the implementation of the strategy of the Bank's Board of Directors, namely the ability to generate the estimated taxable income, the evolution of tax legislation and its respective interpretation.

Proposed Law no. 178/XIII, which established the tax regime of credit impairment and provisions for guarantees for tax periods beginning on or after 1 January 2019, providing the approximation between the accounting and tax rules for the purpose of deducting costs in respect of the reinforcement of credit impairment, was presented to the National Assembly, on 24 January 2019 and approved at Plenary Meeting no. 108, on 19 July 2019. Until the end of financial period 2023, the rules in force until 2018 will continue to apply, unless the option to apply the new regime is exercised in advance.

The estimated taxable income for the financial year considered the maintenance of the tax rules in force until 2018, with the option of the early adoption of the new regime not being exercised.

In the future taxable income projections, namely for the purpose of the deferred tax asset recoverability analysis carried out as at 31 December 2019 and 2018, the tax rules in force on each date, identical to those in force in financial years 2015, 2016 and 2017, were considered, with these, through Decree-Laws published at the end of each of those years, adopting the limits set forth in Bank of Portugal Notice no. 3/95 and other specific rules that should be considered for the purpose of determining the maximum amounts of impairment losses accepted for tax purposes.

In 2018, the Group adopted IFRS 9 - Financial Instruments, and since in this respect there is no transitional regime that establishes the tax treatment of transition adjustments to IFRS 9, the treatment given resulted from the Group's interpretation of the application of the general rules of the IRC Code.

The Portuguese Tax and Customs Authority is entitled to review the annual taxable income assessment made by the subsidiaries resident in Portugal, for a period of four years, save where any deduction or tax credit has been made, in which case the period is that of the exercise of that right. In the case of the subsidiary with registered office in Angola, the above-mentioned period is 3 years. Hence, corrections to the assessments may occur, mainly as a result of differences in interpretation of tax law. The Board of Directors considers it improbable that these will have a materially relevant effect on the financial statements.

Pensions and other post-employment and long-term benefits

The determination of the pension payment liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as the discount rate, pension and salary growth rates and mortality tables, estimated return on investments and others factors that may have an impact on the pension plan costs and liabilities.

Changes to these assumptions could have a significant impact on the amounts determined and presented in note 50.

Classification and valuation of assets received in recovery of credit, non-current assets held for sale and investment properties

The classification of the real estate received in recovery of credit and non-current assets held for sale is determined in accordance with IFRS 5 and of the investment properties in accordance with IAS 40.

Assets received in recovery of credit and non-current assets held for sale are measured at the lower amount between their fair value net of selling costs and the book value of the loan on the date the asset is received in recovery. Investment properties are measured at fair value which is determined based on periodic assessments made by external experts registered with the CMVM. Different methodologies and assumptions could have an impact on the classification and on the determination of the assets' fair value, which are presented in notes 29, 30 and 34.

Provisions

The measurement of provisions considers the principles set out in IAS 37 regarding the best estimate of the expected cost, the most likely outcome of ongoing litigation and considering the risks and uncertainties inherent in the processes. Different assumptions and judgments could have an impact on the calculation of the amount of the provisions, which are presented in note 39.

2 Net interest income and net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income

The existing IFRS require a separate disclosure of net interest income, net gains/(loss) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income, as presented in notes 3, 6 and 7. A particular business activity can generate impacts either in the net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income or in the net interest income captions. Therefore, the disclosure now presented highlights the contribution of the different business activities to the net interest income and to the net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income. The combined analysis of this caption is presented as follows:

(Euro thousand)

	2019	2018
Net interest income	236 811	248 104
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	8 510	12 273
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	42 269	5 626
	287 590	266 003

3 Net interest income

The amount of this caption has the following breakdown:

		(Euro thousand)
	2019	**2018**
Interest and similar income		
Loans and advances to customers	279 642	313 769
Deposits and other loans and advances	8 131	16 601
Financial assets held for trading	8 616	14 258
Financial assets at fair value through other comprehensive income	5 210	7 869
Hedging derivatives	6 559	6 563
Other financial assets at amortized cost	8 002	2 230
Financial assets at fair value through profit or loss	252	338
Other interest and similar income	76	80
	316 488	361 708
Interest and similar expense		
Deposits from customers	34 751	56 912
Debt securities issued	10 306	18 550
Deposits from central banks and other credit institutions	11 185	20 810
Financial liabilities held for trading	7 125	12 474
Hedging derivatives	3 549	3 707
Other subordinated debt	11 803	1 140
Lease liabilities	947	-
Other interest and similar expense	11	11
	79 677	113 604
Net interest income	236 811	248 104

The caption Interest and similar income – Loans and advances to customers, in 2019, includes, respectively, the amount of Euro 18,867 thousand and the amount of Euro 8,697 thousand (2018: Euro 21,256 thousand and Euro 8,658 thousand), related to commissions and to other gains/(losses), which are accounted for under the effective interest rate method, as referred to in the accounting policy described in note 1 c).

The caption Interest and similar income – Financial assets at fair value through profit or loss, in 2019, includes the amount of Euro 252 thousand (2018: 338 thousand) related to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

The caption Interest and similar income – Loan and advances to customers, in 2019, also includes the amount of Euro 20,044 thousand (2018: Euro 21,698 thousand) related to customers classified under stage 3.

The caption Interest and similar expense – Lease liabilities refers to the interest cost related to the lease liabilities recognized in the scope of IFRS 16, as indicated in accounting policy 1 i) and note 58.

4 Dividends from equity instruments

In 2019, this caption records the amount of Euro 7,631 thousand (2018: Euro 8,080 thousand) which includes Euro 2,375 thousand (2018: Euro 3,325 thousand) related to dividends received from the company Almina and Euro 3,868 thousand (2018: Euro 4,332 thousand) related to dividends received from the company Monteiro Aranha, S.A..

5 Net fee and commission income

The amount of this caption has the following breakdown:

		(Euro thousand)
	2019	**2018**
Fee and commission income		
From banking services	102 586	103 562
From transactions on behalf of third parties	23 141	27 871
From insurance brokerage services	12 068	8 931
Guarantees provided	4 813	5 357
Commitments to third parties	2 345	2 543
Operations with financial instruments	302	-
Other fee and commission income	2 799	698
	148 054	148 962
Fee and commission expense		
From banking services rendered by third parties	21 530	20 330
From transactions with securities	481	805
Other fee and commission expense	4 503	9 428
	26 514	30 563
Net fee and commission income	121 540	118 399

In 2019 and 2018, the caption Insurance brokerage services has the following breakdown:

		(Euro thousand)
	2019	**2018**
Life insurance	5 483	4 736
Non-life insurance	6 585	4 195
	12 068	8 931

The remuneration of insurance brokerage services was received in full, in cash, and all the commissions resulted from insurance intermediation for Lusitania, Companhia de Seguros, S.A. and for Lusitania Vida, Companhia de Seguros, S.A.

6 Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss

The amount of this caption has the following breakdown:

(Euro thousand)

	2019			2018		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	4 133	2 798	1 335	2 174	2 867	(693)
Issued by other entities	152	23	129	2 088	854	1 234
Shares	1 301	1 108	193	1 827	2 669	(842)
Investment units	532	17	515	156	379	(223)
	6 118	3 946	2 172	6 245	6 769	(524)
Derivative financial instruments						
Interest rate contracts	61 286	64 236	(2 950)	64 661	64 939	(278)
Exchange rate contracts	21 385	21 506	(121)	30 548	31 385	(837)
Futures contracts	2 942	4 149	(1 207)	4 926	4 856	70
Option contracts	1 944	1 679	265	1 088	876	212
Commodities contracts	1 039	479	560	1 010	235	775
	88 596	92 049	(3 453)	102 233	102 291	(58)
Financial assets at fair value through profit or loss						
Investment units	17 544	7 149	10 395	15 171	4 339	10 832
Loans and advances to customers	1 070	2 205	(1 135)	1 074	388	686
	18 614	9 354	9 260	16 245	4 727	11 518
Other financial assets at fair value through profit or loss						
Shares	-	100	(100)	36	-	36
Loans and advances to customers	189	36	153	91	198	(107)
	189	136	53	127	198	(71)
Financial liabilities at fair value through profit or loss						
Deposits from customers	11	-	11	22	-	22
Debt securities issued	2 428	2 273	155	546	52	494
	2 439	2 273	166	568	52	516
Hedging derivatives						
Interest rate contracts	38 042	32 924	5 118	54 871	47 189	7 682
	38 042	32 924	5 118	54 871	47 189	7 682
Hedged financial liabilities						
Debt securities issued	10 197	15 003	(4 806)	11 070	17 860	(6 790)
	10 197	15 003	(4 806)	11 070	17 860	(6 790)
	164 195	155 685	8 510	191 359	179 086	12 273

The Group recognizes in profit or loss the day one profit, generated primarily by the intermediation of derivative and foreign exchange financial products, since the fair value of these instruments, both on the date of initial recognition or subsequently, is determined based solely on observable market variables and reflects Banco Montepio's access to the wholesale financial market.

7 Net gains/ (losses) arising from financial assets at fair value through other comprehensive income

The amount of this caption has the following breakdown:

(Euro thousand)

	2019			2018		
	Gains	Losses	Total	Gains	Losses	Total
Fixed-income securities						
Bonds						
Issued by public entities	45 297	3 223	42 074	13 138	7 723	5 415
Issued by other entities	195	-	195	449	238	211
	45 492	3 223	42 269	13 587	7 961	5 626

In 2019, the caption Bonds – Issued by public entities includes net capital gains obtained on the sale of Portuguese sovereign bonds in the amount of Euro 41,329 thousand, of Spanish sovereign bonds in the amount of Euro 144 thousand and of Greek sovereign bonds in the amount of Euro 1,716 thousand and capital losses on the sale of Italian sovereign bonds in the amount of Euro 1,115 thousand. In 2018, this caption included the amount of Euro 7,905 thousand related to capital gains generated on the sale of Portuguese sovereign bonds and Euro 2,898 thousand on the sale of Spanish sovereign bonds, as well as capital losses in the amount of Euro 5,388 related to the sale of Italian and Greek sovereign securities.

8 Net gains/ (losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	2019			2018		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	31 461	32 367	(906)	75 299	82 299	(7 000)
	31 461	32 367	(906)	75 299	82 299	(7 000)

This caption includes the results arising from the restatement of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 s).

9 Net gains/ (losses) arising from sale of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Disposal of financial assets at amortized cost	10 024	-
Disposal of other assets	(10 549)	(726)
Disposal of loans and advances to customers	7 401	(5 271)
Disposal of non-current assets held for sale	16 056	15 072
	22 932	9 075

In 2019, the caption Disposal of financial assets at amortized cost includes the capital gains realized on the sale of Portuguese sovereign bonds of Euro 9,983 thousand and of Italian sovereign debt of Euro 41 thousand.

In 2019, the caption Disposal of other assets includes the result of the sale of real estate included in assets received in recovery of credit that were previously classified in the caption Non-current assets held for sale, as per note 29, and that in 2019 were reclassified to the caption Other assets, as per note 34. In 2018, the result generated by the sale of real estate is presented in the caption Disposal of non-current assets held for sale.

In 2019, the caption Disposal of loans and advances to customers records the gain realized on the disposal of a portfolio of loans and advances to customers that was in default in the amount of Euro 10,648 thousand, as described in note 22. In 2018, the caption Disposal of loans and advances to customers records the loss on the sale of a portfolio of loans and advances to customers that was in default in the amount of Euro 4,904 thousand, as described in note 22.

10 Other operating income/(expense)

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Other operating income		
Revaluation of investment properties	13 108	12 628
Reimbursement of expenses	5 448	7 174
Management fees on demand deposits	5 520	6 925
Rentals of investment properties	2 581	6 500
Services rendered	4 611	4 663
Repurchase of own issues	154	955
Other	21 002	14 921
	52 424	53 766
Other operating expenses		
Contributions:		
Banking sector	9 819	11 080
Ex-ante to the Single Resolution Fund	6 559	8 113
National Resolution Fund	4 296	2 691
Deposits Guarantee Fund	22	22
Revaluation of investment properties	7 258	7 909
Servicing and expenses with recovery and disposal of loans	5 052	6 500
Taxes	3 707	3 665
Expenses with issuances	1 213	1 238
Donations and memberships	749	662
Other	23 053	29 091
	61 728	70 971
Other operating income/(expense)	(9 304)	(17 205)

The caption Other, in the breakdown of Other operating income, includes income related to post-employment benefits related to employees assigned to Montepio Group entities and to the recovery of some customers' assets.

The caption Contribution to the Banking Sector is estimated in accordance with the terms of Law no. 55 A/2010. The amount payable is determined based on: (i) the average annual liability recorded in the balance sheet less the core capital (Tier 1) and the supplementary capital (Tier 2) and the deposits covered by the Deposits Guarantee Fund; and (ii) the notional amount of the derivative financial instruments.

The caption Contribution ex-ante to the Single Resolution Fund corresponds to the annual contribution, determined in accordance with number 1 of article 153-H of the Legal Framework of Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" – "RGICSF"), which transposed articles 100(4)(a) and 103(1) of Directive 2015/59/EU of the European Parliament and of the Council, of 15 May 2014, and article 20 of Delegated Regulation (EU) no. 2015/63 of the Commission, of 21 October 2014 ("Delegated Regulation") and with the conditions provided for in Implementing Regulation 2015/81 of the Council, of 19 December 2014 ("Implementing Regulation").

This contribution was determined by the Bank of Portugal, in its quality as national resolution authority, based on the methodology defined in articles 4, 13 and 20 of the Delegated Regulation. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund by 30 June of each year, as stipulated in the Agreement for the Transfer and Mutualization of the contributions to the Single Resolution Fund, signed in Brussels on 21 May 2014 and approved by Portuguese National Assembly Resolution 129/2015, of 3 September, pursuant to article 67(4) of Regulation (EU) no. 806/2014 of the European Parliament and of the Council, of 15 July 2014 ("MUR Regulation").

In addition, it is the responsibility of the Single Resolution Council ("CUR"), in close cooperation with the Bank of Portugal, in its quality as national resolution authority, to calculate these contributions on an annual basis, pursuant to and for the purposes of article 70(2) of the MUR Regulation. Banco Montepio opted, in financial years 2019 and 2018, to use irrevocable payment commitments, in the proportion of 15% of the contribution amount, as provided for in article 8(3) of the Implementing Regulation. On this basis, in 2019, Banco Montepio settled Euro 6,024 thousand (2018: Euro 4,886 thousand), in the form of irrevocable payment commitments, recorded under the caption Loans and advances to credit institutions abroad - Term deposits, as disclosed in notes 21 and 59. For the purpose of irrevocable payment commitments only cash collateral is accepted.

The caption Contribution to the National Resolution Fund corresponds to mandatory periodic contributions, in accordance with Decree-Law no. 24/2013. The periodic contributions are determined using a base rate, determined based on an Instruction of the Bank of Portugal, which may be adjusted in function of the credit institution's risk profile, that is to be applied in each year on the objective incidence base of said contributions. The periodic contributions have as incidence base the liabilities of the credit institutions participating in the Fund, defined in accordance with article 10 of said Decree-Law, less the liability elements integrating Tier 1 and Tier 2 and the deposits covered by the Deposit Guarantee Fund.

The caption Servicing and expenses with the recovery and disposal of loans registers the servicing costs charged by third parties related to a portfolio of non-performing loans.

The caption Other, in the breakdown of Other operating costs, includes maintenance costs with equipment and motor vehicles under operating leases, costs with real estate received in recovery of credit, accounted for in the caption Other assets (note 34), and legal costs.

11 Staff costs

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Remuneration	114 428	111 211
Mandatory social charges	32 609	32 153
Charges with the Pension Fund	7 042	9 107
Other staff costs	3 488	3 533
	157 567	156 004

The remuneration of the members of the Board of Directors aims to compensation them for their direct activities in the Group and for any and all functions performed in companies or corporate bodies to which they have been designated by indication or in representation of the Group.

In 2018, the indemnities paid to the members of the previous Executive Board of Directors and to the General and Supervisory Board, who in both cases were in active duty until 20 March 2018, amounted to Euro 1,148 thousand and Euro 455 thousand, respectively.

In 2019 and 2018, neither the members of the Corporate bodies nor Other key management staff received any variable remuneration. First-line managers are considered Other key management staff.

The costs with remuneration and other benefits, including the respective social charges, attributed to the General Meeting Board, the Supervisory Board, the Board of Directors (including the members of the Audit Committee), the Board of Directors of Banco Montepio's subsidiaries and Other key management staff of the Group, during financial year 2019, are presented as follows:

(Euro thousand)

	2019	2018
Remuneration	114 428	111 211
Mandatory social charges	32 609	32 153
Charges with the Pension Fund	7 042	9 107
Other staff costs	3 488	3 533
	157 567	156 004

In 2018, the remuneration earned by the members of the General and Supervisory Board during the period in which they were in office amounted to Euro 335 thousand.

The costs with remuneration and other short-term benefits, including the respective social charges, attributed to the General Meeting Board, the Supervisory Board, the previous Executive Board of Directors, the Board of Directors (including the members of the Audit Committee), the Board of Directors of Banco Montepio's subsidiaries and Other key management staff of the Group, during financial year 2018, are presented as follows:

	General Meeting Board	Supervisory Board	Previous General and Supervisory Board	Board of Directors	Board of Directors of Banco Montepio's subsidiaries	Previous Executive Board of Directors	Other key management staff	Total
Remuneration and other short-term benefits	7	75	284	1 789	542	528	3 723	6 948
Pension costs	-	-	-	20	-	-	119	139
Costs with healthcare benefits (SAMS)	-	-	-	9	2	10	71	92
Social Security charges	2	16	51	373	94	118	814	1 468
	9	91	335	2 191	638	656	4 727	8 647

As at 31 December 2019, loans granted to members of the Board of Directors of Banco Montepio (including the members of the Audit Committee) amounted to Euro 664 thousand (31 December 2018: Euro 500 thousand), to members of the Board of Directors of Banco Montepio's subsidiaries Euro 2,499 thousand (31 December 2018: Euro 2,582 thousand) and to Other key management staff Euro 3,600 thousand (31 December 2018: Euro 2,969 thousand). As at 31 December 2018, loans granted to members of the Executive Board of Directors of Banco Montepio (until 20 March 2018) amounted to Euro 132 thousand and to members of the General and Supervisory Board of Banco Montepio (until 20 March 2018) amounted to Euro 2,034 thousand, as per note 52.

The average number of employees at the Group's service during financial years 2019 and 2018, distributed by broad professional categories, was as follows:

	2019	2018
Administration and Coordination	236	218
Senior management	634	663
Technical staff	1 416	1 403
Administrative staff	1 383	1 435
Auxiliary staff	48	53
	3 717	3 772

12 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Rental costs	1 352	9 834
Specialized services		
Other specialized services	18 786	21 812
IT services	11 592	10 101
Independent work	1 604	1 862
Maintenance and repairs	4 603	6 229
Communication costs	6 149	5 543
Water, energy and fuel	4 036	4 243
Advertising costs	3 468	3 652
Transportation	2 691	2 587
Consumables	1 098	1 421
Insurance	1 067	1 133
Travel, accommodation and entertainment expenses	1 153	1 115
Training	435	552
Other general and administrative costs	7 455	7 642
	65 489	77 726

The caption Rental costs includes, in 2019, the amount of Euro 266 thousand related to short-term lease agreements, of which Euro 33 thousand correspond to leasehold rentals and Euro 233 thousand to rentals paid on motor vehicles, in both cases used by Banco Montepio as lessee. In 2018, the caption Rental costs included the amount of Euro 7,944 thousand corresponding to leasehold rentals used by the Group as lessee.

As part of the development of its activity, the Group records under the caption Other specialized services the costs incurred with the hiring of external consultants, with the payment of services related to databases, with charges associated with processing carried out by SIBS and also with costs related to the payment of fees and retainer fees.

The caption Other specialized services also includes fees invoiced by the Statutory Auditors of the Group (PwC in 2019 and KPMG in 2019 and 2018) in the scope of their functions of performing the statutory audit of the accounts, as well as other services, including those rendered by their networks, as follows (excluding VAT):

(Euro thousand)

	2019	2018
Audit		
Statutory audit services	1 436	1 417
Services other than statutory audit legally required		
Issue of opinions on the internal control system	491	380
Issue of opinions to regulatory authorities and support with work carried out for supervisory purposes	540	305
Issue of certificates and diverse reports	-	58
	1 031	743
Services other than statutory audit not legally required	853	489
	3 320	2 649

The caption Other general and administrative expenses includes, in 2019, the amount of Euro 3,422 thousand (2018: Euro 3,642 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

In 2018, the Group has several motor vehicle operating leasing agreements. Payments made under such leasing agreements are recognized in profit or loss over the period of the agreement. The minimum future payments for irrevocable operating lease agreements, by maturity, amounted to Euro 4,008 thousand, of which up to 1-year Euro 1,344 thousand and from 1 to 5 years Euro 2,664 thousand.

13 Depreciation and amortization

The amount of this caption has the following breakdown:

	2019	2018
		(Euro thousand)
Intangible assets		
Software	14 406	14 132
Other tangible assets		
Real estate		
For own use	3 334	5 593
Leasehold improvements in rented buildings	581	1 181
Equipment		
IT equipment	3 521	3 003
Fixtures	1 562	1 327
Furniture	193	350
Security equipment	141	181
Transportation	93	110
Machinery and tools	18	11
Assets under operating leases	-	8
Right-of-use assets		
Real estate	7 316	-
Motor vehicles	78	-
Other tangible assets	-	1
	16 837	11 765
	31 243	25 897

In 2019, as a result of the application of IFRS 16 as from 1 January 2019, the caption Right-of-use assets correspond, essentially, to properties (branches and central buildings) and the car fleet, being depreciated according to the period of each leasing agreement, as indicated in accounting policy 1 i) and in note 58.

14 Impairment of loans and advances

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Other loans and advances to credit institutions (note 21)		
Charge for the financial year	2 797	1 958
Reversals for the financial year	(3 086)	(2 494)
	(289)	(536)
Loans and advances to customers (note 22)		
Charge for the financial year net of reversals	128 387	84 030
Recovery of loans and interest	(7 785)	(11 164)
	120 602	72 866
	120 313	72 330

This caption records the estimate of the expected losses determined according to the accounting policy described in note 1 c).

During 2019, the Group revisited the models and processes associated with the assessment of impairment for credit risks, including, namely, the definitions of staging, EADs and LGDs.

The results obtained from this review determined the need for the Group to restate the financial statements with reference to 31 December 2018.

In the scope of this review, impacts with accounting relevance were assessed in the caption Impairment of loans and advances in financial year 2018 which corresponded to a reversal in the amount of Euro 861 thousand.

15 Impairment of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Impairment of financial assets at fair value through other comprehensive income (note 25)		
Charge for the financial year net of reversals	7 861	186
Impairment of other financial assets at amortised cost (note 27)		
Charge for the financial year net of reversals	1 613	2 679
	9 474	2 865

16 Impairment of other assets

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Impairment of investments in associated companies (note 28)		
Charge for the financial year	-	322
	-	322
Impairment of non-current assets held for sale (note 29)		
Charge for the financial year	-	15 579
Reversals for the financial year	-	(8 827)
	-	6 752
Impairment of tangible assets (note 31)		
Reversals for the financial year	-	(1 155)
	-	(1 155)
Impairment of other assets (note 34)		
Charge for the financial year	16 928	10 312
Reversals for the financial year	(5 218)	(3 033)
	11 710	7 279
	11 710	13 198

As a result of the transfer of Non-current assets held for sale to the caption Other assets, as referred in notes 29 and 34, the amount of the impairment of these assets was also booked in Other assets.

17 Other provisions

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Provisions for guarantees and commitments (note 39)		
Charge for the financial year	15 014	11 343
Reversals for the financial year	(14 893)	(13 694)
	121	(2 351)
Provisions for other risks and charges (note 39)		
Charge for the financial year	5 590	11 135
Reversals for the financial year	(6 111)	(5 088)
	(521)	6 047
	(400)	3 696

18 Share of profits/(losses) booked under the equity method

The share of profits/(losses) booked under the equity method is analysed as follows:

(Euro thousand)

	2019	2018
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	208	252

19 Cash and deposits at central banks

This caption is presented as follows:

(Euro thousand)

	2019	2018
Cash	194 530	194 597
Deposits at central banks		
Banco de Portugal	809 119	1 416 038
	1 003 649	1 610 635

The caption Deposits at central banks - Banco de Portugal includes the amount to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the value of the deposits and other effective liabilities. The cash reserve constitution regime, in accordance with directives of the European Central Bank System for the Eurozone, establishes the maintenance of a deposit at the Central Bank equivalent to 1% of the average value of the deposits and other liabilities, over each reserve constitution period.

20 Loans and deposits to credit institutions payable on demand

This caption is presented as follows:

(Euro thousand)

	2019	2018
Credit institutions in Portugal	1 320	1 252
Credit institutions abroad	11 774	50 799
Amounts to be collected	16 351	26 037
	29 445	78 088

The caption Amounts to be collected refers to cheques drawn by third parties on other credit institutions and which are due for collection.

21 Other loans and advances to credit institutions

This caption is presented as follows:

(Euro thousand)

	2019	2018
Loans and advances to credit institutions in Portugal		
Term deposits	6 416	1 987
Other loans and advances	-	112
	6 416	2 099
Loans and advances to credit institutions abroad		
CSA's	29 109	27 179
Term deposits	37 964	9 226
Reverse repos	54 199	2 190
Subordinated loans and advances	-	243
Other loans and advances	148 020	169 394
	269 292	208 232
	275 708	210 331
Impairment for credit risk of loans and advances to credit institutions	(110)	(399)
	275 598	209 932

Credit Support Annexes ("CSA's") are contracts that regulate the delivery, reception and monitoring of collateral delivered/received to cover the exposure of a counterparty of the contract to the other, as a result of open positions in over-the-counter derivatives. As provided for in most CSA's celebrated by the Group, this collateral might be in the form of securities or cash, with, however, in the Group's case, all collaterals being in cash.

Collaterals in cash delivered (constitution of reinforcement) or received (collateral release) result from the changes in the fair value of the various derivative instruments that the Group negotiated with each one of the counterparties and are materialized through an effective transfer of cash, through TARGET2 transfers to each one of the counterparties in question, as a guarantee/security of Banco Montepio Group's exposure vis-à-vis the counterparty.

On this basis, and in the scope of the operations of derivative financial instruments with institutional counterparties, and as established in the respective contracts, the Group holds an amount of Euro 29,109 thousand (31 December 2018: Euro 27,179 thousand) related to other loans and advances to credit institutions given as collateral for the above-mentioned operations.

The caption Loans and advances to credit institutions abroad – Term deposits includes the amount of Euro 6,024 thousand (31 December 2018: Euro 4,886 thousand) related to a deposit made and accepted as collateral in the scope of the Contribution ex-ante to the Single Resolution Fund, as per notes 10 and 60.

The caption Loans and advances to credit institutions abroad – Other loans and advances includes the amounts deposited by vehicles incorporated for the purpose of the Group's securitization operations.

The analysis of the caption Loans and advances to credit institutions by residual maturity of the operations is as follows:

(Euro thousand)

	2019	2018
Up to 3 months	56 704	27 765
3 to 6 months	6 023	4 886
6 months to 1 year	1 100	2 740
1 to 5 years	64 383	8 844
More than 5 years	111 984	153 015
Undetermined	17 514	13 081
	257 708	210 331

Impairment movements for credit risks of Other loans and advances to credit institutions are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	399	-
IFRS 9 transition adjustment	-	935
Charge for the financial year net of reversals	(289)	(536)
Balance on 31 December	110	399

In 2019, the Other loans and advances to credit institutions were remunerated at the average rate of 0.91% (2018: 0.78%).

22 Loans and advances to customers

This caption is presented as follows:

	(Euro thousand)	
	2019	**2018**
Corporate		
Loans not represented by securities		
Loans	2 561 639	2 688 150
Current account loans	424 254	447 699
Finance leases	446 149	444 928
Discounted bills	63 251	66 035
Factoring	196 896	175 467
Overdrafts	1 935	5 421
Other loans	547 713	639 142
Loans represented by securities		
Commercial paper	294 310	277 787
Bonds	168 634	169 922
Retail		
Mortgage loans	5 771 290	6 170 438
Finance leases	59 453	63 137
Consumer credit and other loans	924 679	968 586
	11 460 203	12 116 712
Value correction of assets subject to hedging operations		
Other loans	46	(107)
Past due loans and advances and interest		
Less than 90 days	94 667	37 298
More than 90 days	684 549	913 885
	779 216	951 183
	12 239 465	13 067 788
Impairment for credit risks	(774 923)	(972 415)
	11 464 542	12 095 373

As at 31 December 2019, the caption Loans and advances to customers includes the amount of Euro 2,719,463 thousand (31 December 2018: Euro 2,728,028 thousand) related to the issue of covered bonds realized by the Group, as referred to in note 38.

As at 31 December 2019, loans and advances, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that the Group granted to its shareholders and to related parties amounted to Euro 30,718 thousand (31 December 2018: Euro 63,004 thousand), as described in note 52. The celebration of business between the Group and its shareholders or with individual or legal persons related to these, according to article 20 of the Portuguese Securities Code, regardless of the value, is always submitted to deliberation and assessment by the Board of Directors and the Audit Committee, under a proposed made by the commercial network, supported by analyses and opinions as to the compliance with the limit established in article 109 of the Legal Framework of Credit Institutions and Financial Companies issued by the Risk Department. The impairment for credit risks related to these contracts amounts to Euro 130 thousand as at 31 December 2019 (31 December 2018: Euro 363 thousand).

As at 31 December 2019, Loans and advances to customers includes the amount of Euro 2,130,303 thousand (31 December 2018: Euro 2,513,976 thousand) related to loans and advances that were the object of securitization and that, in accordance with the accounting policy outlined in note 1 c), were not subject to de-recognition, as described in note 53.

During financial year of 2019, Banco Montepio sold a portfolio of loans and advances to customers that were in default and that were registered on- and off-balance sheet, which total exposure amounted to Euro 316,634 thousand, having generated a capital gain of Euro 10,648 thousand, as described in note 9.

During financial year 2018, Banco Montepio sold a portfolio of loans and advances to customers that were in default and that were registered on- and off-balance sheet, which total exposure amounted to Euro 239,144 thousand, having generated a capital loss of Euro 4,904 thousand, as described in note 9.

In caption Value correction of assets subject to hedge operations contains the fair value of the part of the portfolio that is hedged. This appreciation is accounted for through the income statement, in accordance with the accounting policy described in note 1 c). The Group periodically tests the effectiveness of the existing hedging relationships.

The caption Loans and advances to customers includes loans recorded at fair value through profit or loss in the amount of Euro 1,207 thousand (31 December 2018: Euro 15,139 thousand). As at 31 December 2019, the fair value adjustment amounted to a positive Euro 46 thousand (31 December 2018: negative in Euro 107 thousand), and the impact on profit or loss was positive in the amount of Euro 153 thousand (2018: negative in Euro 107 thousand), as per note 23.

The fair value of the Loans and advances to customers' portfolio is presented in note 49.

The analysis of the caption Loans and advances to customers, by interest rate type, as at 1 December 2019 and 2018, is as follows:

(Euro thousand)

	2019	2018
Variable-rate loans and advances	10 583 230	11 321 912
Fixed-rate loans and advances	1 656 235	1 745 876
	12 239 465	13 067 788

The analysis of Past due loans and advances and interest, by credit type, is as follows:

(Euro thousand)

	2019	2018
Asset-backed loans	554 305	608 484
Other guaranteed loans	130 828	180 302
Finance leases	8 696	14 045
Secured loans	34 800	33 000
Other loans and advances	50 587	115 352
	779 216	951 183

The analysis of the caption Loans and advances to customers, by maturity and by credit type, for financial year ended 31 December 2019, is as follows:

(Euro thousand)

	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	149 111	626 711	7 919 262	554 305	9 249 389
Other guaranteed loans	453 403	208 871	266 959	130 828	1 060 061
Financial leases	14 873	238 582	252 147	8 696	514 298
Secured loans	294 204	-	-	34 800	329 004
Loans represented by securities - Bonds	76 036	77 597	15 001	-	168 634
Other loans and advances	236 389	134 487	496 616	50 587	918 079
	1 224 016	1 286 248	8 949 985	779 216	12 239 465

The analysis of the caption Loans and advances to customers, by maturity and by credit type, for financial year ended 31 December 2018, is as follows:

(Euro thousand)

	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	172 912	585 755	8 438 490	608 484	9 805 641
Other guaranteed loans	500 201	236 550	346 019	180 302	1 263 072
Finance leases	52 787	212 663	242 615	14 045	522 110
Secured loans	277 787	-	-	33 000	310 787
Loans represented by securities - Bonds	30 293	124 956	14 673	-	169 922
Other loans and advances	107 572	302 569	470 763	115 352	996 256
	1 141 552	1 462 493	9 512 560	951 183	13 067 788

The outstanding amount of Finance leases, by residual maturity, as at 31 December 2019, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	60 741	236 621	135 776	433 138
Outstanding interest	(9 677)	(33 942)	(21 424)	(65 043)
Residual values	4 843	81 030	51 634	137 507
	55 907	283 709	165 986	505 602

The outstanding amount of Finance leases, by residual maturity, as at 31 December 2018, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	68 948	228 187	134 045	431 180
Outstanding interest	(10 578)	(34 110)	(26 282)	(70 970)
Residual values	40 013	59 432	48 410	147 855
	98 383	253 509	156 173	508 065

As regards operating leases, the Group does not have significant contracts as Lessor.

The analysis of Past due loans and advances and interest, by customer type and purpose, is as follows:

	2019	2018
		(Euro thousand)
Corporate		
Construction/Production	159 455	197 762
Investment	312 716	347 800
Treasury	201 083	187 479
Other	22 071	36 039
Retail		
Mortgage loans	39 728	81 558
Consumer credit	21 664	46 664
Other	22 499	53 880
	779 216	951 183

The movements in impairment for credit risks are analysed as follows:

	2019	2018 restated	2018
			(Euro thousand)
Balance on 31 December 2017	972 415	1 033 821	1 033 821
IFRS 9 transition adjustment	-	172 889	144 189
Balance on 1 January	972 415	1 206 710	1 178 010
Charge for the financial year net of reversals			
Continuing operations	128 387	84 030	84 891
Discontinued operations	5 419	8 132	8 132
Utilization	(325 879)	(304 044)	(304 044)
Transfers related to discontinued operations	(5 419)	(22 413)	(22 413)
Balance on 31 December	774 923	972 415	944 576

During financial years 2019 and 2018, the Group sold two portfolios of loans and advances to customers, one in each financial year, that were in default and that were recorded on- and off-balance sheet, having utilized impairment for credit risk in the amount of Euro 176,324 thousand and Euro 139,849 thousand, respectively.

The impairment for credit risks, by credit type, is as follows:

	2019	2018
		(Euro thousand)
Asset-backed loans and financial leases	543 665	603 292
Other secured loans	163 758	245 133
Unsecured loans	67 500	123 990
	774 923	972 415

The analysis of impairment losses utilized, by credit type, is as follows:

(Euro thousand)

	2019	2018
Asset-backed loans and finance leases	156 445	105 334
Other guaranteed loans	111 028	113 663
Unsecured loans	58 406	85 047
	325 879	304 044

The total amount of loans and advances and interest recovered as at 31 December 2019 amounted to Euro 7,785 thousand (31 December 2018: Euro 11,164 thousand), as described in note 14.

In addition, the loan and advances to customers' portfolio includes loans that, given the financial difficulties of the customer, were subject to amendments of the initial conditions and these amount to Euro 868,739 thousand (31 December 2018: Euro 949,942 thousand) and have an impairment of Euro 365,280 thousand (31 December 2018: Euro 386,285 thousand).

The Group has adopted forbearance measures and practices, aligned in terms of risk, in order to adjust the disposable income or the financial capacity of customers to their debt service. On this basis, the recommendations legislated in the scope of the non-compliance regimes (Decree-Law no. 227/2012) and, for companies (SIREVE, PER), were adopted, with these being widely disclosed in the institutional website, in the internal rules and communications, to be disclosed and implemented vis-à-vis customers presenting evidence of financial difficulties.

Regarding the forbearance measures and in accordance with Implementing Regulation (EU) 2015/227, of 9 January 2015, contractual changes were considered (grace period of the principal, extension of the term, deferral of the principal, etc.) as were the consolidation of debts in another contract with conditions adjusted to the customer's current situation.

Additionally, the restructured loans and advances to customers' portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent celebration of a new loan to replace the previous loans. The restructuring may result from a reinforcement of guarantees and/or liquidation of part of the loan and involve an extension of maturities or a change in the interest rate. The analysis of restructured loans entered into during financial years 2019 and 2018, by credit type, is as follows:

	2019	2018
Corporate		
Loans not represented by securities		
Loans	149 396	55 254
Current account loans	311	21 288
Finance leases	1 525	6 587
Other loans	2 018	3 627
Retail		
Mortgage loans	4 893	9 397
Consumer credit and other loans	6 424	4 992
	164 567	101 145

(Euro thousand)

Restructured loans are also subject to an impairment analysis that results from the revaluation of the expectations given the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate, and considering the new collaterals presented.

As regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 58,584 thousand, which corresponds to an impairment rate of 35.6% (31 December 2018: Euro 26,889 thousand, impairment rate of 26.6%).

The Group uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the scope of housing loans and mortgages on other types of properties in the scope of other types of loans. To reflect the market value of these, they are reviewed regularly based on valuations conducted by certified independent appraiser entities or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are revalued based on market values of the respective assets, when available, with certain depreciation coefficients being applied to reflect their volatility.

Most of the real collaterals are revalued at least once a year.

23 Financial assets and liabilities held for trading

The caption financial assets and liabilities held for trading is analysed as follows:

(Euro thousand)

	2019	2018
Financial assets held for trading		
Securities		
Shares	1 089	-
Bonds	11 793	
Investment units	127	-
	13 009	-
Derivative instruments		
Derivative financial instruments with positive fair value	22 896	23 739
	35 905	23 739
Financial liabilities held for trading		
Derivative instruments		
Derivative financial instruments with negative fair value	13 368	13 496
	13 368	13 496

In December 2016, within an asset sale operation involving loans and real estate in the amount of Euro 288,232 thousand, Banco Montepio acquired the right to a return, if a set of parameters related to the performance of the assets sold is met, which acquisition value amounted to Euro 12,000 thousand. As at 31 December 2019, the value of this right amounts to Euro 12,840 thousand (31 December 2018: Euro 12,214 thousand) and is recorded in the caption Derivative financial instruments with a positive fair value.

As provided for in IFRS 13, financial instruments are measured in accordance with the following valuation levels, described in note 49, as follows:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
Securities				
Shares	1 089	-	-	1 089
Bonds	11 793			11 793
Investment units	127	-	-	127
	13 009	-	-	13 009
Derivative instruments				
Derivative financial instrument with positive fair value	-	7 785	15 111	22 896
	13 009	7 785	15 111	35 905
Financial liabilities held for trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	13 368	-	13 368
	-	13 368	-	13 368

(Euro thousand)

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Derivative instruments				
Derivative financial instruments with positive fair value	-	11 525	12 214	23 739
	-	11 525	12 214	23 739
Financial liabilities held for trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	13 496	-	13 496
	-	13 496	-	13 496

As at 31 December 2019, the analysis of the securities held for trading, by residual maturity, is as follows:

(Euro thousand)

	2019					
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Fixed-income securities						
Bonds						
Domestic	-	-	4 061	2 096	-	6 157
Foreign	-	-	-	5 636	-	5 636
Variable-income securities						
Shares						
Domestic	-	-	-	-	293	293
Foreign	-	-	-	-	796	796
Investment units	-	-	-	-	127	127
	-	-	4 061	7 732	1 216	13 009

The book value of the derivative financial instruments as at 31 December 2019 and the comparison with the respective assets and liabilities recorded at fair value, in the specific case of derivatives held for risk management, can be analysed as follows:

(Euro thousand)

		2019								
		Derivative					Associated asset/liability			
Derivative	Associated financial asset/ liability	Notional	Positive fair value	Negative fair value	Total fair value	Changes in fair value in the financial year(1)	Fair value	Changes in fair value in the financial year	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	3 300	225	(34)	191	(110)	17	(61)	3 461	3 300
Interest rate swap	Deposits from customers	-	-	-	-	32	-	(11)	-	-
Interest rate swap	Loans and advances to customers	1 200	4	(53)	(49)	(172)	46	153	1 207	1 200
Interest rate swap	Other	1 820 428	9 499	(12 800)	(3 301)	(1 209)	-	-	-	-
Currency Swap (Short)	-	53 682	311	(8)	303	341	-	-	-	-
Currency Swap (Long)	-	53 974								
Futures (Short)	-	3 410	-	-	-	-	-	-	-	-
Futures (Long)	-	-								
Forwards (Short)	-	1 493	-	-	-	-	-	-	-	-
Forwards (Long)	-	1 494								
Options (Short)	-	56 539	12 857	(473)	12 384	402	-	-	-	-
Options (Long)	-	342 592								
		2 338 112	22 896	(13 368)	9 528	(716)	63	81	4 668	4 500

(1) Includes the result of the derivatives disclosed in note 6

Derivatives held for risk management include derivatives contracted for the purpose of hedging certain financial assets and liabilities, but that were not designated as hedging derivatives.

The book value of the derivative financial instruments as at 31 December 2018 and the comparison with the respective assets and liabilities recorded at fair value, can be analysed as follows:

(Euro thousand)

		2018								
		Derivative					Associated asset/liability			
Derivative	Associated asset/liability	Notional	Positive fair value	Negative fair value	Total fair value	Changes in fair value in the financial year [1]	Fair value	Changes in fair value in the financial year	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	3 300	337	(36)	301	(113)	78	(185)	3 460	3 300
Interest rate swap	Deposits from customers	14 850	-	(32)	(32)	75	11	(22)	14 597	14 597
Interest rate swap	Loans and advances to customers	15 257	143	(20)	123	168	(107)	(107)	15 139	15 120
Interest rate swap	Others	3 324 917	10 855	(12 948)	(2 093)	395	-	-	-	-
Currency swap (Short)	-	38 811	25	(63)	(38)	(329)	-	-	-	-
Currency swap (Long)	-	38 740								
Futures (Short)	-	-	-	-	-	(9)	-	-	-	-
Futures (Long)	-	-								
Forwards (Short)	-	1 373	-	-	-	-	-	-	-	-
Forwards (Long)	-	1 373								
Options (Short)	-	50 865	12 379	(397)	11 982	773	-	-	-	-
Options (Long)	-	353 859								
		3 843 345	23 739	(13 496)	10 243	960	(18)	(314)	33 196	33 017

[1] Includes the result of the derivatives disclosed in note 6

As at 31 December 2019, the analysis of derivative financial instruments held for trading, by residual maturity, is as follows:

(Euro thousand)

	2019					
	Domestic with residual maturity				Fair value	
	Less than 3 months	3 months to 1 year	More than 1 year	Total	Assets	Liabilities
Interest rate contracts						
Interest rate swaps	-	5 877	1 819 051	1 824 928	10 174	13 334
Options	2 758	159	93 385	96 302	(434)	21
Exchange rate contracts						
Exchange rate swaps	107 656	-	-	107 656	311	8
Forwards	2 509	478	-	2 987	-	-
Index/Equities contracts						
Futures	3 410	-	-	3 410	-	-
Options	-	-	-	-	5	5
Credit contracts						
Options	-	-	288 232	288 232	12 840	-
	116 333	6 514	2 200 668	2 323 515	22 896	13 368

As at 31 December 2018, the analysis of derivative financial instruments held for trading, by residual maturity, is as follows:

(Euro thousand)

	2018					
	Domestic with residual maturity				Fair value	
	Less than 3 months	3 months to 1 year	More than 1 year	Total	Assets	Liabilities
Interest rate contracts						
Interest rate swaps	5 000	24 192	3 329 132	3 358 324	11 570	13 271
Options	4 892	40 942	55 808	101 642	(76)	157
Exchange rate contracts						
Exchange rate swap	76 443	1 108	-	77 551	25	63
Forwards	2 746	-	-	2 746	-	-
Index/Equity contracts						
Options	5 000	9 850	-	14 850	5	5
Credit contracts						
Options	-	-	288 232	288 232	12 215	-
	94 081	76 092	3 673 172	3 843 345	23 739	13 496

Within the scope of the loan obtained from the EIB, a set of Italian sovereign bonds with a nominal value of Euro 1,000 thousand are part of the collateral, as described in note 36.

The nominal value of the assets pledged as collateral to the European Central Bank in the context of liquidity-providing operations amounts, as at 31 December 2019, to Euro 3,357 thousand after the application of a haircut, as described in note 35.

24 Financial assets at fair value through profit or loss

This caption is presented as follows:

(Euro thousand)

	2019	2018
Variable-income securities		
Investment units	373 220	464 502
Loans and advances to customers at fair value		
Loans not represented by securities	11 455	28 092
	384 675	492 594

The caption Variable-income securities – Investment units includes, as at 31 December 2019, the amount of Euro 83,830 thousand (31 December 2018: Euro 94,822 thousand) related to investment units in specialized credit funds acquired in the scope of the sale of loans and advances to customers, as referred in note 57.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 49, as follows:

(Euro thousand)

	2019			
	Level 1	Level 2	Level 3	Total
Variable-income securities				
Investment units	7 551	-	365 669	373 220
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	11 455	11 455
	7 551	-	377 124	384 675

(Euro thousand)

	2018			
	Level 1	Level 2	Level 3	Total
Variable-income securities				
Investment units	6 556	-	457 946	464 502
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	28 092	28 092
	6 556	-	486 038	492 594

As at 31 December 2019, the level 3 assets in the caption Variable-income securities – Investment units include investment units in real estate investment funds, specialized credit recovery funds and venture capital funds that are valued according to the amount of the Net Asset Value of the Fund (“NAVF”) disclosed, determined by the management company, in the amount of Euro 365,669 thousand (31 December 2018: Euro 457,946 thousand), of which Euro 256,298 thousand (31 December 2018: Euro 296,550 thousand) are related to real estate investment funds. The net assets of specialized credit recovery funds represent a diversified set of assets and liabilities, which are valued in the respective funds' accounts at fair value determined using internal methodologies adopted by the management entity.

The net assets of the real estate investment funds are valued by the management company based on valuation reports prepared by experts registered with the CMVM.

As at 31 December 2019, for all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial assets, with an impact of Euro 36,567 thousand (31 December 2018: Euro 45,795 thousand) having been determined.

The movements occurred in the Financial assets at fair value through profit or loss – Variable-income securities, recorded under level 3, are analysed as follows:

(Euro thousand)

	2019	2018
Opening balance	457 946	374 560
Deconsolidation impact of Valor Prime	-	82 140
Acquisitions	699	1 313
Remeasurements	3 426	(10)
Disposals	(96 402)	(57)
Closing balance	365 669	457 946

The movements occurring in level 3 of the Loans and advances to customers at fair value related, in their entirety, to revaluations made in financial years 2019 and 2018.

25 Financial assets at fair value through other comprehensive income

This caption is presented as follows:

(Euro thousand)

	2019				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed-income securities					
Bonds issued by public entities					
Domestic	602 723	15 115	-	(1 360)	616 478
Foreign	805 728	6 239	(497)	(3 609)	807 861
Bonds issued by other entities					
Domestic	58 699	292	(2 077)	(175)	56 739
Foreign	240 962	2 435	(785)	(183)	242 429
Variable-income securities					
Shares					
Domestic	74 240	9 885	(2 150)	-	81 975
Foreign	71 554	5 294	(22 639)	-	54 209
	1 853 906	39 260	(28 148)	(5 327)	1 859 691

(1) Acquisition cost for variable-income securities and amortized cost for debt securities

(Euro thousand)

	2018				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed-income securities					
Bonds issued by public entities					
Domestic	11 201	863	-	(26)	12 038
Foreign	210 263	157	(5 166)	(433)	204 821
Bonds issued by other entities					
Domestic	45 791	390	(1 719)	(154)	44 308
Foreign	50 987	358	(942)	(58)	50 345
Variable-income securities					
Shares					
Domestic	74 233	6 439	(4 340)	-	76 332
Foreign	71 532	2 693	(17 996)	-	56 229
	464 007	10 900	(30 163)	(671)	444 073

(1) Acquisition cost for variable-income securities and amortized cost for debt securities

The main assumptions used in the valuation of shares are as follows:

Almina

The Group holds 19.0% of the share capital of Almina. The book value of Almina in the Group's financial statements amounts to Euro 67,200 thousand as at 31 December 2019 (31 December 2018: Euro 65,631 thousand).

The valuation of Almina with reference to 31 December 2019 was carried out by an external entity based on the Almina Holding Group's business plan, as well as other information provided by Almina's management.

Almina's valuation exercise considers a set of variables and assumptions, namely:

- Macroeconomic assumptions - forecasts of the outlook for inflation and the €/USD exchange rate;
- Forecasts on the evolution of metal prices (copper, zinc, lead, silver and tin);
- Discount rate parameters;
- Reasonableness of the KPIs assumed in the projection period, namely, on the zinc recovery and on commercial costs.

The two businesses relevant for Almina's valuation correspond to ore exploitation: zinc and copper, with a discount rate between 8.0% and 9.8% having been used and with the determination of ore market prices having been based on international indices.

SIBS

The fair value of the shareholding held in SIBS, presented in the financial statements as at 31 December 2019, is supported by a valuation that considers the methodologies of the multiples of comparable companies (market and transaction) and of the Discounted Cash Flows (DCF) and is based on the performance projected by the company for 2019 and the adoption of a conservative approach in the assumptions used to project the forecast period.

Unicre

The fair value of the shareholding held in Unicre, presented in the financial statements as at 31 December 2019, is supported by a valuation that considers the methodologies of the multiples of comparable companies (market and transaction) and of the Gordon Growth Model, assuming for the projections a flat growth for the evolution of the company's operating results.

With reference to financial years 2019 and 2018, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(Euro thousand)

	2019				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed-income securities					
Bonds issued by public entities					
Domestic	616 478	-	-	-	616 478
Foreign	807 861	-	-	-	807 861
Bonds issued by other entities					
Domestic	50 585	3 052	3 102	-	56 739
Foreign	229 858	12 571	-	-	242 429
	1 704 782	15 623	3 102	-	1 723 507
Variable-income securities					
Shares					
Domestic	-	-	81 400	575	81 975
Foreign	42 669	-	11 079	461	54 209
	42 669	-	92 479	1 036	136 184
	1 747 451	15 623	95 581	1 036	1 859 691

(Euro thousand)

	2018				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed-income securities					
Bonds issued by public entities					
Domestic	12 038	-	-	-	12 038
Foreign	204 821	-	-	-	204 821
Bonds issued by other entities					
Domestic	35 540	4 184	4 584	-	44 308
Foreign	37 350	12 995	-	-	50 345
	289 749	17 179	4 584	-	311 512
Variable-income securities					
Shares					
Domestic	-	-	74 161	2 171	76 332
Foreign	47 310	-	8 481	438	56 229
	47 310	-	82 642	2 609	132 561
	337 059	17 179	87 226	2 609	444 073

As provided for in IFRS 13, financial instruments are measured according to the valuation levels described in note 49.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset, with an impact of Euro 9,558 thousand as at 31 December 2019 (31 December 2018: Euro 8,723 thousand).

Instruments classified under level 3 have associated unrealized gains and losses in the positive amount of Euro 11,459 thousand (31 December 2018: positive amount of Euro 3,235 thousand) recognized in fair value reserves.

It is the Group's understanding that the book value presented for financial instruments at cost does not differ materially from the fair value, with the respective fair value not having been determined given the reduced value of the positions.

As at 31 December 2018, the impairment recorded for these securities amounted to Euro 74 thousand.

The movements occurring in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

(Euro thousand)

	2019	2018
Opening balance	87 226	533 744
Acquisitions	-	-
Remeasurements	8 224	(13 815)
Disposals	-	-
Transfers from level 3 to level 1	-	(66 673)
Transfers to level 3	1 603	8 530
Transfers to financial assets at fair value through profit or loss	-	(374 560)
Reimbursements	(1 472)	-
Closing balance	95 581	87 226

The valuation of the preferred shares of Visa Inc (Series C) as at 31 December 2018 implied the constitution of a positive fair value reserve in the amount of Euro 2,065 thousand.

The movements occurring in impairment of financial assets at fair value through other comprehensive income are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	671	78 926
IFRS 9 transition adjustment	-	(39 377)
Charge for the financial year		
Continuing operations	7 864	1 303
Discontinued operations	-	-
Reversals for the financial year		
Continuing operations	(3)	(1 117)
Discontinued operations	-	-
Utilization	(5 618)	(39 064)
Transfers	2 413	-
Balance on 31 December	5 327	671

The analysis of financial assets at fair value through other comprehensive income, by residual maturity, as at 31 December 2019, is as follows:

(Euro thousand)

	2019					
	Less than 3 months	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Undetermined**	**Total**
Fixed-income securities						
Bonds issued by public entities						
Domestic	-	524	231 955	383 999	-	616 478
Foreign	253 255	420 556	26 300	107 751	-	807 861
Bonds issued by other entities						
Domestic	-	-	26 871	29 003	865	56 739
Foreign	1 057	14 647	93 143	133 582	-	242 429
	254 312	435 727	378 269	654 335	865	1 723 507
Variable-income securities						
Shares						
Domestic	-	-	-	-	81 975	81 975
Foreign	-	-	-	-	54 209	54 209
	-	-	-	-	136 184	136 184
	254 312	435 727	378 269	654 335	137 049	1 859 691

The analysis of financial assets at fair value through other comprehensive income, by residual maturity, as at 31 December 2018, is as follows:

(Euro thousand)

	2018					
	Less than 3 months	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Undetermined**	**Total**
Fixed-income securities						
Bonds issued by public entities						
Domestic	-	-	12 038	-	-	12 038
Foreign	-	-	204 821	-	-	204 821
Bonds issued by other entities						
Domestic	-	243	36 827	6 363	875	44 308
Foreign	-	1 015	29 754	19 576	-	50 345
	-	1 258	283 440	25 939	875	311 512
Variable-income securities						
Shares						
Domestic	-	-	-	-	76 332	76 332
Foreign	-	-	-	-	56 229	56 229
	-	-	-	-	132 561	132 561
	-	1 258	283 440	25 939	133 436	444 073

Securities pledged as collateral, recorded in financial assets at fair value through other comprehensive income, are presented as follows:

- The nominal value of the assets pledged as collateral to the European Central Bank in the scope of liquidity providing operations amounts, as at 31 December 2019, to Euro 1,608,159 thousand after haircut (31 December 2018: Euro 1,927,666 thousand), as described in note 35;

- Securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation System have a nominal amount of Euro 1,000 thousand as at 31 December 2019 and 2018;
- As at 31 December 2019, the EIB loan obtained is collateralized by securities of Portuguese, Spanish, Greek, Dutch, French and German sovereign bonds with a nominal value of Euro 205,201 thousand (31 December 2018: 152,000 thousand), as described in note 36; and
- Securities pledged as collateral to the Deposit Guarantee Fund have a nominal amount of Euro 21,500 thousand as at 31 December 2019 (31 December 2018: Euro 22,200 thousand), as described in note 48.

These financial assets pledged as collateral can be executed in the event of non-compliance with contractual obligations assumed by the Group under the terms and conditions of the contracts celebrated.

26 Hedging derivatives

This caption is presented as follows:

(Euro thousand)

	2019	2018
Assets		
Interest rate swaps	11 148	5 666
Liabilities		
Interest rate swaps	547	-
Net value	10 601	5 666

Banco Montepio contracted an interest rate swap to hedge its interest rate risk arising from a bond issue at fixed rate. The accounting method depends on the nature of the hedged risk, namely whether the Group is exposed to fair value changes or whether it is hedging future transactions. The Group performs periodic effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives' portfolio, by residual maturity, as at 31 December 2019 and 2018, is as follows:

(Euro thousand)

	2019			
	Notional by residual maturity		Fair value	
	Oct 2022	Total	Oct 2022	Total
Fair value hedge derivatives with interest rate risk:				
Interest rate swap	750 000	750 000	10 601	10 601
	750 000	750 000	10 601	10 601

(Euro thousand)

	2018			
	Notional by residual maturity		Fair value	
	Oct 2022	Total	Oct 2022	Total
Fair value hedge derivatives with interest rate risk:				
Interest rate swap	750 000	750 000	5 666	5 666
	750 000	750 000	5 666	5 666

As at 31 December 2019 and 2018, the fair value hedging operation can be analysed as follows:

(Euro thousand)

	2019						
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative [1]	Changes in fair value of derivative in the financial year	Fair value of hedged element[2]	Changes in fair value of hedged element in the financial year[2]
Interest rate swap	Debt securities issued	Interest rate	750 000	10 601	4 935	(9 224)	(4 807)
			750 000	10 601	4 935	(9 224)	(4 807)

[1] Includes accrued interest
[2] Attributable to risk hedged

(Euro thousand)

	2018						
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative [1]	Changes in fair value of derivative in the financial year	Fair value of hedged element[2]	Changes in fair value of hedged element in the financial year[2]
Interest rate swap	Debt securities issued	Interest rate	750 000	5 666	7 329	(4 417)	6 790
			750 000	5 666	7 329	(4 417)	6 790

[1] Includes accrued interest
[2] Attributable to risk hedged

27 Other financial assets at amortized cost

This caption is presented as follows:

(Euro thousand)

	2019	2018
Fixed-income securities		
Bonds issued by public entities		
Domestic	699 604	1 037 815
Foreign	201 291	220 386
	900 895	1 258 201
Impairment of other financial assets at amortized cost	(1 750)	(2 550)
	899 145	1 255 651

The fair value of the portfolio of Other financial assets at amortized cost is disclosed in note 49.

Other financial assets at amortized cost, as at 31 December 2019, can be analysed as follows:

(Euro thousand)

Securities	Issue date	Reimbursement date	Interest rate	Nominal value	Book value
OT APR21	23 February 2005	15 April 2021	3.850%	120 000	128 830
BONOS 0.750% 30JUL2021	08 March 2016	30 July 2021	0.750%	35 000	35 474
OT 2.200% 17-OCT-2022	09 September 2015	17 October 2022	2.200%	212 500	223 931
BONOS 0.350% 30JUL2023	22 May 2018	30 July 2023	0.350%	166 000	165 596
OT 4.95% 25-OCT-2023	10 June 2008	25 October 2023	4.950%	170 000	198 183
OT 5.65% 15-FEV-2024	14 May 2013	15 February 2024	5.650%	5 000	6 184
OT 2.875% 15-OCT-2025	20 January 2015	15 October 2025	2.875%	65 000	70 991
OT 2.875% 21JUL2026	21 January 2016	21 July 2026	2.875%	25 000	27 695
OT 4.125% 14APR2027	18 January 2017	14 April 2027	4.125%	35 000	42 261
				833 500	899 145

Other financial assets at amortized cost, as at 31 December 2018, can be analysed as follows:

(Euro thousand)

Securities	Issue date	Reimbursement date	Interest rate	Nominal value	Book value
BTP 0.10 15-APR-2019	15 April 2016	15 April 2019	0.100%	19 000	18 929
OT APR21	23 February 2005	15 April 2021	3.850%	120 000	133 353
BONOS 0.750% 30JUL2021	08 March 2016	30 July 2021	0.750%	35 000	35 717
OT 2.200% 17-OCT-2022	09 September 2015	17 October 2022	2.200%	212 500	227 855
BONOS 0.350% 30JUL2023	22 May 2018	30 July 2023	0.350%	166 000	165 409
OT 4.95% 25-OCT-2023	10 June 2008	25 October 2023	4.950%	170 000	205 271
OT 5.65% 15-FEV-2024	14 May 2013	15 February 2024	5.650%	237 500	305 544
OT 2.875% 15-OCT-2025	20 January 2015	15 October 2025	2.875%	65 000	71 986
OT 2.875% 21JUL2026	21 January 2016	21 July 2026	2.875%	25 000	28 068
OT 4.125% 14APR2027	18 January 2017	14 April 2027	4.125%	35 000	43 132
OT 2.125% 17OCT2028	17 January 2019	17 October 2028	2.125%	20 000	20 387
				1 105 000	1 255 651

Other financial assets at amortized cost are recognized in accordance with the accounting policy described in note 1 c). As at 31 December 2019, the loan obtained from EIB is collateralized, in part, by Portuguese and Spanish sovereign bonds with a nominal value of Euro 182,300 thousand (31 December 2018: Euro 253,211 thousand), provided as collateral and recorded in the caption Other financial assets at amortized cost, as disclosed in note 36. As at 31 December 2019, the nominal value of the assets pledged as collateral to the European Central Bank under the liquidity-providing operations amounts to Euro 824,250 thousand (31 December 2018: Euro 675,747 thousand) after the application of a haircut.

The movements in Impairment of other financial assets at amortized cost are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	2 550	-
Charge for the financial year net of reversals	1 613	2 679
Utilization	-	(129)
Transfers	(2 413)	-
Balance on 31 December	1 750	2 550

28 Investments in associated companies

This caption is presented as follows:

(Euro thousand)

	2019	2018
HTA - Hotés, Turismo e Animação dos Açores, S.A.	3 741	3 584
Montepio - Gestão de Ativos Imobiliários. ACE	698	698
Naviser - Transportes Marítimos Internacionais, S.A.	150	150
	4 589	4 432
Impairment of investments in associated companies	(150)	(150)
	4 439	4 282

The associated companies included in the Group's consolidation perimeter are listed in note 61. The financial information of the associated companies, excluding the shareholding held in Naviser that is fully impaired, is presented in the following tables:

(Euro thousand)

	Assets	Liabilities	Equity	Income	Net income/ (loss)	Acquisition cost
31 December 2019						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	35 015	16 310	18 705	11 297	1 441	3 741
Montepio - Gestão de Ativos Imobiliários, ACE	5 869	3 419	2 450	6 060	-	698
CESource, ACE	-	-	-	-	-	-
31 December 2018						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	36 156	18 236	17 920	10 296	1 563	3 584
Montepio - Gestão de Ativos Imobiliários, ACE	5 010	2 560	2 450	4 659	-	698
CESource, ACE	-	-	-	-	-	-

(Euro thousand)

	Percentage held		Book value		Net income/(loss) of associated companies	
	2019	2018	2019	2018	2019	2018
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20.00%	20.00%	3 741	3 584	208	252
Montepio - Gestão de Activos Imobiliários, ACE	28.50%	28.50%	698	698	-	-
Naviser - Transportes Marítimos Internacionais, S.A.	20.00%	20.00%	-	-	-	-
CEsource, ACE	18.00%	18.00%	-	-	-	-

The gross movement in this caption is analysed as follows:

(Euro thousand)

	2019	2018
Opening balance	4 282	4 247
Share of profits/(losses) of associated companies	208	252
Other reserves and Retained earnings	(51)	(217)
Closing balance	4 439	4 282

The Group analyses, on a regular basis, the impairment related to its investments in associated companies.

29 Non-current assets held for sale

Given current market conditions, it has not been possible, in some situations, to materialize the sales within the expected time period and in conformity with that laid down in IFRS 5, for which reason, in 2019, the real estate and other assets related to assets received in recovery of credit are recorded in the caption Other assets, as described in note 34.

As at 31 December 2018, this caption was analysed as follows:

(Euro thousand)

	2018
customers	876 762
Impairment of non-current assets held for sale	(138 825)
	737 937

The assets included in this caption are accounted for in accordance with the accounting policy described in note 1 h). Note 55 presents additional information on Non-current assets held for sale.

As at 31 December 2018, the caption Properties and other assets resulting from the resolution of customer loan agreements included the amount of Euro 1,874 thousand related to other non-current assets held for sale resulting from the resolution of loans and advances to customers’ agreements, which had an associated impairment in the amount of Euro 1,769 thousand.

The resolution of loans and advances to customers' agreements results from (i) the simple foreclosure, delivery with a repurchase option or delivery with a leasing option, being accounted for upon the celebration of the contract or with the promissory contract to deliver the asset and the respective irrevocable power of attorney issued by the customer in the Group's name; or (ii) the adjudication of the assets as a result of a judicial guarantee execution process, being accounted for based on the title of adjudication or the adjudication request after having registered the first pledge.

The Group has implemented a plan aimed at the immediate sale of the non-current assets held for sale. According to the Group's expectation, it is intended that these assets be available for sale in a period under 1 year and that there is a strategy for their sale. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period. As at 31 December 2018, the referred caption included buildings for which promissory contracts to buy and sell in the amount of Euro 19,692 thousand had been celebrated.

The movements occurring, in financial period 2018, in non-current assets held for sale are analysed as follows:

	(Euro thousand)
	2018
Opening balance	885 210
Acquisitions	108 456
Disposals	(117 313)
Other movements	409
Closing balance	876 762

The movements in impairment of non-current assets held for sale is analysed as follows:

	(Euro thousand)
	2018
Balace on 1 January	142 989
Charge for the financial year	15 579
Reversals for the financial year	(8 827)
Utilization	(10 916)
Balance on 31 December	138 825

30 Investment properties

The caption Investment properties includes the real estate owned by "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional", by "Montepio Arrendamento II – Fundo de Investimento Fechado para Arrendamento Habitacional", by "Montepio Arrendamento III – Fundo de Investimento Fechado para Arrendamento Habitacional", by "Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular", by "Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular" and by "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto", all of which are consolidated by the full consolidation method, according to the accounting policy described in note 1 b) and also the real estate held by Ssagincentive – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.

In 2019, the amount of rental income received related to investment properties amounts to Euro 2,581 thousand (2018: Euro 6,500 thousand) and maintenance costs of leased and non-leased properties amounts to Euro 3,750 thousand (2018: Euro 5,718 thousand).

The movements in this caption are analysed as follows:

(Euro thousand)

	2019	2018
Opening balance	253 097	538 625
Acquisitions	-	95
Revaluations	7 512	(3 240)
Disposals	(85 728)	(51 724)
Change in consolidation perimeter	-	(230 659)
Transfers	(30 013)	-
Closing balance	144 868	253 097

During financial period 2018, Fundo Valor Prime was deconsolidated, as per note 61.

31 Other tangible assets

This caption is presented as follows:

(Euro thousand)

	2019	2018
Investments		
Real estate		
For own use	218 179	217 948
Leasehold improvements in leased buildings	40 150	40 067
Equipment		
IT equipment	95 625	92 970
Fixtures	32 276	29 600
Furniture	19 003	18 917
Security equipment	7 670	7 589
Machinery and tools	2 847	2 701
Transportation equipment	1 532	1 546
Other equipment	5	5
Works of art	2 870	2 870
Assets under operating leases	109	109
Right-of-use assets		
Real estate	28 038	-
Motor vehicles	278	-
Other tangible assets	2 092	2 099
Other tangible assets in progress	1 227	1 123
	451 901	417 544
Accumulated depreciation		
Related to the current financial year	(16 837)	(11 765)
Related to prior financial years	(186 595)	(176 180)
	(203 432)	(187 945)
	248 469	229 599

The caption Right-of-use assets corresponds, essentially, to real estate (branches and central buildings) and to the car fleet, being depreciated according to the lease term of each agreement, as indicated in accounting policy 1 i) and note 58.

The movements in the caption Other tangible assets, during financial year 2019, are analysed as follows:

(Euro thousand)

	Balance on 1 January	IFRS 16	Acquisitions/ Charges	Disposals/W rite-offs	Regularizations/Tr ansfers	Balance on 31 December
Investments						
Real estate						
For own use	217 948	-	642	411	-	218 179
Leasehold improvements in leased asset	40 067	-	83	-	-	40 150
Equipment						
IT equipment	92 970	-	3 788	1 133	-	95 625
Fixtures	29 600	-	268	-	2 408	32 276
Furniture	18 917	-	163	77	-	19 003
Security equipment	7 589	-	104	23	-	7 670
Machinery and tools	2 701	-	146	-	-	2 847
Transportation equipment	1 546	-	234	248	-	1 532
Other equipment	5	-	-	-	-	5
Works of art	2 870	-	-	-	-	2 870
Assets under operating leases	109	-	-	-	-	109
Right-of-use assets (*)						
Real estate	-	27 564	4 068	3 594	-	28 038
Motor vehicles	-	171	69	-	-	240
Other tangible assets	2 099	-	33	2	-	2 130
Other tangible assets in progress	1 123	-	2 625	-	(2 521)	1 227
	417 544	27 735	12 223	5 488	(113)	451 901
Accumulated depreciation						
Real estate						
For own use	22 819	-	3 334	25	-	26 128
Leasehold improvements in leased asset	26 490	-	581	-	-	27 071
Equipment						
IT equipment	87 576	-	3 521	1 131	-	89 966
Fixtures	19 847	-	1 562	-	-	21 409
Furniture	18 246	-	193	78	-	18 361
Security equipment	7 253	-	141	21	-	7 373
Machinery and tools	2 643	-	18	1	-	2 660
Transportation equipment	889	-	93	51	-	931
Other equipment	5	-	-	-	-	5
Assets under operating leases	109	-	-	-	-	109
Right-of-use assets						
Real estate	-	-	7 316	41	-	7 275
Motor vehicles	-	-	78	-	-	78
Other tangible assets	2 068	-	-	2	-	2 066
	187 945	-	16 837	1 350	-	203 432
	229 599					248 469

(*) The opening balance of the caption Right-of-use assets corresponds to the adjustment resulting from the application of IFRS 16, as per note 58.

The movements in the caption Other tangible assets, during financial year 2018, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Acquisitions/Charges	Disposals/Write-offs	Regularizations/Transfers	Balance on 31 December
Investments					
Real estate					
For own use	218 292	2 408	2 752	-	217 948
Leasehold improvements in leased asset	40 347	46	326	-	40 067
Equipment					
IT equipment	91 639	2 658	1 327	-	92 970
Fixtures	25 456	357	1	3 788	29 600
Furniture	19 036	105	224	-	18 917
Transportation equipment	1 620	486	560	-	1 546
Security equipment	7 387	211	9	-	7 589
Machinery and tools	2 684	48	31	-	2 701
Other equipment	5	-	-	-	5
Assets under operating leases	323	-	214	-	109
Works of art	2 870	-	-	-	2 870
Other tangible assets	2 101	-	2	-	2 099
Other tangible assets in progress	3 402	1 509		(3 788)	1 123
	415 162	7 828	5 446	-	417 544
Accumulated depreciation					
Real estate					
For own use	19 548	5 593	2 322	-	22 819
Leasehold improvements in leased asset	25 574	1 181	265	-	26 490
Equipment					
IT equipment	85 896	3 003	1 323	-	87 576
Fixtures	18 520	1 327	-	-	19 847
Furniture	18 120	350	224	-	18 246
Transportation equipment	959	110	180	-	889
Security equipment	7 079	181	7	-	7 253
Machinery and tools	2 661	11	29	-	2 643
Other equipment	5	-	-	-	5
Assets under operating leases	265	8	164	-	109
Outros ativos tangíveis	2 068	1	1	-	2 068
	180 695	11 765	4 515	-	187 945
Impairment	1 155	(1 155)	-	-	-
	233 312				229 599

The movements in the Impairment of other tangible assets are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	-	1 155
Charge for the financial year	-	-
Reversals for the financial year	-	(1 155)
Balance on 31 December	-	-

32 Intangible assets

This caption is presented as follows:

(Euro thousand)

	2019	2018
Investment		
Software	138 456	124 901
Intangible assets in progress	5 194	4 149
Other intangible assets	1 319	-
	144 969	129 050
Accumulated amortization		
Related to the current financial year	(14 406)	(14 132)
Related to prior financial years	(96 724)	(82 592)
	(111 130)	(96 724)
	33 839	32 326

The movements in the caption Intangible assets, during financial year 2019, are analysed as follows:

(Euro thousand)

	2019			
	Balance on 1 January	**Acquisitions/ Charges**	**Regularizations/ Transfers**	**Balance on 31 December**
Cost				
Software	124 901	73	13 482	138 456
Other intangible assets	-	1 319	-	1 319
Intangible assets in progress	4 149	14 688	(13 643)	5 194
	129 050	16 080	(161)	144 969
Accumulated amortization				
Software	96 724	14 406	-	111 130
	32 326	1 674	(161)	33 839

The movements in the caption Intangible assets, during financial year 2018, are analysed as follows:

(Euro thousand)

	2018				
	Balance on 1 January	Acquisitions/Charges	Disposals/ Write-offs	Regularizations/ Transfers	Balance on 31 December
Cost					
Software	108 569	353	338	16 317	124 901
Other intangible assets	1 067	-	-	(1 067)	-
Intangible assets in progress	5 732	14 733	-	(16 316)	4 149
	115 368	15 086	338	(1 066)	129 050
Accumulated amortization					
Software	83 997	14 132	338	(1 067)	96 724
	31 371	954	-	1	32 326

33 Taxes

Deferred tax assets and liabilities, as at 31 December 2019 and 2018, can be analysed as follows:

(Euro thousand)

	Assets		Liabilities		Net value	
	2019	2018	2019	2018	2019	2018
Deferred taxes not dependent on future profitability:						
Impairment of loans and advances granted	42 123	42 625	-	-	42 123	42 625
Post-employment and long-term benefits	16 149	21 114	-	-	16 149	21 114
	58 272	63 739	-	-	58 272	63 739
Deferred taxes dependent on future profitability:						
Financial instruments	(18 734)	(1 606)	(1 038)	(1 171)	(19 772)	(2 777)
Provisions/Impairment:						
Impairment of loans and advances granted	170 140	182 040	(306)	-	169 834	182 040
Other risks and charges	8 813	8 053	-	-	8 813	8 053
Impairment of securities and non-financial asse	4 887	8 413	-	-	4 887	8 413
Impairment of financial assets	109	2 235	-	-	109	2 235
Post-employment and long-term benefits	40 273	35 237	-	-	40 273	35 237
Other	1 984	1 936	(1 401)	(45)	583	1 891
Tax loss carry forwards	171 666	170 192	-	-	171 666	170 192
Net deferred tax assets/(liabilities)	437 410	470 239	(2 745)	(1 216)	434 665	469 023

Special regime applicable to deferred tax assets

On 6 July 2016, the Extraordinary General Meeting of Banco Montepio was held, approving the adherence to the special regime applicable to deferred tax assets, approved by Law no. 61/2014, of 26 August, which is applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as to deferred tax assets recorded in the annual accounts for the last tax period prior to that date and to the part of the costs and negative equity changes associated with same. In accordance with Law no. 23/2016, of 19 August, this special regime is not applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor to their associated deferred tax assets.

Law no. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. net loss in separate annual accounts or in settlement accounts on the voluntary winding-up, insolvency decided by law or withdrawal of the respective authorization), there will be a conversion into tax credits of deferred tax assets that resulted from the non-deduction of costs and of deductions of asset values resulting from credit impairment losses and post-employment or long-term employment benefits. In such case, a special reserve corresponding to 110% of their amount shall be constituted, requiring the simultaneous constitution of conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State of the same amount. Tax credits may be offset against tax debts of the beneficiaries (or of an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. Under this regime, the recovery of deferred tax assets covered by the regime approved by Law no. 61/2014, of 26 August, is not dependent upon future profits.

The aforementioned legal framework was regulated by Ordinance no. 259/2016, of 4 October, on the control and use of tax credits, and by Ordinance no. 293-A/2016, of 18 November, the latter altered by Ordinance no. 272/2017, of 13 September, determining the conditions and procedures for the acquisition of the referred State rights by the shareholders. According to this legislation, State rights are, among other factors, subject to a right of acquisition by the shareholders on their inception date, exercisable in periods to be established by the Board of Directors up to 10 years after the respective constitution, with the issuing bank depositing in the State's name the full amount corresponding to the rights issued, within 3 months from the confirmation date of the deferred tax asset conversion into tax credit. Such deposit shall be redeemed when and to the extent that the State rights are acquired by the shareholders or exercised by the State.

Deferred taxes are determined using tax rates that are expected to be in force on the date of reversal of the timing differences, which correspond to the rates approved or substantially approved in the balance sheet date.

The caption Post-employment and long-term employment benefits includes, as at 31 December 2019, the amount of Euro 5,486 thousand (31 December 2018: Euro 8,230 thousand) related to deferred taxes associated with the remeasurements recognized against reserves as a result of the change in accounting policy. As at 31 December 2019, this caption also includes the amount of Euro 2,811 thousand (31 December 2018: Euro 5,659 thousand) related to deferred taxes associated with the cost generated by the transfer of liabilities with pensioners to the General Social Security System.

The negative equity variation due to the change in accounting policy made in 2011 is deductible for tax purposes, in equal parts, over a 10-year period, starting on 1 January 2012. The cost generated by the transfer of liabilities with pensioners to the General Social Security System is deductible for tax purposes, in equal parts, starting on 1 January 2012, according to the number of years of life expectancy of the pensioners whose liabilities were transferred (20 years in the case of the Banco Montepio Group).

In financial years 2019 and 2018, deferred taxes associated with Employee benefits include the amount of Euro 21,853 thousand related to employee benefits in excess of the existing limits.

In financial year 2019, and in function of (i) the tax rates effective after 1 January 2018 and ii) the expectation of the conversion into tax-accepted costs and profits and the prospects of tax profits or tax losses in each one of the subsequent periods, the Group considered the rates (base rate and surcharges) used to calculate deferred taxes, depending on the specific cases associated with timing differences or tax loss carry-forwards, of 30.5% and 21%, respectively.

Analysis of the recoverability of deferred tax assets

Deferred tax assets related to losses carried forward are recognized only if the existence of future taxable income is probable, for which reason the uncertainty associated with the recoverability of the tax losses carried forward is considered in the calculation of deferred tax assets.

As referred in the accounting policy described in note 1 u), and in accordance with the requirements defined in IAS 12, the deferred tax assets recognized in the Group's financial statements have an underlying high expectation of recoverability. The assessment as to the recoverability of deferred tax assets is based on the business plan for the period 2020-2024, which was approved by the Board of Directors on 9 April 2020.

The recovery of the profitability, liquidity and capital levels of the Banco Montepio Group, is envisaged in the Transformation Plan approved by the Board of Directors, which is grounded on four strategic pillars that are a new value and business proposition, including the repositioning of BEM and Montepio Crédito, the strengthening of the balance sheet, the improvement of the risk, and the internal reorganization of the structures and support, aimed at achieving greater efficiency.

In this context, the prospects of sustainable improvements in the profitability levels derive from the following principles:

(i) Increase in the commercial network business, which incorporates the ambition to increase the loan and deposit portfolios, aimed at recovering the market shares in the housing and corporate segments, substantiated by a greater balance in the commercial gap. The projected growth for the performing loans and advances to customers' portfolio is based, for individuals, on mortgage loans and consumer loans, and, as far as companies are concerned, also on the favourable performance of BEM, and its growing contribution to the Group headed by Banco Montepio, through the offer of an integrated value proposal.

(ii) Funding cost management, considering the adequacy of the liquidity position and sources of funding vis-à-vis the market conditions. The increase in the deposits' portfolio translates the objective of strengthening customer deposits as the main source of financing of the activity, alongside the gradual reduction of the cost of deposits, namely through the mix of demand and term deposits.

(iii) The strategy outlined reflects a favourable effect at the level of net interest income, as well as of commissions, the latter showing the impacts of the management of the price list by adjusting it to Banco Montepio's value proposal for each segment, defined in function of its life cycle and financial profile, as well as in terms of the growth of its "first bank" quota, leading to the progressive increase of the customer base with a greater transactionality and level of commitment.

(iv) De-leveraging of non-strategic assets, both through the sustained decrease of non-performing credit, based on the improvement of the credit recovery processes and the sale of portfolios, or through the reduction of real estate held for trading, reflecting the maintenance of an adequate pace of sales provided by the favourable sectorial framework of the real estate activity and by the stabilization of real estate inflows associated with the improvement of the credit recovery processes through payment in kind.

(v) Positive evolution of the loan portfolio's risk profile, due to the change in the credit granting policy, with favourable impacts in terms of the cost of the prospective risk and the return on the allocated capital.

(vi) Improvement in efficiency and in the cost-to-income ratio supported by the growth in banking income, associated with the increase in turnover generated, and the reinforcement of operating cost control, based on the implementation of a set of measures aimed at the rationalization of costs.

Following this assessment, and with reference to 31 December 2019 and 2018, the Group recognized all deferred tax assets; hence, there are no deferred tax assets to be recognized.

In addition, a sensitivity analysis was carried out considering a scenario in which profit or loss before tax evolved at a rate 10% lower than that considered in the aforementioned projections, with no impact at the level of deferred taxes being determined.

The deferred tax assets associated with tax losses carried forward, by expiry year, are presented as follows:

(Euro thousand)

Use by date	2019	2018
2022	-	5 553
2027	42 836	36 333
2028	128 830	128 306
	171 666	170 192

Tax recognized in net income/(loss) and in reserves during financial years 2019 and 2018 originated as follows:

(Euro thousand)

	2019		2018	
	Recognized in net income/(loss)	Recognized in reserves and retained earnings	Recognized in net income/(loss)	Recognized in reserves and retained earnings
Financial instruments	(8 317)	(9 934)	(8 050)	11 843
Impairment/Provisions	(17 600)	-	(69 156)	64 412
Post-employment and long-term benefits	2 064	(734)	10 068	3 885
Tax loss carry forwards	1 474	-	21 069	(30 308)
Other	362	(1 670)	(50)	-
Deferred tax recognized as income/(cost)	(22 017)	(12 338)	(46 119)	49 832
Current taxes	(722)	-	963	(7 123)
	(22 739)	(12 338)	(45 156)	42 709

The caption Provisions/impairment records the tax impact recognized in Reserves and Retained earnings related to the adoption of IFRS 9, with reference to 1 January 2018.

During 2019, the Group revisited the models and processes associated with the assessment of impairment for credit risks, including, namely, the definitions of staging, EADs and LGDs.

The results obtained from this review determined the need for the Group to restate the financial statements with reference to 31 December 2018.

Within the scope of this review, impacts with accounting relevance on equity were determined on 1 January 2018 and also in the income statement for the financial year 2018, namely:

- Recognition of deferred taxes in the income statement in the amount of Euro 328 thousand;

- Recognition of deferred taxes in Reserves and Retained earnings in the amount of Euro 8,755 thousand.

The reconciliation of the effective tax rate, as regards the part recognized in the income statement, can be analysed as follows:

(Euro thousand)

	2019		2018	
	%	Amount	%	Amount
Profit before income tax		34 295		25 888
Income tax based on nominal rate in force	(21.0)	(7 202)	(29.5)	(7 637)
Capital gains and losses for tax purposes	-	-	(11.7)	(3 023)
Extraordinary levy on the banking sector	(6.0)	(2 062)	(8.7)	(2 255)
Post-employment benefits and Pension Fund	(11.6)	(3 990)	(5.7)	(1 463)
Tax benefits	(0.0)	(4)	(0.0)	(4)
Constitution/reversal of provisions/impairment taxed	(3.5)	(1 189)	(78.5)	(20 321)
Autonomous taxation	(3.4)	(1 156)	(3.0)	(777)
Other	(10.4)	(3 564)	16.8	4 338
Corrections related to prior financial years	4.3	1 475	(13.6)	(3 515)
Effect of differences in income tax rates	(6.8)	(2 343)	24.3	6 287
Deductions/(Add-backs) for taxable income purposes (*)	(7.9)	(2 704)	(64.8)	(16 786)
Income tax for the financial year	(66.3)	(22 739)	(174.4)	(45 156)

(*) Corresponds to losses determined by investment funds included in the consolidation perimeter and other consolidation adjustments

Law no. 98/2019, of 4 September, amends the rules applicable to impairment losses recognized as at 1 January 2019, as well as impairment losses recorded in tax periods beginning before 1 January 2019 and not yet accepted for tax purposes. The new regime includes a maximum adjustment period of 5 years, i.e., until 31 December 2023.

Banco Montepio has not opted for the application of the new tax regime on impairment, for which reason, for the current and deferred tax assessment as at 31 December 2019, it estimated its taxes based on the regime that was in force until 31 December 2018.

The Tax Authority can review Banco Montepio's taxable income during a period of four years, except in the event of the carry-forward of tax losses, as well as any other deduction or tax credit, in which case the period is the period of the exercise of that right.

Banco Montepio was subject to inspection by the Tax Authority up to and including the 2017 tax period.

In 2018, Banco Montepio became the dominant company of the Tax Group subject to corporate income tax under the Special Taxation Regime of Groups of Companies ("RETGS"), which former dominant company was Montepio Holding, S.G.P.S., S.A.

In this context, the Group considers that the effects of the calculation of the taxable income according to RETGS are reflected in the calculation of the current tax of the period of each entity, including the effect on the calculation of the current tax of the period arising from the use of tax losses generated by another entity of the Group.

As at 31 December 2019, the caption Current tax assets, in the amount of Euro 15,284 thousand (2018: Euro 11,073 thousand) relates, essentially, to IRC recoverable, additional payments on account and special payments on account.

34 Other assets

This caption is presented as follows:

(Euro thousand)

	2019	2018
Assets received in recovery of credit	737 057	-
Other debtors	64 321	87 799
Sundry debtors	19 271	15 912
Bonifications to be received from the Portuguese State	6 338	4 907
Prepayments	4 998	3 759
Other amounts receivable	3 354	4 162
	835 339	116 539
Impairment of other assets	(157 097)	(32 109)
	678 242	84 430

In 2019, non-current assets held for sale were transferred to this asset category, as described in note 29.

The caption Assets received in recovery of credit is presented as follows:

(Euro thousand)

	2019
Assets received in recovery of credit	737 057
Impairment of assets received in recovery of credit	(128 100)
	608 957

The assets included in the caption Assets received in recovery of credit are accounted for in accordance with the accounting policy described in note 1 h). Note 55 presents additional information on the assets received in recovery of credit.

The caption Assets received in recovery of credit includes the amount of Euro 1,637 thousand related to equipment resulting from the resolution of loans and advances to customers' agreements, which have an associated impairment of Euro 1,533 thousand.

The resolution of loans and advances to customers' agreements results from (i) the simple foreclosure, delivery with a repurchase option or delivery with a leasing option, being accounted for upon the celebration of the contract or the promissory contract to deliver the asset and the respective irrevocable power of attorney issued by the customer in the Group's name; or (ii) the adjudication of the assets as a result of a judicial guarantee execution process, being accounted for based on the title of adjudication or the adjudication request after having registered the first pledge.

The Group has implemented a plan aimed at the immediate sale of the assets received in recovery of credit. According to the Group's expectation, it is intended that these assets be available for sale in a period under 1 year and that there is a strategy for their sale. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period. The referred caption includes, as at 31 December 2019, properties for which promissory contracts to buy and sell, in the amount of Euro13,415 thousand, have already been celebrated.

The movements, in financial year 2019, in Assets received in recovery of credit are analysed as follows:

	(Euro thousand)
	2019
Opening balance	876 762
Acquisitions	33 130
Disposals	(198 530)
Other movements	3 208
Transfers	22 487
Closing balance	737 057

The movement in impairment of Assets received in recovery of credit are analysed as follows

	(Euro thousand)
	2019
Balance on 1 January	138 825
Charge for the financial year	12 507
Reversals for the financial year	(669)
Utilization	(22 563)
Balance on 31 December	128 100

As at 31 December 2019 and 2018, the caption Other debtors is analysed as follows:

		(Euro thousand)
	2019	**2018**
SilverEquation	-	29 909
Supplementary capital contributions	14 910	14 910
Public entities	2 300	6 429
Other	47 111	36 551
	64 321	87 799

As part of a sale of loans and advances and real estate carried out in 2014 to the company Silverequation, the Group received, in financial year 2019, and in accordance with that contracted, the remaining amount that was in debt.

The caption Supplementary capital contributions considers the value of supplementary capital contributions subscribed in the scope of a loan and advances sales operation in the amount of Euro 14,910 thousand, loans which are fully provided against as at 31 December 2019 and 2018.

As at 31 December 2019, the caption Public Entities includes the amounts receivable from public entities, mostly related to courts in the context of insolvency proceedings and loan claims lodged.

The amount shown in Others, included in the caption Other debtors, considers amounts receivable related to deposits placed by the Group with courts in the context of legal proceedings with a view to recovering customer debts, amounts receivable related to sales operations of non-productive assets, in accordance with the contracts signed, and also amounts invoiced by the Group with financial settlement in 2020.

The caption Bonifications to be received from the Portuguese State corresponds to amounts related to mortgage and SME loans, in accordance with the legal provisions applicable to low-interest loans. These amounts do not bear interest and are claimed monthly.

In financial years 2019 and 2018, the caption Bonifications to be received from the Portuguese State are presented as follows:

(Euro thousand)

	2019	2018
Bonifications overdue and not yet claimed	2 398	3 278
Bonifications claimed from State not yet settled	3 350	1 516
Bonifications processed and not yet claimed	590	113
	6 338	4 907

The movements in Impairment of other assets are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	32 109	35 689
IFRS 9 transition adjustment	-	4 498
Charge for the financial year	4 421	10 312
Reversals for the financial year	(4 549)	(3 033)
Utilization	(2 984)	(7 762)
Change in consolidation perimeter	-	(7 595)
Balance on 31 December	28 997	32 109

35 Deposits from central banks

As at 31 December 2019 and 2018, this caption includes deposits obtained from the European System of Central Banks, which are collateralized by the pledge of securities from the portfolio of financial assets at fair value through other comprehensive income and the portfolio of other financial assets at amortized cost, as described in notes 25 and 27.

The analysis of the caption Deposits from Central Banks for the remaining period to maturity, as at 31 December 2019 and 2018, is presented as followed:

(Euro thousand)

	2019	2018
Up to 6 months	443 600	-
More than 6 months	847 433	1 395 320
	1 291 033	1 395 320

The operations are remunerated at the Bank of Portugal rates in force as at the contract date.

36 Deposits from other credit institutions

This caption is presented as follows:

(Euro thousand)

	2019			2018		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions in Portugal						
Demand deposits	29 559	-	29 559	4 383	-	4 383
Term deposits	-	14 294	14 294	-	836	836
OCI loans	-	-	-	-	8	8
Other funds	-	-	-	-	2	2
	29 559	14 294	43 853	4 383	846	5 229
Deposits from credit institutions abroad						
EIB loan	-	350 359	350 359	-	350 407	350 407
Demand deposits	12 119	-	12 119	10 073	-	10 073
Term deposits	-	576	576	-	7 839	7 839
Sales operations with repurchase agreement	-	109 756	109 756	-	850 317	850 317
Repos collaterals	-	-	-	-	17 499	17 499
Other funds	5 498	-	5 498	4 071	-	4 071
	17 617	460 691	478 308	14 144	1 226 062	1 240 206
	47 176	474 985	522 161	18 527	1 226 908	1 245 435

The analysis of the caption Deposits from other credit institutions, for the remaining period to maturity is as follows:

	(Euro thousand)	
	2019	**2018**
Up to 3 months	42 108	111 910
3 to 6 months	65 723	121 679
6 months to 1 year	2 680	661 440
1 to 5 years	404 582	346 406
Undetermined	5 068	4 000
	520 161	1 245 435

The amount of the EIB loan is collateralized by Portuguese, Greek, Spanish, Dutch, Italian, French and German sovereign bonds in the amount of Euro 388,501 thousand (31 December 2018: Euro 405,211 thousand), recorded in the caption Financial assets at fair value through profit or loss, Financial assets at fair value through other comprehensive income and Other financial assets at amortized cost, as described in notes 24, 25 and 27, respectively.

The caption Repos refers to the Margin Maintenance of the Repos operations realized in accordance with the Global Master Repurchase Agreements.

37 Deposits from customers

This caption is presented as follows:

						(Euro thousand)
	2019			**2018**		
	Non-interest bearing	**Interest bearing**	**Total**	**Non-interest bearing**	**Interest bearing**	**Total**
Demand deposits	4 284 276	313 817	4 598 093	3 576 334	398 347	3 974 681
Term deposits	-	7 783 733	7 783 733	-	8 457 777	8 457 777
Savings deposits	-	123 952	123 952	-	118 918	118 918
Other funds	18 919	-	18 919	23 837	-	23 837
Value corrections of operations at fair value option	-	-	-	11	-	11
	4 303 195	8 221 502	12 524 697	3 600 182	8 975 042	12 575 224

Ordinance no. 180/94, of 15 December, gave rise to the incorporation of the Deposit Guarantee Fund to guarantee, under certain conditions, the reimbursement of funds deposited at credit institutions authorized to receive deposits. The criteria to calculate the annual contributions to the referred Fund are defined in Bank of Portugal Notice no. 11/94, of 29 December.

As at 31 December 2018, the caption Term deposits includes deposits at fair value through profit or loss, measured in accordance with internal valuation methodologies considering, mainly, observable market inputs, in the amount of Euro 14,597 thousand. Thus, in accordance with the fair value hierarchy defined in IFRS 13 these instruments are categorized in Level 2. Financial liabilities included in this caption are revalued against results, according with the accounting policy described in note 1 c), with a gain having been recognized, as at 31 December 2019, in the amount of Euro 11 thousand (31 December 2018: gain of Euro 22 thousand) related to fair value variations.

The analysis of the caption Deposits from customers for the remaining period to maturity is as follows:

(Euro thousand)

	2019	2018
Demand deposits	4 598 084	3 974 681
Time and savings deposits		
Up to 3 months	635 627	733 173
3 to 6 months	2 279 121	2 965 784
6 months to 1 year	1 662 280	1 843 723
1 to 5 years	3 303 634	2 982 672
More than 5 years	27 032	51 343
	12 505 778	12 551 376
Other funds		
Up to 3 months	18 919	23 837
	12 524 697	12 575 213
Adjustments from operations at fair value option	-	11
	12 524 697	12 575 224

In 2019, deposits from customers were remunerated at the average rate of 0.27% (31 December 2018: 0.45%).

38 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

(Euro thousand)

	2019	2018
Cash bonds	7 357	124 719
Covered bonds	1 255 904	753 612
Securitizations	126 719	215 603
	1 389 980	1 093 934

The fair value of the debt securities issued is presented in note 49.

The caption Debt securities issued includes securities issued recognized at fair value through profit or loss, in the amount of Euro 6,611 thousand (31 December 2018: Euro 6,776 thousand), in accordance with internal valuation techniques and considering, mainly, observable market data. According to the fair value hierarchy of valuation sources, defined in IFRS 13 these instruments are categorized in Level 2.

The financial liabilities included in this caption are revalued through the income statement in accordance with the accounting policy presented in note 1 c), with a gain having been recognized in 2019 in the amount of Euro 192 thousand (2018: Euro 494 thousand).

The residual periods to maturity of the caption Debt securities issued, as at 31 December 2019 and 2018, are as follows:

(Euro thousand)

	2019	2018
Up to 6 months	4 242	97 172
6 months to 1 year	1 525	21 701
1 to 5 years	1 248 215	754 818
More than 5 years	126 719	215 603
	1 380 701	1 089 294
Adjustments from operations at fair value option	9 279	4 640
	1 389 980	1 093 934

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, the Group has securities issued in circulation in a total amount of Euro 2,300,000 thousand, at nominal value, as at 31 December 2019 and 2018.

As at 31 December 2019, the main characteristics of the debt securities issued are as follows:

(Euro thousand)

Description	Nominal value	Value at amortized cost	Book value	Issue date	Reimbursement date	Interest payment	Interest rate	Rating (Moody´s/Fitch/ Dbrs)
Covered bonds - 6S	300 000	300 167	-	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A1/AA-/A
Covered bonds - 8S	500 000	500 105	-	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A1/AA-/A
Covered bonds - 9S	250 000	250 120	-	May 2017	May 2024	Quarterly	Euribor 3M + 0.85%	A1/AA-/A
Covered bonds - 10S	750 000	759 001	759 001	October 2017	October 2022	Annually	Fixed at 0.875%	A1/AA-/A
Covered bonds - 11S	500 000	496 903	496 903	November 2019	November 2024	Annually	Fixed at 0.125%	A1/AA-/A
	2 300 000	2 306 296	1 255 904					

As at 31 December 2018, the main characteristics of the debt securities issued are as follows:

(Euro thousand)

Description	Nominal value	Value at amortized cost	Book value	Issue date	Reimbursement date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 141	-	December 2015	December 2020	Quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 6S	300 000	300 209	-	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 8S	500 000	500 115	-	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A3/AA-/A
Covered bonds - 9S	250 000	250 145	-	May 2017	May 2024	Quarterly	Euribor 3M + 0.85%	A3/AA-/A
Covered bonds - 10S	750 000	753 612	753 612	October 2017	October 2022	Annually	Fixed at 0.875%	A3/AA-/A
	2 300 000	2 304 222	753 612					

In financial year 2019, under Banco Montepio's Mortgage Bond Issuance Program, the amount of Euro 500,000 thousand, with a 5-year maturity and a fixed annual interest rate of 0.125% was issued and the issue of the series 5 mortgage bonds in the amount of Euro 500,000 thousand was repaid.

The covered bonds are guaranteed by a pool of mortgage loans which are segregated as an autonomous asset in the Group's accounts, thus providing a statutory special creditor privilege to the holders of these securities over any other creditor.

The legal and regulatory framework of these bonds is set out in Decree-Law no. 59/2006, in Bank of Portugal Notices no. 5/2006, of 20 June, no. 6/2006, of 11 October, no. 7/2006, of 11 October, and no. 8/2006, of 11 October and Instruction no. 13/2006, of 15 November, of the Bank of Portugal.

As at 31 December 2019, the value of the loans collateralizing these issues amounted to Euro 2,719,463 thousand (31 December 2018: Euro 2,728,028 thousand), according to note 22.

The movements in Debt securities issued during financial year ended 31 December 2019, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Issues	Reimbursements	Other movements [(a)]	Balance on 31 December
Cash bonds	124 719	-	(114 000)	(3 362)	7 357
Covered bonds	753 612	500 000	-	2 292	1 255 904
Securitizations	215 603	-	(88 884)	-	126 719
	1 093 934	500 000	(202 884)	(1 070)	1 389 980

The movements in Debt securities issued during financial year ended 31 December 2018, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Reimbursements	Purchases (Net)	Other movements [(a)]	Balance on 31 December
Cash bonds	375 300	(242 669)	-	(7 912)	124 719
Covered bonds	746 238	-	-	7 374	753 612
Securitizations	422 516	(188 372)	(18 541)	-	215 603
	1 544 054	(431 041)	(18 541)	(538)	1 093 934

(a) Includes the movement of accrued interest on the balance sheet, value corrections for operations at fair value option and exchange variation

In accordance with the accounting policy described in note 1 c), the purchase of debt securities issued by the Group is written off from liabilities and the difference between the acquisition cost and the respective book value is recognized in the income statement.

(Euro thousand)

Description of issue	Issue date	Reimbursement date	Interest rate	Book value
CAIXA-MG BONDS FIXED RATE SEPTEMBER 2010-2020	09/09/2010	09/09/2020	Annual fixed rate of 4%	100
CAIXA-CRPC BONDS 2012-2020- 1st SERIES	30/03/2012	31/03/2020	Annual fixed rate of 5.25% (4th year: 6% and 5th year: 6.75%; 6th, 7th and 8th coupon Max[6.25% and Min (IPC+2%;9.15%)]	3 300
CAIXA-MONTEPIO CAPITAL CERTO BONDS 2012-2020- 2nd SERIES	31/05/2012	01/06/2020	Annual fixed rate of 8.2583% (4th year: 9.7083%; 5th year: 10.7250%; 6th year: 7.4750%; 7th year: 8.3% and 8th year: 11.1583%)	600
CAIXA-MG CAPITAL CERTO BONDS 2013/2021- 1st SERIES	28/02/2013	01/03/2021	Annual fixed rate: 5.15% (3rd year: 5.30%; 4th year: 5.30%; 5th year: 5.90%; 6th coupon Max[5.95%; Min (IPC+2%;8.25%)];7th coupon Max[6.15%; Min (IPC+2%;8.50%)]; 8th coupon Max[6.45%; Min (IPC+2%;8.50%)])	2 148
CAIXA-MG CAPITAL CERTO BONDS 2013/2021- 2nd SERIES	28/06/2013	29/06/2021	Annual fixed rate of 4.9% (3rd year: 5.1%, 4th year: 5.1%, 5th year: 5.65% and of 6th to 8th years: Max(5.95%;Min(IPC+2%;8.15%))	812
COVERED BONDS - 10S	17/11/2017	17/11/2022	Annual fixed rate of 0.875%	750 000
PELICAN MORTGAGES no. 3	30/03/2007	15/09/2054	Euribor 3M + 0.13%	45 799
AQUA FINANCE no. 4 A	11/07/2017	23/06/2035	Euribor 3M + 1.05%	65 919
AQUA FINANCE no. 4 B	11/07/2017	23/06/2035	Euribor 3M + 2.65%	15 000
COVERED BONDS - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0.125%	500 000
			Debt securities issued	1 383 678
			Value corrections of hedging operations	9 279
			Accrual based accounting, deferred income and costs	(2 977)
				1 389 980

As at 31 December 2019, the caption Debt securities issued is composed of the following issues:

As at 31 December 2018, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Description of issue	Issue date	Reimbursement date	Interest rate	Book value
CAIXA-MG BONDS FIXED RATE SEPTEMBER 2010-2020	09/09/2010	09/09/2020	Annual fixed rate of 4%	100
CAIXA-CRPC BONDS 2012-2020- 1st SERIES	30/03/2012	31/03/2020	Annual fixed rate of 5.25% (4th year: 6% and 5th year: 6.75%; 6th, 7th and 8th coupon Max[6.25% and Min (IPC+2%;9.15%)]	3 300
CAIXA-MONTEPIO CAPITAL CERTO BONDS 2012-2020- 2nd SERIES	31/05/2012	01/06/2020	Annual fixed rate of 8.2583% (4th year: 9.7083%; 5th year: 10.7250%; 6th year: 7.4750%; 7th year: 8.3% and 8th year: 11.1583%)	600
CAIXA-MG CAPITAL CERTO BONDS 2013/2021- 1st SERIES	28/02/2013	01/03/2021	Annual fixed rate of: 5.15% (3rd year: 5.30%; 4th year: 5.30%; 5th year: 5.90%; 6th coupon Max[5.95%; Min (IPC+2%;8.25%)];7th coupon Max[6.15%; Min (IPC+2%;8.50%)]; 8th coupon Max[6.45%; Min (IPC+2%;8.50%)])	2 148
CAIXA-MG CAPITAL CERTO BONDS 2013/2021- 2nd SERIES	28/06/2013	29/06/2021	Annual fixed rate of 4.9% (3rd year: 5.1%, 4th year: 5.1%, 5th year: 5.65% and from 6th to 8th years: Max(5.95%;Min(IPC+2%;8.15%))	812
MONTEPIO CAPITAL CERTO 2014/2019 1S	31/01/2014	01/02/2019	Annual fixed rate of 3.4% (3rd year: 3.45%, 4th year: 3.5%, 5th year: 3.75%)	27 400
MONTEPIO CAPITAL CERTO 2014/2019 2S	28/02/2014	01/03/2019	Annual fixed rate of 3.4% (3rd year: 3.45%, 4th year: 3.5%, 5th year: 3.75%)	33 050
CEMG CAP CERTO 2014/2019 3 SERIES	28/03/2014	29/03/2019	Annual fixed rate of 3.4% (3rd year: 3.45%, 4th year: 3.5%, 5th year: 3.75%)	33 400
CEMG CAP CERTO 2014/2019 9S	30/09/2014	01/10/2019	Annual fixed rate of 2.75% (3rd year: 3.00%, 4th year: 3.10%, 5th year: 3.35%)	17 900
MONTEPIO CAP CERTO 2014/2029 12S	02/01/2015	31/12/2019	Annual fixed rate of 2.90% (2nd to 4th years: 2.95%, 5th year: 3.25%)	2 250
COVERED BONDS - 10S	17/11/2017	17/11/2022	Annual fixed rate of 0.875%	750 000
PELICAN MORTGAGES no. 3	30/03/2007	15/09/2054	Euribor 3M + 0.13%	61 343
AQUA FINANCE no. 4 A	11/07/2017	23/06/2035	Euribor 3M + 1.05%	139 343
AQUA FINANCE no. 4 B	11/07/2017	23/06/2035	Euribor 3M + 2.65%	14 917
			Debt securities issued	1 086 563
			Value corrections of hedging operations	4 640
			Accrual based accounting, deferred costs and income	2 731
				1 093 934

39 Provisions

This caption is presented as follows:

(Euro thousand)

	2019	2018
Provisions for guarantees provided and commitments assumed	15 397	15 381
Provisions for other risks and charges	16 236	16 642
	31 633	32 023

The Provisions for other risks and charges were set up based on the probability of the occurrence of certain contingencies related to risks inherent to the Group's activity.

This caption includes provisions for tax contingencies (Stamp Duty, Income taxes (IRC), Property taxes (IMI) and TSC), legal cases and frauds.

The movements in provisions for guarantees and commitments assumed in financial years 2019 and 2018, are analysed as follows:

(Euro thousand)

	2019	2018 restated	2018
Opening balance	15 381	16 147	16 147
IFRS 9 transition adjustment	-	2 425	944
Balance on 1 January	15 381	18 572	17 091
Charge for the financial year			
Continuing operations	15 014	11 343	11 343
Discontinued operations	5 676	287	287
Reversals for the financial year			
Continuing operations	(14 893)	(13 694)	(13 156)
Discontinued operations	(543)	(368)	(368)
Utilization	(4)	-	-
Transfers associated with discontinued operations	(5 234)	(759)	(759)
Balance on 31 December	15 397	15 381	14 438

The movements in provisions for other risk and charges are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	16 642	10 949
Charge for the financial year		
Continuing operations	5 590	11 135
Discontinued operations	1 287	138
Reversals for the financial year		
Continuing operations	(6 111)	(5 088)
Discontinued operations	-	-
Utilization	-	(354)
Transfers associated with discontinued operations	(1 172)	(138)
Balance on 31 December	16 236	16 642

These provisions are constituted based on the probability of the occurrence of certain contingencies related to the Group's activity, being revised at each reporting date in order to reflect the best estimate of the loss amount.

40 Other subordinated debt

As at 31 December 2019 and 2018, the main characteristics of Other subordinated debt, are analysed as follows:

(Euro thousand)

Description of issue	Issue date	Maturity	Issue amount	Interest rate	2019	2018
MONTEPIO EMTN SUB 2018/2028	dez 2018	dez 2028	50 000	8.0% in first 5 years and EurSwap at 5y + 7.77% in remaining	50 044	50 044
MONTEPIO EMTN SUB 2019/2029	mar 2019	abr 2029	100 000	10.5% in first 5 years and EurSwap at 5y + Fixing ICE (FFT 11:00 AM) + 10.514%	107 803	-
					157 847	50 044

The movements in Other subordinated debt during financial years 2019 and 2018, were as follows:

(Euro thousand)

	2019				
	Balance on 1 January	Issues	Reimbursements	Other movements (a)	Balance on 31 December
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	-	50 044
MONTEPIO EMTN SUB 2019/2029	-	100 000	-	7 803	107 803
	50 044	100 000	-	7 803	157 847

(a) Includes accrued interest on the balance sheet

(Euro thousand)

	2018				
	Balance on 1 January	Issues	Reimbursements	Other movements (a)	Balance on 31 December
CEMG/08 1st series	111 321	-	(110 848)	(473)	-
CEMG/08 2nd series	113 169	-	(112 556)	(613)	-
CEMG/08 3rd series	4 200	-	(4 168)	(32)	-
FNB 08/18 1st/2nd series	7 503	-	(7 500)	(3)	-
MONTEPIO EMTN SUB 2018/2028	-	50 000	-	44	50 044
	236 193	50 000	(235 072)	(1 077)	50 044

(a) Includes the movement of accrued interest on the balance sheet

In financial year 2019, under the Euro Medium Term Note Programme (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 100,000 thousand, with a 10-year maturity, with a rate of 10.50% in the first five years and a call option, at par, in the 5^{th} year.

In financial year 2018, under the Euro Medium Term Note Programme (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 50,000 thousand, with a 10-year maturity, with a rate of 8.0% in the first five years and a call option, at par, in the 5^{th} year. During financial period 2018, Banco Montepio redeemed Euro 235,072 thousand.

41 Other liabilities

This caption is presented as follows:

(Euro thousand)

	2019	2018
Domestic and foreign operations pending settlement	95 523	96 696
Sundry creditors	8 838	33 479
Post-employment benefits	13 807	16 699
Staff costs payable	25 633	23 546
Lease liabilities	21 273	-
Other costs payable	32 978	14 159
Suppliers	10 323	7 556
Administrative public sector	11 773	11 168
Deferred income	528	1 603
	220 676	204 906

As at 31 December 2019, the caption Staff charges payable includes the amount of Euro 19,730 thousand (31 December 2018: Euro 19,869 thousand), related to holidays and holidays subsidies. Additionally, as at 31 December 2019, this caption also includes the amount of Euro 2,059 thousand (31 December 2018: Euro 1,152 thousand) related to seniority bonus.

As at 31 December 2019, the caption Lease liabilities corresponds to the amount of lease liabilities recognized in the scope of IFRS 16, as described in accounting policy 1 i), and in note 58 and relates to operating leases of real estate and motor vehicles.

The residual maturity of the lease liabilities is as follows:

(Euro thousand)

	2019
Up to 1 year	1 263
1 to 5 years	20 877
More than 5 years	903
	23 043
Costs to defer in net interest income	(1 770)
	21 273

42 Share capital

As at 31 December 2019 and 2018, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

In financial year 2019, MGAM sold 3,000 (financial year 2018: 158,920) shares of Banco Montepio's share capital, which is now held as follows:

	2019		2018	
	Number of shares	Percentage	Number of shares	Percentage
Montepio Geral Associação Mutualista	2419 838 080	99.9933%	2419 841 080	99.9934%
Other shareholders	161 920	0.0067%	158 920	0.0066%
	2420 000 000	100.0%	2420 000 000	100.0%

43 Other equity instruments

This caption includes the issue of Euro 15,000 thousand, occurring in the first quarter of 2010, of Subordinated Perpetual Securities with conditional interest ("Finibanco Valor Invest 2010" – ISIN: PTFNI1OM0011) made by Montepio Investimento, S.A. (previously designated Finibanco, S.A.), and that, in the scope of the acquisition of Montepio Holding, S.G.P.S., S.A. (previously designated Finibanco Holding, S.G.P.S., S.A.) and its subsidiaries, was integrated in Banco Montepio's equity.

In the case of acquisitions of subordinated perpetual securities, these are written off from equity and the difference between the acquisition cost and the respective book value is recognized in equity.

In financial years 2019 and 2018, the Group repurchased perpetual subordinated securities in the amount of Euro 8,677 thousand. After these operations, the caption Other equity instruments amounts to Euro 6,323 thousand.

Remuneration

Banco Montepio is prevented from paying interest if, in the Board of Directors' or Bank of Portugal's opinion, this payment endangers the compliance with the Regulation of Own Funds requirements.

Called on 13 December 2019 and realized on 29 January 2020, in a second calling, a Meeting of Bondholders holding the "Finibanco Valor Invest 2010" issue was held, having approved, with the unanimous approval of the votes cast, the modification of the conditions of the bondholders' credits under the terms proposed by the Board of Directors of Banco Montepio, with a view to adapting the Final Conditions of the Issue to the prudential treatment being given to same by the Bank of Portugal, maintaining the characteristics that allow it to be eligible as a level 2 own funds' instrument, as provided for in Regulation (EU) No. 575/2013, of the European Parliament and of the Council.

As proposed by the Board of Directors of Banco Montepio, the bondholders resolved, unanimously by those present at the meeting convened for this purpose, to eliminate the conditions relating to interest, so that on the next payment dates the interest will be paid at the variable rate corresponding to the Euribor rate for the 6-month term increased by 2.75%, with a minimum of 5%, and with no additional conditions being required to settle the amount.

In compliance with line (4) of the sole point on the agenda of the proposal related to the calling of the Meeting of Bondholders, the resolution of the bondholders is subject to a suspensive condition of a resolution, taken at Banco Montepio's General Shareholders' Meeting, which dictates the amendment of the Final Conditions for the "Finibanco Valor Invest 2010" issue.

During financial year 2019, the Group paid interest on this issue in the amount of Euro 321 thousand (2018: Euro 322 thousand).

Redemption

These securities are perpetual, only being redeemable according to the prepayment terms provided below.

With the agreement of the Bank of Portugal, the issuer may redeem these, in whole or in part, as from the 10th date of interest payment, inclusive (5th year).

As at 31 December 2019 and 2018, these securities are considered a positive element of level 2 own funds (Tier 2) of Banco Montepio, complying with the requirements of Regulation no. 575/2013 of the European Union.

44 Legal reserve

In accordance with article 97 of the Legal Framework of Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" – "RGICSF"), approved by the Decree-Law no. 298/92, of 31 December and amended by the Decree-Law no. 201/2002, Banco Montepio shall reinforce the legal reserve annually with, at least, 10% of the annual net profits, up to the limit equal to the amount of the share capital or to the sum of the free reserves and retained earnings, if higher. This reserve cannot, normally, be distributed.

The movement in the legal reserve is analysed in note 45.

45 Fair value reserves, Other reserves and Retained earnings

This caption is presented as follows:

(Euro thousand)	2019	2018
Fair value reserves		
Fair value reserve		
Financial assets at fair value through other comprehensive income		
Debt instruments	20 722	(6 059)
Equity instruments	(9 610)	(13 204)
Loans and advances to customers	557	1 491
Own credit risk	157	145
	11 826	(17 627)
Taxes		
Financial assets at fair value through other comprehensive income	(10 847)	(628)
Loans and advances to customers	(170)	(455)
	(11 017)	(1 083)
Fair value reserve net of tax	809	(18 710)
Other reserves and Retained earnings		
Legal reserve	191 969	191 767
Consolidation foreign exchange reserves	(94 052)	(66 761)
Other reserves and Retained earnings	(1 106 295)	(1 044 847)
	(1 008 378)	(919 841)

Fair value reserves related to financial assets at fair value through other comprehensive income represent the potential gains and losses in the portfolio of financial assets at fair value through other comprehensive income.

The caption Loans and advances to customers records the amount, of the fair value reserve, related to the loans and advances to customers' portfolio reclassified from Financial assets at fair value through other comprehensive income to Loans and advances to customers.

As at 31 December 2018, the caption Other reserves and Retained earnings includes the impact of Euro 139,532 thousand related to the adjustment on the transition to IFRS 9. This caption also includes the negative amount of Euro 37 thousand related to capital losses realized in financial assets at fair value through other comprehensive income.

The movements in the fair value reserve related to financial assets at fair value through other comprehensive income, during financial year 2019, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Change in impairment in financial year	Balance on 31 December
Fixed-income securities						
Bonds issued by national public entities	863	1 242	14 344	-	(1 334)	15 115
Bonds issued by foreign public entities	(5 009)	3 169	5 664	5 094	(3 176)	5 742
Bonds issued by other entities:						
National	(1 329)	322	(440)	(317)	(21)	(1 785)
Foreign	(584)	1 344	979	36	(125)	1 650
	(6 059)	6 077	20 547	4 813	(4 656)	20 722
Variable-income securities						
Shares						
National	2 099	4 461	1 175	-	-	7 735
Foreign	(15 303)	(2 034)	(8)	-	-	(17 345)
	(13 204)	2 427	1 167	-	-	(9 610)
	(19 263)	8 504	21 714	4 813	(4 656)	11 112

The movements in the fair value reserve related to financial assets at fair value through other comprehensive income, during financial period 2018, are analysed as follows:

(Euro thousand)

	Balance on 1 January	IFRS 9 adjustment	Revaluation	Acquisitions	Disposals	Change in impairment in financial year	Balance on 31 December
Fixed-income securities							
Bonds issued by national public entities	1 332	1 849	(1 837)	-	(455)	(26)	863
Bonds issued by foreign public entities	(4 074)	2 684	(5 311)	(537)	2 662	(433)	(5 009)
Bonds issued by other entities:							
National	1 161	(1 666)	(3 492)	(95)	(34)	2 797	(1 329)
Foreign	605	49	(589)	(533)	(58)	(58)	(584)
	(976)	2 916	(11 229)	(1 165)	2 115	2 280	(6 059)
Variable-income securities							
Shares							
National	10 487	-	(9 476)	1 088	-	-	2 099
Foreign	2 609	-	(17 883)	-	(29)	-	(15 303)
	13 096	-	(27 359)	1 088	(29)	-	(13 204)
	12 120	2 916	(38 588)	(77)	2 086	2 280	(19 263)

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

(Euro thousand)

	2019	2018
Amortized cost of financial assets at fair value through other comprehensive income	1 853 906	464 007
Accumulated impairment recognized	(5 327)	(671)
Amortized cost of financial assets at fair value through other comprehensive income net of impairment	1 848 579	463 336
Market value of financial assets at fair value through other comprehensive income	1 859 691	444 073
Unrealized gains/(losses) recognized in fair value reserve	11 112	(19 263)

46 Distribution of dividends

In financial years 2019 and 2018, Banco Montepio did not distribute dividends.

47 Non-controlling interests

This caption is presented as follows:

(Euro thousand)

	Balance Sheet		Income Statement	
	2019	2018	2019	2018
Finibanco Angola, S.A.	11 550	15 551	2 497	3 560
Banco Terra, S.A.	-	-	-	(255)
	11 550	15 551	2 497	3 305

The movements in this caption are analysed as follows:

(Euro thousand)

	2019	2018
Opening balance	15 551	32 835
Adjustment on IFRS 9 transition	-	(150)
Foreign exchange differences	(6 730)	(11 462)
Other reserves	1 008	1 258
Dividends	(776)	(1 123)
Effect of adoption of IAS 29	-	1 970
Change in consolidation perimeter	-	(11 082)
	9 053	12 246
Net income/(loss) attributable to non-controlling interests	2 497	3 305
	11 550	15 551

			Percentage held by non-controlling interests	
Name	Registered office	Segment	2019	2018
Finibanco Angola, S.A.	Luanda	Banking	19.78%	19.78%

The summary of the financial information for the above-mentioned Institution, prepared in accordance with IFRS, is disclosed in note 62.

As laid down in IFRS 5, Finibanco Angola is classified as a discontinued operation.

48 Guarantees and other commitments

This caption is presented as follows:

(Euro thousand)

	2019	2018
Guarantees and standby letters provided	513 824	464 929
Commitments to third parties	1 315 399	1 238 676
Deposit and custody of securities	7 327 873	7 353 294
	9 157 096	9 056 899

The amounts of Guarantees granted, and Commitments assumed to third parties are analysed as follows:

(Euro thousand)

	2019	2018
Guarantees and standby letters provided		
Guarantees and standby letters	464 734	411 783
Documentary credits	49 090	53 146
	513 824	464 929
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	579 670	553 073
Securities' subscription	7 813	12 280
Long-term liability to the Deposits' Guarantee Fund	22 768	22 768
Potential liability to the Investors' Indemnity System	1 431	1 533
Revocable commitments		
Revocable credit facilities	703 717	649 022
	1 315 399	1 238 676

Guarantees are financial operations that do not necessarily result in mobilization on funds by the Group.

The caption Guarantees and Commitments to third parties - Irrevocable commitments – irrevocable credit facilities include the amount of Euro 56,873 thousand (31 December 2018: Euro 38,087 thousand) related to commitments assumed to a customer of Finibanco Angola, S.A., entity that is classified as a discontinued operation, as described in note 62.

Documentary credits correspond to irrevocable commitments, by the Group, on behalf of its customers, to pay/order to pay a certain amount to the supplier for a certain good or service, within a defined period, against the presentation of the documentation confirming the shipment of goods or the rendering of services. The irrevocable condition arises from the fact that the commitment is not cancellable or alterable without the express agreement of all parties involved.

Revocable and irrevocable commitments represent contractual agreements to extend credit to the Group's customers (for example unused credit facilities). These agreements are generally contracted for fixed periods of time or with other expiring requirements and, usually, require the payment of a commission. Substantially, all credit concession commitments require that customers maintain certain conditions verified at the time the commitments were contracted.

Notwithstanding the particular characteristics of these commitments, the analysis of these operations follows the same basic principles of any commercial operation, namely the solvency of the underlying customer and business, with the Group requiring that these operations be adequately covered by collaterals when necessary. Considering that it is expected that the majority of these expire without having been used, the indicated amounts do not necessarily represent future cash-flow needs.

As at 31 December 2019 and 2018, the caption Term liability to the Deposit Guarantee Fund is related to the irrevocable commitment assumed by the Group, as required by law, to deliver the unrealized amounts of the annual contributions, to that Fund, if requested to do so.

As at 31 December 2019 and 2018, in the scope of the Deposit Guarantee Fund, the Group pledged treasury bonds (OT 4.95% 25.10.2023), recorded as Financial assets at fair value through other comprehensive income, with a nominal value of Euro 21.500 thousand (31 December 2018: Euro 22.200 thousand), as described in note 25.

As at 31 December 2019 and 2018, the caption Potential liability - Investors' Compensation System to the irrevocable obligation that the Group assumed, as required by law, to deliver to that System, if actioned by same, the amounts necessary to pay its share of the indemnities due to investors.

The financial instruments accounted for as Guarantees and other commitments are subject to the same approval and control procedures applied to the loans and advances to customers' portfolio, namely regarding the assessment of the adequacy of the impairment constituted, as referred in the accounting policy described in note 1 c). The maximum credit exposure is represented by the nominal amount that could be lost related to contingent liabilities and other commitments assumed by the Group in the event of default by the respective counterparties, without considering potential loan or collateral recoveries.

49 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as is the case with many products sold to customers, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to their financial characteristics and the discount rates used include both the market interest rate curve and the current conditions of the pricing policy of the Group.

Therefore, the fair value obtained is influenced by the parameters used in the valuation model that, necessarily, have some degree of judgement and reflect, exclusively, the value attributed to the different financial instruments. However, it does not consider prospective factors, like the future business evolution. Consequently, the values presented cannot be understood as an estimate of the economic value of the Group.

Financial instruments recorded in the balance sheet at fair value

Financial instruments accounted for in the balance sheet at fair value were classified by levels in accordance with IFRS 13, as follows:

Debt and equity instruments

- Level 1: In addition to financial instruments admitted to trading on a regulated market, bonds and investment units in harmonized funds, valued based on active market prices/quotations, disclosed through trading platforms, are included in this category.

  The aforementioned financial instruments are traded on an active market whenever the financial instruments in question are quoted through multi-contributed sources for bonds and the primary exchange for shares.

- Level 2: Financial instruments that are not traded on an active market or valued using valuation techniques supported by observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect (derivatives), and valuation assumptions similar to those that an unrelated party would use in estimating the fair value of the same financial instrument, are considered Level 2. The classification of fair value in Level 2 is made according to the following rules:

  a) Financial instruments shall be classified in level 2 if they are:

     i. valued based on models using observable market data (such as interest rate curves or exchange rates). Market interest rates are calculated based on information disseminated by financial content providers, for example Bloomberg, namely those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. The same interest rate curves are also used to project non-deterministic cash flows, such as indexers; or

     ii. valued using indicative third-party purchase prices, based on observable market data.

  b) For financial instruments that do not have a 30-day history available in the system, the fair value level shall be assigned based on the available history.

- Level 3: Financial instruments are classified in level 3 whenever they do not meet the criteria to be classified in level 1 or level 2, or fair value is determined based on unobservable data in active markets, using techniques and assumptions that market participants would use to assess the same instruments, namely:

  a) financial instruments not admitted to trading on a regulated market that are valued using valuation models and for which there is no generally accepted consensus on the criteria to be used, namely:

     i. valuation prepared in accordance with the Net Asset Value of non-harmonized funds, updated and disclosed by the respective management companies;

ii. valuation prepared in accordance with indicative prices disclosed by the entities that participated in the issuance of certain financial instruments, without an active market; or

iii. valuation prepared in accordance with the realization of impairment tests, using the performance indicators of the underlying operations (e.g. degree of protection by subordination of the tranches held, delinquency rates of underlying assets, evolution of ratings, etc.).

b) financial instruments valued through indicative purchase prices based on theoretical valuation models disclosed by specialized third parties.

Derivative financial instruments

Operations involving financial derivatives, in the form contracts in respect of exchange rate, interest rate, share or share indices, inflation or a combination of these are traded over the counter (OTC) and in organized markets (especially stock markets). For OTC derivative operations (swaps and options), their valuation is based on generally accepted methods, always favouring market values.

- Level 1: This classification includes futures and options and other derivative financial instruments traded on a regulated market.

- Level 2: This level includes derivative financial instruments traded on unregulated (OTC) markets that do not have an optional component.

  The valuation of these derivatives is made by discounting the cash flows from operations, using as a discounting base the market interest rate curves deemed appropriate for the currency in force at the time of the calculation. Interest rates are obtained from Bloomberg or Reuters

  Market interest rates are calculated based on information disseminated by financial content providers - Bloomberg or Reuters - specifically those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. Interest rate curves are also used to project non-deterministic cash flows such as indexers.

- Level 3: This level includes options and derivatives traded on an unregulated (OTC) market, incorporating optional elements.

Options are valued based on statistical models that consider the market values of the underlying assets and their volatilities (assuming that they are not directly observable in the market). The theoretical models used in the valuation of derivatives classified in level 3 are presented as follows:

i. For simple options, the Black-Scholes, Black, Ho and other models are used, considering the applicable volatility surfaces and their derivatives (models commonly used by the market in valuing this type of operations). Unobservable market inputs used in the valuation (implied volatilities of the subjacent) are taken from Bloomberg.

ii. For exotic options or for complex derivatives with embedded optional elements for which no valuation models are available, Banco Montepio hires specialized entities that value such assets using specific models that they develop according to generally accepted criteria and methodologies.

The valuations thus obtained are, in the case of interbank operations, compared with those used by the counterparties and, whenever it is understood that there are insufficient quality market references or that the available models do not fully apply to the characteristics of the financial instrument, specific quotations provided by an external entity, typically the counterparty of the business, are used.

The valuation of non-optional components, not adjusted for credit risk, (cash flows from the operations), is made based on their respective discounting, using a methodology similar to that used for derivatives without an optional component; even so, the derivative in question is still considered in level 3.

Financial instruments recorded in the balance sheet at amortized cost

For financial instruments recorded in the balance sheet at amortized cost, Banco Montepio calculates their fair value using valuation techniques.

The valuation techniques used are based on the market conditions applicable to similar operations at the reference date of the financial statements, namely the value of the respective cash flows discounted based on the interest rates considered most appropriate, that is:

- *Other loans and advances to credit institutions, Deposits from central banks, Deposits from other credit institutions and Assets with repurchase agreements*

  The fair value of these financial instruments is calculated discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates.

  For Deposits from Central Banks it was considered that the book value is a reasonable estimate of their fair value, considering the nature of the operations and the associated period. The rate of return of funding from the European Central Bank is negative in 0.4% for live operations as at 31 December 2019 (31 December 2018: negative in 0.4%).

  For the remaining loans and advances and deposits received, the discount rate used reflects the current conditions applied by the Group to identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity dates (money market or interest rate swap market rates, at the end of the financial period). As at 31 December 2019, the average discount rate was a negative 0.21% (31 December 2018: 0.07%).

  For Loans and advances to other credit institutions a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term operations was applied. Considering the short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

- *Other financial assets at amortized cost*

  These financial instruments are accounted for at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for associated factors, predominantly the credit and liquidity risks, determined in accordance with the respective market conditions and periods.

- *Loans and advances to customers without a defined maturity date and Deposits from customers repayable on demand*

Considering the short-term maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the book value is a reasonable estimate of their fair value.

- *Loans and advances to customers with a defined maturity date*

The fair value of these financial instruments is calculated by discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. For loans in default, the value, net of impairment, of these operations is a reasonable estimate of their fair value, given the economic valuation performed for the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by the Group to similar instruments for each of the homogeneous classes of this type of instrument and with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial period) and the spread used at the reporting date, calculated based on the average production of the last quarter. The average discount rate was 2.81% for mortgage loans (31 December 2018: 2.88%), 5.86% for individual credit (31 December 2018: 6.27%) and 4.24% for the remaining loans (31 December 2018: 4.89%), assuming a projection of the variable rates that is based on macroeconomic fundamentals and on market forward rates. The calculations also include the credit risk spread.

- *Deposits from customers*

The fair value of these financial instruments is calculated discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. The discount rate used reflects the current conditions applied by the Group to identical instruments with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial period) and the spread of the Group at the reporting date, calculated based on the average production of the last quarter. The average discount rate as at 31 December 2019 was 0.18% (31 December 2018: 0.36%).

- *Debt securities issued and Other subordinated debt*

For these financial instruments, the fair value was calculated for the components which fair value is not yet reflected in the balance sheet. For the fixed interest rate instruments in respect of which the Group applies hedge accounting, the fair value related to the interest rate risk is already accounted for.

In the fair value calculation, the other risk components were also considered, besides the interest rate risk already accounted for. Fair value is based on market quotations, whenever these are available. If these are not available, fair value is estimated using internal models, based on cash-flow discounting techniques, using the market interest rate curve adjusted by the associated factors, predominantly the credit risk and the trading margin, the latter only in the case of issues sold to non-institutional customers of the Group.

As original reference, the interest rate swaps market curves for each specific currency are used. The credit risk (credit spread) is represented by an excess over the interest rate swaps' curve, calculated specifically for each term and class of instruments based on the market prices of equivalent instruments.

In case of covered bond issues, the fair value is determined based on quotations disseminated by the financial content provider Bloomberg.

As regards subordinated issues, the discount rate calculated was 6.17% (31 December 2018: 7.91%). The average discount rate calculated for senior issues placed on the retail market was a negative 0.17% (31 December 2018: 0.47%).

The discount rate for the subordinated issue reflects the spreads observed on the market for comparable issues increased by a liquidity premium, considering the lower depth of the market for the subordinated debt issued by Banco Montepio.

- *Cash, Deposits at central banks and Loans and advances to credit institutions repayable on demand*

  Considering the extremely short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

It should be noted that the fair value presented may not correspond to the realization value of these financial instruments in a sale or liquidation scenario, since it has not been calculated for this purpose.

The main valuation methods, assumptions and inputs used to calculate the fair value estimate for levels 2 and 3, depending on the type of financial instrument, are presented as follows:

Type of instruments			Valuation methods	Main assumptions
Financial assets and liabilities held for trading	Derivatives [1]	Swaps	Discounted Cash Flow Method [2]	Interest rate curves
		Exchange rate options	Black-Scholes Model	Implied Volatilities
		Interest rate options	Normal Model	Probability of default for CVA and DVA calculation
	Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3] Market Observable Prices
Financial assets at fair value through profit or loss	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3] Market Observable Prices
Financial assets at fair value through other comprehensive income	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3]
Financial assets at amortized cost	Debt securities Loans and advances outstanding		Discounted Cash Flow Method [2]	Interest rate curves Comparable assets [3] Spreads
Derivatives - Hedge accounting	Swaps [1]		Discounted Cash Flow Method [2]	Interest rate curves Implied Volatilities Probability of default for CVA and DVA calculation
Financial liabilities at amortized cost	Term deposits Debt securities issued		Discounted Cash Flow Method [2]	Interest rate curves Spreads

(1) In derivative valuations, an adjustment to the valuation is made to take into account counterparty credit risk when the exposure is the Bank's or the credit risk of the Bank's when the exposure is the counterparty's (generally referred to by the abbreviations CVA - Credit Valuation Adjustment and DVA - Debit Valuation Adjustment).

(2) Cash-flow discounting method (net present value): this model uses the cash flows of each instrument, established in the different contracts, and discounts them to calculate their present value.

(3) Comparable assets (prices of similar assets): comparable financial instrument prices or market benchmarks are used to calculate yield from the purchase price to its current valuation, making subsequent adjustments to take into account possible differences between the revalued instrument and the reference instrument. It can also be assumed that the price of one instrument equals that of another.

Valuation adjustments for Credit Risk

Counterparty Credit Risk Valuation Adjustments (“CVA”) and the Bank’s Credit Risk Valuation Adjustments (“DVA”) are incorporated in the valuation of OTC derivatives as a result of the risk associated with the credit exposure of the counterparty and its own, respectively.

The CVA value is calculated considering the expected exposure for each counterparty in each future term, with the CVA by counterparty being calculated by summing the various CVA values of the various future terms. The adjustments are then determined by estimating the counterparty’s exposure at default (EAD), the respective probability of default (PD) and the loss given default (LGD) for all derivative financial instruments traded under the same contract negotiated with the Group with a netting clause (of the same netting set). Similarly, the DVA corresponds to the product of the negative expected exposure at default by the probability of default and by Banco Montepio Group's LGD.

In determining the PD and LGD values these are calibrated using market data, for the effect using the counterparty’s rating and sector or historical information on the probability of default.

Changes in CVA/FVA and DVA/FVA adjustments are accounted for as gains or losses on assets and liabilities held for trading in the profit or loss. The detail of the movements of these adjustments is shown in the table.

CVA Movements

(Euro thousand)

	2019	2018
Adjustment	**446**	**235**
Of which: Maturity of derivatives	(4)	-

As at 31 December 2019 and 2018, neither the Bank nor the Group determined any adjustment related to the DVA given that the OTC derivatives subject to the Bank’s credit risk (negative fair value) are fundamentally contracted with counterparties with which the Bank and the Group have collateral exchange agreements (CSAs), as per note 21.

Fair value of assets received in recovery of credit

The fair value and impairment constituted for real estate assets received in recovery of credit are a function of the valuation amount and the book value of the properties. The valuation amount is equal to the lower of the following values:

- Value obtained through an on-site valuation report;
- Sale value (if a sale and purchase contract is celebrated).

Real estate valuations and revaluations shall be carried out by expert appraisers, regulated by Law no. 153/2015, of 14 September.

Pursuant to Decree-Law no. 74-A/2017, of 23 June, and for the purpose of article 18 thereof, in mortgage loan agreements for residential real estate, the borrower may request of the Bank a second valuation of the property.

Since the same appraisers are required to carry out surveys of works in progress subject to funding to determine the amount of the works realized to be financed, given the nature of this type of valuation, the training and professional qualifications of these experts shall, cumulatively, respect the professional qualifications defined by Law no. 31/2009, of 3 July, as amended by Law no. 40/2015, of 1 June.

External Appraiser Companies

The selection of appraiser companies is based on the universe of entities registered as “expert appraisers” with the CMVM and seeks to always ensure an adequate diversification and rotation in the performance of the valuations.

Independent external appraisers follow the principles defined by:

- Notice no. 5/2006 of the Bank of Portugal (Valuation of Mortgaged Properties as a Guarantee of Loans with Mortgage requirements);
- Regulation no. 575/2013 of the European Parliament and of the Council (Prudential Requirements).

Fair value determination is made by independent appraisers duly certified for this purpose, duly registered with the CMVM, and using at least two of the following methods.

Comparative market method

This method provides an estimate of the amount by which it is understood that a particular property may be traded, after an appropriate period of trading, between an interested seller and buyer, in which both parties act in an informed, prudent and unconditional or non-coerced manner.

The value of the property is determined after analysis of comparable transaction and property offer values, obtained through knowledge of the local market and the exhaustive collection of real estate market data that provides knowledge of the supply and demand situation for similar properties, and which constitute a decisive factor in determining the Market Value of the property under valuation.

Income method

In this method, the market value of a property corresponds to the present value of all the rights to future benefits arising from its ownership.

This method assumes that property management and operation is based on the principles of legality, rationality and competence. The purpose of the analysis is to determine its respective ability to generate revenue flows, as well as the frequency of their occurrence, as well as to infer all the inherent expenses.

Cost method

In this method, the estimated value of a property corresponds to the cost of constructing a property that fulfils the same functions and with the same material and technology characteristics, at current market prices. The value assessed includes the value of the land, construction costs and the investment promotion profit margin, as well as a deduction corresponding to the depreciation, or loss of property value, resulting from physical, functional, economic or environmental obsolescence or a combination of these.

For all valuations not based on all 3 valuation methods, the expert appraiser should consider the local market characteristics and the specific characteristics of the property under valuation. The valuation adopted shall be the lower of the values determined because it is the most prudent in terms of guarantee.

Investment properties

Fair value determination is made by independent appraisers duly certified for this purpose, duly registered with the CMVM, and using at least two of the following methods:

- Comparative market method;
- Income method;
- Cost method;

as described in note 1 o).

As at 31 December 2019, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currency				
	Euro	**US Dollar**	**Pound Sterling**	**Swiss Franc**	**Japanese Yen**
1 day	-0,510000	1,530000	0,745000	-0,745000	-0,200000
7 days	-0,499000	1,586327	0,745000	-0,770000	-0,084600
1 month	-0,438000	1,790000	0,745000	-0,755000	-0,370000
2 months	-0,411417	1,850000	0,810000	-0,725000	-0,310000
3 months	-0,383000	1,920000	0,850000	-0,695000	-0,350000
6 months	-0,324000	1,930000	0,920000	-0,650000	-0,310000
9 months	-0,285892	1,910000	0,945000	-0,580000	-0,130000
1 year	-0,249000	1,940000	0,995000	-0,590000	-0,270000
2 years	-0,293500	1,937916	0,992537	-0,607000	-0,270156
3 years	-0,238000	1,935827	0,992537	-0,558000	-0,270156
5 years	-0,119500	1,931643	0,992537	-0,436000	-0,270156
7 years	0,016000	1,927458	0,992537	-0,302000	-0,270156
10 years	0,211000	1,921190	0,992537	-0,112000	-0,270156
15 years	0,467000	1,958212	0,992537	0,094000	-0,270156
20 years	0,599000	2,027000	0,992537	0,094000	-0,270156
30 years	0,631000	2,056000	0,992537	0,094000	-0,270156

As at 31 December 2018, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currency				
	Euro	US Dollar	Pound Sterling	Swiss Franc	Japanese Yen
1 day	-0.373000	2.480000	0.750000	-0.830000	-0.086670
7 days	-0.373000	2.415880	0.750000	-0.830000	-0.086670
1 month	-0.363000	2.700000	0.895000	-0.630000	-0.400000
2 months	-0.336931	2.760000	0.970000	-0.790000	-0.350000
3 months	-0.309000	2.870000	0.970000	-0.750000	-0.380000
6 months	-0.237000	2.950000	1.060000	-0.640000	-0.330000
9 months	-0.177000	3.030000	1.145000	-0.665000	-0.200000
1 year	-0.117000	3.100000	1.245000	-0.575000	-0.230000
2 years	-0.171500	2.677000	1.145000	-0.573000	-0.022500
3 years	-0.065000	2.626000	1.216000	-0.468000	-0.022500
5 years	0.201000	2.635000	1.307000	-0.265000	-0.008800
7 years	0.469000	2.681000	1.366000	-0.019000	0.040000
10 years	0.815000	2.766000	1.444000	0.293000	0.147500
15 years	1.169000	2.852000	1.526000	0.616000	0.340000
20 years	1.345000	2.824000	1.526000	0.616000	0.340000
30 years	1.405000	2.819000	1.526000	0.616000	0.340000

Exchange rates and volatility

We present below the exchange rates (European Central Bank) as at the balance sheet date and the implied volatilities (at the Money) for the main currency pairs used in the valuation of derivatives:

			Volatility (%)				
Currency pair	**2019**	**2018**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1234	1.1450	5.175	5.375	5.550	5.700	5.950
EUR/GBP	0.8508	0.8945	7.575	7.125	7.075	7.100	7.200
EUR/CHF	1.0854	1.1269	4.175	4.475	4.625	4.825	5.150
EUR/JPY	121.94	125.85	5.675	6.025	6.375	6.675	6.850
EUR/BRL	4.5157	4.444	11.425	11.100	11.450	11.150	11.550
EUR/AOA	540.0370	353.0210	-	-	-	-	-

Concerning exchange rates, the Group uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of the Group, as at 31 December 2019 and 2018, is presented as follows:

(Euro thousand)

	2019				
	At fair value through profit or loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial Assets					
Cash and deposits at central banks	-	-	1 003 649	1 003 649	1 003 649
Loans and deposits to credit institutions repayable on demand	-	-	29 445	29 445	29 445
Other loans and advances to credit institutions	-	-	275 598	275 598	275 598
Loans and advances to customers	1 207	-	11 463 335	11 464 542	11 319 181
Financial assets held for trading	35 905	-	-	35 905	35 905
Financial assets at fair value through profit or loss	384 675	-	-	384 675	384 675
Financial assets at fair value through other comprehensive income	-	1 859 691	-	1 859 691	1 859 691
Hedging derivatives	11 148	-	-	11 148	11 148
Other financial assets at amortized cost	-	-	899 145	899 145	927 464
	432 935	1 859 691	13 671 172	15 963 798	15 846 756
Financial liabilities					
Deposits from central bank	-	-	1 291 033	1 291 033	1 291 033
Deposits from other credit institutions	-	-	522 161	522 161	528 445
Deposits from customers	-	-	12 524 697	12 524 697	12 526 985
Debt securities issued	6 587	-	1 383 393	1 389 980	1 383 789
Financial liabilities held for trading	13 368	-	-	13 368	13 368
Hedging derivatives	547	-	-	547	547
Other subordinated debt	-	-	157 847	157 847	172 668
	20 502	-	15 879 131	15 899 633	15 916 835

(Euro thousand)

	2018				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial Assets					
Cash and deposits at central banks	-	-	1 610 635	1 610 635	1 610 635
Loans and deposits to credit institutions repayable on demand	-	-	78 088	78 088	78 088
Other loans and advances to credit institutions	-	-	209 932	209 932	209 932
Loans and advances to customers	24 633	-	12 070 740	12 095 373	12 190 304
Financial assets held for trading	23 739	-	-	23 739	23 739
Financial assets at fair value through profit or loss	492 594	-	-	492 594	492 594
Financial assets at fair value through other comprehensive income	-	444 073	-	444 073	444 073
Hedging derivatives	5 666	-	-	5 666	5 666
Other financial assets at amortized cost	-	-	1 255 651	1 255 651	1 267 168
	546 632	444 073	15 225 046	16 215 751	16 322 199
Financial liabilities					
Deposits from central bank	-	-	1 395 320	1 395 320	1 395 320
Deposits from other credit institutions	-	-	1 245 435	1 245 435	1 234 760
Deposits from customer	14 597	-	12 560 627	12 575 224	12 579 361
Debt securities issued	6 776	-	1 087 158	1 093 934	1 090 942
Financial liabilities held for trading	13 496	-	-	13 496	13 496
Other subordinated debt	-	-	50 044	50 044	50 342
	34 869	-	16 338 584	16 373 453	16 364 221

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2019:

(Euro thousand)

	2019				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 003 649	-	-	-	1 003 649
Loans and deposits to credit institutions repayable on demand	29 445	-	-	-	29 445
Other loans and advances to credit institutions	-	-	275 598	-	275 598
Loans and advances to customers	-	1 207	11 317 974	-	11 319 181
Financial assets held for trading	13 009	7 785	15 111	-	35 905
Financial assets at fair value through profit or loss	7 551	-	377 124	-	384 675
Financial assets at fair value through other comprehensive income	1 747 451	15 623	95 581	1 036	1 859 691
Hedging derivatives	-	11 148	-	-	11 148
Other financial assets at amortized cost	927 464	-	-	-	927 464
	3 728 569	35 763	12 081 388	1 036	15 846 756
Financial liabilities					
Deposits from central banks	1 291 033	-	-	-	1 291 033
Deposits from other credit institutions	-	-	528 445	-	528 445
Deposits from customers	-	-	12 526 985	-	12 526 985
Debt securities issued	-	6 587	1 377 202	-	1 383 789
Financial liabilities held for trading	-	13 368	-	-	13 368
Hedging derivatives	-	547	-	-	547
Other subordinated debt	-	-	172 668	-	172 668
	1 291 033	20 502	14 605 300	-	15 916 835

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2018:

(Euro thousand)

	2018				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 610 635	-	-	-	1 610 635
Loans and deposits to credit institutions repayable on demand	78 088	-	-	-	78 088
Other loans and advances to credit institutions	-	-	209 932	-	209 932
Loans and advances to customers	-	15 139	12 175 165	-	12 190 304
Financial assets held for trading	-	11 525	12 214	-	23 739
Financial assets at fair value through profit or loss	6 556	-	486 038	-	492 594
Financial assets at fair value through other comprehensive income	337 059	17 179	87 226	2 609	444 073
Hedging derivatives	-	5 666	-	-	5 666
Other financial assets at amortised cost	1 267 168	-	-	-	1 267 168
	3 299 506	49 509	12 970 575	2 609	16 322 199
Financial liabilities					
Deposits from central banks	1 395 320	-	-	-	1 395 320
Deposits from other credit institutions	-	-	1 234 760	-	1 234 760
Deposits from customers	-	14 597	12 564 764	-	12 579 361
Debt securities issued	-	6 776	1 084 166	-	1 090 942
Financial liabilities held for trading	-	13 496	-	-	13 496
Hedging derivatives	-	-	-	-	
Other subordinated debt	-	-	50 342	-	50 342
	1 395 320	34 869	14 934 032	-	16 364 221

50 Post-employment and long-term benefits

Banco Montepio, Montepio Crédito and Montepio Valor assumed the responsibility to pay their employees pensions on retirement and disability and other benefits, in accordance with the accounting policy described in note 1 t). In addition, and in accordance with the same policy, the Group calculates at least once a year, with reference to 31 December of each year, the liabilities with retirement pensions and other benefits. This also occurs whenever the changes substantiated on the main actuarial assumptions so determine.

The Group's general pension plan for employees covers liabilities for the retirement benefits provided for in the Collective Labour Agreement for the Banking Sector and is a complementary plan to the General Social Security System.

Under the Collective Labour Agreement ("ACT") for the Banking Sector, employees admitted after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria determining the amount of pension that an employee will receive during retirement, usually dependent on one or more factors such as age, years of service and remuneration.

The benefits provided by this pension plan are as follows:

- Retirement due to presumable disability (old age);

- Retirement due to disability; and

- Survival pension.

The respective beneficiaries are guaranteed all social benefits, on the terms, conditions and values included in the pension plan in the quality of employees who at their retirement date are in the service of the Group, or as employees who had been permanent employees of the Group and at their retirement date meet all the enforceability requirements defined in the pension plan.

The pension provided by the Pension Fund is that corresponding to the employee's level at retirement and respective seniority payments, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund ("Caixa Geral de Aposentações") or the National Pensions Centre (""Centro Nacional de Pensões"), same shall be deducted from the pension guaranteed by the present pension plan.

In case of death of an active employee or a pensioner, the pension plan guarantees a survival pension equal to 40% of the remuneration to which the employee would be entitled if he/she retired or the pension he/she would receive, respectively.

The Group's former employees, when attaining the situation of retirement due to old-age or disability, are entitled to the payment by the Pension Fund of a pension calculated as per the preceding paragraph, proportional to the time of service rendered to the Group.

Additionally, the pension plan guarantees the Social-Medical Assistance Services ("SAMS") costs and the death subsidy, pursuant to the ACT.

The Group has no other mechanisms to ensure the coverage of liabilities assumed with old-age, disability and survival pensions, health benefits and death subsidy of its employees.

In December 2016 the Group signed a new Collective Labour Agreement (ACT), introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the General Social Security System, and the attribution of an end-of-career award which replaced the extinguished seniority bonus.

As a result of the amendment to the ACT, the contributions to SAMS were now made based on a fixed cost per employee and were no longer indexed to salaries.

The main actuarial assumptions used in calculating the present value of the liabilities are as follows:

	Assumptions	
	2019	2018
Financial assumptions		
Salary growth rate	0,75%	1,00%
Pension growth rate	0,50%	0,50%
Rate of return of Fund	1,50%	2,25%
Discount rate	1,50%	2,25%
Revaluation rate		
Salary growth rate - Social Security	1,50%	1,50%
Pension growth rate	1,00%	1,00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90 -3 years
Actuarial valuation method	UCP	UCP

The assumptions used in calculating the present value of the liabilities are in accordance with the requirements defined by IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices, for high-quality corporate brands, and (ii) duration of the liabilities. As at 31 December 2019 and 2018, the average duration of the pension liabilities of the Group's employees is 19.7 years, including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

	2019	2018
Active	3 386	3 431
Retirees and survivors	1 313	1 315
	4 699	4 746

The liabilities for pensions and other benefits and respective coverage levels are presented as follows:

(Euro thousand)

	2019	2018
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(318 871)	(286 971)
Active	(461 544)	(396 395)
	(780 415)	(683 366)
Liabilities with healthcare benefits		
Pensioners	(22 884)	(21 684)
Active	(43 873)	(34 440)
	(66 757)	(56 124)
Liabilities with death benefits		
Pensioners	(1 913)	(1 677)
Active	(1 825)	(1 329)
	(3 738)	(3 006)
Total liabilities	(850 910)	(742 496)
Coverages		
Pension Fund value	837 103	725 797
Net assets/(liabilities) in the balance sheet	(13 807)	(16 699)
Accumulated actuarial remeasurements recognized in other comprehensive income	300 878	223 048

The evolution of liabilities with retirement pensions, health benefits and death subsidy can be analysed as follows:

(Euro thousand)

	2019				2018			
	Pension benefits	Healthcare benefits	Death benefits	Total	Pension benefits	Healthcare benefits	Death benefits	Total
Liabilities at the beginning of the financial year	683 366	56 124	3 006	742 496	682 000	55 559	3 198	740 757
Recognized in net income/(loss) (note 11)								
Current service cost	4 786	1 477	59	6 322	5 212	1 891	55	7 158
Interest cost	15 376	1 263	68	16 707	14 323	1 166	68	15 557
Early retirement, mutually agreed termination and others	344	-	-	344	1 802	-	-	1 802
Recognized in equity (note 45)								
Actuarial gains/(losses)								
- Changes in assumptions	81 235	-	-	81 235	(18 691)	(1 710)	(108)	(20 509)
- Not related to changes in assumptions	15 186	7 893	605	23 684	18 147	(782)	(207)	17 158
Other								
Pensions paid by the Fund	(19 507)	-	-	(19 507)	(17 062)	-	-	(17 062)
Pensions paid by Banco Montepio	(2 764)	-	-	(2 764)	(4 725)	-	-	(4 725)
Participant contributions	2 393	-	-	2 393	2 360	-	-	2 360
Liabilities at the end of the financial year	780 415	66 757	3 738	850 910	683 366	56 124	3 006	742 496

The evolution of the Pension Fund's net asset value in financial years ended 31 December 2019 and 2018 can be analysed as follows:

(Euro thousand)

	2019	2018
Value of Fund at beginning of financial year	725 797	733 850
Recognized in net income/(loss)		
Share of net interest	16 331	15 410
Recognized in equity (note 45)		
Financial deviations	27 089	(38 761)
Others		
Contributions from Banco Montepio	85 000	30 000
Participant Contributions	2 393	2 360
Pensions paid by the Fund	(19 507)	(17 062)
Value of Fund at end of financial year	837 103	725 797

Banco Montepio's contributions related to 2019 include an additional payment made by Banco Montepio in 2020, in the amount of Euro 22,000 thousand.

No additional contributions to the defined benefit plans are foreseen for the following financial year since it is expected that the Fund's return will be sufficient to cover for the changes in the liabilities.

As at 31 December 2019 and 2018, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	2019				2018			
	Assets of the fund	%	Quoted	Unquoted	Assets of the fund	%	Quoted	Unquoted
Variable-income securities								
Shares	46 229	6%	46 229	-	59 142	8%	59 142	-
Shares investment funds	106 585	13%	-	106 585	83 999	12%	9 742	74 257
Bonds	530 645	63%	475 324	55 321	486 044	67%	452 685	33 359
Real estate	5 494	1%	-	5 494	5 595	1%	-	5 595
Real estate investment funds	34 722	4%	685	34 037	24 017	3%	684	23 333
Venture capital funds	5 638	1%	-	5 638	9 479	1%	-	9 479
Loans and advances to banks and other	107 790	13%	-	107 790	57 521	8%	-	57 521
Total	837 103	100%	522 238	314 865	725 797	100%	522 253	203 544

The assets of the Pension Fund related to securities, real estate and loans and advances to banks that are entities of the Group, are analysed as follows:

(Euro thousand)

	2019	2018
Loans and advances in banks and other	107 790	57 522
Real estate	5 494	5 595
Bonds	2 110	2 283
	115 394	65 400

The evolution of the re-measurements in the balance sheet are analysed as follows:

(Euro thousand)

	2019	2018
Actuarial gains/(losses) at the beginning of the financial year	223 048	187 637
Actuarial gains/(losses) in the financial year		
Changes in discount rate	111 474	(20 509)
Payroll update	(30 239)	-
Deviation on the Pension Fund return	(27 089)	38 761
Other	23 684	17 159
Actuarial gains/(losses) recognized in other comprehensive income	300 878	223 048

The costs with retirement pensions, health benefits and death subsidy are analysed as follows:

(Euro thousand)

	2019	2018
Current service cost	6 322	7 158
Net interest income/(expense) on the liabilities coverage balance	376	147
Costs with early retirement, mutually agreed termination and other	344	1 802
Costs for the financial year	7 042	9 107

The evolution of net assets/ (liabilities) in the balance sheet, in financial years ended 31 December 2019 and 2018, is analysed as follows:

(Euro thousand)

	2019	2018
At the beginning of the financial year	(16 699)	(6 907)
Contributions by Banco Montepio	85 000	30 000
Current service cost	(6 322)	(7 158)
Net interest income/(expense) on the liabilities coverage balance	(376)	(147)
Actuarial gains/(losses)	(104 919)	3 351
Financial gains/(losses)	27 089	(38 761)
Pensions paid by Banco Montepio	2 764	4 725
Early retirement, mutually agreed terminations and others	(344)	(1 802)
At the end of the financial year	(13 807)	(16 699)

The actuarial assumptions have a significant impact on the liabilities for pensions and other benefits. Thus, the Group performed a sensitivity analysis to a positive and negative change of 25 basis points in some of the actuarial assumptions with the purpose of calculating the effect on the value of pension liabilities, which impact is analysed as follows:

(Euro thousand)

	2019		2018	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(36 015)	38 434	(31 206)	33 302
Salary growth rate (0.25% change)	26 717	24 678	23 143	(21 378)
Pension growth rate (0.25% change)	33 564	(32 097)	29 085	(27 814)
SAMS contribution (0.25% change)	3 796	(3 769)	3 288	(3 288)
Future mortality (1 year change)	(25 947)	25 907	(22 486)	22 452

In 2019, the cost associated with the end-of-career award amounted to Euro 2,059 thousand (2018: Euro 1,152 thousand), in accordance with the accounting policy described in note 1 t) and as per note 41.

51 Assets under management

In accordance with the legislation in force, the fund management companies, and the depositary bank are jointly liable before the participants of the funds for the non-fulfilment of the obligations assumed under law and the regulations of the funds managed.

As at 31 December 2019 and 2018, the amount of the funds for which the Group acts as depository bank is analysed as follows:

(Euro thousand)

	2019	2018
Securities investment funds	171 457	137 984
Real estate investment funds	550 669	513 344
Pension funds	249 258	227 963
Bank and insurance	996	22 072
	972 380	901 363

The amounts recognized in these captions are measured at fair value determined as at the balance sheet date.

52 Related parties

As defined in IAS 24, the companies detailed in note 61, the Pension Fund, the members of the Corporate, Management and Supervisory Bodies and the key management personnel are considered related parties of the Group. In addition to the members of the Corporate, Management and Supervisory Bodies and the key management personnel, their family and entities controlled by them or in which management they have significant influence are also considered related parties.

According to Portuguese law, namely under articles no. 85 and 109 of the Legal Framework of Credit Institutions and Financial Companies (“RGICSF”), the shareholders of Banco Montepio, as well as individuals related to them and entities controlled by them or in which management they have significant influence are also considered related parties.

The Group’s first-line managers are considered Other key management personnel.

On this basis, with reference to 31 December 2019, the list of related parties considered by the Group is presented as follows:

Majority shareholder
Montepio Geral Associação Mutualista

Board of Directors
Chairman of the Board of Directors
Carlos Manuel Tavares da Silva [(1)]
Non-executive members
Manuel Ferreira Teixeira
Amadeu Ferreira de Paiva
Carlos Francisco Ferreira Alves [(2)]
José da Cunha Nunes Pereira [(3)]
Pedro Jorge Gouveia Alves
Rui Pedro Brás de Matos Heitor
Vítor Manuel do Carmo Martins
Executive Committee
Chairman of the Executive Committee
Pedro Manuel Moreira Leitão [(4)]
Executive members
Dulce Maria Pereira Cardoso Mota Jorge Jacinto [(5)]
Carlos Miguel López Leiria Pinto [(6)]
Helena Catarina Gomes Soares de Moura Costa Pina
José Carlos Sequeira Mateus
Leandro Rodrigues da Graça Silva
Nuno Cardoso Correia da Mota Pinto
Pedro Miguel Nunes Ventaneira
Audit Committee
Chairman of the Audit Committee
Manuel Ferreira Teixeira
Members
Amadeu Ferreira de Paiva
Carlos Francisco Ferreira Alves
José da Cunha Nunes Pereira
Vítor Manuel do Carmo Martins

Board of Directors of Other Related Parties
Amândio Manuel Carrilho Coelho
António Manuel de Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
Carlos Vicente Morais Beato
Edite da Encarnação Paiva Baptista Cheira
Fernanda Maria da Costa Simões Brázia
Fernando Dias Nogueira
Fernando Ferreira Santo
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco José Gonçalves Simões
Idália Maria Marques Salvador Serrão
Isabel Margarida Carvalho Simões Cidrais Guimarães
Isabel Maria Loureiro Alves Brito
Joana Cristina Veiga Carvalho Barbosa
João Andrade Lopes
João António Morais da Costa Pinto
João Carlos Carvalho das Neves
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
Joaquim Mariano Gargana Cabaço
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José António Truta Pinto Rabaça
José Luís Esparteiro da Silva Leitão
José Mendes Alfaia
Laura Catarina Simões Cardoso Duarte Teodósio
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Gabriel Moreira Maia de Almeida
Luís Paulo da Silva Mendes
Manuel Carlos Costa da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Dalila Correia Araújo Teixeira
Maria Lúcia Ramos Bica

Board of Directors of Other Related Parties (cont.)
Maria Manuela Traquina Rodrigues
Maria Margarida Carrusca Pontes do Rosário Ribeiro de Andrade
Maria Rosa Almas Rodrigues
Mário José de Matos Valadas
Norberto da Cunha Junqueira Fernandes Félix Pilar
Nuno Henrique Serra Mendes
Nuno Manuel Marques da Silva
Paulo José Martins Jorge da Silva
Pedro Manuel Gaspar de Vasconcelos Carrasco
Pedro Miguel Moura Líbano Monteiro
Pedro Miguel Rodrigues Crespo
Ricardo Canhoto de Carvalho
Tereza de Jesus Teixeira Barbosa Amado
Vasco Francisco Coelho Almeida
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other Key Management Personnel
Alexandra Maria Borges Ferreira Rolo Pimenta Santos
Alexandra Melo Ponciano
Ana Maria Sousa Capelão Teixeira Fernandes Mendonça Neves
Ana Paula Maia Fernandes
Ana Sofia Rodrigues Matos
António Fernando Figueiredo Lopes
António José Boavista Coelho
António José Miranda Lopes Coutinho
Armando Jorge Pereira Oliveira Lopes
Armando José Lemos Cardoso
Carlos Alberto Figueiral Azevedo
Daniel Maximino Caçador
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Filipe José Silva Rocha
Gabriel Fernando Sá Torres
Hélder Ferreira Reis
Hélio Miguel Gomes Marques
Inês Maria Pinho Mourinho Oliveira Sousa Dargan
Jaquelina Maria Almeida Rodrigues Miguens
João Filipe Oliveira Guimarães Cizeron
João Tiago Maia Barros Silva Teixeira
Joaquim António Canhoto Gonçalves Silva
Jorge Humberto Cruz Barros Jesus Luís
José Luís Dias Jesus
José Miguel Carneiro Mello
Luís Filipe Pereira Cruz Nunes
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Manuel Fernando Caixado Castanho
Maria Alexandra Sousa Almeida Ferreira
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Mónica Susana Martins Ferreira Sousa Araújo
Nuno Augusto Pereira Coelho
Patrícia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Paulo Miguel Ferreira Trindade
Pedro Jorge Ponte Araújo
Pedro Miguel Soares Vieira
Pedro Nuno Coelho Pires
Ricardo Artur Silva Ribeiro
Rui Jorge Correia Pereira Santos
Rui Luís Magalhães Moura
Rui Sérgio Carvalho Santos Calheiros Gama
Sandra Maria Santos Gameiro Henriques Jesus Brito Pereira
Tânia Carina Cardoso Madeira
Tiago Luís Marques Coelho Martins
Tiago Miguel Fidalgo Oliveira Coito
Vasco Francisco Coelho Almeida
Vasco Martins Fernandes Gil
Vítor António Santos Ventura
Vítor Fernando Santos Cunha

(1) Mr. Carlos Tavares was in office as Chairman of the Board of Directors and Chairman of the Executive Committee, cumulatively, on the terms authorized by the Bank of Portugal, until 11 February 2019, date as from which he took up office as Chairman of the Board of Directors.

(2) Dr. Carlos Ferreira Alves, elected at the Universal General Assembly of 30 October 2018, was authorized by the Bank of Portugal on 27 December 2018, having taken up office on 15 January 2019.

(3) Mr. José da Cunha Nunes Pereira, elected at the Universal General Assembly of 5 December 2019, was authorized by the Bank of Portugal on 16 March 2020, having taken up office on 1 April 2020.

(4) Mr. Pedro Manuel Moreira Leitão, elected at the Universal General Assembly of 5 December 2019, was authorized by the Bank of Portugal on 21 December 2019, having taken up office as Chairman of the Executive Committee on 9 January 2020.

(5) Ms. Dulce Mota, elected via a Unanimous Written Resolution on 23 November 2018 and authorized by the Bank of Portugal on 8 January 2019, having taken up office on 8 January 2019. In the quality of Executive Vice-chairman, she exercised the office of Chairman of the Executive Committee, as substitute, during the period between 11 February 2019 and 08 January 2020.

(6) Mr. Carlos Miguel López Leiria Pinto tendered his resignation to the office of Executive member of the Board of Directors of Banco Montepio, with effect from 31 March 2020.

Other related parties

Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
CESource, ACE
Clínica CUF Belém, S.A
Clínica de Serviços Médicos Computorizados de Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.
In Posterum, A.C.E.
Leacock - Prestação de Serviços, LDA.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique Companhia de Seguros, S.A.R.L.
Montepio Residências para Estudantes, S.A.
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.
Montepio Gestão de Ativos Imobiliários, ACE
Montepio Imóveis – Sociedade Imobiliária, S.A.
Montepio Seguros, S.G.P.S., S.A.
N Seguros, S.A.
NAVISER - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
Nova Câmbios - Instituição de Pagamento, S.A.
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SAS Apostas Sociais, Jogos e Apostas Online, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.

Related parties resulting from the shareholding held in Finibanco Angola, S.A.:

Audiconta – Contabilistas e Peritos Contabilistas, Lda.
Banco de Negócios Internacional, S.A. (BNI)
Bifashion
Chamavo e Companhia
Cominder Comércio e Indústria
Consar Gestão de Empreendimentos e Serviços
Fundação Mucusso
Gelcon Holding Company
Geminas
Gesimet Indústria Siderugica de Angola, S.A.
Grupo Gema
Himoinsa Angola
Medabil Angola
Novacal
Porto Seco da Mulemba
Shafaris
Vauco Automóveis e Equipamentos

As at 31 December 2019, the assets held by the Group in respect of related parties, pursuant to article 109, represented or not by securities, included in the captions Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other assets, Guarantees and commitments assumed and Impairment of guarantees and other commitments assumed, are presented as follows:

(Euros thousand)

	2019							
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided	Provisions for guarantees and commitments provided	Total
Board of Directors	664	-	-	-	-	-	-	664
Board of Directors of Other Related Parties	2 499	1	-	-	-	8	-	2 508
Other Key Management Personnel	3 600	3	-	-	-	-	-	3 603
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	1	-	-	-	13	-	-	14
CESource, ACE	-	-	-	-	49	-	-	49
Germont – Empreendimentos Imobiliários, S.A.	69	18	-	-	-	11 931	18	12 018
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	500	1	500
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	923	58	93	46	-	1 120
Moçambique Companhia de Seguros, S.A.R.L.	-	-	415	-	-	-	-	415
Montepio Geral Associação Mutualista	5	-	-	-	5 465	382	-	5 852
Montepio Gestão de Activos - S.G.F.I., S.A.	-	-	2	-	-	-	-	2
Montepio Imóveis – Sociedade Imobiliária, S.A.	7 544	56	-	-	-	-	-	7 600
NovaCâmbios - Instituição de Pagamento, S.A.	968	17	-	-	-	1 354	10	2 339
Residências Montepio, Serviços de Saúde, S.A.	646	5	-	-	9	500	1	1 160
	15 997	100	1 340	58	5 629	14 721	30	37 845

As at 31 December 2018, assets held by the Group in respect of related parties, pursuant to article 109, represented or not by securities, included in the captions Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other assets, Guarantees and commitments assumed and Impairment of guarantees and other commitments assumed, are presented as follows:

(Euro thousand)

	2018							
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income integral	Other assets	Guarantees and commitments provided	Guarantees and commitments provided	Total
Board of Directors (after 20 March 2018)	500	-	-	-	-	-	-	500
Executive Board of Directors (until 20 March 2018)	132	-	-	-	-	-	-	132
General and Supervisory Board (until 20 March 2018)	2 034	26	-	-	-	470	11	2 530
Board of Directors of Other Related Parties	2 582	3	-	-	-	8	-	2 593
Other Key Management Personnel	2 969	6	-	-	-	-	-	2 975
CESource, ACE	-	-	-	-	117	-	-	117
Fuuro – Sociedade Gestora de Fundos de Pensões, S.A.	1	-	-	-	-	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	11 330	92	-	-	-	731	1	12 153
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	2 500	3	2 500
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	1	-	943	68	-	46	-	1 058
Moçambique Companhia de Seguros, S.A.R.L.	-	-	415	-	-	-	-	415
Montepio Geral Associação Mutualista	5	-	-	-	1 258	91	-	1 354
Montepio Imóveis – Sociedade Imobiliária, S.A.	7 543	60	-	-	-	-	-	7 603
NovaCâmbios - Instituição de Pagamento, S.A.	486	9	-	-	-	1 209	5	1 704
Residências Montepio, Serviços de Saúde, S.A.	362	2	-	-	-	-	-	364
Valor Prime - Fundo de Investimento Imobiliário Aberto	25 003	165	-	-	-	5 000	6	30 168
	52 949	363	1 358	68	1 375	10 055	26	66 168

As at 31 December 2019, the Group's liabilities in respect of related parties, pursuant to article 109, included in the captions Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Euro thousand)

Companies	2019		
	Deposits from customers	Debt securities issued and Other subordinated debts	Total
Board of Directors	1 881	-	1 881
Board of Directors of Other Related Parties	3 640	-	3 640
Other Key Management Personnel	2 088	-	2 088
Bolsimo - Gestão de Activos, S.A.	358	-	358
Clínica CUF Belém, S.A.	29	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	2	-	2
Empresa Gestora de Imóveis da Rua do Prior S.A	113	-	113
Fundação Montepio Geral	918	-	918
Fundo de Pensões - Montepio Geral	87 682	2 100	89 782
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	327	-	327
Germont – Empreendimentos Imobiliários, S.A.	1 125	-	1 125
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	71	-	71
In Posterum, A.C.E.	100	-	100
Lusitania Vida, Companhia de Seguros, S.A.	19 297	-	19 297
Lusitania, Companhia de Seguros, S.A.	2 998	-	2 998
Montepio Geral Associação Mutualista	131 971	140 105	272 076
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	1 830	-	1 830
Montepio Gestão de Activos Imobiliários, ACE	2 388	-	2 388
Montepio Imóveis – Sociedade Imobiliária, S.A.	22	-	22
Montepio Residências para Estudantes, S.A:	526	-	526
Montepio Seguros, S.G.P.S., S.A.	1 021	-	1 021
N Seguros, S.A.	327	-	327
NovaCâmbios - Instituição de Pagamento, S.A.	1 150	-	1 150
Residências Montepio, Serviços de Saúde, S.A.	560	-	560
SAGIES - Segurança e Higiene no Trabalho, S.A.	32	-	32
SAS, Apostas Sociais, Jogos e Apostas Online, S.A.	-	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 948	-	2 948
Sociedade Portuguesa de Administrações, S.A.	189	-	189
	263 593	142 205	405 798

For members of the current Corporate Bodies, and who had been so previously, it was considered that, for reporting purposes as at 31 December 2018, the Group's liabilities in respect of related parties, pursuant to article 109, included in the captions Deposits from customers, Debt securities issued and Other subordinated debt, their involvement with Banco Montepio should be included in the current Corporate Bodies.

As at 31 December 2018, the Group's liabilities in respect of related parties, pursuant to article 109, included in the captions Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Euro thousand)

	2018		
Companies	**Deposits from customers**	**Debt securities issued and Other subordinated debt**	**Total**
Board of Directors (after 20 March 2018)	1 540	-	1 540
Executive Board of Directors (after 20 March 2018)	865	-	865
General and Supervisory Board (until 20 March 2018)	572	-	572
Board of Directors of Other Related Parties	6 124	-	6 124
Other Key Management Personnel	1 511	-	1 511
Bolsimo - Gestão de Activos, S.A.	3 552	-	3 552
Clínica CUF Belém, S.A.	26	-	26
Clínica de Serviços Médicos Computorizados de Belém, S.A.	5	-	5
Empresa Gestora de Imóveis da Rua do Prior S.A	62	-	62
Fundação Montepio Geral	810	-	810
Fundo de Pensões - Montepio Geral	59 694	2 300	61 994
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	4 546	-	4 546
Germont – Empreendimentos Imobiliários, S.A.	229	-	229
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	37	-	37
Lusitania Vida, Companhia de Seguros, S.A.	15 000	-	15 000
Lusitania, Companhia de Seguros, S.A.	13 515	-	13 515
Montepio Geral Associação Mutualista	138 176	174 604	312 780
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	1 177	-	1 177
Montepio Gestão de Activos Imobiliários, ACE	2 105	-	2 105
Montepio Imóveis – Sociedade Imobiliária, S.A.	89	-	89
Montepio Residências para Estudantes, S.A:	401	-	401
Montepio Seguros, S.G.P.S., S.A.	17	-	17
N Seguros, S.A.	804	-	804
NovaCâmbios - Instituição de Pagamento, S.A.	745	-	745
Residências Montepio, Serviços de Saúde, S.A.	283	-	283
SAGIES - Segurança e Higiene no Trabalho, S.A.	80	-	80
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 769	-	2 769
Sociedade Portuguesa de Administrações, S.A.	211	-	211
Valor Prime - Fundo de Investimento Imobiliário Aberto	3 298	-	3 298
	258 243	176 904	435 147

As at 31 December 2019, the Group's income and expenses with related parties, pursuant to article 109, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Staff costs, Other operating income/(expense) and General and administrative expenses, are analysed as follows:

(Euro thousand)

Companies	2019					
	Interest and similar income	Interest and similar expense	Net fee and commission income	Staff costs	Other operating income/(expense)	General and administrative expenses
Board of Directors	-	2	1	-	1	-
Board of Directors of Other Related Parties	8	5	3	-	1	-
Other Key Management Personnel	23	5	3	-	1	-
Bolsimo -Gestão de Activos, S.A.	-	-	1	(65)	-	-
CESource, ACE	-	-	-	(580)	-	-
Fundação Montepio Geral	-	-	1	-	-	-
Fundo de Pensões - Montepio Geral	-	32	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	6	2 577	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	203	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	20	-	1	-	-	-
Lestinvest, S.G.P.S., S.A.	-	-		-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	11	4 411	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	10	6 234	-	8	-
Montepio Geral Associação Mutualista	3	12 577	1 761	(9 450)	3	2 213
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	1	5	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	(2 523)	-	3 632
Montepio Imóveis – Sociedade Imobiliária, S.A.	218	3	-	-	-	-
Montepio Residências para Estudantes, S.A.	-	1	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	28	-	-	-
N Seguros, S.A.	-	1	16	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	40	-	61	-	5	-
Residências Montepio, Serviços de Saúde, S.A.	17	-	17	(105)	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	9	-	-	-	-
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	-	1	-		
SAS Apostas Sociais, Jogos e Apostas Online, S.A.	-	-	-	-	-	
	532	12 663	15 121	(12 723)	19	5 845

As at 31 December 2018, the Group's income and expenses with related parties, pursuant to article 109, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Staff costs, Other operating income/(expense) and General and administrative expenses, are analysed as follows:

(Euro thousand)

Companies	2018					
	Interest and similar income	Interest and similar expense	Net fee and commission income	Staff costs	Other operating income/(expense)	General and administrative expenses
Board of Directors (after 20 March 2018)	-	3	1	-	-	-
Executive Board of Directors (until 20 March 2018)	-	1	-	-	-	-
General and Supervisory Board (until 20 March 2018)	1	-	-	-	-	-
Board of Directors of Other Related Parties	7	16	5	-	-	-
Other Key Management Personnel	15	8	2	-	-	-
Bolsimo -Gestão de Activos, S.A.	-	-	1	-	-	-
CESource, ACE	-	-	-	-	597	-
Fundação Montepio Geral	-	-	1	-	-	-
Fundo de Pensões - Montepio Geral	-	50	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	17	2 438	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	344	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	21	-	1	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	228	3 828	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	89	3 648	-	9	-
Montepio Geral Associação Mutualista	3	10 537	5	(9 276)	1	2 351
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	10	3	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	(2 563)	1	3 642
Montepio Imóveis – Sociedade Imobiliária, S.A.	2	2	-	-	-	-
Montepio Residências para Estudantes, S.A.	-	-	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	37	-	-	-
N Seguros, S.A.	-	-	9	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	17	-	45	-	4	-
Residências Montepio, Serviços de Saúde, S.A.	22	-	29	-	4	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	15	-	-	-	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	269	1	49	-	-	245
	701	10 977	10 102	(11 839)	616	6 238

Remuneration, social charges and loans granted to members of the Board of Directors, Audit Committee, General and Supervisory Board and Other key management personnel are detailed in note 11.

In 2019 and 2018, there were no transactions with the Group's Pension Fund.

53 Securitization of assets

As at 31 December 2019, there are seven securitization operations, five of which originated in Banco Montepio, one in Montepio Crédito – Instituição Financeira de Crédito, S.A. and one in Montepio Investimento, S.A., currently integrated in the Group following the success of the General and Voluntary Public Offering over the representative shares of Montepio Holding, S.G.P.S., S.A. (previously named Finibanco Holding, S.G.P.S., S.A.) and the transmission of almost all assets and liabilities (business acquisition) to the Group.

We present next some additional details of these securitization operations.

As at 30 March 2007, Banco Montepio celebrated a mortgage loan securitization contract with Sagres – Sociedade de Titularização de Créditos, S.A. (Sagres), *Pelican Mortgages* no. 3. The total period of the operation is 47 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 762,375 thousand. The sale was made at par, with the initial sale process costs representing 0.0165% of par.

As at 20 May 2008, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, *Pelican Mortgages* no. 4. The total period of the operation is 48 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,028,600 thousand. The sale was made at par, with the initial sale process costs representing 0.083% of par.

As at 9 December 2008, Montepio Investimento S.A. sold a mortgage loan portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus), in the amount of Euro 236,500 thousand (Aqua Mortgages no. 1). The total period of this operation is 55 years, with a revolving period of 2 years.

As at 25 March 2009, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, Pelican Mortgages no. 5. The total period of the operation is 52 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The sale was made at par, with the initial sale process costs representing 0.0564% of par.

As at 5 March 2012, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, Pelican Mortgages no. 6. The total period of the operation is 51 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The sale was made at par, with the initial sale process costs representing 0.1083% of the Asset Backed Notes.

As at 7 May 2014, Banco Montepio and Montepio Crédito, Instituição Financeira de Crédito, S.A. celebrated with Tagus, a contract for the sale of consumer loans originated by same in the scope of a loan securitization contract (Pelican Finance no. 1). The total period of the operation is 14 years, with an initial revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand. The sale was made at par, with the initial sale process costs representing 0.1871% of the Asset Backed Notes.

As at 11 July 2017, Montepio Crédito celebrated with Tagus, a consumer loan securitization contract (Aqua Finance no. 4). The total period of the operation is 18 years, with a revolving period of 18 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 200,200 thousand. The sale was made at par, with the initial sale process costs representing 0.6991% of the Asset Backed Notes.

The entity that guarantees the debt service (servicer) of the traditional securitization operations is the Group, assuming the collection of the loans sold and channelling the amounts received to the respective Credit Securitization Companies (Sociedades Titularização de Créditos) (Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6, Aqua Mortgages no. 1 and Pelican Finance no. 1). Montepio Crédito – Instituição Financeira de Crédito, S.A. assures the same functions for the operation Pelican Finance no. 1.

During financial period 2018, Pelican SME no. 2 was redeemed.

The Group does not hold any direct or indirect shareholding in the companies Tagus and Sagres.

The loans covered by the securitization operations referred above were not derecognized from the balance sheet as the Group retained most of the risks and rewards associated with the securitized loans. If the Group substantially transfers the risks and rewards associated with their holding, the securitization operations are derecognized.

As at 31 December 2019, the securitization operations realized by the Group are presented as follows:

(Euro thousand)

				Loand and advances		Securities issued		
Issue	Settlement date	Currency	Asset transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount *
Pelican Mortgages no. 3	March 2007	Euro	Mortgage loans	762 375	171 989	762 375	177 299	45 799
Pelican Mortgages no. 4	May 2008	Euro	Mortgage loans	1 028 600	495 965	1 028 600	528 439	-
Aqua Mortgage no. 1	December 2008	Euro	Mortgage loans	236 500	87 968	236 500	90 177	-
Pelican Mortgages no. 5	March 2009	Euro	Mortgage loans	1 027 500	499 050	1 027 500	524 377	-
Pelican Mortgages no. 6	February 2012	Euro	Mortgage loans	1 107 000	637 106	1 107 000	713 822	-
Pelican Finance no. 1	May 2014	Euro	Consumer loans	308 700	118 586	308 700	136 103	-
Aqua Finance no. 4	July 2017	Euro	Consumer loans and other	200 200	119 639	200 200	126 118	80 428
				4 670 875	2 130 303	4 670 875	2 296 335	126 227

* Includes nominal value, accrued interest and other adjustments

As at 31 December 2018, the securitization operations realized by the Group are presented as follows:

(Euro thousand)

				Loand and advances		Securities issued		
Issue	Settlement date	Currency	Assets transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount *
Pelican Mortgages no. 3	March 2007	Euro	Mortgage loans	762 375	198 329	762 375	202 235	61 343
Pelican Mortgages no. 4	May 2008	Euro	Mortgage loans	1 028 600	556 515	1 028 600	584 078	-
Aqua Mortgage no. 1	December 2008	Euro	Mortgage loans	236 500	106 184	236 500	102 335	-
Pelican Mortgages no. 5	March 2009	Euro	Mortgage loans	1 027 500	556 280	1 027 500	578 463	-
Pelican Mortgages no. 6	February 2012	Euro	Mortgage loans	1 107 000	730 645	1 107 000	784 952	-
Pelican Finance no. 1	May 2014	Euro	Consumer loans	308 700	191 217	308 700	201 703	-
Aqua Finance no. 4	July 2017	Euro	Consumer loans and other	200 200	174 806	200 200	45 200	154 260
				4 670 875	2 513 976	4 670 875	2 498 966	215 603

* Includes nominal value, accrued interest and other adjustments

Additionally, the detail of the securitized loans not derecognized, by securitization operation and nature of contract, as at 31 December 2019, is presented as follows:

(Euro thousand)

	Non-derecognized securitization operations							
	Pelican Mortgage no. 3	Pelican Mortgage no. 4	Aqua Mortgage no. 1	Pelican Mortgage no. 5	Pelican Mortgage no. 6	Pelican Finance no. 1	Aqua Finance no. 4	Total
Domestic loans and advances								
Corporate								
Other loans	-	-	-	-	-	-	55 270	55 270
Retail								
Mortgage	170 787	494 581	86 853	497 884	629 540	-	-	1 879 645
Consumer loans and other	-	-	-	-	-	113 804	61 455	175 259
	170 787	494 581	86 853	497 884	629 540	113 804	116 725	2 110 174
Credit and overdue interest								
Less than 90 days	86	726	365	424	2 394	236	134	4 365
More than 90 days	1 116	658	750	742	5 172	4 546	2 780	15 764
	1 202	1 384	1 115	1 166	7 566	4 782	2 914	20 129
	171 989	495 965	87 968	499 050	637 106	118 586	119 639	2 130 303

Additionally, the detail of the securitized loans not derecognized, by securitization operation and nature of contract, as at 31 December 2018, is presented as follows:

(Euro thousand)

	Non-derecognized securitization operations							
	Pelican Mortgage no. 3	Pelican Mortgage no. 4	Aqua Mortgage no. 1	Pelican Mortgage no. 5	Pelican Mortgage no. 6	Pelican Finance no. 1	Aqua Finance no. 4	Total
Domestic loans and advances								
Corporate								
Other loans	-	-	-	-	-	-	93 369	93 369
Retail								
Mortgage	197 170	553 448	101 734	553 090	716 929	-	-	2 122 371
Consumer loans and other	-	-	-	-	-	185 441	80 313	265 754
	197 170	553 448	101 734	553 090	716 929	185 441	173 682	2 481 494
Credit and overdue interest								
Less than 90 days	74	931	781	908	3 422	332	213	6 661
More than 90 days	1 085	2 136	3 669	2 282	10 294	5 444	911	25 821
	1 159	3 067	4 450	3 190	13 716	5 776	1 124	32 482
	198 329	556 515	106 184	556 280	730 645	191 217	174 806	2 513 976

As a form of financing, the securitization vehicles created (Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Aqua Mortgages no. 1) issued bonds which nominal value is presented below, and which were fully subscribed by Banco Montepio in the case of Aqua Mortgages no. 1, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Pelican Finance no. 1) and partially, in the case of Pelican Mortgages no. 3.

These bonds are presented as follows:

Issue	Bonds	Initial nominal value Euro	Current nominal value Euro	Interests held by Group (nominal value) Euro	Reimburse-ment date	Rating of bonds (initial)				Rating of bonds (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages no. 3	Class A	717 375 000	163 508 676	117 781 633	2054	AAA	Aaa	AAA	n.a.	BBB	A2	A	n.a.
	Class B	14 250 000	4 221 562	4 221 562	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	3 555 000	3 555 000	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	1 888 594	1 888 594	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	PIF	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages no. 4	Class A	832 000 000	394 205 764	394 205 764	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AAH
	Class B	55 500 000	34 896 571	34 896 571	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	37 726 022	37 726 022	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	15 719 176	15 719 176	2056	BBB	n.a.	n.a.	B+	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	17 291 094	17 291 094	2056	BB	n.a.	n.a.	B	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
Pelican Mortgages no. 5	Class A	750 000 000	346 010 604	346 010 604	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAA
	Class B	195 000 000	121 185 768	121 185 768	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	17 090 301	17 090 301	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	17 090 301	17 090 301	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages no. 6	Class A	750 000 000	358 622 246	358 622 246	2063	A	n.a.	A-	AA	A+	n.a.	AA	AAA
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage no. 1	Class A	203 176 000	65 596 503	65 596 503	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	21 080 228	21 080 228	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance no. 1	Class A	202 900 000	75 334 714	75 334 714	2028	A	n.a.	n.a.	A	A+	n.a.	n.a.	AH
	Class B	91 100 000	46 067 926	46 067 926	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	14 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Finance no. 4	Class A	140 000 000	65 917 710	-	2035	n.a.	A3	n.a.	AL	n.a.	A1	n.a.	A
	Class B	15 000 000	15 000 000	-	2035	n.a.	Ba2	n.a.	BBBL	n.a.	Baa3	n.a.	BBBH
	Class C	45 200 000	45 200 000	45 200 000	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

As at 31 December 2018, the securities issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal value Euro	Current nominal value Euro	Interests held by Group (nominal value) Euro	Reimburse-ment date	Rating of bonds (initial)				Rating of bonds (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages no. 3	Class A	717 375 000	187 053 150	125 710 929	2054	AAA	Aaa	AAA	n.a.	BBB-	A2	BBB-	n.a.
	Class B	14 250 000	4 829 447	4 829 447	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	4 066 903	4 066 903	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	2 160 542	2 160 542	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages no. 4	Class A	832 000 000	438 086 780	438 086 780	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	38 781 082	38 781 082	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	41 925 494	41 925 494	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	17 468 958	17 468 956	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	19 215 852	19 215 852	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	27 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages no. 5	Class A	750 000 000	383 336 834	383 336 834	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	134 258 801	134 258 801	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	18 933 933	18 933 933	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	18 933 933	18 933 933	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages no. 6	Class A	750 000 000	429 751 537	429 751 537	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage no. 1	Class A	203 176 000	75 110 665	75 110 665	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	23 724 131	23 724 131	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance no. 1	Class A	202 900 000	116 042 221	116 042 221	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	91 100 000	70 960 970	70 960 970	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	14 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqu Finance no. 4	Class A	140 000 000	140 000 000	-	2043	n.a.	A3	n.a.	A (lo)	n.a.	A1	n.a.	A (lo)
	Class B	15 000 000	15 000 000	-	2043	n.a.	Ba2	n.a.	3BB (lo)	n.a.	Baa3	n.a.	3BB (lo
	Class C	45 200 000	45 200 000	45 200 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

At each interest payment date, Tagus and Sagres have the possibility of partially redeeming the bonds, redemption which is realized sequentially and in function of the degree of subordination of the bonds.

54 Balance sheet and income statement indicators by operating and geographical segments

The segmental reporting is presented in accordance with IFRS 8. In compliance with the Group's management model, the disclosed segments correspond to the segments used for management purposes by the Board of Directors. The Group develops banking and financial services activities in Portugal and abroad, with a special focus on the domestic market through the following business segments: Retail, Social Economy, and Corporate and Investment Banking.

Products and services include the entire offer inherent in the universal banking activity, namely deposit taking, credit concession and the provision of financial and custodianship services to companies and individuals, as well as the trading of investment funds and life and non-life insurance. Additionally, the Group executes short-, medium- and long-term investments in the financial and currency markets to take advantage of price variations or as a mean to obtain returns on its available financial resources.

As at 31 December 2019, the Group had a network of 331 branches in Portugal (31 December 2018: 324 branches), a credit institution in Cape Verde and a bank in Angola with 24 branches (31 December 2018: 24 branches).

The information by operating segments on 31 December 2019 reflects the organizational and management model of the Banco Montepio Group, which follows the strategic guidance defined in the Transformation Plan that was approved by the Board of Directors at the end of 2018. This plan is subject to weekly monitoring by the respective PMO that is reported to the corporate and management bodies. The control over the performance of the activities carried out by the Group follows the allocation between the operating segments, with the respective management information considering the accounting policies underlying the preparation of the financial statements, as well as the internal management criteria. It is the responsibility of the Strategy, Planning and Control Directorate to develop, produce and report management information related to the performance of the various operating segments and the respective control in relation to the objectives defined, reporting hierarchically to the Chief Financial Officer (CFO). The Executive Committee monitors the performance of the operating segments of the internal organizational model in a timely manner, as well as that of the respective budgetary control. The management information is reported to the Executive Committee and to the Board of Directors according to the model established, as well as to the competent organic units.

In evaluating the performance by business area, the Group considers the following operating segments:

1) Retail Banking, which includes the sub segments of Individuals, Self-employed Individuals, Small and Medium Enterprises allocated to this segment and Micro businesses;

2) Social Economy, which incorporates the customers allocated to the Social Economy and Public Sector business areas;

3) Specialized credit, which includes the consumer credit business primarily developed by the subsidiary Montepio Crédito;

4) Asset Management, which reflects the activity of Montepio Valor;

5) Corporate and Investment Banking, which includes the Large Companies, the Small and Medium Enterprises allocated to this segment and the Financial Institutions, as well as the activity presently developed in the Investment Banking area carried out by Banco de Empresas Montepio (Banco BEM);

6) International Activity, which incorporates the contribution of Montepio Geral Cabo Verde and Finibanco Angola, the latter presented in the financial statements as a Discontinued Operation, as had also been the case of BTM until its disposal;

7) Markets, which includes the operations related to the Own Securities' Portfolio, the Loans and Advances to Credit Institutions and Wholesale Funding; and

8) Other segments, which includes all the operations not included in the other segments, namely the operations related to the management of real estate held for trading and of non-performing loans. Each segment is allocated the Group's structures that are directly or indirectly dedicated to same, as well as the autonomous units of the Group which activity is also allocated.

Despite the fact that the Group concentrates its activity in Portugal geographically, the international activity of the Group is assured by: (i) Finibanco Angola, S.A., (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. and (iii) Banco Terra, S.A., the last one having been sold in December 2018 and therefore being excluded from the consolidation perimeter with reference to 31 December 2018.

Description of the operating segments

On a consolidated basis, each of the reportable segments includes income and costs related to the following activities, products, customers and Group structures:

Retail Banking

This operating segment corresponds to all the activity developed by the Group in Portugal with individuals, self-employed individuals, small and medium enterprises allocated to this segment and micro businesses, commercially designated as the Individuals and Small Businesses segment, fundamentally originated by the branch network, electronic channels and promotor network. The financial information of this segment includes, among others, products and services, such as mortgage loans, individual or consumer credit, demand and term deposits and other savings applications, retirement solutions products, namely PPRs, debit and credit cards, account management and electronic payment services, and investment fund placement, securities' trading and custodianship services, as well as insurance brokerage and non-financial services.

Social Economy

This operating segment reinforces the Group's role while agent of reference of the Social Economy, in the market and with the different stakeholders, incorporating the activity related to the Social Economy and Public Sector business areas.

Specialized Credit

This operating segment highlights one of the cornerstones of the Transformation Plan, reflecting the focus on consumer credit. This segment reflects the activity developed by Montepio Crédito.

Asset Management

This operating segment incorporates the activity developed by the subsidiary Montepio Valor.

Corporate and Investment Banking

This operating segment includes the activity developed by the Group with Small, Medium and Large companies, through the commercial structure dedicated to this segment. It also includes the institutional customers' business, namely the financial sector. Of note among the products and services provided are treasury and investment financing, commercial discounting, provision of guarantees, leasing, factoring, renting, foreign operations, such as documentary credits, cheques and remittances, deposits, payment and reception services, cards, as well as custodianship services.

The Corporate Banking business includes the Corporate segment in Portugal which operates, in the scope of the Group's cross-selling strategy, as a distribution channel for products and services of other Group companies.

In addition, this operating segment includes the activity developed in the Investment Banking area by Banco de Empresas Montepio (Banco BEM).

International Activity

This segment reflects the contribution of Montepio Geral Cabo Verde and of Finibanco Angola, the latter presented in the financial statements as a Discontinued Operation, as had been the case with BTM until its disposal. BTM was sold in December 2018, being excluded from the consolidation perimeter with reference to 31 December 2018.

Markets

This segment includes the operations related to the Own Securities' Portfolio, the Loans and Advances to Credit Institutions and Wholesale Funding.

Other segments

This segment includes all the support activity developed in respect of the main activities constituting the core business of the segments mentioned above, namely the operations related to the management of real estate held for trading and of non-performing loans, and the Group's global financial management activity. In this segment are also included the impacts of strategic decisions with a transversal impact across the Group, the investments in minority financial shareholdings, and the activity related to interest and exchange rate risk management.

Allocation criteria of the results to the segments

The consolidated financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information on which decisions are made in the Group, as required by IFRS 8 – Operating Segments.

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of the financial statements, which are described in note 1, with the following principles having been adopted:

Measurement of segmental profit or loss

The Group uses the net profit/(loss) as a measure of the profits or losses to evaluate the performance of each operating segment.

Autonomous operating units

As mentioned above, each autonomous operating unit is evaluated separately, as these units are considered investment centres. Additionally, considering the characteristics of the primary business developed by same, their assets, liabilities, income and expenses are included in the corresponding Operating Segments.

Group structures dedicated to the segment

The Group's activity covers practically all the operating segments and is, therefore, broken down accordingly.

In preparing the financial information, the following criteria are used:

(i) The operations are allocated to each business segment in function of their origination by the commercial structures, even if, at a later date, and as an example, it is decided to securitize some of the assets originated in same;

(ii) The calculation of the net interest income is performed considering the business negotiated with customers and other counterparties recognized in each one of the segments, taking into account the respective associated interest rates;

(iii) The determination of the net interest income also considers the impact of the transfer of the assets and liabilities of each product/segment to a pool, which balances these and adjusts the respective interest, considering the market interest rates at each moment, namely, Euribor for the different periods;

(iv) The allocation of the direct costs of the respective structures dedicated to each segment;

(v) The allocation of the indirect costs (central support and IT services), in function of previously defined criteria;

(vi) The allocation of credit risk is performed in accordance with the impairment model used by the Group.

(vii) The allocation of the tax burden to the operating segments results, with the exception of the international activity, from the application of the marginal tax rate of 30.5% to the profit before tax, with the remainder of the tax amount recognized in the income statement being allocated to the other segments.

Operations between the legally autonomous units of the Group are realized at market prices. The price of intersegment services, namely the prices established for internal funding, is determined by the adjustment system through the above mentioned pool (with prices varying in accordance with the strategic relevance of the product and the equilibrium of the structures funding and lending functions). The remaining services are allocated to the segments in accordance with predefined criteria.

The interest rate, exchange rate, liquidity and other risks, except for credit risk, are included in the segment Other Segments.

Interest and similar income/expense

Since the Group's consolidated activity is, essentially, related to the banking business, the greater part of the income generated results from the difference between the interest earned on its assets and the interest borne with the funding it secures. This situation, and the fact that the activity of the segments represents the direct business developed by the business units for each product, means that the revenue of the intermediation activity is presented, as permitted by IFRS 8 (23), at the net interest value under the designation of Net Interest Income.

Investments consolidated under the equity method

Investments in associated companies consolidated under the equity method are included in the segment designated Operations of other Segments.

Non-current assets

Non-current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. The Group includes these assets in the segment in which they are mostly used.

Assets and liabilities for post-employment benefits

Considering that the factors that influence both the amount of the liabilities and of the assets of the Group's Pension Fund correspond, fundamentally, to variables external to the management of each segment, the Group considers that said impacts should not influence the performance of the Operating Segments which activities are carried out with customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: (i) Finibanco Angola, S.A., (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. and (iii) Banco Terra, S.A., the last one having been sold in December 2018, and therefore having being excluded from the consolidation perimeter with reference to 31 December 2018.

The financial and economic elements related to the international area are those presented in the financial statements of those units with the respective consolidation and elimination adjustments.

The reporting by operating segments as at 31 December 2019, is presented as follows:

(Euro thousand)

	Banco Montepio - Consolidated										
	Commercial Banking										
	Retail	Social Economy	Specialized Credit	Asset Management	**Subtotal**	Banking and Investment	International Activity	Markets	Non-Core Segments	Other segments	**Total**
Interest and similar income	249 645	6 626	18 173	1	**274 445**	51 917	1	34 786	20 156	(64 817)	**316 488**
Interest and similar expense	49 633	1 907	1 490	13	**53 043**	9 156	1 799	42 488	10 082	(36 891)	**79 677**
NET INTEREST INCOME	**200 012**	**4 719**	**16 683**	**(12)**	**221 402**	**42 761**	**(1 798)**	**(7 702)**	**10 074**	**(27 926)**	**236 811**
Dividends from equity instruments	-	-	-	-	**-**	-	-	-	-	7 631	**7 631**
Net fee and commission income	102 442	1 126	3 611	3 026	**110 205**	10 813	-	-	(5 454)	5 976	**121 540**
Net gains/(losses) arising from financing operations	-	-	(13)	-	**(13)**	(2 378)	-	55 085	(30)	(2791)	**49 873**
Other operating income/(expense)	188	(73)	(288)	(291)	**(464)**	1 018	-	10 024	8 765	(5 715)	**13 628**
OPERATING INCOME	**302 642**	**5 772**	**19 993**	**2 723**	**331 130**	**52 214**	**(1 798)**	**57 407**	**13 355**	**(22 825)**	**429 483**
Staff costs	117 359	2 625	6 063	1 772	**127 819**	4 475	191	1 570	7 231	16 281	**157 567**
General and administrative expenses	43 756	424	5 066	1 684	**50 930**	2 538	339	241	2 736	8 705	**65 489**
Depreciation and amortization	30 626	162	478	193	**31 459**	777	5	6	10	(1 014)	**31 243**
OPERATING EXPENSE	**191 741**	**3 211**	**11 607**	**3 649**	**210 208**	**7 790**	**535**	**1 817**	**9 977**	**23 972**	**254 299**
Total provisions and impairment	2 174	4 632	167	132	**7 105**	10 011	-	9 467	115 082	(568)	**141 097**
Share of profit/(loss) of associated companies under the equity method	-	-	-	-	**-**	-	-	-	-	208	**208**
PROFIT/(LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**108 727**	**(2 071)**	**8 219**	**(1 058)**	**113 817**	**34 413**	**(2 333)**	**46 123**	**(111 704)**	**(46 021)**	**34 295**
Taxes	24 083	(528)	1 059	459	**25 073**	8 026	2	11 761	(27 807)	5 684	**22 739**
Non-controlling interests	-	-	-	-	**-**	-	2 497	-	-	-	**2 497**
Net income/(loss) from discontinued operations	-	-	-	-	**-**	-	12 625	-	-	-	**12 625**
NET INCOME/LOSS	**84 644**	**(1 543)**	**7 160**	**(1 517)**	**88 744**	**26 387**	**7 793**	**34 362**	**(83 897)**	**(51 705)**	**21 684**
Assets	8 623 538	133 676	502 548	6 474	**9 266 236**	1 880 313	146 943	4 488 108	2 242 180	(283 638)	**17 740 142**
Liabilities	10 908 229	604 824	452 067	1 748	**11 966 868**	332 683	138 455	3 361 020	-	489 128	**16 288 154**
Investments in associated companies	-	-	-	-	**-**	-	-	4 439	-	-	**4 439**

The caption International Activity - Discontinued Operations includes the contribution of the subsidiary Finibanco Angola, S.A., which impact on the various captions of the Income Statement is disclosed in note 62.

The preparation of the segmental reporting follows the logic of the contribution to the consolidation, with the reportable segments excluding the respective intercompany balances, identified in note 52.

As at 31 December 2018, the reporting by operating segment, is presented as follows:

(Euro thousand)

	Banco Montepio - Consolidated										
	Commercial Banking										
	Retail	Social Economy	Specialized Credit	Asset Management	**Subtotal**	Banking and Investment	International Activity	Markets	Non-Core Segments	Other segments	**Total**
Interest and similar income	291 412	7 966	18 210	16	**317 604**	62 938	-	48 832	7 374	(75 040)	**361 708**
Interest and similar expense	75 074	1 635	1 848	-	**78 557**	24 400	2 592	54 833	10 042	(56 820)	**113 604**
NET INTEREST INCOME	**216 338**	**6 331**	**16 362**	**16**	**239 047**	**38 538**	**(2 592)**	**(6 001)**	**(2 668)**	**(18 220)**	**248 104**
Dividends from equity instruments	-	-	-	-	**-**	-	-	-	-	8 080	**8 080**
Net fee and commission income	105 835	1 142	3 611	1 567	**112 155**	12 987	-	-	(5 500)	(1 243)	**118 399**
Net gains/(losses) arising from financing operations	-	-	143	-	**143**	(1 058)	9	14 880	-	(3075)	**10 899**
Other operating income/(expense)	215	(76)	(680)	(34)	**(575)**	(119)	2	-	10 346	(17 784)	**(8 130)**
OPERATING INCOME	**322 388**	**7 397**	**19 436**	**1 549**	**350 770**	**50 348**	**(2 581)**	**8 879**	**2 178**	**(32 242)**	**377 352**
Staff costs	109 817	2 321	6 177	2 227	**120 542**	7 168	249	1 901	8 061	18 083	**156 004**
General and administrative expenses	49 029	1 372	4 797	1 039	**56 237**	4 418	227	458	6 036	10 350	**77 726**
Depreciation and amortization	18 511	573	308	35	**19 427**	1 991	6	152	691	3 630	**25 897**
OPERATING EXPENSE	**177 357**	**4 266**	**11 282**	**3 301**	**196 206**	**13 577**	**482**	**2 511**	**14 788**	**32 063**	**259 627**
Total provisions and impairment	(20 164)	171	(6322)	487	**(25 828)**	(23 044)	-	3 954	128 983	8 024	**92 089**
Share of profit/(loss) of associated companies under the equity method	-	-	-	-	**-**	-	-	-	-	252	**252**
PROFIT/(LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**165 195**	**2 960**	**14 476**	**(2 239)**	**180 392**	**59 815**	**(3 063)**	**2 414**	**(141 593)**	**(72 077)**	**25 888**
Taxes	50 385	903	4 415	(683)	**55 020**	18 243	(934)	736	(43 186)	15 277	**45 156**
Non-controlling interests	-	-	-	-	**-**	-	3 305	-	-	-	**3 305**
Net income/(loss) from discontinued operations	-	-	-	-	**-**	-	36 156	-	-	-	**36 156**
NET INCOME/LOSS	**114 810**	**2 057**	**10 061**	**(1 556)**	**125 372**	**41 572**	**30 722**	**1 678**	**(98 407)**	**(87 354)**	**13 583**
Assets	8 984 437	127 538	485 747	5 547	**9 603 269**	1 999 925	462 340	2 216 057	2 870 116	1 180 536	**18 332 243**
Liabilities	10 720 765	654 825	438 516	1 164	**11 815 270**	459 250	353 269	1 143 978	-	3 043 570	**16 815 337**
Investments in associated companies	-	-	-	-	**-**	-	-	4 282	-	-	**4 282**

The caption International Activity - Discontinued Operations includes the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., which impact on the various captions of the Income Statement is disclosed in note 62.

As at 31 December 2019, the net contribution of the main geographical areas is presented as follows:

			(Euro thousand)
	Activity		
Income Statement	**Domestic**	**International**	**Total**
Interest and similar income	314 011	2 477	316 488
Interest and similar expense	77 876	1 801	79 677
Net interest income	236 135	676	236 811
Dividends from equity instruments	7 631	-	7 631
Net fee and commission income	121 541	(1)	121 540
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	8 510	-	8 510
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	42 269	-	42 269
Net gains/(losses) arising from foreign exchange differences	(906)	-	(906)
Net gains/(losses) arising from sale of other financial assets	22 932	-	22 932
Other operating income/(expense)	(9 305)	1	(9 304)
Operating income	428 807	676	429 483
Staff costs	157 376	191	157 567
General and administrative expenses	65 050	439	65 489
Depreciation and amortization	31 238	5	31 243
	253 664	635	254 299
Impairment of loans and advances	120 421	(108)	120 313
Impairment of other financial assets	9 474	-	9 474
Impairment of other assets	11 710	-	11 710
Other provisions	(400)	-	(400)
Operating profit/(loss)	33 938	149	34 087
Share of profit/(loss) of associated companies under the equity method	208	-	208
Profit/(loss) before taxes and non-controlling interests	34 146	149	34 295
Current taxes	724	(2)	722
Deferred taxes	22 017	-	22 017
Profits/(losses) from discontinued operations	-	12 625	12 625
Non-controlling interests	-	2 497	2 497
Consolidated net income/(loss) for the financial year attributable to the Shareholders	11 405	10 279	21 684

The International Activity includes, in the caption Profits/(losses) from discontinued operations, the contribution of the subsidiary Finibanco Angola, S.A., which impact on the various captions of the Income Statement is disclosed in note 62.

As at 31 December 2019, the net contribution of the main geographical areas is presented as follows:

(Euro thousand)

Balance Sheet	Activity - Domestic	Activity - International	Total
Cash, deposits and advances and loans to credit institutions	1 161 851	146 841	1 308 692
Loans and advances to customers	11 464 542	-	11 464 542
Investments in financial assets and associated companies	3 195 003	-	3 195 003
Investment properties	144 868	-	144 868
Non-current assets held for sale - discontinued operations	-	216 538	216 538
Other assets	1 410 397	102	1 410 499
Total Assets	17 376 661	363 481	17 740 142
Deposits from central banks and other credit institutions	1 813 194	-	1 813 194
Deposits from customers	12 386 414	138 283	12 524 697
Debt securities issued and Other subordinated debt	1 547 827	-	1 547 827
Non-current liabilities held for sale - discontinued operations	-	134 429	134 429
Other liabilities	267 835	172	268 007
Total Liabilities	16 015 270	272 884	16 288 154
Non-controlling interests	-	11 550	11 550
Total Equity attributable to the Shareholders	1 361 391	79 047	1 440 438
Total Shareholders' Equity	1 361 391	90 597	1 451 988
Total Liabilities and Sahreholders' Equity	17 376 661	363 481	17 740 142

The International Activity includes in the captions Non-current assets and liabilities held for sale – discontinued operations, the contribution of the subsidiary Finibanco Angola, S.A., which impact on the various captions of the Balance Sheet is disclosed in note 62.

As at 31 December 2018, the net contribution of the main geographical areas is presented as follows:

(Euro thousand)

Income Statement	Activity - Domestic	Activity - International	Total
Interest and similar income	358 876	2 832	361 708
Interest and similar expense	111 000	2 604	113 604
Net interest income	247 876	228	248 104
Dividends from equity instruments	8 080	-	8 080
Net fee and commission income	118 399	-	118 399
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	12 273	-	12 273
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	5 626	-	5 626
Net gains/(losses) arising from foreign exchange differences	(7 008)	8	(7 000)
Net gains/(losses) arising from sale of other financial assets	9 075	-	9 075
Other operating income/(expense)	(17 207)	2	(17 205)
Operating income	377 114	238	377 352
Staff costs	155 826	178	156 004
General and administrative expenses	77 142	584	77 726
Depreciation and amortization	25 891	6	25 897
	258 859	768	259 627
Impairment of loans and advances	72 427	(97)	72 330
Impairment of other financial assets	2 865	-	2 865
Impairment of other assets	13 198	-	13 198
Other provisions	3 696	-	3 696
Operating profit/(loss)	26 069	(433)	25 636
Share of profit/(loss) of associated companies under the equity method	252	-	252
Profit/(loss) before taxes and non-controlling interests	26 321	(433)	25 888
Current taxes	(963)	-	(963)
Deferred taxes	46 119	-	46 119
Profits/(losses) from discontinued operations	-	36 156	36 156
Non-controlling interests	-	3 305	3 305
Consolidated net income/(loss) for the financial year attributable to the Shareholders	(18 835)	32 418	13 583

The International Activity includes in the caption Profits/(losses) from discontinued operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., which impact on the various captions of the Income Statement is disclosed in note 62.

As at 31 December 2018, the net contribution of the main geographical areas is presented as follows:

(Euro thousand)

Balance Sheet	Activity - Domestic	Activity - International	Total
Cash, deposits and advances and loans to credit institutions	1 731 114	167 541	1 898 655
Loans and advances to customers	12 095 373	-	12 095 373
Investments in financial assets and associated companies	2 226 005	-	2 226 005
Non-current assets held for sale	737 937	-	737 937
Investment properties	253 097	-	253 097
Non-current assets held for sale - discontinued operations	-	294 725	294 725
Other assets	826 377	74	826 451
Total Assets	17 869 903	462 340	18 332 243
Deposits from central banks and other credit institutions	2 640 755	-	2 640 755
Deposits from customers	12 416 747	158 477	12 575 224
Debt securities issued and Other subordinated debt	1 107 429	1	1 107 430
Non-current liabilities held for sale - discontinued operations	-	193 995	193 995
Other liabilities	297 137	796	297 933
Total Liabilities	16 462 068	353 269	16 815 337
Non-controlling interests	-	15 551	15 551
Total Equity attributable to the Shareholders	1 407 835	93 520	1 501 355
Total Shareholders' Equity	1 407 835	109 071	1 516 906
Total Liabilities and Shareholders' Equity	17 869 903	462 340	18 332 243

The International Activity includes in the captions Non-current assets and liabilities held for sale – discontinued operations, the contribution of the subsidiary Finibanco Angola, S.A., which impact on the various captions of the Balance Sheet is disclosed in note 62.

55 Risk management

Objectives of the Risk Management Policy

The Group is exposed to a number of risks the most relevant of which in the financial component being credit, concentration, market, interest rate, banking portfolio, foreign currency, liquidity, real estate and Pension Fund risks. Additionally, the Group is subject to other non-financial risks, namely operating, reputation, and strategy and business risks. Depending on the nature and relevance of the risk, plans, programs or actions are designed, supported by information systems and procedures providing a high degree of reliability as regards risk management measures established in due course. For all risks identified as material, Banco Montepio has implemented a process for the identification and review of same, being subject to regular monitoring and mitigation actions in order to reduce potential losses for the Group.

The control and the efficient management of risk play a key role in the balanced and sustained development of Banco Montepio. In addition to contributing to the optimization of the profitability/risk binomial of the various lines of business, they also ensure the maintenance of an adequate risk profile in terms of solvency and liquidity.

The monitoring of these risks is centralized in the Risk Department, the unit responsible for the risk management function of the Group, which regularly informs the Board of Directors of the evolution of the risk profile and proposes measures when necessary.

The Group's risk management policy is the responsibility of the Board of Directors, which defines the tolerance levels and maximum risk limits, for each specific risk considered materially relevant, in accordance with the defined strategic objectives and business plan, with this policy being reviewed regularly. It is also the responsibility of the Board of Directors to ensure the existence of an adequate risk control at Group level, namely through the respective supervisory boards. The Risk Committee is the non-executive body with the role of risk management supervision, which mission is to monitor the design and implementation of the risk strategy and risk appetite of the Group and to verify whether these are aligned with the sustainable strategy in the medium- and long-term, providing advice to the Board of Directors and Executive Commission in these areas.

The Board of Directors seeks to ensure that the Institution has sufficient capital to meet regulatory requirements and to cover potential losses resulting from the activity, with an optimized balance sheet structure that maintains a stable and safe funding capacity and liquidity profile, allowing it to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

The Group has clear and well-defined objectives in its strategic plan, namely as regards capital ratios, transformation of deposits into credit, liquidity and financing ratios, in addition to a feasible and sustainable business model aligned with its risk appetite.

To this end, the definition of risk appetite is based on certain principles - namely solidity, sustainability and profitability – being prepared in function of the strategic plan and the intended market positioning, as well as the risks faced in its activity that are materially relevant. For these, objectives are set according to the desired level of return and the business strategy, tolerance levels, that is, risk variation intervals that can lead to discussions and decisions about corrective measures and limits that, if exceeded, lead to immediate corrective measures.

In defining risk appetite, the Board of Directors ensures its alignment with the other organizational components (business strategy and the global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making and that can affect risk exposure and it’s monitoring.

The Group's risk management policy is designed to ensure an adequate relationship, at all times, between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, assuming particular importance in this scope the monitoring and control of the main types of financial risk – credit, market, liquidity, real estate and operating – to which the Group's business is subject.

In order to ensure an effective management of the risks associated with the Group's activities, the Risk Department is responsible for promoting that all Group companies, including those located abroad, implement risk management systems that are coherent with each other and in accordance with the requirements set forth in the Internal Regulation of the Banco Montepio risk management function, in the Group's Global Risk Policy and in the remaining applicable internal policies and regulations, without prejudice to the respective legal and regulatory framework. The Risk Department is responsible for monitoring the risk management activity of Group companies, on a consolidated and individual basis, ensuring the consistency of the risk concepts used, the methodologies for risk identification, measurement and control, the supporting standards and respective risk profile monitoring processes, as well as the compliance with the applicable regulatory and prudential requirements, namely on a consolidated basis. These activities should be directly assured by the risk management functions of those entities, except in those cases where Banco Montepio’s Board of Directors decides that the development of these responsibilities by Banco Montepio’s Risk Department is more effective and efficient.

Credit risk

Credit risk is associated with the level of uncertainty of the expected returns, due to the inability of the borrower (and of the guarantor, if any), or the issuer of a security or counterparty of a contract to comply with the obligations arising for same.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, supported by a number of tools aiding the credit decision process. The quantification of credit risk is also supported by the model used to calculate impairment losses.

The fundamental principle of credit risk analysis is independence from the business decisions. In this analysis, instruments are used, and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modelling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in the credit decision process. Indeed, the decision process concerning the credit portfolio operations is based on a set of policies, relying on scoring models for the retail portfolios and rating models for the non-retail segment.

In the credit risk scope, and as regards analytical methodologies, the risk control techniques and models are based on econometric modelling, based on the Institution's experience in the granting of various types of credit and, whenever possible, also in credit recovery.

Credit decisions are dependent on risk ratings and compliance with various rules governing the financial capacity and behaviour of the applicants.

There are scoring models for the admission of individuals to the retail portfolios, namely for mortgage loans, individual loans and credit cards.

Self-employed Individuals (“Empresários em nome individual” – “ENI”) and Micro businesses are considered retail, being therefore subject to the respective scoring models.

There are also behavioural scoring models for retail portfolios, which are used to monitor the credit portfolio as well as to evaluate new credit proposals, being coupled with software-based scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large companies, distinguished by activity sectors, such as the tertiary sector, or by ageing of the company's activity, namely start-up companies.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, with this scale being composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents/ record of arrears in the financial system, and class 19 to default, in accordance with the applicable internal definition, which follows the regulators' prudential requirements.

It is possible to derogate the response of scoring systems, internal ratings and internal price lists, but only by higher decision levels, in accordance with the established principles of delegation of responsibilities. Rejection situations are defined in order to minimize the risk of adverse selection, with risk classes for rejection having been defined.

Intervention limits are also defined for the different decisions, by operation amount and global customer exposure, type of operation/collateral and assigned risk class. In this context, higher hierarchical positions have to approve operations with higher exposures. The levels and limits are approved by the Board of Directors, and the highest decision level corresponds to the Board of Directors. At the intermediate levels the collegial intervention of at least two persons is compulsory, one belonging to the commercial network and the other to the Specialized Credit Analysis Department, a body independent of the commercial structure. The Risk Department is the unit responsible for the development of the credit risk models (scoring and rating), and for the monitoring of Banco Montepio's risk control, on a global basis.

Within the scope of credit risk monitoring, internal reports are prepared with the main risk indicators of the credit portfolios and metrics on the use of the rating/scoring models. In terms of preventive monitoring, an alert system is in place for indicators of credit risk deterioration (Early Warning Signs).

With respect to credit impairment, IFRS 9 establishes the need to recognize Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected credit loss at one year, or the expected credit loss until the maturity of the financial instrument (ECL lifetime).

Financial assets are classified into stages, based on the evolution of their credit risk:

- *Stage* 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since their initial recognition and which are not in default;
- *Stage* 2: Financial assets with a significant increase in credit risk since their initial recognition, based on the criteria set out in internal regulations as to the recognition of a significant increase in credit risk or other financial assets (namely, Amounts due for collection, Other debtors, Other receivables or Sundry debtor

accounts). It should be noted that credit restructured due to financial difficulties is considered a driver of significant increase in credit risk and, therefore, the restructured credit portfolio is included in *stage* 2;

- *Stage* 3: Financial assets in default, based on default indicators which are defined in internal regulations in respect of default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purpose of the requirements in force.

The measurement of the expected losses (ECL) for homogeneous population segments results from the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), discounted at the contract's effective interest rate to the reporting date.

The main difference between impairment losses measured for financial assets classified in the stages is related to the time horizon of the PD.

The probability of default (PD) is one of the main differences in the IFRS 9 (ECL) impairment calculation, with two types of PD being estimated:

- ✓ 12-month PD: the probability of a default occurring within the next 12 months (for contracts belonging to *stage* 1);

- ✓ Lifetime PD: the probability of a default occurring during the remaining life of the credit (for *stage* 2 contracts). In this case, lifetime parameters are used and forward-looking information is considered;

- ✓ PD=100% for all *stage* 3 contracts.

In the group of individually significant customers, customer exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing guarantees as well as the remaining factors relevant for this analysis.

The impairment value for Individually Significant customers is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows from the customer's various operations, discounted according to the interest rates of each operation.

The information presented next is related to the Group's exposure to credit risk, where the most relevant caption in terms of exposure, as well as in terms of the associated risk, is loans and advances to customers. It should be noted that the portfolio of financial assets at fair value through other comprehensive income is essentially composed of public debt securities of the European Union.

The information contained in the tables presented excludes the balance sheet component of the entities subject to the application of IFRS 5, which correspond to the subsidiaries in Angola and Mozambique (sold in 2018) and which is recorded under the caption Non-current assets held for sale - discontinued operations.

The criteria for the determination of impairment of individually significant loans

All customers or economic groups that meet the following conditions are subject to individual analysis:

1. Exposure above Euro 1,000 thousand and classified in *stages* 2 and 3;

2. Exposure above Euro 2,500 thousand and classified in *stage* 1;
3. Customers that currently do not meet the conditions of the previous points but that have already been subject to individual analysis.

For the exposure of customers or economic groups, all active credit operations (on- and off-balance sheet) are considered, excluding the operations subject to write-off.

The customers or economic groups that show the following triggers or indicators are considered as having objective impairment triggers:

1) In the situation of default (delays exceeding 90 days, contracts with capital and interest shortages, insolvent/bankrupt customer and cross-default)
2) Contract with delay between 60 and 90 days at Banco Montepio;
3) Customer with delay exceeding 30 days or capital and interest shortage in Banco Montepio or with credit written-off at Banco Montepio;
4) Customer using overdrafts to pay principal and interest in the last two months at Banco Montepio or customer restricted from using cheques (RUC) or user with risk (UTR);
5) Restructured contracts or contracts with repayments at will, with 0% rate;
6) Customer with restructured contracts or with contracts with repayments at will, with 0% rate;
7) Customer with delay exceeding 30 days or with credit written-off in the Central Credit Register (“Central de Responsabilidade de Crédito” (“CRC”)) or with restructured credit or with credit under judicial litigation at the CRC;
8) Other triggers, such as customers under an Action Plan for Default Risk (“Plano de Ação para o Risco de Incumprimento” (“PARI”)) or an Extrajudicial Procedure for Default Settlement (“Procedimento Extrajudicial de Regularização de Situações de Incumprimento” (“PERSI”)) or with debts to Social Security or to the Tax Authority.

The individual analysis is the responsibility of the Specialized Credit Analysis Department and in the evaluation of impairment losses the following factors are considered:

- Total exposure of each customer or economic group and the existence of signs of impairment;
- Economic and financial viability of the customer or economic group and the respective ability to generate future cash flows to pay the debt;
- Existence of collaterals associated with each credit and their respective valuation;
- Customers' or guarantors' net assets;
- Situation of bankruptcy or insolvency;
- Expectation of the recovery period.

The recoverable amount is determined by the sum of the expected cash flows, estimated in accordance with the contractual conditions in force and according to the underlying collection expectations, discounted at the original effective interest rate of the contract. An impairment adjustment is made when the expected cash flows are lower than the contractual cash flows.

For the determination of the future cash flows of the customers or economic groups the following recovery strategies are used:

- In case of the continuity of operations (going concern) a critical analysis is done to the companyies' business plans or other elements available for analysis, adjusting the assumptions and applying haircuts to the actual deviations when compared with those projected. For the calculation of the impairment of these customers, the cash flows generated annually, after adjustments and the application of the discount rate used are considered.

- In the case of settlement through collaterals (gone concern), an exhaustive analysis is made of the collaterals, value of mortgages/pledges, valuation dates and application of haircuts according to the ageing of the valuation, deadline for the foreclosure/execution, deadline for the sale, and associated maintenance and sale costs. For the calculation of the impairment of these customers, the cash flows generated annually, after adjustments and the application of the discount rate used, are considered.

- For specific cases it is possible to simultaneously use the two strategies, "going concern" and "gone concern". This is also used in considering alternative scenarios.

The Group's credit risk exposure can be analysed as follows:

(Euro thousand)

	2019	2018
Deposits at credit institutions repayable on demand	29 445	78 088
Loans and advances to credit institutions	275 598	209 932
Loans and advances to customers	11 464 542	12 095 373
Financial assets held for trading	34 689	23 739
Financial assets at fair value through profit or loss	11 455	28 092
Financial assets at fair value through other comprehensive income	1 723 507	311 512
Hedging derivatives	11 148	5 666
Other financial assets at amortized cost	899 145	1 255 651
Investments in associated companies	4 439	4 282
Other assets	666 941	75 228
Guarantees and standby letters provided	513 824	464 929
Irrevocable credit lines	579 670	553 073
	16 214 403	15 105 565

The analysis of the main credit risk exposures by sector of activity, for financial year 2019, can be analysed as follows:

(Euro thousand)

Activity	2019 Deposits at other credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Investments in associated companies	Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Book value	Off-balance sheet value	Off-balance sheet value	Provisions
Corporate																
Agriculture, forestry and fishing	-	-	-	84 616	4 626	-	-	-	-	-	-	-	-	976	4 516	176
Extractive Industries	-	-	-	13 607	576	-	-	-	-	-	-	-	-	1 463	1 479	101
Manufacturing industries	-	-	-	927 159	84 712	-	1 621	75 812	59	-	-	-	-	21 330	94 509	820
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	48 330	6 699	-	-	57 075	72	-	-	-	-	1 089	13 107	27
Water supply	-	-	-	76 318	1 561	-	-	-	-	-	-	-	-	1 959	2 434	54
Construction	-	-	-	705 088	228 462	-	398	2 090	2	-	-	-	-	100 966	97 074	6 545
Wholesale and retail trade	-	-	-	852 114	94 011	-	3 342	10 679	20	-	-	-	-	64 141	115 292	4 206
Transport and storage	-	-	-	365 146	33 724	-	15	-	-	-	-	-	-	6 886	16 376	557
Accommodation and catering activities	-	-	-	440 333	12 884	-	1	1 207	2	-	-	-	3 741	9 558	15 458	239
Information and Communication	-	-	-	45 041	3 026	-	-	11 403	9	-	-	-	-	1 742	24 053	59
Financial and insurance activities	29 445	275 708	110	567 728	63 135	22 896	149	105 756	120	11 148	-	-	-	229 955	43 083	89
Real estate activities	-	-	-	748 698	103 093	-	71	-	-	-	-	-	-	23 562	85 783	1 340
Consulting, scientific, technical and similar	-	-	-	296 148	15 964	-	2 892	4 023	8	-	-	-	-	23 470	26 572	356
Administrative and supporting service activities	-	-	-	100 436	8 374	-	100	-	-	-	-	-	698	6 805	11 399	305
Public administration and defence, compulsory social security	-	-	-	45 819	507	11 793	2 665	1 438 777	4 976	-	900 895	1 750	-	216	445	2
Education	-	-	-	58 622	3 282	-	-	-	-	-	-	-	-	307	3 841	18
Human Health Services and Social Action Activities	-	-	-	200 456	5 722	-	-	-	-	-	-	-	-	3 666	8 707	208
Artistic activities, shows and recreational	-	-	-	55 130	8 627	-	-	-	-	-	-	-	-	8 397	6 423	68
Other services	-	-	-	62 338	2 462	-	201	19 586	53	-	-	-	-	3 889	9 047	76
Retail																
Mortgage Loans	-	-	-	5 822 866	59 055	-	-	2 426	6	-	-	-	-	-	-	-
Others	-	-	-	723 472	34 421	-	-	-	-	-	-	-	-	3 447	72	151
	29 445	**275 708**	**110**	**12 239 465**	**774 923**	**34 689**	**11 455**	**1 728 834**	**5 327**	**11 148**	**900 895**	**1 750**	**4 439**	**513 824**	**579 670**	**15 397**

The analysis of the mains credit risk exposures by sector of activity, for the financial year 2018, can be analysed as follows:

(Euro thousand)

Activity	2018 Deposits at other credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Investments in associated companies	Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Book value	Off-balance sheet value	Off-balance sheet value	Provisions
Corporate																
Agriculture, forestry and fishing	-	-	-	80 867	4 664	-	-	-	-	-	-	-	-	1 049	3 866	112
Extractive Industries	-	-	-	13 664	635	-	-	-	-	-	-	-	-	1 411	1 474	128
Food, beverage and tobacco industries	-	-	-	202 639	11 196	-	-	-	-	-	-	-	-	3 009	31 924	107
Textiles and Clothing	-	-	-	86 217	12 115	-	-	-	-	-	-	-	-	1 398	7 577	13
Leather and shoes	-	-	-	42 994	6 514	-	-	-	-	-	-	-	-	3	5 708	1
Wood and cork	-	-	-	32 779	5 095	-	728	-	-	-	-	-	-	463	4 588	28
Paper and graphic industries	-	-	-	34 413	5 777	-	-	2 658	5	-	-	-	-	387	2 599	30
Oil refining	-	-	-	817	56	-	-	3 447	7	-	-	-	-	-	-	-
Rubber & Chemicals	-	-	-	92 267	5 928	-	-	3 012	3	-	-	-	-	5 271	12 887	104
Non-metallic mineral products	-	-	-	139 387	5 961	-	-	-	-	-	-	-	-	744	4 470	46
Basic metallurgical industries and metal products	-	-	-	163 263	17 106	-	-	-	-	-	-	-	-	7 471	17 602	111
Machine Manufacturing, Equipment and Electrical Appliances	-	-	-	42 213	4 014	-	623	-	-	-	-	-	-	1 438	4 281	115
Transportation Material Manufacturing	-	-	-	46 587	1 817	-	-	-	-	-	-	-	-	3 142	1 522	170
Other manufacturing industries	-	-	-	49 452	10 784	-	-	-	-	-	-	-	-	375	3 887	16
Electricity, gas and water	-	-	-	114 747	3 024	-	10 106	18 423	20	-	-	-	-	3 175	10 717	94
Construction and public works	-	-	-	775 325	275 521	-	250	-	-	-	-	-	-	113 525	78 969	5 909
Wholesale and retail trade	-	-	-	862 759	110 161	-	8 673	10 217	21	-	-	-	-	67 044	118 440	2 718
Tourism				432 088	15 584		-	-	-	-	-	-	3 584	8 737	15 305	270
Transport	-	-	-	410 429	40 254	-	-	-	-	-	-	-	-	11 242	13 765	767
Information and Communication	-	-	-	74 230	7 174	-	-	3 018	3	-	-	-	-	5 911	24 929	67
Financial activities	78 088	210 331	399	582 229	53 516	23 739	149	15 881	81	5 666	-	-	-	134 815	24 941	377
Real estate activities	-	-	-	754 129	122 675	-	-	3 716	6	-	-	-	-	19 200	80 781	1 832
Services rendered to companies	-	-	-	394 877	27 848	-	3 001	27 996	58	-	-	-	698	31 039	41 639	797
Administration and public services	-	-	-	73 172	3 971	-	4 424	217 318	459	-	1 258 501	2 550	-	381	2 749	14
Other collective services	-	-	-	168 983	28 519	-	138	3 452	7	-	-	-	-	15 003	12 517	1 543
Other services	-	-	-	12 998	598	-	-	-	-	-	-	-	-	28 696	3 106	12
Retail																
Mortgage Loans	-	-	-	6 251 996	120 057	-	-	3 045	1	-	-	-	-	-	-	-
Others	-	-	-	1 132 267	71 851	-	-	-	-	-	-	-	-	-	22 830	-
	78 088	**210 331**	**399**	**13 067 788**	**972 415**	**23 739**	**28 092**	**312 183**	**671**	**5 666**	**1 258 501**	**2 550**	**4 282**	**464 929**	**553 073**	**15 381**

The Group's total credit exposure, which includes the caption Loans and advances to customers (including the entities subject to the adoption of IFRS 5), and the guarantees and sureties provided in the aggregate amount of Euro 513,824 thousand (31 December 2018: Euro 464,929 thousand) and the irrevocable credit facilities amounting to Euro 579,670 thousand (31 December 2018: Euro 553,073 thousand), broken down between loans with impairment and loans without impairment, is presented as follows:

(Euro thousand)

	2019			2018		
Impacts by Stage	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Collective analysis	**8 757 369**	**237 182**	**8 520 187**	**9 441 775**	**421 848**	**9 019 927**
Stage 1	7 014 931	10 933	7 003 998	7 115 821	9 861	7 105 960
Stage 2	1 374 540	45 350	1 329 190	1 653 397	49 320	1 604 077
Stage 3	367 898	180 899	186 999	672 557	362 667	309 890
Individual analysis	**4 575 590**	**553 138**	**4 022 452**	**4 644 015**	**565 948**	**4 078 067**
	13 332 959	**790 320**	**12 542 639**	**14 085 790**	**987 796**	**13 097 994**

As at 31 December 2019 and 2018, the detail of the application of stages to other financial assets is presented as follows:

(Euro thousand)

	2019			2018		
Impacts by Stage	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Amortized cost (AC)	**900 895**	**1 750**	**899 145**	**1 258 201**	**2 550**	**1 255 651**
Stage 1	900 895	1 750	899 145	1 258 201	2 550	1 255 651
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Fair value (FVOIC)	**1 728 834**	**5 327**	**1 723 507**	**312 813**	**671**	**312 142**
Stage 1	1 725 949	5 264	1 720 685	310 322	671	309 651
Stage 2	2 885	63	2 822	2 491	-	2 491
Stage 3	-	-	-	-	-	-
Loans to credit institutions	**275 708**	**110**	**275 598**	**210 331**	**399**	**209 932**
Stage 1	271 708	71	271 637	201 743	206	201 537
Stage 2	4 000	39	3 961	8 588	193	8 395
Stage 3	-	-	-	-	-	-
	2 905 437	**7 187**	**2 898 250**	**1 781 345**	**3 620**	**1 777 725**

As at 31 December 2019 and 2018, the detail of the loans and advances subject to collective analysis, structured by segment and by stage, is as follows:

(Euros thousand)

Segment	2019 Gross value	2019 Impairment	2019 Net value	2018 Gross value	2018 Impairment	2018 Net value
Retail	**6 512 681**	**91 073**	**6 421 608**	**7 004 749**	**191 329**	**6 813 420**
Mortgage	5 802 678	58 687	5 743 991	6 237 220	116 837	6 120 383
Stage 1	4 873 258	507	4 872 751	4 416 811	557	4 416 254
Stage 2	803 671	12 864	790 807	1 550 924	15 574	1 535 350
Stage 3	125 749	45 316	80 433	269 485	100 706	168 779
Consumer loans	651 456	29 113	622 343	709 386	71 151	638 235
Stage 1	507 367	1 487	505 880	482 482	1 346	481 136
Stage 2	96 582	4 868	91 714	129 704	6 860	122 844
Stage 3	47 507	22 758	24 749	97 200	62 945	34 255
Cards	58 547	3 273	55 274	58 143	3 341	54 802
Stage 1	32 811	251	32 560	26 606	233	26 373
Stage 2	22 223	1 188	21 035	28 032	1 263	26 769
Stage 3	3 513	1 834	1 679	3 505	1 845	1 660
Corporate	**2 244 689**	**146 109**	**2 098 580**	**2 437 026**	**230 519**	**2 206 507**
Non-construction	2 039 775	128 252	1 911 523	2 199 957	185 384	2 014 573
Stage 1	1 467 307	7 924	1 459 383	1 469 694	7 044	1 462 650
Stage 2	412 501	24 474	388 027	493 727	23 672	470 055
Stage 3	159 967	95 854	64 113	236 536	154 668	81 868
Construction	204 914	17 857	187 057	237 069	45 135	191 934
Stage 1	134 188	764	133 424	117 997	681	117 316
Stage 2	39 565	1 955	37 610	53 241	1 951	51 290
Stage 3	31 161	15 138	16 023	65 831	42 503	23 328
	8 757 370	**237 182**	**8 520 188**	**9 441 775**	**421 848**	**9 019 927**

As at 31 December 2019 and 2018, impairment is detailed as follows:

(Euro thousand)

2019	Impairment calculated on individual basis		Impairment calculated on portfolio basis		Total		
	Loan amount	Impairment	Loan amount	Impairment	Loan amount	Impairment	Loans net of impairment
Corporate loans	4 541 932	550 733	2 244 689	146 109	6 786 621	696 842	6 089 779
Retail - mortgage loans	20 188	369	5 802 678	58 687	5 822 866	59 056	5 763 810
Retail - other	13 469	2 036	710 003	32 386	723 472	34 422	689 050
	4 575 589	553 138	8 757 370	237 182	13 332 959	790 320	12 542 639

(Euro thousand)

2018	Impairment calculated on individual basis		Impairment calculated on portfolio basis		Total		
	Loan amount	Impairment	Loan amount	Impairment	Loan amount	Impairment	Loans net of impairment
Corporate loans	4 589 715	550 261	2 437 026	230 519	7 026 741	780 780	6 245 961
Retail - mortgage loans	17 728	383	6 237 219	116 838	6 254 947	117 221	6 137 726
Retail - other	36 572	15 304	767 530	74 491	804 102	89 795	714 307
	4 644 015	565 948	9 441 775	421 848	14 085 790	987 796	13 097 994

As at 31 December 2019 and 2018, the fair value analysis of collaterals associated with the Group's total credit portfolio, is as follows:

(Euro thousand)

Fair value of collateral	2019	2018
Individual analysis		
Securities and other financial assets	122 499	141 965
Real estate - Mortgage loans	36 443	28 352
Real estate - Construction and CRE	2 527 130	2 441 259
Other real estate	1 712 523	1 698 309
Other guarantees	762 213	499 163
Collective analysis - Stage 1		
Securities and other financial assets	190 368	211 459
Real estate - Mortgage loans	10 661 619	10 634 302
Real estate - Construction and CRE	262 048	248 282
Other real estate	747 498	676 356
Other guarantees	364 790	350 220
Collective analysis - Stage 2		
Securities and other financial assets	37 797	49 494
Real estate - Mortgage loans	1 531 454	1 808 748
Real estate - Construction and CRE	135 459	113 981
Other real estate	287 407	342 834
Other guarantees	13 638	17 105
Collective analysis - Stage 3		
Securities and other financial assets	3 326	5 137
Real estate - Mortgage loans	171 902	346 613
Real estate - Construction and CRE	62 372	125 072
Other real estate	76 618	112 175
Other guarantees	10 331	11 805
	19 717 435	**19 862 631**

The Group uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the scope of housing loans and mortgages on other types of properties in the scope of other types of loans. To reflect the market value of these, they are reviewed regularly based on valuations conducted by certified independent appraiser entities or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are revaluated based on the market values of the respective assets, when available, with certain depreciation coefficients being applied to reflect their volatility. Most of the real collaterals are revalued at least once a year.

The Group’s total loans and advances portfolio, by segment and respective impairment, recorded in financial years 2019 and 2018, is presented as follows:

(Euro thousand)

	2019		2018	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate	4 728 520	324 416	4 876 053	353 107
Construction and CRE	2 058 101	372 426	2 150 688	427 673
Retail - mortgage loans	5 822 866	59 056	6 254 947	117 221
Retail - other	723 472	34 422	804 102	89 795
	13 332 959	790 320	14 085 790	987 796

The live loans and advances portfolio, by segment and by production year, in 2019, is presented as follows:

(Euro thousand)

	Corporate			Construction and CRE			Retail - mortgage loans			Retail - other		
Year of production	Number of operations	Amount	Impairment set up	Number of operations	Amount	Impairment set up	Number of operations	Amount	Impairment set up	Number of operations	Amount	Impairment set up
2004 and prior	1 386	78 851	2 348	880	146 164	65 670	47 081	1 462 840	15 610	25 682	9 225	826
2005	620	17 081	1 947	244	44 414	27 597	11 416	566 718	7 294	8 198	4 582	257
2006	736	32 967	2 773	306	77 723	41 571	13 825	700 174	11 551	18 667	15 258	1 783
2007	904	33 053	1 757	408	69 229	23 973	14 125	710 212	11 017	45 231	20 168	1 665
2008	2 594	48 991	5 360	668	32 557	5 535	7 320	370 105	5 020	68 479	23 082	1 335
2009	2 529	73 408	3 291	814	70 817	24 854	3 997	228 028	2 305	53 046	20 269	2 230
2010	2 501	106 972	12 458	583	49 218	15 505	4 098	259 683	2 255	38 209	11 971	1 463
2011	3 102	104 937	6 622	697	30 663	10 267	1 531	95 286	556	31 849	12 263	3 155
2012	3 918	107 681	13 000	554	40 882	12 315	957	60 519	732	23 301	9 348	1 544
2013	6 511	299 362	45 665	937	84 197	16 973	1 240	78 021	366	23 513	19 817	2 923
2014	9 306	458 078	33 748	2 751	161 788	25 788	1 458	96 059	320	28 474	40 484	4 656
2015	10 943	429 201	61 753	1 733	87 833	12 433	1 755	119 931	225	27 979	52 491	3 280
2016	12 659	667 931	43 221	2 545	227 137	31 104	2 441	189 204	474	43 738	81 231	3 271
2017	14 685	520 008	30 531	2 405	343 363	26 319	3 316	270 372	479	36 290	99 081	2 611
2018	15 011	560 707	30 791	3 057	211 759	23 314	3 458	286 857	394	48 306	136 018	2 057
2019	19 823	1 189 291	29 152	3 421	380 356	9 209	3 985	328 858	459	42 307	168 183	1 366
	107 228	4 728 519	324 417	22 003	2 058 100	372 427	122 003	5 822 867	59 057	563 269	723 471	34 422

The live loans and advances portfolio, by segment and by production year, in 2018, is presented as follows:

(Euro thousand)

Corporate			Construction and CRE			Retail - mortgage loans			Retail - other		
Number of operations	Amount	Impairment set up	Number of operations	Amount	Impairment set up	Number of operations	Amount	Impairment set up	Number of operations	Amount	Impairment set up
1 768	99 031	11 948	1 093	177 261	81 975	52 364	1 720 785	35 767	37 458	22 928	4 348
728	22 610	3 962	317	53 214	31 935	12 495	645 208	14 310	6 565	6 892	913
845	40 001	5 776	394	88 726	40 017	15 135	796 634	21 646	9 569	22 958	6 490
1 109	51 188	9 919	492	89 772	36 092	15 429	803 744	20 935	37 451	35 081	12 724
3 377	61 050	8 995	828	42 706	10 024	7 975	416 860	10 799	48 256	30 938	5 253
3 047	92 835	9 370	975	86 831	29 818	4 356	255 846	4 337	33 319	26 953	6 401
3 260	169 217	23 120	805	65 337	22 224	4 504	295 223	3 794	14 133	23 221	9 683
4 079	125 949	12 520	948	45 795	14 187	1 671	108 266	1 168	16 740	22 381	8 948
4 345	162 680	19 988	819	46 643	13 186	1 066	69 625	1 165	9 522	19 892	6 691
8 855	357 215	52 570	1 232	105 258	17 792	1 367	90 785	878	13 929	31 820	6 485
13 061	560 844	40 845	3 207	194 277	31 661	1 643	111 180	581	21 622	61 413	7 962
15 904	556 732	41 497	2 281	179 980	11 634	1 934	138 833	349	24 169	77 880	4 653
15 150	807 374	46 011	3 203	274 694	42 059	2 658	213 629	603	32 927	114 929	4 145
15 285	637 421	32 385	2 845	409 826	25 215	3 536	295 012	470	30 562	133 962	3 202
22 657	1 131 905	34 201	4 110	290 366	19 854	3 587	293 317	419	40 009	172 852	1 897
113 470	4 876 052	353 107	23 549	2 150 686	427 673	129 720	6 254 947	117 221	376 231	804 100	89 795

The gross exposure of loans and advances and impairment, individual and collective, by segment, in financial years 2019 and 2018, is analysed as follows:

(Euro thousand)

	2019									
	Corporate		**Construction and CRE**		**Retail - mortgage loans**		**Retail - other**		**Total**	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 932 860	209 417	1 609 072	341 316	20 188	370	13 470	2 035	4 575 590	553 138
Collective	1 795 660	114 999	449 028	31 110	5 802 678	58 687	710 003	32 386	8 757 369	237 182
	4 728 520	324 416	2 058 100	372 426	5 822 866	59 057	723 473	34 421	13 332 959	790 320

(Euro thousand)

	2018									
	Corporate		**Construction and CRE**		**Retail - mortgage loans**		**Retail - other**		**Total**	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 929 281	189 138	1 660 434	361 123	17 728	383	36 572	15 304	4 644 015	565 948
Collective	1 946 772	163 969	490 254	66 550	6 237 219	116 838	767 530	74 491	9 441 775	421 848
	4 876 053	353 107	2 150 688	427 673	6 254 947	117 221	804 102	89 795	14 085 790	987 796

The gross exposure of loans and advances and impairment, individual and collective, by activity sector, in financial years 2019 and 2018, is analysed as follows:

(Euro thousand)

	2019											
	Construction		**Industry**		**Commerce**		**Real Estate activities**		**Other activities**		**Total**	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	695 159	217 149	592 494	45 510	328 424	51 190	740 806	99 895	2 185 049	136 989	4 541 932	550 733
Collective	204 914	17 857	465 854	40 698	664 370	43 871	115 996	4 538	793 555	39 145	2 244 689	146 109
	900 073	235 006	1 058 348	86 208	992 794	95 061	856 802	104 433	2 978 604	176 134	6 786 621	696 842

(Euro thousand)

	2018											
	Construction		**Industry**		**Commerce**		**Real Estate activities**		**Other activities**		**Total**	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	727 632	231 616	580 432	38 926	352 683	44 714	743 349	114 228	2 185 619	120 778	4 589 715	550 262
Collective	237 068	45 135	513 857	48 505	725 987	68 993	118 004	8 558	842 109	59 327	2 437 025	230 518
	964 700	276 751	1 094 289	87 431	1 078 670	113 707	861 353	122 786	3 027 728	180 105	7 026 740	780 780

The gross exposure of performing and non-performing loans and advances, in financial years 2019 and 2018, is analysed as follows:

(Euro thousand)

	2019												
	Gross performing and non-performing exposures							**Accumulated impairment and other negative fair value adjustments associated with credit risk**				**Collateral and financial guarantees received**	
		of which performing with arrears of >30 days and <= 90 days	**of which forborne and performing**	**of which non-performing**				**on performing exposures**		**on non-performing exposures**		**on performing exposures**	**of which forborne**
					of which non-performing	**of which impaired**	**of which forborne**		**of which forborne**		**of which forborne**		
Loans represented by securities (a)	3 127 526	-	-	34 800	34 800	34 800	-	10 481	-	4 824	-	613	-
Other balance sheet credit exposures (b)	12 867 394	53 140	97 600	1 453 555	1 453 555	1 452 114	770 183	98 679	3 670	668 126	361 528	522 910	342 653
Off-balance sheet exposures (c)	1 824 538	1 396	1 185	119 690	119 690	119 690	915	3 076	6	12 321	76	-	-

(a) Includes debt instruments in the Financial assets available for sale portfolio and commercial paper and bonds recognized under loans and advances to customers
(b) Includes Loans and advances to customers, Deposits and loans to Central Banks and other credit institutions and Stock exchange operations pending settlement
(c) Includes Revocable and irrevocable credit lines, Guarantees and standby letters and Documentary credits provided

(Euro thousand)

	2018												
	Gross performing and non-performing exposures							**Accumulated impairment and other negative fair value adjustments associated with credit risk**				**Collateral and financial guarantees received**	
		of which performing with arrears of >30 days and <= 90 days	**of which forborne and performing**	**of which non-performing**				**on performing exposures**		**on non-performing exposures**		**on performing exposures**	**of which forborne**
					of which non-performing	**of which impaired**	**of which forborne**		**of which forborne**		**of which forborne**		
Loans represented by securities (a)	2 051 091	-	-	33 000	33 000	33 000	-	5 993	-	3 082	-	-	-
Other balance sheet credit exposures (b)	14 319 629	58 075	103 166	1 846 079	1 754 452	1 843 262	838 423	92 967	4 779	873 992	381 160	675 440	401 457
Off-balance sheet exposures (c)	1 667 025	2 207	2 650	187 924	170 377	187 924	32 744	3 819	7	11 562	165	-	-

(a) Includes debt instruments in the Financial assets available for sale portfolio and commercial paper and bonds recognized under loans and advances to customers
(b) Includes Loans and advances to customers, Deposits and loans to Central Banks and other credit institutions and Stock exchange operations pending settlement
(c) Includes Revocable and irrevocable credit lines, Guarantees and standby letters and Documentary credits provided

The fair value of the collateral underlying the loans and advances portfolio of the Construction and Commercial Real Estate ("CRE") and Mortgage segments, as at 31 December 2019, is presented as follows:

(Euro thousand)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	2 848	347 755	1 576	65 920	96 252	12 082 014	302	9 246
>= 0,5 M€ and <1M€	197	138 938	34	20 627	383	239 340	1	500
>= 1 M€ and <5M€	202	438 191	23	46 046	45	67 948	-	-
>= 5 M€ and <10M€	33	237 283	6	42 930	-	12 116	-	-
>= 10 M€ and <20M€	26	347 346	-	-	2	-	-	-
>= 20 M€ and <50M€	12	391 331	1	46 000	-	-	-	-
>= 50M€	6	1 086 164	-	-	-	-	-	-
	3 324	2 987 008	1 640	221 523	96 682	12 401 418	303	9 746

The fair value of the collateral underlying the loans and advances portfolio of the Construction and Commercial Real Estate ("CRE") and Mortgage segments, as at 31 December 2018, is presented as follows:

(Euro thousand)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	2 848	347 755	876	54 147	96 252	12 082 014	302	9 246
>= 0,5 M€ and <1M€	197	138 938	34	20 627	383	239 340	1	500
>= 1 M€ and <5M€	202	438 191	22	42 894	45	67 948	-	-
>= 5 M€ and <10M€	33	237 283	6	42 930	-	12 116	-	-
>= 10 M€ and <20M€	26	347 346	-	-	2	-	-	-
>= 20 M€ and <50M€	12	391 331	1	46 000	-	-	-	-
>= 50M€	6	1 086 164	-	-	-	-	-	-
	3 324	2 987 008	939	206 598	96 682	12 401 418	303	9 746

The LTV (loan-to-value) ratio of the Corporate, Construction and CRE and Mortgage segments, as at 31 December 2019 and 2018, is presented as follows:

(Euro thousand)

Segment/ Ratio	2019			2018		
	Number of properties	Total exposure	Impairment	Number of properties	Total exposure	Impairment
Corporate						
Without associated property (*)	-	3 683 855	242 515	-	3 795 844	295 637
< 60%	1 905	355 682	36 587	2 146	368 389	67 639
>= 60% and < 80%	809	454 664	25 404	820	466 678	30 388
>= 80% and < 100%	1 848	227 040	18 407	879	199 141	31 810
>= 100%	18	7 279	1 504	24	46 000	41 359
Construction and CRE						
Without associated property (*)	-	917 343	152 870	-	962 259	253 667
< 60%	1 445	545 720	116 723	1 401	511 869	194 454
>= 60% and < 80%	762	336 625	48 031	906	349 903	127 462
>= 80% and < 100%	961	215 196	25 054	1 068	216 969	77 255
>= 100%	156	43 216	29 748	399	109 687	94 276
Mortgage						
Without associated property (*)	-	468 469	11 998	-	533 930	45 477
< 60%	62 696	2 507 217	11 750	64 492	2 576 393	47 210
>= 60% and < 80%	25 020	2 039 924	11 419	26 024	2 121 153	35 426
>= 80% and < 100%	8 436	760 932	13 688	10 536	946 844	38 859
>= 100%	530	46 323	10 201	871	76 627	39 602

(*) Includes operations with other associated collateral, namely financial collateral

The fair value and the net value of real estate received in recovery/execution of loans, by asset type, as at 31 December 2019 and 2018, are presented as follows:

(Euro thousand)

Assets	2019		
	Number of properties	Fair value of assets	Book value
Land	**1 898**	**348 524**	**322 848**
Urban	1 614	294 457	272 348
Rural	284	54 067	50 500
Buildings under construction	**467**	**74 435**	**68 458**
Commercial	59	4 819	4 594
Residential	313	68 871	63 165
Other	95	745	699
Buildings constructed	**1 811**	**246 760**	**217 651**
Commercial	675	121 728	107 147
Residential	714	119 237	105 487
Other	422	5 795	5 017
	4 176	669 719	608 957

(Euro thousand)

Assets	2018		
	Number of properties	Fair value of assets	Book value
Land	**1 961**	**392 150**	**348 312**
Urban	1 685	330 236	290 066
Rural	276	61 914	58 246
Buildings under construction	**679**	**122 593**	**111 057**
Commercial	71	6 518	5 194
Residential	514	115 423	105 233
Other	94	652	630
Buildings constructed	**2 618**	**314 629**	**278 568**
Commercial	957	133 776	116 456
Residential	1 133	173 392	155 806
Other	528	7 461	6 306
	5 258	829 372	737 937

The time elapsed since the receipt in recovery/execution of real estate, as at 31 December 2019 and 2018, is presented as follows:

(Euro thousand)

Time elapsed since recovery/execution	2019				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**8 182**	**78 326**	**68 156**	**168 184**	**322 848**
Urban	6 541	70 666	53 846	141 295	272 348
Rural	1 641	7 660	14 310	26 889	50 500
Buildings under construction	**2 195**	**19 562**	**18 804**	**27 897**	**68 458**
Commercial	356	427	1 542	2 269	4 594
Residential	1 770	19 045	17 230	25 120	63 165
Other	69	90	32	508	699
Buildings constructed	**20 814**	**25 916**	**71 501**	**99 420**	**217 651**
Commercial	3 989	13 603	42 233	47 322	107 147
Residential	16 384	11 960	26 583	50 560	105 487
Other	441	353	2 685	1 538	5 017
	31 191	123 804	158 461	295 501	608 957

(Euro thousand)

Time elapsed since recovery/execution	2018				
	year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**10 218**	**105 942**	**78 695**	**153 457**	**348 312**
Urban	6 592	94 881	66 025	122 568	290 066
Rural	3 626	11 061	12 670	30 889	58 246
Buildings under construction	**32 979**	**20 260**	**33 897**	**23 921**	**111 057**
Commercial	146	1 413	1 974	1 661	5 194
Residential	32 740	18 847	31 894	21 752	105 233
Other	93	-	29	508	630
Buildings constructed	**30 597**	**54 330**	**86 876**	**106 765**	**278 568**
Commercial	11 329	20 386	36 792	47 949	116 456
Residential	18 945	31 418	48 591	56 852	155 806
Other	323	2 526	1 493	1 964	6 306
	73 794	180 532	199 468	284 143	737 937

Concentration risk

The concentration risk results from the existence of common or correlated risk factors between different entities or portfolios. The deterioration of any of these factors may have a simultaneous negative impact on the credit quality of each of the counterparties or on the results of each class of assets and liabilities. In a concentration scenario, the loss effects on a small number of exposures may be disproportionate, confirming the importance of managing this risk in the maintenance of adequate solvability levels. In the Group, concentration risk monitoring focuses mainly on credit concentration, investment portfolio, financing, interest rate and operating risks.

Credit concentration risk is the most important risk for the Group and, as such, there are several procedures related to its identification, measurement and management. In order to control the concentration risk of the exposure to a customer/group of customers that are related, maximum exposure limits were set for the aggregate positions of the credit and investment portfolios, for the various Group entities.

In order to reduce concentration risk, the Group seeks to diversify its activity areas and income sources, as well as its exposures and funding sources.

The concentration risk management is carried out in a centralized manner, with regular monitoring of the concentration indices by the Risk Department. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the level of individual concentration and the degree of diversification of the quality of the corporate portfolio are regularly monitored by the Risk Department. Maximum exposure limits are established per customer/group of customers related to each other, as well as limits for the concentration of the largest depositors.

Market risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and/or prices of the different financial instruments that compose it, considering both the existing correlations between them and the respective volatilities.

The Group regularly calculates its “VaR” both for its own trading portfolio as well as for that of the financial assets at fair value through other comprehensive income, with same being determined based on a 10-day horizon and a 99% confidence level, using the historical simulation method. The types of risk considered in this methodology are the interest rate, exchange rate, price, spread and commodities’ risks.

The Group's investment portfolio is mainly concentrated on bonds, and as at 31 December 2019 this represented 83.8% (31 December 2018: 72.5%) of the total portfolio, with the dominant position being held by bonds of sovereign issuers, essentially Portugal, Spain and Italy.

With regard to credit derivatives, Banco Montepio held no position in these instruments as at 31 December 2019 and 2018.

Regarding the credit quality of debt securities, circa 84.2% of the portfolio is investment grade (31 December 2018: 90.2%). Of note are the Portuguese and Italian sovereign bonds with a rating of BBB- and that represent 66.8% of the portfolio. Concerning the composition of the portfolio, one verifies an increase in the exposure to sovereign debt, of note being the Portuguese, Spanish, Italian and Greek debt (for the latter essentially treasury bills).

The distribution of the bond portfolio, recognized in the captions Financial assets held for trading, Financial assets at fair value through other comprehensive income and Other financial assets at amortized cost (which excludes positions held by subsidiaries subject to the application of IFRS 5), is presented as follows:

(Euro thousand)

Rating	2019		2018		Change	
	Amount	%	Amount	%	Amount	%
AAA	8 036	0,3	-	-	8 036	-
AA+	934	0,0	1 091	0,1	(157)	(14,4)
AA	7 824	0,3	-	-	7 824	-
AA-	21 085	0,8	-	-	21 085	-
A+	17 830	0,7	1 718	0,1	16 112	937,8
A	31 969	1,2	1 031	0,1	30 938	3 000,8
A-	35 142	1,3	3 128	0,2	32 014	1 023,5
BBB+	279 726	10,3	212 081	12,6	67 645	31,9
BBB	90 168	3,3	15 666	0,9	74 502	475,6
BBB-	1 797 118	66,0	1 279 957	76,2	517 161	40,4
BB +	20 571	0,8	234	-	20 337	8 691,0
BB	21 228	0,8	-	-	21 228	-
B+	257 294	9,4	-	-	257 294	-
NR	45 520	1,6	52 257	3,1	(6 737)	(12,9)
Subtotal	2 634 445	96,8	1 567 163	93,2	1 067 282	68,1
Subsidiaries discontinued	88 371	3,2	113 635	6,8	(25 264)	(22,2)
Total	2 722 816	100,0	1 680 798	100,0	1 042 018	62,0

As at 31 December 2019, the amount of Euro 2,722,818 thousand (31 December 2018: Euro 1,680,798 thousand) includes the amount of Euro 88,371 thousand (31 December 2018: Euro 113,635 thousand), which corresponds to the securities’ portfolio of Finibanco Angola, which belongs to a subsidiary subject to the application of IFRS 5 and that, consequently, is recorded in discontinued operations.

The position in bonds recognized in the portfolio of Financial assets at fair value through other comprehensive income stood at Euro 1,723,507 thousand (31 December 2018: Euro 311,512 thousand), the position in Other financial assets at amortized cost stood at Euro 899,145 thousand (31 December 2018: Euro 1,255,651 thousand), and the position in Financial assets held for trading stood at Euro 11,793 thousand.

Regarding the trading portfolio, as at 31 December 2019 the main VaR indicators are as follows:

(Euro thousand)

	2019	Average	Minimum	Maximum	2018
Market VaR	244	467	5	651	5
Interest rate risk	167	174	5	218	5
Exchange rate risk	142	88	-	52	-
Price risk	94	312	-	478	-
Credit spread risk	80	397	-	489	-
Diversification effect	(239)	(504)	-	(586)	-

Bank Portfolio Interest Rate Risk

The assessment of interest rate risk originated by banking portfolio operations is performed by a sensitivity analysis to the risk, on a consolidated basis for the entities integrating the Group (including subsidiaries recognized in discontinued operations).

Interest rate risk is measured according to the impact on net interest income, economic value and own funds caused by changes in market interest rates. The main risk factors arise from lags in maturities for the resetting of rates and/or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indices with the same repricing period (basis risk) and the options associated with instruments that enable different decisions being taken by the players/participants depending on the level of rates contracted and those practiced at the moment (option risk).

Based on the financial characteristics of each contract, a projection of the expected cash flows is made, according to the rate reset dates and eventual behavioural assumptions.

The aggregation, for each currency analysed, of the expected cash flows in each of the time intervals allows one to determine the interest rate gaps by repricing period.

The following tables present the interest rates gaps, on a consolidated basis, in financial years 2019 and 2018:

(Euro thousand)

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
31 December 2019					
Assets	386 404	175 868	360 588	1 137 944	775 881
Debt securities	7 085 768	2 837 778	984 203	797 045	66 209
Loans and advances	-	-	-	-	-
Other	4 758	-	6 672	763 307	-
Off-balance sheet		-			-
Total	7 513 376	3 013 646	1 351 463	2 698 297	870 879
Liabilities	9 914	1 455	57 407	1 368 142	23 365
Debt securities issued	3 000 960	1 490 544	1 980 208	1 515 407	-
Term deposits	-	-	-	-	-
Other	159 034	443 112	393 890	706 239	29 803
Off-balance sheet	753 376	-	17	137	1 388
Total	3 923 285	1 935 111	2 431 522	3 589 926	54 556
GAP (Assets - Liabilities)	3 590 091	1 078 535	(1 080 059)	(891 629)	816 322
31 December 2018					
Assets	8 917 958	3 022 618	752 899	1 391 625	959 267
Off-balance sheet	6 200	9 850	13 920	753 300	-
Total	8 924 158	3 032 468	766 819	2 144 925	959 267
Liabilities	2 955 967	1 717 108	1 963 660	5 323 769	51 245
Off-balance sheet	758 300	9 850	13 920	-	1 200
Total	3 714 267	1 726 958	1 977 580	5 323 769	52 445
GAP (Assets - Liabilities)	5 209 891	1 305 510	(1 210 761)	(3 178 844)	906 822

(Euro thousand)

	2019				2018			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate Gap	3 513 259	3 314 547	3 513 259	3 032 618	3 032 618	1 657 634	3 032 618	(1 033 527)

Sensitivity to the balance sheet interest rate risk is calculated by the difference between the present value of the interest rate mismatch discounted at market interest rates and the discounted value of the same cash flows, simulating parallel shifts of the market interest rate curve.

As at 31 December 2019, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a decrease in the economic value expected from the banking portfolio of circa Euro 31,581 thousand (31 December 2018: decrease of Euro 18,966 thousand).

The following table presents the average interest rates, in relation to the Group's major asset and liability categories for financial years 2019 and 2018, as well as the respective average balances and the income and expense for the period:

(Euro thousand)

	2019			2018		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest-generating assets						
Deposits at central banks and other credit institutions	1 110 692	0.51	5 710	1 370 858	1.01	14 043
Loans and advances to other credit institutions	261 579	0.91	2 421	323 513	0.78	2 558
Loans and advances to customers	12 569 752	2.19	279 642	13 709 270	2.26	313 769
Securities' portfolio	2 395 938	0.57	13 782	1 732 981	0.67	11 734
Other assets at far value	22 168	0.63	141	12 037	2.85	348
Other (including derivatives)	-	-	18 492	-	-	19 256
	16 360 129	**1.93**	**320 188**	**17 148 659**	**2.08**	**361 708**
Interest-generating liabilities						
Deposits from ECB	1 384 894	0.24	3 323	1 539 715	0.32	5 001
Deposits from other credit institutions	1 082 456	0.72	7 862	1 636 717	0.95	15 809
Deposits from customers	12 565 619	0.27	34 751	12 389 580	0.45	56 912
Senior debt	1 051 217	0.97	10 306	1 286 957	1.42	18 550
Subordinated debt	131 622	8.84	11 803	90 681	1.24	1 140
Other (including derivatives)			15 332	-	-	16 192
	16 215 808	**0.51**	**83 377**	**16 943 650**	**0.66**	**113 604**
Net interest income		**1.43**	**236 811**		**1.43**	**248 104**

Foreign exchange risk

Regarding the foreign exchange risk of the banking portfolio, the general procedure is to apply funds raised in the various currencies, through assets in the respective money market and for terms not exceeding those of the funding. Thus, existing exchange rate gaps are essentially due to mismatches between the periods of the applications and of the funding.

The breakdown of assets and liabilities, by currency, in financial years 2019 and 2018, is analysed as follows:

(Euro thousand)

	2019							
	Euro	US Dollar	Angolan Kwanza	Swiss Franc	Pound Sterling	Brazilian Real	Other foreign currencies	Total amount
Assets by currency								
Cash and deposits at central banks	989 939	8 130	-	2 939	1 081	-	1 560	1 003 649
Loans and deposits to credit institutions repayable on demand	(15,863)	37 589	5 619	852	442	-	806	29 445
Other loans and advances to credit institutions	233 858	14 686	-	-	3 688	-	23 366	275 598
Loans and advances to customers	11 378 341	86 193	-	-	8	-	-	11 464 542
Financial assets held for trading	26 966	8 939	-	-	-	-	-	35 905
Other financial assets at fair value value through profit or loss	384 675	-	-	-	-	-	-	384 675
Financial assets at fair value through other comprehensive income	1 817 022	-	-	-	-	42 669	-	1 859 691
Hedging derivatives	11 148	-	-	-	-	-	-	11 148
Other financial assets at amortized cost	899 145	-	-	-	-	-	-	899 145
Investments in associated companies and other	4 439	-	-	-	-	-	-	4 439
Non-current assets held for sale - - Discontinued Operations	39 628	92 572	84 324	15	1	-	(2)	216 538
Investment properties	144 868	-	-	-	-	-	-	144 868
Other tangible assets	248 469	-	-	-	-	-	-	248 469
Intangible assets	33 839	-	-	-	-	-	-	33 839
Current tax assets	15 284	-	-	-	-	-	-	15 284
Deferred tax assets	434 665	-	-	-	-	-	-	434 665
Other assets	646 765	31 185	-	-	73	-	219	678 242
Total Assets	**17 293 188**	**279 294**	**89 943**	**3 806**	**5 293**	**42 669**	**25 949**	**17 740 142**
Liabilities by currency								
Deposits from central banks	1 291 033	-	-	-	-	-	-	1 291 033
Deposits from other credit institutions	423 391	71 385	-	16	3 971	-	23 398	522 161
Deposits from customers	12 353 222	114 938	-	2 514	12 288	-	41 735	12 524 697
Debt securities issued	1 389 980	-	-	-	-	-	-	1 389 980
Financial liabilities held for trading	13 368	-	-	-	-	-	-	13 368
Hedging derivatives	547	-	-	-	-	-	-	547
Non current liabilities held for sale - Discontinued operations	46 973	36 149	51 305	-	-	-	2	134 429
Provisions	31 633	-	-	-	-	-	-	31 633
Current tax liabilities	1 783	-	-	-	-	-	-	1 783
Other subordinated debt	157 847	-	-	-	-	-	-	157 847
Other liabilities	219 298	487	-	738	4	-	149	220 676
Total Liabilities	**15 929 075**	**222 959**	**51 305**	**3 268**	**16 263**	**-**	**65 284**	**16 288 154**
Exchange forward operations	-	(50,635)	-	(2,441)	11 095	-	39 863	
Exchange Gap	-	5 700	38 638	(1,903)	125	42 669	528	-
Stress Test	**-**	**(1,140)**	**(7,728)**	**381**	**(25)**	**(8,534)**	**275**	**-**

(Euro thousand)

	2018							
	Euro	US Dollar	Angolan Kwanza	Mozambican Metical	Pound Sterling	Brazilian Real	Other foreign currencies	Total amount
Assets by currency								
Cash and deposits at central banks	1 590 381	14 110	-	-	1 512	-	4 632	1 610 635
Loans and deposits to credit institutions repayable on demand	24 384	37 249	5 647	-	5 570	-	5 238	78 088
Other loans and advances to credit institutions	180 433	3 198	-	-	3 676	-	22 625	209 932
Loans and advances to customers	11 979 448	114 837	-	-	1 069	-	19	12 095 373
Other financial assets at fair value value through profit or loss	23 727	12	-	-	-	-	-	23 739
Financial assets at fair value through other comprehensive income	492 594	-	-	-	-	-	-	492 594
Financial assets at fair value through other comprehensive income	396 763	-	-	-	-	47 310	-	444 073
Hedging derivatives	5 666	-	-	-	-	-	-	5 666
Other financial assets at amortized cost	1 255 651	-	-	-	-	-	-	1 255 651
Investments in associated companies and others	4 282	-	-	-	-	-	-	4 282
Non-current assets held for sale	737 937	-	-	-	-	-	-	737 937
Non-current assets held for sale - - Discontinued operations	39 921	117 171	137 534	-	1	-	98	294 725
Investment properties	253 097	-	-	-	-	-	-	253 097
Other tangible assets	229 599	-	-	-	-	-	-	229 599
Intangible assets	32 326	-	-	-	-	-	-	32 326
Current tax assets	11 073	-	-	-	-	-	-	11 073
Deferred tax assets	469 023	-	-	-	-	-	-	469 023
Other assets	83 281	990	-	-	1	-	158	84 430
Total Assets	**17 809 586**	**287 567**	**143 181**	**-**	**11 829**	**47 310**	**32 770**	**18 332 243**
Liabilities by currency								
Deposits from central banks	1 395 320	-	-	-	-	-	-	1 395 320
Deposits from other credit institutions	1 184 676	33 894	-	-	3 923	-	22 942	1 245 435
Deposits from customers	12 413 782	108 441	-	-	10 039	-	42 962	12 575 224
Debt securities issued	1 063 007	30 927	-	-	-	-	-	1 093 934
Financial liabilities held for trading	13 486	10	-	-	-	-	-	13 496
Non-current liabilities held for sale - - Discontinued operations	46 171	52 384	95 431	-	7	-	2	193 995
Provisions	32 023	-	-	-	-	-	-	32 023
Current tax liabilities	10 960	-	-	-	-	-	-	10 960
Other subordinated debt	50 044	-	-	-	-	-	-	50 044
Other liabilities	189 349	13 390	-	-	296	-	1 871	204 906
Total Liabilities	**16 398 818**	**239 046**	**95 431**	**-**	**14 265**	**-**	**67 777**	**16 815 337**
Exchange forward operations		(38,257)	-	-	2 236	-	35 779	71
Exchange Gap		10 264	47 750	-	(200)	47 310	772	
Stress Test		**(2,053)**	**(9,550)**	**-**	**40**	**(9,462)**	**(155)**	

The result of the stress test performed corresponds to the estimated impact (before tax) on equity, including minority interests, due to a devaluation of 20.0% in the exchange rate of each currency against the Euro.

Liquidity risk

Liquidity risk reflects the Group's inability to meet its obligations at due date, without incurring in significant losses arising from a deterioration in financing conditions (financing risk) and/or the sale of its assets at values lower than market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined, as well as other internal metrics for which internal limits are defined. This control is reinforced with the monthly execution of stress tests, in order to characterize the risk profile of Banco Montepio and ensure that the Group fulfils its obligations in a liquidity crisis scenario. The calculation of the LCR prudential ratio is performed on a monthly basis.

As at 31 December 2019, the LCR amount was 179.9% (31 December 2018: 160.5%).

As at 31 December 2019, the Group's financing structure was as follows:

(Euro thousand)

	2019	Undetermined	Up to 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 291 033	-	443 600	-	-	847 433
Deposits from other credit institutions	522 161	-	47 173	65 615	4 788	404 585
Deposits from customers	12 524 697	-	5 252 630	2 279 121	1 662 280	3 330 666
Debt securities issued	1 389 980	-	9 393	4 129	1 525	1 374 933
Financial liabilities held for trading	11 098	-	17	34	6	11 041
Non-current liabilities held for sale - - Discontinued operations	134 429	134 429	-	-	-	-
Other subordinated debt	157 847	-	-		7 847	150 000
Other liabilities	220 676	220 676	-	-	-	-
Total funding	**16 251 921**	**355 105**	**5 752 813**	**2 348 899**	**1 676 446**	**6 118 658**

As at 31 December 2018, the Group's financing structure was as follows:

(Euro thousand)

	2018	Undetermined	Up to 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 395 220	-	-	-	-	1 395 220
Deposits from other credit institutions	1 245 435	-	111 910	121 679	661 440	350 406
Deposits from customers	12 575 224	-	4 731 691	2 965 784	1 843 723	3 034 026
Debt securities issued	1 093 934	-	97 117	55	21 701	975 061
Financial liabilities held for trading	13 496	-	100	152	10	13 234
Non-current liabilities held for trading - - Discontinued operations	193 995	193 995	-	-	-	-
Other subordinated debt	50 044	-	-	-	44	50 000
Other liabilities	204 906	204 906	-	-	-	-
Total funding	**16 772 254**	**398 901**	**4 940 818**	**3 087 670**	**2 526 918**	**5 817 947**

In the scope of Bank of Portugal Instruction no. 28/2014, of 15 January 2015, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and considering the recommendation made by the European Systemic Risk Committee, we present the following information, as at 31 December 2019 and 2018, on the assets and related collaterals:

(Euro thousand)

	2019			
Assets	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the reporting institution	1 730 525		16 023 618	
Own equity instruments	-	-	510 621	510 616
Debt securities	617 449	535 399	2 506 565	2 072 801
Other assets	-		2 018 918	

(Euro thousand)

	2018			
Assets	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the reporting institution	3 996 499	-	14 354 829	-
Own equity instruments	-	-	597 063	1 007 687
Debt securities	768 038	735 169	1 273 863	1 447 186
Other assets	-	-	2 331 739	-

(Euro thousand)

	2018	
Collateral received	**Fair value of encumbered collateral received or own debt securities issued**	**Fair value of unencumbered collateral received or own debt securities issued**
Assets of the reporting institution	46 398	-
Own equity instruments	-	-
Debt securities	46 398	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Euro thousand)

	2019
Encumbered assets, encumbered collateral received and associated liabilities	**Carrying amount of selected financial liabilities**
Associated liabilities, contingent liabilities and securities borrowed	1 764 452
Assets, collateral received and own debt securities issued other than own covered bonds or encumbered ABS	1 703 967

(Euro thousand)

	2018
Encumbered assets, encumbered collateral received and associated liabilities	**Carrying amount of selected financial liabilities**
Associated liabilities, contingent liabilities and securities borrowed	2 609 154
Assets, collateral received and own debt securities issued other than own covered bonds or encumbered ABS	4 015 260

The encumbered assets are mostly related to the Group's funding operations, namely of the ECB, of repo operations, of the issuance of covered bonds and of securitization programs. The type of assets used as collateral for securitization programs and for the issuance of covered bonds, whether those placed outside the Group, or those used to reinforce the collateral pool with the ECB, are constituted by customers' loans contracts. Repo transactions in the money market are collateralized, essentially, by covered bonds and securitization programs, of which Banco Montepio is the originator, and by securitized credit operations.

The amounts presented in the previous tables correspond to the position in financial years 2019 and 2018 and reflect the high level of collateralization of the wholesale funding of the Group. The buffer of eligible assets for the ECB, after haircuts, uncommitted and available for use in new operations, as at 31 December 2019 amounts to Euro 2,324,202 thousand (31 December 2018: Euro 1,254,923 thousand).

It should be noted that the total value of collaterals available at the European Central Bank (ECB) as at 31 December 2019 amounts to Euro 3,622,315 thousand (31 December 2018: Euro 2,603,413 thousand) with a usage of Euro 1,308,333 thousand (31 December 2018: Euro 1,395,320 thousand):

(Euro thousand)

	2019	2018
Total eligible collateral	**4 150 167**	**3 882 678**
Total collateral in the pool	3 622 315	2 603 413
Total collateral outside the pool	527 852	1 279 265
Collateral used	**1 825 965**	**2 627 755**
Collateral used for ECB	1 308 333	1 395 320
Collateral committed for other financing operations	517 632	1 232 435
Collateral available for ECB	**2 313 982**	**1 208 093**
Total collateral available	**2 324 202**	**1 254 923**

Note: collateral amount considers haircuts applied

Real Estate Risk

Real estate risk results from possible negative impacts on Banco Montepio's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from the exposure in real estate assets, whether from the foreclosure of properties or judicial auction in the scope of credit recovery processes or from investment units in real estate funds held in the securities' portfolio. These exposures are monitored through scenario analyses that attempt to estimate the potential impacts of changes in the real estate markets in the portfolios of these real estate assets and make available the information elements necessary for the definition of the real estate risk management policy.

As at 31 December 2019 and 2018, the exposure to real estate and investment units in real estate funds presented the following values:

(Thousands of Euro)

	2019	2018
Real estate received as loan guarantee	608 959	737 930
Investment properties	144 868	253 097
Real estate investment fund units	256 298	296 550
	1 010 125	1 287 577
Stress test	(101 013)	(128 758)

Stress test results correspond to the estimated impact on equity (before taxes) of a negative 10% variation in the values of real estate and investment units in real estate funds.

Operating Risk

Operating risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

The Group has the approval of the Bank of Portugal to use the standard method to quantify its own capital requirements for operating risk, supported on the existence of an operating risk management system based on the identification, assessment, monitoring, measurement, mitigation and reporting of this type of risk.

The Risk Department exercises the corporate function of operating risk management of the Group which is supported by the existence of participants in different organic units that ensure the proper implementation of the operating risk management.

The operating risk profile assessment for new products, processes and systems and its consequent monitoring, on a regular basis, has allowed the early identification and mitigation of operating risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operating risk loss events, the analysis of Key Risk Indicators, the assessment of the exposure to operating risk and the preparation of periodic reports on the Institution's operating risk profile. In particular, quarterly monitoring reports of operating risk loss events and mitigation measures are prepared. A report is prepared annually, which includes the analysis of all operating risk management instruments.

As regards mitigation measures, action plans were suggested for the most significant risks, identified based on the operating risk management tools previously mentioned.

In addition, Banco Montepio has implemented a business continuity management process, supported by a set of assessment, design, implementation and monitoring activities, integrated in a cycle of continuous improvement.

This process is crucial as a risk mitigation tool, making the business processes more resilient and allowing for the continuity of operations to be ensured in the event of situations that cause the interruption of the activity, considering the Recovery Time Objective (RTO) defined.

Pension Fund Risk

The Pension Fund risk results from the potential devaluation of the Fund's asset portfolio or the decrease in the respective expected returns, as well as the increase in the Fund's liabilities as a result of the evolution of the different actuarial assumptions. In such scenarios, Banco Montepio will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular analysis and monitoring of Banco Montepio's Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Risk Department ensures the production of monthly reports with the evolution of the market value of the Pension Fund's portfolio and the associated risk indicators.

Considering the provisions of the investment policy of the Montepio Geral Pension Fund relating to the exposure to various risks and to the different legal provisions, the Bank ensures a daily monitoring of the control of the legal limits by means of a detailed analysis of "legal limits and investments exceeded", with a set of procedures being performed if the limits are exceeded.

The Risk Department monitors the effect of possible measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has strengthened control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows for the monitoring of the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on the VaR calculation, with a confidence level of 99.5% for a one-year time horizon. Since VaR does not totally guarantee that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose of calculating the impact of several extreme scenarios on the value of the portfolio.

The assessment of the liquidity level of the share-based and bond-based components of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days for their liquidation, considering the assets in the portfolio. This test consists of verifying the liquidity of the share-based segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond-based segment, the cash receipts (positive cash flows) resulting from bond coupon (interest) payments and amortizations or possible call option exercises are calculated for one month. All these tests allow for the assessment of the degree of liquidity in the short term and to monitor or act in the event of a possible shortage of liquidity, in a timely manner.

Other Risks

With regard to other risks – reputation, compliance, strategy and business risks - these are also monitored by the Board of Directors, with the risks being controlled and corrective measures being taken based on the results obtained compared with the objectives/limits established, of note being, namely, the monitoring and control of deviations from the approved strategic plan and budget.

Hedging Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees, and financial collateral are relevant, as well as the provision of personal credit protection, namely of guarantees.

In terms of the direct reduction of the exposure value, credit operations collateralized by financial collateral are considered, namely, term deposits and securities. In financial collaterals, the market and foreign exchange risks of the assets involved are considered, and, when applicable, the value of the collateral is adjusted.

Regarding real mortgage guarantees, Banco Montepio has defined valuation and revaluation models to be applied to properties that may or already constitute real collateral for credit operations. The asset valuations are carried out by independent expert appraisers, and the management of the valuations and inspections is centralized in a unit that is independent of the commercial area. In accordance with (EU) Regulation no. 575/2013 (CRR), the requirements for the verification and revaluation of the assets' value, depending on the cases, either by statistical and computerized methods or by review or revaluation of the valuation amount by an expert appraiser are assured.

For credit guarantees, the principle of the substitution of the customer's risk by that of the protection provider is applied, provided that the risk of the latter is not inferior to that of the prior.

The Group does not usually use on-balance sheet and off-balance sheet offsetting processes, nor does it hold credit derivatives on positions in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures with financial products with a symmetric risk to decrease the total risk of the exposures or the partial or total sale of exposures to reduce exposure or cancel it completely.

Regarding the banking portfolio, interest rate and foreign exchange risk mitigation techniques correspond to the negotiation of hedging operations with derivatives and the closure of exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of the Group are determined in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) no. 575/2013 (CRR), adopted by the European Parliament and by the Council, and Notice no. 10/2017 of the Bank of Portugal. Own funds include level 1 own funds (tier 1) and level 2 own funds (tier 2). Tier 1 includes level 1 core own funds (common equity tier 1 – CET1) and the additional level 1 own funds with the following composition:

- *Level 1 Core Own Funds or Common Equity Tier 1 (CET1):* this category includes the realized share capital (with the deduction of treasury shares held), eligible reserves (including fair value reserves), retained earnings, positive and certified retained earnings for the period or, if negative, the full amount. The value of reserves and retained earnings is adjusted for the reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. Non-controlling interests are only eligible to the extent necessary to cover the Group's capital requirements attributable to minority shareholders. The book value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, between the assets and liabilities of the Pension Fund, is deducted. The amount of the prudent valuation calculated in accordance with articles no. 34 and 105 of the CRR is also deducted, as are the deferred tax assets related to tax losses. Regarding financial shareholdings in financial sector entities and deferred tax assets arising from timing differences that depend on future profitability, the values in these captions are deducted when, individually, they exceed 10% of CET1, or, subsequently, 15% of CET1 when considered in aggregate (only on the part not deducted in the first barrier of 10% and considering only significant shareholdings). The values not deducted will be subject to the weighting of 250% to the total risk-weighted assets. Regarding shareholdings in financial institutions, the deduction is proportionally realized in the corresponding capital levels held. As part of the implementation of the requirements defined in Regulation (EU) no. 575/2013, a transition period was defined to allow for a gradual recognition of the major impacts of this new regulation. This transition plan reached total recognition in 2018 (i.e. 100%) for almost all the captions encompassed. Only for the deferred tax assets that do not depend on future profitability, in the balance sheet as at 1 January 2014, is the transitional cumulative recognition plan maintained on a 10% annual basis, with, in 2019, this having attained 50%. With the revision of Regulation (EU) no. 575/2013, of 27 June 2019, the applicable amount of insufficient coverage for non-productive exposures is now deducted if said exposures originated after 26 April 2019.
- *Level 1 Own Funds or Tier 1 (T1):* includes capital equivalent instruments, which conditions are in accordance with article 52 of Regulation no. 575/2013 and that have been approved by the Bank of Portugal. Non-controlling interests relating to additional own funds' minimum requirements of the institutions in which the Group does not hold full ownership are also eligible. The eventual shareholdings of T1 capital of financial institutions subject to deduction are deducted from this capital.
- *Level 2 Own Funds or Tier 2 (T2):* includes capital equivalent instruments, which conditions are in accordance with article 63 of the CRR and that have been approved by the Bank of Portugal. Non-controlling interests relating to the own fund's minimum requirements of the institutions in which the Group does not hold full ownership are also eligible. The eventual shareholdings of T2 capital of financial institutions subject to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels of own funds previously referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating and market risk requirements, reference is made to the weighting of 250% of deferred tax assets arising from timing differences that depend on future profitability and financial shareholdings that are within the limit established for non-deduction from CET1. With respect to deferred tax assets arising from timing differences that do not depend on future profitability, these are subject to a 100% weighting for capital requirement purposes. The CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, in 2019, Banco Montepio only recognized prudentially 5% of the impact related to the adoption of IFRS 9, and in financial year 2019, 15%.

As referred in 2018, the effects of Basel III's new regulation related to deferred tax assets that do not depend on future profitability, as well as the effects resulting from the adoption of IFRS 9 are still being gradually introduced. This process is designated Phasing-in. The full assumption of the new regulation, without considering transitory plans, is designated Full Implementation. The phasing-in process is currently underway, and it is on this basis that an entity verifies that it has own funds for an amount not below the own funds’ minimum requirements, thus certifying the adequacy of its capital. This relation is reflected in the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (ratio corresponding to the respective capital level as a percentage of the amount corresponding to 12.5 times the own funds’ requirements).

For these ratios, regulatory minimums are indicated by CRD IV/CRR of 4.5% for CET1, 6% for Tier 1 and 8% for Total Capital. However, on these regulatory minimums are applied reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions), the value of which is defined by the Bank of Portugal. For 2019, the Bank of Portugal defined a 0% Counter-Cyclical Reserve. Regarding the Conservation Reserve, the Bank of Portugal, in its Notice no. 6/2016, defines its application according to the transition plan set out in article 160 of the CRD IV, and, therefore, the value of this reserve after 1 January 2019 is 2.5%. With respect to the Reserve for Other Systemic Institutions, the Bank of Portugal has set a reserve for Banco Montepio, on a consolidated basis, of 0.125% in 2019, 0.1875% in 2020 and 0.25% by 2021.

Under the SREP, the Bank of Portugal defined for Banco Montepio an additional Pillar 2 requirement of 3.25%, to be met on a consolidated basis.

Pursuant to these provisions, as at 31 December 2019, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 8.953%, 11.063% and 13.875%, respectively, including the own fund reserves referred to above. It should be noted that these ratios already incorporate the requirement of +0.25 p.p. communicated by the Bank of Portugal on 13 February 2020. Prior to this additional capital requirement, the minimum regulatory ratios Common Equity Tier 1, Tier 1 and Total were 8.813%, 10.875% and 13.625%, respectively.

The summary of the calculation of the Group's capital requirements as at 31 December 2019 and 2018, under phasing-in, is presented:

(Euro thousand)

	2019	2018
Common Equity Tier 1 Capital		
Realized share capital	2 420 000	2 420 000
Net income/(loss), Reserves and Retained earnings	(985 885)	(924 967)
Non-controlling interests eligible for CET1	4 598	6 597
Other regulatory adjustments	(164 845)	(71 283)
	1 273 868	1 430 347
Tier 1 Capital		
Non-controlling interests eligible for Tier 1	252	382
	1 274 120	1 430 729
Tier 2 Capital		
Subordinated debt	156 323	56 323
	156 323	56 323
Total own funds	1 430 443	1 487 052
Own funds' requirements		
Credit risk	717 673	745 291
Market risk	7 811	8 501
Operational risk	60 896	61 884
Other requirements	37 509	42 812
	823 889	858 488
Prudential ratios		
Common Equity Tier 1 ratio	12.4%	13.3%
Tier 1 ratio	12.4%	13.3%
Total Capital ratio	13.9%	13.9%

It should be noted that the ratios, as at 31 December 2019, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 33.

On 16 March 2020, in the context of the pandemic induced by the Covid 19 outbreak, the Bank of Portugal took a series of measures to make the regulatory and supervisory requirements more flexible, with the result that the minimum total capital ratio decreased to 11.25%. Even though the total capital ratio calculated with reference to 31 December 2019 is above this threshold, the Board of Directors has initiated a series of initiatives aimed at strengthening capital ratios, and which, at the present date, are in progress.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, in 2019, Banco Montepio only recognizes prudentially 15% of the impact related to the IRS 9 adoption. If Banco Montepio did not apply this transition plan to the impacts arising from the adoption of IRFS 9, the Banco Montepio Group's prudential ratios as at 31 December 2019 and 2018 would be:

(Euro thousand)

	2019	2018
Common Equity Tier 1 Capital	1 153 442	1 294 002
Tier 1 Capital	1 153 693	1 294 384
Total own funds	1 310 016	1 350 707
Own funds' requirements	817 021	849 300
Prudential ratios		
Common Equity Tier 1 ratio	11.29%	12.19%
Tier 1 ratio	11.30%	12.19%
Total capital ratio	12.83%	12.72%

56 Recently issued accounting policies

IFRS Disclosures – New standards as at 31 December 2019:

1. Impact of the adoption of new standards, amendments to the standards and interpretations that became effective on 1 January 2019:

a) **IFRS 16** (new), 'Leases'. This new standard replaces IAS 17 – 'Leases', with a significant impact on accounting by lessees that are now required to recognize a lease liability reflecting future lease payments and a "right of use" asset for all lease agreements, except for certain short-term leases and low-value assets. The definition of a lease has also been changed, being based on the "right to control the use of an identified asset".

   These changes had an impact on the Group's financial statements as detailed in note 58.

b) **IFRS 9** (amendment), 'Prepayment features with negative compensation'. This amendment introduces the possibility of classifying financial assets with prepayment features with negative compensation, at amortized cost, provided that specific conditions are fulfilled, rather than being stated at fair value through profit or loss.

   This change had no material impact on the financial statements of the Group.

c) **IAS 19** (amendment), 'Amendments, curtailments or settlements of defined benefit plans'. This amendment to IAS 19 requires an entity to: (i) use updated assumptions to determine current service cost and net interest for the remaining period following the amendment, curtailment or settlement of the plan; and (ii) recognize, in the income statement, as part of the past service cost, or as a gain or loss on settlement any reduction in excess of coverage, even if the excess coverage was not previously recognized due to the impact of the asset ceiling. The impact on the asset ceiling is always recorded in Other Comprehensive Income and cannot be recycled through the income statement.

These changes had no material impact on the financial statements of the Group.

d) **IAS 28** (amendment), 'Long-term investments in associated companies and joint ventures'. This amendment clarifies that long-term investments in associated companies and joint ventures (components of an entity's investment in associated companies and joint ventures), which are not being measured under the equity method, are accounted for under IFRS 9 – 'Financial instruments'. Long-term investments in associated companies and joint ventures are subject to the estimated impairment loss model before being added for impairment testing purposes to the overall investment in an associated company or joint venture, when impairment indicators exist.

These changes had no material impact on the financial statements of the Group.

e) **Improvements to 2015 - 2017 Standards**. This improvement cycle affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.

IAS 23, 'Borrowing costs'. This improvement clarifies that specific loans obtained that still remain outstanding, after the qualifying assets to which they relate are in condition for use or sale, should be added to the general loans to calculate the average capitalization interest rate on the other qualifying assets.

IAS 12, 'Income taxes'. This improvement clarifies that the tax impacts of dividends are recognized on the date that the entity records the liability for the payment of dividends, which are recognized in the income statement for the financial year, in other comprehensive income or in equity, depending on the transaction or event that originated the dividends.

IFRS 3, 'Business combinations' and IFRS 11, 'Joint arrangements'. These improvements clarify that: i) in obtaining control over a business that is a joint operation, the interests previously held by the investor are remeasured at fair value; and ii) when an investor in a joint operation (does not exercise joint control) obtains joint control in a joint operation that is a business, the investor does not remeasure the interest previously held at fair value.

These changes had no material impact on the financial statements of the Group.

f) **IFRIC 23** (new), 'Uncertainty over Income Tax Treatments'. This is an interpretation of IAS 12 – 'Income Tax', referring to the measurement and recognition requirements to be applied when there are uncertainties regarding the acceptance of a particular tax treatment by the Tax Authorities with respect to income tax. In the event of uncertainty as to the position of the Tax Authorities on a particular transaction, the entity shall make its best estimate and record income tax assets or liabilities in light of IAS 12 rather than IAS 37 – 'Provisions, contingent liabilities and contingent assets', based on the expected value or the most probable value. The application of IFRIC 23 may be retrospective or modified retrospective.

These changes had no material impact on the financial statements of the Group.

2. Amendments to published standards, the application of which is mandatory for annual periods beginning on or after 1 January 2020, which the European Union has already endorsed:

a) **IAS 1 and IAS 8** (amendment), 'Definition of material' (effective for annual periods beginning on or after 1 January 2020). This amendment introduces a change to the concept of material and clarifies that the mention of unclear information refers to situations which effect is similar to omitting or distorting such information, and that the entity should evaluate the materiality considering the financial statements as a whole. Clarifications are also made as to the meaning of 'key users of the financial statements', which are defined as 'current and future investors, lenders and creditors' that rely on the consolidated financial statements to obtain a significant portion of the information they need.

The Group does not anticipate any significant impact on the application of these changes to its consolidated financial statements.

b) **Conceptual Framework**, 'Changes in References to Other IFRS' (effective for annual periods beginning on or after 1 January 2020). As a result of the publication of the new Conceptual Framework, the IASB introduced changes to the text of various standards and interpretations, such as: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32 in order to clarify the application of the new definitions of assets/liabilities and cost/income, as well as some of the characteristics of the consolidated financial information. These changes are retrospective, except if impracticable.

The Group does not anticipate any significant impact on the application of these changes to its consolidated financial statements.

3. (New and amended) standards published which application is mandatory for annual periods beginning on or after 1 January 2020, but which the European Union has not yet endorsed:

a) **IFRS 3** (amendment), 'Definition of a business' (effective for annual periods beginning on or after 1 January 2020). This amendment is still subject to endorsement by the European Union. This amendment is a revision of the definition of a business for the purpose of accounting for business combinations. The new definition requires an acquisition to include an input and a substantial process that together generate outputs. Outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits to shareholders. Concentration tests are now allowed to determine whether a transaction involves the acquisition of an asset or a business.

The Group does not anticipate any significant impact on the application of these changes to its financial statements.

b) **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Interest rate benchmark reform' (effective for annual periods beginning on or after 1 January 2020). These changes are still subject to European Union approval. These changes are part of the first phase of the IASB's 'IBOR reform' project and allow exemptions related to the reform for benchmark interest rates. The exemptions refer to hedge accounting, in terms of: i) risk components; ii) 'highly likely' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for adopters of IAS 39); and v) recycling of the cash flow hedge reserve, with the objective being that the reform of the benchmark interest rates does not determine the cessation of hedge accounting. However, any ineffectiveness of the coverage determined must continue to be recognized in the income statement.

The Group does not anticipate any significant impact on the application of this change to its consolidated financial statements.

c) **IFRS 17** (new), 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021). This standard is still subject to endorsement by the European Union. This new standard replaces IFRS 4 and is applicable to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a complete (building block approach) or simplified (premium allocation approach) model. The recognition of the technical margin differs depending on whether it is positive or negative. IFRS 17 is retrospective in application.

The Group does not anticipate any significant impact on the application of these changes to its consolidated financial statements

57 Transfer of assets

The Group carried out several financial asset sale operations, namely loans and advances to customers, to funds specialized in the recovery of loans. These funds take responsibility for the management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of same.

The financial assets sold under these operations are derecognized from the balance sheet of the Group, since the operations result in the transfer to the funds of a substantial portion of the risks and rewards associated with the assets as well as the control of same. The funds specialized in the recovery of credit that acquired financial assets from the Group are closed funds, in respect of which the holders have no possibility of requesting the redemption of their investment units throughout the useful life of same. These investment units are held by several banks in the market that ceded the loans, in percentages that vary throughout the useful life of the funds, but it is ensured that each bank, separately, does not hold units representative of more than 50% of the capital of the funds.

The funds have a specific management structure (General Partner), fully independent from the seller banks, and that is selected on the date of the incorporation of the funds. The management structure of the fund has as main responsibilities to:

- define the objective of the fund; and
- manage the fund on an exclusive basis, determining the objectives and investment policy and the conduct of the management and business of the fund.

The management structure is remunerated through management commissions charged to the funds.

Generally, these funds, in which the Group holds minority positions, incorporate companies under Portuguese law in order to acquire the loans from the banks, which are financed through the issuance of senior and junior bonds. The value of the senior bonds, fully subscribed by the funds that hold the share capital of the companies, matches the fair value of the asset transferred, determined in accordance with a negotiation process based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company holding the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the transfer value of the loans to the Portuguese-law companies. These junior bonds, when subscribed by the Group, grant the right to a contingent positive value if the value of the assets transferred exceeds the nominal value of the senior bonds plus their related interest.

However, considering that these junior bonds reflect a valuation difference of the assets transferred, based on valuations performed by independent entities and a negotiation process between the parties, the junior bonds are fully provided against.

Therefore, following the asset sale operations carried out, the Group subscribed:

- Investment units of the funds, in which the cash flows that will allow their recovery arise mainly from a broad set of assets transferred by the various participant banks (where the Group has a clear minority interest). These securities are booked in the portfolio of financial assets at fair value through other comprehensive income and are accounted for at fair value based on the quotation value, as disclosed by the funds and audited at each year end;
- Junior bonds (with a higher subordination level), issued by the Portuguese-law companies controlled by the funds, which are fully provided against because they reflect the best estimate of the impairment of the financial assets transferred.

In this context, of not holding control but maintaining some exposure to certain risks and rewards, the Group, in accordance with IFRS 9 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the operation, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence over the funds or the companies holding the assets, the Group, under IFRS 9 c (i), derecognized the assets transferred and recognized the assets received in return as follows:

(Euro thousand)

	2019			2018		
	Amounts associated with assets transferred			Amounts associated with assets transferred		
	Net assets transferred	**Amount received**	**Gain/(loss) on the transfer**	**Net assets transferred**	**Amount received**	**Gain/(loss) on the transfer**
Fundo Vega, FCR	27 857	43 124	15 267	27 857	43 124	15 267
Discovery Portugal Real Estate Fund	13 698	15 415	1 717	13 698	15 415	1 717
	13 060	13 485	425	13 060	13 485	425
Fundo de Reestruturação Empresarial, FCR	45 349	45 509	160	45 349	45 509	160
	99 964	117 533	17 569	99 964	117 533	17 569

As at 31 December 2019 and 2018, the assets received under these operations are as follows:

(Euro thousand)

	2019	2018
	Senior securities	
Fundo Vega, FCR	27 824	26 008
Discovery Portugal Real Estate Fund	16 397	15 828
Fundo Aquarius, FCR	13 154	12 969
Fundo de Reestruturação Empresarial, FCR	26 455	40 087
	83 830	94 892

As at 1 January 2018, the investment units in the Vallis Construction Sector Fund were transferred from the portfolio of Financial assets at fair value through other comprehensive income to the portfolio of Financial assets at fair value through profit or loss in the scope of the adoption of IFRS 9. It should be noted that as at 31 December 2018, as well as at 1 January 2018 (reclassification date), the fair value of these investment units was nil. This fund was settled on 27 December 2018.

Although the subordinated securities are fully provided against, the Group also has an indirect exposure to the financial assets transferred, in the scope of the minority investment in the pool of all the assets transferred by other financial institutions, through the shares and investment units in the funds acquired in the scope of the operations (designated in the table as senior bonds).

58 Transition to IFRS 16 – Leases

As described in note 1 i), the Group adopted IFRS 16 – Leases on 1 January 2019 to replace IAS 17 - Leases, which had been effective until 31 December 2018. IFRS 16 was approved by the EU in October 2017, and the Group had not early adopted any of the requirements of IFRS 16 in prior periods.

This standard sets new requirements regarding the scope, classification/recognition and measurement of leases:

- from the lessor's perspective, leases continue to be classified as finance leases or operating leases;

- from the lessee's perspective, the standard defines a single model of lease agreement accounting, which results in the recognition of a right-of-use asset and a lease liability for all lease agreements except for leases with a term under 12 months or for leases that relate to low-value assets in respect of which the lessee may opt for the recognition exemption provided in IFRS 16, in which case the lessee shall recognize the lease payments associated with those agreements as expenses.

The Group has opted not to apply this standard to short-term lease agreements with a duration of less than or equal to one year, and to lease agreements in which the underlying asset has little or a reduced value, considering the amount of Euro 5 thousand for this purpose. The option not to apply this standard to leases of intangible assets was also used.

Transition

On 1 January 2019, the Group carried out a survey of all existing agreements on that date and used the practical expedient provided for in the standard, applying the standard to agreements that were previously identified as leases under IAS 17 - Leases and IFRIC 4.

In accordance with IFRS 16, the Group has applied this standard retrospectively with the impacts of the transition being recognized on 1 January 2019. Accordingly, the comparative information has not been restated.

The Group, using the practical expedient available on the transition to IFRS 16, recognized a present value liability of the future payments, using an incremental interest rate at the initial date of the application of the standard and a "right-of-use" for the underlying asset equal to the amount of the lease liability.

The assumptions considered in applying the standard were as follows:

- lease term: the lease term, considered as the period during which the agreement is enforceable, was assessed on a case-by-case basis. On the assessment of the enforceability, the specific clauses of the agreements as well as current legislation in respect of Urban Leases were taken into consideration;
- discount rate: the lessee's incremental interest rate was used, which incorporates the risk-free interest rate curve (swap curve) for maturities of 5, 7 and 10 years (in line with the term of the agreements), plus an average risk spread practiced by the Group in 5-year senior debt issues, as there were no senior debt issues with longer maturities. Regardless of the type of asset, the discount rate was calculated in the same manner;
- non-application of the standard to agreements with a term of less than 12 months or to leases relating to assets with a reduced unitary value (Euro 5 thousand).

Based on the work carried out, it was found that the main lease agreements covered by this standard are the real estate contracts (branches and central buildings) and the car fleet.

The adoption of the standard implies changes in the financial statements of the Group, namely:

- in the income statement:
  (i) The recording in the caption Interest and similar expense - Leases, included in Net interest income, of interest costs related to lease liabilities, as mentioned in note 3;
  (ii) The recording in the caption Rental costs, included in General administrative expenses, of the amounts of the agreements outside the limits considered for the application of IFRS 16, namely short-term lease agreements and low-value asset lease agreements, as referred to in note 12; and
  (iii) The recording in the caption Right-of-use assets, included in Depreciation and amortization for the financial year, of the depreciation cost of the right-of-use assets, as mentioned in note 13.
- in the balance sheet:
  (i) Recognition in the caption Right-of-use assets, included in Other tangible assets, of right-of-use assets, as mentioned in note 31; and

(ii) Recognition in the caption Lease liabilities, included in Other liabilities, of the amount of lease liabilities recognized, as mentioned in note 41.

- in the statement of cash flows:

  (i) the caption Cash flows from operating activities – Costs with staff and suppliers includes amounts related to short-term and low-value asset lease agreements;

  (ii) and the caption Finance lease agreements includes amounts relating to payments of the capital portion of lease liabilities, as detailed in the consolidated statement of cash flows.

Until 31 December 2018, and in accordance with IAS 17, all operating lease payments made were presented as cash flows from operating activities. With the adoption of IFRS 16, there was a change from the net cash flows generated by operating activities to the net cash flows generated by financing activities, in the amount of Euro 3,545 thousand.

The reconciliation between balance sheet balances as at 31 December 2018 and balance sheet balances as at 1 January 2019, in accordance with IFRS 16, is detailed as follows:

(Euro thousand)

	IAS 17 31-Dec-2018	Impact of IFRS 16	IFRS 16 01-Jan-2019
Assets			
Cash and deposits at central banks	1 610 635	-	1 610 635
Loans and deposits to credit institutions repayable on demand	78 088	-	78 088
Other loans and advances to credit institutions	209 932	-	209 932
Loans and advances to customers	12 095 373	-	12 095 373
Financial assets held for trading	23 739	-	23 739
Financial assets at fair value through profit or loss	492 594	-	492 594
Financial assets at fair value through other comprehensive income	444 073	-	444 073
Hedging derivatives	5 666	-	5 666
Other financial assets at amortized cost	1 255 651	-	1 255 651
Investments in associated companies	4 282	-	4 282
Non-current assets held for sale	737 937	-	737 937
Non-current assets held for sale - Discontinued operations	294 725	-	294 725
Investment properties	253 097	-	253 097
Other tangible assets	229 599	27 626	257 225
Intangible assets	32 326	-	32 326
Current tax assets	11 073	-	11 073
Deferred tax assets	469 023	-	469 023
Other assets	84 430	-	84 430
Total Assets	18 332 243	27 626	18 359 869
Liabilities			
Deposits from central banks	1 395 320	-	1 395 320
Deposits from other credit institutions	1 245 435	-	1 245 435
Deposits from customers	12 575 224	-	12 575 224
Debt securities issued	1 093 934	-	1 093 934
Financial liabilities held for trading	13 496	-	13 496
Non-current financial liabilities held for trading - Discontinued operations	193 995	-	193 995
Provisions	32 023	-	32 023
Current tax liabilities	10 960	-	10 960
Other subordinated debt	50 044	-	50 044
Other liabilities	204 906	27 626	232 532
Total Liabilities	16 815 337	27 626	16 842 963
Shareholders' equity			
Share capital	2 420 000	-	2 420 000
Other equity instruments	6 323	-	6 323
Fair value reserves	(18 710)	-	(18 710)
Other reserves and Retained earnings	(919 841)	-	(919 841)
Consolidated net income for the financial year attributable to the shareholders	13 583	-	13 583
Total Equity attributable to the shareholders	1 501 355	-	1 501 355
Non-controlling interests	15 551	-	15 551
Total Shareholders' Equity	1 516 906	-	1 516 906
Total Liabilities and Shareholders' Equity	18 332 243	27 626	18 359 869

59 Transition from IFRS 9 – Financial instruments

As indicated in the accounting policy described in note 1 a), Banco Montepio adopted for the first time IFRS 9 "Financial Instruments" on 1 January 2018. This situation determined changes in the classification and valuation of certain financial assets and liabilities, with the following impacts:

(Euro thousand)

01/jan/18	IAS 39 Measurement basis	IAS 39 Book value	Reclassification	Observations	Remeasurement	Observations	IFRS 9 Book value	IFRS 9 Measurement basis	
Assets		**20 200 024**	**-**		**(127 468)**		**20 072 556**	**-**	
Cash and deposits at central banks	Amortized cost	1 733 628	-		-		1 733 628	Amortized cost	Cash and deposits at central banks
Loans and deposits to credit institutions	Amortized cost	50 205	-		-		50 205	Amortized cost	Loans and deposits to credit institutions
Financial assets held for trading	Fair value through profit or loss	184 076	-		-		184 076	Fair value through profit or loss	Financial assets held for trading
Financial assets available for sale	Fair value through other comprehensive income	2 200 893	(382 056)		-		1 818 837	Fair value through other comprehensive income	Financial assets at fair value through other comprehensive income
			414 845		(1 454)		413 391	Fair value through profit or loss	Financial assets not held for trading mandatorily through profit or loss
Other loans and advances to credit institutions	Amortized cost	312 203	-		(924)		311 279	Amortized cost	Other loans and advances to credit institutions
Loans and advances to customers	Amortized cost	13 029 318	(32 789)		(144 189)		12 852 340	Amortized cost	Loans and advances to customers
Non-current assets held for sale		742 221	-		-		742 221		Non-current assets held for sale
Non-current assets held for sale - Discontinued operations		474 475	-		(374)		474 101		Non-current assets held for sale - Discontinued operations
Investment properties		538 625	-				538 625		Investment properties
Other tangible assets		233 312	-		-		233 312		Other tangible assets
Intangible assets		31 371	-		-		31 371		Intangible assets
Investments in subsidiaries and associated companies		4 097	-		-		4 097		Investments in subsidiaries and associated com
Current tax assets		7 327	-		-		7 327		Current tax assets
Deferred tax assets		466 000	-		23 971		489 971		Deferred tax assets
Other assets		192 273	-		(4 498)		187 775		Other assets
Liabilities		**18 437 103**	**-**		**1 095**		**18 438 198**		
Deposits from central banks	Amortized cost	1 557 840	-		-		1 557 840	Amortized cost	Deposits from central banks
Financial liabilities held for trading	Fair value through profit or loss	16 171	-		-		16 171	Fair value through profit or loss	Financial liabilities held for trading
Deposits from other credit institutions	Amortized cost	1 786 717	-		-		1 786 717	Amortized cost	Deposits from other credit institutions
Deposits from customers	Amortized cost	12 561 040	-		-		12 561 040	Amortized cost	Deposits from customers
Debt securities issued	Amortized cost	1 544 054	-		-		1 544 054	Amortized cost	Debt securities issued
Hedging derivatives	Fair value through profit or loss	1 663	-		-		1 663	Fair value through profit or loss	Hedging derivatives
Non-current liabilities held for sale - Discontinued operations		330 392					330 392		Non-current liabilities held for sale - Discontinued operations
Provisions		27 096	-		944		28 040		Provisions
Current tax liabilities		5 217	-		-		5 217		Current tax liabilities
Other subordinated debt	Amortized cost	236 193	-		-		236 193		Other subordinated debt
Other liabilities		370 720	-		151		370 871		Other liabilities
Shareholders' Equity		**1 762 921**	**-**		**(128 563)**		**1 634 358**		
Share capital		2 420 000					2 420 000		Share capital
Other equity instruments		6 323					6 323		Other equity instruments
Revaluation reserves		27 924	(9 978)				17 946		Revaluation reserves
Other reserves and Retained earnings		(724 161)	9 978		(128 412)		(842 595)		Other reserves and Retained earnings
Non-controlling interests		32 835			(151)		32 684		Non-controlling interests
Total Liabilities and Shareholders' Equity		**20 200 024**	**-**		**(127 468)**		**20 072 556**		
			-		-				

On 1 January 2018, Banco Montepio proceeded to reclassify its financial assets to the portfolios established in IFRS 9:

A. Reclassification in the amount of Euro 382,056 thousand of investment fund investment units classified, in accordance with IAS 39, in the portfolio of financial assets available for sale, to the portfolio of financial assets not held for trading mandatorily measured at fair value through profit or loss. This reclassification resulted from the evaluation made by Banco Montepio of the characteristics of these financial instruments, in accordance with the requirements and classification criteria of IFRS 9.

B. Reclassification of loans and advances to customers, in the amount of Euro 32,789 thousand, which contractual cash flows do not correspond only to the receipt of capital and interest on capital outstanding (SPPI), and which, according to the requirements of IFRS 9, should be classified in the caption Financial assets not held for trading mandatorily measured at fair value through profit or loss. The remeasurement of the caption Financial assets not held for trading mandatorily measured at fair value through profit or loss in the amount of Euro 1,454 thousand, results from the revaluation of these loans and advance at fair value.

C. Impact resulting from the application of the "expected credit losses" (ECL) model to the portfolio of Loans and advances to credit institutions, in accordance with IFRS 9.

D. The remeasurements of Loans and advances to customers and Provisions, in the amounts of Euro 144,189 thousand and Euro 944 thousand, respectively, result from the replacement of the “incurred loss” model of IAS 39 with a forward looking model of “expected credit losses”(ECL), in accordance with IFRS 9.

E. Reinforcement of impairment resulting from the application of the “expected credit losses” (ECL) model to debtors' balances classified under the caption Other assets, in accordance with IFRS 9.

F. The breakdown of the reclassifications made between the fair value reserve and the caption Retained earnings is presented as follows:

(Euro thousand)

Reclassification of fair value reserve of investment units, net of tax	(13 563)
Reinforcement of impairment for debt instruments - ECL	3 298
Recognition in other comprehensive income of own credit risk	287
	(9 978)

G. Impact on deferred tax assets, in the amount of Euro 23,971 thousand, resulting from the adoption of IFRS 9 as at 1 January 2018.

H. Total effect of the adoption of IFRS 9 on equity.

The reconciliation of impairment in accordance with IAS 39 and 37 as at the reference date of 31 December 2017 with the impairment as at the reference date of 1 January 2018:

(Euro thousand)

	Impairment IAS 39 and 37 31 December 2017	Amendment introduced by application of IFRS 9	Impairment IFRS 9 1 January 2018
Financial assets at fair value through other comprehensive income			
- Fixed-income securities	36 251	3 298	39 549
- Variable-income securities	42 675	(42 675)	-
Other loans and advances to credit institutions	-	924	924
Loans and advances to customers	1 033 821	144 189	1 178 010
Other assets	35 689	4 498	40 187
Provisions	16 147	944	17 091
	1 164 583	**111 178**	**1 275 761**

The caption Financial assets at fair value through other comprehensive income – Variable-income securities records the amount relating to the utilization of impairment constituted for investment fund investment units classified in accordance with IAS 39 in the portfolio of financial assets available for sale and reclassified according to the classification criteria of IFRS 9 to the portfolio of Financial assets not held for trading mandatorily measured at fair value through profit or loss. The remaining captions record the effect of the remeasurement carried out in accordance with the criteria of IFRS 9.

During 2019, following the adoption of IFRS 9 in the previous year, the Group revisited the models and procedures associated with the assessment of the impairment of the loan portfolio. In this context, the procedures developed for model validation, allowed it to identify a number of significant aspects that determined the need to review the models and methodologies implemented to assess impairment, including, in particular, the components of significant increase in credit risk, exposure at default (EAD) and loss given default (LGD).

The results obtained from this review determined the need for the Group to restate the (consolidated) financial statements with reference to 1 January 2018 and 31 December 2018 to correct errors from previous periods, as defined in paragraph 5 of IAS 8, namely related to the accuracy of mathematical approaches and the adequacy in the application of the accounting policies arising from IFRS 9. The (consolidated) statement of changes in equity and the (consolidated) balance sheet as at 1 January 2018 and the (consolidated) statements of income, comprehensive income and changes in equity for the financial year ended 31 December 2018, presented for comparative purposes, have been restated in accordance with IFRS.

As part of this review, impacts with accounting relevance in equity were ascertained on 1 January 2018 and also in the income statement for financial years 2018 and 2019.

This situation led to changes in the transition adjustment with the following impacts:

(Euro thousand)

	IAS 39						IFRS 9		
01/jan/18	**Measurement basis**	**Book value**	**Reclas-sification**	**Observa-tions**	**Remea-surement**	**Observa-tions**	**Book value**	**Measurement basis**	
Assets		**20 200 024**	**-**		**(147 084)**		**20 052 940**	**-**	
Cash and deposits at central banks	Amortized cost	1 733 628	-		-		1 733 628	Amortized cost	Cash and deposits at central banks
Loans and deposits to credit institutions	Amortized cost	50 205	-		-		50 205	Amortized cost	Loans and deposits to credit institutions
Financial assets held for trading	Fair value through profit or loss	184 076	-		-		184 076	Fair value through profit or loss	Financial assets held for trading
Financial assets available for sale	Fair value through other comprehensive income	2 200 893	(382 056)		-		1 818 837	Fair value through other comprehensive income	Financial assets at fair value through other comprehensive income
			414 845		(1 454)		413 391	Fair value through profit or loss	Financial assets not held for trading mandatorily through profit or loss
Other loans and advances to credit institutions	Amortized cost	312 203	-		(924)		311 279	Amortized cost	Other loans and advances to credit institutions
Loans and advances to customers	Amortized cost	13 029 318	(32 789)		(172 889)		12 823 640	Amortized cost	Loans and advances to customers
Non-current assets held for sale		742 221	-		-		742 221		Non-current assets held for sale
Non-current assets held for sale - Discontinued operations		474 475	-		(374)		474 101		Non-current assets held for sale - Discontinued operations
Investment properties		538 625	-				538 625		Investment properties
Other tangible assets		233 312	-		-		233 312		Other tangible assets
Intangible assets		31 371	-		-		31 371		Intangible assets
Investments in subsidiaries and associated companies		4 097	-		-		4 097		Investments in subsidiaries and associated com
Current tax assets		7 327	-		-		7 327		Current tax assets
Deferred tax assets		466 000	-		33 055		499 055		Deferred tax assets
Other assets		192 273	-		(4 498)		187 775		Other assets
Liabilities		**18 437 103**	**-**		**2 576**		**18 439 679**		
Deposits from central banks	Amortized cost	1 557 840	-		-		1 557 840	Amortized cost	Deposits from central banks
Financial liabilities held for trading	Fair value through profit or loss	16 171	-		-		16 171	Fair value through profit or loss	Financial liabilities held for trading
Deposits from other credit institutions	Amortized cost	1 786 717	-		-		1 786 717	Amortized cost	Deposits from other credit institutions
Deposits from customers	Amortized cost	12 561 040	-		-		12 561 040	Amortized cost	Deposits from customers
Debt securities issued	Amortized cost	1 544 054	-		-		1 544 054	Amortized cost	Debt securities issued
Hedging derivatives	Fair value through profit or loss	1 663	-		-		1 663	Fair value through profit or loss	Hedging derivatives
Non-current liabilities held for sale - Discontinued operations		330 392					330 392		Non-current liabilities held for sale - Discontinued operations
Provisions		27 096	-		2 425		29 521		Provisions
Current tax liabilities		5 217	-		-		5 217		Current tax liabilities
Other subordinated debt	Amortized cost	236 193	-		-		236 193		Other subordinated debt
Other liabilities		370 720	-		151		370 871		Other liabilities
Shareholders' Equity		**1 762 921**	**-**		**(149 660)**		**1 613 261**		
Share capital		2 420 000					2 420 000		Share capital
Other equity instruments		6 323					6 323		Other equity instruments
Revaluation reserves		27 924	(9 978)				17 946		Revaluation reserves
Other reserves and Retained earnings		(724 161)	9 978		(149 510)		(863 693)		Other reserves and Retained earnings
Non-controlling interests		32 835			(150)		32 685		Non-controlling interests
Total Liabilities and Shareholders' Equity		**20 200 024**	**-**		**(147 084)**		**20 052 940**		

60 Contingencies

Resolution Fund

The Resolution Fund is a legal person governed by public law with administrative and financial autonomy, created by Decree-Law no. 31-A / 2012, of 10 February, which is governed by the Legal Framework of Credit Institutions and Financial Companies ("RGICSF ") and by its regulations and its mission is to provide financial support for the resolution measures implemented by the Bank of Portugal, in its quality as national resolution authority, and to perform all other functions conferred by law in the implementation of such measures.

As with the majority of the financial institutions operating in Portugal, the Group is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by the Bank of Portugal based, among others, on the amount of its liabilities. In financial year 2019, the periodic contribution made by the Group amounted to Euro 4,296 thousand, based on a contribution rate of 0.0459%.

Resolution measure applied to Banco Espírito Santo, S.A. (BES)

As part of its responsibility while supervisory and resolution authority of the Portuguese financial sector, the Bank of Portugal, on 3 August 2014, decided to apply to Banco Espírito Santo, S.A. ("BES") a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its activity to a transition bank called Novo Banco, S.A. ("Novo Banco"), created especially for this purpose.

To realize the share capital of Novo Banco, the Resolution Fund, while sole shareholder, provided Euro 4,900 million, of which Euro 365 million corresponding to its own financial resources. A loan was granted by a bank syndicate to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution weighted according to several factors, including their size. The remaining amount (Euro 3,900 million) came from a repayable loan granted by the Portuguese State.

Following the implementation of the referred resolution measure, on 7 July 2016, the Resolution Fund stated that it would review and evaluate the steps to be taken following the publication of the report on the results of the independent valuation exercise, carried out to estimate the level of credit recovery for each class of lenders in the hypothetical scenario of a normal insolvency process of BES as at 3 August 2014. Under the applicable law, if it turns out that lenders which credits have not been transferred to Novo Banco assume a greater loss than they would hypothetically have had BES entered into a liquidation process immediately prior to the application of the resolution, these lenders are entitled to receive the difference from the Resolution Fund.

On 31 March 2017, the Bank of Portugal announced that it had selected Lone Star Fund for the purchase of Novo Banco, which was concluded on 17 October 2017, through the injection by the new shareholder of Euro 750 million, which will be followed by a new capital injection of Euro 250 million, to be completed within the period of three years. With this operation, Novo Banco's status as transition bank ceased, with Lone Star Fund now holding 75% of the share capital of Novo Banco and the Resolution Fund the remaining 25%, albeit without the corresponding voting rights.

On 26 February 2018, the European Commission released the non-confidential version of the State aid approval decision underlying the sale process of Novo Banco, which includes a contingent capitalization mechanism whereby the Resolution Fund may be called upon to carry out capital injections if certain conditions materialize related to the performance of a restricted set of assets of Novo Banco and the evolution of the bank's capital levels.

This mechanism is triggered annually, based on the annual accounts of Novo Banco certified by the respective auditor, with the possibility of intra-annual assessments being foreseen, but only in the event of non-compliance, by Novo Banco, with the prudential requirements. For the purpose of this mechanism, the differences in the valuation of assets (positive or negative) are considered in relation to their book value, net of impairments, recorded as at 30 June 2016 (circa Euro 7.9 thousand million according to the information provided by Novo Banco). Hence, economic losses or gains resulting from, for example, the sale of assets or the restructuring of loans, but also the impairment, or its reversal, recorded by Novo Banco, in accordance with the accounting standards, as well as the costs of financing associated with the maintenance of the assets in the balance sheet of Novo Banco, are considered.

Under the referred mechanism, on 24 May 2018, the Resolution Fund paid Euro 791,695 thousand to Novo Banco with reference to the 2017 accounts, using its own financial resources resulting from contributions paid, directly or indirectly, by the banking sector, complemented by a State loan amounting to Euro 430 million under the framework agreement celebrated between the Portuguese State and the Resolution Fund. According to the information provided by Novo Banco, as at 31 December 2017, the net value of the assets covered by the perimeter of the contingent capitalization mechanism amounted to approximately Euro 5.4 thousand million.

With the presentation of the results for the 2019 financial year, Novo Banco will request compensation in the amount of Euro 1,037 million, under the Contingent Capital Agreement in view of the losses incurred in the protected assets and the regulatory requirements regarding capital ratios.

According to the results for financial period 2018, released by Novo Banco, the amount claimed in 2019 from the Resolution Fund, under this mechanism, will amount to Euro 1,149 million.

This mechanism is valid until 31 December 2025 (and may be extended until 31 December 2026) and is limited to an absolute maximum of Euro 3,890 million

Resolution measure applied to Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of the Bank of Portugal deliberated, on 19 December 2015, to declare that Banif – Banco Internacional do Funchal, S.A. ("Banif") was "at risk or in a situation of insolvency" and to start the urgent resolution of the institution through the mode of the partial or total disposal of its activity, and which materialized, on 20 December 2015, with the disposal of the rights and obligations, representing assets, liabilities, off-balance sheet items and assets under management of Banif to Banco Santander Totta S.A. ("Santander Totta") for Euro 150 million.

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. ("Oitante"), created specifically for this purpose, which has as sole shareholder the Resolution Fund. Oitante issued debt securities in the amount of Euro 746 million, with a guarantee being provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation involved public support estimated at Euro 2,255 million that aimed to cover future contingencies and that was financed in Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

On 21 July 2016, the Resolution Fund made a payment to the State, amounting to Euro 163,120 thousand, as an early partial repayment of the resolution measure applied to Banif, bringing the outstanding amount down from Euro 489 million to Euro 353 million.

As of this date, the conclusions of the independent assessment exercise to estimate the level of credit recovery for each class of lender in the hypothetical scenario of the normal insolvency process of Banif as at 20 December 2015 are not yet known. As noted above for BES, if lenders are found to assume a greater loss than they hypothetically would have had Banif entered into a liquidation process immediately prior to the application of the resolution measure, those creditors are entitled to receive the difference from the Resolution Fund.

Liabilities and funding of the Resolution Fund

Following the resolution measures applied to BES and Banif and the sale agreement of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities resulting from:

- the effects of the application of the principle that no creditor of an institution under resolution may assume a greater loss than it would have assumed had that institution entered into liquidation;
- the negative effects arising from the resolution process resulting in additional liabilities or contingencies for Novo Banco, which must be neutralized by the Resolution Fund;
- legal proceedings against the Resolution Fund;
- the guarantee provided to the bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- the contingent capitalization mechanism associated with the sale process of Novo Banco to Lone Star.

In order to preserve the financial stability through the promotion of conditions that provide predictability and stability to the contributory effort to the Resolution Fund, the Portuguese Government has agreed with the European Commission to change the conditions of the financing provided by the Portuguese State and the participating banks to the Resolution Fund. To this end, an amendment to the Resolution Fund’s financing agreements have been formalized, introducing a number of changes to the repayment plans, remuneration rates, and other terms and conditions associated with these loans, to adjust them to the Resolution Fund’s ability to fully meet its obligations on the basis of its regular revenues, i.e. without the need for any charges to be made to the participating banks for special contributions or any other type of extraordinary contribution.

According to the Resolution Fund’s announcement of 31 March 2017, the revision of the conditions of the financing granted by the Portuguese State and the participating banks was aimed at ensuring the sustainability and financial equilibrium of the Resolution Fund, based on a stable, predictable and affordable burden for the banking sector. Based on this revision, the Resolution Fund considered that the full payment of its liabilities as well as their respective remuneration was ensured, without the need for special contributions or any other extraordinary contributions from the banking sector.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the Portuguese State and by a bank syndicate, in which the Bank is included, and the public announcements made by the Resolution Fund and the Office of the Minister of Finance, these consolidated financial statements reflect the expectation of the Board of Directors that the Bank will not be called upon to make special contributions or any other extraordinary contributions to finance the Resolution Fund.

Any significant changes in this regard could have material implications for the Bank's consolidated financial statements.

Competition Authority

Last 9 September 2019, Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio) was notified of the final decision of the Competition Authority on the administrative process PRC-2012/9 (“Decision”), in which it concluded that more than ten banking institutions operating in Portugal, among them Banco Montepio, participated in a concerted practice of restrictive competition, of the exchange of sensitive commercial information, in breach of article 9 of Law no. 19/2012, of 8 May and article 101 of the Treaty on the Functioning of the European Union, having applied on Banco Montepio a fine of Euro 13 million.

The decision is subject to appeal to the Court of Competition, Regulation and Supervision by all parties concerned, including Banco Montepio. The lodging of an appeal determines the suspension of the obligation to pay the fine until the decision has become final. In like manner to many other institutions targeted that have publicly announced this intention, Banco Montepio challenged this Decision on 21 October 2019. In the light of all the relevant circumstances, it is considered that there is a serious and significant likelihood that the administrative fine will not become effective in light of the legal remedies that come to be lodged against the Decision.

We are not aware, to date, of any claim for damages related to the Decision or to the related facts. In the light of all the relevant circumstances, it is considered that the chances of success of any legal actions brought against Banco Montepio based on the Decision would be reduced.

Bank of Portugal

As at 31 December 2019, the Bank has been the subject of several administrative offense processes instituted by the Bank of Portugal, for alleged practices and infractions in regulatory matters that are applicable to the Bank, in a maximum global amount of possible fines that amounts to approximately Euro 30 million.

The evolution of these processes is regularly monitored by the Bank's Board of Directors, with technical-legal intervention under the responsibility of its Legal Department and, in certain cases, by law firms.

For some of these processes, the Bank of Portugal issued decisions in the scope of summary proceedings, whereby it proposed a single fine of substantially less than the amount of the potential maximum fine. Other processes are still in a preliminary phase, with the evidence requested by the defendants still not having been produced, which significantly limits the risk analysis; even so, it is considered that the Bank has serious and reasonable lines of defence, whether in terms of factual support, or in terms of the legal framework, with regard to most of the infractions attributed to it.

Thus, the Board of Directors admits as possible that the Bank's lines of defence may be successful, in whole or in part, in relation to many of the infractions that are attributed to it, even though the respective risk of conviction still exists, in relation to some of the imputed infractions, not exceeding, however, the amount of provisions recognized by the Bank as at 31 December 2019.

61 Subsidiary and associated companies

As at 31 December 2019, the companies consolidated under the full consolidation method in the Group are as follows:

Company name	Registered office	Share capital	Currency	Activity	Group	
					% control	% effective shareholding
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verdean Escudo	Banking	100.00%	100.00%
Finibanco Angola, S.A.	Luanda	7 516 296 830	Kwanza	Banking	51.00%	80.22%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Oporto	30 000 000	Euro	Specialized credit	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Lisbon	175 000 000	Euro	Shareholding management	100.00%	100.00%
Montepio Investimento, S.A.	Lisbon	180 000 000	Euro	Banking	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Lisbon	1 550 000	Euro	Investment fund management	100.00%	100.00%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisbon	100 000	Euro	Real Estate management	100.00%	100.00%

As at 31 December 2018, the companies consolidated under the full consolidation method in the Group are as follows:

Company name	Registered office	Share capital	Currency	Activity	Group	
					% control	% effective shareholding
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verdean Escudo	Banking	100.00%	100.00%
Finibanco Angola, S.A.	Luanda	7 516 296 830	Kwanza	Banking	51.00%	80.22%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Oporto	30 000 000	Euro	Specialized credit	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Lisbon	175 000 000	Euro	Shareholding management	100.00%	100.00%
Montepio Investimento, S.A.	Lisbon	180 000 000	Euro	Banking	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Lisbon	1 550 000	Euro	Investment fund management	100.00%	100.00%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisbon	100 000	Euro	Real Estate management	100.00%	100.00%
Casa da Sorte - Organização Nogueira da Silva, S.A	Lisbon	5 000 000	Euro	Lotteries and gaming	89.628%	89.628%
Herdeiros de Manuel Martins Travassos, Lda.	Lisbon	160 000	Euro	Lotteries and gaming	100.00%	100.00%
Pataca da Sorte - Bingos e Animação Unipessoal, Lda.	Lisbon	5 000	Euro	Lotteries and gaming	100.00%	100.00%
Augusto da Silva Carvalho, Lda.	Lisbon	24 940	Euro	Lotteries and gaming	99.50%	99.50%
Binganimus - Bingos e Animação, S.A.	Lisbon	50 000	Euro	Lotteries and gaming	100.00%	100.00%
Carlos Augusto Lança & Filhos, Lda.	Lisbon	23 954	Euro	Lotteries and gaming	100.00%	100.00%
Torre da Sorte, Lda.	Lisbon	5 000	Euro	Lotteries and gaming	100.00%	100.00%

As at 31 December 2019 and 2018, the Group´s associated companies accounted for under the equity method, are as follows:

(Euro)

Company name	Registered office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	São Miguel Island	10 000 000	Accomodation, restaurants and similar/hotels with restaurants	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisbon	2 449 707	Real Estate management	28.50%
CESource, ACE	Lisbon	-	IT management	18.00%

Finibanco Angola

In 2015, a contract was signed for the sale of 1,727,782 shares of Finibanco Angola S.A., representing 30.57% of the share capital, for USD 26,346,178.

The sale operation of 30.57% of Finibanco Angola was realized without any related payment being received. The ownership rights of the shares remained with the Group, including the right to vote and to receive dividends. Therefore, considering that there was no substantive transfer of the associated risks and rewards, the Group did not derecognize the shares object of the transaction, that is, it will not recognized the disposal of the financial shareholding until the respective settlement is made.

In 2017, the financial settlement corresponding to 11,476 shares, representing 0.20% of the share capital, was made in the amount of USD 174,984, with the Group coming to hold 80.37% of the subsidiary Finibanco Angola, S.A.

In May 2018, a financial settlement corresponding to 65,040 shares, representing 1.15% of the share capital, was made in the amount of USD 991,764, with the Group coming to hold 80.22% of the subsidiary Finibanco Angola, S.A.

Upon full settlement of the transaction, the Group continued to control Finibanco Angola, S.A.

As at 31 December 2019 and 2018, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsidiary	Year incorporated	Year acquired	Registered office	% shareholding	Consolidation method
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisbon	100%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional II (FIIAH)	2013	2013	Lisbon	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisbon	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisbon	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisbon	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisbon	100%	Full
Pelican Mortgages no. 3	2007	2007	Lisbon	100%	Full
Pelican Mortgages no. 4	2008	2008	Lisbon	100%	Full
Aqua Mortgages no. 1	2008	2008	Lisbon	100%	Full
Pelican Mortgages no. 5	2009	2009	Lisbon	100%	Full
Pelican Mortgages no. 6	2012	2012	Lisbon	100%	Full
Pelican Finance no. 1	2014	2014	Lisbon	100%	Full
Aqua Finance no. 4	2017	2017	Lisbon	100%	Full

On 31 March 2018, the Group deconsolidated Valor Prime – Fundo de Investimento Imobiliário Aberto.

In December 2018, in the scope of the strategic redefinition of its international financial shareholdings, the Group disposed of its entire shareholding in Banco Terra, S.A.

62 Non-current assets and liabilities held for sale – Discontinued operations

Banco Montepio is in a negotiation process with a group of investors with the purpose of refocusing the approach to the African market with a view to the deconsolidation of the current financial shareholding held in Finibanco Angola, S.A.

The disposal of the investment in Banco Terra, S.A. was finalized in December 2018 and the Group ceased to have any shareholding within the scope of the strategic redefinition of its international holdings.

Considering the deliberations already taken by the Board of Directors, as well as the provisions of IFRS 5, the activities developed by these subsidiaries were considered as discontinued operations with reference to financial period 2016.

At the level of the income statement, the results of these subsidiaries were recognized in Profits/(Losses) from discontinued operations and, at the balance sheet level, in the captions Non-current assets held for sale - Discontinued operations and Non-current liabilities held for sale - Discontinued operations.

In addition, it should be noted that as mentioned in the accounting policies, as at 31 December 2018, the Group applied IAS 29 to Finibanco Angola on the grounds that the relevant conditions to consider the Angolan economy as a hyperinflationary economy were met.

Thus, before the functional currency was translated into the reporting currency in the financial statements of Finibanco Angola, SA, the amounts relating to assets, liabilities, equity, income and expenses were monetarily restated based on the general price index which reflects the changes in the purchasing power of the currency of the country in which the operations are generated, as follows:

(i) monetary items are not restated because they are already stated in the current monetary unit at the reporting date;

(ii) assets and liabilities linked by agreement to price changes are adjusted under the terms of the agreement in order to determine the amount outstanding at the date of the statement of financial position;

(iii) all other assets and liabilities are non-monetary and are restated (except for certain items that are recorded at current amounts at the reporting date, such as the net realizable value and the market value);

(iv) all other items of the income statement are restated by applying the change in the general price index as from the dates on which income and expense items were initially recorded in the financial statements.

The price index used was the National Consumer Price Index ("IPCN") disclosed by the National Statistics Institute ("INE") of Angola, in its Rapid Information Sheet for December 2018. The table below presents the index and the cumulative percentage variation:

	2015	2016	2017	2018
IPCN (Base 31 December 2014 = 100)	114.27	162.20	204.79	241.08
Annual change	14%	48%	42%	18%

In this context, pro forma accounts of the subsidiary Finibanco Angola, SA were prepared, considering the effects of the application of IAS 29, that is, non-monetary assets and liabilities, including goodwill, and equity captions are restated by applying the price index as from the date of acquisition or date of the last revaluation. If the restated asset amounts exceed their recoverable amount, these are reduced to their recoverable amount.

The effects of applying IAS 29 calculated with reference to 1 January 2016 were recorded under equity captions, without impacting the income statement. The effects of applying IAS 29 in financial period 2018 were recorded in the income statement.

The Group's consolidated accounts also considered the following aspects:

- The restatement of the non-monetary assets and liabilities and equity captions of Finibanco Angola, S.A., in accordance with the requirements of IAS 29;

- After considering the effects of applying IAS 29 described above, the book value of the investment in Finibanco Angola, SA was compared with its recoverable amount as at 1 January 2017 and 31 December 2017, in order to assess the need for the recognition of impairment for the investment in this associated company.

In financial year 2019, the impacts of the application of IAS 29 to the financial shareholding held by the Group in Finibanco Angola, S.A. corresponded to a decrease in net income of Euro 519 thousand (2018: Euro 3,975 thousand);

The Balance Sheet of Finibanco Angola, S.A., as at 31 December 2019, is presented as follows:

(Euro thousand)

	2019		
	Finibanco Angola	**Intercompany balances**	**Total**
Cash and deposits at central banks and credit institutions	79 528	(41 073)	38 455
Other loans and advances to credit institutions	5 706	-	5 706
Loans and advances to customers	42 126	-	42 126
Portfolio of securities and derivatives	88 247	-	88 247
Intangible assets	947	-	947
Other assets	41 161	(104)	41 057
Total assets	**257 715**	**(41 177)**	**216 538**
Deposits from other credit institutions	630	-	630
Deposits from customers	160 778	(43 029)	117 749
Other subordinated debt	21 812	(21 776)	36
Provisions	6 914	-	6 914
Other liabilities	9 193	(93)	9 100
Total liabilities	**199 327**	**(64 898)**	**134 429**

The Balance Sheet of Finibanco Angola, S.A. and Grupo Casa da Sorte, as at 31 December 2018, is presented as follows:

(Euro thousand)

	2018			
	Finibanco Angola	**Casa da Sorte Group**	**Adjustments**	**Total**
Cash and deposits at central banks and credit institutions	72 795	313	(24 876)	48 232
Other loans and advances to credit institutions	2 335	-	(2 344)	(9)
Loans and advances to customers	62 812	192	(192)	62 812
Portfolio of securities and derivatives	113 211	1	-	113 212
Intangible assets	1 354	(14 735)	21 594	8 213
Other assets	56 938	5 270	57	62 265
Total assets	**309 445**	**(8 959)**	**(5 761)**	**294 725**
Deposits from other credit institutions	1 112	5 140	-	6 252
Deposits from customers	192 854	(989)	(23 512)	168 353
Other subordinated debt	26 697	-	(26 672)	25
Provisions	2 412	(690)	841	2 563
Other liabilities	7 755	9 174	(127)	16 802
Total liabilities	**230 830**	**12 635**	**(49 470)**	**193 995**

The main income statement captions related to these discontinued operations are analysed as follows:

(Euro thousand)

	2019	2018		
	Finibanco Angola	Finibanco Angola	Banco Terra	Total
Net interest income	15 606	24 516	4 614	29 130
Net fee and commission income	4 044	10 944	471	11 415
Net gains/(losses) from financial operations	14 570	16 444	124	16 568
Other operating income/(losses)	(2,061)	21 776	(4,194)	17 582
Total operating income	**32 159**	**73 680**	**1 015**	**74 695**
Staff costs	6 748	8 209	3 009	11 218
General and administrative expenses	4 659	6 151	2 227	8 378
Depreciation and amortization	2 490	1 121	527	1 648
Total operating costs	**13 897**	**15 481**	**5 763**	**21 244**
Impairment of credit and other assets and other provisions	2 302	10 528	(330)	10 198
Operating profit/(loss) before tax	**15 960**	**47 671**	**(4,418)**	**43 253**
Profit/(loss) before tax	**15 960**	**47 671**	**(4,418)**	**43 253**
Taxes	3 335	7 097	-	7 097
Net income for the financial year	**12 625**	**40 574**	**(4,418)**	**36 156**

Finibanco Angola, S.A.

The valuation of Finibanco Angola was made considering the foreseeable sale amount of Finibanco Angola, in accordance with the acquisition proposal submitted by a third party.

On this basis, the valuation of the 80.22% interest held by Montepio Holding in Finibanco Angola stood at USD 59,270 thousand, approximately Euro 53,325 thousand.

As at 31 December 2019, the amount registered in the balance sheet, related to consolidation and revaluation (goodwill) differences, corresponds to the difference between the acquisition cost and the total fair value of the assets and liabilities and contingent liabilities of Finibanco Angola, S.A. acquired on 31 March 2011 from MGAM, as described in note 1 a), in the amount of Euro 53,024 thousand. It should be noted that this amount is fully provided against.

Casa da Sorte - Organização Nogueira da Silva, S.A.

In the scope of a credit recovery process, during financial period 2018, Banco Montepio acquired control over Casa da Sorte - Organização Nogueira da Silva, S.A. and its associated companies: (i) Herdeiros de Manuel Martins Travassos, Lda.; (ii) Pataca da Sorte – Bingos e Animação Unipessoal, Lda.; (iii) Augusto da Silva Carvalho, Lda.; (iv) Binganimus – Bingos e Animação, S.A.; (v) Carlos Augusto Lança & Filhos, Lda., (vi) Torre da Sorte, Lda. On 24 April 2019, Banco Montepio sold the entire shareholding in the subsidiary Casa da Sorte - Organização Nogueira da Silva, S.A.

63 Relevant facts

New Chairman of the Executive Committee

Mr. Pedro Manuel Moreira Leitão was authorized by the Bank of Portugal as executive member of the Board of Directors, on 21 December 2019, having taken office on 9 January 2020 and was designated Chairman of the Executive Committee by resolution of the Board of Directors of Banco Montepio on 9 January 2020.

New non-executive director

In accordance with the resolution taken by the Universal Shareholders' Meeting realized on 5 December 2019 and following the authorization granted by the Bank of Portugal, Mr. José da Cunha Nunes Pereira took office as non-executive Director of the Board of Directors of Banco Montepio, with effect from 1 April 2020.

Resignation from the office of director

Mr. Luís Eduardo Henriques Guimarães tendered his resignation from the office of non-executive member of the Board of Directors of Banco Montepio, as well as from the office of Chairman of the Audit Committee, with effect from 30 September 2019.

Resignation from the office of executive member

Mr. Carlos Miguel López Leiria Pinto tendered his resignation from the office of executive member of the Board of Directors of Banco Montepio, with effect from 31 March 2020.

Atlas II

Banco Montepio celebrated, on 12 July 2019, and following a competitive sale process, a public deed of sale of a non-performing loan portfolio, in the form of a direct sale, to the company Panorama Jubilante S.A, a company validly incorporated and managed under Portuguese law, with registered office in Portugal.

The gross amount of the disposal was Euro 321 million, in respect of a portfolio comprised of approximately 13 thousand contracts.

The completion of this operation materializes the Group's strategy of reducing the exposure to non-productive assets.

Brick

Banco Montepio and the Group's real estate funds disposed of real estate assets, on 11 July 2019, to the company Façanha Cristalina, S.A. in the gross total value of Euro 104 million.

64 Subsequent events

The Bank analyses events occurring after the balance sheet date, i.e. the favourable and unfavourable events that occur between the balance sheet date and the date on which the financial statements are authorized for issue. Consequently, two types of events can be identified:

- Those that provide proof of conditions that existed at the balance sheet date (adjusting events);

- Those that are indicative of conditions that arose after the balance sheet date (non-adjusting events occurring after the balance sheet date).

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

As is well known, the extent of the dissemination of the virus called COVID-19 led the World Health Organization to declare it a pandemic. In recent weeks there have been significant developments in several countries, including Portugal and Angola, with the prospect that the pandemic will determine adverse impacts, both direct and indirect, in various sectors of the economic activity.

In this context, bearing in mind not only the activity carried out by the Bank but also the information available at the present date, the Board of Directors does not estimate material effects on the financial statements for financial year 2019 as a result of the pandemic. However, given the uncertainty of these possible effects, it is not possible to estimate and quantify at this date, the future impacts of COVID-19 on the Portuguese and Angolan economies, and particularly on the banking business, so the Board of Directors will continue to assess this situation carefully over the next financial year.

FINANCIAL STATEMENTS AND NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

FINANCIAL STATEMENTS AND NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

Banco Montepio

Individual Income Statement
for financial years ended 31 December 2019 and 2018

(Euro thousand)

	Notes	2019	2018 restated
Interest and similar income	3	306 098	356 321
Interest and similar expense	3	104 188	159 711
Net interest income		201 910	196 610
Dividends from equity instruments	4	7 631	8 437
Net fee and commission income	5	122 742	123 600
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	6	42 732	52 841
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	7	42 210	5 531
Net gains/(losses) arising from exchange differences	8	1 884	(3 895)
Net gains/(losses) arising from sale of other financial assets	9	23 522	9 121
Other operating income/(expense)	10	(13 408)	(24 512)
Total operating income		429 223	367 733
Staff costs	11	147 454	146 908
General and administrative expenses	12	55 274	67 942
Depreciation and amortization	13	31 312	21 911
		234 040	236 761
Impairment of loans and advances	14	138 617	96 142
Impairment of other financial assets	15	9 467	3 954
Impairment of other assets	16	14 261	(17 699)
Other provisions	17	(484)	3 066
Operating income		33 322	45 509
Income Tax			
Current	31	(667)	(32)
Deferred	31	(19 684)	(43 849)
Net income for the financial year		12 971	1 628
Earnings per share (in Euro)			
Basic		0,005	0,001
Diluted		0,005	0,001

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

To be read with the notes attached to the Separate Financial Statements

Statement of Individual Comprehensive Income
for financial year ended 31 December 2019

(Euro thousand)

	Notes	2019	2018
Items that may be reclassified to the Income Statement			
Financial assets at fair value through other comprehensive income and loans and advances to customers			
Debt instruments	44	27 422	(7 726)
Loans and advances to customers	44	(934)	(655)
Own credit risk	44	(13)	(144)
Taxes related to fair value changes	31 and 44	(10 070)	(480)
		16 405	(9 005)
Items that will not be reclassified to the Income Statement			
Fair value reserves			
Financial assets at fair value through other comprehensive income and loans and advances to customers			
Equity instruments	44	3 504	(26 297)
Gains (losses) related to equity instruments	44	24	-
Actuarial gains/(losses) for the financial year	48	(76 861)	(34 992)
Taxes	31	(734)	10 571
		(74 067)	(50 718)
Other comprehensive income/(loss) for the financial year		(57 662)	(59 723)
Net income for the financial year		12 971	1 628
Total comprehensive income/(loss) for the financial year		(44 691)	(58 095)

To be read with the notes attached to the Separate Financial Statements

Banco Montepio

Individual Balance Sheet as at 31 December 2019 and 2018

(Euro thousand)

	Notes	2019	2018 restated	January 1st 2018 restated
Assets				
Cash and deposits at central banks	18	1 003 648	1 610 634	1 733 626
Loans and deposits to credit institutions payable on demand	19	51 993	75 572	59 472
Other loans and advances to credit institutions	20	532 033	336 782	376 837
Loans and advances to customers	21	10 921 170	11 768 798	12 556 142
Financial assets held for trading	22	29 904	15 660	174 893
Financial assets not held for trading mandatorily at fair value through profit or loss	23	654 438	884 449	976 217
Financial assets at fair value through other comprehensive income	24	1 833 441	392 589	1 766 041
Hedging derivatives	25	11 148	5 666	-
Other financial assets at amortized cost	26	2 793 157	3 394 302	3 037 462
Investments in associated companies	27	341 008	346 723	315 903
Non-current assets held for sale	28	-	705 351	714 133
Other tangible assets	29	240 302	217 741	220 002
Intangible assets	30	31 822	31 657	30 092
Current tax assets	31	9 823	6 144	6 589
Deferred tax assets	31	462 295	492 783	521 939
Other assets	32	745 324	68 418	173 107
Total Assets		19 661 506	20 353 269	22 662 455
Liabilities				
Deposits from central banks	33	1 291 033	1 395 320	1 557 840
Deposits from other credit institutions	34	701 674	1 442 548	2 011 197
Deposits from customers	35	12 527 546	12 626 578	12 555 325
Debt securities issued	36	1 263 261	878 331	1 121 538
Financial liabilities related to transferred assets	37	1 939 462	2 162 425	3 232 894
Financial liabilities held for trading	22	11 098	12 274	14 698
Hedging derivatives	25	547	-	1 663
Provisions	38	30 268	31 699	28 632
Current tax liabilities	-	1 056	4 241	1 104
Other subordinated debt	39	157 847	50 044	237 016
Other liabilities	40	224 419	191 502	284 058
		18 148 211	18 794 962	21 045 965
Shareholders' Equity				
Share capital	41	2 420 000	2 420 000	2 420 000
Other equity instruments	42	6 323	6 323	6 323
Fair value reserves	44	145	(19 764)	15 538
Other reserves and Retained earnings	43 and 44	(926 144)	(849 880)	(825 371)
Net income for the financial year		12 971	1 628	-
Total Shareholders' Equity		1 513 295	1 558 307	1 616 490
Total Liabilities and Shareholders' Equity		19 661 506	20 353 269	22 662 455

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

To be read with the notes attached to the Separate Financial Statements

Banco Montepio

Statement of Individual Cash Flows
for financial years ended 31 December 2019 and 2018

(Euro thousand)

	2019	2018
Cash from operating activities		
Interest income received	298 734	293 045
Fee and commission income received	143 275	143 226
Interest expense paid	(99 606)	(183 828)
Fee and commission expense paid	(19 137)	(23 252)
Costs with staff and suppliers	(253 925)	(242 711)
Recovery of loans and interest	6 751	9 905
Other payments and receivables	(69 182)	(31 307)
Income tax payment	(4 168)	1 168
	2 741	(33 754)
(Increases)/Decreases in operating assets		
Loans and advances to credit institutions and customers	514 779	786 187
Deposits held for monetary control purposes	606 919	138 663
(Purchase)/Sale of financial assets held for trading	21 462	166 456
(Purchase)/Sale of financial assets at fair value through other comprehensive income	(1 377 448)	1 398 986
Interest received from financial assets at fair value through other comprehensive income	7 214	82 897
(Purchase)/Sale of hedging derivatives	3 193	3 209
(Purchase)/Sale of other assets at amortized cost	623 245	(1 238 226)
Other assets	43 753	8 696
	443 117	1 346 868
Increases/(decreases) in operating liabilities		
Deposits from customers	(92 869)	89 607
Deposits from credit institutions	(740 520)	(568 238)
Deposits from central banks	(100 000)	(150 000)
	(933 389)	(628 631)
	(487 531)	684 483
Cash from investing activities		
Dividends received	7 631	8 437
(Aquisition)/ sale of investments in subsidiaries	563	(4 585)
Purchase of fixed assets and investment properties	(21 540)	(21 766)
	(13 346)	(17 914)
Cash from financing activities		
Other equity instruments	(321)	(322)
Issuance of cash bonds and subordinated debt (notes 36 and 39)	600 000	50 000
Repayment of cash bonds and subordinated debt (notes 36 and 39)	(114 000)	(685 679)
Finance lease agreements	(9 936)	-
	475 743	(636 001)
Effects of exchange rate changes on cash and cash equivalents	1 488	1 203
Net change in cash and cash equivalents	(23 646)	31 771
Cash and cash equivalents at the beginning of the financial year		
Cash (note 18)	194 596	178 925
Loans and deposits to credit institutions payable on demand (note 19)	75 572	59 472
	270 168	238 397
Cash and cash equivalents at the end of the financial year		
Cash (note 18)	194 529	194 596
Loans and deposits to credit institutions payable on demand (note 19)	51 993	75 572
	246 522	270 168

To be read with the notes attached to the Separate Financial Statements

Banco Montepio

Statement of Individual Changes in Equity
for financial years ended 31 December 2019 and 2018

(Euro thousand)

	Share capital (note 41)	Other equity instruments (note 42)	General and Legal reserves (note 43)	Fair value reserves (note 44)	Retained earnings (note 44)	Total Shareholders' Equity
Balances as of 31 December 2017	**2 420 000**	**6 323**	**186 000**	**27 976**	**(911 288)**	**1 729 011**
Impact of transition to IFRS 9						
Gross value	-	-	-	(19 095)	(128 748)	(147 843)
Taxes	-	-	-	6 657	47 953	54 610
	-	**-**	**-**	**(12 438)**	**(80 795)**	**(93 233)**
Balances as of 1 January 2018	**2 420 000**	**6 323**	**186 000**	**15 538**	**(992 083)**	**1 635 778**
Impact of transition to IFRS 9						
Gross value	-	-	-		(27 753)	(27 753)
Taxes	-	-	-		8 465	8 465
	-	**-**	**-**	**-**	**(19 288)**	**(19 288)**
Balances as of 1 January 2018 restated	**2 420 000**	**6 323**	**186 000**	**15 538**	**(1 011 371)**	**1 616 490**
Other comprehensive income:						
Remeasurements in the financial year (note 48)	-	-	-	-	(34 992)	(34 992)
Taxes (note 31)	-	-	-	-	10 571	10 571
Changes in fair value (note 44)	-	-	-	(34 822)	-	(34 822)
Reserves realized	-	-	-	-	234	234
Taxes on changes in fair value (note 31)	-	-	-	(480)	-	(480)
Net income for the financial year	-	-	-	-	1 628	1 628
Total comprehensive income/(loss) for the financial year	-	-	-	(35 302)	(22 559)	(57 861)
Financial costs related to the issue of perpetual subordinated debt (note 42)	-	-	-	-	(322)	(322)
Legal reserve	-	-	5 766	-	(5 766)	-
Balances as of 31 December 2018 restated	**2 420 000**	**6 323**	**191 766**	**(19 764)**	**(1 040 018)**	**1 558 307**
Other comprehensive income:						
Remeasurements in the financial year (note 48)	-	-	-	-	(76 861)	(76 861)
Taxes (note 31)	-	-	-	-	(734)	(734)
Changes in fair value (note 44)	-	-	-	29 979	-	29 979
Gains related to equity instruments	-	-	-	-	-	-
Reserves realized	-	-	-	-	24	24
Taxes on changes in fair value (note 31)	-	-	-	(10 070)	-	(10 070)
Net income for the financial year	-	-	-	-	12 971	12 971
Total comprehensive income/(loss) for the financial year	-	-	-	19 909	(64 600)	(44 691)
Financial costs related to the issue of perpetual subordinated debt (note 42)	-	-	-	-	(321)	(321)
Legal reserve	-	-	202	-	(202)	-
Balances as of 31 December 2019	**2 420 000**	**6 323**	**191 968**	**145**	**(1 105 141)**	**1 513 295**

To be read with the notes attached to the Separate Financial Statements

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter “Banco Montepio”) is a credit institution, with registered office at Rua Castilho, no. 5, 1250-066, Lisbon, majority held by Montepio Geral Associação Mutualista (hereinafter “MGAM”), incorporated on 24 March 1844. It is authorized to operate in accordance with Decree-Laws no. 298/92, of 31 December, and no. 136/79, of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, Banco Montepio is authorized to perform banking operations in addition to those mentioned in its by-laws, if previously authorized by the Bank of Portugal. This fact leads to the practice of banking operations in general.

On 10 September 2015, Decree-Law no. 190/2015 was published, introducing amendments in the Legal Framework of Credit Institutions and Financial Companies and in the Mutual Association Code. Following the publication of this Decree-Law, Banco Montepio changed its classification to “caixa económica bancária”.

On 14 September 2017, the by-laws deed was executed, transforming Caixa Económica Montepio Geral into a public limited company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

1 Accounting policies

a) Bases of presentation

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Council, of 19 July and Regulation no. 5/2015 of the Bank of Portugal, of 7 December, Banco Montepio’s financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as endorsed by the European Union (“EU”). IFRS comprise accounting standards issued by the International Accounting Standards Board (“IASB”) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and its predecessor body. Banco Montepio adopted in the preparation of the separate financial statements as at 31 December 2019 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2019.

The separate financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 30 April 2020 and shall be submitted to the General Meeting that has the power to change them. However, it is the opinion of the Board of Directors of Banco Montepio that these will be approved without significant changes. The financial statements are presented in Euro, rounded to the nearest thousand.

All references made to standards in this document relate to the respective version in force.

The financial statements were prepared on the going concern basis under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income. Financial assets and liabilities that are classified under hedge accounting are stated at fair value in respect of the risk that is being hedged.

The preparation of the financial statements in accordance with IFRS requires the Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. The associated estimates and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about the book values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The main estimates and assumptions involving a higher degree of judgment or complexity or where assumptions and estimates are considered to be significant are presented in the accounting policy described in note 1 z).

Restatement of financial statements of previous periods

1. Impairment of the loans and advances to customers' portfolio

During 2019, following the adoption of IFRS 9 in the previous financial year, Banco Montepio revisited the models and procedures associated with the determination of impairment of the loans and advances portfolio. In this context, the procedures developed for model validation, allowed it to identify a number of significant aspects that determined the need to review the models and methodologies implemented to assess impairment, including, in particular, the components of significant increase in credit risk, exposure at default (EAD) and loss given default (LGD).

The results obtained from this review determined the need for Banco Montepio to restate the financial statements with reference to 1 January 2018 and to 31 December 2018 to correct errors of previous periods, as defined in paragraph 5 of IAS 8, namely related to the accuracy of the mathematical approaches and the adequacy on the application of the accounting policies arising from IFRS 9. The statement of changes in equity and the balance sheet on 1 January 2018 and the statements of income, comprehensive income and changes in equity for financial year ended 31 December 2018, presented for comparative purposes, have been restated in accordance with IFRS.

2. Securitization operations

At the same time, Banco Montepio changed the accounting policy that altered the accounting for securitization operations of loans and advances to customers not derecognised from the balance sheet, in order to make the accounting of these operations clearer and thus reflect the correct contractual position of the assets and liabilities of Banco Montepio in these operations. The operations in question of Banco Montepio are as follows: Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6, Aqua Mortgages no. 1 and Pelican Finance no. 1.

Until financial year 2018, Banco Montepio deducted the liabilities it held in these securitization operations from the liability originated by the non-derecognition of the securitized loans and advances. In the first half of 2019, Banco Montepio started to recognize in its assets the bonds, issued by securitization vehicles, acquired by Banco Montepio, in opposition to the previous accounting policy, having also recorded in the caption Financial liabilities associated with transferred assets the net amount of the loans and advances transferred to the securitization vehicles in order to reflect Banco Montepio's responsibility to deliver the financial flows originated by same

Credit impairment associated with the loans and advances ceded under these securitization operations is recognized as a reduction from the caption Financial liabilities associated with transferred assets, in order to reflect, at each moment, the responsibility assumed by Banco Montepio. Regarding the securities acquired in the scope of the securitization operations above, these were classified according to that defined in the accounting policy for the recognition of financial assets described in note 1 b). The securities relating to the classes of the more senior notes were classified in the category Other financial assets at amortized cost, with the securities relating to the class of residual notes being classified in the category of Financial assets at fair value through profit or loss. Likewise, the assets and liabilities previously recognized in Banco Montepio's balance sheet via the integration of securitization vehicles in Banco Montepio's separate financial statements were also reversed and derecognised. These positions corresponded to loans and advances to credit institutions and to derivatives, which were recognized under the captions of Financial assets and liabilities held for trading.

The effects on the balance sheet as at 1 January 2018 and as at 31 December 2018 of those impacts can be presented as follows:

	December 31st 2018	Restatement/ Impairment	Restatement/ Securitisation operations	December 31st 2018 restated	December 31st 2017	IFRS 9 impact	January 1st 2018	Restatement/ Impairment	Restatement/ Securitisation operations	January 1st 2018 restated
Assets										
Cash and deposits at central banks	1 610 634	-	-	1 610 634	1 733 626	-	1 733 626	-	-	1 733 626
Loans and deposits to credit institutions payable on demand	75 572	-	-	75 572	59 472	-	59 472	-	-	59 472
Other loans and advances to credit institutions	448 035	-	(111 253)	336 782	558 711	(915)	557 796	-	(180 959)	376 837
Loans and advances to customers	11 796 170	(27 372)	-	11 768 798	12 723 394	(140 980)	12 582 414	(26 272)	-	12 556 142
Financial assets held for trading	23 739	-	(8 079)	15 660	185 572	(1 496)	184 076	-	(9 183)	174 893
Financial assets not held for trading mandatorily at fair value through profit or loss	803 908	-	80 541	884 449	860 577	-	860 577	-	115 640	976 217
Financial assets at fair value through other comprehensive income	392 589	-	-	392 589	1 766 041	-	1 766 041	-	-	1 766 041
Hedging derivatives	5 666	-	-	5 666	-	-	-	-	-	-
Other financial assets at amortized cost	1 255 651	-	2 138 651	3 394 302	-	-	-	-	3 037 462	3 037 462
Investments in associated companies	346 723	-	-	346 723	315 903	-	315 903	-	-	315 903
Non-current assets held for sale	705 351	-	-	705 351	714 133	-	714 133	-	-	714 133
Other tangible assets	217 741	-	-	217 741	220 002	-	220 002	-	-	220 002
Intangible assets	31 657	-	-	31 657	30 092	-	30 092	-	-	30 092
Current tax assets	6 144	-	-	6 144	6 589	-	6 589	-	-	6 589
Deferred tax assets	484 147	8 636	-	492 783	458 864	54 610	513 474	8 465	-	521 939
Other assets	68 418	-	-	68 418	176 615	(3 508)	173 107	-	-	173 107
Total Assets	18 272 145	(18 736)	2 099 860	20 353 269	19 809 591	(92 289)	19 717 302	(17 807)	2 962 960	22 662 455
Liabilities										
Deposits from central banks	1 395 320	-	-	1 395 320	1 557 840	-	1 557 840	-	-	1 557 840
Deposits from other credit institutions	1 442 548	-	-	1 442 548	2 011 197	-	2 011 197	-	-	2 011 197
Deposits from customers	12 626 578	-	-	12 626 578	12 555 325	-	12 555 325	-	-	12 555 325
Debt securities issued	939 674	-	(61 343)	878 331	1 389 999	-	1 389 999	-	(268 461)	1 121 538
Financial liabilities related to transferred assets	-	-	2 162 425	2 162 425	-	-	-	-	3 232 894	3 232 894
Financial liabilities held for trading	13 496	-	(1 222)	12 274	16 171	-	16 171	-	(1 473)	14 698
Hedging derivatives	-	-	-	-	1 663	-	1 663	-	-	1 663
Provisions	30 756	943	-	31 699	26 207	944	27 151	1 481	-	28 632
Current tax liabilities	4 241	-	-	4 241	1 104	-	1 104	-	-	1 104
Other subordinated debt	50 044	-	-	50 044	237 016	-	237 016	-	-	237 016
Other liabilities	191 502	-	-	191 502	284 058	-	284 058	-	-	284 058
Total Liabilities	16 694 159	943	2 099 860	18 794 962	18 080 580	944	18 081 524	1 481	2 962 960	21 045 965
Shareholders' Equity										
Share capital	2 420 000	-	-	2 420 000	2 420 000	-	2 420 000	-	-	2 420 000
Other equity instruments	6 323	-	-	6 323	6 323	-	6 323	-	-	6 323
Fair value reserves	(19 764)	-	-	(19 764)	15 538	-	15 538	-	-	15 538
Other reserves and Retained earnings	(830 592)	(19 288)	-	(849 880)	(712 850)	(93 233)	(806 083)	(19 288)	-	(825 371)
Net income for the financial year	2 019	(391)	-	1 628	-	-	-	-	-	-
Total Shareholders' Equity	1 577 986	(19 679)	-	1 558 307	1 729 011	(93 233)	1 635 778	(19 288)	-	1 616 490
Total Liabilities and Shareholders' Equity	18 272 145	(18 736)	2 099 860	20 353 269	19 809 591	(92 289)	19 717 302	(17 807)	2 962 960	22 662 455

The effects on the income statement as at 31 December 2018 of those impacts can be presented as follows:

(Euro thousand)

	December 31st 2018	Restatement/ Impairment	Restatement/ Securitisation operations	December 31st 2018 restated
Interest and similar income	346 917	-	9 404	356 321
Interest and similar expense	112 391	-	47 320	159 711
Net interest income	234 526	-	(37 916)	196 610
Dividends from equity instruments	8 437	-	-	8 437
Net fee and commission income	118 743	-	4 857	123 600
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	8 420	-	44 421	52 841
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	5 531	-	-	5 531
Net gains/(losses) arising from exchange differences	(3 895)	-	-	(3 895)
Net gains/(losses) arising from sale of other financial assets	9 121	-	-	9 121
Other operating income/(expense)	(24 512)	-	-	(24 512)
Total operating income	356 371	-	11 362	367 733
Staff costs	146 908	-	-	146 908
General and administrative expenses	67 942	-	-	67 942
Depreciation and amortization	21 911	-	-	21 911
Total operating costs	236 761	-	-	236 761
Impairment of loans and advances	83 679	1 101	11 362	96 142
Impairment of other financial assets	3 954	-	-	3 954
Impairment of other assets	(17 699)	-	-	(17 699)
Other provisions	3 604	(538)	-	3 066
Operating income	46 072	(563)	-	45 509
Income Tax				
Current	(32)	-	-	(32)
Deferred	(44 021)	172	-	(43 849)
Net income for the financial year	2 019	(391)	-	1 628

The effects on the statement of changes in equity as at 31 December 2018 of those impacts can be presented as follows:

(Euro thousand)

	Share capital	Other equity instruments	Legal reserves	Fair value reserves	Retained earnings	Total Shareholders' Equity
Balances as of 31 December 2017	**2 420 000**	**6 323**	**186 000**	**27 976**	**(911 288)**	**1 729 011**
Impact of transition to IFRS 9						
Gross value	-	-	-	(19 095)	(128 748)	(147 843)
Taxes	-	-	-	6 657	47 953	54 610
Balances as of 1 January 2018	**2 420 000**	**6 323**	**186 000**	**15 538**	**(992 083)**	**1 635 778**
Impact of transition to IFRS 9 - restated						
Gross value	-	-	-		(27 753)	(27 753)
Taxes	-	-	-		8 465	8 465
	-	**-**	**-**	**-**	**(19 288)**	**(19 288)**
Balances as of 1 January 2018 restated	**2 420 000**	**6 323**	**186 000**	**15 538**	**(1 011 371)**	**1 616 490**
Other comprehensive income:						
Remeasurements in the financial year	-	-	-	-	(34 992)	(34 992)
Taxes	-	-	-	-	10 571	10 571
Changes in fair value	-	-	-	(34 822)	-	(34 822)
Gains on equity instruments	-	-	-	-	-	-
Reserves realized	-	-	-	-	234	234
Taxes on changes in fair value	-	-	-	(480)	-	(480)
Net income for the financial year	-	-	-	-	1 628	1 628
Total comprehensive income/(loss) for the financial year	-	-	-	(35 302)	(22 559)	(57 861)
Financial costs related to the issue of perpetual subordinated debt	-	-	-	-	(322)	(322)
Legal reserve	-	-	5 767	-	(5 767)	-
Balances as of 31 December 2018 restated	**2 420 000**	**6 323**	**191 767**	**(19 764)**	**(1 040 019)**	**1 558 307**

The effects on the statement of comprehensive income as at 31 December 2018 of those impacts can be presented as follows:

(Euro thousand)

	December 31st 2018	Restatement/ Impairment	December 31st 2018
Items that may be reclassified to the Income Statement			
Fair value reserves			
Financial assets at fair value through other comprehensive income and loans and advances to customers			
Debt instruments	(7 726)	-	(7 726)
Loans and advances to customers	(655)	-	(655)
Own credit risk	(144)	-	(144)
Taxes related to fair value changes	(480)	-	(480)
	(9 005)	-	(9 005)
Items that will not be reclassified to the Income Statement			
Fair value reserves			
Financial assets at fair value through other comprehensive income and loans and advances to customers			
Equity instruments	(26 297)	-	(26 297)
Remeasurements in the financial year	(34 992)	-	(34 992)
Taxes	10 571	-	10 571
	(50 718)	-	(50 718)
Other comprehensive income/(loss) for the financial year	(59 723)	-	(59 723)
Net income for the financial year	2 019	(391)	1 628
Total comprehensive income/(loss) for the financial year	(57 704)	(391)	(58 095)

b) Financial instruments – IFRS 9

b.1) Classification of financial assets

The Bank classifies its financial assets into one of the following valuation categories:

- Financial assets at amortized cost;
- Financial assets at fair value through other comprehensive income;
- Financial assets at fair value through profit or loss.

The classification requirements for debt and equity instruments are as follows:

b.1.1) Debt instruments

Debt instruments are instruments that meet the definition of financial liability from the issuer's perspective, such as loans, public and private bonds, and accounts receivable acquired from customers with non-recourse factoring contracts.

The classification and subsequent valuation of these instruments in the previous categories is based on the following two elements:

- the Bank's business model for financial asset management, and
- the characteristics of the contractual cash flows from the financial assets.

Based on these elements, the Bank classifies its debt instruments for valuation purposes into one of the following three categories:

a) Financial assets at amortized cost, when the following two conditions are met:

- they are managed under a business model which objective is the holding of financial assets to receive contractual cash flows, and
- the contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the principal outstanding.

In addition to debt instruments managed based on a business model which purpose is to receive their contractual cash flows, which are recorded in the caption Other financial assets at amortized cost, the category of financial assets at amortized cost also includes Loans and advances to other credit institutions and Loans and advances to customers.

b) Financial assets at fair value through other comprehensive income, when the following two conditions are met:

- they are managed under a business model which purpose combines the receipt of contractual cash flows from financial assets and their sale, and

- the contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the principal outstanding.

c) Financial assets at fair value through profit or loss, whenever due to the Bank's business model or the characteristics of their contractual cash flows, it is not appropriate to classify financial assets in any of the previous categories. At the transition date, to classify financial assets in this category, the Bank also considered whether it expects to recover the book value of the asset through the sale to a third party.

Also included in this portfolio are all instruments in respect of which any of the following characteristics are met:

- that were originated or acquired for the purpose of being traded in the short term.

- that are part of a group of identified and jointly managed financial instruments for which there is evidence of recent actions aimed at achieving short-term gains.

- that are derivative instruments that do not meet the definition of a financial collateral agreement and have not been designated as hedging instruments.

Assessment of the business model

The business model reflects the way the Bank manages its assets from a cash flow generation perspective. Therefore, it is important to understand whether the Bank's objective is only to receive contractual cash flows from assets or whether it intends to receive the contractual cash flows and the cash flows from the sale of the assets. If none of these situations apply (e.g. financial assets are held for trading), then financial assets are classified as part of “another” business model and recognized at fair value through profit or loss. Factors considered by the Bank in identifying the business model for a set of assets include past experience of how (i) cash flows are received, (ii) how asset performance is assessed and reported to management, (iii) how risks are assessed and managed and (iv) how directors are remunerated.

Securities held for trading are held, primarily, for the purpose of being sold in the short term, or as part of a portfolio of jointly managed financial instruments, for which there is clear evidence of a recent pattern of short-term gains. These securities are classified under “other” business models and recognized at fair value through profit or loss.

The assessment of the business model does not depend on the intentions for an individual instrument, but rather for a set of instruments, taking into account the frequency, value, the timing of sales in previous financial years, the reasons for such sales and the expectations regarding future sales. Infrequent, or insignificant, or near-maturity sales and those motivated by the increased credit risk of the financial assets, or to manage concentration risk, among others, may be consistent with the model of holding assets to receive contractual cash flows.

If a financial asset contains a contractual clause that may modify the timing or value of the contractual cash flows (such as early amortization or extension of the term), the Bank determines whether the cash flows that will be generated during the life of the instrument, due to the exercise of said contractual clause, are only payments of principal and interest on the principal outstanding.

If a financial asset includes a periodic interest rate adjustment, but the frequency of such adjustment does not match with the reference interest rate term (for example, the interest rate is adjusted every three months), the Bank assesses, on initial recognition, such inconsistency in the interest component to determine whether the contractual cash flows represent only payments of principal and interest on the principal outstanding.

Contractual conditions that, on initial recognition, have a minimal effect on cash flows or depend on the occurrence of exceptional or highly unlikely events (such as settlement by the issuer) do not preclude their classification in the portfolios at amortized cost or at fair value through other comprehensive income.

SPPI assessment

When the business model involves holding assets for the purpose of (i) receiving contractual cash flows or (ii) receiving contractual cash flows and selling these assets, the Bank assesses whether the cash flows of the financial instrument correspond solely to payments of principal and interest on the principal outstanding (the "solely payments of principal and interest" ("SPPI") test). In this assessment, the Bank considers whether the contractual cash flows are consistent with a basic loan agreement, i.e. the interest includes only considerations regarding the time value of money, credit risk, other normal credit risks and a profit margin that is consistent with a basic loan agreement. When the contractual terms introduce risk exposure or cash flow variability that is inconsistent with a simple loan agreement, the financial instrument is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether cash flows correspond solely to payments of principal and interest on the principal outstanding ("SPPI" test).

b.1.2) *Equity instruments*

Equity instruments are instruments that meet the definition of capital from the issuer's perspective, that is, they are instruments that do not contain a contractual obligation to pay and that show a residual interest in the issuer's net assets. An example of equity instruments are the ordinary shares.

Investments in equity instruments are an exception to the general valuation criteria described above. As a general rule, the Bank exercises the option, on initial recognition, to irrevocably designate in the category of financial assets at fair value through other comprehensive income the investments in equity instruments that are not classified as held for trading and which, in the case of not exercising said option, would be classified as financial assets at fair value through profit or loss. Impairment losses (and impairment reversals) are not recorded separately from other fair value changes.

b.2) Classification of financial liabilities

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be realized through the delivery of cash or another financial asset, regardless of its legal form. Financial liabilities are classified in the following categories:

(i) Financial liabilities at amortized cost

This category includes deposits from central banks and other credit institutions, deposits from customers and other subordinated debt;

(ii) Financial assets held for trading

This category includes derivative financial instruments with a negative fair value, as per note 1 c);

(iii) Financial liabilities at fair value through profit or loss (Fair Value Option)

This category includes financial instruments designated by the Bank, on initial recognition, in this category provided that at least one of the following requirements is met:

- the financial liabilities are internally managed, valued and analysed based on their fair value;
- derivative operations are contracted to hedge these assets or liabilities, in this manner ensuring consistency in the valuation of assets or liabilities and the derivatives (countering accounting mismatch);
- the financial liabilities contain embedded derivatives;

(iv) Financial liabilities associated with assets transferred

This category includes liabilities associated with credit securitization operations that were not derecognized following the application of IAS 39 - Financial instruments: recognition and measurement. These liabilities are initially recorded at the amount received on the cession of the loans and are subsequently valued at amortized cost, in a manner coherent with the valuation of the corresponding assets and the conditions defined in the securitization operation.

b.3) Recognition and initial valuation of financial instruments

On initial recognition all financial instruments are recorded at fair value. For financial instruments that are not recorded at fair value through profit or loss, the fair value is adjusted by adding or subtracting transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, directly attributable transaction costs are recognized immediately in profit or loss.

Transaction costs are defined as costs directly attributable to the acquisition or disposal of a financial asset, or the issue or assumption of a financial liability, which would not have been incurred if the Bank had not made the transaction. These include, for example, commissions paid to intermediaries (such as promoters) and mortgage formalization expenses.

Financial assets are recognized in the balance sheet on the transaction date - the date on which the Bank undertakes to purchase the assets, unless there is a contractual stipulation or applicable legal figure stating that the transfer of the rights occurs at a later date.

On initial recognition, when the fair value of financial assets and liabilities differs from the transaction price, the entity shall recognize this difference as follows:

- When the fair value is evidenced by the quotation in an active market of an equivalent asset or liability (i.e. level 1 inputs) or based on a valuation technique that uses only observable market data, the difference is recognized as a gain or loss, and

- In the remaining cases, the difference is deferred, and the moment of the initial recognition of the gain or loss is determined individually. This difference may then be (i) amortized over the life of the instrument, (ii) deferred until the fair value of the instrument can be determined using observable market data, or (iii) recognized through the liquidation of the asset or liability.

b.4) Subsequent valuation of financial instruments

Subsequent to initial recognition, the Bank values its financial assets at (i) amortized cost, (ii) fair value through other comprehensive income or (iii) fair value through profit or loss.

Amounts receivable from commercial operations that do not have a significant financing component and commercial loans and short-term debt instruments that are initially valued at transaction price or outstanding principal, respectively, are valued at said amount net of impairment losses.

Immediately after initial recognition, an impairment is also recognized for expected credit losses (ECL), of financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income, resulting in the recognition of an impairment loss when the asset is originated.

Financial liabilities are initially recorded at fair value less transaction costs incurred and subsequently at amortized cost, based on the effective interest rate method, except for financial liabilities designated at fair value through profit or loss, which are recorded at fair value.

b.5) Interest recognition

Interest income and expense on assets and liabilities measured at amortized cost is recognized in interest and similar income or interest and similar expense (net interest income) using the effective interest rate method. Interest on financial assets at fair value through other comprehensive income is calculated at the effective interest rate and recognized in net interest income as is that from financial assets and liabilities at fair value through profit or loss.

The effective interest rate is the rate that discounts the estimated future payments or receipts over the expected life of the financial instrument (or, where appropriate, over a shorter period) to the net present book value of the financial asset or liability.

For the determination of the effective interest rate, Banco Montepio estimates future cash flows considering all contractual terms of the financial instrument (e.g. prepayment options), but not considering any impairment losses. The calculation includes commissions paid or received as an integral part of the effective interest rate, transaction costs and all premiums or discounts directly related to the transaction, except in respect of financial assets and liabilities at fair value through profit or loss.

Interest income recognized in profit or loss associated with contracts classified in Stage 1 or 2 is calculated by applying the effective interest rate of each contract to its gross book value.

The gross book value of a contract is its amortized cost before deducting the respective impairment. For financial assets included in Stage 3, interest is recognized in profit or loss based on their book value net of impairment. Interest is always recognized prospectively, i.e., for financial assets that enter Stage 3, interest is recognized on the amortized cost (net of impairment) in the subsequent periods.

For financial assets originated or acquired in credit impairment ("POCI"), the effective interest rate reflects the expected credit losses determined based on the expected future cash flows receivable from the financial asset.

For derivative financial instruments, except for those classified as interest rate risk hedging instruments, the interest component is not separated from the changes in their fair value, being classified as Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss. For interest rate risk hedging derivatives associated with financial assets or financial liabilities recognized in the Fair Value Option category, the interest component is recognized in interest and similar income or interest and similar expense (net interest income)

b.6) Reclassifications between financial instrument categories

Reclassifications of financial assets can only occur when Banco Montepio changes its financial asset management business model, which changes are expected to be unusual. In this case, all affected financial assets shall be reclassified. The reclassification shall be applied prospectively from the date of the reclassification and there shall be no restatement of any previously recognized gains, losses (including impairment gains or losses) or interest. IFRS 9 does not permit the reclassification of investments in equity instruments measured at fair value through other comprehensive income or when the fair value option has been exercised for financial assets or liabilities. Banco Montepio shall not reclassify any financial liabilities. Financial liabilities may not be reclassified between categories.

Modification of loans

Occasionally, the Bank renegotiates or modifies contractual cash flows from loans to customers. In this situation, the Bank assesses whether the new contract terms are substantially different from the original terms. The Bank makes this analysis considering, among others, the following factors:

- If the debtor is in financial difficulty, whether the modification only reduces the contractual cash flows to an amount that the debtor is expected to be able to pay;
- A significant new term such as profit sharing or an equity-based return that substantially affects credit risk has been introduced;
- A significant extension of the contract maturity when the debtor is not in financial difficulty;
- A significant change in interest rate;
- A change from the currency in which the credit was contracted;
- The inclusion of a collateral, a guarantee or another credit enhancement instrument that significantly affects the credit risk associated with the loan.

If the terms of the contract differ significantly, the Bank derecognizes the original financial asset and recognizes the new asset at fair value, calculating its new effective interest rate. The renegotiation date is considered the initial recognition date for the purpose of calculating impairment, including for the purpose of assessing whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the newly recognized financial asset is impaired on initial recognition, especially when the renegotiation is related to the fact that the debtor did not make the originally agreed payments. Differences in book value are recognized in profit or loss as a de-recognition gain or loss.

If the terms of the contract are not significantly different, the renegotiation, or modification, does not result in de-recognition and the Bank recalculates the gross book value based on the revised cash flows of the financial asset and recognizes a gain or loss from this modification in profit or loss. The new gross book value is recalculated by discounting the modified cash flows at the original effective interest rate (or adjusted effective interest rate for impaired financial assets, originated or acquired).

Following the modification, the Bank may determine that credit risk has significantly improved, and assets have moved from Stage 3 to Stage 2 (“ECL lifetime”) or from Stage 2 to Stage 1 (“ECL 12 months”). This situation can only occur when the performance of the modified asset is in accordance with the new contract terms for a period of twelve consecutive months. Additionally, the Bank continues to monitor whether there has been a significant increase in the credit risk of these assets, applying specific models for modified assets.

b.7) De-recognition that does not result from a modification

Financial assets granted are derecognized when the associated cash flows are extinguished, collected or disposed of to third parties and (i) the Bank substantially transfers all risks and rewards associated with holding the asset, or (ii) the Bank neither transfers nor substantially holds all risks and rewards associated with holding the asset and does not control the asset. Gains and losses from the disposal of loans and advances to customers on a definitive basis are recorded in Other operating income/(expense). These gains or losses correspond to the difference between the sale value set and the book value of these assets, net of impairment losses.

The Bank engages in transactions in which it has the contractual right to receive cash flows from assets but assumes a contractual obligation to channel those cash flows to other entities and substantially transfers all the risks and rewards. These transactions result in de-recognition of the asset if the Bank:

- Does not have any obligation to make payments unless it receives equivalent amounts from the assets;

- It is prohibited from selling or pledging the assets;

- If it is obliged to remit any cash flow it receives from assets without material delays.

Guarantees granted by the Bank (shares and bonds) through repurchase agreements and securities' lending and borrowing operations are not derecognized because the Bank substantially holds all risks and rewards based on the pre-established repurchase price, thus not meeting the de-recognition criteria.

Financial liabilities are derecognized when the underlying obligation is settled, expires or is cancelled.

b. 8) Write-off policy

Banco Montepio recognizes a loan write-off from assets when it has no reasonable expectation of fully or partially recovering that asset. This recognition occurs after all recovery actions performed by Banco Montepio turn out to be unsuccessful. Loans written off from assets are recorded in off-balance sheet accounts.

b. 9) Impairment of financial assets

The Bank determines impairment losses of debt instruments that are measured at amortized cost and fair value through other comprehensive income, as well as for other exposures that have an associated credit risk such as bank guarantees and commitments

The requirements of IFRS 9 have as their objective to recognize expected losses from operations, assessed on an individual or collective basis, considering all reasonable, reliable and duly substantiated information that is available, including forward-looking information.

Impairment losses of debt instruments that are measured at amortized cost are recognized against an accumulated impairment caption in the balance sheet, which reduces the book value of the asset, while impairment of assets measured at fair value through other comprehensive income is recognized against other comprehensive income.

Impairment losses of loans and advances to customers of the financial year are recognized in the income statement in the caption Impairment of customers and that of the remaining financial assets in the caption Impairment of other financial assets.

Impairment losses of exposures that have an associated credit risk and that are not positions recorded in assets are recorded as a provision in the caption Provisions under liabilities, in the balance sheet. The charges and reversals are recorded in the caption Other provisions in the income statement.

For the purpose of accounting for impairment losses of debt instruments, the following definitions shall be considered:

c) Credit losses: correspond to the difference between all cash flows owed to the Bank, according to the contractual conditions of the financial asset, and all cash flows that the Bank expects to receive (i.e., the total cash-flow shortfall), discounted at the original effective interest rate or, for financial assets purchased or originated in impairment with credit losses, at the effective interest rate adjusted for credit quality, or at the interest rate on the financial statements' reporting date, when it is variable.

   For commitments assumed, the contractual cash flows owed to the Bank that are expected to be received in the event of the use of the commitment are compared with the cash flows expected to be received on the recognition of the asset. In the case of bank guarantees, the payments that the Bank expects to make less the cash flows it expects to receive from the originator are considered.

   The Bank estimates cash flows considering the contractual term defined for the operations.

   For the purpose of determining the cash flows, those arising from the sale of collateral received are also included, taking into account the flows that would be obtained from their sale, less the costs necessary to obtain, maintain and subsequently sell them, or other guarantees that may be part of the contractual conditions, such as financial collateral.

d) Expected credit losses: correspond to the weighted average of credit losses, using as weighting factor the probability of the occurrence of default events. The following distinction shall be taken into account: (i) expected credit losses over the lifetime of the operation: these are the expected credit losses that result from possible default events over the expected life of the operation; (ii) expected credit losses over a 12-month period: these are part of the expected credit losses over the life of the instrument representing the expected credit losses that result from default events of a financial instrument that may occur within the period of 12 months from the reference date.

b.10.1) *Impairment model of loans and advances to customers*

IFRS 9 considers the expected losses throughout the lifetime of the financial instruments. Thus, macroeconomic factors are considered when determining ECL, which changes have an impact on expected losses.

The impairment model is applicable to the following instruments of Banco Montepio that are not measured at fair value through profit or loss:

- Financial assets at amortized cost (including Loans and advances to customers, Loans and advances to credit institutions and Other financial assets at amortized cost);

- Financial assets classified as debt instruments at fair value through other comprehensive income;

- Commitments and financial guarantees issued.

No impairment is recognized on equity instruments since these are measured at fair value.

Instruments that are subject to impairment calculations are divided into three stages considering their credit risk level, as follows:

- Stage 1: no significant increase in credit risk since initial recognition. In this case, impairment losses reflect expected credit losses resulting from default events that may occur within twelve months after the reporting date;

- Stage 2: instruments for which there is a significant increase in credit risk since initial recognition, but for which there is still no objective evidence of impairment. In this case, impairment losses reflect expected credit losses resulting from default events that may occur over the expected residual life of the instrument;

- Stage 3: instruments for which there is objective evidence of impairment as a result of events that resulted in losses. In this case, impairment losses reflect expected credit losses over the expected residual life of the instrument.

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

- Assessment of the existence of a significant increase in credit risk since initial recognition;

- Incorporation of forward-looking information in the ECL calculation.

Calculation of ECLs

ECLs correspond to unbiased weighted estimates of credit losses that are determined as follows:

- Financial assets without signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that Banco Montepio expects to receive;

- Financial assets with signs of impairment at the reporting date: difference between the gross book value and the present value of the estimated cash flows;

- Unused credit commitments: the present value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that Banco Montepio expects to receive;

- Financial guarantees: the present value of the expected reimbursement payments less the amounts that Banco Montepio expects to recover.

b.10.2) *Definition of default*

Banco Montepio aligned the definition used in the regulatory perspective with the accounting perspective, with financial assets classified in stage 3 corresponding to the internal definition of default.

b.10.3) *Significant increase in credit risk (SICR)*

In order to determine if a significant increase in credit risk has occurred since the financial instrument´s initial recognition (i.e. risk of default), Banco Montepio considers as relevant information all the information available and without costs and/or excessive effort, including both quantitative and qualitative information, as well as an analysis based on Banco Montepio´s history (expert judgment).

The identification of a significant increase in credit risk is performed by comparing:

- The exposure’s risk rating at the reporting date, and

- The exposure’s risk rating attributed at the initial moment of the exposure´s recognition.

Banco Montepio identifies the occurrence of a significant increase in credit risk through a comparison of the actual risk rating with the risk rating attributed at the contract’s inception, with the change in the risk rating necessary to identify a significant increase in credit risk being lower the higher the original rating was.

When evaluating the significant increase in credit risk, Banco Montepio considers as a backstop the existence of arrears of more than 30 days, among others.

b.10.4) *Credit risk levels*

In accordance with the current management of Banco Montepio´s credit risk, each customer, and, consequently, respective exposure, is allocated to a risk level of its master scale.

Banco Montepio uses these risk levels as a primary factor for the identification of a significant increase in credit risk in the scope of IFRS 9.

b.10.5) *Inputs for the measurement of ECL*

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

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

These parameters are obtained through internal statistic models, and other relevant historical data, based on the existing regulatory models adjusted in order to reflect the forward-looking information.

The PDs are estimated based on a certain historical period and are calculated using statistical models. These models are based on internal data, including qualitative and quantitative factors. If a change in the degree of risk of the counterparty or the exposure occurs, the estimate of the associated PD is also changed.

The risk levels are a very important input for the determination of the PDs associated with each exposure. Banco Montepio collects default and performance indicators regarding its credit risk exposures through analyses by type of customers and products.

LGD is the magnitude of the loss that is expected to occur if the exposure enters in default. Banco Montepio estimates LGD parameters based on historical recovery rates after the counterparties' entry into default. The LGD models consider associated collateral and time in default as well as recovery costs. In case of contracts collateralized by real estate, LTV (loan-to-value) ratios are an extremely important parameter in the determination of the LGD.

The EAD represents the expected loss if the exposure and/or customer enters into default. Banco Montepio obtains the EAD values from the counterparty´s current exposure and from potential changes to its current value, permitted by the contractual conditions, including amortizations and prepayments. For commitments and financial guarantees, the EAD value includes both the amount of credit used as well as the expectation of the potential future value that may come to be used in accordance with the contract.

As described above, except for the financial assets that consider a 12-month PD because they do not present a significant increase in credit risk, Banco Montepio calculates the ECL considering the risk of default during the maximum maturity period of the contract or, in certain specific situations, based on the behavioural maturity.

b.11) *Securitized loans and advances not derecognized*

Banco Montepio does not derecognize from assets the credits sold in securitization operations when:

- it maintains control over the operations;
- it continues to receive a substantial portion of their remuneration; and
- it maintains a substantial portion of the risk of the transferred credits.

Credits sold and not derecognized are recorded in the caption Loans and advances to customers and are subject to accounting criteria identical to those of other loan operations.

The maintenance of the risk and/or benefit is represented by the higher-risk bonds issued by the securitization vehicle. The amount recorded in the assets and liabilities of Banco Montepio‘s separate financial statements represents the proportion of the risk/benefit held by Banco Montepio (continuing involvement). The bonds issued by the securitization vehicles and held by Banco Montepio are eliminated in the consolidation process.

In the 1st half of 2019, Banco Montepio changed the accounting for credit securitization operations not derecognized from the balance sheet denominated Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6, Aqua Mortgages no. 1 and Pelican Finance no. 1, in order to improve the clarity of the accounting for these operations and to reflect the correct contractual position of the Bank’s assets and liabilities in these operations.

In accordance with IAS 8, and since this is a change in accounting policy, financial year ended 31 December 2018 was restated for comparative purposes.

c) Derivative financial instruments and hedge accounting

Banco Montepio designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading derivatives.

Derivative hedging instruments are recorded at fair value and gains and losses from re-measurement are recognized in accordance with the hedge accounting model adopted by Banco Montepio. A hedging relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is evaluated on a continuous basis and effectively determined to be highly effective throughout the reporting period; and
- for hedges of a foreseeable expected transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange variations of monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated with the derivative is recognized in profit or loss for the financial year, as are the foreign exchange risk changes of the subjacent monetary items.

As provided for in IFRS 9, Banco Montepio opted to continue to apply the requirements for the application of hedge accounting established in the standard IAS 39.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recognized in profit or loss, together with changes in the fair value attributable to the hedged risk of the asset, liability or group of assets and liabilities related to the hedged risk. If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses of interest rate risk associated with the hedging item calculated up to the discontinuance of hedge accounting are amortized through profit or loss over the residual period of the hedged item.

Hedge effectiveness

For a hedging relationship to be classified as such, its effectiveness must be demonstrated. As such, Banco Montepio performs prospective tests at the start date of the hedging relationship, when applicable, and retrospective tests in order to demonstrate at each reporting date the effectiveness of the hedging relationship, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item in respect of the risk being covered. Any ineffectiveness calculated is immediately recognized in profit or loss when it occurs.

d) Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently of its legal form, evidencing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instrument issuance are recognized in equity as a deduction from the amount of the issue. Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs.

Income from equity instruments (dividends) are recognized when the right to receive such income is established and are deducted from equity.

e) Financial and performance guarantees

Financial guarantees

Financial guarantees are contracts that require the issuer to make payments to compensate the holder for losses incurred as a result of breaches of the contractual terms of debt instruments, namely the payment of capital and/or interest. Financial guarantees issued are initially recognized at their fair value. Subsequently, these guarantees are measured at the higher of (i) the initially recognized fair value and (ii) the amount of any obligation arising from the guarantee contract, measured at the balance sheet date.

Any change in the amount of the obligation associated with financial guarantees issued is recognized in profit or loss. Financial guarantees issued by the Bank usually have a defined maturity and a periodic prepaid commission, which varies according to counterparty risk, amount and period of the contract. On that basis, the fair value of the guarantees on the date of their initial recognition is approximately equivalent to the amount of the initial commission received, considering that the agreed conditions are market conditions. Thus, the amount recognized on the contract date equals the amount of the initial commission received, which is recognized in profit or loss over the financial year to which it relates. Subsequent commissions are recognized in profit or loss in the financial year to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of one of the parties if one of them does not fulfil a contractual obligation. Performance guarantees are initially recognized at fair value, which is usually evidenced by the amount of commissions received over the term of the contract. Upon breach of contract, the Bank has the right to revert the guarantee, and the amounts are recognized in Loans and advances to customers after the compensation of the losses has been transferred to the guarantee beneficiary.

f) Securities' borrowings and repurchase agreement transactions

Securities' borrowings

Securities lent under securities' lending agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. Cash collateral received in respect of securities lent is recognized as a financial liability. Securities borrowed under securities' borrowing agreements are not recognized on-balance sheet. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either customers or credit institutions. Income and expenses arising from the securities' lending and borrowing business are recognized on an accrual basis over the period of the transactions and are included in interest and similar income or interest and similar expense (net interest income).

Repurchase agreements

Banco Montepio carries out acquisitions/sales of securities under reselling/repurchase agreements of substantially equivalent securities at a future date at a predetermined price.

The securities acquired subject to reselling agreements (reverse repos) at a future date are not recognized in the balance sheet. The amounts paid are recognized in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralized by the related securities.

Securities sold through repurchase agreements (repos) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. The proceeds from the sale of these securities are considered as deposits from customers or from other credit institutions.

The difference between the acquisition/sale and resale/repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest and similar income or interest and similar expense (net interest income).

g) Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are accounted for in Banco Montepio's separate financial statements at historical cost less any impairment losses.

Subsidiaries are entities (including investment funds and securitization vehicles) controlled by Banco Montepio. Banco Montepio controls an entity when it is exposed to, or has rights to, the variability of returns from its involvement with that entity and can take possession of same through its power over the relevant activities of that entity (de facto control).

Associated companies are entities over which Banco Montepio has significant influence but does not control their financial and operating policy. Banco Montepio is presumed to have significant influence when it has the power to exercise more than 20% of the associated company's voting rights. If Banco Montepio, directly or indirectly, holds less than 20% of the voting rights, Banco Montepio is presumed not to have significant influence, except when such influence can be clearly demonstrated.

Significant influence on the part of Banco Montepio is usually demonstrated in one or more of the following ways:

- representation on the Board of Directors or equivalent management body of the investee;
- participation in policy-making processes, including participation in decisions involving dividends or other distributions;
- material transactions between Banco Montepio and the investee;
- interchange of management personnel; and
- provision of essential technical information.

Impairment

The recoverable value of investments in subsidiaries and associated companies is assessed whenever there is evidence of impairment. Impairment losses are calculated based on the difference between the recoverable value of investments in subsidiaries or associated companies and their book value. Impairment losses identified are recorded against profit or loss and subsequently reversed through profit or loss if the amount of the estimated loss is reduced in a subsequent period. The recoverable value is determined based on the higher of the value in use of the assets and the fair value less costs to sell, and is calculated using valuation methodologies, supported by discounted cash flow techniques, considering market conditions, time value and business risks.

h) Assets received in recovery of credit, non-current assets held for sale and discontinued operations

Non-current assets and groups of non-current assets held for sale (groups of assets together with their respective liabilities, which include at least one non-current asset) and discontinued operations are classified as held for sale when there is an intention to sell the referred assets and liabilities and when the referred assets or groups of assets are available for immediate sale and their sale is highly probable.

Banco Montepio also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to their subsequent disposal, which are available for immediate sale and which sale is highly probable.

Immediately before their classification as non-current assets held for sale, the measurement of all the non-current assets or of all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and their fair value less costs to sell, with the unrealized losses being, in this manner, recorded in the profit or loss for the financial year. When the book value corresponds to the fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds to level 3.

Although the Bank intends to immediately sell all properties and other assets received in recovery of credit, during financial year 2019 the Bank changed the classification of these assets from non-current assets held for sale to the caption Other assets, due to their length of stay in the portfolio exceeding 12 months. However, the accounting method has not changed from that laid down above, with these being recorded at initial recognition at the lower of their fair value less costs to sell and the book value of the loan being recovered.

i) Leases (IFRS 16)

Definition of lease

The new definition of lease entails a focus on the control of the identified asset, i.e. an agreement constitutes or contains a lease if it conveys the right to control the use of an identified asset, i.e. substantially obtaining all the economic benefits of using same and the right to direct the use of this identified asset for a certain period of time in exchange for consideration.

Impact from the lessee's perspective

Banco Montepio recognizes for all leases, except for leases with a period of less than 12 months or for leases relating to assets of a reduced unitary value:

- a right-of-use asset, initially measured at cost, taking into account the Net Present Value (NPV) of the lease liability, plus payments made (fixed and/or variable) minus lease incentives received, penalties for termination (if reasonably certain), as well as any estimated costs to be borne by the lessee with the dismantling and removal of the underlying asset and/or with the restoration of the location where it is located. It is subsequently measured according to the cost model (subject to amortization according to the lease term of each agreement and to impairment tests);
- a lease liability, initially recorded at the present value of the future lease cash flows (NPV), which includes:
  - fixed payments, less lease incentives receivable;
  - variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date of the agreement;
- the amounts to be paid by the lessee as residual value guarantees;
- the exercise price of a call option if the lessee is reasonably certain to exercise that option;
- payments of lease termination penalties, if the lease term reflects the exercise of a lease termination option by the lessee.

When it is not possible to easily determine the interest rate implicit in the lease (paragraph 26 of IFRS 16), lease payments are discounted at the lessee's incremental financing interest rate, which incorporates the risk-free interest rate curve (swap curve), increased by a Banco Montepio risk spread, applied to the weighted average term of each lease agreement. For agreements with a termination date, such date is considered the lease termination date, and for other agreements without a termination date the period during which it will be enforceable is assessed. In the assessment of enforceability, the specific clauses of the agreements are considered as is the current legislation for Urban Leases.

It is subsequently measured as follows:

- by increasing its book value to reflect interest on same;
- by decreasing its book value to reflect lease payments;

- the book value is re-measured to reflect any revaluations or changes in the lease, as well as to incorporate the revision of lease payments that are, in substance, fixed and the revision of the lease term.

Banco Montepio re-measures a lease liability and calculates the related adjustment to the right-of-use asset whenever:

- there is a change in the lease term, or in the valuation of a call option on the underlying asset. In this situation, the lease liability is re-measured, discounting the revised lease payments and also using a revised discount rate;
- there is a change in the amounts payable under a residual value guarantee, or in the future lease payments resulting from a change in an index or rate used to determine such payments. In this situation, the lease liability is re-measured, discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments results from a change in variable interest rates, in which case a revised discount rate should be used);
- a lease agreement is modified but such modification in the lease is not accounted for as a separate lease. In this situation, the lease liability is re-measured, discounting the revised lease payments using a revised discount rate.

Banco Montepio did not make any adjustments for the financial years presented.

Right-of-use assets are amortized from the date of the agreement's entry into force to the end of the useful life of the underlying asset, or until the end of the lease term, if earlier. If the lease transfers ownership of the underlying asset, or if the cost of the right-of-use asset reflects the fact that Banco Montepio will exercise a call option, the right-of-use asset shall be amortized from the date of the agreement's entry into force to the end of the useful life of the underlying asset. Amortization begins on the date of the lease agreement's entry into force.

The recording of the lease agreements in the income statement is made in the following captions:

(iv) recording in Net interest income of the interest expense related to lease liabilities;

(v) recording in Other general and administrative expenses of the amounts related to short-term lease agreements and low-value asset lease agreements; and

(vi) recording in Depreciation and amortization of the amortization cost for the financial year of the right-of-use assets.

The recording of the lease agreements in the balance sheet is made in the following captions:

(iv) recording in Other tangible assets of the right-of-use assets recognized; and

(v) recording in Other liabilities of the amount of the lease liabilities recognized.

As regards the classification of the cash flows originated by the lease agreements, these are recorded in the statement of cash flows:

- in the caption Cash flows from operating activities – Costs with staff and suppliers includes amounts related to short-term and to low-value lease agreements;

- the caption Finance lease agreements includes amounts related to payments of the capital portion of the lease liabilities, as detailed in the statement of cash flows.

Impact from the lessor's perspective

In accordance with IFRS 16, lessors will continue to classify leases as finance or operating, implying that there are no significant changes from that defined in IAS 17

j) Leases (IAS 17)

Until 31 December 2018, and according to IAS 17, leases are classified as finance leases whenever their terms substantially transferred all the risks and rewards associated with the ownership of the assets to the lessees. The remaining leases are classified as operating. The classification of the leases is made in function of the substance and not the form of the agreements.

Finance leases

From the lessee's perspective, finance lease agreements are recorded at their inception as an asset and liability at the fair value of the leased asset, which is equivalent to the present value of the outstanding lease rentals. Lease rentals are composed of the financial charge and the amortization of the capital outstanding. The financial charge is allocated to the financial years during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each financial year.

From the lessor's perspective, assets held under finance leases are recorded in the balance sheet as lease principal receivable at an amount equal to the net finance lease investment. Lease rentals are composed of the financial income and the amortization of the principal outstanding. The recognition of the financial income reflects a constant periodic rate of return on the remaining net investment of the lessor.

Operating leases

From the lessee's perspective, Banco Montepio holds various operating lease agreements of real estate and motor vehicles. The payments made in the scope of these lease agreements are recognized in the caption General administrative expenses, during the useful life of the agreement, with no inclusion in the balance sheet of either an asset or a liability associated with the agreement celebrated.

k) Net gains/(losses) arising from financial operations (Net gains/(losses) arising from financial assets at fair value through other comprehensive income and Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss)

Net gains/(losses) arising from financial operations include gains and losses arising from financial assets and financial liabilities at fair value through profit or loss, namely fair value changes and interest on trading derivatives and embedded derivatives, as well as dividends received associated with these portfolios. This caption also includes gains and losses arising from the sale of debt instruments and of financial assets at fair value through other comprehensive income. The changes in fair value of hedging derivatives and hedged items, when applicable to fair value hedging, are also recognized in this caption.

l) Fee and commission income

Fee and commission income are recognized as revenue from contracts with customers to the extent the performance obligations are met:

1. When obtained and to the extent the services are provided, they are recognized in income in the financial year to which they relate (for example: account maintenance fees);
2. When they result from the execution of a significant act they are recognized as income when the respective service is complete and are recorded in the income statement on being charged (for example: foreign currency exchange, consultancy or loan assemblage/syndication);
3. When they are an integral part of the effective interest rate of a financial instrument, they are recognized in net interest income. Their characteristics are:

   (i) Commissions received on credit operations realized that are not valued at fair value through profit or loss (for example: valuation of guarantees, preparation and processing of documentation). These commissions are received in advance and are deferred and recognized over the life of the operation;

   (ii) Commissions agreed for the commitment to provide financing and the granting of credit is likely. These are commissions are received in advance and are deferred over the expected life of the financing. If the commitment expires without the operation having materialized, the commission is recognized in profit or loss;

   (vi) Commissions paid on the issuance of financial liabilities at amortized cost. These are included in the financial liabilities' amount, being recognized in profit or loss at the effective cost of the operation.

m) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognized in Banco Montepio's financial statements. Fee and commission income arising from this activity are recognized in the income statement in the period to which they relate.

n) Other tangible assets

Other tangible assets are recorded at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result for Banco Montepio. All repairs and maintenance expenses are charged to the income statement during the financial year in which they are incurred.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful lives:

	Number of years
Buildings held for own use	50
Improvements in leasehold buildings	10
Other fixed assets	4 to 10

Improvements in leasehold buildings are accounted for as tangible fixed assets and are depreciated at the lower of the useful lives of the assets and the term of the lease. Expenses incurred with the dismantling or removal of these assets are considered as part of the initial cost of the respective assets when they constitute significant amounts.

Whenever there is an indication that a tangible fixed asset might be impaired, its recoverable amount is estimated, and an impairment loss is recognized if the net value of the asset exceeds its recoverable amount (until 31 December 2018).

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use, this being calculated based on the present value of the future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

The impairment losses of tangible fixed assets are recognized in profit or loss for the period.

Gains or losses on the disposal of assets are determined by the difference between the realizable value and the book value of the asset and are recognized in the income statement.

o) Intangible assets

Software

Banco Montepio accounts as intangible assets the costs associated with software acquired from external entities and amortizes these on a straight-line basis over an estimated lifetime of between 3 and 6 years. Banco Montepio does not capitalize internal costs arising from software development.

p) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the trade date, with an insignificant risk of change in fair value, including cash and deposits with other credit institutions.

Cash and cash equivalents exclude mandatory deposits (restricted balances) with Central Banks.

q) Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the balance sheet when Banco Montepio has a legally enforceable right to offset the recognized amounts and the transactions can be settled on a net basis, simultaneously.

r) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate as at the reporting date. Foreign exchange differences arising on translation are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated into the respective functional currency at the foreign exchange rate on the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency at the foreign exchange rate on the date that the fair value was determined and recognized against profit or loss, except for financial assets at fair value through other comprehensive income, for which the difference is recognized against equity.

s) Post-employment and long-term benefits

Defined benefit plans

Banco Montepio has the responsibility to pay its employees old-age, disability and survival pensions, health benefits and death subsidy, in accordance with the terms and conditions of the Collective Labour Agreement (ACT) it signed. In 2016, amendments were made to this agreement, namely the change in the retirement age, in line with the General Social Security System and the attribution of an end-of-career award corresponding to 1.5 times the monthly remuneration received at the retirement date.

Arising from the signing of the Collective Labour Agreement (ACT) and subsequent amendments, Banco Montepio set up a Pension Fund to cover the liabilities assumed with pensions on retirement, disability and survival, healthcare benefits and death subsidy.

As from 1 January 2011, bank employees were integrated in the General Social Security System, which ensures their protection in maternity, paternity, adoption and old age. Protection associated with sickness, disability, survival and death remains under the banks' responsibility (Decree-Law no. 1-A/2011, of 3 January).

The contribution rate is 25.4%, 22.4% paid by Banco Montepio and 3.0% by the employees, replacing the Caixa de Abono de Família dos Empregados Bancários ("CAFEB") extinguished by the same Decree-Law. As a result, the pension rights of active employees came to be covered by the terms defined in the General Social Security System, considering the period of service rendered since 1 January 2011 and up to their retirement age. The differential vis-à-vis the minimum pension guaranteed, in accordance with the terms defined in the Collective Labour Agreement ("Acordo Colectivo de Trabalho") is supported by the banks.

Following the Government's approval of Decree-Law no. 127/2011, of 31 December, a three-party agreement between the Government, the Portuguese Bank Association and the Union of Bank Employees was established, regarding the transfer to the Social Security's domain of the liabilities with pensions under payment to retired employees and pensioners as at 31 December 2011.

This Decree-Law established that the liabilities to be transferred were the liabilities with pensions under payment, as at 31 December 2011, to retired employees and pensioners, at constant amounts (update rate of 0%) for the component foreseen in the Collective Labour Regulation Instrument ("IRCT"). The liabilities in respect of the updating of pensions, complementary benefits, contributions to the Social-Medical Assistance Services ("SAMS") on the retirement and survival pensions, death subsidy and the deferred survival pension are still under the responsibility of the Institutions.

In December 2016, Banco Montepio signed a new ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the General Social Security System, and the attribution of an end-of-career award which replaced the extinguished seniority bonus, as disclosed in note 48.

The actuarial calculation is made using the projected unit credit method and considering actuarial and financial assumptions, in accordance with the parameters required by IAS 19.

The liabilities are covered by the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A..

Banco Montepio´s net liability regarding the defined benefit pension plan and other benefits is calculated separately for each plan by estimating the amount of future benefits that each employee will receive in return for his/her service in the current and prior financial years. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates associated with high-quality bonds and with a similar maturity to the date of termination of the plan's liabilities. The net liability is determined after deducting the fair value of the assets of the Pensions Fund.

The interest income/(expense) with the pension plan is calculated by multiplying the net asset/(liability) with retirement pensions (liabilities less the fair value of the Fund's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned above. On this basis, the net interest income/(expense) includes the interest expense associated with retirement pension liabilities and the return expected from the Fund's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) gains and losses resulting from differences between the actuarial assumptions used and the amounts actually observed (experience gains and losses) and from changes in the actuarial assumptions and (ii) gains and losses arising from the difference between the return expected from the Fund's assets and the amounts obtained, are recognized against equity under other comprehensive income.

Banco Montepio recognizes in its income statement a net total amount that includes (i) the current service cost, (ii) the net interest income/(expense) from the pension plan, (iii) the effect of early retirement, (iv) past service costs and (v) the effects of any settlement or curtailment occurring during the financial year. The costs of early retirements correspond to an increase in liabilities due to the employee's retiring before reaching retirement age.

Other benefits not related to pensions, namely retired employees' health expenses and benefits attributed to spouses and descendants by death and expenses with house loans, are also considered in the calculation of the liabilities.

Payments to the Pension Fund are made by Banco Montepio on an annual basis and according to a schedule of contributions drawn up in order to assure the solvency of the Fund. The liability related to pensions under payment must be funded at a minimum level of 100% and at 95% for past service costs of active employees.

Defined contribution plan

As at 31 December 2019 and 2018, Banco Montepio has a defined contribution plan for employees who were admitted after 3 March 2009. This plan, designated as contributory, receives monthly and equal contributions, based on the effective remuneration: 1.5% to be made by the company and 1.5% to be made by the employee.

Variable remuneration of employees and members of the Board of Directors (bonus)

In accordance with IAS 19 - Employee benefits, the variable remuneration (profit-sharing, bonuses and other) attributed to employees and to the members of the Board of Directors is recognized in profit or loss in the year to which it relates.

Employment termination benefits

The occurrence that gives rise to this obligation is the termination of the employment relationship between the Bank and the employee as a consequence of a Bank decision, the creation of a valid expectation for the employee or the decision of an employee to accept benefits for an irrevocable offer from the Bank in return for terminating the employment contract.

Employment termination benefits are recognized as a liability and a non-recurring cost from the moment when the Bank cannot withdraw the offer made to the employee or from the moment when the costs are recognized for a restructuring that includes the payment of benefits for termination of the employment contract. These benefits are recorded as a liability in the caption Charges payable - Staff costs in the balance sheet up to the time of their settlement or until their transfer to the Pension liabilities.

End-of-career award

As a result of the signing of the new ACT on 5 July 2016, the seniority bonus was extinguished and Banco Montepio paid its employees the proportional bonus that would be due up to the date of the entry into force of the new ACT. As a replacement for seniority bonus, the new ACT provides for Banco Montepio to pay an end-of-career award due immediately prior to the employee's retirement if he retires at Banco Montepio's service, corresponding to 1.5 times the monthly remuneration at the time of payment.

The end-of-career award is accounted for by Banco Montepio in accordance with IAS 19 as another long-term employment benefit. The effects of the re-measurements and past service costs of this benefit are recognized in profit or loss for the year, treatment identical to that of the accounting model for seniority bonuses.

The amount of Banco Montepio's liabilities with this end-of-career award is also periodically estimated using the projected unit credit method, using actuarial assumptions based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined based on the same methodology described for the calculation of retirement pension liabilities.

t) Income taxes

Until 31 December 2011, Banco Montepio was an entity exempt from Corporate Income Tax (“IRC”), in accordance with paragraph a) of no. 1 of article 10 of the IRC Code. This exemption had been recognized under an Order of 3 December 1993 of the Secretary of State for Tax Affairs and confirmed by Law no. 10-B/96, of 23 March approving the State Budget for 1996.

With effect from 1 January 2012, Banco Montepio is now subject to the regime established by the Corporate Income Tax Code (“CIRC”). Additionally, deferred taxes resulting from timing differences between the accounting net income and the net income accepted by the Tax Authorities for IRC assessment purposes are accounted for whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax recognized in the income statement includes the current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case the corresponding income tax is recognized in equity. Deferred taxes recognized in equity arise from the revaluation of financial assets at fair value through other comprehensive income and from cash-flow hedging derivatives. Only deferred taxes related to fair value hedging derivatives are subsequently recognized in profit or loss at the same moment the gains and losses that originated the deferred taxes are recognized.

Current tax corresponds to the tax assessed on the taxable income for the financial year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxes assessed in respect of previous financial years.

Deferred taxes are calculated for timing differences between the book values of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes, using the tax rates approved or substantially approved at the balance sheet date and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for intangible assets with an indefinite life, which are not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither the accounting nor the taxable income and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the future, and to the extent that Banco Montepio does not exercise control over the period of the reversal of the differences.

Deferred tax assets are recognized when it is probable that future taxable income will be available to absorb the deductible timing differences for taxation purposes (including reportable taxable losses).

As established in IAS 12, paragraph 74, Banco Montepio offsets the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In the year 2018, Banco Montepio became the dominant company of the Group subject to Corporate Income Tax under the Special Taxation Regime of Groups of Companies ("Regime Especial de Tributação dos Grupos de Sociedades" ("RETGS")), constituted by the companies in which it holds a shareholding equal to or higher than 75% and which meet the conditions provided for in article 69 and following of the IRC Code.

The companies included in the RETGS calculate and record income tax as if they were taxed on a separate basis. The liabilities determined are, however, payable to the parent company of the tax group, Banco Montepio, which is responsible for the global calculation and self-assessment of the tax. Gains or losses arising from the application of this regime are recorded in each of the companies that originate them.

u) Segmental reporting

Banco Montepio adopted IFRS 8 – Operating Segments for the purpose of disclosing financial information by operating segments. An operating segment is a component of the Bank: (i) that engages in business activities from which it may earn revenues or incur costs; (ii) which operating results are regularly reviewed by the main responsible for Bank operating decisions regarding the allocation of resources to the segment and the assessment of it performance; and (iii) for which distinct financial information is available.

Given that the separate financial statements are presented together with those of the Group, and considering paragraph 4 of IFRS 8, Banco Montepio is not required to present information on a separate basis on the segments.

v) Provisions, contingent assets and liabilities

Provisions

Provisions are recognized when (i) Banco Montepio has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain liabilities), (ii) it is probable that its settlement will be required and (iii) a reliable estimate can be made of the amount of the obligation.

The measurement of provisions takes into consideration the principles defined in IAS 37 in respect of the best estimate of expected cost and the most likely result for the ongoing processes considering the risks and uncertainties inherent to the process. In cases where the discount effect is material, provisions correspond to the present value of the expected future payments, discounted at a rate that considers the risk associated with the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reversed through profit or loss in the proportion of the payments that cease to be probable.

Contingent assets

A contingent asset is a possible asset that arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events that are not entirely under the control of the entity.

Contingent liabilities

A contingent liability is an obligation that is:

- Possible, which arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events, which are not entirely under the control of the entity; or
- Present, which arises from past events, but is not recognized because:
    - It is unlikely that an outflow of resources incorporating economic benefits will be required to settle that obligation;
    - The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements, being, in accordance with IAS 37, disclosed whenever the possibility of an outflow of resources encompassing economic benefits is not remote.

w) Statement of cash flows

The concepts used in the presentation of the statements of cash flow are as follows:

- Cash Flows: Cash and cash equivalents include cash, deposits at Central Banks and other credit institutions, very short-term investments at credit institutions and unpaid cheques;~

- Operating Activities: the indirect method is used for the presentation of cash flows from operating activities, reflecting the flows of the typical activities of credit institutions, as well as other activities that do not qualify as investment or financing;

- Investment activities: the acquisition, sale or other disposals of long-term assets, such as financial shareholdings in subsidiaries and associated companies, the acquisition of tangible and intangible assets and other strategic investments not included in operating activities;

- Financing activities: activities that produce changes in Banco Montepio's medium- and long-term financing operations that are not part of the operating activities, such as securitized and subordinated debt, capital increases and dividend distributions.

x) Insurance and reinsurance brokerage services

Banco Montepio is duly authorized by the Insurance and Pension Funds Supervisory Authority ("Autoridade de Supervisão de Seguros e Fundos de Pensões" - "ASF") to provide insurance brokerage services, under the category of Tied Insurance Broker, in accordance with article 8, paragraph a), subparagraph i), of Decree-Law no. 144/2006, of 31 July, operating in the life and non-life insurance brokerage areas.

In the insurance brokerage services scope, Banco Montepio sells insurance contracts, receiving as remuneration for the services rendered brokerage commissions on insurance and investment contracts, which are defined in agreements/protocols established between Banco Montepio and the Insurance Companies.

The commissions received for the insurance brokerage services have the following typology:

1. commissions that include a fixed and a variable component. The fixed component is calculated by applying a predetermined rate to the amount of the subscriptions made by Banco Montepio and the variable component is calculated based on predetermined criteria, with the total annual commission being the sum of the commissions calculated monthly;
2. commissions in the form of profit-sharing in the results of the insurance contracts, which are calculated annually and paid by the Insurance Companies in the beginning of the year following that to which they relate.

Commissions received for insurance brokerage services are recognized on an accrual basis. Fees paid in a different period from that to which they relate are recorded as a receivable in the caption Other assets with a corresponding entry in the caption Fee and commission income – For insurance brokerage services.

y) Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of Banco Montepio by the weighted average number of ordinary shares outstanding. For the calculation of diluted earnings per share, when applicable, the weighted average number of ordinary shares outstanding is adjusted to reflect the effect of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The effect of the dilution translates into a reduction in earnings per share resulting from the assumption that convertible instruments are converted or that the options granted are exercised.

z) Subsequent events

The Bank analyses events occurred after the balance sheet date, that is, favourable and/or unfavourable events that occur between the balance sheet date and the date on which the financial statements were authorized for issue. Within this scope, two types of events can be identified:

i) those that provide proof of conditions that existed at the balance sheet date (events after the balance sheet date that give rise to adjustments); and

ii) those that are indicative of conditions that arose after the balance sheet date (events after the balance sheet date that do not give rise to adjustments).

Events that occur after the date of the financial statements that are not considered adjustable events, if significant, are disclosed in the notes to the financial statements.

aa) Significant judgements and estimates in the application of the accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors to apply judgment and make the necessary estimates in deciding which treatment is most appropriate. The most significant of these accounting estimates and judgments used in the application of the accounting policies by Banco Montepio are discussed in the following paragraphs in order to improve understanding of how their application affects Banco Montepio's reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, Banco Montepio´s reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present Banco Montepio's financial position and results fairly in all material aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

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

The determination of impairment losses of financial instruments involves judgments and estimates regarding the following aspects, among others:

a) *Significant increase in credit risk:*

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

b) *Definition of asset groups with common credit risk characteristics:*

When the expected credit losses are measured on a collective basis, financial instruments are grouped based on common risk characteristics. The Bank monitors the appropriateness of credit risk characteristics on a regular basis to assess whether they maintain their similarity. This is necessary to ensure that in the event of a change in credit risk characteristics, the asset segmentation is revised. This revision may result in the creation of new portfolios or the transfer of assets to existing portfolios that better reflect their credit risk characteristics.

c) *Definition of the number and relative weighting of prospective information for each type of product/market and determination of relevant prospective information:*

In estimating the expected credit losses, the Bank uses reasonable and sustainable forward-looking information that is based on assumptions about the future evolution of different economic drivers and how each driver impacts the others.

d) *Probability of default:*

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

e) *Loss given default:*

This corresponds to an estimate of the loss in a default scenario, being determined by the difference between the contractual and the expected cash flows that the Bank expects to receive, through cash flows generated by the Customer's business or from the credit collateral. The calculation of the estimated loss given default is based, among other things, on the different recovery scenarios, historical information, the costs involved in the recovery process and the estimated valuation of the collateral associated with credit operations.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of the impairment losses recognized and presented in notes 20, 21, 24 and 26, with a consequent impact in the income statement of Banco Montepio.

Fair value of derivative financial instruments and other financial assets measured at fair value

Fair values are based on listed market prices, if available, being, in their absence, determined based either by recent transaction prices, similar and realized under market conditions or based on discounting techniques applied to future cash flows which take into account market conditions, time value, yield curve and volatility factors. These methodologies may require assumptions or judgments in the estimation of fair value. Consequently, the use of different methodologies or of different assumptions or judgments in applying a particular model could result in financial results different from those reported in notes 22, 23 and 25. The detail of the fair value calculation of derivative financial instruments and other financial assets carried at fair value is presented in note 47.

Impairment of investments in subsidiaries and associated companies

Banco Montepio assesses the recoverable value when there are signs of evidence of impairment. Impairment losses are assessed based on the difference between the recoverable value of the investments in subsidiaries or associated companies and their book value. Impairment losses identified are recorded against profit or loss and subsequently reversed through profit or loss if the amount of the estimated loss is reduced in a subsequent period.

The recoverable value is determined based on the higher of the value in use of the assets and the fair value less costs to sell, and is calculated using valuation methodologies, supported by discounted cash flow techniques, considering market conditions, the time value and business risks, which require the use of certain assumptions or judgment in establishing the fair value estimates.

Different methodologies and the use of different assumptions and estimates could result in a different level of impairment losses being recognized and presented in note 27, with the consequent impact on the income statement of Banco Montepio.

Income taxes

Significant interpretations and estimates are required in determining the global amount of corporate income taxes. There are various transactions and calculations for which the assessment of the ultimate tax payable is uncertain during the ordinary course of business. The Bank complies with the guidelines of IFRIC 23 - Uncertainties related to the treatment of income tax related to the determination of taxable income, tax bases, tax losses to be carried forward, tax credits to be used and tax rates in scenarios of uncertainty regarding income tax treatment, with no material impact on its financial statements having resulted from the application of same.

Different interpretations and estimates could result in a different level of corporate income taxes, current and deferred, to those recognized in the financial year and presented in note 31. This aspect has an increased relevance in the deferred tax recoverability analysis, in which the Bank considers projections of future taxable income based on a set of assumptions, including estimated pre-tax income, adjustments to the tax base, the evolution of tax legislation and its interpretation. Accordingly, the recoverability of deferred tax assets depends on the implementation of the strategy of the Bank’s Board of Directors, namely the ability to generate the estimated taxable income, the evolution of tax legislation and its respective interpretation.

Law no. 98/2019, of 4 September was approved, establishing the new tax regime of credit impairment and provisions for guarantees for tax periods beginning on or after 1 January 2019, providing the approximation between the accounting and tax rules for the purpose of deducting costs in respect of the reinforcement of credit impairment. Until the end of financial year 2023, the rules in force until 2018 will continue to apply, unless the option to apply the new regime is exercised in advance. Banco Montepio did not opt for the application of the new tax regime for impairment, for which reason in the estimated taxable income for financial year 2019 considers the tax rules in force until 2018.

In the future taxable income projections, namely for the purpose of the deferred tax asset recoverability analysis carried out as at 31 December 2019, the tax rules for impairment in force on each date, identical to those in force in financial years 2015, 2016 and 2017, were considered, with these, through Decree-Laws published at the end of each of those years, adopting the limits set forth in Bank of Portugal Notice no. 3/95. In 2018, the Bank adopted IFRS 9 - Financial Instruments, and since in this respect there is no transitional regime that establishes the tax treatment of transition adjustments to IFRS 9, the treatment given resulted from the Bank's interpretation of the application of the general rules of the IRC Code.

The Portuguese Tax and Customs Authority is entitled to review the annual taxable income assessment made by Banco Montepio for a period of four years, save where any deduction or tax credit has been made, in which case the period is that of the exercise of that right. Hence, corrections to the assessments may occur, mainly as a result of differences in interpretation of tax law. The Board of Directors considers it improbable that these will have a materially relevant effect on the financial statements.

Pensions and other post-employment and long-term benefits

The determination of the pension payment liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as the discount rate, pension and salary growth rates and mortality tables, estimated return on investments and others factors that may have an impact on the pension plan costs and liabilities.

Changes to these assumptions could have a significant impact on the amounts determined and presented in note 48.

Classification and valuation of assets received in recovery of credit and non-current assets held for sale

The classification of the real estate received in recovery of credit and non-current assets held for sale is determined in accordance with IFRS 5 and of the investment properties in accordance with IAS 40.

Assets received in recovery of credit and non-current assets held for sale are measured at the lower amount between their fair value net of selling costs and the book value of the loan on the date the asset is received in recovery. The fair value is determined based on periodic assessments made by external experts registered with the CMVM. Different methodologies and assumptions could have an impact on the classification and on the determination of the assets’ fair value, which are presented in notes 28 and 32.

Provisions

The measurement of provisions considers the principles set out in IAS 37 regarding the best estimate of the expected cost, the most likely outcome of ongoing litigation and considering the risks and uncertainties inherent in the processes. Different assumptions and judgments could have an impact on the calculation of the amount of the provisions, which are presented in note 38.

2 Net interest income and net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income

The existing IFRS require a separate disclosure of net interest income, net gains/(loss) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income, as presented in notes 3, 6 and 7. A particular business activity can generate impacts either in the net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income or in the net interest income captions. Therefore, the disclosure now presented highlights the contribution of the different business activities to the net interest income and to the net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income. The combined analysis of this caption is presented as follows:

(Euro thousand)

	2019	2018
Net interest income	201 910	196 610
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	42 732	52 841
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	42 210	5 531
	286 852	254 982

3 Net interest income

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Interest and similar income		
Loans and advances to customers	261 318	299 353
Other financial assets at amortized cost	13 028	11 634
Deposits and other loans and advances	9 661	17 939
Financial assets held for trading	8 616	14 258
Financial assets at fair value through other comprehensive income	6 699	6 244
Hedging derivatives	6 559	6 563
Financial assets at fair value through profit or loss	141	251
Other interest and similar income	76	79
	306 098	356 321
Interest and similar expense		
Deposits from customers	33 165	54 713
Financial liabilities related to transferred assets	25 119	47 320
Deposits from central banks and other credit institutions	13 523	23 421
Other subordinated debt	11 803	1 152
Debt securities issued	8 842	16 923
Financial liabilities held for trading	7 125	12 474
Hedging derivatives	3 549	3 707
Lease liabilities	1 061	-
Other interest and similar expense	1	1
	104 188	159 711
Net interest income	201 910	196 610

The caption Interest and similar income – Loans and advances to customers, in 2019, includes, respectively, the amount of Euro 16,309 thousand and the amount of Euro 1,772 thousand (2018: Euro 18,675 thousand and Euro 2,533 thousand), related to commissions and to other gains/(losses), which are accounted for under the effective interest rate method, as referred to in the accounting policy described in note 1 b).

The caption Interest and similar income - Financial assets at fair value through profit or loss, in 2019, includes the amount of Euro 141 thousand (2018: Euro 251 thousand) related to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

The caption Interest and similar income – Loan and advances to customers, in 2019, includes the amount of Euro 19,397 thousand (2018: Euro 19,932 thousand) related to customers classified under stage 3, in accordance with the accounting policy described in note 1 b).

The caption Interest and similar expense – Lease liabilities refers to the interest cost related to the lease liabilities recognized in the scope of IFRS 16, as indicated in accounting policy 1 i) and note 55.

4 Dividends from equity instruments

In 2019, this caption records the amount of Euro 7,631 thousand (2018: Euro 8,437 thousand) which includes Euro 2,375 thousand (2018: Euro 3,325 thousand) related to dividends received from the company Almina and Euro 3,868 thousand (2018: Euro 4,332 thousand) related to dividends received from the company Monteiro Aranha, S.A.

5 Net fee and commission income

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Fee and commission income		
From banking services	103 238	107 598
From transactions on behalf of third parties	23 145	27 923
From insurance brokerage services	10 223	7 080
Guarantees provided	4 814	5 358
Other fee and commission income	1 921	198
	143 341	148 157
Fee and commission expense		
From banking services rendered by third parties	18 094	16 792
From transactions with securities	468	796
Other fee and commission expense	2 037	6 969
	20 599	24 557
Net fee and commission income	122 742	123 600

In 2019 and 2018, the caption Insurance brokerage services has the following breakdown:

(Euro thousand)

	2019	2018
Life insurance	4 176	3 535
Non-life insurance	6 047	3 545
	10 223	7 080

The remuneration of insurance brokerage services was received in full, in cash, and all the commissions resulted from insurance intermediation for Lusitania, Companhia de Seguros, S.A. and for Lusitania Vida, Companhia de Seguros, S.A.

6 Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss

The amount of this caption has the following breakdown:

(Euro thousand)

	2019			2018		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	4 133	2 798	1 335	4 192	2 867	1 325
Issued by other entities	152	23	129	70	854	(784)
Shares	1 301	1 108	193	1 827	2 669	(842)
Investment units	532	17	515	156	379	(223)
	6 118	3 946	2 172	6 245	6 769	(524)
Derivative financial instruments						
Interest rate contracts	61 286	59 946	1 340	64 661	64 939	(278)
Exchange rate contracts	21 385	21 506	(121)	30 548	31 385	(837)
Futures contracts	2 942	4 004	(1 062)	4 926	4 856	70
Option contracts	1 944	2 128	(184)	1 088	1 111	(23)
Commodities contracts	1 039	145	894	1 010	-	1 010
	88 596	87 729	867	102 233	102 291	(58)
Financial assets not held for trading mandatorily at fair value through profit or loss						
Investment units	14 719	5 480	9 239	14 820	7 754	7 066
Loans and advances to customers	1 021	2 143	(1 122)	986	-	986
	15 740	7 623	8 117	15 806	7 754	8 052
Other financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	-	-	-	-	388	(388)
Shares	(36)	64	(100)	36	-	36
Securitization units	99 739	68 693	31 046	44 421	-	44 421
Loans and advances to customers	189	36	153	91	197	(106)
	99 892	68 793	31 099	44 548	585	43 963
Financial liabilities at fair value through profit or loss						
Deposits from customers	11	-	11	22	-	22
Debt securities issued	2 428	2 273	155	546	55	491
	2 439	2 273	166	568	55	513
Hedging derivatives						
Interest rate contracts	38 042	32 924	5 118	54 871	47 189	7 682
	38 042	32 924	5 118	54 871	47 189	7 682
Hedged financial liabilities						
Debt securities issued	10 197	15 004	(4 807)	11 070	17 857	(6 787)
	10 197	15 004	(4 807)	11 070	17 857	(6 787)
	261 024	218 292	42 732	235 341	182 500	52 841

Banco Montepio recognizes in profit or loss the day one profit, generated primarily by the intermediation of derivative and foreign exchange financial products, since the fair value of these instruments, both on the date of initial recognition or subsequently, is determined based solely on observable market variables and reflects Banco Montepio’s access to the wholesale financial market.

7 Net gains/(losses) arising from financial assets at fair value through other comprehensive income

The amount of this caption has the following breakdown:

(Euro thousand)

	2019			2018		
	Gains	Losses	Total	Gains	Losses	Total
Fixed-income securities						
Bonds						
Issued by public entities	45 297	3 223	42 074	13 138	7 723	5 415
Issued by other entities	136	-	136	354	238	116
	45 433	3 223	42 210	13 492	7 961	5 531

In 2019, the caption Bonds – Issued by public entities includes net capital gains obtained on the sale of Portuguese sovereign bonds in the amount of Euro 41,329 thousand, of Spanish sovereign bonds in the amount of Euro 144 thousand and of Greek sovereign bonds in the amount of Euro 1,716 thousand and capital losses on Italian sovereign bonds in the amount of Euro 1,115 thousand. In 2018, this caption included capital gains in the amount of Euro 7,905 thousand generated on the sale of Portuguese sovereign bonds and Euro 2,898 thousand on the sale of Spanish sovereign bonds, and capital losses in the amount of Euro 5,388 on the sale of Italian and Greek sovereign debt.

8 Net gains/(losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	2019			2018		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	16 682	14 798	1 884	56 524	60 419	(3 895)

This caption includes the results arising from the restatement of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 r).

9 Net gains/(losses) from sale of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Disposal of financial assets at amortized cost	10 024	-
Disposal of other assets	6 097	(128)
Disposal of loans and advances to customers	7 401	(5 239)
Disposal of non-current assets held for sale	-	14 488
	23 522	9 121

In 2019, the caption Disposal of financial assets at amortized cost includes the capital gains realized on the sale of Portuguese sovereign bonds of Euro 9,983 thousand and of Italian sovereign debt of Euro 41 thousand.

In 2019, the caption Disposal of other assets includes the result of the sale of real estate included in assets received in recovery of credit that were previously classified in the caption Non-current assets held for sale, as per note 28, and that in 2019 were reclassified to the caption Other assets, as per note 32. In 2018, the result generated by the sale of real estate is presented in the caption Disposal of non-current assets held for sale.

In 2019, the caption Disposal of loans and advances to customers records the gain realized on the disposal of a portfolio of loans and advances to customers that was in default in the amount of Euro 10,648 thousand, as described in note 21.

In 2018, the caption Disposal of loans and advances to customers recorded a loss on the disposal of a portfolio of loans and advances to customers that was in default in the amount of Euros 4,904 thousand, as described in note 21.

10 Other operating income/(expense)

The amount of this caption has the following breakdown:

	(Euro thousand)	
	2019	**2018**
Other operating income		
Management fees on demand deposits	5 517	6 783
Services rendered	5 101	5 282
Reimbursement of expenses	2 168	2 296
Repurchase of own issues	154	955
Other	17 340	10 182
	30 280	25 498
Other operating expenses		
Contributions:		
Banking sector	9 330	10 642
Ex-ante to the Single Resolution Fund	6 508	8 051
National Resolution Fund	4 156	2 535
Deposits Guarantee Fund	22	21
Revaluation of investment properties	9 579	12 823
Servicing and expenses with recovery of loans	5 052	6 500
Expenses with issuances	1 213	1 238
Taxes	742	1 012
Donations and memberships	696	631
Others	6 390	6 557
	43 688	50 010
Other operating income/(expense)	(13 408)	(24 512)

The caption Contribution to the Banking Sector is estimated in accordance with the terms of Law no. 55-A/2010. The amount payable is determined based on: (i) the average annual liability recorded in the balance sheet less the core capital (Tier 1) and the supplementary capital (Tier 2) and the deposits covered by the Deposits Guarantee Fund; and (ii) the notional amount of the derivative financial instruments.

The caption Contribution ex-ante to the Single Resolution Fund corresponds to the annual contribution, determined in accordance with number 1 of article 153-H of the Legal Framework of Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" – "RGICSF"), which transposed articles 100(4)(a) and 103(1) of Directive 2015/59/EU of the European Parliament and of the Council, of 15 May 2014, and article 20 of Delegated Regulation (EU) no. 2015/63 of the Commission, of 21 October 2014 ("Delegated Regulation") and with the conditions provided for in Implementing Regulation 2015/81 of the Council, of 19 December 2014 ("Implementing Regulation").

This contribution was determined by the Bank of Portugal, in its quality as national resolution authority, based on the methodology defined in articles 4, 13 and 20 of the Delegated Regulation. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund by 30 June of each year, as stipulated in the Agreement for the Transfer and Mutualization of the contributions to the Single Resolution Fund, signed in Brussels on 21 May 2014 and approved by Portuguese National Assembly Resolution 129/2015, of 3 September, pursuant to article 67(4) of Regulation (EU) no. 806/2014 of the European Parliament and of the Council, of 15 July 2014 ("MUR Regulation").

In addition, it is the responsibility of the Single Resolution Council, in cooperation with the Bank of Portugal, in its quality as national resolution authority, to calculate these contributions on an annual basis, pursuant to and for the purposes of article 70(2) of the MUR Regulation. Banco Montepio opted, in financial years 2019 and 2018, to use irrevocable payment commitments, in the proportion of 15% of the contribution amount, as provided for in article 8(3) of the Implementing Regulation. On this basis, in 2019, Banco Montepio settled Euro 6,024 thousand (2018: Euro 4,886 thousand), in the form of irrevocable payment commitments, recorded under the caption Loans and advances to credit institutions abroad - Term deposits, as disclosed in notes 20 and 56. For the purpose of irrevocable payment commitments only cash collateral is accepted.

The caption Contribution to the National Resolution Fund corresponds to mandatory periodic contributions, in accordance with Decree-Law no. 24/2013. The periodic contributions are determined using a base rate, determined based on an Instruction of the Bank of Portugal, which may be adjusted in function of the credit institution's risk profile, that is to be applied in each year on the objective incidence base of said contributions. The periodic contributions have as incidence base the liabilities of the credit institutions participating in the Fund, defined in accordance with article 10 of said Decree-Law, less the liability elements integrating Tier 1 and Tier 2 and the deposits covered by the Deposits Guarantee Fund.

The caption Other operating costs - Servicing and expenses with the recovery of loans registers the servicing costs charged by third parties related to a portfolio of non-performing loans.

11 Staff costs

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Remuneration	105 493	103 436
Mandatory social charges	31 529	31 220
Charges with the Pension Funds	6 957	8 763
Other staff costs	3 475	3 489
	147 454	146 908

In 2018, the indemnities paid to the members of the previous Executive Board of Directors and to the General and Supervisory Board, who in both cases were on active duty until 20 March 2018, amounted to Euro 1,148 thousand and Euro 455 thousand, respectively.

In 2019 and 2018, the members of the Corporate Bodies did not receive any variable remuneration. First-line managers are considered Other key management staff.

The costs with remuneration and other benefits, including the respective social charges, attributed to the General Meeting Board, the Board of Directors (including the members of the Audit Committee) and Other key management staff, during financial year 2019, are presented as follows:

(Euro thousand)

	General Meeting Board	Board of Directors	Other key management staff	Total
Remuneration and other short-term benefits	7	3 118	3 230	6 355
Pension costs	-	22	93	115
Costs with healthcare benefits (SAMS)	-	16	55	71
Social Security Charges	1	656	707	1 364
	8	3 812	4 085	7 905

The costs with remuneration and other benefits, including the respective social charges, attributed to the General Meeting Board, the previous General and Supervisory Board, the Board of Directors (including the members of the Audit Committee), the previous Executive Board of Directors and Other key management staff, during financial year 2018, are presented as follows:

(Euro thousand)

	General Meeting Board	Previous General and Supervisory Board	Board of Directors	Previous Executive Board of Directors	Other key management staff	Total
Remuneration and other short-term benefits	7	284	1 789	528	2 869	5 477
Pension costs	-	-	20	-	112	132
Costs with healthcare benefits (SAMS)	-	-	9	10	49	68
Social Security charges	2	51	373	118	630	1 174
	9	335	2 191	656	3 660	6 851

In 2018, the remuneration earned by the members of the General and Supervisory Board during the period in which they were in office amounted to Euro 335 thousand.

As at 31 December 2019, loans granted by Banco Montepio to members of the Board of Directors (including members of the Audit Committee) amounted to Euro 664 thousand (31 December 2018: Euro 500 thousand)

and to Other key management staff to Euro 3,600 thousand (31 December 2018: Euro 2,944 thousand). As at 31 December 2018, loans granted by Banco Montepio to the previous members of the Corporate Bodies were as follows: to members of the Executive Board of Directors (until 20 March 2018) this amounted to Euro 132 thousand and to members of the General and Supervisory Board (until 20 March 2018) this amounted to Euro 2,034 thousand, as described in note 50.

The average number of employees at Banco Montepio's service during financial years 2019 and 2018, distributed by broad professional categories, was as follows:

	2019	2018
Administration and Coordination	212	206
Senior management	628	648
Technical staff	1 343	1 330
Administrative staff	1 328	1 385
Auxiliary staff	47	51
	3 558	3 620

12 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Rental costs	1 298	10 505
Specialized services		
IT services	11 064	9 788
Independent work	3 759	3 589
Other specialized services	12 313	16 379
Communication costs	5 829	5 189
Maintenance and repairs	4 164	4 495
Water, energy and fuel	3 833	3 972
Advertising costs	2 308	2 871
Transportation	2 683	2 585
Consumables	1 064	1 365
Travel, accommodation and entertainment expenses	956	915
Insurance	849	828
Training	358	485
Other general and administrative costs	4 796	4 976
	55 274	67 942

The caption Rental costs includes, in 2019, the amount of Euro 783 thousand related to short-term lease agreements, of which Euro 99 thousand correspond to leasehold rentals and Euro 684 thousand to rentals paid on motor vehicles, in both cases used by Banco Montepio as lessee. In 2018, the caption Rental costs included the amount of Euro 8,077 thousand corresponding to leasehold rentals used by Banco Montepio as lessee.

As part of the development of its activity, the Bank records under the caption Other specialized services the costs incurred with the hiring of external consultants, with the payment of services related to databases, with charges associated with processing carried out by SIBS and also with costs related to the payment of fees and retainer fees.

The caption Other specialized services also includes fees invoiced by the Statutory Auditor of the Group in the scope of its functions of performing the statutory audit of the accounts, as well as other services, including those rendered by its network, as follows (excluding VAT):

(Euro thousand)

	2019	2018
Audit		
Statutory audit services	1 297	1 259
Services other than statutory audit legally required		
Issue of opinions on the internal control system	418	334
Issue of opinions to regulatory authorities and support with work carried out for supervisory purposes	540	305
Issue of certificates and diverse reports	-	58
	958	697
Services other than statutory audit not legally required	807	394
	3 062	2 350

The caption Other general and administrative expenses includes, in 2019, the amount of Euro 2,919 thousand (2018: Euro 3,132 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

In 2018, Banco Montepio has several motor vehicle operating leasing agreements. Payments made under such leasing agreements are recognized in profit or loss over the period of the agreement. The minimum future payments for irrevocable operating lease agreements, by residual maturity, amounted to Euro 3,857 thousand, of which up to 1 year Euro 1,292 thousand and from 1 to 5 years Euro 2,565 thousand.

13 Depreciation and amortization for the financial year

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Intangible assets		
Software	14 045	12 888
Other tangible assets		
Real estate		
For own use	3 083	3 044
Leasehold improvements in rented buildings	558	1 156
Equipment		
IT equipment	3 499	2 978
Fixtures	1 539	1 302
Furniture	183	345
Security equipment	135	179
Machinery and tools	15	10
Transportation	1	-
Assets under operating leases	-	8
Right-of-use assets		
Real estate	7 124	-
Motor vehicles	1 130	-
Other tangible assets	-	1
	17 267	9 023
	31 312	21 911

In 2019, as a result of the application of IFRS 16 as from 1 January 2019, the caption Right-of-use assets corresponds, essentially, to real estate (branches and central buildings) and the car fleet, being amortized according to the period of each lease agreement, as indicated in accounting policy 1 i) and in note 55.

14 Impairment of loans and advances

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Other loans and advances to credit institutions (note 20)	-	56 961
Charge for the financial year net of reversals	(2 154)	2 868
	(2 154)	2 868
Loans and advances to customers (note 21)		
Charge for the financial year net of reversals	147 522	103 179
Recovery of loans and interest	(6 751)	(9 905)
	140 771	93 274
	138 617	96 142

This caption records the estimate of the expected losses determined according to the accounting policy described in note 1 c).

During 2019, Banco Montepio revisited the models and processes associated with the assessment of impairment for credit risks, including, namely, the definitions of staging, EADs and LGDs.

The results obtained from this review determined the need for the Bank to restate the financial statements with reference to 31 December 2018.

In the scope of this review, impacts with accounting relevance were assessed in the caption Impairment of loans and advances in financial year 2018 in the amount of Euro 1,101 thousand.

15 Impairment of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Impairment of financial assets at fair value through other comprehensive income (note 24)		
Charge for the financial year net of reversals	7 854	1 275
Impairment of other financial assets at amortised cost (note 26)		
Charge for the financial year net of reversals	1 613	2 679
	9 467	3 954

16 Impairment of other assets

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Impairment of investments in associated companies (note 27)		
Charge for the financial year	7 926	322
Reversals for the financial year	(2 211)	(30 821)
	5 715	(30 499)
Impairment of non-current assets held for sale (note 28)		
Charge for the financial year	-	13 655
Reversals for the financial year	-	(7 994)
	-	5 661
Impairment of other assets (note 32)		
Charge for the financial year	12 858	9 219
Reversals for the financial year	(4 312)	(2 080)
	8 546	7 139
	14 261	(17 699)

As a result of the transfer of Non-current assets held for sale to the caption Other assets, as referred in notes 28 and 32, the amount of the impairment of these assets was also booked in Other assets.

17 Other provisions

The amount of this caption has the following breakdown:

(Euro thousand)

	2019	2018
Provisions for guarantees and commitments (note 38)		
Charge for the financial year	14 998	11 660
Reversals for the financial year	(15 135)	(13 693)
	(137)	(2 033)
Provisions for other risks and charges (note 38)		
Charge for the financial year	4 235	10 035
Reversals for the financial year	(4 582)	(4 936)
	(347)	5 099
	(484)	3 066

18 Cash and deposits at central banks

This caption is presented as follows:

(Euro thousand)

	2019	2018
Cash	194 529	194 596
Deposits at central banks		
Banco de Portugal	809 119	1 416 038
	1 003 648	1 610 634

The caption Deposits at central banks – Banco de Portugal includes the amount to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the value of the deposits and other effective liabilities. The cash reserve constitution regime, in accordance with directives of the European Central Bank System for the Eurozone, establishes the maintenance of a deposit at the Central Bank equivalent to 1% of the average value of the deposits and other liabilities, over each reserve constitution period.

19 Deposits and loans and advances to credit institutions repayable on demand

This caption is presented as follows:

(Euro thousand)

	2019	2018
Credit institutions in Portugal	1 245	1 172
Credit institutions abroad	34 147	47 409
Amounts to be collected	16 601	26 991
	51 993	75 572

The caption Amounts to be collected refers to cheques drawn by third parties on other credit institutions and which are due for collection.

20 Other loans and advances to credit institutions

This caption is presented as follows:

(Euro thousand)

	2019	2018
Loans and advances to credit institutions in Portugal		
Loans	358 937	268 660
Term deposits	6 416	1 987
Other loans and advances	25 001	10 000
	390 354	280 647
Loans and advances to credit institutions abroad		
CSA's	29 109	27 179
Term deposits	37 964	9 226
Reverse repos	54 199	2 190
Subordinated loans and advances	-	701
Other loans and advances	22 036	20 622
	143 308	59 918
	533 662	340 565
Impairment for credit risk of loans and advances to credit institutions	(1 629)	(3 783)
	532 033	336 782

The caption Loans and advances to credit institutions in Portugal - Loans, includes loans made to subsidiaries of Banco Montepio.

Credit Support Annexes ("CSA's") are contracts that regulate the delivery, reception and monitoring of collateral delivered/received to cover the exposure of a counterparty of the contract to the other, as a result of open positions in over-the-counter derivatives. As provided for in most CSA's celebrated by Banco Montepio, this collateral might be in the form of securities or cash, with, however, in Banco Montepio's case, all collaterals being in cash.

Collaterals in cash delivered (constitution of reinforcement) or received (collateral release) result from the changes in the fair value of the various derivative instruments that Banco Montepio negotiated with each one of the counterparties and are materialized through an effective transfer of cash, through TARGET2 transfers to each one of the counterparties in question, as a guarantee/security of Banco Montepio's exposure vis-à-vis the counterparty.

On this basis, and in the scope of the operations of derivative financial instruments with institutional counterparties, and as established in the respective contracts, Banco Montepio holds an amount of Euro 29,109 thousand (31 December 2018: Euro 27,179 thousand) related to other loans and advances to credit institutions given as collateral for the above-mentioned operations.

The caption Loans and advances to credit institutions abroad – Term deposits includes the amount of Euro 6,024 thousand (31 December 2018: Euro 4,886 thousand) related to a deposit made and accepted as collateral in the scope of the Contribution ex-ante to the Single Resolution Fund, as per notes 10 and 56.

Impairment movements for credit risks of Other loans and advances to credit institutions are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	3 783	-
IFRS 9 transition adjustment	-	915
Charge for the financial year net of reversals	(2 154)	2 868
Balance on 31 December	1 629	3 783

The analysis of the caption Other loans and advances to credit institutions by residual maturity of the operations is as follows:

(Euro thousand)

	2019	2018
Up to 3 months	230 021	81 466
3 to 6 months	216 644	37 433
6 months to 1 year	1 100	195 741
1 to 5 years	64 383	8 844
More than 5 years	4 000	4 000
Undetermined	17 514	13 081
	533 662	340 565

In 2019, the Other loans and advances to banks were remunerated at the average rate of 0.79% (2018: 0.86%).

21 Loans and advances to customers

This caption is presented as follows:

(Euro thousand)

	2019	2018
Corporate		
Loans not represented by securities		
Loans	2 546 888	2 697 982
Current account loans	424 086	447 497
Finance leases	278 249	284 406
Discounted bills	63 262	66 049
Factoring	196 586	175 157
Overdrafts	1 935	7 011
Other loans	525 717	618 267
Loans represented by securities		
Commercial paper	270 009	410 790
Bonds	153 687	169 922
Retail		
Mortgage loans	5 771 290	6 170 438
Finance leases	37 222	38 276
Consumer credit and other loans	652 411	722 549
	10 921 342	11 808 344
Value correction of assets subject to hedging operations	46	(107)
Past due loans and advances and interest		
Less than 90 days	94 169	36 815
More than 90 days	668 490	893 486
	762 659	930 301
	11 684 047	12 738 538
Impairment for credit risks	(762 877)	(969 740)
	10 921 170	11 768 798

As at 31 December 2019, the caption Loans and advances to customers includes the amount of Euro 2,719,463 thousand (31 December 2018: Euro 2,728,028 thousand) allocated to the issue of covered bonds realized by Banco Montepio, as referred to in note 36.

As at 31 December 2019, loans and advances, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that Banco Montepio granted to its shareholders and to related parties including companies of the consolidation perimeter, amounted to Euro 80,686 thousand (31 December 2018: Euro 318,106 thousand), as described in note 50. The celebration of business between Banco Montepio and its shareholders or with individual or legal persons related to these, according to article 20 of the Portuguese Securities Code, regardless of the value, is always submitted to deliberation and assessment by the Board of Directors and the Audit Committee, under a proposed made by the commercial network, supported by analyses and opinions as to the compliance with the limit established in article 109 of the Legal Framework of Credit Institutions and Financial Companies issued by the Risk Department. The impairment for credit risks related to these contracts amounts to Euro 208 thousand as at 31 December 2019 (31 December 2018: Euro 16,348 thousand).

During financial year of 2019, Banco Montepio sold a portfolio of loans and advances to customers that were in default and that were registered on- and off-balance sheet, which total exposure amounted to Euro 316,634 thousand, having generated a capital gain of Euro 10,648 thousand, as described in note 9.

During financial year 2018, Banco Montepio sold a portfolio of loans and advances to customers that were in default and that were registered on- and off-balance sheet, which total exposure amounted to Euro 239,144 thousand, having generated a capital loss of Euro 4,904 thousand, as described in note 9.

As at 31 December 2019, the caption Loans and advances to customers includes the amount of Euro 1,962,407 thousand (31 December 2018: Euro 2,261,479 thousand) related to loans and advances that were the object of securitization and that, in accordance with the accounting policy outlined in note 1 b), were not the object of derecognition, as described in note 51.

The caption Value correction of assets subject to hedge operations contains the fair value of the part of the portfolio that is hedged. This appreciation is accounted for through the income statement, in accordance with the accounting policy described in note 1 c). Banco Montepio periodically tests the effectiveness of the existing hedging relationships.

The caption Loans and advances to customers includes loans recorded at fair value through profit or loss in the amount of Euro 1,207 thousand (31 December 2018: Euro 15,139 thousand).

As at 31 December 2019, the fair value adjustment amounted to a negative Euro 46 thousand (31 December 2018: Euro 107 thousand), and the impact on profit and loss in 2019 was positive in the amount of Euro 153 thousand (2018: negative in Euro 106 thousand), as per note 22.

The fair value of the Loans and advances to customers' portfolio is presented in note 47.

The analysis of the caption Loans and advances to customers, by interest rate type, as at 31 December 2019 and 2018, is as follows:

(Euro thousand)

	2019	2018
Variable-rate loans and advances	10 356 789	11 116 203
Fixed-rate loans and advances	1 327 258	1 622 335
	11 684 047	12 738 538

The analysis of Past due loans and advances and interest, by credit type, is as follows:

(Euro thousand)

	2019	2018
Asset-backed loans	551 009	606 898
Other guaranteed loans	130 528	179 388
Finance leases	3 615	7 119
Secured loans	34 800	33 000
Other loans and advances	42 707	103 896
	762 659	930 301

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 31 December 2019, is as follows:

(Euro thousand)

	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	148 893	592 967	7 703 290	551 009	8 996 159
Other guaranteed loans	453 403	206 936	266 688	130 528	1 057 555
Financial leases	10 225	89 827	215 419	3 615	319 086
Secured loans	346 099	77 597	-	34 800	458 496
Other loans and advances	234 645	99 189	476 210	42 707	852 751
	1 193 265	1 066 516	8 661 607	762 659	11 684 047

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 31 December 2018, is as follows:

(Euro thousand)

	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	170 182	509 540	8 290 616	606 898	9 577 236
Other guaranteed loans	500 135	236 189	346 019	179 388	1 261 731
Financial leases	21 310	86 613	214 759	7 119	329 801
Secured loans	441 083	124 956	14 673	33 000	613 712
Other loans and advances	106 271	281 810	464 081	103 896	956 058
	1 238 981	1 239 108	9 330 148	930 301	12 738 538

The outstanding amount of Finance leases, by residual maturity, as at 31 December 2019, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	56 912	144 561	111 677	313 150
Outstanding interest	(8 976)	(23 826)	(18 311)	(51 113)
Residual values	1 531	9 568	42 335	53 434
	49 467	130 303	135 701	315 471

The outstanding amount of Finance leases, by residual maturity, as at 31 December 2018, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	57 367	136 764	115 037	309 168
Outstanding interest	(9 489)	(23 659)	(20 183)	(53 331)
Residual values	16 183	8 799	41 863	66 845
	64 061	121 904	136 717	322 682

As regards operating leases, Banco Montepio does not have significant agreements as Lessor.

The analysis of Past due loans and advances and interest, by customer type and purpose, is as follows:

(Euro thousand)

	2019	2018
Corporate		
Construction/Production	159 455	197 762
Investment	311 778	348 025
Treasury	201 083	187 479
Other	17 235	30 297
Retail		
Mortgage loans	39 614	81 513
Consumer credit	16 342	38 941
Other	17 152	46 284
	762 659	930 301

The movements in impairment for credit risks are analysed as follows:

(Euro thousand)

	2019	2018 restated	2018
Initial Balance	969 740	1 008 261	1 008 261
IFRS 9 transition adjustment	-	167 252	140 980
Balance on 31 January	969 740	1 175 513	1 149 241
Charge for the financial year net of reversals	147 522	103 179	90 716
Utilization	(334 942)	(297 589)	(297 589)
Financial liabilities related to transferred assets	(19 443)	(11 363)	-
Balance on 31 December	762 877	969 740	942 368

During financial years 2019 and 2018, Banco Montepio sold two portfolios of loans and advances to customers, one in each financial year, that were in default and that were recorded on- and off-balance sheet, having utilized impairment for credit risk in the amount of Euro 176,324 thousand and of Euro 139,849 thousand, respectively.

The impairment for credit risks, by credit type, is as follows:

(Euro thousand)

	2019	2018
Asset-backed loans and finance leases	537 717	606 659
Other secured loans	162 792	242 481
Unsecured loans	62 368	120 600
	762 877	969 740

The analysis of impairment losses utilized, by credit type, is as follows:

(Euro thousand)

	2019	2018
Asset-backed loans and finance leases	153 035	100 844
Other secured loans	110 418	113 118
Unsecured loans	71 489	83 627
	334 942	297 589

The total amount of loans and advances and interest recovered as at 31 December 2019 amounted to Euro 6,751 thousand (31 December 2018: Euro 9,905 thousand), as described in note 14.

In addition, the loan and advances to customers portfolio includes loans that, given the financial difficulties of the customer, were subject to amendments of the initial conditions and these amount to Euro 857,707 thousand (31 December 2018: Euro 951,835 thousand) and have an impairment of Euro 364,070 thousand (31 December 2018: Euro 397,374 thousand).

Banco Montepio has adopted forbearance measures and practices, aligned in terms of risk, in order to adjust the disposable income or the financial capacity of customers to their debt service. On this basis, the recommendations legislated in the scope of the non-compliance regimes (Decree-Law no. 227/2012) and, for companies (SIREVE, PER), were adopted, with these being widely disclosed in the institutional website, in the internal rules and communications, to be disclosed and implemented vis-à-vis customers presenting evidence of financial difficulties.

Regarding the forbearance measures and in accordance with Implementing Regulation (EU) 2015/227, of 9 January 2015, contractual changes were considered (grace period of the principal, extension of the term, deferral of the principal, etc.) as were the consolidation of debts in another contract with conditions adjusted to the customer's current situation.

Additionally, the restructured loans and advances to customers’ portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent celebration of a new loan to replace the previous loans. The restructuring may result from a reinforcement of guarantees and/or liquidation of part of the loan and involve an extension of maturities or a change in the interest rate. The analysis of restructured loans, entered into, during financial years 2019 and 2018, by credit type, is as follows:

(Euro thousand)

	2019	2018
Corporate		
Loans not represented by securities		
Loans	144 404	55 281
Current account loans	311	21 288
Finance leases	313	657
Other loans	2 000	3 627
Retail		
Mortgage loans	4 893	9 397
Consumer credit and other loans	5 075	3 607
	156 996	93 857

Restructured loans are also subject to an impairment analysis that results from the revaluation of the expectations given the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate, and considering the new collaterals presented.

As regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 58,142 thousand, which corresponds to an impairment rate of 37% (31 December 2018: Euro 25,775 thousand, impairment rate of 27.5%).

Banco Montepio uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the scope of housing loans and mortgages on other types of properties in the scope of other types of loans. To reflect the market value of these, they are reviewed regularly based on valuations conducted by certified independent appraiser entities or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are revalued based on market values of the respective assets, when available, with certain depreciation coefficients being applied to reflect their volatility. Most of the real collaterals are revalued at least once a year.

22 Financial assets and liabilities held for trading

The caption financial assets and liabilities held for trading is analysed as follows:

(Euro thousand)

	2019	2018
Financial assets held for trading		
Securities		
Shares	1 089	-
Bonds	11 793	-
Investment units	127	-
	13 009	-
Derivative instruments		
Derivative financial instruments with positive fair value	16 895	15 660
	29 904	15 660
Financial liabilities held for trading		
Derivative instruments		
Derivative financial instruments with negative fair value	11 098	12 274
	11 098	12 274

In December 2016, within an asset cession operation involving loans and real estate in the amount of Euro 288,232 thousand, Banco Montepio acquired the right to a return, if a set of parameters related to the performance of the assets ceded is met, which acquisition value amounted to Euro 12,000 thousand. As at 31 December 2019, the value of this right amounts to Euro 12,840 thousand (31 December 2018: Euro 12,214 thousand) and is recorded in the caption Derivative financial instruments with a positive fair value.

As provided for in IFRS 13, financial instruments are measured in accordance with the following valuation levels, described in note 47, as follows:

(Euro thousand)

	2019			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	1 089	-	-	1 089
Bonds	11 793	-	-	11 793
Investment units	127	-	-	127
	13 009	-	-	13 009
Derivative instruments				
Derivative financial instruments with positive fair value	-	4 056	12 839	16 895
	13 009	4 056	12 839	29 904
Financial liabilities held for trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	11 098	-	11 098
	-	11 098	-	11 098

(Euro thousand)

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Derivative instruments				
Derivative financial instruments with positive fair value	-	11 525	4 135	15 660
	-	11 525	4 135	15 660
Financial liabilities held for trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	12 274	-	12 274
	-	12 274	-	12 274

As at 31 December 2019, the analysis of the securities held for trading, by residual maturity, is as follows:

(Euro thousand)

	2019					
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Fixed-income securities						
Bonds						
Domestic			4 061	2 096	-	6 157
Foreign	-			5 636	-	5 636
Variable-income securities						
Shares						
Domestic	-	-	-	-	293	293
Foreign	-	-	-	-	796	796
Investment units	-	-	-	-	127	127
	-	-	4 061	7 732	1 216	13 009

The book value of the derivative financial instruments as at 31 December 2019 and the comparison with the respective assets and liabilities recorded at fair value, in the specific case of derivatives held for risk management, can be analysed as follows:

(Euro thousand)

Derivative	Related financial asset/ liability	2019 Derivative: Notional	Derivative: Positive fair value	Derivative: Negative fair value	Derivative: Total fair value	Derivative: Changes in fair value in the period(1)	Related Asset/ Liability: Fair value	Related Asset/ Liability: Changes in fair value in the period	Related Asset/ Liability: Book value	Related Asset/ Liability: Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	3 300	225	(34)	191	(110)	17	(61)	3 461	3 300
Interest rate swap	Deposits from customers	-	-	-	-	32	-	(11)	-	-
Interest rate swap	Loans and advances to customers	1 200	4	(53)	(49)	(172)	46	153	1 207	1 200
Interest rate swap	Other	1 820 428	3 944	(10 977)	(7 033)	1 918	-	-	-	-
Currency Swap (Short)	-	53 682	311	(8)	303	341	-	-	-	-
Currency Swap (Long)	-	53 974								
Future options (Short)	-	3 410	-	-	-	-	-	-	-	-
Future options (Long)	-	-								
Forwards (Short)	-	1 493	-	-	-	-	-	-	-	-
Forwards (Long)	-	1 494								
Options (Short)	-	56 539	12 411	(26)	12 385	403	-	-	-	-
Options (Long)	-	342 592								
Credit Default Swaps	-						-	-	-	-
		2 338 112	16 895	(11 098)	5 797	2 412	63	81	4 668	4 500

(1) Includes the result of derivatives disclosed in note 6.

Derivatives held for risk management include derivatives contracted for the purpose of hedging certain financial assets and liabilities, but that were not designated as hedging derivatives.

Within the scope of the loan obtained from the EIB, a set of Italian sovereign bonds with a nominal value of Euro 1,000 thousand are part of the collateral, as described in note 34.

The nominal value of the assets pledged as collateral to the European Central Bank in the context of liquidity-providing operations amounts, as at 31 December 2019, to Euro 3,357 thousand after the application of a haircut, as described in note 33.

The book value of the derivative financial instruments as at 31 December 2018 and the comparison with the respective assets and liabilities recorded at fair value, can be analysed as follows:

(Euro thousand)

		2018								
		Derivative					Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Positive fair value	Negative fair value	Total fair value	Changes in fair value in the period(1)	Fair value	Changes in fair value in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	3 300	337	(36)	301	(113)	78	(185)	3 460	3 300
Interest rate swap	Deposits from customers	14 850	-	(32)	(32)	75	11	(22)	14 597	14 597
Interest rate swap	Loans and advances to customers	15 257	143	(20)	123	168	(107)	(106)	15 139	15 120
Interest rate swap	Other	2 018 557	2 776	(11 726)	(8 950)	1 248	-	-	-	-
Currency Swap (Short)	-	38 811	25	(63)	(38)	(329)	-	-	-	-
Currency Swap (Long)	-	38 740								
Future options (Short)	-	-	-	-	-	(9)	-	-	-	-
Future options (Long)	-	-								
Forwards (Short)	-	1 373	-	-	-	-	-	-	-	-
Forwards (Long)	-	1 373								
Options (Short)	-	50 865	12 379	(397)	11 982	773	-	-	-	-
Options (Long)	-	353 859								
Credit Default Swaps	-						-	-	-	-
		2 536 985	15 660	(12 274)	3 386	1 813	(18)	(313)	33 196	33 017

As at 31 December 2019, the analysis of the derivative financial instruments held for trading, by residual maturity, is as follows:

(Euro thousand)

	2019					
	Notional by maturity date				Fair Value	
	Less than 3 months	3 months to 1 year	More than 1 year	Total	Assets	Liabilities
Contracts over interest rates						
Interest rate swap	-	5 877	1 819 051	1 824 928	4 174	11 064
Options	2 758	159	107 982	110 899	(429)	26
Contracts over exchange rates						
Currency swap	107 656	-	-	107 656	311	8
Forwards	2 509	478	-	2 987	-	-
Contracts over index/ stock						
Futures	3 410	-	-	3 410	-	-
Contracts over credit						
Options	-	-	288 232	288 232	12 839	-
	116 333	6 514	2 215 265	2 338 112	16 895	11 098

As at 31 December 2018, the analysis of the derivative financial instruments held for trading, by residual maturity, is as follows:

(Euro thousand)

	2018					
	Notional by maturity date				Fair Value	
	Less than 3 months	3 months to 1 year	More than 1 year	Total	Assets	Liabilities
Contracts over interest rates						
Interest rate swap	5 000	24 192	3 329 132	3 358 324	3 492	12 049
Options	4 892	40 942	55 808	101 642	(76)	157
Contracts over exchange rates						
Currency swap	76 443	1 108	-	77 551	25	63
Forwards	2 746	-	-	2 746	-	-
Contracts over index/ stock						
Options	5 000	9 850	-	14 850	5	5
Contracts over credit						
Options	-	-	288 232	288 232	12 214	-
	94 081	76 092	3 673 172	3 843 345	15 660	12 274

23 Financial assets at fair value through profit or loss

This caption is presented as follows:

(Euro thousand)

	2019	2018
Variable income securities		
Investment units	539 462	783 538
Securitization units	109 661	80 541
Loans and advances to customers at fair value		
Loans not represented by securities	5 315	20 370
	654 438	884 449

The caption Variable-income securities – Investment units includes, as at 31 December 2019, the amount of Euro 35,391 thousand (31 December 2018: Euro 37,474 thousand) related to investment units in specialized credit funds acquired in the scope of the cession of loans and advances to customers, as referred in note 54. The securitization units correspond to the residual notes acquired by Banco Montepio.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 47, as follows:

(Euro thousand)

	2019			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	7 551	-	531 911	539 462
Securitization units	-	-	109 661	109 661
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	5 315	5 315
	7 551	-	646 887	654 438

(Euro thousand)

	2018			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	6 556	-	776 982	783 538
Securitization units	-	-	80 541	80 541
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	20 370	20 370
	6 556	-	877 893	884 449

As at 31 December 2019, the level 3 assets in the caption Variable-income securities – Investment units include investment units in real estate investment funds, specialized credit recovery funds and venture capital funds that are valued according to the amount of the Net Asset Value of the Fund ("NAVF") disclosed, determined by the management company, in the amount of Euro 531,911 thousand (31 December 2018: Euro 776,982 thousand), of which Euro 474,316 thousand (31 December 2018: Euro 676,521 thousand) are related to real estate investment funds. The net assets of specialized credit recovery funds represent a diversified set of assets and liabilities, which are valued in the respective funds' accounts at fair value determined using internal methodologies adopted by the management entity.

The net assets of the real estate investment funds are valued by the management company based on valuation reports prepared by experts registered with the CMVM.

As at 31 December 2019, for all securities recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial assets, with an impact of Euro 64,689 thousand (31 December 2018: Euro 88,648 thousand) having been determined.

The movements occurred in the Financial assets at fair value through profit or loss – Variable-income securities, recorded under level 3, are analysed as follows:

(Euro thousand)

	2019	2018
Opening balance	857 523	829 254
Acquisitions	1 944	-
Reclassifications	-	80 541
Remeasurements	29 671	(52 215)
Disposals	(247 566)	(57)
Closing balance	641 572	857 523

The movements occurring in level 3 of the Loans and advances to customers at fair value relate, in their entirety, to revaluations made in financial years 2019 and 2018.

24 Financial assets at fair value through other comprehensive income

This caption is presented as follows:

(Euro thousand)

	2019				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	591 535	14 344	-	(1 334)	604 545
Foreign	804 684	6 235	(496)	(3 608)	806 815
Bonds issued by other entities					
Domestic	54 684	284	(2 077)	(167)	52 724
Foreign	231 798	2 335	(785)	(170)	233 178
Variable income securities					
Shares					
Domestic	74 235	9 885	(2 150)	-	81 970
Foreign	71 554	5 294	(22 639)	-	54 209
	1 828 490	38 377	(28 147)	(5 279)	1 833 441

(1) Acquisition cost related to variable income securities and amortised cost by debt securities.

(Euro thousand)

	2018				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	-	-	-	-	-
Foreign	209 187	136	(5 165)	(432)	203 726
Bonds issued by other entities					
Domestic	18 164	20	(1 719)	(96)	16 369
Foreign	40 717	205	(942)	(43)	39 937
Variable income securities					
Shares					
Domestic	74 229	6 439	(4 340)	-	76 328
Foreign	71 532	2 693	(17 996)	-	56 229
	413 829	9 493	(30 162)	(571)	392 589

(1) Acquisition cost related to variable income securities and amortised cost by debt securities.

The main assumptions used in the valuation of shares are as follows:

Almina

Banco Montepio holds 19.0% of the share capital of Almina. The book value of Almina in the Banco Montepio's financial statements amounts to Euro 67,200 thousand as at 31 December 2019 (31 December 2018: Euro 65,631 thousand).

The valuation of Almina with reference to 31 December 2019 was carried out by an external entity based on the Almina Holding Group's business plan, as well as other information provided by Almina's management.

Almina's valuation exercise considers a set of variables and assumptions, namely:

- Macroeconomic assumptions - forecasts of the outlook for inflation and the €/USD exchange rate;

- Forecasts on the evolution of metal prices (copper, zinc, lead, silver and tin);
- Discount rate parameters;
- Reasonableness of the KPIs assumed in the projection period, namely, on the zinc recovery and on commercial costs.

The two businesses relevant for Almina's valuation correspond to ore exploitation: zinc and copper, with a discount rate between 8.0% and 9.8% having been used and with the determination of ore market prices having been based on international indices.

SIBS

The fair value of the shareholding held in SIBS, presented in the financial statements as at 31 December 2019, is supported by a valuation that considers the methodologies of the multiples of comparable companies (market and transaction) and of the Discounted Cash Flows (DCF) and is based on the performance projected by the company for 2019 and the adoption of a conservative approach in the assumptions used to project the forecast period.

Unicre

The fair value of the shareholding held in Unicre, presented in the financial statements as at 31 December 2019, is supported by a valuation that considers the methodologies of the multiples of comparable companies (market and transaction) and of the Gordon Growth Model, assuming for the projections a flat growth for the evolution of the company's operating results.

As at 31 December 2019 and 2018, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(Euro thousand)

	2019				
	Level 1	**Level 2**	**Level 3**	**Financial instrumets at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	604 545	-	-	-	604 545
Foreign	806 815	-	-	-	806 815
Bonds issued by other entities				-	
Domestic	46 570	3 052	3 102	-	52 724
Foreign	225 682	7 496		-	233 178
	1 683 612	10 548	3 102	-	1 697 262
Variable income securities					
Shares					
Domestic	-	-	81 400	570	81 970
Foreign	42 669	-	11 079	461	54 209
	42 669	-	92 479	1 031	136 179
	1 726 281	10 548	95 581	1 031	1 833 441

(Euro thousand)

	2018				
	Level 1	Level 2	Level 3	Financial instrumets at cost	Total
Fixed income securities					
Bonds issued by public entities					
Foreign	203 726	-	-	-	203 726
Bonds issued by other entities				-	
Domestic	7 601	4 184	4 584	-	16 369
Foreign	32 041	7 896	-	-	39 937
	243 368	12 080	4 584	-	260 032
Variable income securities					
Shares					
Domestic	-	-	74 161	2 167	76 328
Foreign	47 310	-	8 481	438	56 229
	47 310	-	82 642	2 605	132 557
	290 678	12 080	87 226	2 605	392 589

As provided for in IFRS 13, financial instruments are measured according to the valuation levels described in note 47.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset, with an impact of Euro 9,558 thousand as at 31 December 2019 (31 December 2018: Euro 8,723 thousand).

Instruments classified under level 3 have associated unrealized gains and losses in the positive amount of Euro 11,459 thousand (31 December 2018: positive amount of Euro 3,235 thousand) recognized in fair value reserves.

It is Banco Montepio's understanding that the book value presented for financial instruments at cost does not differ materially from the fair value, with the respective fair value not having been determined given the reduced value of the positions.

As at 31 December 2019, the impairment recorded for these securities amounted to Euro 61 thousand (31 December 2018: Euros 74 thousand).

The movements occurring in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

(Euro thousand)

	2019	2018
Opening balance	87 226	988 438
Acquisitions	-	-
Revaluations	8 224	(13 815)
Disposals	-	-
Transfers from level 3 to level 1	-	(66 673)
Trasfers to level 3	1 603	8 530
Transfers to financial assets at fair value though profit or loss	-	(829 254)
Amortization at nominal value	(1 472)	-
Closing balance	95 581	87 226

The movements occurring in impairment of financial assets at fair value through other comprehensive income are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	571	172 324
IFRS 9 transition adjustment	-	(134 408)
Charge for the financial year net of reversals	7 854	1 275
Charge-off	(5 559)	(38 620)
Transfers	2 413	-
Balance on 31 December	5 279	571

The analysis of financial assets at fair value through other comprehensive income, by residual maturity, as at 31 December 2019, is as follows:

(Euro thousand)

	2019					
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Fixed income securities						
Bonds issued by public entities						
Domestic	-	-	220 547	383 998	-	604 545
Foreign	252 208	420 556	26 300	107 751	-	806 815
Bonds issued by other entities						
Domestic	-		26 871	24 988	865	52 724
Foreign	-	7 486	92 110	133 582	-	233 178
	252 208	428 042	365 828	650 319	865	1 697 262
Variable income securities						
Shares						
Domestic	-	-	-	-	81 970	81 970
Foreign	-	-	-	-	54 209	54 209
	-	-	-	-	136 179	136 179
	252 208	428 042	365 828	650 319	137 044	1 833 441

The analysis of financial assets available for sale, by residual maturity, as at 31 December 2018, is as follows:

(Euro thousand)

	2018					
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Fixed income securities						
Bonds issued by public entities						
Foreign	-	-	203 726	-	-	203 726
Bonds issued by other entities						
Domestic	-	243	8 888	6 363	875	16 369
Foreign	-	-	20 361	19 576	-	39 937
	-	243	232 975	25 939	875	260 032
Variable income securities						
Shares						
Domestic	-	-	-	-	76 328	76 328
Foreign	-	-	-	-	56 229	56 229
	-	-	-	-	132 557	132 557
	-	243	232 975	25 939	133 432	392 589

Securities pledged as collateral, recorded in financial assets at fair value through other comprehensive income, are presented as follows:

- The nominal value of the assets pledged as collateral to the European Central Bank in the scope of liquidity-providing operations amounts, as at 31 December 2019, to Euro 1,594,966 thousand after haircut (31 December 2018: Euro 1,910,913 thousand), as described in note 33;
- Securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation System have a nominal amount of Euro 1,000 thousand as at 31 December 2019 and 2018;
- As at 31 December 2019, the EIB loan obtained is collateralized by securities of Portuguese, Spanish, Greek, Dutch, French and German sovereign bonds with a nominal value of Euro 205,201 thousand (31 December 2018: 152,000 thousand), as described in note 34; and
- Securities pledged as collateral to the Deposits Guarantee Fund have a nominal amount of Euro 21,500 thousand as at 31 December 2019 (31 December 2018: Euro 22,200 thousand), as described in note 46.

These financial assets pledged as collateral can be executed in the event of non-compliance with contractual obligations assumed by Banco Montepio under the terms and conditions of the contracts celebrated.

25 Hedging derivatives

This caption is presented as follows:

(Euro thousand)

	2019	2018
Assets		
Interest rate swaps	11 148	5 666
Liabilities		
Interest rate swaps	547	-
Net value	10 601	5 666

Banco Montepio contracted an interest rate swap to hedge its interest rate risk arising from a bond issue at fixed rate. The accounting method depends on the nature of the hedged risk, namely whether Banco Montepio is exposed to fair value changes, or cash flow changes, or whether it is hedging future transactions.

Banco Montepio performs periodic effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives portfolio, by residual maturity, in financial years 2019 and 2018, is as follows:

(Euro thousand)

	2019			
	Notional by maturity date		Fair value	
	october 2022	Total	october 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	10 601	10 601
	750 000	750 000	10 601	10 601

(Euro thousand)

	2018			
	Notional by maturity date		Fair value	
	october 2022	Total	october 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	5 666	5 666
	750 000	750 000	5 666	5 666

As at 31 December 2019, the fair value hedging operation can be analysed as follows:

(Euro thousand)

	2019						
Derivative	Hedged item	Hedged risk	Notional	Fair value[1]	Changes in fair value of the derivative in the period	Hedged item fair value[2]	Changes in fair value of the hedged item in the period[2]
Interest rate swaps	Liabilities represented by securities	Interest rate	750 000	10 601	4 935	(9 224)	(4 807)
			750 000	10 601	4 935	(9 224)	(4 807)

[1] Includes accrued interest.
[2] Attributable to the hedged risk.

As at 31 December 2018, the fair value hedging operation can be analysed as follows:

(Euro thousand)

	2018						
Derivative	Hedged item	Hedged risk	Notional	Fair value[1]	Changes in fair value of the derivative in the period	Hedged item fair value[2]	Changes in fair value of the hedged item in the period[2]
Interest rate swaps	Liabilities represented by securities	Interest rate	750 000	5 666	7 329	(4 417)	(6 790)
			750 000	5 666	7 329	(4 417)	(6 790)

[1] Includes accrued interest.
[2] Attributable to the hedged risk.

26 Other financial assets at amortized cost

This caption is presented as follows:

(Euro thousand)

	2019	2018
Fixed income securities		
Bonds issued by public entities		
Domestic	699 604	1 037 815
Foreign	201 291	220 386
Bonds issued by other entities		
Foreign	1 894 012	2 138 651
	2 794 907	3 396 852
Impairment for other financial assets at amortised cost	(1 750)	(2 550)
	2 793 157	3 394 302

The fair value of the portfolio of Other financial assets at amortized cost is disclosed in note 47.

The caption Other financial assets at amortized cost, as at 31 December 2019, can be analysed as follows:

(Euro thousand)

Securities	Issue date	Maturity date	Interest rate	Nominal value	Book value
OT APR21	23/fev/05	15/abr/21	3,850%	120 000	128 830
BONOS 0,750% 30JUL2021	8/mar/16	30/jul/21	0,750%	35 000	35 474
OT 2,200% 17-OCT-2022	9/set/15	17/out/22	2,200%	212 500	223 931
BONOS 0,350% 30JUL2023	22/mai/18	30/jul/23	0,350%	166 000	165 596
OT 4,95% 25-OCT-2023	10/jun/08	25/out/23	4,950%	170 000	198 183
OT 5.65% 15-FEV-2024	14/mai/13	15/fev/24	5,650%	5 000	6 184
OT 2,875% 15-OCT-2025	20/jan/15	15/out/25	2,875%	65 000	70 991
OT 2,875% 21JUL2026	21/jan/16	21/jul/26	2,875%	25 000	27 695
OT 4,125% 14APR2027	18/jan/17	14/abr/27	4,125%	35 000	42 261
Pelican Mortgages 07/15-09-2054_3_A	30/mar/07	15/set/54	-	117 710	117 710
Pelican Mortgages 07/15-09-2054_3_B	30/mar/07	15/set/54	-	4 222	4 222
Pelican Mortgages 07/15-09-2054_3_C	30/mar/07	15/set/54	0,042%	3 555	3 555
Pelican Mortgages 07/15-09-2054_3_D	30/mar/07	15/set/54	0,357%	1 889	1 889
Pelican Mortgages 08/15-09-2056_4_A	20/mai/08	15/set/56	-	394 206	394 206
Pelican Mortgages 08/15-09-2056_4_B	20/mai/08	15/set/56	0,132%	34 897	34 897
Pelican Mortgages 08/15-09-2056_4_C	20/mai/08	15/set/56	0,282%	37 726	37 729
Pelican Mortgages 08/15-09-2056_4_D	20/mai/08	15/set/56	0,582%	15 719	15 722
Pelican Mortgages 07/15-09-2056_4_E	20/mai/08	15/set/56	0,932%	17 291	17 297
Pelican Mortgages 09/15-12-2061_5_A	25/mar/09	15/dez/61	-	346 011	346 011
Pelican Mortgages 09/15-12-2061_5_B	25/mar/09	15/dez/61	0,182%	121 186	121 191
Pelican Mortgages 09/15-12-2061_5_C	25/mar/09	15/dez/61	0,582%	17 090	17 094
Pelican Mortgages 09/15-12-2061_5_D	25/mar/09	15/dez/61	0,932%	17 090	17 096
Aqua Mortgages 08/15-12-2063_1_A	9/dez/08	15/dez/63	-	65 597	65 597
Aqua Mortgages 08/15-12-2063_1_B	9/dez/08	15/dez/63	-	21 080	21 081
Pelican Mortgages 12/02-12-2063_6_A	2/mar/12	2/dez/63	-	358 622	358 622
Pelican Mortgages 12/02-12-2063_6_B	2/mar/12	2/dez/63	0,156%	250 000	250 003
PEL FIN A 12/28	7/mai/14	25/dez/28	-	43 473	43 488
PEL FIN B 12/28	7/mai/14	25/dez/28	-	26 591	26 602
				2 727 455	2 793 157

The caption Other financial assets at amortized cost, as at 31 December 2018, can be analysed as follows:

Other financial assets at amortized cost are recognized in accordance with the accounting policy described in note 1 b).

As at 31 December 2019, the loan obtained from EIB is collateralized, in part, by Portuguese and Spanish sovereign bonds with a nominal value of Euro 182,300 thousand (31 December 2018: Euro 253,211 thousand), provided as collateral and recorded in the caption Other financial assets at amortized cost, as disclosed in note 34.

As at 31 December 2019, the nominal value of the assets pledged as collateral to the European Central Bank under the liquidity-providing operations amounts to Euro 1,942,372 thousand (31 December 2018: Euro 675,747 thousand) after the application of a haircut.

(Euro thousand)

Securities	Issue date	Maturity date	Interest rate	Nominal value	Book value
BTP 0.10 15-APR-2019	15/abr/16	15/abr/19	0,100%	19 000	18 929
OT APR21	23/fev/05	15/abr/21	3,850%	120 000	133 353
BONOS 0,750% 30JUL2021	8/mar/16	30/jul/21	0,750%	35 000	35 717
OT 2,200% 17-OCT-2022	9/set/15	17/out/22	2,200%	212 500	227 855
BONOS 0,350% 30JUL2023	22/mai/18	30/jul/23	0,350%	166 000	165 409
OT 4,95% 25-OCT-2023	10/jun/08	25/out/23	4,950%	170 000	205 271
OT 5.65% 15-FEV-2024	14/mai/13	15/fev/24	5,650%	237 500	305 544
OT 2,875% 15-OCT-2025	20/jan/15	15/out/25	2,875%	65 000	71 986
OT 2,875% 21JUL2026	21/jan/16	21/jul/26	2,875%	25 000	28 068
OT 4,125% 14APR2027	18/jan/17	14/abr/27	4,125%	35 000	43 132
OT 2,125% 17OCT2028	17/jan/18	17/out/28	2,125%	20 000	20 387
Pelican Mortgages 07/15-09-2054_3_A	30/mar/07	15/set/54	-	125 710	125 710
Pelican Mortgages 07/15-09-2054_3_B	30/mar/07	15/set/54	-	4 829	4 829
Pelican Mortgages 07/15-09-2054_3_C	30/mar/07	15/set/54	0,049%	4 067	4 067
Pelican Mortgages 07/15-09-2054_3_D	30/mar/07	15/set/54	0,364%	2 161	2 161
Pelican Mortgages 08/15-09-2056_4_A	20/mai/08	15/set/56	-	438 087	438 087
Pelican Mortgages 08/15-09-2056_4_B	20/mai/08	15/set/56	0,139%	38 781	38 783
Pelican Mortgages 08/15-09-2056_4_C	20/mai/08	15/set/56	0,289%	41 925	41 930
Pelican Mortgages 08/15-09-2056_4_D	20/mai/08	15/set/56	0,589%	17 469	17 473
Pelican Mortgages 07/15-09-2056_4_E	20/mai/08	15/set/56	0,939%	19 216	19 223
Pelican Mortgages 09/15-12-2061_5_A	25/mar/09	15/dez/61	-	383 337	383 337
Pelican Mortgages 09/15-12-2061_5_B	25/mar/09	15/dez/61	0,189%	134 259	134 269
Pelican Mortgages 09/15-12-2061_5_C	25/mar/09	15/dez/61	0,589%	18 934	18 938
Pelican Mortgages 09/15-12-2061_5_D	25/mar/09	15/dez/61	0,939%	18 934	18 941
Aqua Mortgages 08/15-12-2063_1_A	9/dez/08	15/dez/63	-	75 111	75 111
Aqua Mortgages 08/15-12-2063_1_B	9/dez/08	15/dez/63	-	23 724	23 725
Pelican Mortgages 12/02-12-2063_6_A	2/mar/12	2/dez/63	-	429 752	429 752
Pelican Mortgages 12/02-12-2063_6_B	2/mar/12	2/dez/63	0,190%	250 000	250 005
PEL FIN A 12/28	7/mai/14	25/dez/28	-	69 660	69 683
PEL FIN B 12/28	7/mai/14	25/dez/28	-	42 608	42 627
				3 243 564	3 394 302

The movements in impairment of other financial assets at amortized cost are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	2 550	-
Charge for the period net of reversals	1 613	2 679
Charge-off	-	(129)
Transfers	(2 413)	-
Balance on 31 December	1 750	2 550

27 Investments in subsidiaries and associated companies

This caption is presented as follows:

(Euro thousand)

	2019	2018
Montepio Holding, S.G.P.S., S.A.	413 750	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	8 997	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Montepio Gestão de Activos Imobiliários, ACE	637	637
	426 584	426 584
Impairment of investments in associated companies	(85 576)	(79 861)
	341 008	346 723

Banco Montepio analysed the impairment of investments made in its subsidiaries, considering the recoverable value of the businesses developed by each one. The recoverable value, in accordance with the accounting policy described in this report, was determined by the higher of fair value less costs to sell and value in use, in the case of continuing subsidiaries, and fair value less costs to sell, in the case of discontinued subsidiaries.

The value in use was determined based on the business plan approved by management and, depending on the specificity of the businesses and the markets in which Banco Montepio's subsidiaries operate, differentiated levels for the discount rate, for the solvency levels required for the banking activity and for the growth of net income in perpetuity, were also considered.

The verification of the assumptions used and the evolution of the macroeconomic and market conditions may result in the change of these same assumptions and, consequently, in the recoverable value determined for the subsidiaries object of this analysis.

The financial statements have been prepared on the assumption of the continuity of the respective operations, which depend on the future evolution of the assumptions underlying the recoverable value of its financial shareholdings as well as on the success of the initiatives to be taken by the Board of Directors to reinforce the net equity.

Montepio Holding, S.G.P.S., S.A.

As a result of the analyses carried out, we concluded on the need to recognize, in the financial statements as at 31 December 2019, an impairment in Banco Montepio in the amount of Euro 83,539 thousand (31 December 2018: Euro 79,861 thousand) related to the financial shareholding held in Montepio Holding, S.G.P.S., S.A. (Montepio Holding). Montepio Holding holds financial shareholdings of 100% of the share capital and voting rights of Montepio Investimento, S.A., Montepio Crédito – Instituição Financeira de Crédito, S.A., Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A. and Ssagincentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. and a shareholding of 80.22% in Finibanco Angola, S.A. The valuation of Montepio Holding was made considering that the best estimate for determining its fair value corresponded to the amount of its equity adjusted for the fair value effect of assets and liabilities recorded at amortized cost or historical cost, except for the shareholding in Montepio Investimento, S.A. which considered the business plan envisaged under the Group's Transformation Plan, more specifically for Banco de Empresas Montepio, S.A.

Banco Terra, S.A.

The sale of the shareholding in Banco Terra, S.A. held by Montepio Holding, S.G.P.S., S.A., was concluded in December 2018 within the scope of the strategic redefinition of its international holdings.

Casa da Sorte – Organização Nogueira da Silva S.A.

On 24 April 2019, Banco Montepio disposed of the entire share capital of the subsidiary Casa da Sorte – Organização Nogueira da Silva S.A.

The movements in impairment of investments in subsidiaries and associated companies are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	79 861	110 681
Charge for the period	7 926	322
Reversal of the period	(2 211)	(30 821)
Charge-off	-	(321)
Balance on 31 December	85 576	79 861

The information related to subsidiaries and associated companies is presented in the following table:

(Euro thousand)

	Number of shares	% Stake	Unit value	Acquisition cost
31 December 2019				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100,00%	1,00	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100,00%	90,69	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20,00%	5,00	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26,00%	1,00	637
CESource, ACE	-	18,00%	-	-
				426 584
31 December 2018				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100,00%	1,00	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100,00%	90,69	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20,00%	5,00	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26,00%	1,00	637
CESource, ACE	-	18,00%	-	-
Casa da Sorte - Organização Nogueira da Silva, S.A.	896 280	89,63%	-	-
Herdeiros de Manuel Martins Travassos, Lda [(1)]	4	100,00%	-	-
Pataca da Sorte - Bingos e Animação Unipessoal, Lda. [(1)]	1	100,00%	-	-
Augusto da Silva Carvalho, Lda. [(1)]	2	99,50%	-	-
Binganimus - Bingos e Animação, S.A.	50 000	100,00%	-	-
Carlos Augusto Lança & Filhos, Lda. [(1)]	2	100,00%	-	-
Torre da Sorte, Lda. [(1)]	2	100,00%	-	-
				426 584

[(1)] Shares

The subsidiaries and associated companies of Banco Montepio are listed in note 58.

28 Non-current assets held for sale

Given current market conditions, it has not been possible, in some situations, to materialize the sales within the expected time period and in conformity with that laid down in IFRS 5, for which reason, in 2019, the real estate and other assets related to assets received in recovery of credit are recorded in the caption Other assets, as described in note 32.

As at 31 December 2018, this caption was analysed as follows:

(Euro thousand)

	2018
Properties and other assets resulting from the resolution of customer loan agreements	839 990
Impairment for non-current assets held for sale	(134 639)
	705 351

The assets included in this caption are accounted for in accordance with the accounting policy described in note 1 h). Note 52 presents additional information on Non-current assets held for sale. As at 31 December 2018, the caption Real estate and other assets resulting from the resolution of customer loan agreements included the amount of Euro 1,320 thousand related to other non-current assets held for sale (equipment) resulting from the resolution of loans and advances to customers' contracts, which had an associated impairment in the amount of Euro 1,320 thousand. The resolution of loans and advances to customers' contracts results from (i) the simple foreclosure, delivery with a repurchase option or delivery with a leasing option, being accounted for upon the celebration of the contract or with the promissory contract to deliver the asset and the respective irrevocable power of attorney issued by the customer in Banco Montepio's name; or (ii) the adjudication of the assets as a result of a judicial guarantee execution process, being accounted for based on the title of adjudication or the adjudication request after having registered the first pledge.

Banco Montepio has implemented a plan aimed at the immediate sale of the non-current assets held for sale. According to Banco Montepio's expectation, it is intended that these assets be available for sale in a period under 1 year and there is a strategy for their sale. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period. As at 31 December 2018, the referred caption included real estate for which promissory contracts to buy and sell in the amount of Euro 19,692 thousand had been celebrated.

The movements occurring, in financial year 2018, in non-current assets held for sale are analysed as follows:

(Euro thousand)

	dez 2018
Opening balance	852 440
Acquisitions	95 898
Disposals	(108 515)
Other movements	167
Closing balance	839 990

The movements in impairment of non-current assets held for sale is analysed as follows:

(Euro thousand)

	2018
Balance on the beginning of the exercise	138 307
Charge for the period	13 655
Reversal for the period	(7 994)
Charge-off	(9 329)
Balance on the end of the exercise	134 639

In addition to the impairment losses observed, Banco Montepio recognized in its income statement, in financial year 2018, losses arising on the disposal of real estate in the amount of Euro 402 thousand and gains in the amount of Euro 14,890 thousand, as referred to in note 9.

29 Other tangible assets

This caption is presented as follows:

(Euro thousand)

	2019	2018
Investments		
Land and buildings		
For own use	206 292	206 298
Leasehold improvements in rented buildings	28 851	28 851
Equipment		
IT equipment	94 056	91 481
Interior installations	31 766	29 095
Furniture	18 425	18 445
Security equipment	7 607	7 557
Machinery and tools	2 698	2 568
Transportation	601	559
Other equipment	1	1
Works of art	2 870	2 870
Assets in operating lease	109	109
Righ-of-use assets		
Land and buildings	27 658	-
Vehicles	5 339	-
Other property, plant and equipment	1 877	1 122
Other tangible assets	1 228	1 846
	429 378	390 802
Accumulated depreciation		
Charge for the period	(17 267)	(9 023)
Accumulated charge in previous periods	(171 809)	(164 038)
	(189 076)	(173 061)
	240 302	217 741

The caption Right-of-use assets corresponds, essentially, to real estate (branches and central buildings) and to the car fleet, being amortized according to the lease term of each agreement, as indicated in notes 1 i) and 55.

The movements in the caption Other tangible assets, during financial year 2019, are analysed as follows:

(Euro thousand)

	Opening Balance	IFRS 16	Aqcuisitions	Disposals	Transfers	Closing Balance
Investments						
Land and buildings						
For own use	206 298	-	406	412	-	206 292
Leasehold improvements in rented buildings	28 851	-	-	-	-	28 851
Equipment						
IT equipment	91 481	-	3 700	1 125	-	94 056
Interior installations	29 095	-	265	-	2 406	31 766
Furniture	18 445	-	56	76	-	18 425
Security equipment	7 557	-	73	23	-	7 607
Machinery and tools	2 568	-	130	-	-	2 698
Transportation	559	-	42	-	-	601
Other equipment	1	-	-	-	-	1
Works of art	2 870	-	-	-	-	2 870
Assets in operating lease	109	-	-	-	-	109
Righ-of-use assets*					-	-
Land and buildings	-	27 773	3 478	3 593	-	27 658
Vehicles	-	2 967	2 393	21	-	5 339
Other property, plant and equipment	1 846	-	33	2	-	1 877
Other tangible assets	1 122	-	2 625	-	(2 519)	1 228
	390 802	30 740	13 201	5 252	(113)	429 378
Accumulated depreciation						
Land and buildings						
For own use	11 025	-	3 083	25	-	14 083
Leasehold improvements in rented buildings	26 461	-	558	-	-	27 019
Equipment						
IT equipment	86 103	-	3 499	1 125	-	88 477
Interior installations	19 460	-	1 539	-	-	20 999
Furniture	17 791	-	183	78	-	17 896
Security equipment	7 222	-	135	21	-	7 336
Machinery and tools	2 516	-	15	1	-	2 530
Transportation	559	-	1	-	-	560
Other equipment	1	-	-	-	-	1
Assets in operating lease	109	-	-	-	-	109
Righ-of-use assets						
Land and buildings	-	-	7 124	-	-	7 124
Vehicles	-	-	1 130	-	-	1 130
Other tangible assets	1 814	-	-	2	-	1 812
	173 061	-	17 267	1 252	-	189 076
	217 741					240 302

(*) The initial balance on Right-of-use assets corresponds to the adjustment arising from IFRS 16 implementation, as in note 55.

The movements in the caption Other tangible assets, during financial year 2018, are analysed as follows:

(Euro thousand)

	Opening Balance	Aqcuisitions	Disposals	Transfers	Closing Balance
Investments					
Land and buildings					
For own use	204 334	2 408	444	-	206 298
Leasehold improvements in rented buildings	29 152	25	326	-	28 851
Equipment					
IT equipment	90 120	2 657	1 296	-	91 481
Interior installations	24 950	356	-	3 789	29 095
Furniture	18 567	102	224	-	18 445
Security equipment	7 355	210	8	-	7 557
Machinery and tools	2 551	46	29	-	2 568
Transportation	677	-	118	-	559
Other equipment	1	-	-	-	1
Works of art	2 870	-	-	-	2 870
Assets in operating lease	323	-	214	-	109
Other property, plant and equipment	1 848	-	2	-	1 846
Work in progress	3 403	1 508	-	(3 789)	1 122
	386 151	7 312	2 661	-	390 802
Accumulated depreciation					
Land and buildings					
For own use	7 996	3 044	15	-	11 025
Leasehold improvements in rented buildings	25 566	1 156	261	-	26 461
Equipment					
IT equipment	84 419	2 978	1 294	-	86 103
Interior installations	18 158	1 302	-	-	19 460
Furniture	17 668	345	222	-	17 791
Security equipment	7 051	179	8	-	7 222
Machinery and tools	2 533	10	27	-	2 516
Transportation	677	-	118	-	559
Other equipment	1	-	-	-	1
Assets in operating lease	265	8	164	-	109
Other tangible assets	1 815	1	2	-	1 814
	166 149	9 023	2 111	-	173 061
	220 002				217 741

30 Intangible assets

This caption is presented as follows:

(Euro thousand)

	2019	2018
Investment		
Software	134 350	120 986
Other property, plant and equipment	1 319	-
Work in progress	3 365	3 838
	139 034	124 824
Accumulated depreciation		
Charge for the period	(14 045)	(12 888)
Accumulated charge in previous periods	(93 167)	(80 279)
	(107 212)	(93 167)
	31 822	31 657

The movements in the caption Intangible assets, during financial year 2019, are analysed as follows:

(Euro thousand)

	Opening Balance	Aqcuisitions	Disposals	Transfers	Closing Balance
Cost					
Software	120 986	73	-	13 291	134 350
Other property, plant and equipment	-	1 319	-	-	1 319
Work in progress	3 838	12 818	-	(13 291)	3 365
	124 824	14 210	-	-	139 034
Accumulated depreciation					
Software	93 167	14 045	-	-	107 212
	93 167	14 045	-	-	107 212
	31 657				31 822

The movements in the caption Intangible assets, during financial year 2018, are analysed as follows:

(Euro thousand)

	Opening Balance	Aqcuisitions	Disposals	Transfers	Closing Balance
Cost					
Software	104 718	-	-	16 268	120 986
Other property, plant and equipment	-	-	-	-	-
Work in progress	5 653	14 453	-	(16 268)	3 838
	110 371	14 453	-	-	124 824
Accumulated depreciation					
Software	80 279	12 888	-	-	93 167
	80 279	12 888	-	-	93 167
	30 092				31 657

31 Taxes

Deferred tax assets and liabilities, in financial years 2019 and 2018, can be analysed as follows:

(Euro thousand)

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Deferred taxes not dependent on future profitability						
Impairment on loans granted	42 123	42 625	-	-	42 123	42 625
Benefits to employees	16 149	21 114	-	-	16 149	21 114
	58 272	63 739	-	-	58 272	63 739
Deferred taxes dependent on future profitability						
Financial instruments	24 098	34 064	(17 558)	(9 632)	6 540	24 432
Other tangible assets			-	-	-	-
Provisions / Impairment						
Impairment on loans granted	171 255	183 088	-	-	171 255	183 088
Other risks and charges	8 458	7 685	-	-	8 458	7 685
Impairment in securities and non-financial assets	5 369	6 613	-	-	5 369	6 613
Impairment in financial assets	570	1 931	-	-	570	1 931
Benefits to employees	40 042	35 024	-	-	40 042	35 024
Other	130	86	(7)	(7)	123	79
Taxes losses carried forward	171 666	170 192	-	-	171 666	170 192
Net deferred tax assets/ (liabilities)	479 860	502 422	(17 565)	(9 639)	462 295	492 783

Special regime applicable to deferred tax assets

On 6 July 2016, the Extraordinary General Meeting of Banco Montepio was held, approving the adherence to the special regime applicable to deferred tax assets, approved by Law no. 61/2014, of 26 August, which is applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as to deferred tax assets recorded in the annual accounts for the last tax period prior to that date and to the part of the costs and negative equity changes associated with same. In accordance with Law no. 23/2016, of 19 August, this special regime is not applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor to their associated deferred tax assets.

Law no. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. net loss in separate annual accounts or in settlement accounts on the voluntary winding-up, insolvency decided by law or withdrawal of the respective authorization), there will be a conversion into tax credits of deferred tax assets that resulted from the non-deduction of costs and of deductions of asset values resulting from credit impairment losses and post-employment or long-term employment benefits. In such case, a special reserve corresponding to 110% of their amount shall be constituted, requiring the simultaneous constitution of conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State of the same amount. Tax credits may be offset against tax debts of the beneficiaries (or of an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. Under this regime, the recovery of deferred tax assets covered by the regime approved by Law no. 61/2014, of 26 August, is not dependent upon future profits.

The aforementioned legal framework was regulated by Ordinance no. 259/2016, of 4 October, on the control and use of tax credits, and by Ordinance no. 293-A/2016, of 18 November, the latter altered by Ordinance no. 272/2017, of 13 September, determining the conditions and procedures for the acquisition of the referred State rights by the shareholders. According to this legislation, State rights are, among other factors, subject to a right of acquisition by the shareholders on their inception date, exercisable in periods to be established by the Board of Directors up to 10 years after the respective constitution, with the issuing bank depositing in the State's name the full amount corresponding to the rights issued, within 3 months from the confirmation date of the deferred tax asset conversion into tax credit. Such deposit shall be redeemed when and to the extent that the State rights are acquired by the shareholders or exercised by the State.

Deferred taxes are determined using tax rates that are expected to be in force on the date of reversal of the timing differences, which correspond to the rates approved or substantially approved in the balance sheet date.

The caption Post-employment and long-term benefits includes the amount of Euro 5,486 thousand (31 December 2018: Euro 8,230 thousand) related to deferred taxes associated with the remeasurements recognized against reserves as a result of the change in accounting policy made in 2011. As at 31 December 2019, this caption also includes the amount of Euro 2,715 thousand (31 December 2018: Euro 5,657 thousand) related to deferred taxes associated with the cost generated by the transfer of liabilities with pensioners to the General Social Security System.

The negative equity variation due to the change in accounting policy related to the recognition of the remeasurements in the Pension Fund made in 2011 is deductible for tax purposes, in equal parts, over a 10-year period, starting on 1 January 2012. The cost generated by the transfer of liabilities with pensioners to the General Social Security System is deductible for tax purposes, in equal parts, starting on 1 January 2012, according to the number of years of life expectancy of the pensioners whose liabilities were transferred (20 years in the case of Banco Montepio).

In financial years 2019 and 2018, deferred taxes associated with Post-employment and long-term benefits include the amount of Euro 21,583 thousand related to post-employment and long-term benefits in excess of the existing limits.

In financial year 2019, and in function of (i) the tax rates effective after 1 January 2018 and ii) the expectation of the conversion into tax-accepted costs and profits and the prospects of tax profits or tax losses in each one of the subsequent periods, Banco Montepio considered the rates (base rate and surcharges) used to calculate deferred taxes, depending on the specific cases associated with timing differences or tax loss carry-forwards, of 30.5% and 21%, respectively.

Analysis of the recoverability of deferred tax assets

Deferred tax assets related to losses carried forward are recognized only if the existence of future taxable income is probable, for which reason the uncertainty associated with the recoverability of the tax losses carried forward is considered in the calculation of deferred tax assets.

As referred in the accounting policy described in note 1 u), and in accordance with the requirements defined in IAS 12, the deferred tax assets recognized in Banco Montepio's financial statements have an underlying high expectation of recoverability. The assessment as to the recoverability of deferred tax assets is based on the business plan for the period 2020-2024, which was approved by the Board of Directors on 9 April 2020.

The recovery of the profitability, liquidity and capital levels of the Banco Montepio Group, is envisaged in the Transformation Plan approved by the Board of Directors, which is grounded on four strategic pillars that are a new value and business proposition, including the repositioning of BEM and Montepio Crédito, the strengthening of the balance sheet, the improvement of the risk and the internal reorganization of the structures and support, aimed at achieving greater efficiency.

In this context, the prospects of sustainable improvements in the profitability levels derive from the following principles:

(i) Increase in the commercial network business, which incorporates the ambition to increase the loan and deposit portfolios, aimed at recovering the market shares in the housing and corporate segments, substantiated by a greater balance in the commercial gap. The projected growth for the performing loans and advances to customers' portfolio is based, for individuals, on mortgage loans and consumer loans, and, as far as companies are concerned, also on the favourable performance of BEM, and its growing contribution to the Group headed by Banco Montepio, through the offer of an integrated value proposal.

(ii) Funding cost management, considering the adequacy of the liquidity position and sources of funding vis-à-vis the market conditions. The increase in the deposits' portfolio translates the objective of strengthening customer deposits as the main source of financing of the activity, alongside the gradual reduction of the cost of deposits, namely through the mix of demand and term deposits.

(iii) The strategy outlined reflects a favourable effect at the level of net interest income, as well as of commissions, the latter showing the impacts of the management of the price list by adjusting it to Banco Montepio's value proposal for each segment, defined in function of its life cycle and financial profile, as well as in terms of the growth of its "first bank" quota, leading to the progressive increase of the customer base with a greater transactionality and level of commitment.

(iv) De-leveraging of non-strategic assets, both through the sustained decrease of non-performing credit, based on the improvement of the credit recovery processes and the sale of portfolios, or through the reduction of real estate held for trading, reflecting the maintenance of an adequate pace of sales provided by the favourable sectorial framework of the real estate activity and by the stabilization of real estate inflows associated with the improvement of the credit recovery processes through payment in kind.

(v) Positive evolution of the loan portfolio's risk profile, due to the change in the credit granting policy, with favourable impacts in terms of the cost of the prospective risk and the return on the allocated capital.

(vi) Improvement in efficiency and in the cost-to-income ratio supported by the growth in banking income, associated with the increase in turnover generated, and the reinforcement of operating cost control, based on the implementation of a set of measures aimed at the rationalization of costs.

Following this assessment, and with reference to 31 December 2019 and 2018, Banco Montepio recognized all deferred tax assets; hence, there are no deferred tax assets to be recognized.

In addition, a sensitivity analysis was carried out considering a scenario in which profit or loss before tax evolved at a rate 10% lower than that considered in the aforementioned projections, with no impact at the level of deferred taxes being determined.

The deferred tax assets associated with tax losses carried forward, by expiry year, are presented as follows:

(Euro thousand)

Expiry Date	2019	2018
2022	-	5 553
2027	42 836	36 333
2028	128 830	128 306
	171 666	170 192

Tax recognized in profit or loss and in reserves during financial years 2019 and 2018 originated as follows:

(Euro thousand)

	2019		2018	
	Charged to net income/ (loss)	Charged to reserves and retained earnings	Charged to net income/ (loss)	Charged to reserves and retained earnings
Financial instruments	(9 081)	(10 070)	(8 670)	40 009
Provisions / Impairment	(14 168)	-	(67 190)	62 901
Employee benefits	2 045	(734)	10 064	3 888
Tax losses carried forward	1 474	-	21 898	(30 308)
Other	46	-	49	-
Deferred taxes/ recognised as profit/ (losses)	(19 684)	(10 804)	(43 849)	76 490
Current taxes	(667)	-	(32)	(3 583)
	(20 351)	(10 804)	(43 881)	72 907

The caption Provisions/impairment records the tax impact recognized in Reserves and Retained earnings related to the adoption of IFRS 9, with reference to 1 January 2018.

During 2019, the Bank revisited the models and processes associated with the assessment of impairment for credit risks, including, namely, the definitions of staging, EADs and LGDs.

The results obtained from this review determined the need for Banco Montepio to restate the financial statements with reference to 31 December 2018.

Within the scope of this review, impacts with accounting relevance on equity were determined on 1 January 2018 and also in the income statement for financial year 2018, namely:

- Recognition of deferred taxes in the income statement in the amount of Euro 172 thousand;
- Recognition of deferred taxes in Reserves and Retained earnings in the amount of Euro 8,636 thousand.

The reconciliation of the effective tax rate, as regards the amount recognized in the income statement, can be analysed as follows:

(Euro thousand)

	2019		2018	
	%	Value	%	Value
Profit before income tax		33 322		45 509
Income tax based on the current nominal tax rate	(21,0)	(6 998)	(30,5)	(13 880)
Gains and losses associated with the transfer of equity	16,7	5 567	(6,6)	(3 023)
Equity contribution for the banking sector	(5,9)	(1 959)	(4,9)	(2 235)
Post-employement benefits and Pension Fund	(12,0)	(4 009)	(3,2)	(1 463)
Taxable provisions / impairment	(2,4)	(798)	(35,6)	(16 205)
Autonomous taxation	(3,2)	(1 057)	(1,4)	(658)
Corrections to previous periods	1,2	389	1,4	626
Effect of differences in income tax for the period	(7,0)	(2 343)	18,1	8 235
Deductions / (Accruals) for taxable profit purposes	-	-	-	(1 403)
Other	(27,4)	(9 143)	(30,5)	(13 875)
Income tax for the period	(61,1)	(20 351)	(96,4)	(43 881)

Law no. 98/2019, of 4 September, amends the rules applicable to impairment losses recognized as at 1 January 2019, as well as impairment losses recorded in tax periods beginning before 1 January 2019 and not yet accepted for tax purposes. The new regime includes a maximum adjustment period of 5 years, i.e., until 31 December 2023.

Banco Montepio has not opted for the application of the new tax regime on impairment, for which reason, for the current and deferred tax assessment as at 31 December 2019, it estimated its taxes based on the regime that was in force until 31 December 2018.

The Tax Authority can review Banco Montepio's taxable income during a period of four years, except in the event of the carry-forward of tax losses, as well as any other deduction or tax credit, in which case the period is the period of the exercise of that right.

Banco Montepio was subject to inspection by the Tax Authority up to and including the 2017 tax period.

In 2018, Banco Montepio became the dominant company of the Tax Group subject to corporate income tax under the Special Taxation Regime of Groups of Companies ("RETGS"), which former dominant company was Montepio Holding, S.G.P.S., S.A.

In this context, the Group considers that the effects of the calculation of the taxable income according to RETGS are reflected in the calculation of the current tax of the period of each entity, including the effect on the calculation of the current tax of the period arising from the use of tax losses generated by another entity of the Group.

The caption Current tax assets, in the amount of Euro 9,823 thousand relates, essentially, to IRC recoverable, of which Euro 6,144 thousand relates to payments on account, additional payments on account and special payments on account.

In addition, the above-mentioned asset includes an amount of Euro 0.981 thousand related to the tax saving associated with the entities that contribute with a tax loss to the RETGS, for which reason said amount will be reimbursed to those entities upon the assessment of the IRC.

32 Other assets

This caption is presented as follows:

(Euro thousand)

	2019	2018
Assets received for credit recovery	687 852	-
Sundry debtors	8 342	9 345
Other debtors	187 881	78 118
Other amounts receivable	2 665	3 619
Bonifications to be received from the Portuguese Government	6 338	4 907
Deferred costs	3 027	2 544
	896 105	98 533
Impairment for assets received for credit recovery	(124 184)	-
Impairment for other assets	(26 597)	(30 115)
	745 324	68 418

In 2019, non-current assets held for sale were transferred to this asset category, as described in note 28.

The caption Assets received in recovery of credit is presented as follows:

(Euro thousand)

	2019
Assets received for credit recovery	687 852
Impairment for assets received for credit recovery	(124 184)
	563 668

The assets included in the caption Assets received in recovery of credit are accounted for in accordance with the accounting policy described in note 1 h).

The caption Assets received in recovery of credit includes the amount of Euro 1,085 thousand related to equipment resulting from the resolution of loans and advances to customers' contracts and is fully provided against.

The resolution of loans and advances to customers' contracts results from (i) the simple foreclosure, delivery with a repurchase option or delivery with a leasing option, being accounted for upon the celebration of the contract or the promissory contract to deliver the asset and the respective irrevocable power of attorney issued by the customer in Banco Montepio's name; or (ii) the adjudication of the assets as a result of a judicial guarantee execution process, being accounted for based on the title of adjudication or the adjudication request after having registered the first pledge.

Banco Montepio has implemented a plan aimed at the immediate sale of the assets received in recovery of credit. According to Banco Montepio's expectation, it is intended that these assets be available for sale in a period under 1 year and there is a strategy for their sale. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period. The referred caption includes, as at 31 December 2019, real estate for which promissory contracts to buy and sell, in the amount of Euro 12,686 thousand, have already been celebrated.

The movements, in financial year 2019, in Assets received in recovery of credit are analysed as follows:

(Euro thousand)

	2019
Opening balance	839 990
Acquisitions	31 928
Disposals	(187 333)
Other movements	3 525
Transfers	(258)
Closing balance	687 852

The movement in impairment of Assets received in recovery of credit are analysed as follows

(Euro thousand)

	2019
Balance at 1 January	134 639
Charge of the period	9 422
Reversal of the period	(175)
Charge off	(19 702)
Balance at 31 December	124 184

In addition to the impairment losses observed, Banco Montepio recognized in profit or loss, in financial year 2019, gains in the amount of Euro 16,531 thousand, as referred to in note 9.

As at 31 December 2019 and 2018, the caption Other debtors is analysed as follows:

(Euro thousand)

	2019	2018
SilverEquation	-	29 909
Supplementary capital contributions	14 910	14 910
Public entities	2 300	6 429
Other	170 671	26 870
	187 881	78 118

As part of a sale of loans and advances and real estate carried out in 2014 to the company Silverequation, Banco Montepio received, in financial year 2019, and in accordance with that contracted, the remaining amount that was in debt.

The caption Supplementary capital contributions considers the value of supplementary capital contributions subscribed in the scope of a loans and advances sales operation in the amount of Euro 14,910 thousand, loans which are fully provided against.

As at 31 December 2019, the caption Public Entities includes the amounts receivable from public entities, mostly related to courts in the context of insolvency proceedings and loan claims lodged.

The caption Other includes, as at 31 December 2019, the amount of Euro 130,265 thousand related to shareholder loans made to the subsidiary Montepio Holding.

Additionally, the amount shown in Others, included in the caption Other debtors, also considers amounts receivable related to deposits placed by Banco Montepio with courts in the context of legal proceedings with a view to recovering customer debts, amounts receivable related to sales operations of non-productive assets, in accordance with the contracts signed, and also amounts invoiced by Banco Montepio with financial settlement in 2020.

The caption Bonifications to be received from the Portuguese State corresponds to amounts related to mortgage and SME loans, in accordance with the legal provisions applicable to low-interest loans. These amounts do not bear interest and are claimed monthly.

As at 31 December 2019 and 2018, the caption Bonifications to be received from the Portuguese State are presented as follows:

(Euro thousand)

	2019	2018
Overdue bonfications unclaimed	2 398	3 278
Unsettled recoverable bonifications from the Portuguese Government	3 875	1 516
Unclaimed bonifications	65	113
	6 338	4 907

The movements in impairment of other assets are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	30 115	25 183
IFRS 9 transition adjustment	-	3 508
Charge for the period	3 436	9 219
Reversal for the period	(4 137)	(2 080)
Charge-off	(2 817)	(5 715)
Balance on 31 December	26 597	30 115

33 Deposits from central banks

This caption includes deposits obtained from the European System of Central Banks, which are collateralized by the pledge of securities from the portfolio of financial assets at fair value through other comprehensive income and the portfolio of other financial assets at amortized cost, as described in notes 24 and 26.

The analysis of the caption Deposits from Central Banks for the remaining period to maturity, as at 31 December 2019 and 2018, is presented as followed:

(Euro thousand)

	2019	2018
Up to 6 months	443 600	-
More than 6 months	847 433	1 395 320
	1 291 033	1 395 320

The operations are remunerated at the Bank of Portugal rates in force as at the contract date.

34 Deposits from other credit institutions

This caption is presented as follows:

(Euro thousand)

	2019			2018		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	34 643	-	34 643	6 088	-	6 088
Term deposits	-	14 294	14 294	-	837	837
	34 643	14 294	48 937	6 088	837	6 925
Deposits from credit institutions abroad						
BEI loan	-	350 359	350 359	-	350 406	350 406
Deposits repayable on demand	40 137	-	40 137	35 828	-	35 828
Term deposits	-	146 987	146 987	-	177 505	177 505
Sales operations with repurchase agreement	-	109 756	109 756	-	850 317	850 317
Repos collaterals	-	-	-	-	17 499	17 499
Other deposits	5 498	-	5 498	4 068	-	4 068
	45 635	607 102	652 737	39 896	1 395 727	1 435 623
	80 278	621 396	701 674	45 984	1 396 564	1 442 548

The analysis of the caption Deposits from other credit institutions, for the remaining period to maturity, as at 31 December 2019 and 2018, is as follows:

(Euro thousand)

	2019	2018
Up to 3 months	221 621	307 999
3 to 6 months	65 723	122 915
6 months to 1 year	4 680	661 228
1 to 5 years	404 582	346 406
More than 5 years	-	-
Undetermined	5 068	4 000
	701 674	1 442 548

The amount of the EIB loan is collateralized by Portuguese, Greek, Spanish, Dutch, Italian, French and German sovereign bonds in the amount of Euro 388,501 thousand (31 December 2018: Euro 405,211 thousand), recorded in the caption Financial assets at fair value through profit or loss, Financial assets at fair value through other comprehensive income and Other financial assets at amortized cost, as described in notes 22, 24 and 26, respectively. The caption Repos refers to the Margin Maintenance of the Repos operations realized in accordance with the Global Master Repurchase Agreements in force.

35 Deposits from customers

This caption is presented as follows:

(Euro thousand)

	2019			2018		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	4 413 530	313 817	4 727 347	3 753 420	398 347	4 151 767
Term deposits	-	7 657 328	7 657 328	-	8 332 065	8 332 065
Saving accounts	-	123 952	123 952	-	118 898	118 898
Other deposits	18 919	-	18 919	23 837	-	23 837
Adjustments arising from fair value option operations	-	-	-	11	-	11
	4 432 449	8 095 097	12 527 546	3 777 268	8 849 310	12 626 578

Ordinance no. 180/94, of 15 December, gave rise to the incorporation of the Deposits Guarantee Fund to guarantee the reimbursement of funds deposited at credit institutions. The criteria to calculate the annual contributions to the referred Fund are defined in Bank of Portugal Notice no. 11/94, of 29 December.

As at 31 December 2018, the caption Term deposits includes deposits at fair value through profit or loss, measured in accordance with internal valuation methodologies considering, mainly, observable market inputs, in the amount of Euro 14,597 thousand. Thus, in accordance with the fair value defined in IFRS 13. These instruments are categorized in Level 2. Financial liabilities included in this caption are revalued against results, according with the accounting policy described in note 1 b), with a gain having been recognized, as at 31 December 2019, in the amount of Euro 11 thousand (31 December 2018: gain of Euro 22 thousand) related to fair value changes.

The analysis of the caption Deposits from customers for the remaining period to maturity, as at 31 December 2019 and 2018, is as follows:

(Euro thousand)

	2019	2018
Deposits repayable on demand	4 727 347	4 151 767
Term deposits and savings acounts		
Up to 3 months	634 438	694 666
3 to 6 months	2 253 405	2 949 118
6 months to 1 year	1 641 840	1 834 236
1 to 5 years	3 224 565	2 921 600
More than 5 years	27 032	51 343
	12 508 627	12 602 730
Other deposits		
Up to 3 months	18 919	23 837
Adjustments from fair value option operations	-	11
	12 527 546	12 626 578

In 2019, deposits from customers were remunerated at the average rate of 0.26% (31 December 2018: 0.44%).

36 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

(Euro thousand)

	2019	2018
Cash bonds	7 357	124 719
Covered bonds	1 255 904	753 612
	1 263 261	878 331

The fair value of the debt securities issued is presented in note 47.

The caption Debt securities issued includes securities issued recognized at fair value through profit or loss, in the amount of Euro 6,611 thousand (31 December 2018: Euro 6,776 thousand), in accordance with internal valuation techniques and considering, mainly, observable market data. According to the fair value hierarchy defined in IFRS 13 these instruments are categorized in Level 2.

The financial liabilities included in this caption are revalued through the income statement in accordance with the accounting policy presented in note 1 b), with a gain having been recognized in 2019 in the amount of Euro 155 thousand (2018: a gain in the amount of Euro 491 thousand) related to fair value changes.

The residual periods to maturity of the caption Debt securities issued, as at 31 December 2019 and 2018, are as follows:

(Euro thousand)

	2019	2018
Up to 6 months	4 242	97 172
6 months to 1 year	1 525	21 701
1 to 5 years	1 248 215	754 818
	1 253 982	873 691
Adjustments from fair value option operations	9 279	4 640
	1 263 261	878 331

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, Banco Montepio has securities issued in circulation in a total amount of Euro 2,300,000 thousand, at nominal value, as at 31 December 2019 and 2018.

As at 31 December 2019, the main characteristics of the debt securities issued in circulation are as follows:

(Euro thousand)

Description	Nominal value	Value at amortised cost	Book value	Issue date		Maturity date	Interest payment	Interest rate	*Rating (Moody´s/Fitch/Dbrs)*
Covered bonds - 6S	300 000	300 167	-	november 2016	november 2023	novembro 2023	quarterly	Euribor 3M + 0,80%	A1/AA-/A
Covered bonds - 8S	500 000	500 105	-	december 2016	december 2026	dezembro 2026	quarterly	Euribor 3M + 0,90%	A1/AA-/A
Covered bonds - 9S	250 000	250 120	-	may 2017	may 2024	maio 2024	quarterly	Euribor 3M + 0,85%	A1/AA-/A
Covered bonds - 10S	750 000	759 001	759 001	october 2017	october 2022	outubro 2022	annual	Fixed at 0,875%	A1/AA-/A
Covered bonds - 11S	500 000	496 903	496 903	november 2019		november 2024	annual	Fixed at 0,125%	A1/AA-/A
	2 300 000	2 306 296	1 255 904						

As at 31 December 2018, the main characteristics of the debt securities issued in circulation are as follows:

(Euro thousand)

Description	Nominal value	Value at amortised cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	*Rating (Moody´s/Fitch/Dbrs)*
Covered bonds - 5S	500 000	500 141	-	december 2015	december 2020	quarterly	Euribor 3M + 0,80%	A3/AA-/A
Covered bonds - 6S	300 000	300 209	-	november 2016	november 2023	quarterly	Euribor 3M + 0,80%	A3/AA-/A
Covered bonds - 8S	500 000	500 115	-	december 2016	december 2026	quarterly	Euribor 3M + 0,90%	A3/AA-/A
Covered bonds - 9S	250 000	250 145	-	may 2017	may 2024	quarterly	Euribor 3M + 0,85%	A3/AA-/A
Covered bonds - 10S	750 000	753 612	753 612	october 2017	october 2022	annual	Fixed at 0,875%	A3/AA-/A
	2 300 000	2 304 222	753 612					

In financial year 2019, under Banco Montepio's Mortgage Bond Issuance Program, the amount of Euro 500,000 thousand, with a 5-year maturity and a fixed annual interest rate of 0.125% was issued and the issue of the series 5 mortgage bonds in the amount of Euro 500,000 thousand was repaid.

The covered bonds are guaranteed by a pool of mortgage loans which are segregated as an autonomous asset in Banco Montepio's accounts, thus providing a statutory special creditor privilege to the holders of these securities over any other creditor.

The legal and regulatory framework of these bonds is set out in Decree-Law no. 59/2006, in Bank of Portugal Notices no. 5/2006, of 20 March, no. 6/2006, of 11 October, no. 7/2006, of 11 October, and no. 8/2006, of 11 October and Instruction no. 13/2006, of 15 November, of the Bank of Portugal.

As at 31 December 2019, the value of the loans collateralizing these issues amounted to Euro 2,719,463 thousand (31 December 2018: Euro 2,728,028 thousand), according to note 21.

The movements in debt securities issued during financial year ended 31 December 2019, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Issuance	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December
Cash bonds	124 719	-	(114 000)	-	(3 362)	7 357
Covered bonds	753 612	500 000	-	-	2 292	1 255 904
	878 331	500 000	(114 000)	-	(1 070)	1 263 261

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at fair value option and exchange variation.

The movements in debt securities issued during financial year ended 31 December 2018, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Issuance	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December
Cash bonds	375 300	-	(242 669)	-	(7 912)	124 719
Covered bonds	746 238	-	-	-	7 374	753 612
	1 121 538	-	(242 669)	-	(538)	878 331

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at fair value option and exchange variation.

In accordance with the accounting policy described in note 1 b), the purchase of debt securities issued by Banco Montepio is written off from liabilities and the difference between the acquisition cost and the respective book value is recognized in the income statement.

As at 31 December 2019, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Security	Issue Date	Maturity Date	Interest rate	Book Value
OBRIGAÇÕES CAIXA-MG TAXA FIXA SETEMBRO 2010-2020	09/09/2010	09/09/2020	Fixed at 4%	100
OBRIGAÇÕES CAIXA-CRPC-2012-2020-1.SERIE	30/03/2012	31/03/2020	Fixed at 5,25% (4th year: 6% and 5th year: 6,75%; 6th 7th e 8th coupon Max[6,25% and Min (IPC+2%;9,15%)]	3 300
OBRIGAÇÕES CAIXA-MONTEPIO CAPITAL CERTO 2012-2020-2ªSERIE	31/05/2012	01/06/2020	Fixed at 8,2583% (4th year: 9,7083%; 5th year: 10,7250%; 6th year: 7,4750%; 7th year: 8,3% e 8th year: 11,1583%)	600
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2021-1.SERIE	28/02/2013	01/03/2021	Fixed at 5,15% (3rd year Rate: 5,30%; 4th year Rate: 5,30%; 5th year Rate: 5,90%; 6.º coupon Max[5,95%; Min (IPC+2%;8,25%)];7.º coupon Max[6,15%; Min (IPC+2%;8,50%)]; 8.º coupon Max[6,45%; Min (IPC+2%;8,50%)])	2 148
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2021-2.SERIE	28/06/2013	29/06/2021	Fixed at 4,9% (3rd year rate: 5,1%, 4th year Rate: 5,1%, 5th year Rate: 5,65% and from 6º to 8ºano Rate: Max(5,95%;Min(IPC+2%;8,15%))	812
COVERED BONDS - 10S	17/11/2017	17/11/2022	Fixed at 0,875%	750 000
COVERED BONDS - 11S	14/11/2019	14/11/2024	Fixed at 0,125%	500 000
				1 256 960
			Adjustments of hedging operations	9 279
			Periodifications, costs and deferred gains	(2 978)
				1 263 261

As at 31 December 2018, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Security	Issue Date	Maturity Date	Interest rate	Book Value
OBRIGAÇÕES CAIXA-MG TAXA FIXA SETEMBRO 2010-2020	09/09/2010	09/09/2020	Fixed at 4%	100
OBRIGAÇÕES CAIXA-CRPC-2012-2020-1.SERIE	30/03/2012	31/03/2020	Fixed at 5,25% (4th year: 6% and 5th year: 6,75%; 6th 7th e 8th coupon Max[6,25% and Min (IPC+2%;9,15%)]	3 300
OBRIGAÇÕES CAIXA-MONTEPIO CAPITAL CERTO 2012-2020-2ªSERIE	31/05/2012	01/06/2020	Fixed at 8,2583% (4th year: 9,7083%; 5th year: 10,7250%; 6th year: 7,4750%; 7th year: 8,3% e 8th year: 11,1583%)	600
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2021-1.SERIE	28/02/2013	01/03/2021	Fixed at 5,15% (3rd year Rate: 5,30%; 4th year Rate: 5,30%; 5th year Rate: 5,90%; 6.º coupon Max[5,95%; Min (IPC+2%;8,25%)];7.º coupon Max[6,15%; Min (IPC+2%;8,50%)]; 8.º coupon Max[6,45%; Min (IPC+2%;8,50%)])	2 148
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2021-2.SERIE	28/06/2013	29/06/2021	Fixed at 4,9% (3rd year rate: 5,1%, 4th year Rate: 5,1%, 5th year Rate: 5,65% and from 6º to 8ºano Rate: Max(5,95%;Min(IPC+2%;8,15%))	812
MONTEPIO CAPITAL CERTO 2014/2019 1S	31/01/2014	01/02/2019	Fixed at 3,4% (3rd year Rate: 3,45%, 4th year Rate: 3,5%, 5th year Rate: 3,75%)	27 400
MONTEPIO CAPITAL CERTO 2014/2019 2S	28/02/2014	01/03/2019	Fixed at 3,4% (3rd year Rate: 3,45%, 4th year Rate: 3,5%, 5th year Rate: 3,75%)	33 050
CEMG CAP CERTO 2014/2019 3 SERIE	28/03/2014	29/03/2019	Fixed at 3,4% (3rd year Rate: 3,45%, 4th year Rate: 3,5%, 5th year Rate: 3,75%)	33 400
CEMG CAP CERTO 2014/2019 9S	30/09/2014	01/10/2019	Fixed at 2,75% (3rd year Rate: 3,00%, 4th year Rate: 3,10%, 5th year Rate: 3,35%)	17 900
MONTEPIO CAP CERTO 2014/2029 12S	02/01/2015	31/12/2019	Fixed at 2,90% (2nd to 4th year Rate: 2,95%, 5th year Rate: 3,25%)	2 250
COVERED BONDS - 10S	17/11/2017	17/11/2022	Fixed at 0,875%	750 000
				870 960
			Adjustments of hedging operations	4 640
			Periodifications, costs and deferred gains	2 731
				878 331

37 Financial liabilities associated with assets transferred

In the scope of the securitization operations described in note 51, in respect of which Banco Montepio retained the majority of the risks and rewards associated with the securitized loans, it recorded the financial liabilities associated with the assets transferred, which are detailed as follows:

(Euro thousand)

	2019	2018
Pelican Mortgages No 3	170 683	196 333
Pelican Mortgages No 4	493 637	550 434
Aqua Mortgages No 1	86 041	98 999
Pelican Mortgages No 5	496 929	550 757
Pelican Mortgages No 6	624 810	657 223
Pelican Finance No 1	67 362	108 679
	1 939 462	2 162 425

38 Provisions

This caption is presented as follows:

(Euro thousand)

	2019	2018
Provisions for guarantess and commitments	15 456	16 540
Provisions for other risks and charges	14 812	15 159
	30 268	31 699

The Provisions for other risks and charges were set up based on the probability of the occurrence of certain contingencies related to risks inherent to Banco Montepio's activity.

This caption includes provisions for tax contingencies (Stamp Duty, Income Tax (IRC), Property taxes (IMI) and TSC), legal cases and frauds.

The movements in provisions for guarantees and commitments assumed in financial years ended 31 December 2019 and 2018, are analysed as follows:

(Euro thousand)

	2019	2018 restated	2018
Balance on 1 January	16 540	16 147	16 147
IFRS 9 transition adjustment	-	2 426	944
Balance on 31 January	16 540	18 573	17 091
Charge for the period net of reversals	14 998	11 660	11 660
Charge-off	(15 135)	(13 693)	(13 154)
Financial liabilities related to financial assets	(947)	-	-
Final balance	15 456	16 540	15 597

The movements in provisions for other risk and charges are analysed as follows:

(Euro thousand)

	2019	2018
Balance on 1 January	15 159	10 060
Charge for the period	4 235	10 035
Reversals for the period	(4 582)	(4 936)
Balance on 31 December	14 812	15 519

These provisions are constituted based on the probability of the occurrence of certain contingencies related to Banco Montepio's activity, being revised at each reporting date in order to reflect the best estimate of the loss amount.

39 Other subordinated debt

As at 31 December 2019, the main characteristics of subordinated debt, are analysed as follows:

(Euro thousand)

Issue	Issue date	Maturity date	Issue amount	Interest rate	2019	2018
MONTEPIO EMTN SUB 2018/2028	dec 2018	dec 2028	50 000	8,0% the first 5 years and at EurSwap for 5y + 7.77% for the remaining years	50 044	50 044
MONTEPIO EMTN SUB 2019/2029	mar 2019	apr 2029	100 000	10,5% the first 5 years and at EurSwap for 5y + Fixing ICE (FFT 11:00 AM) + 10,514%	107 803	-
					157 847	50 044

As at 31 December 2018, the main characteristics of subordinated debt, are analysed as follows:

(Euro thousand)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Balance amount
MONTEPIO EMTN SUB 2018/2028	dec 2018	dec 2028	50 000	8,0% the first 5 years and at EurSwap for 5y + 7.77% for the remaining years	50 044
					50 044

The movements in the caption Other subordinated debt during financial years 2019 and 2018, were as follows:

(Euro thousand)

	2019					
	Balance at 1 January	Issued	Refunds	Purchases (Liquids)	Other movements	Balance at 31 December
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	-	-	50 044
MONTEPIO EMTN SUB 2019/2029	-	100 000	-	-	7 803	107 803
	50 044	100 000	-	-	7 803	157 847

(a) Including the accrued interest in the balance.

	2018					
	Balance at 1 January	Issued	Refunds	Purchases (Liquids)	Other movements	Balance at 31 December
CEMG/08 1.ª série	111 321	-	(110 848)	-	(473)	-
CEMG/08 2.ª série	113 169	-	(112 556)	-	(613)	-
CEMG/08 3.ª série	4 200	-	(4 168)	-	(32)	-
FNB 08/18 1ª/2ª Série	7 503	-	(7 500)	-	(3)	-
MONTEPIO EMTN SUB 2018/2028	-	50 000	-	-	44	50 044
	236 193	50 000	(235 072)	-	(1 077)	50 044

(a) Including the movement of accrued interest in the balance.

In financial year 2019, under the Euro Medium Term Note Programme (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 100,000 thousand, with a 10-year maturity, with a rate of 10.50% in the first five years and a call option, at par, in the 5th year.

In financial year 2018, under the Euro Medium Term Note Programme (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 50,000 thousand, with a 10-year maturity, with a rate of 8.0% in the first five years and a call option, at par, in the 5th year. During financial year 2018, Banco Montepio redeemed Euro 235,892 thousand.

40 Other liabilities

This caption is presented as follows:

(Euro thousand)

	2019	2018
Domestic and foreign operations pending settlement	95 523	96 696
Other sundry liabilities	17 108	26 744
Lease Liabilities	24 904	-
Pension costs	14 510	18 455
Charges with staff expenses	24 471	22 405
Other expenses	30 212	12 320
Suppliers	6 765	4 135
Administrative public sector	10 574	10 329
Deferred income	352	418
	224 419	191 502

As at 31 December 2019, the caption Sundry accounts includes the amount of Euro 14,510 thousand (31 December 2018: Euro 18,456 thousand), related to net liabilities recognized in the balance sheet and that present the difference between the liabilities in pensions, health benefits, death subsidy and the assets, as per note 48.

As at 31 December 2019, the caption Lease liabilities corresponds to the amount of lease liabilities recognized in the scope of IFRS 16, as described in accounting policy 1 i), and in note 55, and relates to operating leases of real estate and motor vehicles.

The residual maturity of the lease liabilities is as follows:

(Euro thousand)

	2019
Up to 1 year	1 109
1 to 5 years	24 974
More than 5 years	902
	26 985
Accrued financial costs	(2 081)
	24 904

As at 31 December 2019, the caption Staff charges payable includes the amount of Euro 18,874 thousand (31 December 2018: Euro 19,018 thousand), related to holidays and holidays subsidies. Additionally, as at 31 December 2019, this caption also includes the amount of Euro 1,989 thousand (31 December 2018: Euro 1,092 thousand) related to seniority bonus, as per note 48.

41 Share capital

As at 31 December 2019 and 2018, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

In financial year 2019, MGAM sold 3,000 (31 December 2018: 158,920) shares of Banco Montepio's share capital, which is now held as follows:

	2019		2018	
	Number of shares	Percentage	Number of shares	Percentage
Montepio Geral Associação Mutualista	2 419 838 080	99,9933%	2 419 841 080	99,9934%
Other shareholders	161 920	0,0067%	158 920	0,0066%
	2 420 000 000	100,0%	2 420 000 000	100,0%

42 Other equity instruments

This caption includes the issue of Euro 15,000 thousand, occurring in the first quarter of 2010, of Subordinated Perpetual Securities with conditional interest ("Finibanco Valor Invest 2010" – ISIN: PTFNI1OM0011) made by Montepio Investimento, S.A. (previously designated Finibanco, S.A.), and that, in the scope of the acquisition of Montepio Holding, S.G.P.S., S.A. (previously designated Finibanco Holding, S.G.P.S., S.A.) and its subsidiaries, was integrated in Banco Montepio's equity.

In the case of acquisitions of subordinated perpetual securities, these are written off from equity and the difference between the acquisition cost and the respective book value is recognized in equity.

In financial years 2019 and 2018, Banco Montepio repurchased perpetual subordinated securities in the amount of Euro 8,677 thousand. After these operations, the caption Other equity instruments amounts to Euro 6,323 thousand.

Remuneration

Banco Montepio is prevented from paying interest if, in the Board of Directors' or Bank of Portugal's opinion, this payment endangers the compliance with the Regulation of Own Funds' requirements.

Called on 13 December 2019 and realized on 29 January 2020, in a second calling, a Meeting of Bondholders holding the "Finibanco Valor Invest 2010" issue was held, having approved, with the unanimous approval of the votes cast, the modification of the conditions of the bondholders' credits under the terms proposed by the Board of Directors of Banco Montepio, with a view to adapting the Final Conditions of the Issue to the prudential treatment being given to same by the Bank of Portugal, maintaining the characteristics that allow it to be eligible as a level 2 own funds' instrument, as provided for in Regulation (EU) no. 575/2013, of the European Parliament and of the Council.

As proposed by the Board of Directors of Banco Montepio, the bondholders resolved, unanimously by those present at the meeting convened for this purpose, to eliminate the conditions relating to interest, so that on the next payment dates the interest will be paid at the variable rate corresponding to the Euribor rate for the 6-month term increased by 2.75%, with a minimum of 5%, and with no additional conditions being required to settle the amount.

In compliance with paragraph (4) of the sole point on the agenda of the proposal related to the calling of the Meeting of Bondholders, the resolution of the bondholders is subject to a suspensive condition of a resolution, taken at Banco Montepio's General Shareholders' Meeting, which dictates the amendment of the Final Conditions for the "Finibanco Valor Invest 2010" issue.

During financial year 2019, Banco Montepio paid interest on this issue in the amount of Euro 321 thousand (2018: Euro 322 thousand).

Redemption

These securities are perpetual, only being redeemable according to the prepayment terms provided below.

With the agreement of the Bank of Portugal, the issuer may redeem these, in whole or in part, as from the 10th date of interest payment, inclusive (5th year).

As at 31 December 2019 and 2018, these securities are considered a positive element of level 2 own funds (Tier 2) of Banco Montepio, complying with the requirements of Regulation no. 575/2013 of the European Union.

43 Legal reserve

In accordance with article 97 of the Legal Framework of Credit Institutions and Financial Companies (“Regime Geral das Instituições de Crédito e Sociedades Financeiras” – “RGICSF”), approved by the Decree-Law no. 298/92, of 31 December and amended by the Decree-Law no. 201/2002, Banco Montepio shall reinforce the legal reserve annually with, at least, 10% of the annual net profits, up to the limit equal to the amount of the share capital or to the sum of the free reserves and retained earnings, if higher. This reserve cannot, normally, be distributed.

The movement in the legal reserve is analysed in note 44.

44 Fair value reserves, Other reserves and Retained earnings

This caption is presented as follows:

(Euro thousand)

	2019	2018
Fair value reserves		
Fair value reserve		
Financial assets at fair value through other comprehensive income	10 230	(20 669)
Loans and advances to customers	557	1 491
Own credit risk	157	143
	10 944	(19 035)
Taxes		
Financial assets at fair value through other comprehensive income	(10 629)	(274)
Loans and advances to customers	(170)	(455)
	(10 799)	(729)
Fair value reserve net of taxes	145	(19 764)
Other reserves and retained earnings		
Legal reserve	191 969	191 767
Other reserves and retained earnings	(1 118 381)	(1 041 890)
Gains realized on equity instruments	268	243
	(926 144)	(849 880)

Fair value reserves related to financial assets at fair value through other comprehensive income represent the potential gains and losses in the portfolio of financial assets at fair value through other comprehensive income, and record the amount, of the fair value reserve, related to the loans and advances to customers’ portfolio reclassified from Other financial assets at fair value through other comprehensive income to Loans and advances to customers.

The caption Loans and advances to customers records the amount of the fair value reserve, related to the loans and advances to customers’ portfolio reclassified to Other financial assets at fair value through other comprehensive income.

As at 31 December 2018, the caption Other reserves and Retained earnings includes the impact of Euro 100.083 thousand related to the adjustment on the transition to IFRS 9. This caption also includes the negative amount of Euro 37 thousand related to capital losses realized in financial assets at fair value through other comprehensive income.

The movements in the fair value reserve related to financial assets at fair value through other comprehensive income, during financial year 2019, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	-	1 334	14 344	-	(1 334)	14 344
Bonds issued by foreign public entities	(5 029)	3 185	5 664	5 095	(3 176)	5 739
Bonds issued by other entities:						
Domestic	(1 699)	372	(448)	53	(71)	(1 793)
Foreign	(737)	1 391	979	44	(127)	1 550
	(7 465)	6 282	20 539	5 192	(4 708)	19 840
Variable income securities						
Shares						
Domestic	2 099	4 461	1 175	-	-	7 735
Foreign	(15 303)	(2 034)	(8)	-	-	(17 345)
	(13 204)	2 427	1 167	-	-	(9 610)
	(20 669)	8 709	21 706	5 192	(4 708)	10 230

The movements in the fair value reserve related to financial assets at fair value through other comprehensive income, during financial year 2018, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Adjustments IFRS 9	Revaluation	Acquisitions	Disposals	Impairment recognised for the period	Balance on 31 December
Fixed income securities							
Bonds issued by Portuguese public entities	456	1 821	(1 821)	-	(456)	-	-
Bonds issued by foreign public entities	(4 107)	2 683	(5 298)	(537)	2 662	(432)	(5 029)
Bonds issued by other entities:							
Domestic	719	(1 730)	(2 270)	(95)	(34)	1 711	(1 699)
Foreign	385	35	(562)	(534)	(18)	(43)	(737)
	(2 547)	2 809	(9 951)	(1 166)	2 154	1 236	(7 465)
Variable income securities							
Shares							
Domestic	10 487	-	(9 476)	1 088	-	-	2 099
Foreign	2 607	-	(17 881)	-	(29)	-	(15 303)
	13 094	-	(27 357)	1 088	(29)	-	(13 204)
	10 547	2 809	(37 308)	(78)	2 125	1 236	(20 669)

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

(Euro thousand)

	2019	2018
Amortised cost of financial assets at fair value through other comprehensive income	1 828 490	413 829
Recognised accumulated impairment	(5 279)	(571)
Amortised cost of financial assets at fair value through other comprehensive income net of impairment	1 823 211	413 258
Market value of financial assets at fair value through other comprehensive income	1 833 441	392 589
Potential realised gains/ (Losses) recognised in the fair value reserve	10 230	(20 669)

45 Distribution of dividends

In financial years 2019 and 2018, Banco Montepio did not distribute dividends.

46 Guarantees and other commitments

The balances of these account are analysed as follows:

(Euro thousand)

	2019	2018
Guarantees granted	489 009	436 275
Commitments to third parties	1 338 095	1 318 751
Deposit and custody of securities	7 327 873	7 186 315
	9 154 977	8 941 341

The amounts of Guarantees granted, and Commitments assumed to third parties are analysed as follows:

(Euro thousand)

	2019	2018
Garantees granted		
Guarantees	464 500	417 091
Letters of credit	24 509	19 184
	489 009	436 275
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	616 472	648 040
Potential liability with the Investor's Indemnity System	1 431	1 533
Term liability to the Guarantee Deposits Fund	22 768	22 768
Securities subscription	2 872	4 053
Revocable commitments		
Revocable credit facilities	694 552	642 357
	1 338 095	1 318 751

Guarantees and standby letters granted are financial operations that do not necessarily result in mobilization on funds by Banco Montepio.

Documentary credits correspond to irrevocable commitments, by Banco Montepio, on behalf of its customers, to pay/order to pay a certain amount to the supplier for a certain good or service, within a defined period, against the presentation of the documentation confirming the shipment of goods or the rendering of services. The irrevocable condition arises from the fact that the commitment is not cancellable or alterable without the express agreement of all parties involved.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Banco Montepio's customers (for example unused lines of credit). These agreements are generally contracted for fixed periods of time or with other expiring requirements and, usually, require the payment of a commission. Substantially, all credit concession commitments require that customers maintain the compliance with certain conditions defined at the time the commitments were contracted.

Notwithstanding the particular characteristics of these commitments, the analysis of these operations follows the same principles of any commercial operation, namely the solvency of the underlying customer and business, with Banco Montepio requiring that these operations be adequately covered by collaterals when necessary. Considering that it is expected that the majority of these expire without having been used, the indicated amounts do not necessarily represent future cash-flow needs.

As at 31 December 2019 and 2018, the caption Term liability to the Deposits Guarantee Fund is related to the irrevocable commitment assumed by Banco Montepio, as required by law, to deliver the unrealized amounts of the annual contributions, to that Fund, if requested to do so.

As at 31 December 2019, in the scope of the Deposits Guarantee Fund, Banco Montepio pledged treasury bonds (OT 4.95% 25.10.2023), recorded as Financial assets at fair value through other comprehensive income, with a nominal value of Euro 21.500 thousand (31 December 2018: Euro 22.200 thousand), as described in note 24.

As at 31 December 2019 and 2018, the caption Potential liability - Investors' Compensation System refers to the irrevocable obligation that Banco Montepio assumed, as required by law, to deliver to that System, if actioned by same, the amounts necessary to pay its share of the indemnities due to investors.

The financial instruments accounted for as Guarantees and other commitments are subject to the same approval and control procedures applied to the loans and advances to customers' portfolio, namely regarding the assessment of the adequacy of the impairment constituted, as referred in the accounting policy described in note 1 b). The maximum credit exposure is represented by the nominal amount that could be lost related to contingent liabilities and other commitments assumed by Banco Montepio in the event of default by the respective counterparties, without considering potential loan or collateral recoveries.

47 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as is the case with many products sold to customers, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to their financial characteristics and the discount rates used include both the market interest rate curve and the current conditions of the pricing policy of Banco Montepio.

Therefore, the fair value obtained is influenced by the parameters used in the valuation model that, necessarily, have some degree of judgement and reflect, exclusively, the value attributed to the different financial instruments. However, it does not consider prospective factors, like the future business evolution. Consequently, the values presented cannot be understood as an estimate of the economic value of Banco Montepio.

Fair value of financial instruments

Financial instruments accounted for in the balance sheet at fair value were classified by levels in accordance with IFRS 13.

Debt and equity instruments

- Level 1: In addition to financial instruments admitted to trading on a regulated market, bonds and investment units in harmonized funds, valued based on active market prices/quotations, disclosed through trading platforms, are included in this category.

  The aforementioned financial instruments are traded on an active market whenever the financial instruments in question are quoted through multi-contributed sources for bonds and the primary exchange for shares.

- Level 2: Financial instruments that are not traded on an active market or valued using valuation techniques supported by observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect (derivatives), and valuation assumptions similar to those that an unrelated party would use in estimating the fair value of the same financial instrument, are considered Level 2. The classification of fair value in Level 2 is made according to the following rules:

  c) Financial instruments shall be classified in level 2 if they are:

     iii. valued based on models using observable market data (such as interest rate curves or exchange rates). Market interest rates are calculated based on information disseminated by financial content providers, for example Bloomberg, namely those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. The same interest rate curves are also used to project non-deterministic cash flows, such as indexers; or

     iv. valued using indicative third-party purchase prices, based on observable market data.

- Level 3: Financial instruments are classified in level 3 whenever they do not meet the criteria to be classified in level 1 or level 2, or fair value is determined based on unobservable data in active markets, using techniques and assumptions that market participants would use to assess the same instruments, namely:

  c) financial instruments not admitted to trading on a regulated market that are valued using valuation models and for which there is no generally accepted consensus on the criteria to be used, namely:

     iv. valuation prepared in accordance with the Net Asset Value of non-harmonized funds, updated and disclosed by the respective management companies;

     v. valuation prepared in accordance with indicative prices disclosed by the entities that participated in the issuance of certain financial instruments, without an active market; or

     vi. valuation prepared in accordance with the realization of impairment tests, using the performance indicators of the underlying operations (e.g. degree of protection by subordination of the tranches held, delinquency rates of underlying assets, evolution of ratings, etc.).

  d) financial instruments valued through indicative purchase prices based on theoretical valuation models disclosed by specialized third parties.

The following are the main methods and assumptions used in estimating the fair value of financial assets and liabilities.

Derivative financial instruments

Operations involving financial derivatives, in the form contracts in respect of exchange rate, interest rate, share or share indices, inflation or a combination of these are traded over the counter (OTC) and in organized markets (especially stock markets). For OTC derivative operations (swaps and options), their valuation is based on generally accepted methods, always favouring market values.

- Level 1: This classification includes futures, options and other derivative financial instruments traded on a regulated market.

- Level 2: This level includes derivative financial instruments traded on unregulated (OTC) markets that do not have an optional component.
  The valuation of these derivatives is made by discounting the cash flows from operations, using as a discounting base the market interest rate curves deemed appropriate for the currency in force at the time of the calculation. Interest rates are obtained from Bloomberg or Reuters

  Market interest rates are calculated based on information disseminated by financial content providers - Bloomberg or Reuters - specifically those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. Interest rate curves are also used to project non-deterministic cash flows such as indexers.

- Level 3: This level includes options and derivatives traded on an unregulated (OTC) market, incorporating optional elements.

Options are valued based on statistical models that consider the market values of the underlying assets and their volatilities (assuming that they are not directly observable in the market). The theoretical models used in the valuation of derivatives classified in level 3 are presented as follows:

iii. For simple options, the Black-Scholes, Black, Ho and other models are used, considering the applicable volatility surfaces and their derivatives (models commonly used by the market in valuing this type of operations). Unobservable market inputs used in the valuation (implied volatilities of the subjacent) are taken from Bloomberg.

iv. For exotic options or for complex derivatives with embedded optional elements for which no valuation models are available, Banco Montepio hires specialized entities that value such assets using specific models that they develop according to generally accepted criteria and methodologies.

The valuations thus obtained are, in the case of interbank operations, compared with those used by the counterparties and, whenever it is understood that there are insufficient quality market references or that the available models do not fully apply to the characteristics of the financial instrument, specific quotations provided by an external entity, typically the counterparty of the business, are used.

The valuation of non-optional components, not adjusted for credit risk, (cash flows from the operations), is made based on their respective discounting, using a methodology similar to that used for derivatives without an optional component; even so, the derivative in question is still considered in level 3.

Financial instruments recorded in the balance sheet at amortized cost

For financial instruments recorded in the balance sheet at amortized cost, Banco Montepio calculates their fair value using valuation techniques.

The valuation techniques used are based on the market conditions applicable to similar operations at the reference date of the financial statements, namely the value of the respective cash flows discounted based on the interest rates considered most appropriate, that is:

- *Other loans and advances to credit institutions, Deposits from central banks, Deposits from other credit institutions and Assets with repurchase agreements*

  The fair value of these financial instruments is calculated discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates.

  For Deposits from Central Banks it was considered that the book value is a reasonable estimate of their fair value, considering the nature of the operations and the associated period. The rate of return of funding from the European Central Bank is negative in 0.4 percent for live operations as at 31 December 2019 (31 December 2018: negative in 0.4 per cent).

  For repo associated with the reverse repo the book value was considered. For the remaining loans and advances and deposits received, the discount rate used reflects the current conditions applied by Banco Montepio to identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity dates (money market or interest rate swap market rates, at the end of the financial year). As at 31 December 2019, the average discount rate was a negative 0.21% (31 December 2018: 0.07%) for the remaining funds.

  For Loans and advances to other credit institutions a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term operations was applied. Considering the short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

- *Other financial assets at amortized cost*

  These financial instruments are accounted for at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for associated factors, predominantly the credit and liquidity risks, determined in accordance with the respective market conditions and periods.

- *Loans and advances to customers without a defined maturity date and Deposits from customers repayable on demand*

  Considering the short-term maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the book value is a reasonable estimate of their fair value.

- *Loans and advances to customers with a defined maturity date*

  The fair value of these financial instruments is calculated by discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. For loans in default, the value, net of impairment, of these operations is a reasonable estimate of their fair value, given the economic valuation performed for the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by Banco Montepio to similar instruments for each of the homogeneous classes of this type of instrument and with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial year) and the spread used at the reporting date, calculated based on the average production of the last quarter. The average discount rate was 2.81% for mortgage loans (31 December 2018: 2.88%), 5.98% for individual credit (31 December 2018: 6.22%) and 4.28% for the remaining loans (31 December 2018: 4.67%), assuming a projection of the variable rates that is based on macroeconomic fundamentals and on market forward rates. The calculations also include the credit risk spread.

- *Deposits from customers*

  The fair value of these financial instruments is calculated discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. The discount rate used reflects the current conditions applied by Banco Montepio to identical instruments with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial year) and the spread of Banco Montepio at the reporting date, calculated based on the average production of the last quarter. The average discount rate as at 31 December 2019 was 0.15% (31 December 2018: 0.33%).

- *Debt securities issued and Other subordinated debt*

  For these financial instruments, the fair value was calculated for the components which fair value is not yet reflected in the balance sheet. For the fixed interest rate instruments in respect of which Banco Montepio applies hedge accounting, the fair value related to the interest rate risk is already accounted for.

  In the fair value calculation, the other risk components were also considered, besides the interest rate risk already accounted for. Fair value is based on market quotations, whenever these are available. If these are not available, fair value is estimated using internal models, based on cash-flow discounting techniques, using the market interest rate curve adjusted by the associated factors, predominantly the credit risk and the trading margin, the latter only in the case of issues sold to non-institutional customers of Banco Montepio.

As original reference, the interest rate swaps market curves for each specific currency are used. The credit risk (credit spread) is represented by an excess over the interest rate swaps' curve, calculated specifically for each term and class of instruments based on the market prices of equivalent instruments.

In case of covered bond issues, the fair value is determined based on quotations disseminated by the financial content provider Bloomberg.

As regards subordinated issues, the discount rate calculated was 6.17% (31 December 2018: 7.91%). The average discount rate calculated for senior issues placed on the retail market was a negative 0.17% (31 December 2018: 0.47%). The discount rate for the subordinated issue reflects the spreads observed on the market for comparable issues increased by a liquidity premium, considering the lower depth of the market for the subordinated debt issued by Banco Montepio.

- *Cash, Deposits at central banks and Loans and advances to credit institutions repayable on demand*

  Considering the extremely short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

It should be noted that the fair value presented may not correspond to the realization value of these financial instruments in a sale or liquidation scenario, since it has not been calculated for this purpose.

The main valuation methods, assumptions and inputs used to calculate the fair value estimate for levels 2 and 3, depending on the type of financial instrument, are presented as follows:

	Type of instruments		Valuation methods	Main assumptions
Financial assets and liabilities held for trading	Derivatives [1]	Swaps	Discounted Cash Flow Method [2]	Interest rate curves
		Exchange rate options	Black-Scholes Model	Implied Volatilities
		Interest rate options	Normal Model	Probability of default for CVA and DVA calculation
	Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3] Market Observable Prices
Financial assets at fair value through profit or loss	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3] Market Observable Prices
Financial assets at fair value through other comprehensive income	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3]
Financial assets at amortized cost	Debt securities Loans and advances outstanding		Discounted Cash Flow Method [2]	Interest rate curves Comparable assets [3] Spreads
Derivatives - Hedge accounting	Swaps [1]		Discounted Cash Flow Method [2]	Interest rate curves Implied Volatilities Probability of default for CVA and DVA calculation
Financial liabilities at amortized cost	Term deposits Debt securities issued		Discounted Cash Flow Method [2]	Interest rate curves Spreads

(1) In derivative valuations, an adjustment to the valuation is made to take into account counterparty credit risk when the exposure is the Bank's or the credit risk of the Bank's when the exposure is the counterparty's (generally referred to by the abbreviations CVA - Credit Valuation Adjustment and DVA - Debit Valuation Adjustment).

(2) Cash-flow discounting method (net present value): this model uses the cash flows of each instrument, established in the different contracts, and discounts them to calculate their present value.

(3) Comparable assets (prices of similar assets): comparable financial instrument prices or market benchmarks are used to calculate yield from the purchase price to its current valuation, making subsequent adjustments to take into account possible differences between the revalued instrument and the reference instrument. It can also be assumed that the price of one instrument equals that of another.

Valuation adjustments for Credit Risk

Counterparty Credit Risk Valuation Adjustments ("CVA") and the Bank's Credit Risk Valuation Adjustments ("DVA") are incorporated in the valuation of OTC derivatives as a result of the risk associated with the credit exposure of the counterparty and its own, respectively.

The CVA value is calculated considering the expected exposure for each counterparty in each future term, with the CVA by counterparty being calculated by summing the various CVA values of the various future terms. The adjustments are then determined by estimating the counterparty's exposure at default (EAD), the respective probability of default (PD) and the loss given default (LGD) for all derivative financial instruments traded under the same contract negotiated with Banco Montepio with a netting clause (of the same netting set). Similarly, the DVA corresponds to the product of the negative expected exposure at default by the probability of default and by Banco Montepio's LGD.

In determining the PD and LGD values these are calibrated using market data, for the effect using the counterparty's rating and sector or historical information on the probability of default.

Changes in CVA/FVA and DVA/FVA adjustments are accounted for as gains or losses on assets and liabilities held for trading in the profit or loss. The detail of the movements of these adjustments is shown in the table.

CVA Movements

(Euro thousand)

	2019	2018
Adjustment	**446**	**235**
From: derivatives maturity	(4)	-

Fair value of assets received in recovery of credit

The fair value and impairment constituted for real estate assets received in recovery of credit are a function of the valuation amount and the book value of the properties. The valuation amount is equal to the lower of the following values:

- Value obtained through an on-site valuation report;
- Sale value (if a sale and purchase contract is celebrated).

Real estate valuations and revaluations shall be carried out by expert appraisers, regulated by Law no. 153/2015, of 14 September

Pursuant to Decree-Law no. 74-A/2017, of 23 June, and for the purpose of article 18 thereof, in mortgage loan agreements for residential real estate, the borrower may request of the Bank a second valuation of the property.

Since the same appraisers are required to carry out surveys of works in progress subject to funding to determine the amount of the works realized to be financed, given the nature of this type of valuation, the training and professional qualifications of these experts shall, cumulatively, respect the professional qualifications defined by Law no. 31/2009, of 3 July, as amended by Law no. 40/2015, of 1 June.

External Appraiser Companies

The selection of appraiser companies is based on the universe of entities registered as "expert appraisers" with the CMVM and seeks to ensure an adequate diversification and rotation in the performance of the valuations.

Independent external appraisers follow the principles defined by:

- Notice no. 5/2006 of the Bank of Portugal (Valuation of Mortgaged Properties as a Guarantee of Loans with Mortgage requirements);
- Regulation no. 575/2013 of the European Parliament and of the Council (Prudential Requirements).

Fair value determination is made by independent appraisers duly certified for this purpose, duly registered with the CMVM, and using at least two of the following methods.

Comparative market method

This method provides an estimate of the amount by which it is understood that a particular property may be traded, after an appropriate period of trading, between an interested seller and buyer, in which both parties act in an informed, prudent and unconditional or non-coerced manner.

The value of the property is determined after analysis of comparable transaction and property offer values, obtained through knowledge of the local market and the exhaustive collection of real estate market data that provides knowledge of the supply and demand situation for similar properties, and which constitute a decisive factor in determining the Market Value of the property under valuation.

Income method

In this method, the market value of a property corresponds to the present value of all the rights to future benefits arising from its ownership.

This method assumes that property management and operation are based on the principles of legality, rationality and competence. The purpose of the analysis is to determine its respective ability to generate revenue flows, as well as the frequency of their occurrence, as well as to infer all the inherent expenses.

Cost method

In this method, the estimated value of a property corresponds to the cost of constructing a property that fulfils the same functions and with the same material and technology characteristics, at current market prices. The value assessed includes the value of the land, construction costs and the investment promotion profit margin, as well as a deduction corresponding to the depreciation, or loss of property value, resulting from physical, functional, economic or environmental obsolescence or a combination of these.

For all valuations not based on all 3 valuation methods, the expert appraiser should consider the local market characteristics and the specific characteristics of the property under valuation. The valuation adopted shall be the lower of the values determined because it is the most prudent in terms of guarantee.

As at 31 December 2019, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of Banco Montepio:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0,510000	1,530000	0,745000	-0,745000	-0,200000
7 days	-0,499000	1,586327	0,745000	-0,770000	-0,084600
1 month	-0,438000	1,790000	0,745000	-0,755000	-0,370000
2 months	-0,411417	1,850000	0,810000	-0,725000	-0,310000
3 months	-0,383000	1,920000	0,850000	-0,695000	-0,350000
6 months	-0,324000	1,930000	0,920000	-0,650000	-0,310000
9 months	-0,285892	1,910000	0,945000	-0,580000	-0,130000
1 year	-0,249000	1,940000	0,995000	-0,590000	-0,270000
2 years	-0,293500	1,937916	0,992537	-0,607000	-0,270156
3 years	-0,238000	1,935827	0,992537	-0,558000	-0,270156
5 years	-0,119500	1,931643	0,992537	-0,436000	-0,270156
7 years	0,016000	1,927458	0,992537	-0,302000	-0,270156
10 years	0,211000	1,921190	0,992537	-0,112000	-0,270156
15 years	0,467000	1,958212	0,992537	0,094000	-0,270156
20 years	0,599000	2,027000	0,992537	0,094000	-0,270156
30 years	0,631000	2,056000	0,992537	0,094000	-0,270156

As at 31 December 2018, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of Banco Montepio:

	Currencies				
	Euro	**United States Dollar**	**Sterling Pound**	**Swiss Franc**	**Japanese Yen**
1 day	-0,373000	2,480000	0,750000	-0,830000	-0,086670
7 days	-0,373000	2,415880	0,750000	-0,830000	-0,086670
1 month	-0,363000	2,700000	0,895000	-0,630000	-0,400000
2 months	-0,336931	2,760000	0,970000	-0,790000	-0,350000
3 months	-0,309000	2,870000	0,970000	-0,750000	-0,380000
6 months	-0,237000	2,950000	1,060000	-0,640000	-0,330000
9 months	-0,177000	3,030000	1,145000	-0,665000	-0,200000
1 year	-0,117000	3,100000	1,245000	-0,575000	-0,230000
2 years	-0,171500	2,677000	1,145000	-0,573000	-0,022500
3 years	-0,065000	2,626000	1,216000	-0,468000	-0,022500
5 years	0,201000	2,635000	1,307000	-0,265000	-0,008800
7 years	0,469000	2,681000	1,366000	-0,019000	0,040000
10 years	0,815000	2,766000	1,444000	0,293000	0,147500
15 years	1,169000	2,852000	1,526000	0,616000	0,340000
20 years	1,345000	2,824000	1,526000	0,616000	0,340000
30 years	1,405000	2,819000	1,526000	0,616000	0,340000

Exchange rates and volatility

We present below the exchange rates (European Central Bank) as at the balance sheet date and the implied volatilities (at the Money) for the main currency pairs used in the valuation of derivatives:

			Volatility (%)				
Exchange rates	**2019**	**2018**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1,1234	1,1450	5,175	5,375	5,550	5,700	5,950
EUR/GBP	0,8508	0,8945	7,575	7,125	7,075	7,100	7,200
EUR/CHF	1,0854	1,1269	4,175	4,475	4,625	4,825	5,150
EUR/JPY	121,94	125,85	5,675	6,025	6,375	6,675	6,850
EUR/BRL	4,5157	4,444	11,425	11,100	11,450	11,150	11,550
EUR/AOA	540,0370	353,0210	-	-	-	-	-

Concerning exchange rates, Banco Montepio uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of Banco Montepio as at 31 December 2019 and 2018, is presented as follows:

(Euro thousand)

	2019				
	At fair value through profit or loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial Assets					
Cash and deposits at central banks	-	-	1 003 648	1 003 648	1 003 648
Loans and deposits to credit institutions repayable on demand	-	-	51 993	51 993	51 993
Other loans and advances to credit institutions	-	-	532 033	532 033	528 394
Loans and advances to customers	1 207	-	10 919 963	10 921 170	10 778 902
Financial assets held for trading	29 904	-	-	29 904	29 904
Financial assets at fair value through profit or loss	654 438	-	-	654 438	654 438
Financial assets at fair value through other comprehensive income	-	1 833 441	-	1 833 441	1 833 441
Hedging derivatives	11 148	-	-	11 148	11 148
Other financial assets at amortized cost	-	-	2 793 157	2 793 157	2 821 127
	696 697	1 833 441	15 300 794	17 830 932	17 712 995
Financial liabilities					
Deposits from central bank	-	-	1 291 033	1 291 033	1 291 033
Deposits from other credit institutions	-	-	701 674	701 674	707 958
Deposits from customers	-	-	12 527 546	12 527 546	12 529 701
Debt securities issued	6 587	-	1 256 674	1 263 261	1 263 092
Financial liabilities related to transferred assets	-	-	1 939 462	1 939 462	1 939 835
Financial liabilities held for trading	11 098	-	-	11 098	11 098
Hedging derivatives	547	-	-	547	547
Other subordinated debt	-	-	157 847	157 847	172 668
	18 232	-	17 874 236	17 892 468	17 915 932

(Euro thousand)

	2018				
	At fair value through profit or loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial Assets					
Cash and deposits at central banks	-	-	1 610 634	1 610 634	1 610 634
Loans and deposits to credit institutions repayable on demand	-	-	75 572	75 572	75 572
Other loans and advances to credit institutions	-	-	336 782	336 782	335 281
Loans and advances to customers	15 139	-	11 753 659	11 768 798	11 880 020
Financial assets held for trading	15 660	-	-	15 660	15 660
Financial assets at fair value through profit or loss	884 449	-	-	884 449	884 449
Financial assets at fair value through other comprehensive income	-	392 589	-	392 589	392 589
Hedging derivatives	5 666	-	-	5 666	5 666
Other financial assets at amortized cost	-	-	3 394 302	3 394 302	3 428 631
	920 914	392 589	17 170 949	18 484 452	18 628 502
Financial liabilities					
Deposits from central bank	-	-	1 395 320	1 395 320	1 395 320
Deposits from other credit institutions	-	-	1 442 548	1 442 548	1 431 874
Deposits from customers	14 597	-	12 611 981	12 626 578	12 631 855
Debt securities issued	6 776	-	871 555	878 331	882 268
Financial liabilities related to transferred assets	2 162 425			2 162 425	2 211 433
Financial liabilities held for trading	12 274	-	-	12 274	12 274
Other subordinated debt	-	-	50 044	50 044	50 342
	2 196 072	-	16 371 448	18 567 520	18 615 366

The following table summarizes, by valuation levels, the fair value of Banco Montepio's financial assets and liabilities, as at 31 December 2019:

(Euro thousand)

	2019				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial Assets					
Cash and deposits at central banks	1 003 648	-	-	-	1 003 648
Loans and deposits to credit institutions repayable on demand	51 993	-	-	-	51 993
Other loans and advances to credit institutions	-	-	528 394	-	528 394
Loans and advances to customers	-	1 207	10 777 695	-	10 778 902
Financial assets held for trading	13 009	4 056	12 839	-	29 904
Financial assets at fair value through profit or loss	7 551	-	646 887	-	654 438
Financial assets at fair value through other comprehensive income	1 726 281	10 548	95 581	1 031	1 833 441
Hedging derivatives	-	11 148	-	-	11 148
Other financial assets at amortized cost	2 821 127	-		-	2 821 127
	5 623 609	26 959	12 061 396	1 031	17 712 995
Financial liabilities					
Deposits from central bank	1 291 033	-	-	-	1 291 033
Deposits from other credit institutions	-	-	707 958	-	707 958
Deposits from customers	-	-	12 529 701	-	12 529 701
Debt securities issued	-	6 587	1 256 505	-	1 263 092
Financial liabilities related to transferred assets	-	-	1 936 835	-	1 936 835
Financial liabilities held for trading	-	11 098	-	-	11 098
Hedging derivatives	-	547	-	-	547
Other subordinated debt	-	-	172 668	-	172 668
	1 291 033	18 232	16 603 667	-	17 912 932

The following table summarizes, by valuation levels, the fair value of Banco Montepio's financial assets and liabilities, as at 31 December 2018:

(Euro thousand)

	2018				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial Assets					
Cash and deposits at central banks	1 610 634	-	-	-	1 610 634
Loans and deposits to credit institutions repayable on demand	75 572	-	-	-	75 572
Other loans and advances to credit institutions	-	-	335 281	-	335 281
Loans and advances to customers	-	15 139	11 864 881	-	11 880 020
Financial assets held for trading	-	11 525	4 135	-	15 660
Financial assets at fair value through profit or loss	6 556	-	877 893	-	884 449
Financial assets at fair value through other comprehensive income	290 678	12 080	87 226	2 605	392 589
Hedging derivatives	-	5 666	-	-	5 666
Other financial assets at amortized cost	1 267 168	-	2 161 463	-	3 428 631
	3 250 608	44 410	15 330 879	2 605	18 628 502
Financial liabilities					
Deposits from central bank	1 395 320	-	-	-	1 395 320
Deposits from other credit institutions	-	-	1 431 874	-	1 431 874
Deposits from customers	-	14 597	12 617 258	-	12 631 855
Debt securities issued	-	6 776	875 492	-	882 268
Financial liabilities related to transferred assets	-	-	2 211 433	-	2 211 433
Financial liabilities held for trading		12 274	-	-	12 274
Other subordinated debt	-	-	50 342	-	50 342
	1 395 320	33 647	17 186 399	-	18 615 366

48 Post-employment and long-term benefits

Banco Montepio assumed the responsibility to pay its employees old-age and disability pensions and other benefits, in accordance with the accounting policy described in note 1 s). In addition, and in accordance with the same policy, Banco Montepio calculates at least once a year, with reference to 31 December of each year, the liabilities with retirement pensions and other benefits. This also occurs whenever the changes substantiated on the main actuarial assumptions so determine.

Banco Montepio's general pension plan for employees covers liabilities for the retirement benefits provided for in the Collective Labour Agreement for the Banking Sector and is a complementary plan to the General Social Security System.

Under the Collective Labour Agreement ("ACT") for the Banking Sector, employees admitted after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria determining the amount of pension that an employee will receive during retirement, usually dependent on one or more factors such as age, years of service and remuneration.

The benefits provided by this pension plan are as follows:

- Retirement due to presumable disability (old age);

- Retirement due to disability; and

- Survival pension.

The respective beneficiaries are guaranteed all social benefits, on the terms, conditions and values included in the pension plan in the quality of employees who at their retirement date are in the service of Banco Montepio, or as employees who had been permanent employees of same and at their retirement date meet all the enforceability requirements defined in the pension plan.

The pension provided by the Pension Fund is that corresponding to the employee's level at retirement and respective seniority payments, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund ("Caixa Ge ors ral de Aposentações") or the National Pensions Centre ("Centro Nacional de Pensões"), same shall be deducted from the pension guaranteed by the present pension plan.

In case of death of an active employee or a pensioner, the pension plan guarantees a survival pension equal to 40% of the remuneration to which the employee would be entitled if he/she retired or the pension he/she would receive, respectively.

Banco Montepio's former employees, when attaining the situation of retirement due to old-age or disability, are entitled to the payment by the Fund of a pension calculated as per the preceding paragraph, proportional to the time of service rendered to Banco Montepio.

Additionally, pursuant to the ACT, the pension plan guarantees the Social-Medical Assistance Services ("SAMS") costs and the death subsidy.

Banco Montepio has no other mechanisms to ensure the coverage of liabilities assumed with old-age, disability and survival pensions, health benefits and death subsidy of its employees.

In December 2016, Banco Montepio signed a new Collective Labour Agreement (ACT), introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the General Social Security System, and the attribution of an end-of-career award which replaced the extinguished seniority bonus.

As a result of the amendment to the ACT, the contributions to SAMS were now made based on a fixed cost per employee and were no longer indexed to salaries.

The main actuarial assumptions used in calculating the present value of the liabilities are as follows:

	Assumptions	
	2019	2018
Financial assumptions		
Salary growth rate	0,75%	1,00%
Pension growth rate	0,50%	0,50%
Rate of return of Fund	1,50%	2,25%
Discount rate	1,50%	2,25%
Revaluation rate		
Salary growth rate - Social Security	1,50%	1,50%
Pension growth rate	1,00%	1,00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 Anos	TV 88/90 -3 Anos
Actuarial valuation method	UCP	UCP

The assumptions used in calculating the present value of the liabilities are in accordance with the requirements defined by IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices, for high-quality corporate bonds, and (ii) duration of the liabilities. As at 31 December 2019, the average duration of the pension liabilities of the employees is 19.6 years (31 December 2018: 19.7 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

	2019	2018
Active	3 269	3 308
Retirees and survivors	1 310	1 312
	4 579	4 620

The liabilities for pensions and other benefits and respective coverage levels are presented as follows:

(Euro thousand)

	2019	2018
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(318 382)	(286 534)
Active	(453 150)	(389 309)
	(771 532)	(675 843)
Liabilities with healthcare benefits		
Pensioners	(22 821)	(21 628)
Active	(42 514)	(33 400)
	(65 335)	(55 028)
Liabilities with death benefits		
Pensioners	(1 909)	(1 673)
Active	(1 785)	(1 300)
	(3 694)	(2 973)
Total liabilities	(840 561)	(733 844)
Coverages		
Pension Fund value	826 051	715 388
Net assets/(liabilities) in the balance sheet	(14 510)	(18 456)
Accumulated actuarial remeasurements recognized in other comprehensive income	290 857	213 996

The evolution of liabilities with retirement pensions, health benefits and death subsidy can be analysed as follows:

(Euro thousand)

	2019				2018			
	Pension benefits	Healthcare benefits	Death benefits	Total	Pension benefits	Healthcare benefits	Death benefits	Total
Liabilities at the beginning of the financial year	675 843	55 028	2 973	733 844	674 925	54 471	3 159	732 555
Recognized in net income/(loss) (note 11)								
Current service cost	4 726	1 415	58	6 199	4 830	1 880	53	6 763
Interest cost	15 206	1 238	67	16 511	14 173	1 144	66	15 383
Early retirement, mutually agreed termination and others	344	-	-	344	1 802	-	-	1 802
Recognized in equity (note 43)								
Actuarial gains/(losses)								
- Changes in assumptions	79 904	-	-	79 904	(18 377)	(1 711)	(107)	(20 195)
- Not related to changes in assumptions	15 408	7 654	596	23 658	17 947	(756)	(198)	16 993
Other								
Pensions paid by the Fund	(19 482)	-	-	(19 482)	(17 047)	-	-	(17 047)
Pensions paid by Banco Montepio	(2 764)	-	-	(2 764)	(4 725)	-	-	(4 725)
Participant contributions	2 347	-	-	2 347	2 315	-	-	2 315
Liabilities at the end of the financial year	771 532	65 335	3 694	840 561	675 843	55 028	2 973	733 844

The evolution of the Pension Fund's net asset value in financial years ended 31 December 2019 and 2018 can be analysed as follows:

(Euro thousand)

	2019	2018
Value of Fund at beginning of financial year	715 388	723 130
Recognized in net income/(loss) (note 11)		
Share of net interest	16 097	15 185
Recognized in equity (note 43)		
Financial deviations	26 701	(38 195)
Others		
Contributions from Banco Montepio	85 000	30 000
Participant Contributions	2 347	2 315
Pensions paid by the Fund	(19 482)	(17 047)
Value of Fund at end of financial year	826 051	715 388

Banco Montepio's contributions related to 2019 include an additional payment made by Banco Montepio in 2020, in the amount of Euro 22,000 thousand.

No additional contributions to the defined benefit plans are foreseen for the following financial year since it is expected that the Fund's return will be sufficient to cover for the changes in the liabilities.

As at 31 December 2019, Banco Montepio participates in 97.2% (31 December 2018: 97.1%) in the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A..

As at 31 December 2019 and 2018, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	2019				2018			
	Assets of the fund	%	Quoted	Unquoted	Assets of the fund	%	Quoted	Unquoted
Variable-income securities								
Shares	45 602	6%	45 602	-	58 294	8%	58 294	-
Shares investment funds	105 139	13%	-	105 139	82 794	12%	9 602	73 192
Bonds	523 449	63%	468 878	54 571	479 074	67%	446 193	32 881
Real estate	5 420	1%	-	5 420	5 514	1%	-	5 514
Real estate investment funds	34 252	4%	676	33 576	23 672	3%	674	22 998
Venture capital funds	5 562	1%	-	5 562	9 343	1%	-	9 343
Loans and advances to banks and other	106 627	13%	-	106 627	56 697	8%	-	56 697
Total	826 051	100%	515 156	310 895	715 388	100%	514 763	200 625

The assets of the Pension Fund related to securities, real estate and loans and advances to banks that are Banco Montepio entities are analysed as follows:

(Euro thousand)

	2019	2018
Loans and advances in banks and other	106 627	56 697
Real estate	5 420	5 514
Bonds	2 081	2 250
	114 128	64 461

The evolution of the remeasurements in the balance sheet are analysed as follows:

(Euro thousand)

	2019	2018
Actuarial gains/(losses) at the beginning of the financial year	213 996	179 003
Actuarial gains/(losses) in the financial year		
Changes in discount rate	109 589	(20 195)
Payroll update	(29 685)	-
Deviation on the Pension Fund return	(26 701)	38 195
Other changes	23 658	16 993
Actuarial gains/(losses) recognized in other comprehensive income	290 857	213 996

The costs for the financial year with retirement pensions, health benefits and death subsidy are analysed as follows:

(Euro thousand)

	2019	2018
Current service cost	6 199	6 763
Net interest income/(expense) on the liabilities coverage balance	414	198
Costs with early retirement, mutually agreed termination and other	344	1 802
Costs for the financial year	6 957	8 763

The evolution of net assets/(liabilities) in the balance sheet, in financial years ended 31 December 2019 and 2018, is analysed as follows:

(Euro thousand)

	2019	2018
At the beginning of the financial year	(18 456)	(9 425)
Contributions by Banco Montepio	85 000	30 000
Current service cost	(6 199)	(6 763)
Net interest income/(expense) on the liabilities coverage balance	(414)	(198)
Actuarial gains/(losses)	(103 562)	3 202
Financial gains/(losses)	26 701	(38 195)
Pensions paid by Banco Montepio	2 764	4 725
Early retirement, mutually agreed terminations and others	(344)	(1 802)
At the end of the financial year	(14 510)	(18 456)

The actuarial assumptions have a significant impact on the liabilities for pensions and other benefits. Thus, Banco Montepio performed a sensitivity analysis to a positive and negative change of 25 basis points in some of the actuarial assumptions with the purpose of calculating the effect on the value of pension liabilities, which impact is analysed as follows:

(Euro thousand)

	2019		2018	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(35 657)	38 047	(30 907)	32 978
Salary growth rate (0.25% change)	26 222	(24 252)	22 728	(21 021)
Pension growth rate (0.25% change)	33 307	(31 853)	28 870	(27 610)
SAMS contribution (0.25% change)	3 722	(3 722)	3 226	(3 226)
Future mortality (1 year change)	(25 804)	25 765	(22 367)	22 333

In 2019, the cost associated with the end-of-career awards amounted to Euro 1,989 thousand (2018: Euro 1,092 thousand), in accordance with the accounting policy described in note 1 s) and as per note 40.

49 Assets under management

In accordance with the legislation in force, the fund management companies, and the depositary bank are jointly liable before the participants of the funds for the non-fulfilment of the obligations assumed under law and the regulations of the funds managed.

As at 31 December 2019 and 2018, the amount of the funds for which Banco Montepio acts as depository bank is analysed as follows:

(Euro thousand)

	2019	2018
Securities investment funds	171 457	137 984
Real estate investment funds	550 669	513 344
Pension funds	249 258	227 963
Bank and insurance	996	22 072
	972 380	901 363

The amounts recognized in these captions are measured at fair value determined as at the balance sheet date.

50 Related parties

As defined in IAS 24, the companies detailed in note 58, the Pension Fund, the members of the Corporate Bodies and key management personnel are considered related parties of Banco Montepio. In addition to the members of the Corporate Bodies and key management personnel, their family and entities controlled by them or in which management they have significant influence are also considered related parties.

According to Portuguese law, namely under articles no. 85 and 109 of the Legal Framework of Credit Institutions and Financial Companies ("RGICSF"), the shareholders of Banco Montepio, as well as individuals related to them and entities controlled by them or in which management they have significant influence are also considered related parties. Banco Montepio's first-line managers are considered Other key management personnel.

On this basis, with reference to 31 December 2019, the list of related parties considered by Banco Montepio is presented as follows:

Majority shareholder
Montepio Geral Associação Mutualista

Board of Directors
Chairman of the Board of Directors
Carlos Manuel Tavares da Silva (1)
Non-executive members
Manuel Ferreira Teixeira
Amadeu Ferreira de Paiva
Carlos Francisco Ferreira Alves (2)
José da Cunha Nunes Pereira (3)
Pedro Jorge Gouveia Alves
Rui Pedro Brás de Matos Heitor
Vítor Manuel do Carmo Martins
Executive Committee
Chairman of the Executive Committee
Pedro Manuel Moreira Leitão (4)
Executive members
Dulce Maria Pereira Cardoso Mota Jorge Jacinto (5)
Carlos Miguel López Leiria Pinto (6)
Helena Catarina Gomes Soares de Moura Costa Pina
José Carlos Sequeira Mateus
Leandro Rodrigues da Graça Silva
Nuno Cardoso Correia da Mota Pinto
Pedro Miguel Nunes Ventaneira
Audit Committee
Chairman of the Audit Committee
Manuel Ferreira Teixeira
Members
Amadeu Ferreira de Paiva
Carlos Francisco Ferreira Alves
José da Cunha Nunes Pereira
Vítor Manuel do Carmo Martins

Board of Directors of Other Related Parties
Amândio Manuel Carrilho Coelho
António Manuel de Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
Carlos Vicente Morais Beato
Edite da Encarnação Paiva Baptista Cheira
Fernanda Maria da Costa Simões Brázia
Fernando Dias Nogueira
Fernando Ferreira Santo
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco José Gonçalves Simões
Idália Maria Marques Salvador Serrão
Isabel Margarida Carvalho Simões Cidrais Guimarães
Isabel Maria Loureiro Alves Brito
Joana Cristina Veiga Carvalho Barbosa
João Andrade Lopes
João António Morais da Costa Pinto
João Carlos Carvalho das Neves
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
Joaquim Mariano Gargana Cabaço
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José António Truta Pinto Rabaça
José Luís Esparteiro da Silva Leitão
José Mendes Alfaia
Laura Catarina Simões Cardoso Duarte Teodósio
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Gabriel Moreira Maia de Almeida
Luís Paulo da Silva Mendes
Manuel Carlos Costa da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Dalila Correia Araújo Teixeira
Maria Lúcia Ramos Bica

Board of Directors of Other Related Parties (cont.)
Maria Manuela Traquina Rodrigues
Maria Margarida Carrusca Pontes do Rosário Ribeiro de Andrade
Maria Rosa Almas Rodrigues
Mário José de Matos Valadas
Norberto da Cunha Junqueira Fernandes Félix Pilar
Nuno Henrique Serra Mendes
Nuno Manuel Marques da Silva
Paulo José Martins Jorge da Silva
Pedro Manuel Gaspar de Vasconcelos Carrasco
Pedro Miguel Moura Líbano Monteiro
Pedro Miguel Rodrigues Crespo
Ricardo Canhoto de Carvalho
Tereza de Jesus Teixeira Barbosa Amado
Vasco Francisco Coelho Almeida
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other Key Management Personnel
Alexandra Maria Borges Ferreira Rolo Pimenta Santos
Alexandra Melo Ponciano
Ana Maria Sousa Capelão Teixeira Fernandes Mendonça Neves
Ana Paula Maia Fernandes
Ana Sofia Rodrigues Matos
António Fernando Figueiredo Lopes
António José Boavista Coelho
António José Miranda Lopes Coutinho
Armando Jorge Pereira Oliveira Lopes
Armando José Lemos Cardoso
Carlos Alberto Figueiral Azevedo
Daniel Maximino Caçador
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Filipe José Silva Rocha
Gabriel Fernando Sá Torres
Hélder Ferreira Reis
Hélio Miguel Gomes Marques
Inês Maria Pinho Mourinho Oliveira Sousa Dargan
Jaquelina Maria Almeida Rodrigues Miguens
João Filipe Oliveira Guimarães Cizeron
João Tiago Maia Barros Silva Teixeira
Joaquim António Canhoto Gonçalves Silva
Jorge Humberto Cruz Barros Jesus Luís
José Luís Dias Jesus
José Miguel Carneiro Mello
Luís Filipe Pereira Cruz Nunes
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Manuel Fernando Caixado Castanho
Maria Alexandra Sousa Almeida Ferreira
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Mónica Susana Martins Ferreira Sousa Araújo
Nuno Augusto Pereira Coelho
Patrícia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Paulo Miguel Ferreira Trindade
Pedro Jorge Ponte Araújo
Pedro Miguel Soares Vieira
Pedro Nuno Coelho Pires
Ricardo Artur Silva Ribeiro
Rui Jorge Correia Pereira Santos
Rui Luís Magalhães Moura
Rui Sérgio Carvalho Santos Calheiros Gama
Sandra Maria Santos Gameiro Henriques Jesus Brito Pereira
Tânia Carina Cardoso Madeira
Tiago Luís Marques Coelho Martins
Tiago Miguel Fidalgo Oliveira Coito
Vasco Francisco Coelho Almeida
Vasco Martins Fernandes Gil
Vítor António Santos Ventura
Vítor Fernando Santos Cunha

(1) Mr. Carlos Tavares was in office as Chairman of the Board of Directors and Chairman of the Executive Committee, cumulatively, on the terms authorized by the Bank of Portugal, until 11 February 2019, date as from which he took up office as Chairman of the Board of Directors.

(2) Dr. Carlos Ferreira Alves, elected at the Universal General Assembly of 30 October 2018, was authorized by the Bank of Portugal on 27 December 2018, having taken up office on 15 January 2019.

(3) Mr. José da Cunha Nunes Pereira, elected at the Universal General Assembly of 5 December 2019, was authorized by the Bank of Portugal on 16 March 2020, having taken up office on 1 April 2020.

(4) Mr. Pedro Manuel Moreira Leitão, elected at the Universal General Assembly of 5 December 2019, was authorized by the Bank of Portugal on 21 December 2019, having taken up office as Chairman of the Executive Committee on 9 January 2020.

(5) Ms. Dulce Mota, elected via a Unanimous Written Resolution on 23 November 2018 and authorized by the Bank of Portugal on 8 January 2019, having taken up office on 8 January 2019. In the quality of Executive Vice-chairman, she exercised the office of Chairman of the Executive Committee, as substitute, during the period between 11 February 2019 and 08 January 2020.

(6) Mr. Carlos Miguel López Leiria Pinto tendered his resignation to the office of Executive member of the Board of Directors of Banco Montepio, with effect from 31 March 2020.

Other Related Parties

Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto
CESource, ACE
Clínica CUF Belém, S.A
Clínica de Serviços Médicos Computorizados de Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior S.A.
Finibanco Angola, SA
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.
In Posterum, A.C.E.
Leacock - Prestação de Serviços, LDA.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique Companhia de Seguros, S.A.R.L.
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Crédito - Instituição Financeira de Crédito, SA
Montepio Residências para Estudantes, S.A.
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.
Montepio Gestão de Ativos Imobiliários, ACE
Montepio Holding. SGPS, SA
Montepio Imóveis – Sociedade Imobiliária, S.A.
Montepio Investimento, SA
Montepio Seguros, S.G.P.S., S.A.
Montepio Valor - Sociedade Gestora de Fundos de Investimento, SA
N Seguros, S.A.
NAVISER - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
Nova Câmbios - Instituição de Pagamento, S.A.
Polaris - Fundo de Investimento Imobiliário
Portugal Estates Fund - Fundo de Investimento Imobiliário Fechado
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.
Valor Prime - Fundo de Investimento Imobiliário Aberto

Related parties resulting from the shareholding held in Finibanco Angola, S.A.:

Audiconta – Contabilistas e Peritos Contabilistas, Lda.
Banco de Negócios Internacional, S.A. (BNI)
Bifashion
Chamavo e Companhia
Cominder Comércio e Indústria
Consar Gestão de Empreendimentos e Serviços
Fundação Mucusso
Gelcon Holding Company
Geminas
Gesimet Indústria Siderugica de Angola, S.A.
Grupo Gema
Himoinsa
Angola
Medabil Angola
Novacal
Porto Seco da Mulemba
Shafaris
Vauco Automóveis e Equipamentos

As at 31 December 2019, the assets held by Banco Montepio in respect of related parties, represented or not by securities, included in the captions Deposits and loans to other credit institutions repayable on demand, Other loans and advances to other credit institutions, Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Other assets, Guarantees and commitments assumed and Provisions for guarantees and other commitments assumed, are presented as follows:

(Euro thousand)

	2019								
Companies	**Deposits in credit institutions**	**Financial assets held at other credit institutions**	**Loans and advances to customers**	**Impairment of loans and advances to customers**	**Financial assets at fair value through other comprehensive income**	**Other assets**	**Guarantees and commitments provided**	**Provisions for guarantees and commitments provided**	**Total**
Conselho de Administração	-	-	664	-	-	-	-	-	664
Conselho de Administração de Outras Partes Relacionadas	-	-	2 499	1	-	-	8	-	2 506
Outro Pessoal Chave de Gestão	-	-	3 600	3	-	-	-	-	3 597
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	-	-	-	-	6	-	-	6
Bolsimo - Gestão de Activos, S.A.	-	-	-	-	-	-	-	-	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-	41	-	-	41
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	-	-	-		-	-	-
CESource, ACE	-	-	-	-	-	49	-	-	49
Finibanco Angola, S.A.	22 659	-	-	-	-	119	56 873	17	79 634
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	-	-	13	-		14
Germont – Empreendimentos Imobiliários, S.A.	-	-	69	18	-	-	11 931	18	11 964
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	500	1	499
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	-	-	923	93	46	-	1 062
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	415	-	-	-	415
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	358 937	-	-	-	62	36 020	53	394 966
Montepio Geral Associação Mutualista	-	-	5	-	-	5 465	382	-	5 852
Montepio Gestão de Activos - S.G.F.I., S.A.	-	-	-	-	2	-	-	-	2
Montepio Gestão de Ativos Imobiliários, ACE	-	-	-	-	-	2 877	-	-	2 877
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	130 325	-	-	130 325
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	7 544	56	-	-	-	-	7 488
Montepio Investimento, S.A.	-	25 000	17	3	-	145	181	2	25 338
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	-	48	-	-	48
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	968	17	-	-	1 354	10	2 295
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	200	-	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-		-	-	-	2 000	3	1 997
Residências Montepio, Serviços de Saúde, S.A.	-	-	646	5	-	9	500	1	1 149
SAS Apostas Sociais, Jogos e Apostas Online, S.A.	-	-	-	-	-	-	-		-
	22 659	383 937	16 014	103	1 340	139 252	109 995	105	672 989

As at 31 December 2018, assets held by Banco Montepio in respect of related parties, represented or not by securities, included in the captions Deposits and loans to with other credit institutions repayable on demand, Other loans and advances to other credit institutions, Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Other assets, Guarantees and commitments assumed and Provisions for guarantees and other commitments assumed, are presented as follows:

(Euro thousand)

Companies	2018 Deposits in credit institutions	Financial assets held at other credit institutions	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided	Provisions for guarantees and commitments provided	Total
Conselho de Administração (após 20 de março de 2018)	-	-	500	-	-	-	-	-	500
Conselho de Administração Executivo (até 20 de março de 2018)	-	-	132	-	-	-	-	-	132
Conselho Geral e de Supervisão (até 20 de março de 2018)	-	-	2 034	26	-	-	470	11	2 467
Conselho de Administração de Outras Partes Relacionadas	-	-	2 582	3	-	-	8	-	2 587
Outro Pessoal Chave de Gestão	-	-	2 944	5	-	-	-	-	2 939
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	701	-	-	-	-	-	-	701
Bolsimo - Gestão de Activos, S.A.	-	-	-	-	-	-	-	-	-
Casa da Sorte - Organização Nogueira da Silva, S.A.	-	-	14 081	15 123	-	-	5 500	842	3 616
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	-	-	-	-	-	-	-
CESource, ACE	-	-	-	-	-	117	-	-	117
Finibanco Angola, S.A.	9 525	-	-	-	-	101	2 125	7	11 744
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	-	-	-	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	-	-	11 330	92	-	-	731	1	11 968
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	2 500	3	2 497
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	1	-	875	-	46	-	922
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	415	-	-	-	415
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	268 548	-	-	-	1 057	92 335	297	361 643
Montepio Geral Associação Mutualista	-	-	5	-	-	1 258	91	-	1 354
Montepio Geral Corp.	-	-	-	-	-	-	-	-	-
Montepio Gestão de Activos - S.G.F.I., S.A.	-	-	-	-	2	-	-	-	2
Montepio Holding, S.G.P.S., S.A.	-	-	133 003	842	-	60	-	-	132 221
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	7 543	60	-	-	-	-	7 483
Montepio Investimento, S.A.	-	10 000	-	-	-	68	181	3	10 246
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	-	123	-	-	123
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	486	9	-	-	1 209	5	1 681
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	200	-	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	1 402	21	-	-	6 300	10	7 671
Residências Montepio, Serviços de Saúde, S.A.	-	-	362	2	-	-	-	-	360
Valor Prime - Fundo de Investimento Imobiliário Aberto	-	-	25 003	165	-		5 000	6	29 832
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	-	-	-	-	-	-	-	-
	9 525	279 249	201 410	16 348	1 292	2 784	116 696	1 185	593 423

As at 31 December 2019, Banco Montepio's liabilities in respect of related parties, included in the captions Deposits from other credit institutions, Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Euro thousand)

	2019				
Companies	Deposits from other credit institutions	Deposits from clientes	Debt securies issued and other subordinated debt	Other liabilities	Total
Conselho de Administração	-	1 881	-	-	1 881
Conselho de Administração de Outras Partes Relacionadas	-	3 640	-	-	3 640
Outro Pessoal Chave de Gestão	-	2 088	-	-	2 088
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	147 357	-	-	-	147 357
Banco Terra, S.A.	-	-	-	-	-
Bolsimo - Gestão de Activos, S.A.	-	358	-	-	358
Casa da Sorte - Organização Nogueira da Silva, S.A.	-	-	-	-	-
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	50 152	-	-	50 152
Clínica CUF Belém, S.A.	-	29	-	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	2	-	-	2
Empresa Gestora de Imóveis da Rua do Prior S.A	-	113	-	-	113
Finibanco Angola, S.A.	27 072	-	-	-	27 072
Fundação Montepio Geral	-	918	-	-	918
Fundo de Pensões - Montepio Geral	-	87 682	2 100	-	89 782
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	327	-	-	327
Germont – Empreendimentos Imobiliários, S.A.	-	1 125	-	-	1 125
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	71	-	-	71
In Posterum, A.C.E.	-	100	-	-	100
Lusitania Vida, Companhia de Seguros, S.A.	-	19 297	-	-	19 297
Lusitania, Companhia de Seguros, S.A.	-	2 998	-	-	2 998
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	15 292	-	-	15 292
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	6 012	-	-	6 012
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	27 824	-	-	27 824
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	2 457	-	-	2 457
Montepio Geral Associação Mutualista	-	131 971	140 105	-	272 076
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	1 830	-	-	1 830
Montepio Gestão de Activos Imobiliários, ACE	-	2 388	-	-	2 388
Montepio Holding, S.G.P.S., S.A.	-	16 487	-	333	16 820
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	22	-	-	22
Montepio Investimento, S.A.	5 093	-	-	447	5 540
Montepio Residências para Estudantes, S.A.	-	526	-	-	526
Montepio Seguros, S.G.P.S., S.A.	-	1 021	-	-	1 021
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	5 236	-	-	5 236
N Seguros, S.A.	-	327	-	-	327
NovaCâmbios - Instituição de Pagamento, S.A.	-	1 150	-	-	1 150
PEF - Fundo de Investimento Imobiliário Fechado	-	617	-	-	617
Polaris-Fundo de Investimento Imobiliário Fechado	-	71	-	-	71
Residências Montepio, Serviços de Saúde, S.A.	-	560	-	-	560
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	32	-	-	32
SAS Apostas Sociais, Jogos e Apostas Online, S.A.	-	-	-	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 948	-	-	2 948
Sociedade Portuguesa de Administrações, S.A.	-	189	-	-	189
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	16 929	-	447	17 376
	179 522	404 670	142 205	1 227	727 624

As at 31 December 2018, Banco Montepio's liabilities in respect of related parties, included in the captions Deposits from other credit institutions, Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Euro thousand)

Companies	2018 Deposits from other credit institutions	Deposits from clientes	Debt securies issued and other subordinated debt	Other liabilities	Total
Conselho de Administração (após 20 de março de 2018)	-	1 540	-	-	1 540
Conselho de Administração exececutivo (até 20 de março de 2018)	-	865	-	-	865
Conselho Geral e e Supervisão (até 20 de março de 2018)	-	572	-	-	572
Conselho de Administração de Outras Partes Relacionadas	-	6 124	-	-	6 124
Outro Pessoal Chave de Gestão	-	996	-	-	996
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	168 202	-	-	-	168 202
Banco Terra, S.A.	-	-	-	-	-
Bolsimo - Gestão de Activos, S.A.	-	3 552	-	-	3 552
Casa da Sorte - Organização Nogueira da Silva, S.A.	-	1 060	-	-	1 060
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	33 639	-	-	33 639
Clínica CUF Belém, S.A.	-	26	-	-	26
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	5	-	-	5
Empresa Gestora de Imóveis da Rua do Prior S.A	-	62	-	-	62
Finibanco Angola, S.A.	27 216	4	-	-	27 220
Fundação Montepio Geral	-	810	-	-	810
Fundo de Pensões - Montepio Geral	-	59 694	2 300	-	61 994
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	4 546	-	-	4 546
Germont – Empreendimentos Imobiliários, S.A.	-	229	-	-	229
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	37	-	-	37
Lusitania Vida, Companhia de Seguros, S.A.	-	15 000	-	-	15 000
Lusitania, Companhia de Seguros, S.A.	-	13 515	-	-	13 515
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	49 572	-	-	49 572
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	49 092	-	-	49 092
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	51 357	-	-	51 357
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	1 245	-	-	1 245
Montepio Geral Associação Mutualista	-	138 176	174 604	-	312 780
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	1 177	-	-	1 177
Montepio Gestão de Activos Imobiliários, ACE	-	2 105	-	-	2 105
Montepio Holding, S.G.P.S., S.A.	-	7 272		-	7 272
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	89	-	-	89
Montepio Investimento, S.A.	1 706	-	-		1 706
Montepio Residências para Estudantes, S.A.	-	401	-		401
Montepio Seguros, S.G.P.S., S.A.	-	17	-	-	17
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	4 730	-	-	4 730
N Seguros, S.A.	-	804	-	-	804
NovaCâmbios - Instituição de Pagamento, S.A.	-	745	-	-	745
PEF - Fundo de Investimento Imobiliário Fechado	-	789	-	-	789
Polaris-Fundo de Investimento Imobiliário Fechado	-	7	-	-	7
Residências Montepio, Serviços de Saúde, S.A.	-	283	-	-	283
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	80	-	-	80
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 769	-	-	2 769
Sociedade Portuguesa de Administrações, S.A.	-	211	-	-	211
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	12 108	-	-	12 108
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	3 298	-		3 298
	197 124	468 603	176 904	-	842 631

As at 31 December 2019, Banco Montepio’s income and expenses with related parties, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income/(expense), Staff costs, and General and administrative expenses, are analysed as follows:

(Euro thousand)

	2019					
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	Staff costs	General and administrative expenses
Conselho de Administração	-	2	1	1	-	-
Conselho de Administração de Outras Partes Relacionadas	8	5	3	1	-	-
Outro Pessoal Chave de Gestão	23	5	3	1	-	-
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	2	2 476	1	99	(71)	-
Bolsimo - Gestão de Ativos, S.A.	-	-	1	-	(65)	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	115	124	-	-	-
CESource, ACE	-	-	-	-	(579)	-
Finibanco Angola, S.A.	-	-	-	-	(137)	-
Fundação Montepio Geral	-	-	1	-	-	-
Fundo de Pensões - Montepio Geral	-	32	-	-	-	-
Fundo de Capital de Risco Montepio Crescimento	-		-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	6	2 577	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	203	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	20	-	1	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	11	4 411	-	-	-
Lestinvest, S.G.P.S., S.A.	-			-	-	-
Lusitania, Companhia de Seguros, S.A.	-	10	6 234	8	-	-
Montepio Arrendamento - F.I.I. Fechado para Arrendamento Habitacional	-	30	193	1	-	-
Montepio Arrendamento II - F.I.I. Fechado para Arrendamento Habitacional	-	27	162	1	-	-
Montepio Arrendamento III - F.I.I. Fechado para Arrendamento Habitacional	-	30	204	1	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	3 385	-	18	30	(161)	-
Montepio Geral Associação Mutualista	3	12 577	1 761	3	(9 450)	2 213
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	1	5	-		-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	-	(2 523)	2 919
Montepio Geral Corp.	-	-	-	-	-	-
Montepio Holding, S.G.P.S., S.A.	788	-	4	-	-	-
Montepio Imóveis – Sociedade Imobiliária, S.A.	218	3	-	-	-	-
Montepio Investimento, S.A.	78	8	60	416	(794)	-
Montepio Residências para Estudantes, S.A.	-	1	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	28	-	-	-
Montepio Recuperação de Crédito, ACE	-	-		-	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	11	331	-	(546)	-
N Seguros, S.A.	-	1	16	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	40	-	61	5	-	-
PEF - Fundo de Investimento Imobiliário Fechado	2	-	12	-	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	41	-	3	-	-	-
Residências Montepio, Serviços de Saúde, S.A.	17	-	17	-	(105)	-
SAS Apostas Sociais, Jogos e Apostas Online, S.A.	-	-	-	-	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	9	-	-	-	-
SAGIS - Segurança e Higiene no Trabalho, S.A.	-	-	1	-	-	-
	4 828	15 360	16 233	567	(14 431)	5 132

The caption Other administrative expenses includes the amount of Euro 2,919 thousand (31 December 2018: Euro 3,132 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

As at 31 December 2018, Banco Montepio's income and expenses with related parties, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income/(expense), Staff costs, and General and administrative expenses, are analysed as follows:

(Euro thousand)

Companies	2018 Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	Staff costs	General and administrative expenses
Conselho de Administração (após 20 de março de 2018)	-	3	1	-	-	-
Conselho de Administração Executivo (até 20 de março de 2018)	-	1	-	-	-	-
Conselho Geral e de Supervisão (até 20 de março de 2018)	1	-	-	-	-	-
Conselho de Administração de Outras Partes Relacionadas	7	16	5	-	-	-
Outro Pessoal Chave de Gestão	15	5	2	-	-	-
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	12	2 831	-	285	(71)	-
Bolsimo - Gestão de Ativos, S.A.	-	-	1	-	(78)	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	190	1	-	-	-
CESource, ACE	-	-	-	-	(597)	-
Finibanco Angola, S.A.	-	-	-	-	(231)	-
Fundação Montepio Geral	-	-	1	-	-	-
Fundo de Pensões - Montepio Geral	-	50	-	-	-	-
Fundo de Capital de Risco Montepio Crescimento	-		-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	17	2 438	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	344	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	21	-	1	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	228	3 828	-	(50)	-
Lestinvest, S.G.P.S., S.A.	-			-	-	-
Lusitania, Companhia de Seguros, S.A.	-	89	3 648	9	-	-
Montepio Arrendamento - F.I.I. Fechado para Arrendamento Habitacional	-	65	204	1	-	-
Montepio Arrendamento II - F.I.I. Fechado para Arrendamento Habitacional	-	68	175	1	-	-
Montepio Arrendamento III - F.I.I. Fechado para Arrendamento Habitacional	-	59	214	1	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	3 590	-	25	-	(95)	579
Montepio Geral Associação Mutualista	3	10 537	5	1	(9 276)	2 351
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	10	3	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1	(2 563)	3 132
Montepio Geral Corp.	-	-	-	-	-	12
Montepio Holding, S.G.P.S., S.A.	3 961	25	8	-	-	191
Montepio Imóveis – Sociedade Imobiliária, S.A.	2	2	-	-	-	-
Montepio Investimento, S.A.	171	9	22	417	(328)	-
Montepio Residências para Estudantes, S.A.	-	-	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	37	-	-	-
Montepio Recuperação de Crédito, ACE	-	-		-	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	1	326	-	(920)	-
N Seguros, S.A.	-	-	9	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	17	-	45	4	-	-
PEF - Fundo de Investimento Imobiliário Fechado	2	-	12	-	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	209	-	4	-	-	-
Residências Montepio, Serviços de Saúde, S.A.	22	-	29	4	(94)	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	15	-	-	-	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	269	1	49	-	-	245
	8 646	14 222	11 093	724	(14 303)	6 510

Remuneration and social charges with the members of the Board of Directors (including members of the Audit Committee), with the Audit Committee and other key management personnel are detailed in note 11.

In 2019 and 2018, there were no transactions with Banco Montepio's Pension Fund.

51 Securitization of assets

As at 31 December 2019, there are six securitization operations, five of which originated in Banco Montepio, and one in Montepio Investimento, S.A., now integrated in Banco Montepio following the success of the General and Voluntary Public Offering over the representative shares of Montepio Holding, S.G.P.S., S.A. (previously named Finibanco Holding, S.G.P.S., S.A.) and the transmission of almost all assets and liabilities (business acquisition) to Banco Montepio, as referred to in the accounting policy described in note 1 a).

We present next some additional details of these securitization operations.

As at 30 March 2007, Banco Montepio celebrated a mortgage loan securitization contract with Sagres – Sociedade de Titularização de Créditos, S.A. (Sagres), Pelican Mortgages no. 3. The total period of the operation is 47 years, without a revolving period and with a fixed limit (Aggregate Principal Amount

Outstanding) of Euro 762,375 thousand. The sale was made at par, with the initial sale process costs representing 0.0165% of par.

As at 20 May 2008, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, *Pelican Mortgages* no. 4. The total period of the operation is 48 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,028,600 thousand. The sale was made at par, with the initial sale process costs representing 0.083% of par.

As at 9 December 2008, Montepio Investimento S.A. (at that date, Finibanco, S.A.) sold a mortgage loan portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus), in the amount of Euro 236,500 thousand (Aqua Mortgages no. 1). The total period of this operation is 55 years, with a revolving period of 2 years. It should be noted that Montepio Investimento disposed of this securitization portfolio to Banco Montepio in 2011.

As at 25 March 2009, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, Pelican Mortgages no. 5. The total period of the operation is 52 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The sale was made at par, with the initial sale process costs representing 0.0564% of par.

As at 5 March 2012, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, Pelican Mortgages no. 6. The total period of the operation is 51 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The sale was made at par, with the initial sale process costs representing 0.1083% of the Asset-backed Notes.

As at 7 May 2014, Banco Montepio and Montepio Crédit celebrated with Tagus, a contract for the sale of consumer loans originated by same in the scope of a loan securitization contract (Pelican Finance no. 1). The total period of the operation is 14 years, with a revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand, of which 60.0% were constituted by Banco Montepio. The sale was made at par, with the initial sale process costs representing 0.1871% of the Asset-backed Notes.

The entity that guarantees the debt service (servicer) of the traditional securitization operations is Banco Montepio, assuming the collection of the loans sold and channelling the amounts received to the respective Credit Securitization Companies (Sociedades de Titularização de Créditos) (Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Aqua Mortgages no. 1).

During financial year 2018, Pelican SME no. 2 was redeemed.

Banco Montepio does not hold any direct or indirect shareholding in the companies Tagus and Sagres.

The loans covered by the securitization operations referred above were not derecognized from the balance sheet as the Bank retained most of the risks and rewards associated with the securitized loans. If the Bank substantially transfers the risks and rewards associated with their holding, the securitization operations are derecognized.

As at 31 December 2019, the securitization operations realized by Banco Montepio are presented as follows:

(Euro thousand)

Issue	Settlement date	Currency	Asset transferred	Loand and advances: Initial amount	Loand and advances: Current amount	Securities issued: Initial nominal amount	Securities issued: Current nominal amount	Securities issued: Third party amount *
Pelican Mortgages No. 3	March 2007	euro	Mortgage loans	762 375	171 989	762 375	177 299	45 799
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	495 966	1 028 600	528 439	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	87 968	236 500	90 177	-
Pelican Mortgages No. 5	March 2009	euro	Mortgage loans	1 027 500	499 050	1 027 500	524 377	-
Pelican Mortgages No. 6	February 2012	euro	Mortgage loans	1 107 000	637 096	1 107 000	713 822	-
Pelican Finance No. 1	May 2014	euro	Consumer loans	185 300	70 338	185 300	136 103	-
				4 347 275	1 962 407	4 347 275	2 170 217	45 799

* Includes nominal value, accrued interest and other adjustments

Additionally, the detail of the securitized loans not derecognized, by securitization operation and nature of contract, as at 31 December 2019, is presented as follows:

(Euro thousand)

	Non-derecognized securitization operations: *Pelican Mortgage n.º 3*	*Pelican Mortgage n.º 4*	*Aqua Mortgage n.º 1*	*Pelican Mortgage n.º 5*	*Pelican Mortgage n.º 6*	*Pelican Finance n.º 1*	Total
Domestic loans and advances							
Retail							
Mortgage	170 787	494 581	86 852	497 884	629 539	-	1 879 643
Consumer loans and other	-	-	-	-	-	68 194	68 194
	170 787	494 581	86 852	497 884	629 539	68 194	1 947 837
Credit and overdue interest							
Less than 90 days	86	726	365	424	2 394	182	4 177
More than 90 days	1 116	659	751	742	5 163	1 962	10 393
	1 202	1 385	1 116	1 166	7 557	2 144	14 570
	171 989	495 966	87 968	499 050	637 096	70 338	1 962 407

As at 31 December 2018, the securitization operations realized by Banco Montepio are presented as follows:

(Euro thousand)

Issue	Settlement date	Currency	Assets transferred	Loand and advances: Initial amount	Loand and advances: Current amount	Securities issued: Initial nominal amount	Securities issued: Current nominal amount	Securities issued: Third party amount *
Pelican Mortgages No. 3	March 2007	euro	Mortgage loans	762 375	198 329	762 375	202 235	61 343
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	556 515	1 028 600	584 078	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	106 184	236 500	102 335	-
Pelican Mortgages No. 5	March 2009	euro	Mortgage loans	1 027 500	556 280	1 027 500	578 464	-
Pelican Mortgages No. 6	February 2012	euro	Mortgage loans	1 107 000	730 645	1 107 000	784 952	-
Pelican Finance No. 1	May 2014	euro	Consumer loans	185 300	113 526	185 300	121 066	-
				4 347 275	2 261 479	4 347 275	2 373 130	61 343

* Includes nominal value, accrued interest and other adjustments

Additionally, the detail of the securitized loans not derecognized, by securitization operation and nature of contract, as at 31 December 2018, is presented as follows:

(Euro thousand)

	Non-derecognized securitization operations						
	Pelican Mortgage n.º 3	***Pelican Mortgage n.º 4***	***Aqua Mortgage n.º 1***	***Pelican Mortgage n.º 5***	***Pelican Mortgage n.º 6***	***Pelican Finance n.º 1***	**Total**
Domestic loans and advances							
Retail							
Mortgage	197 170	553 448	101 734	553 090	716 929	-	2 122 371
Consumer loans and other	-	-	-	-	-	110 472	110 472
	197 170	553 448	101 734	553 090	716 929	110 472	2 232 843
Credit and overdue interest							
Less than 90 days	74	931	781	908	3 422	184	6 300
More than 90 days	1 085	2 136	3 669	2 282	10 294	2 870	22 336
	1 159	3 067	4 450	3 190	13 716	3 054	28 636
	198 329	556 515	106 184	556 280	730 645	113 526	2 261 479

As a form of financing, the securitization vehicles created (Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Aqua Mortgages no. 1) issued bonds which nominal value is presented below, and which were fully subscribed by Banco Montepio in the case of Aqua Mortgages no. 1, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Pelican Finance no. 1) and partially, in the case of Pelican Mortgages no. 3.

In the case of the more senior notes, these are recorded as Other financial assets at amortized cost (note 26), while in the case of the residual notes these are recorded in the caption Financial assets at fair value through profit or loss (note 23), and, as at 31 December 2019, these are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	Group's interest held (nominal amount) Euro	Maturity date	Rating (initial) Fitch	Rating (initial) Moodys	Rating (initial) S&P	Rating (initial) DBRS	Rating (current) Fitch	Rating (current) Moodys	Rating (current) S&P	Rating (current) DBRS
Pelican Mortgages No 3	Class A	717 375 000	163 508 676	117 781 633	2054	AAA	Aaa	AAA	n.a.	BBB	A2	A	n.a.
	Class B	14 250 000	4 221 562	4 221 562	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	3 555 000	3 555 000	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	1 888 594	1 888 594	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	PIF	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	394 205 764	394 205 764	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AAH
	Class B	55 500 000	34 896 571	34 896 571	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	37 726 022	37 726 022	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	15 719 176	15 719 176	2056	BBB	n.a.	n.a.	B+	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	17 291 094	17 291 094	2056	BB	n.a.	n.a.	B	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	65 596 503	65 596 503	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	21 080 228	21 080 228	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	346 010 604	346 010 604	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAA
	Class B	195 000 000	121 185 768	121 185 768	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	17 090 301	17 090 301	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	17 090 301	17 090 301	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	358 622 246	358 622 246	2063	A	n.a.	A-	AA	A+	n.a.	AA	AAA
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	72 419 692	43 451 815	2028	A	n.a.	n.a.	A	A+	n.a.	n.a.	AH
	Class B	91 100 000	44 285 361	26 571 216	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	8 800 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

As at 31 December 2018, the securities issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	Group's interest held (nominal amount) Euro	Maturity date	Rating (initial) Fitch	Rating (initial) Moodys	Rating (initial) S&P	Rating (initial) DBRS	Rating (current) Fitch	Rating (current) Moodys	Rating (current) S&P	Rating (current) DBRS
Pelican Mortgages No 3	Class A	717 375 000	187 053 150	125 710 929	2054	AAA	Aaa	AAA	n.a.	BBB	A2	BBB-	n.a.
	Class B	14 250 000	4 829 447	4 829 447	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	4 066 903	4 066 903	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	2 160 542	2 160 542	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	438 086 780	438 086 780	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	38 781 082	38 781 082	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	41 925 494	41 925 494	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	17 468 956	17 468 956	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	19 215 852	19 215 852	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	75 110 665	75 110 665	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	23 724 131	23 724 131	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	383 336 834	383 336 834	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	134 258 801	134 258 801	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	18 933 933	18 933 933	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	18 933 933	18 933 933	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	429 751 537	429 751 537	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	121 800 000	69 659 647	69 659 647	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	54 700 000	42 607 740	42 607 740	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	8 800 000	8 800 000	8 800 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

At each interest payment date, Tagus and Sagres have the possibility of partially redeeming the bonds, redemption which is realized sequentially and in function of the degree of subordination of the bonds.

52 Risk management

Objectives of the Risk Management Policy

Banco Montepio is exposed to a number of risks the most relevant of which in the financial component being credit, concentration, market, interest rate, banking portfolio, foreign currency, liquidity, real estate and Pension Fund risks. Additionally, Banco Montepio is subject to other non-financial risks, namely operating, reputation, and strategy and business risks. Depending on the nature and relevance of the risk, plans, programs or actions are designed, supported by information systems and procedures providing a high degree of reliability as regards risk management measures established in due course. For all risks identified as material, Banco Montepio has implemented a process for the identification and review of same, being subject to regular monitoring and mitigation actions in order to reduce potential losses for Banco Montepio.

The control and the efficient management of risk play a key role in the balanced and sustained development of Banco Montepio. In addition to contributing to the optimization of the profitability/risk binomial of the various lines of business, they also ensure the maintenance of an adequate risk profile in terms of solvency and liquidity.

The monitoring of these risks is centralized in the Risk Department, the unit responsible for the risk management function of Banco Montepio, which regularly informs the Board of Directors of the evolution of the risk profile and proposes measures when necessary.

Banco Montepio's risk management policy is the responsibility of the Board of Directors, which defines the tolerance levels and maximum risk limits, for each specific risk considered materially relevant, in accordance with the defined strategic objectives and business plan, with this policy being reviewed regularly. It is also the responsibility of the Board of Directors to ensure the existence of an adequate risk control at Group level, namely through the respective supervisory boards. The Risk Committee is the non-executive body with the role of risk management supervision, which mission is to monitor the design and implementation of the risk strategy and risk appetite of Banco Montepio and to verify whether these are aligned with the sustainable strategy in the medium- and long-term, providing advice to the Board of Directors and Executive Committee in these areas.

The Board of Directors seeks to ensure that the Institution has sufficient capital to meet regulatory requirements and to cover potential losses resulting from the activity, with an optimized balance sheet structure that maintains a stable and safe funding capacity and liquidity profile, allowing it to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

Banco Montepio has clear and well-defined objectives in its strategic plan, namely as regards capital ratios, transformation of deposits into credit, liquidity and financing ratios, in addition to a feasible and sustainable business model aligned with its risk appetite.

To this end, the definition of risk appetite is based on certain principles - namely solidity, sustainability and profitability – being prepared in function of the strategic plan and the intended market positioning, as well as the risks faced in its activity that are materially relevant. For these, objectives are set according to the desired level of return and the business strategy, tolerance levels, that is, risk variation intervals that can lead to discussions and decisions about corrective measures and limits that, if exceeded, lead to immediate corrective measures.

In defining risk appetite, the Board of Directors ensures its alignment with the other organizational components (business strategy and the global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making and that can affect risk exposure and it's monitoring.

Banco Montepio's risk management policy is designed to ensure an adequate relationship, at all times, between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, assuming particular importance in this scope the monitoring and control of the main types of financial risk – credit, market, liquidity, real estate and operating – to which Banco Montepio's business is subject.

Credit risk

Credit risk is associated with the level of uncertainty of the expected returns, due to the inability of the borrower (and of the guarantor, if any), or the issuer of a security or counterparty of a contract to comply with the obligations arising for same.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, supported by a number of tools aiding the credit decision process. The quantification of credit risk is also supported by the model used to calculate impairment losses.

The fundamental principle of credit risk analysis is independence from the business decisions. In this analysis, instruments are used, and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modelling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in the credit decision process. Indeed, the decision process concerning the credit portfolio operations is based on a set of policies, relying on scoring models for the retail portfolios and rating models for the non-retail segment.

In the credit risk scope, and as regards analytical methodologies, the risk control techniques and models are based on econometric modelling, based on the Institution's experience in the granting of various types of credit and, whenever possible, also in credit recovery.

Credit decisions are dependent on risk ratings and compliance with various rules governing the financial capacity and behaviour of the applicants.

There are scoring models for the admission of individuals to the retail portfolios, namely for mortgage loans, individual loans and credit cards.

Self-employed Individuals ("Empresários em nome individual" – "ENI") and Micro businesses are considered retail, being therefore subject to the respective scoring models.

There are also behavioural scoring models for retail portfolios, which are used to monitor the credit portfolio as well as to evaluate new credit proposals, being coupled with software-based scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large companies, distinguished by activity sectors, such as the tertiary sector, or by ageing of the company's activity, namely start-up companies.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, with this scale being composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents/ record of arrears in the financial system, and class 19 to default, in accordance with the applicable internal definition, which follows the regulators' prudential requirements.

It is possible to derogate the response of scoring systems, internal ratings and internal price lists, but only by higher decision levels, in accordance with the established principles of delegation of responsibilities. Rejection situations are defined in order to minimize the risk of adverse selection, with risk classes for rejection having been defined.

Intervention limits are also defined for the different decisions, by operation amount and global customer exposure, type of operation/collateral and assigned risk class. In this context, higher hierarchical positions have to approve operations with higher exposures. The levels and limits are approved by the Board of Directors, and the highest decision level corresponds to the Board of Directors. At the intermediate levels, the collegial intervention of at least two persons is compulsory, one belonging to the commercial network and the other to the Credit Analysis Department, a body independent of the commercial structure. The Risk Department is the unit responsible for the development of the credit risk models (scoring and rating), and for the monitoring of Banco Montepio's risk control, on a global basis.

Within the scope of credit risk monitoring, internal reports are prepared with the main risk indicators of the credit portfolios and metrics on the use of the rating/scoring models. In terms of preventive monitoring, an alert system is in place for indicators of credit risk deterioration (Early Warning Signs).

With respect to credit impairment, IFRS 9 establishes the need to recognize Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected credit loss at one year, or the expected credit loss until the maturity of the financial instrument (ECL lifetime).

Financial assets are classified into stages, based on the evolution of their credit risk:

- *Stage* 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since their initial recognition and which are not in default;
- *Stage* 2: Financial assets with a significant increase in credit risk since their initial recognition, based on the criteria set out in internal regulations as to the recognition of a significant increase in credit risk or other financial assets (namely, Amounts due for collection, Other debtors, Other receivables or Other assets). It should be noted that credit restructured due to financial difficulties is considered a driver of significant increase in credit risk and, therefore, the restructured credit portfolio is included in *stage* 2;
- *Stage* 3: Financial assets in default, based on default indicators which are defined in internal regulations in respect of default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purpose of the requirements in force.

The measurement of the expected losses (ECL) for homogeneous population segments results from the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), discounted at the contract's effective interest rate to the reporting date.

The main difference between impairment losses measured for financial assets classified in the stages is related to the time horizon of the PD.

The probability of default (PD) is one of the main differences in the IFRS 9 (ECL) impairment calculation, with two types of PD being estimated:

- ✓ 12-month PD: the probability of a default occurring within the next 12 months (for contracts belonging to *stage* 1);

- ✓ Lifetime PD: the probability of a default occurring during the remaining life of the credit (for *stage* 2 contracts). In this case, lifetime parameters are used and forward-looking information is considered; and

- ✓ PD=100% for all *stage* 3 contracts.

In the group of Individually Significant customers, customer exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing guarantees as well as the remaining factors relevant for this analysis.

The impairment value for Individually Significant customers is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows from the customer's various operations, discounted according to the interest rates of each operation.

The information presented next is related to Banco Montepio's exposure to credit risk, where the most relevant caption in terms of exposure, as well as in terms of the associated risk, is loans and advances to customers. It should be noted that the portfolio of financial assets at fair value through other comprehensive income is essentially composed of public debt securities of the European Union.

The criteria for the determination of impairment of individually significant loans

All customers or economic groups that meet the following conditions are subject to individual analysis:

4. Exposure above Euro 1,000 thousand and classified in *stages* 2 and 3;

5. Exposure above Euro 2,500 thousand and classified in *stage* 1;

6. Customers that currently do not meet the conditions of the previous points but that have already been subject to individual analysis.

For the exposure of customers or economic groups, all active credit operations (on- and off-balance sheet) are considered, excluding the operations subject to write-off.

The customers or economic groups that show the following triggers or indicators are considered as having objective impairment triggers:

9) In the situation of default (delays exceeding 90 days, contracts with capital and interest shortages, insolvent/bankrupt customer and cross-default)

10) Contract with delay between 60 and 90 days at Banco Montepio;

11) Customer with delay exceeding 30 days or capital and interest shortage in Banco Montepio or with credit written-off at Banco Montepio;

12) Customer using overdrafts to pay principal and interest in the last two months at Banco Montepio or customer restricted from using cheques (RUC) or user with risk (UTR);

13) Restructured contracts or contracts with repayments at will, with 0% rate;

14) Customer with restructured contracts or with contracts with repayments at will, with 0% rate;

15) Customer with delay exceeding 30 days or with credit written-off in the Central Credit Register ("Central de Responsabilidade de Crédito" ("CRC")) or with restructured credit or with credit under judicial litigation at the CRC;

16) Other triggers, such as customers under an Action Plan for Default Risk ("Plano de Ação para o Risco de Incumprimento" ("PARI")) or an Extrajudicial Procedure for Default Settlement ("Procedimento Extrajudicial de Regularização de Situações de Incumprimento" ("PERSI")) or with debts to Social Security or to the Tax Authority.

The individual analysis is the responsibility of the Credit Analysis Department and in the evaluation of impairment losses the following factors are considered:

- Total exposure of each customer or economic group and the existence of signs of impairment;
- Economic and financial viability of the customer or economic group and the respective ability to generate future cash flows to pay the debt;
- Existence of collaterals associated with each credit and their respective valuation;
- Customers' or guarantors' net assets;
- Situation of bankruptcy or insolvency;
- Expectation of the recovery period.

The recoverable amount is determined by the sum of the expected cash flows, estimated in accordance with the contractual conditions in force and according to the underlying collection expectations, discounted at the original effective interest rate of the contract. An impairment adjustment is made when the expected cash flows are lower than the contractual cash flows.

For the determination of the future cash flows of the customers or economic groups the following recovery strategies are used:

- In case of the continuity of operations (going concern) a critical analysis is done of the companies' business plans or other elements available for analysis, adjusting the assumptions and applying haircuts to the actual deviations when compared with those projected. For the calculation of the impairment of these customers, the cash flows generated annually, after adjustments and the application of the discount rate used are considered.

- In the case of settlement through collaterals (gone concern), an exhaustive analysis is made of the collaterals, value of mortgages/pledges, valuation dates and application of haircuts according to the ageing of the valuation, deadline for the foreclosure/execution, deadline for the sale, and associated maintenance and sale costs. For the calculation of the impairment of these customers, the cash flows generated annually, after adjustments and the application of the discount rate used, are considered.

- For specific cases it is possible to simultaneously use the two strategies, “going concern” and “gone concern”. This is also used in considering alternative scenarios.

Banco Montepio’s credit risk exposure can be analysed as follows:

(Euro thousand)

	2019	2018
Deposits at credit institutions repayable on demand	51 993	75 572
Loans and advances to credit institutions	532 033	336 782
Loans and advances to customers	10 921 170	11 768 798
Financial assets held for trading	28 688	15 660
Financial assets at fair value through profit or loss	114 976	100 911
Financial assets at fair value through other comprehensive income	1 702 206	260 032
Hedging derivatives	11 148	5 666
Other financial assets at amortized cost	2 793 157	3 394 302
Other assets	739 766	63 789
Guarantees and standby letters provided	489 009	436 275
Irrevocable credit lines	616 472	648 040
	18 000 618	17 105 827

The analysis of the main credit risk exposures by sector of activity, for financial year 2019, can be analysed as follows:

	2019														
Activity	Deposits at other credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Off-balance sheet value	Off-balance sheet value	Provisions
Corporate															
Agriculture, forestry and fishing	-	-	-	75 615	4 512	-	-	-	-	-	-	-	856	3 845	168
Extractive Industries	-	-	-	12 662	567	-	-	-	-	-	-	-	1 382	1 479	101
Manufacturing industries	-	-	-	892 658	83 433	-	1 621	75 811	59	-	-	-	20 161	94 182	816
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	48 199	6 698	-	-	56 044	71	-	-	-	1 032	13 107	27
Water supply	-	-	-	74 328	1 552	-	-	-	-	-	-	-	1 857	2 434	54
Construction	-	-	-	693 807	228 192	-	398	2 090	2	-	-	-	95 664	96 644	6 516
Wholesale and retail trade	-	-	-	802 978	91 278	-	275	5 593	10	-	-	-	59 826	113 900	4 111
Transport and storage	-	-	-	272 667	32 183	-	15	-	-	-	-	-	6 502	16 372	557
Accommodation and catering activities	-	-	-	426 939	12 651	-	1	1 207	2	-	-	-	8 722	15 317	219
Information and Communication	-	-	-	44 344	3 014	-	-	11 403	9	11 148	-	-	1 553	24 045	59
Financial and insurance activities	51 993	533 662	1 629	556 895	63 058	16 895	109 661	104 849	122	-		-	217 899	81 269	171
Real estate activities	-	-	-	740 985	102 978	-	71	-	-	-	-	-	22 147	85 657	1 334
Consulting, scientific, technical and similar	-	-	-	275 536	15 746	-	-	-	-	-	-	-	22 060	26 092	354
Administrative and supporting service activities	-	-	-	79 092	7 962	-	100	-	-	-	-	-	6 433	11 399	304
Public administration and defence, compulsory social security	-	-	-	45 605	506	11 793	2 694	1 423 532		-	900 895	1 750	76	-	-
Education	-	-	-	57 802	3 203	-	-	-	-	-	-	-	290	2 513	17
Human Health Services and Social Action Activities	-	-	-	196 962	5 653	-	-	-	-	-	-	-	3 202	5 094	204
Artistic activities, shows and recreational	-	-	-	53 295	8 599	-	-	-	-	-	-	-	6 677	6 311	63
Other services	-	-	-	60 453	2 438	-	140	19 585	54	-	-	-	2 592	870	28
Retail													-		-
Mortgage Loans	-	-	-	5 817 064	58 975	-	-	2 426	5	-	1 894 012	-	-	-	-
Others	-	-	-	456 161	29 679	-	-	-	-	-	-	-	10 080	15 942	353
	51 993	**533 662**	**1 629**	**11 684 047**	**762 877**	**28 688**	**114 976**	**1 702 540**	**334**	**11 148**	**2 794 907**	**1 750**	**489 009**	**616 472**	**15 456**

The analysis of the mains credit risk exposures by sector of activity, for the financial year 2018, can be analysed as follows:

(Euro thousand)

Activity	2018 Deposits at other credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry and fishing	-	-	-	78 567	3 593	-	-	-	-	-	-	-	1 049	3 866	121
Extractive Industries	-	-	-	13 457	457	-	-	-	-	-	-	-	1 411	1 474	138
Food, beverage and tobacco industries	-	-	-	201 260	10 530	-	-	-	-	-	-	-	3 009	31 924	115
Textiles and Clothing	-	-	-	84 302	10 023	-	-	-	-	-	-	-	1 398	7 577	14
Leather and shoes	-	-	-	42 228	4 538	-	-	-	-	-	-	-	3	5 708	1
Wood and cork	-	-	-	32 312	4 421	-	728	-	-	-	-	-	463	4 588	30
Paper and graphic industries	-	-	-	33 559	4 792	-	-	2 658	5	-	-	-	387	2 599	32
Oil refining	-	-	-	817	56	-	-	3 447	7	-	-	-	-	-	-
Rubber & Chemicals	-	-	-	90 940	5 446	-	-	3 012	3	-	-	-	5 271	12 887	111
Non-metallic mineral products	-	-	-	139 009	5 774	-	-	-	-	-	-	-	744	4 470	50
Basic metallurgical industries and metal products	-	-	-	160 941	15 062	-	-	-	-	-	-	-	7 471	17 602	120
Machine Manufacturing, Equipment and Electrical Appliances	-	-	-	41 130	3 422	-	623	-	-	-	-	-	1 438	4 281	124
Transportation Material Manufacturing	-	-	-	46 318	1 533	-	-	-		-	-	-	3 142	1 522	182
Other manufacturing industries	-	-	-	47 004	9 367	-	-	-	-	-	-	-	375	3 887	17
Electricity, gas and water	-	-	-	113 949	2 603	-	10 106	17 366	19	-	-	-	3 175	10 717	101
Construction and public works	-	-	-	765 184	279 815	-	250	-	-	-	-	-	113 525	78 969	6 354
Wholesale and retail trade	-	-	-	838 549	93 833	-	4 101	5 109	11	-	-	-	66 944	118 440	2 923
Tourism	-	-	-	429 467	14 162	-	-	-	-	-	-	-	8 737	15 305	291
Transport	-	-	-	316 022	36 878	-	-	-	-	-	-	-	11 242	13 765	825
Information and Communication	-	-	-	73 513	6 502	-	-	3 018	3	-	-	-	5 911	24 929	72
Financial activities	75 572	340 565	3 783	706 016	55 504	15 660	80 541	11 623	78	5 666	2 138 651	-	134 567	119 908	405
Real estate activities	-	-	-	746 475	124 119	-	-	3 715	6	-	-	-	19 200	80 781	1 970
Services rendered to companies	-	-	-	379 000	24 164	-	-	-	-	-	-	-	31 039	41 639	857
Administration and public services	-	-	-	71 918	3 416	-	4 424	204 158	431	-	1 258 201	2 550	381	2 749	15
Other collective services	-	-	-	177 092	27 152	-	138	3 452	7	-	-	-	15 003	12 517	1 661
Other services	-	-	-	11 508	464	-	-	-	-	-	-	-	390	3 106	13
Retail					-	-									
Mortgage Loans	-	-	-	6 251 951	138 993	-	-	3 045	1	-	-	-	-		-
Others	-	-	-	846 050	83 121	-	-	-	-	-	-	-	-	22 830	-
	75 572	340 565	3 783	12 738 538	969 740	15 660	100 911	260 603	571	5 666	3 396 852	2 550	436 275	648 040	16 540

As regards credit risk, the portfolio of financial assets is dominated by bonds of sovereign issuers, essentially the Portuguese Republic.

In terms of credit quality, an increase in the average level of the counterparties was observed, due to the improved rating of the Portuguese sovereign debt.

Banco Montepio's total credit portfolio, in addition to Loans and advances to customers includes the guarantees and standby letters provided and the documentary credits in the aggregate amount of Euro 489,009 thousand (31 December 2018: Euro 436,275 thousand) and the irrevocable credit amounting to Euro 616,472 thousand (31 December 2018: Euro 648,040 thousand), is presented as follows:

(Euro thousand)

Stage impacts	2019 Gross value	Impairment	Net value	2018 Gross value	Impairment	Net value
Collective analysis	**8 317 526**	**227 495**	**8 090 031**	**9 021 844**	**405 697**	**8 616 147**
Stage 1	6 611 801	9 532	6 602 269	6 137 273	8 859	6 128 414
Stage 2	1 359 932	44 441	1 315 491	2 230 430	47 709	2 182 721
Stage 3	345 793	173 522	172 271	654 141	349 129	305 012
Individual analysis	**4 472 002**	**550 836**	**3 921 166**	**4 801 009**	**580 583**	**4 220 426**
	12 789 528	**778 331**	**12 011 197**	**13 822 853**	**986 280**	**12 836 573**

As at 31 December 2019 and 2018, the detail of the application of stages to the other financial assets is presented as follows:

(Euro thousand)

Stage impacts	2019 Gross value	2019 Impairment	2019 Net value	2018 Gross value	2018 Impairment	2018 Net value
Amortized cost	**2 794 907**	**1 750**	**2 793 157**	**3 396 852**	**2 550**	**3 394 302**
Stage 1	2 794 907	1 750	2 793 157	3 396 852	2 550	3 394 302
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Fair value	**2 794 907**	**1 750**	**2 793 157**	**3 396 852**	**2 550**	**3 394 302**
Stage 1	2 793 118	1 687	2 791 431	3 395 392	2 481	3 392 911
Stage 2	1 789	63	1 726	1 460	69	1 391
Stage 3	-	-	-	-	-	-
Loans and advances to other institutions	**533 662**	**1 629**	**532 033**	**340 565**	**3 783**	**336 782**
Stage 1	529 662	1 590	528 072	331 978	3 590	328 388
Stage 2	4 000	39	3 961	8 587	193	8 394
Stage 3	-	-	-	-	-	-
	6 123 476	**5 129**	**6 118 347**	**7 134 269**	**8 883**	**7 125 386**

As at 31 December 2019 and 2018, the detail of the loans and advances subject to collective analysis, structured by segment and by stage, is as follows:

(Euro thousand)

Segment	2019 Gross value	2019 Impairment	2019 Net value	2018 Gross value	2018 Impairment	2018 Net value
Retail	**6 240 655**	**86 251**	**6 154 404**	**6 756 287**	**183 755**	**6 572 532**
Mortgage loans	5 797 810	58 607	5 739 203	6 230 191	116 434	6 113 757
Stage 1	4 871 521	554	4 870 967	4 975 436	557	4 974 879
Stage 2	800 703	12 811	787 892	985 975	15 496	970 479
Stage 3	125 586	45 242	80 344	268 780	100 381	168 399
Consumer credit	384 685	24 386	360 299	468 272	63 988	404 284
Stage 1	257 688	688	257 000	272 097	729	271 368
Stage 2	93 121	4 571	88 550	106 983	6 103	100 880
Stage 3	33 876	19 127	14 749	89 192	57 156	32 036
Credit cards	58 160	3 258	54 902	57 824	3 333	54 491
Stage 1	32 442	244	32 198	29 979	230	29 749
Stage 2	22 222	1 187	21 035	24 348	1 262	23 086
Stage 3	3 496	1 827	1 669	3 497	1 841	1 656
Corporate	**2 076 871**	**141 244**	**1 935 627**	**2 265 557**	**221 939**	**2 043 618**
Non Construction	1 880 254	123 629	1 756 625	2 037 173	177 911	1 859 262
Stage 1	1 323 084	7 323	1 315 761	1 340 314	6 684	1 333 630
Stage 2	405 018	23 964	381 054	468 751	22 943	445 808
Stage 3	152 152	92 342	59 810	228 108	148 284	79 824
Construction	196 617	17 615	179 002	228 384	44 028	184 356
Stage 1	127 066	723	126 343	117 901	659	117 242
Stage 2	38 868	1 908	36 960	45 919	1 904	44 015
Stage 3	30 683	14 984	15 699	64 564	41 465	23 099
	8 317 526	**227 495**	**8 090 031**	**9 021 844**	**405 694**	**8 616 150**

As at 31 December 2019 and 2018, impairment is detailed as follows:

(Euro thousand)

	2019						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 439 433	548 434	2 076 870	141 244	6 516 303	689 678	5 826 625
Mortgage loans	19 253	369	5 797 810	58 606	5 817 063	58 975	5 758 088
Other loans	13 317	2 033	442 845	27 645	456 162	29 678	426 484
	4 472 003	550 836	8 317 525	227 495	12 789 528	778 331	12 011 197

(Euro thousand)

	2018						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 752 846	564 907	2 265 557	221 939	7 018 403	786 846	6 231 557
Mortgage loans	17 894	375	6 230 191	116 434	6 248 085	116 809	6 131 276
Other loans	30 269	15 303	526 096	67 322	556 365	82 625	473 740
	4 801 009	580 585	9 021 844	405 695	13 822 853	986 280	12 836 573

As at 31 December 2019 and 2018, the fair value analysis of collaterals associated with Banco Montepio's total credit portfolio, is as follows:

(Euro thousand)

Fair value of collaterals	2019	2018
Individual analysis		
Securities and other financial assets	*122 499*	*171 486*
Real Estate - Mortgage loans	*36 443*	*28 352*
Real Estate - Construction and CRE	*2 527 130*	*2 440 942*
Other real estate	*1 712 523*	*1 699 459*
Other guarantees	*737 593*	*513 066*
Collective analysis - Stage 1		
Securities and other financial assets	*190 368*	*201 624*
Real Estate - Mortgage loans	*10 661 548*	*9 461 789*
Real Estate - Construction and CRE	*262 048*	*249 138*
Other real estate	*746 673*	*631 702*
Other guarantees	*42 678*	*32 848*
Collective analysis - Stage 2		
Securities and other financial assets	*37 797*	*59 329*
Real Estate - Mortgage loans	*1 531 454*	*2 981 190*
Real Estate - Construction and CRE	*135 142*	*113 126*
Other real estate	*287 287*	*386 543*
Other guarantees	*8 963*	*8 159*
Collective analysis - Stage 3		
Securities and other financial assets	*3 326*	*5 137*
Real Estate - Mortgage loans	*171 902*	*346 613*
Real Estate - Construction and CRE	*62 372*	*124 892*
Other real estate	*76 618*	*111 817*
Other guarantees	*1 968*	*6 189*
	19 356 332	**19 573 401**

Banco Montepio uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the scope of housing loans and mortgages on other types of properties in the scope of other types of loans. To reflect the market value of these, they are reviewed regularly based on valuations conducted by certified independent appraiser entities or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are revaluated based on the market values of the respective assets, when available, with certain depreciation coefficients being applied to reflect their volatility. Most of the real collaterals are revalued at least once a year.

Banco Montepio's total loans and advances portfolio, by segment, and respective impairment, constituted as at 31 December 2019 and 2018, is presented as follows:

(Euro thousand)

	2019		2018	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate loans	4 495 439	317 926	4 890 631	360 798
Construction and CRE	2 020 864	371 751	2 127 771	426 046
Mortgage loans	5 817 064	58 975	6 248 085	116 809
Other loans	456 161	29 679	556 366	82 627
	12 789 528	778 331	13 822 853	986 280

The loans and advances portfolio, by segment and by production year, as at 31 December 2019, is presented as follows:

(Euro thousand)

	Corporate			Construction and CRE			Mortage loans			Other loans		
Production year	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	638	40 384	2 291	17 529	145 550	65 659	2 844	1 462 216	15 655	3 316	8 542	802
2005	237	16 562	1 879	800	44 167	27 596	3 185	566 009	7 256	3 458	3 765	233
2006	286	32 177	2 646	196	77 427	41 556	47 065	699 349	11 525	3 985	13 943	1 781
2007	458	30 528	1 603	240	68 315	23 943	11 402	709 168	11 000	22 350	19 071	1 610
2008	2 260	45 129	4 659	338	32 005	5 431	13 803	369 071	4 987	5 615	22 534	1 297
2009	2 415	72 277	3 158	607	68 077	24 815	14 110	227 726	2 303	14 745	20 115	2 152
2010	2 318	105 128	12 033	793	48 834	15 472	7 306	259 472	2 246	41 923	11 704	1 288
2011	2 876	102 917	6 518	551	30 529	10 250	3 991	95 133	555	66 428	11 610	2 832
2012	3 708	107 309	12 604	663	40 865	12 313	4 091	60 519	732	52 599	8 316	1 329
2013	6 092	334 025	45 408	526	81 881	16 923	1 528	78 021	366	37 664	17 177	2 644
2014	8 668	457 129	33 251	899	161 646	25 753	957	96 059	320	31 187	33 602	4 178
2015	9 832	419 153	61 309	2 697	87 263	12 380	1 240	119 604	225	22 564	37 106	2 785
2016	11 262	650 352	42 653	1 612	226 239	31 065	1 458	189 204	474	22 438	54 945	2 616
2017	12 691	481 757	29 510	2 414	340 929	26 266	1 753	270 372	479	26 691	49 130	1 874
2018	12 733	514 355	30 076	2 174	208 460	23 280	2 441	286 857	394	24 818	65 686	1 455
2019	17 529	1 086 258	28 329	2 844	358 676	9 050	3 316	328 285	459	38 265	78 915	802
	94 003	4 495 440	317 927	34 883	2 020 863	371 752	120 490	5 817 065	58 976	418 046	456 161	29 678

The loans and advances portfolio, by segment and by production year, as at 31 December 2018, is presented as follows:

(Euro thousand)

Production year	Corporate			Construction and CRE			Mortage loans			Other loans		
	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	949	55 813	11 794	1 005	176 538	81 942	52 344	1 719 083	35 729	33 786	21 964	4 324
2005	322	21 748	3 790	265	52 883	31 915	12 481	644 410	14 258	3 856	5 747	888
2006	378	38 729	5 525	308	88 132	39 790	15 112	795 464	21 560	5 464	21 067	6 453
2007	620	47 738	9 670	411	88 655	36 008	15 414	802 600	20 910	33 959	33 221	12 354
2008	2 996	56 491	7 906	764	41 993	9 849	7 961	415 717	10 738	46 041	29 794	4 852
2009	2 879	91 113	9 193	934	83 778	29 667	4 349	255 497	4 334	32 823	26 501	6 090
2010	2 966	167 341	23 031	747	63 917	21 994	4 495	294 712	3 662	13 436	22 349	9 094
2011	3 690	122 870	11 789	877	44 965	13 873	1 666	108 034	1 160	15 679	20 250	8 200
2012	4 052	161 792	19 393	779	46 494	13 089	1 066	69 625	1 165	8 565	17 311	6 229
2013	8 192	446 349	52 156	1 181	102 762	17 714	1 367	90 785	878	12 507	26 676	6 093
2014	12 025	572 461	52 730	3 122	193 832	31 618	1 643	111 180	581	19 292	49 640	7 355
2015	14 382	536 845	40 985	2 101	178 799	11 570	1 932	138 474	342	20 009	53 903	3 868
2016	13 423	773 845	44 983	3 052	273 202	42 016	2 658	213 629	603	26 185	77 157	3 184
2017	13 058	590 011	32 399	2 596	406 346	25 173	3 536	295 012	470	18 767	67 510	2 194
2018	20 201	1 207 486	35 454	3 882	285 475	19 828	3 587	293 863	420	26 325	83 276	1 447
	100 133	4 890 632	360 798	22 024	2 127 771	426 046	129 611	6 248 085	116 810	316 694	556 366	82 625

The gross exposure of loans and advances and impairment, individual and collective, by segment, as at 31 December 2019 and 2018, is analysed as follows:

(Euro thousand)

	2019									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 854 048	207 288	1 585 385	341 145	19 253	369	13 315	2 034	4 472 001	550 836
Collective	1 641 391	110 639	435 479	30 605	5 797 810	58 606	442 845	27 645	- 8 317 525	227 495
							456 160			
	4 495 439	317 927	2 020 864	371 750	5 817 063	58 975	456 160	29 679	12 789 526	778 331

(Euro thousand)

	2018									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 101 352	203 877	1 651 494	361 028	17 894	375	30 269	15 303	4 801 009	580 583
Collective	1 789 279	156 923	476 277	65 018	6 230 191	116 434	526 097	67 322	9 021 844	405 697
	4 890 631	360 800	2 127 771	426 046	6 248 085	116 809	556 366	82 625	13 822 853	986 280

The gross exposure of loans and advances and impairment, individual and collective, by activity sector for companies, as at 31 December 2019 and 2018, is analysed as follows:

(Euro thousand)

	2019											
	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	692 074	217 122	567 481	44 999	322 395	50 224	735 366	99 863	2 122 116	136 225	4 439 432	548 433
Collective	196 616	17 615	455 380	39 922	645 964	42 803	113 719	4 454	665 191	36 449	2 076 870	141 243
	888 690	234 737	1 022 861	84 921	968 359	93 027	849 085	104 317	2 787 307	172 674	6 516 302	689 676

(Euro thousand)

	2018											
	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	725 531	231 571	576 587	38 565	348 432	44 415	736 649	114 181	2 365 647	136 175	4 752 846	564 907
Collective	228 384	44 028	502 102	46 918	704 636	66 972	115 735	8 450	714 699	55 571	2 265 556	221 939
	953 915	275 599	1 078 689	85 483	1 053 068	111 387	852 384	122 631	3 080 346	191 746	7 018 402	786 846

In financial years 2019 and 2018, the gross exposure of performing and non-performing loans and advances, the respective cumulative impairment amount and its collaterals and guarantees received to mitigate the risk, is analysed as follows:

(Euro thousand)

	2019												
	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing loans	of which non-performing				on performing exposure		on non-performing exposure		on non-performing exposure	of which forborne
					of which in default	of which impaired	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	3 061 932	-	-	34 800	34 800	34 800	-	10 149	-	4 824	-	613	-
Other balance sheet credit exposures (b)	12 625 640	49 603	93 077	1 423 811	1 423 811	1 422 465	763 675	97 068	3 580	659 492	360 408	512 325	333 323
Off-balance sheet exposures (c)	1 800 033	1 366	1 185	119 657	119 657	119 657	915	3 151	6	12 305	76	-	-

(a) Includes Debt instruments of the Financial asset available for sale and commercial paper and bonds recognisd under loans and advances to customers.
(b) Includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, Guarantees and Documentary credit provided.

(Euro thousand)

	2018												
	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing loans	of which non-performing				on performing exposure		on non-performing exposure		on non-performing exposure	of which forborne
					of which in default	of which impaired	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	2 132 516	-	-	33 000	33 000	33 000	-	6 695	-	3 082	-	-	-
Other balance sheet credit exposures (b)	14 088 623	51 920	98 991	1 827 255	1 735 734	1 824 602	844 364	93 127	4 638	873 740	392 565	666 472	392 491
Off-balance sheet exposures (c)	1 726 673	2 197	2 650	193 401	175 854	193 401	32 744	3 942	7	12 597	165	-	-

(a) Includes Debt instruments of the Financial asset available for sale and commercial paper and bonds recognisd under loans and advances to customers.

(b) Includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operations to be settled.

(c) Includes revocable and irrevocable credit facilities, Guarantees and Documentary credit provided.

The fair value of the collateral underlying the loans and advances portfolio of the Corporate, Construction and Commercial Real Estate ("CRE") and Mortgage segments, as at 31 December 2019, is presented as follows:

(Euro thousand)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	2 846	347 438	876	54 147	96 251	12 081 943	302	9 246
>= 0,5 M€ e <1M€	197	138 938	34	20 627	383	239 340	1	500
>= 1 M€ e <5M€	202	438 191	22	42 894	45	67 948	-	-
>= 5 M€ e <10M€	33	237 283	6	42 930	-	12 116	-	-
>= 10 M€ e <20M€	26	347 346	-	-	2	-	-	-
>= 20 M€ e <50M€	12	391 331	1	46 000	-	-	-	-
>= 50M€	6	1 086 164	-	-	-	-	-	-
			939	206 598				
	3 322	2 986 691	939	206 598	96 681	12 401 347	303	9 746

The fair value of the collateral underlying the loans and advances portfolio of the Corporate, Construction and Commercial Real Estate ("CRE") and Mortgage segments, as at 31 December 2018, is presented as follows:

(Euro thousand)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair Value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	3 286	384 219	959	57 686	101 510	12 519 906	341	10 250
>= 0,5 M€ e <1M€	212	147 318	33	21 204	367	227 914	1	500
>= 1 M€ e <5M€	196	409 124	16	29 878	44	65 025	-	-
>= 5 M€ e <10M€	33	232 911	6	44 830	-	5 099	-	-
>= 10 M€ e <20M€	27	366 295	1	13 491	1	-	-	-
>= 20 M€ e <50M€	13	432 369	2	66 000	-	-	-	-
>= 50M€	5	955 862	-	-	-	-	-	-
	3 772	2 928 098	1 017	233 089	101 922	12 817 944	342	10 750

The LTV (loan-to-value) ratio of the Corporate, Construction and CRE and Mortgage segments, as at 31 December 2019 and 2018, is presented as follows:

(Euro thousand)

Segment/ Ratio	2019			2018		
	No. of real estate	Total exposure	Impairment	No. of real estate	Total exposure	Impairment
Corporate						
Without real estate (*)	-	3 451 197	236 027	-	3 798 257	253 674
< 60%	1 905	355 682	36 587	2 146	368 389	22 417
>= 60% and < 80%	809	454 664	25 404	820	466 678	26 026
>= 80% and < 100%	1 848	227 040	18 407	885	211 817	32 342
>= 100%	16	6 856	1 503	21	45 490	26 338
		6 856				
Construction and CRE						
Without real estate (*)	-	880 254	152 201	-	939 562	170 895
< 60%	1 445	545 719	116 723	1 401	511 869	108 730
>= 60% and < 80%	762	336 625	48 031	906	349 903	54 684
>= 80% and < 100%	961	215 195	25 054	1 068	216 969	40 216
>= 100%	154	43 069	29 741	397	109 468	51 520
		43 069				
Mortgage						
Without real estate (*)	-	462 680	11 917	-	527 085	27 829
< 60%	62 696	2 507 217	11 750	64 492	2 576 393	22 479
>= 60% and < 80%	25 020	2 039 924	11 419	26 024	2 121 153	18 712
>= 80% and < 100%	8 436	760 932	13 688	10 536	946 844	23 917
>= 100%	529	46 311	10 201	870	76 610	23 871

(*) Includes operations with other associated collaterals, namely financial collaterals.

The fair value and the net value of real estate received in recovery of loans, by asset type, as at 31 December 2019 and 2018, are presented as follows:

(Euro thousand)

Assets	2019		
	No. of real estate	Fair value	Book value
Land	**1 733**	**341 852**	**309 066**
Urban	1 488	290 580	261 094
Rural	245	51 272	47 972
Buildings under construction	**464**	**69 162**	**63 195**
Commercial	59	4 312	4 087
Housing	310	64 105	58 409
Other	95	745	699
Constructed buildings	**1 703**	**215 642**	**191 407**
Commercial	600	98 190	87 643
Housing	697	112 385	99 363
Other	406	5 067	4 401
	3 900	626 656	563 668

(Euro thousand)

Assets	No. of real estate	Fair value	Book value
		2018	
Land	**1 792**	**368 389**	**333 060**
Urban	1 558	309 703	277 912
Rural	234	58 686	55 148
Buildings under construction	**676**	**122 471**	**110 943**
Commercial	71	6 518	5 194
Housing	511	115 301	105 119
Other	94	652	630
Constructed buildings	**2 481**	**290 886**	**261 348**
Commercial	869	120 377	107 848
Housing	1 106	163 419	147 374
Other	506	7 090	6 126
	4 949	781 746	705 351

The time elapsed since the receipt in recovery/execution of real estate, as at 31 December 2019 and 2018, is presented as follows:

(Euro thousand)

Elapsed time since recovery/execution	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
			2019		
Land	**8 182**	**78 311**	**47 964**	**174 609**	**309 066**
Urban	6 541	70 651	35 731	148 171	261 094
Rural	1 641	7 660	12 233	26 438	47 972
Buildings under construction	**2 195**	**19 562**	**13 637**	**27 801**	**63 195**
Commercial	356	427	1 035	2 269	4 087
Housing	1 770	19 045	12 570	25 024	58 409
Other	69	90	32	508	699
Constructed buildings	**16 713**	**24 602**	**55 828**	**94 264**	**191 407**
Commercial	3 200	12 438	29 086	42 919	87 643
Housing	13 072	11 811	24 508	49 972	99 363
Other	441	353	2 234	1 373	4 401
	27 090	122 475	117 429	296 674	563 668

(Euro thousand)

Elapsed time since recovery/execution	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
			2018		
Land	**17 605**	**84 570**	**78 546**	**152 339**	**333 060**
Urban	13 982	75 866	65 879	122 185	277 912
Rural	3 623	8 704	12 667	30 154	55 148
Buildings under construction	**32 979**	**20 260**	**33 856**	**23 848**	**110 943**
Commercial	146	1 413	1 974	1 661	5 194
Housing	32 740	18 847	31 853	21 679	105 119
Other	93	-	29	508	630
Constructed buildings	**29 164**	**47 404**	**83 753**	**101 027**	**261 348**
Commercial	10 181	19 944	34 517	43 206	107 848
Housing	18 660	24 934	47 783	55 997	147 374
Other	323	2 526	1 453	1 824	6 126
	79 748	152 234	196 155	277 214	705 351

Concentration risk

The concentration risk results from the existence of common or correlated risk factors between different entities or portfolios. The deterioration of any of these factors may have a simultaneous negative impact on the credit quality of each of the counterparties or on the results of each class of assets and liabilities. In a concentration scenario, the loss effects on a small number of exposures may be disproportionate, confirming the importance of managing this risk in the maintenance of adequate solvability levels. At Banco Montepio, concentration risk monitoring focuses mainly on credit concentration, investment portfolio, financing, interest rate and operating risks.

Credit concentration risk is the most important risk for Banco Montepio and, as such, there are several procedures related to its identification, measurement and management. In order to control the concentration risk of the exposure to a customer/group of customers that are related, maximum exposure limits were set for the aggregate positions of the credit and investment portfolios.

In order to reduce concentration risk, Banco Montepio seeks to diversify its activity areas and income sources, as well as its exposures and funding sources.

The concentration risk management is carried out in a centralized manner, with regular monitoring of the concentration indices by the Risk Department. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the level of individual concentration and the degree of diversification of the quality of the corporate portfolio are regularly monitored by the Risk Department. Maximum exposure limits are established per customer/group of customers related to each other, as well as limits for the concentration of the largest depositors.

Market risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and/or prices of the different financial instruments that compose it, considering both the existing correlations between them and the respective volatilities.

Banco Montepio regularly calculates its “VaR” both for its own trading portfolio as well as for that of the financial assets at fair value through other comprehensive income, with same being determined based on a 10-day horizon and a 99% confidence level, using the historical simulation method. The types of risk considered in this methodology are the interest rate, exchange rate, price, spread and commodities’ risks.

Banco Montepio's investment portfolio is mainly concentrated on bonds, and as at 31 December 2019 this represented 76.8% (31 December 2018: 62.4%) of the total portfolio, (excluding notes held of own securitizations not derecognized) with the dominant position being held by bonds of sovereign issuers, essentially the Portuguese Republic.

Regarding credit derivatives, Banco Montepio held no position in these instruments as at 31 December 2019 and 2018.

Regarding the credit quality of debt securities, circa 87.1% of the portfolio is investment grade (31 December 2018: 98.7%). Of note are the Portuguese and Italian sovereign bonds with a rating of BBB- and that represent 51.1% of the portfolio. Concerning the composition of the portfolio, one verifies an increase in the exposure to sovereign debt, of note being the Portuguese, Spanish, Italian and Greek debt (for the last ones essentially treasury bills).

The distribution of the bond portfolio, recognized in the captions Financial assets held for trading, Financial assets at fair value through other comprehensive income (excluding notes of own securitizations held) and Other financial assets at amortized cost, is presented as follows:

(Euro thousand)

Rating	2019		2018		Change	
	Amount	%	Amount	%	Amount	%
AAA	8 036	0,3	-	-	8 036	-
AA+	934	-	1 091	0,1	(157)	(14,4)
AA	7 824	0,3	-	-	7 824	-
AA-	21 085	0,8	-	-	21 085	-
A+	17 830	0,7	1 718	0,1	16 112	937,8
A	30 935	1,2	-	-	30 935	-
A-	34 087	1,3	2 024	0,1	32 063	1 584,1
BBB+	278 695	10,7	211 026	13,9	67 669	32,1
BBB	88 065	3,4	12 452	0,8	75 613	607,2
BBB-	1 785 186	68,4	1 267 919	83,7	517 267	40,8
BB+		-	-	-	-	-
BB+	20 571	0,8	-	-	20 571	-
BB	21 228	0,8	234	-	20 994	8 971,8
B+	257 294	9,9	-	-	257 294	-
NR	36 430	1,4	19 219	1,3	17 211	89,6
Total	2 608 200	100,0	1 515 683	100,0	1 092 517	72,1

The position in bonds (excluding notes held of own securitizations not derecognized) recognized in the portfolio of Financial assets at fair value through other comprehensive income stood at Euro 1,697,262 thousand (31 December 2018: Euro 260,032 thousand), the position in Other financial assets at amortized cost stood at Euro 899,145 thousand (31 December 2018: Euro 1,255,651 thousand), and the position in Financial assets held for trading stood at Euro 11,793 thousand.

Regarding the trading portfolio, as at 31 December 2019, the main VaR indicators are as follows:

(Euro thousand)

	2019	Average	Minimum	Maximum	2018
Market VaR	244	467	5	651	5
Interest rate risk	167	174	5	218	5
Exchange risk	142	88	-	52	-
Price risk	94	312	-	478	-
Spread Risk	80	397	-	489	-
Diversification effect	*(239)*	*(504)*	-	*(586)*	-
	244	**467**	**5**	**651**	

Bank portfolio's interest rate risk

The assessment of interest rate risk originated by banking portfolio operations is performed by a sensitivity analysis to the risk, on a consolidated basis for the Banco Montepio entities (including subsidiaries recognized in discontinued operations).

Interest rate risk is measured according to the impact on net interest income, economic value and own funds caused by changes in market interest rates. The main risk factors arise from lags in maturities for the resetting of rates and/or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indices with the same repricing period (basis risk) and the options associated with instruments that enable different decisions being taken by the players/participants depending on the level of rates contracted and those practiced at the moment (option risk).

Based on the financial characteristics of each contract, a projection of the expected cash flows is made, according to the rate reset dates and eventual behavioural assumptions.

The aggregation, for each currency analysed, of the expected cash flows in each of the time intervals allows one to determine the interest rate gaps by repricing period.

The following tables present the interest rates gaps, by residual maturity, in financial years 2019 and 2018:

(Euro thousand)

	Below 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years
31 December 2019					
Assets					
Debt securities	383 988	170 829	353 173	1 126 482	775 881
Loans and advances	6 839 860	2 764 522	918 095	536 188	65 131
Others	36 446	-	-	-	28 788
Off-balance sheet	4 758	-	6 672	763 307	-
Total	7 265 052	2 935 351	1 277 941	2 425 977	869 801
Liabilities					
Debt securities issued	9 914	1 455	57 407	1 368 142	23 365
Deposits with defined maturity	2 926 815	1 466 586	1 941 863	1 473 824	-
Others	159 034	443 112	393 890	706 239	29 803
Off-balance sheet	753 376	-	17	137	1 388
Total	3 849 140	1 911 153	2 393 178	3 548 343	54 556
GAP (Assets - Liabilities)	3 415 912	1 024 198	(1 115 237)	(1 122 366)	815 244
31 December 2018					
Assets					
Debt securities	1 519 193	38 816	500	954 050	391 500
Loans and advances	7 552 889	2 924 237	725 117	314 058	458 933
Others	53 567	30 871	16 526	(420)	155
Off-balance sheet	6 200	9 850	13 920	753 300	-
Total	9 131 849	3 003 774	756 063	2 020 988	850 588
Liabilities					
Debt securities issued	871 437	53 750	81 943	956 148	-
Deposits with defined maturity	1 987 846	1 642 539	1 863 667	2 897 586	51 245
Others	167 322	-	-	1 407 840	-
Off-balance sheet	758 300	9 850	13 920	-	1 200
Total	3 784 905	1 706 140	1 959 530	5 261 574	52 445
GAP (Assets - Liabilities)	5 346 944	1 297 634	(1 203 467)	(3 240 586)	798 143

The following table present the interest rates gaps, during financial years 2019 and 2018:

(Euro thousand)

	2019				2018			
	december	Annual Average	Maximum	Minimum	december	Annual Average	Maximum	Minimum
Interest Rate Gap	3 017 751	3 081 390	3 227 752	2 998 667	2 998 667	1 589 557	2 998 668	(1 107 590)

Sensitivity to the balance sheet interest rate risk is calculated by the difference between the present value of the interest rate mismatch discounted at market interest rates and the discounted value of the same cash flows, simulating parallel shifts of the market interest rate curve.

As at 31 December 2019, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a change in the economic value expected from the banking portfolio in the negative amount of Euro 25,558 thousand (31 December 2018: negative amount of Euro 10,798 thousand).

The following table presents the average interest rates, in relation to Banco Montepio's major asset and liability categories for financial years 2019 and 2018, as well as the respective average balances and interest for the financial year:

(Euro thousand)

	2019			2018		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest assets generators						
Deposits at central banks and OCI	1 125 358	0,50	5 701	1 378 707	1,00	14 034
Loans and advances to OCI	495 866	0,79	3 960	450 188	0,86	3 905
Loans and advances to customers	12 111 230	2,13	261 318	13 375 771	2,21	299 353
Other assets at fair value	4 558 411	0,44	20 247	3 942 435	0,49	19 540
Securities portfolio	15 866	0,88	141	11 443	2,16	251
Other (includes derivatives)	-	-	14 731	-	-	19 238
	18 306 731	**1,65**	**306 098**	**19 158 544**	**1,83**	**356 321**
Interest liabilities generators						
Deposits from ECB	1 384 894	0,24	3 324	1 539 715	0,32	5 001
Deposits from OCI	1 277 968	0,79	10 199	1 849 183	0,98	18 420
Deposits from customers	12 653 766	0,26	33 165	12 405 170	0,44	54 713
Senior debt	3 050 432	1,10	33 961	3 285 600	1,93	64 243
Subordinated debt	131 622	8,84	11 803	91 438	1,24	1 152
Other (includes derivatives)	-	-	11 736	-	-	16 182
	18 498 682	**0,56**	**104 188**	**19 171 106**	**0,82**	**159 711**
Net interest income		**1,09**	**201 910**		**1,01**	**196 610**

Foreign exchange risk

Regarding the foreign exchange risk of the banking portfolio, the general procedure is to apply funds raised in the various currencies, through assets in the respective money market and for terms not exceeding those of the funding. Thus, existing exchange rate gaps are essentially due to mismatches between the periods of the applications and of the funding.

The breakdown of assets and liabilities, by currency, as at 31 December 2019 and 2018, is analysed as follows:

(Euro thousand)

	2019							
	Euro	US Dollar	Sterling Pound	Canadian Dollar	Swiss Franc	Brazilian Real	Other Foreign Currencies	Total
Assets by currency								
Cash and deposits at central banks	989 938	8 130	1 081	1 133	2 939	-	427	1 003 648
Loans and advances to credit institutions repayable on demand	25 352	24 667	337	517	852	-	268	51 993
Other loans and advances to credit institutions	498 833	33 200	-	-	-	-	-	532 033
Loans and advances to customers	10 834 969	86 193	8	-	-	-	-	10 921 170
Financial assets held for trading	20 965	8 939	-	-	-	-	-	29 904
Other financial assets at fair value value through profit or loss	654 438	-	-	-	-	-	-	654 438
Financial assets at fair value through other comprehensive income	1 790 772	-	-	-	-	42 669	-	1 833 441
Hedging derivatives	11 148	-	-	-	-	-	-	11 148
Other financial assets at amortized cost	2 793 157	-	-	-	-	-	-	2 793 157
Repurchase agreement assets	-	-	-	-	-	-	-	-
Investments in associates	341 008	-	-	-	-	-	-	341 008
Non current assets held for sale	-	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	-	-	-
Other tangible assets	240 302	-	-	-	-	-	-	240 302
Intangible assets	31 822	-	-	-	-	-	-	31 822
Current tax assets	9 823	-	-	-	-	-	-	9 823
Deferred Tax Assets	462 295	-	-	-	-	-	-	462 295
Other assets	714 718	30 322	72	-	-	-	212	745 324
Total Assets	19 419 540	191 451	1 498	1 650	3 791	42 669	907	19 661 506
Liabilities by currency								
Deposits from central banks	1 291 033	-	-	-	-	-	-	1 291 033
Deposits from other credit institutions	609 173	65 089	3 983	23 387	16	-	26	701 674
Deposits from customers	12 407 678	90 576	8 433	14 781	2 514	-	3 564	12 527 546
Debt securities issued	3 202 723	-	-	-	-	-	-	3 202 723
Financial liabilities held for trading	11 098	-	-	-	-	-	-	11 098
Hedging derivatives	547	-	-	-	-	-	-	547
Provisions	30 268	-	-	-	-	-	-	30 268
Current tax liabilities	1 056	-	-	-	-	-	-	1 056
Deferred tax liabilities	-	-	-	-	-	-	-	-
Other subordinated debt	157 847	-	-	-	-	-	-	157 847
Other liabilities	223 059	469	4	134	738	-	15	224 419
Total Liabilities	17 934 482	156 134	12 420	38 302	3 268	-	3 605	18 148 211
Exchange forward transactions		(50 635)	11 095	37 265	(2 441)	-	2 598	
Exchange gap		(15 318)	173	613	(1 918)	42 669	(100)	
Stress Test		3 064	(35)	(123)	384	(8 534)	20	

(Euro thousand)

	2018							
	Euro	US Dollar	Sterling Pound	Canadian Dollar	Swiss Franc	Brazilian Real	Other Foreign Currencies	Total
Assets by currency								
Cash and deposits at central banks	1 590 380	14 110	1 512	1 027	2 988	-	617	1 610 634
Loans and advances to credit institutions repayable on demand	46 227	18 557	5 566	1 081	703	-	3 438	75 572
Other loans and advances to credit institutions	336 515	267	-	-	-	-	-	336 782
Loans and advances to customers	11 652 873	114 837	1 069	-	19	-	-	11 768 798
Financial assets held for trading	15 648	12	-	-	-	-	-	15 660
Other financial assets at fair value value through profit or loss	884 449	-	-	-	-	-	-	884 449
Financial assets at fair value through other comprehensive income	345 279	-	-	-	-	47 310	-	392 589
Hedging derivatives	5 666	-	-	-	-	-	-	5 666
Other financial assets at amortized cost	3 394 302	-	-	-	-	-	-	3 394 302
Investments in associates and other	346 723	-	-	-	-	-	-	346 723
Non current assets held for sale	705 351	-	-	-	-	-	-	705 351
Investment properties	-	-	-	-	-	-	-	-
Other tangible assets	217 741	-	-	-	-	-	-	217 741
Intangible assets	31 657	-	-	-	-	-	-	31 657
Current tax assets	6 144	-	-	-	-	-	-	6 144
Deferred Tax Assets	492 783	-	-	-	-	-	-	492 783
Other assets	68 085	174	1	-	-	-	158	68 418
Total Assets	20 139 823	147 957	8 148	2 108	3 710	47 310	4 213	20 353 269
Liabilities by currency								
Deposits from central banks	1 395 320	-	-	-	-	-	-	1 395 320
Deposits from other credit institutions	1 366 336	49 377	3 943	22 707	98	-	87	1 442 548
Deposits from customers	12 517 900	82 053	6 291	15 115	1 837	-	3 382	12 626 578
Debt securities issued	878 331	-	-	-	-	-	-	878 331
Financial liabilities related to transferred assets	2 162 425	-	-	-	-	-	-	2 162 425
Financial liabilities held for trading	12 264	10	-	-	-	-	-	12 274
Hedging derivatives	-	-	-	-	-	-	-	-
Provisions	31 699	-	-	-	-	-	-	31 699
Current tax liabilities	4 241	-	-	-	-	-	-	4 241
Deferred tax liabilities	-	-	-	-	-	-	-	-
Other subordinated debt	50 044	-	-	-	-	-	-	50 044
Other liabilities	187 888	1 447	296	52	1 770	-	49	191 502
Total Liabilities	18 606 448	132 887	10 530	37 874	3 705	-	3 518	18 794 962
Exchange forward transactions		(38 257)	2 236	35 950	4	-	(175)	
Exchange gap		(23 187)	(146)	184	9	47 310	520	
Stress Test		4 637	29	(37)	(2)	(9 462)	(104)	

The result of the stress test performed corresponds to the estimated impact (before tax) on equity, including minority interests, due to a devaluation of 20.0% in the exchange rate of each currency against the Euro.

Liquidity risk

Liquidity risk reflects Banco Montepio's inability to meet its obligations at due date, without incurring in significant losses arising from a deterioration in financing conditions (financing risk) and/or the sale of its assets at values lower than market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined, as well as other internal metrics for which internal limits are defined. This control is reinforced with the monthly execution of stress tests, in order to characterize the risk profile of Banco Montepio and ensure that the Group fulfils its obligations in a liquidity crisis scenario. The calculation of the LCR prudential ratio is performed on a monthly basis.

As at 31 December 2019, the LCR amount was 175.1% (31 December 2018: 154.1%).

As at 31 December 2019, Banco Montepio's financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 291 033	-	443 600	-	-	847 433
Deposits from other credit institutions	701 674	-	226 686	65 615	4 788	404 585
Deposits from customers	12 527 546	-	5 380 704	2 253 405	1 641 840	3 251 597
Debt securities issued	1 263 261	-	9 393	4 129	1 525	1 248 214
Financial liabilities related to transferred assets	1 939 462	-	-	-	-	1 939 462
Financial liabilities held for sale	11 098	-	17	34	6	11 041
Other subordinated debt	157 847	-	-	-	7 847	150 000
Other liabilities	224 419	224 419	-	-	-	-
Total Liabilities	**18 116 340**	**224 419**	**6 060 400**	**2 323 183**	**1 656 006**	**7 852 332**

As at 31 December 2018, Banco Montepio's financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 395 320	-	-	-	-	1 395 320
Deposits from other credit institutions	1 442 548	-	307 999	122 915	661 228	350 406
Deposits from customers	12 626 578	-	4 870 270	2 949 118	1 834 236	2 972 954
Debt securities issued	878 331	-	97 117	55	21 701	759 458
Financial liabilities related to transferred assets	2 162 425	-	-	-	-	2 162 425
Financial liabilities held for sale	12 274	-	100	10	152	12 012
Other subordinated debt	50 044	-	-	-	44	50 000
Other liabilities	191 502	191 502	-	-	-	-
Total Liabilities	**18 759 022**	**191 502**	**5 275 486**	**3 072 098**	**2 517 361**	**7 702 575**

In the scope of Bank of Portugal Instruction no. 28/2014, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and considering the recommendation made by the European Systemic Risk Committee, we present the following information, as at 31 December 2019 and 2018, on the assets and related collaterals:

(Euro thousand)

	2019			
Assets	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amounts of unencumbered assets**	**Fair value of unencumbered assets**
Assets from the reporting institution	1 730 525		17 930 982	
Equity instruments	-	-	676 858	676 858
Debt securities	617 449	535 399	4 444 975	4 076 474
Other assets	-		2 053 145	

(Euro thousand)

	2018			
Assets	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amounts of unencumbered assets**	**Fair value of unencumbered assets**
Assets from the reporting institution	3 996 499	-	14 275 647	-
Equity instruments	-	-	916 095	917 321
Debt securities	768 038	735 169	1 354 545	1 394 300
Other assets	-	-	2 084 182	-

(Euro thousand)

	2019	
Collateral received	**Fair value of encumbered collateral received or own debt securities issued**	**Fair value of collateral received or own debt securities issued available for encumbrance**
Assets from the reporting institutions		
Debt securities	25 857	-
Own securities issued that are not	25 857	
own covered bonds or ABS	-	-

(Euro thousand)

	2018	
Collateral received	**Fair value of encumbered collateral received or own debt securities issued**	**Fair value of collateral received or own debt securities issued available for encumbrance**
Assets from the reporting institutions	46 398	-
Equity instruments	-	-
Debt securities	46 398	-
Own securities issued that are not		
own covered bonds or ABS	-	-

(Euro thousand)

	2019	2018
Encumbered assets, encumbered collateral received and associated liabilities	**Carrying amount of selected financial liabilities**	
Associated liabilities, contingent liabilities and securities borrowed	1 762 182	2 609 154
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	1 729 824	4 015 260

The encumbered assets are mostly related to Banco Montepio's funding operations, namely of the ECB, of repo operations, of the issuance of covered bonds and of securitization programs. The type of assets used as collateral for securitization programs and for the issuance of covered bonds, whether those placed outside the Group, or those used to reinforce the collateral pool with the ECB, are constituted by customers' loans contracts. Repo transactions in the money market are collateralized, essentially, by covered bonds and securitization programs, of which Banco Montepio is the originator, and by securitized credit operations.

The amounts presented in the previous tables correspond to the position as at 31 December 2019 and 2018 and reflect the high level of collateralization of the wholesale funding of Banco Montepio. The buffer of eligible assets for funding from the ECB, after haircuts, uncommitted and available for use in new operations amounts, as at 31 December 2019, to Euro 2,310,134 thousand (31 December 2018: Euro 1,238,170 thousand).

It should be noted that the total value of collaterals available at the European Central Bank (ECB) as at 31 December 2019 amounts to Euro 3,608,247 thousand (31 December 2018: Euro 2,586,660 thousand) with a usage of Euro 1,308,333 thousand (31 December 2018: Euro 1,395,320 thousand):

(Euro thousand)

	2019	2018
Total eligible collateral	**4 136 099**	**3 865 925**
Total collateral in the pool	3 608 247	2 586 660
Collateral outside the pool	527 852	1 279 265
Used collateral	**1 825 965**	**2 627 755**
Collateral used for ECB	1 308 333	1 395 320
Collateral committed to other financing operations	517 632	1 232 435
Collateral available for ECB	**2 299 914**	**1 191 340**
Total available collateral	**2 310 134**	**1 238 170**

Note: collateral amount considers the applied haircut

Real Estate Risk

Real estate risk results from possible negative impacts on Banco Montepio's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from the exposure in real estate assets, whether from the foreclosure of properties or judicial auction in the scope of credit recovery processes or from investment units in real estate funds held in the securities' portfolio. These exposures are monitored through scenario analyses that attempt to estimate the potential impacts of changes in the real estate markets in the portfolios of these real estate assets and make available the information elements necessary for the definition of the real estate risk management policy.

As at 31 December 2019 and 2018, the exposure to real estate and investment units in real estate funds presented the following values:

(Euro thousand)

	2019	2018
Real estate received as loan guarantee	563 667	705 092
Real estate investment fund units	474 315	676 521
	1 037 982	1 381 613
Stress test	(103 798)	(138 161)

Stress test results correspond to the estimated impact on equity (before taxes) of a negative 10% variation in the values of real estate and investment units in real estate funds.

Operating Risk

Operating risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

Banco Montepio has the approval of the Bank of Portugal to use the standard method to quantify its own capital requirements for operating risk, supported on the existence of an operating risk management system based on the identification, assessment, monitoring, measurement, mitigation and reporting of this type of risk.

The Risk Department exercises the corporate function of operating risk management of Banco Montepio which is supported by the existence of participants in different organic units that ensure the proper implementation of the operating risk management.

The operating risk profile assessment for new products, processes and systems and its consequent monitoring, on a regular basis, has allowed the early identification and mitigation of potential risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operating risk loss events, the analysis of Key Risk Indicators, the assessment of the exposure to operating risk and the preparation of periodic reports on the Institution's operating risk profile. In particular, quarterly monitoring reports of operating risk loss events and mitigation measures are prepared. A report is prepared annually, which includes the analysis of all aspects and instruments inherent to the operating risk management cycle.

As regards mitigation measures, action plans are suggested for the most significant risks, identified based on the operating risk management tools previously mentioned.

In addition, Banco Montepio has implemented a business continuity management process, supported by a set of assessment, design, implementation and monitoring activities, integrated in a cycle of continuous improvement.

This process is crucial as a risk mitigation tool, making the business processes more resilient and allowing for the continuity of operations to be ensured in the event of situations that cause the interruption of the activity, considering the Recovery Time Objective (RTO) defined.

Pension Fund Risk

The Pension Fund risk results from the potential devaluation of the Fund's asset portfolio or the decrease in the respective expected returns, as well as the increase in the Fund's liabilities as a result of the evolution of the different actuarial assumptions. In such scenarios, Banco Montepio will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular analysis and monitoring of Banco Montepio's Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Risk Department ensures the production of monthly reports with the evolution of the market value of the Pension Fund's portfolio and the associated risk indicators.

The Risk Department monitors the effect of possible measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has strengthened control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows for the monitoring of the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on the VaR calculation, with a confidence level of 99.5% for a one-year time horizon. Since VaR does not totally guarantee that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose of calculating the impact of several extreme scenarios on the value of the portfolio.

The assessment of the liquidity level of the share-based and bond-based components of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days for their liquidation, considering the assets in the portfolio. This test consists of verifying the liquidity of the share-based segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond-based segment, the cash receipts (positive cash flows) resulting from bond coupon (interest) payments and amortizations or possible call option exercises are calculated for one month. All these tests allow for the assessment of the degree of liquidity in the short term and to monitor or act in the event of a possible shortage of liquidity, in a timely manner.

Other Risks

With regard to other risks – reputation, compliance, strategy and business risks - these are also monitored by the Board of Directors, with the risks being controlled and corrective measures being taken based on the results obtained compared with the objectives/limits established, of note being, namely, the monitoring and control of deviations from the approved strategic plan and budget.

Hedging Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees, and financial collateral are relevant, as well as the provision of personal credit protection, namely of guarantees.

In terms of the direct reduction of the exposure value, credit operations collateralized by financial collateral are considered, namely, term deposits and securities. In financial collaterals, the market and foreign exchange risks of the assets involved are considered, and, when applicable, the value of the collateral is adjusted.

Regarding real mortgage guarantees, Banco Montepio has defined valuation and revaluation models to be applied to properties that may or already constitute real collateral for credit operations. The asset valuations are carried out by independent expert appraisers, and the management of the valuations and inspections is centralized in a unit that is independent of the commercial area. In accordance with (EU) Regulation no. 575/2013 (CRR), the requirements for the verification and revaluation of the assets' value, depending on the cases, either by statistical and computerized methods or by review or revaluation of the valuation amount by an expert appraiser are assured.

For credit guarantees, the principle of the substitution of the customer's risk by that of the protection provider is applied, provided that the risk of the latter is not inferior to that of the prior.

Banco Montepio does not usually use on-balance sheet and off-balance sheet offsetting processes, nor does it hold credit derivatives on positions in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures with financial products with a symmetric risk to decrease the total risk of the exposures or the partial or total sale of exposures to reduce exposure or cancel it completely.

Regarding the banking portfolio, interest rate and foreign exchange risk mitigation techniques correspond to the negotiation of hedging operations with derivatives and the closure of exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of Banco Montepio are determined in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) no. 575/2013 (CRR), adopted by the European Parliament and by the Council, and Notice no. 10/2017 of the Bank of Portugal. Own funds include level 1 own funds (tier 1) and level 2 own funds (tier 2). Tier 1 includes level 1 core own funds (common equity tier 1 – CET1) and the additional level 1 own funds with the following composition:

- *Level 1 Core Own Funds or Common Equity Tier 1 (CET1):* this category includes the realized share capital (with the deduction of treasury shares held), eligible reserves (including fair value reserves), retained earnings, positive and certified retained earnings for the period or, if negative, the full amount. The value of reserves and retained earnings is adjusted for the reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. The book value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, between the assets and liabilities of the Pension Fund, is deducted. The amount of the prudent valuation calculated in accordance with articles no. 34 and 105 of the CRR is also deducted, as are the deferred tax assets related to tax losses. Regarding financial shareholdings in financial sector entities and deferred tax assets arising from timing differences that depend on future profitability, the values in these captions are deducted when, individually, they exceed 10.0% of CET1, or, subsequently, 15.0% of CET1 when considered in aggregate (only on the part not deducted in the first barrier of 10.0% and considering only significant shareholdings). The values not deducted will be subject to the weighting of 250.0% to the total risk-weighted assets. Regarding shareholdings in financial institutions, the deduction is proportionally realized in the corresponding capital levels held. As part of the implementation of the requirements defined in Regulation (EU) no. 575/2013, a transition period was defined to allow for a gradual recognition of the major impacts of this new regulation. This transition plan reached total recognition in 2018 (i.e. 100%) for almost all the captions encompassed. Only for the deferred tax assets that do not depend on future profitability, in the balance sheet as at 1 January 2014, is the transitional cumulative recognition plan maintained on a 10.0% annual basis, with, in 2019, this having attained 50.0%. With the revision of Regulation (EU) no. 575/2013, of 27 June 2019, the applicable amount of insufficient coverage for non-productive exposures is now deducted if said exposures originated after 26 April 2019.

- *Level 1 Own Funds or Tier 1 (T1):* includes capital equivalent instruments, which conditions are in accordance with article 52 of Regulation (EU) no. 575/2013 of the European Union and that have been approved by the Bank of Portugal. Non-controlling interests relating to additional own funds' minimum requirements of the institutions in which Banco Montepio does not hold full ownership are also eligible if they exist. The eventual shareholdings of T1 capital of financial institutions subject to deduction are deducted from this capital.

- *Level 2 Own Funds or Tier 2 (T2):* includes capital equivalent instruments, which conditions are in accordance with article 63 of Regulation (EU) no. 575/2013 of the European Union and that have been approved by the Bank of Portugal. Non-controlling interests relating to the own fund's minimum requirements of the institutions in which Banco Montepio does not hold full ownership are also eligible if they exist. The eventual shareholdings of T2 capital of financial institutions subject to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels of own funds previously referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating and market risk requirements, reference is made to the weighting of 250.0% of deferred tax assets arising from timing differences that depend on future profitability and financial shareholdings that are within the limit established for non-deduction from CET1. With respect to deferred tax assets arising from timing differences that do not depend on future profitability, these are subject to a 100.0% weighting for capital requirement purposes. The CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period.

As referred, in 2019 the effects of Basel III's new regulation related to deferred tax assets that do not depend on future profitability, as well as the effects resulting from the adoption of IFRS 9 are still being gradually introduced. This process is designated Phasing-in. The full assumption of the new regulation, without considering transitory plans, is designated Full Implementation. The phasing-in process is currently underway, and it is on this basis that an entity verifies that it has own funds for an amount not below the own funds' minimum requirements, thus certifying the adequacy of its capital. This relation is reflected in the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (ratio corresponding to the respective capital level as a percentage of the amount corresponding to 12.5 times the own funds' requirements).

For these ratios, regulatory minimums are indicated by CRD IV/CRR of 4.5% for CET1, 6.0% for Tier 1 and 8.0% for Total Capital. However, on these regulatory minimums are applied reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions), the value of which is defined by the Bank of Portugal. For 2019, the Bank of Portugal defined a 0% Counter-Cyclical Reserve. Regarding the Conservation Reserve, the Bank of Portugal, in its Notice no. 6/2016, defines its application according to the transition plan set out in article 160 of the CRD IV, and, therefore, the value of this reserve after 1 January 2019 is 2.5%. Pursuant to these provisions, as at 31 December 2019, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 7.0%, 8.5% and 10.5%, respectively, including the own fund reserves referred to above.

The summary of the calculation of Banco Montepio's capital requirements as at 31 December 2019 and 2018, under phasing-in, is presented as follows:

(Euro thousand)

	2019	2018
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 420 000
Net profit, reserves and retained earnings	(913 028)	(868 017)
Other regulatory adjustments	(509 402)	(395 421)
	997 570	1 156 562
Capital Tier 1	997 570	1 156 562
Capital Tier 2		
Subordinated loans	156 323	56 323
Regulatory adjustments	-	(700)
	156 323	55 623
Total own funds	1 153 893	1 212 185
Own funds requirements		
Credit risk	669 064	694 189
Market risk	4 264	3 851
Operating risk	50 710	50 484
Other requirements	43 910	49 308
	767 948	797 832
Prudential Ratios		
Common Equity Tier 1 Ratio	10,39%	11,60%
Tier 1 Ratio	10,39%	11,60%
Total Capital Ratio	12,02%	12,15%

It should be noted that the ratios, as at 31 December 2019, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 31.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a five-year period. If Banco Montepio did not apply this transition plan to the impacts arising from the adoption of IRFS 9, its prudential ratios as at 31 December 2019 and 2018 would be:

(Euro thousand)

	2019	2018
Capital Common Equity Tier 1	870 043	999 319
Capital Tier 1	870 043	999 319
Total own funds	1 026 366	1 054 942
Own funds requirements	755 897	783 419
Prudential Ratios		
Common Equity Tier 1 Ratio	9,21%	10,20%
Tier 1 Ratio	9,21%	10,20%
Total Capital Ratio	10,86%	10,77%

53 Recently issued accounting policies

IFRS Disclosures – New standards as at 31 December 2019:

1. Impact of the adoption of new standards, amendments to the standards and interpretations that became effective on 1 January 2019:

a) **IFRS 16** (new), 'Leases'. This new standard replaces IAS 17 – 'Leases', with a significant impact on accounting by lessees that are now required to recognize a lease liability reflecting future lease payments and a "right of use" asset for all lease agreements, except for certain short-term leases and low-value assets. The definition of a lease has also been changed, being based on the "right to control the use of an identified asset".

These changes had an impact on Banco Montepio's financial statements as detailed in note 55.

b) **IFRS 9** (amendment), 'Prepayment features with negative compensation'. This amendment introduces the possibility of classifying financial assets with prepayment features with negative compensation, at amortized cost, provided that specific conditions are fulfilled, rather than being stated at fair value through profit or loss.

This change had no material impact on the financial statements of Banco Montepio.

c) **IAS 19** (amendment), 'Amendments, curtailments or settlements of defined benefit plans'. This amendment to IAS 19 requires an entity to: (i) use updated assumptions to determine current service cost and net interest for the remaining period following the amendment, curtailment or settlement of the plan; and (ii) recognize, in the income statement, as part of the past service cost, or as a gain or loss on settlement any reduction in excess of coverage, even if the excess coverage was not previously recognized due to the impact of the asset ceiling. The impact on the asset ceiling is always recorded in Other Comprehensive Income and cannot be recycled through the income statement.

These changes had no material impact on the financial statements of Banco Montepio.

d) **IAS 28** (amendment), 'Long-term investments in associated companies and joint ventures'. This amendment clarifies that long-term investments in associated companies and joint ventures (components of an entity's investment in associated companies and joint ventures), which are not being measured under the equity method, are accounted for under IFRS 9 – 'Financial instruments'. Long-term investments in associated companies and joint ventures are subject to the estimated impairment loss model before being added for impairment testing purposes to the overall investment in an associated company or joint venture, when impairment indicators exist.

These changes had no material impact on the financial statements of Banco Montepio.

e) **Improvements to 2015 - 2017 Standards**. This improvement cycle affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.

IAS 23, 'Borrowing costs'. This improvement clarifies that specific loans obtained that still remain outstanding, after the qualifying assets to which they relate are in condition for use or sale, should be added to the general loans to calculate the average capitalization interest rate on the other qualifying assets.

IAS 12, 'Income taxes'. This improvement clarifies that the tax impacts of dividends are recognized on the date that the entity records the liability for the payment of dividends, which are recognized in the income statement for the financial year, in other comprehensive income or in equity, depending on the transaction or event that originated the dividends.

IFRS 3, 'Business combinations' and IFRS 11, 'Joint arrangements'. These improvements clarify that: i) in obtaining control over a business that is a joint operation, the interests previously held by the investor are remeasured at fair value; and ii) when an investor in a joint operation (does not exercise joint control) obtains joint control in a joint operation that is a business, the investor does not remeasure the interest previously held at fair value.

These changes had no material impact on the financial statements of Banco Montepio.

f) **IFRIC 23** (new), 'Uncertainty over Income Tax Treatments'. This is an interpretation of IAS 12 – 'Income Tax', referring to the measurement and recognition requirements to be applied when there are uncertainties regarding the acceptance of a particular tax treatment by the Tax Authorities with respect to income tax. In the event of uncertainty as to the position of the Tax Authorities on a particular transaction, the entity shall make its best estimate and record income tax assets or liabilities in light of IAS 12 rather than IAS 37 – 'Provisions, contingent liabilities and contingent assets', based on the expected value or the most probable value. The application of IFRIC 23 may be retrospective or modified retrospective.

These changes had no material impact on the financial statements of Banco Montepio.

2. Amendments to published standards, the application of which is mandatory for annual periods beginning on or after 1 January 2020, which the European Union has already endorsed:

a) **IAS 1 and IAS 8** (amendment), 'Definition of material' (effective for annual periods beginning on or after 1 January 2020). This amendment introduces a change to the concept of material and clarifies that the mention of unclear information refers to situations which effect is similar to omitting or distorting such information, and that the entity should evaluate the materiality considering the financial statements as a whole. Clarifications are also made as to the meaning of 'key users of the financial statements', which are defined as 'current and future investors, lenders and creditors' that rely on the financial statements to obtain a significant portion of the information they need.

Banco Montepio does not anticipate any significant impact on the application of these changes to its financial statements.

b) **Conceptual Framework**, 'Changes in References to Other IFRS' (effective for annual periods beginning on or after 1 January 2020). As a result of the publication of the new Conceptual Framework, the IASB introduced changes to the text of various standards and interpretations, such as: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32 in order to clarify the application of the new definitions of assets/liabilities and cost/income, as well as some of the characteristics of the financial information. These changes are retrospective, except if impracticable.
Banco Montepio does not anticipate any significant impact on the application of these changes to its financial statements.

3. (New and amended) standards published which application is mandatory for annual periods beginning on or after 1 January 2020, but which the European Union has not yet endorsed:

a) **IFRS 3** (amendment), 'Definition of a business' (effective for annual periods beginning on or after 1 January 2020). This amendment is still subject to endorsement by the European Union. This amendment is a revision of the definition of a business for the purpose of accounting for business combinations. The new definition requires an acquisition to include an input and a substantial process that together generate outputs. Outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits to shareholders. 'Concentration tests' are now allowed to determine whether a transaction involves the acquisition of an asset or a business.

Banco Montepio does not anticipate any significant impact on the application of these changes to its financial statements.

b) **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Interest rate benchmark reform' (effective for annual periods beginning on or after 1 January 2020). These changes are still subject to European Union approval. These changes are part of the first phase of the IASB's 'IBOR reform' project and allow exemptions related to the reform for benchmark interest rates. The exemptions refer to hedge accounting, in terms of: i) risk components; ii) 'highly likely' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for adopters of IAS 39); and v) recycling of the cash flow hedge reserve, with the objective being that the reform of the benchmark interest rates does not determine the cessation of hedge accounting. However, any ineffectiveness of the coverage determined must continue to be recognized in the income statement.

Banco Montepio does not anticipate any significant impact on the application of this change to its financial statements.

c) **IFRS 17** (new), 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021). This standard is still subject to endorsement by the European Union. This new standard replaces IFRS 4 and is applicable to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a complete (building block approach) or simplified (premium allocation approach) model. The recognition of the technical margin differs depending on whether it is positive or negative. IFRS 17 is retrospective in application.

Banco Montepio does not anticipate any significant impact on the application of these changes to its financial statements

54 Transfer of assets

Banco Montepio carried out several financial asset sale operations, namely loans and advances to customers, to funds specialized in the recovery of loans. These funds take responsibility for the management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of same.

The financial assets sold under these operations are derecognized from the balance sheet of Banco Montepio, since the operations result in the transfer to the funds of a substantial portion of the risks and rewards associated with the assets as well as the control of same.

The funds specialized in the recovery of credit that acquired financial assets from Banco Montepio are closed funds, in respect of which the holders have no possibility of requesting the redemption of their investment units throughout the useful life of same.

These investment units are held by several banks in the market that ceded the loans, in percentages that vary throughout the useful life of the funds, but it is ensured that each bank, separately, does not hold units representative of more than 50% of the capital of the funds.

The funds have a specific management structure (General Partner), fully independent from the seller banks, and that is selected on the date of the incorporation of the funds.

The management structure of the funds has as main responsibilities to:

- Define the objective of the funds; and
- Manage the funds on an exclusive basis, determining the objectives and investment policy and the conduct of the management and business of the funds.

The management structure is remunerated through management commissions charged to the funds.

Generally, these funds, in which Banco Montepio holds minority positions, incorporate companies under Portuguese law in order to acquire the loans from the banks, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds, fully subscribed by the funds that hold the share capital of the companies, matches the fair value of the asset transferred, determined in accordance with a negotiation process based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company holding the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the transfer value of the loans to the Portuguese-law companies.

These junior bonds, when subscribed by Banco Montepio, grant the right to a contingent positive value if the value of the assets transferred exceeds the nominal value of the senior bonds plus their related interest.

However, considering that these junior bonds reflect a valuation difference of the assets transferred, based on valuations performed by independent entities and a negotiation process between the parties, the junior bonds are fully provided against.

Therefore, following the asset sale operations carried out, Banco Montepio subscribed:

- Investment units of the funds, in which the cash flows that will allow their recovery arise mainly from a broad set of assets transferred by the various participant banks (where Banco Montepio has a clear minority interest). These securities are booked in the portfolio of financial assets at fair value through other comprehensive income and are accounted for at fair value based on the quotation value, as disclosed by the funds and audited at each year end;
- Junior bonds (with a higher subordination level), issued by the Portuguese-law companies controlled by the funds, which are fully provided against because they reflect the best estimate of the impairment of the financial assets transferred.

In this context, of not holding control but maintaining some exposure to certain risks and rewards, Banco Montepio, in accordance with IFRS 9 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the operation, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence over the funds or the companies holding the assets, Banco Montepio, under IFRS 9 c (i), derecognized the assets transferred and recognized the assets received in return as follows:

(Euro thousand)

	2019			2018		
	Amounts associated with the transfer of assets			Amounts associated with the transfer of assets		
	Net assets transferred	Amount received	Result obtained with the transfer	Net assets transferred	Amount received	Result obtained with the transfer
Fundo Vega, FCR	27 857	43 124	15 267	27 857	43 124	15 267
Vallis Construction Sector Fund	-	-	-	-	-	-
Fundo de Reestruturação Empresarial, FCR	21 549	21 590	41	21 549	21 590	41
	49 406	64 714	15 308	49 406	64 714	15 308

As at 31 December 2019 and 2018, the assets received under these operations are as follows:

(Euro thousand)

	2019	2018
	Senior securities	
Fundo Vega, FCR	27 824	26 008
Fundo de Reestruturação Empresarial, FCR	7 567	11 466
	35 391	37 474

As at 1 January 2018, the investment units in the Vallis Construction Sector Fund were transferred from the portfolio of Financial assets at fair value through other comprehensive income to the portfolio of Financial assets at fair value through profit or loss in the scope of the adoption of IFRS 9. As at the reclassification date (1 January 2018), the fair value of these investment units was nil. This fund was liquiated on 27 December 2018.

Although the subordinated securities are fully provided against, Banco Montepio also has an indirect exposure to the financial assets transferred, in the scope of the minority investment in the pool of all the assets transferred by other financial institutions, through the shares and investment units in the funds acquired in the scope of the operations (designated in the table as senior bonds).

55 Transition to IFRS 16 – Leases

As described in notes 1 a) and 1 i), Banco Montepio adopted IFRS 16 – Leases on 1 January 2019 to replace IAS 17 - Leases, which had been effective until 31 December 2018. IFRS 16 was approved by the EU in October 2017, and Banco Montepio had not early adopted any of the requirements of IFRS 16 in prior periods.

This standard sets new requirements regarding the scope, classification/recognition and measurement of leases:

- from the lessor's perspective, leases continue to be classified as finance leases or operating leases;
- from the lessee's perspective, the standard defines a single model of lease agreement accounting, which results in the recognition of a right-of-use asset and a lease liability for all lease agreements except for leases with a term under 12 months or for leases that relate to low-value assets in respect of which the lessee may opt for the recognition exemption provided in IFRS 16, in which case the lessee shall recognize the lease payments associated with those agreements as expenses.

Banco Montepio has opted not to apply this standard to short-term lease agreements with a duration of less than or equal to one year, and to lease agreements in which the underlying asset has little or a reduced value, considering the amount of Euro 5 thousand for this purpose. The option not to apply this standard to leases of intangible assets was also used.

Transition

On 1 January 2019, Banco Montepio carried out a survey of all existing agreements on that date and used the practical expedient provided for in the standard, applying the standard to agreements that were previously identified as leases under IAS 17 - Leases and IFRIC 4.

In accordance with IFRS 16, Banco Montepio has applied this standard retrospectively with the impacts of the transition being recognized on 1 January 2019. Accordingly, the comparative information has not been restated.

Banco Montepio, using the practical expedient available on the transition to IFRS 16, recognized a present value liability of the future payments, using an incremental interest rate at the initial date of the application of the standard and a "right-of-use" for the underlying asset equal to the amount of the lease liability.

The assumptions considered in applying the standard were as follows:

- lease term: the lease term, considered as the period during which the agreement is enforceable, was assessed on a case-by-case basis. On the assessment of the enforceability, the specific clauses of the agreements as well as current legislation in respect of Urban Leases were taken into consideration;

- discount rate: the lessee's incremental interest rate was used, which incorporates the risk-free interest rate curve (swap curve) for maturities of 5, 7 and 10 years (in line with the term of the agreements), plus an average risk spread practiced by Banco Montepio in 5-year senior debt issues, as there were no senior debt issues with longer maturities. Regardless of the type of asset, the discount rate was calculated in the same manner;

- non-application of the standard to agreements with a term of less than 12 months or to leases relating to assets with a reduced unitary value (Euro 5 thousand).

Based on the work carried out, it was found that the main lease agreements covered by this standard are the real estate contracts (branches and central buildings) and the car fleet.

The adoption of the standard implies changes in the financial statements of Banco Montepio, namely:

- in the income statement:
  - (i) The recording in the caption Interest and similar expense - Leases, included in Net interest income, of interest costs related to lease liabilities, as mentioned in note 3;
  - (ii) The recording in the caption Rental costs, included in General administrative expenses, of the amounts of the agreements outside the limits considered for the application of IFRS 16, namely short-term lease agreements and low-value asset lease agreements, as referred to in note 12; and
  - (iii) The recording in the caption Right-of-use assets, included in Depreciation and amortization for the financial year, of the depreciation cost of the right-of-use assets, as mentioned in note 13.
- in the balance sheet:
  - (i) Recognition in the caption Right-of-use assets, included in Other tangible assets, of right-of-use assets, as mentioned in note 29; and
  - (ii) Recognition in the caption Lease liabilities, included in Other liabilities, of the amount of lease liabilities recognized, as mentioned in note 40.

- in the statement of cash flows:
    (i) the caption Cash flows from operating activities – Expenses with employees and suppliers includes amounts related to short-term and low-value asset lease agreements;

    (ii) and the caption Finance leases includes amounts relating to payments of the capital portion of lease liabilities, as detailed in the statement of cash flows.

Until 31 December 2018, and in accordance with IAS 17, all operating lease payments made were presented as cash flows from operating activities. With the adoption of IFRS 16, there was a change from the net cash flows generated by operating activities to the net cash flows generated by financing activities, in the amount of Euro 4,180 thousand.

The reconciliation between balance sheet balances as at 31 December 2018 and balance sheet balances as at 1 January 2019, in accordance with IFRS 16, is detailed as follows:

(Euro thousand)

	IAS 17 31-dec-2018	IFRS 16 adjustment	IFRS 16 01-jan-2019
Assets			
Cash and deposits at central banks	1 610 634	-	1 610 634
Loans and advances to credit institutions repayable on demand	75 572	-	75 572
Other loans and advances to credit institutions	336 782	-	336 782
Loans and advances to customers	11 767 798	-	11 767 798
Financial assets held for trading	15 660	-	15 660
Financial assets at fair value through profit or loss	884 449	-	884 449
Financial assets at fair value through another comprehensive income	392 589	-	392 589
Hedging derivatives	5 666	-	5 666
Other financial assets at amortized cost	3 394 302	-	3 394 302
Investments in associates	346 723	-	346 723
Non current assets held for sale	705 351	-	705 351
Other tangible assets	217 741	30 740	248 481
Intangible assets	31 657	-	31 657
Current tax assets	6 144	-	6 144
Deferred Tax Assets	492 783	-	492 783
Other assets	68 418	-	68 418
Total Assets	20 352 269	30 740	20 383 009
Liabilities			
Deposits from central banks	1 395 320	-	1 395 320
Deposits from other credit institutions	1 442 548	-	1 442 548
Deposits from customers	12 626 578	-	12 626 578
Debt securities issued	878 331	-	878 331
Financial liabilities related to transferred assets	2 162 425	-	2 162 425
Financial liabilities held for trading	12 274	-	12 274
Hedging derivatives	-	-	-
Provisions	31 699	-	31 699
Current tax liabilities	4 241	-	4 241
Other subordinated liabilities	50 044	-	50 044
Other liabilities	191 502	30 740	222 242
	18 794 962	30 740	18 825 702
Equity			
Share capital	2 420 000	-	2 420 000
Other equity instruments	6 323	-	6 323
Fair value reserves	(19 764)	-	(19 764)
Other reserves and retained earnings	(849 880)	-	(849 880)
Consolidated net income for the year	1 628	-	1 628
Total Equity	1 558 307	-	1 558 307
Total Liabilities and Equity	20 353 269	30 740	20 384 009

56 Transition from IFRS 9 – Financial instruments

As indicated in the accounting policy described in note 1 a), Banco Montepio adopted for the first time IFRS 9 “Financial Instruments” on 1 January 2018. This situation determined changes in the classification and valuation of certain financial assets and liabilities, with the following impacts:

(Euro thousand)

IAS 39							IFRS 9		
1 January 2018	Measurement basis	Book value	Reclassification	Observ.	Remeasurement	Observ.	Book Value	Measurement basis	1 January 2018
Assets		**19 809 591**	**-**		**(92 289)**		**19 717 302**	**-**	
Cash and deposits at central banks	Amortized cost	1 733 626	-		-		1 733 626	Amortized cost	Cash and deposits at central banks
Loans and advances to credit institutions repayable on demand	Amortized cost	59 472	-		-		59 472	Amortized cost	Loans and advances to credit institutions repayable on demand
Financial assets held for trading	Fair value through profit or loss	184 076	-		-		184 076	Fair value through profit or loss	Financial assets held for trading
Financial assets held for sale	Fair value through other comprehensive income	2 602 791	(836 750)	A	-		1 766 041	Fair value through other comprehensive income	Financial assets at fair value through profit or loss
			862 073	A e B	(1 496)	B	860 577	Fair value through profit or loss	Financial assets not mandatorily held for negotiation through profit or loss
Other loans and advances to credit institutions	Amortized cost	558 711	-		(915)	C	557 796	Amortized cost	Other loans and advances to credit institutions
Loans and advances to customers	Amortized cost	12 748 717	(25 323)	B	(140 980)	D	12 582 414	Amortized cost	Loans and advances to customers
Non current assets held for sale		714 133	-		-		714 133		Non current assets held for sale
Other tangible assets		220 002	-		-		220 002		Other tangible assets
Intangible assets		30 092	-		-		30 092		Intangible assets
Investments in associates		315 903	-		-		315 903		Investments in associates
Current tax assets		6 589	-		-		6 589		Current tax assets
Deferred Tax Assets		458 864	-		54 610	G	513 474		Deferred Tax Assets
Other assets		176 615	-		(3 508)	E	173 107		Other assets
Liabilities		**18 080 580**	**-**		**944**		**18 081 524**		
Deposits from central banks	Amortized cost	1 557 840	-		-		1 557 840	Amortized cost	Deposits from central banks
Financial liabilities held for trading	Fair value through profit or loss	16 171	-		-		16 171	Fair value through profit or loss	Financial liabilities held for trading
Deposits from other credit institutions	Amortized cost	2 011 197	-		-		2 011 197	Amortized cost	Deposits from other credit institutions
Deposits from customers	Amortized cost	12 555 325	-		-		12 555 325	Amortized cost	Deposits from customers
Debt securities issued	Amortized cost	1 389 999	-		-		1 389 999	Amortized cost	Debt securities issued
Hedging derivatives	Fair value through profit or loss	1 663	-		-		1 663	Fair value through profit or loss	Hedging derivatives
Provisions		26 207	-		944	D	27 151		Provisions
Current tax liabilities		1 104	-		-		1 104		Current tax liabilities
Other subordinated liabilities	Amortized cost	237 016	-		-		237 016		Other subordinated liabilities
Other liabilities		284 058	-		-		284 058		Other liabilities
Equity		**1 729 011**	**-**		**(93 233)**		**1 635 778**		
Share capital		2 420 000	-		-		2 420 000		Share capital
Other equity instruments		6 323	-		-		6 323		Other equity instruments
Fair value reserves		27 976	(12 438)	F	-		15 538		Fair value reserves
Other reserves and retained earnings		(725 288)	12 438	F	(93 233)	H	(806 083)		Other reserves and retained earnings
Total Liabilities and Equity		**19 809 591**	**-**		**(92 289)**		**19 717 302**		

On January 1, 2018, Banco Montepio proceeded to reclassify its financial assets to the portfolios established in IFRS 9:

I. Reclassification in the amount of Euro 836,750 thousand of investment fund investment units classified, in accordance with IAS 39, in the portfolio of financial assets available for sale, to the portfolio of financial assets not held for trading mandatorily measured at fair value through profit or loss. This reclassification resulted from the evaluation made by Banco Montepio of the characteristics of these financial instruments, in accordance with the requirements and classification criteria of IFRS 9.

J. Reclassification of loans and advances to customers, in the amount of Euros 25,323 thousand, which contractual cash flows do not correspond only to the receipt of capital and interest on capital outstanding (SPPI), and which, according to the requirements of IFRS 9, should be classified in the caption Financial assets not held for trading mandatorily measured at fair value through profit or loss. The remeasurement of the caption Financial assets not held for trading mandatorily measured at fair value through profit or loss in the amount of Euro 1,496 thousand, results from the revaluation of these loans and advance at fair value.

K. Impact resulting from the application of the “expected credit losses” (ECL) model to the portfolio of Loans and advances to credit institutions, in accordance with IFRS 9.

L. The remeasurements of Loans and advances to customers and Provisions, in the amounts of Euro 140.980 thousand and Euro 944 thousand, respectively, result from the replacement of the “incurred loss” model of IAS 39 with a forward looking model of “expected credit losses”(ECL), in accordance with IFRS 9.

M. Reinforcement of impairment resulting from the application of the "expected credit losses" (ECL) model to debtors' balances classified under the caption Other assets, in accordance with IFRS 9.

N. The breakdown of the reclassifications made between the fair value reserve and the caption Retained earnings is presented as follows:

(Euro thousand)

Reclassification of the participating units fair value reserve, net of taxes	(15 534)
Impairment increase to debt instruments - ECL	2 809
Recognition in other comprehensive income of own credit risk	287
	(12 438)

O. Impact on deferred tax assets, in the amount of Euro 54,610 thousand, resulting from the adoption of IFRS 9 as at 1 January 2018.

P. Total effect of the adoption of IFRS 9 on equity.

The reconciliation of impairment in accordance with IAS 39 and 37 as at the reference date of 31 December 2017 with the impairment as at the reference date of 1 January 2018:

(Euro thousand)

	Impairment IAS 39 and 37 31 december 2017	**Impact from IFRS 9**	**Impairment IFRS 9 1 january 2018**
Financial assets at fair value through other comprehensive income			
- Fixed income securitites	35 107	2 809	37 916
- Variable income securities	137 217	(137 217)	-
Loans and advances to credit institutions	-	915	915
Loans and advances to customers	1 008 261	140 980	1 149 241
Other assets	25 183	3 508	28 691
Provisions	16 147	944	17 091
	1 221 915	**11 939**	**1 233 854**

The caption Financial assets at fair value through other comprehensive income – Variable-income securities records the amount relating to the utilization of impairment constituted for investment fund investment units classified in accordance with IAS 39 in the portfolio of financial assets available for sale and reclassified according to the classification criteria of IFRS 9 to the portfolio of Financial assets not held for trading mandatorily measured at fair value through profit or loss. The remaining captions record the effect of the remeasurement carried out in accordance with the criteria of IFRS 9.

During 2019, following the adoption of IFRS 9 in the previous year, Banco Montepio revisited the models and procedures associated with the assessment of the impairment of the loan portfolio. In this context, the procedures developed for model validation, allowed it to identify a number of significant aspects that determined the need to review the models and methodologies implemented to assess impairment, including, in particular, the components of significant increase in credit risk, exposure at default (EAD) and loss given default (LGD).

The results obtained from this review determined the need for Banco Montepio to restate the financial statements with reference to 1 January 2018 and 31 December 2018 to correct errors from previous periods, as defined in paragraph 5 of IAS 8, namely related to the accuracy of mathematical approaches and the adequacy in the application of the accounting policies arising from IFRS 9. The statement of changes in equity and the balance sheet as at 1 January 2018 and the statements of income, comprehensive income and changes in equity for the financial year ended 31 December 2018, presented for comparative purposes, have been restated in accordance with IFRS.

As part of this review, impacts with accounting relevance in equity were ascertained on 1 January 2018 and also in the income statement for financial years 2018 and 2019.

This situation led to changes in the transition adjustment with the following impacts:

(Euro thousand)

	IAS 39						IFRS 9		
1 January 2018	Measurement basis	Book value	Reclassification	Observ.	Remeasurement	Observ.	Book Value	Measurement basis	1 January 2018
Assets		**19 809 591**	**-**		**(110 096)**		**19 699 495**	-	
Cash and deposits at central banks	Amortized cost	1 733 626	-		-		1 733 626	Amortized cost	Cash and deposits at central banks
Loans and advances to credit institutions repayable on demand	Amortized cost	59 472	-		-		59 472	Amortized cost	Loans and advances to credit institutions repayable on demand
Financial assets held for trading	Fair value through profit or loss	184 076	-		-		184 076	Fair value through profit or loss	Financial assets held for trading
Financial assets held for sale	Fair value through other comprehensive income	2 602 791	(836 750)	A	-		1 766 041	Fair value through other comprehensive income	Financial assets at fair value through profit or loss
			862 073	A e B	(1 496)	B	860 577	Fair value through profit or loss	Financial assets not mandatorily held for negotiation through profit or loss
Other loans and advances to credit institutions	Amortized cost	558 711	-		(915)	C	557 796	Amortized cost	Other loans and advances to credit institutions
Loans and advances to customers	Amortized cost	12 748 717	(25 323)	B	(167 252)	D	12 556 142	Amortized cost	Loans and advances to customers
Non current assets held for sale		714 133	-		-		714 133		Non current assets held for sale
Other tangible assets		220 002	-		-		220 002		Other tangible assets
Intangible assets		30 092	-		-		30 092		Intangible assets
Investments in associates		315 903	-		-		315 903		Investments in associates
Current tax assets		6 589	-		-		6 589		Current tax assets
Deferred Tax Assets		458 864	-		63 075	G	521 939		Deferred Tax Assets
Other assets		176 615	-		(3 508)	E	173 107		Other assets
Liabilities		**18 080 580**	**-**		**2 425**		**18 083 005**		
Deposits from central banks	Amortized cost	1 557 840	-		-		1 557 840	Amortized cost	Deposits from central banks
Financial liabilities held for trading	Fair value through profit or loss	16 171	-		-		16 171	Fair value through profit or loss	Financial liabilities held for trading
Deposits from other credit institutions	Amortized cost	2 011 197	-		-		2 011 197	Amortized cost	Deposits from other credit institutions
Deposits from customers	Amortized cost	12 555 325	-		-		12 555 325	Amortized cost	Deposits from customers
Debt securities issued	Amortized cost	1 389 999	-		-		1 389 999	Amortized cost	Debt securities issued
Hedging derivatives	Fair value through profit or loss	1 663	-		-		1 663	Fair value through profit or loss	Hedging derivatives
Provisions		26 207	-		2 425	D	28 632		Provisions
Current tax liabilities		1 104	-		-		1 104		Current tax liabilities
Other subordinated liabilities	Amortized cost	237 016	-		-		237 016		Other subordinated liabilities
Other liabilities		284 058	-		-		284 058		Other liabilities
Equity		**1 729 011**	**-**		**(112 521)**		**1 616 490**		
Share capital		2 420 000	-		-		2 420 000		Share capital
Other equity instruments		6 323	-		-		6 323		Other equity instruments
Fair value reserves		27 976	(12 438)	F	-		15 538		Fair value reserves
Other reserves and retained earnings		(725 288)	12 438	F	(112 521)	H	(825 371)		Other reserves and retained earnings
Total Liabilities and Equity		**19 809 591**	**-**		**(110 096)**		**19 699 495**		

57 Contingencies

Resolution Fund

The Resolution Fund is a legal person governed by public law with administrative and financial autonomy, created by Decree-Law no. 31-A / 2012, of 10 February, which is governed by the Legal Framework of Credit Institutions and Financial Companies ("RGICSF ") and by its regulations and its mission is to provide financial support for the resolution measures implemented by the Bank of Portugal, in its quality as national resolution authority, and to perform all other functions conferred by law in the implementation of such measures.

As with the majority of the financial institutions operating in Portugal, Banco Montepio is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by the Bank of Portugal based, among others, on the amount of its liabilities. In financial year 2019, the periodic contribution made by Banco Montepio amounted to Euro 4,156 thousand, based on a contribution rate of 0.0459%.

Resolution measure applied to Banco Espírito Santo, S.A. (BES)

As part of its responsibility while supervisory and resolution authority of the Portuguese financial sector, the Bank of Portugal, on 3 August 2014, decided to apply to Banco Espírito Santo, S.A. ("BES") a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its activity to a transition bank called Novo Banco, S.A. ("Novo Banco"), created especially for this purpose.

To realize the share capital of Novo Banco, the Resolution Fund, while sole shareholder, provided Euro 4,900 million, of which Euro 365 million corresponding to its own financial resources. A loan was granted by a bank syndicate to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution weighted according to several factors, including their size. The remaining amount (Euro 3,900 million) came from a repayable loan granted by the Portuguese State.

Following the implementation of the referred resolution measure, on 7 July 2016, the Resolution Fund stated that it would review and evaluate the steps to be taken following the publication of the report on the results of the independent valuation exercise, carried out to estimate the level of credit recovery for each class of lenders in the hypothetical scenario of a normal insolvency process of BES as at 3 August 2014. Under the applicable law, if it turns out that lenders which credits have not been transferred to Novo Banco assume a greater loss than they would hypothetically have had BES entered into a liquidation process immediately prior to the application of the resolution, these lenders are entitled to receive the difference from the Resolution Fund.

On 31 March 2017, the Bank of Portugal announced that it had selected Lone Star Fund for the purchase of Novo Banco, which was concluded on 17 October 2017, through the injection by the new shareholder of Euro 750 million, which will be followed by a new capital injection of Euro 250 million, to be completed within the period of three years. With this operation, Novo Banco's status as transition bank ceased, with Lone Star Fund now holding 75% of the share capital of Novo Banco and the Resolution Fund the remaining 25%, albeit without the corresponding voting rights.

On 26 February 2018, the European Commission released the non-confidential version of the State aid approval decision underlying the sale process of Novo Banco, which includes a contingent capitalization mechanism whereby the Resolution Fund may be called upon to carry out capital injections if certain conditions materialize related to the performance of a restricted set of assets of Novo Banco and the evolution of the bank's capital levels.

This mechanism is triggered annually, based on the annual accounts of Novo Banco certified by the respective auditor, with the possibility of intra-annual assessments being foreseen, but only in the event of non-compliance, by Novo Banco, with the prudential requirements. For the purpose of this mechanism, the differences in the valuation of assets (positive or negative) are considered in relation to their book value, net of impairments, recorded as at 30 June 2016 (circa Euro 7.9 thousand million according to the information provided by Novo Banco). Hence, economic losses or gains resulting from, for example, the sale of assets or the restructuring of loans, but also the impairment, or its reversal, recorded by Novo Banco, in accordance with the accounting standards, as well as the costs of financing associated with the maintenance of the assets in the balance sheet of Novo Banco, are considered.

Under the referred mechanism, on 24 May 2018, the Resolution Fund paid Euro 791,695 thousand to Novo Banco with reference to the 2017 accounts, using its own financial resources resulting from contributions paid, directly or indirectly, by the banking sector, complemented by a State loan amounting to Euro 430 million under the framework agreement celebrated between the Portuguese State and the Resolution Fund. According to the information provided by Novo Banco, as at 31 December 2017, the net value of the assets covered by the perimeter of the contingent capitalization mechanism amounted to approximately Euro 5.4 thousand million.

With the presentation of the results for the 2019 financial year, Novo Banco will request compensation in the amount of Euro 1,037 million, under the Contingent Capital Agreement in view of the losses incurred in the protected assets and the regulatory requirements regarding capital ratios.

According to the results for financial year 2018, recently released by Novo Banco, the amount claimed in 2019 from the Resolution Fund, under this mechanism, will amount to Euro 1,149 million.

This mechanism is valid until 31 December 2025 (and may be extended until 31 December 2026) and is limited to an absolute maximum of Euro 3,890 million.

Resolution measure applied to Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of the Bank of Portugal deliberated, on 19 December 2015, to declare that Banif – Banco Internacional do Funchal, S.A. ("Banif") was "at risk or in a situation of insolvency" and to start the urgent resolution of the institution through the mode of the partial or total disposal of its activity, and which materialized, on 20 December 2015, with the disposal of the rights and obligations, representing assets, liabilities, off-balance sheet items and assets under management of Banif to Banco Santander Totta S.A. ("Santander Totta") for Euro 150 million.

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. ("Oitante"), created specifically for this purpose, which has as sole shareholder the Resolution Fund. Oitante issued debt securities in the amount of Euro 746 million, with a guarantee being provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation involved public support estimated at Euro 2,255 million that aimed to cover future contingencies and that was financed in Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

On 21 July 2016, the Resolution Fund made a payment to the State, amounting to Euro 163,120 thousand, as an early partial repayment of the resolution measure applied to Banif, bringing the outstanding amount down from Euro 489 million to Euro 353 million.

As of this date, the conclusions of the independent assessment exercise to estimate the level of credit recovery for each class of lender in the hypothetical scenario of the normal insolvency process of Banif as at 20 December 2015 are not yet known. As noted above for BES, if lenders are found to assume a greater loss than they hypothetically would have had Banif entered into a liquidation process immediately prior to the application of the resolution measure, those creditors are entitled to receive the difference from the Resolution Fund.

Liabilities and funding of the Resolution Fund

Following the resolution measures applied to BES and Banif and the sale agreement of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities resulting from:

- the effects of the application of the principle that no creditor of an institution under resolution may assume a greater loss than it would have assumed had that institution entered into liquidation;

- the negative effects arising from the resolution process resulting in additional liabilities or contingencies for Novo Banco, which must be neutralized by the Resolution Fund;
- legal proceedings against the Resolution Fund;
- the guarantee provided to the bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- the contingent capitalization mechanism associated with the sale process of Novo Banco to Lone Star.

In order to preserve the financial stability through the promotion of conditions that provide predictability and stability to the contributory effort to the Resolution Fund, the Portuguese Government has agreed with the European Commission to change the conditions of the financing provided by the Portuguese State and the participating banks to the Resolution Fund. To this end, an amendment to the Resolution Fund’s financing agreements have been formalized, introducing a number of changes to the repayment plans, remuneration rates, and other terms and conditions associated with these loans, to adjust them to the Resolution Fund’s ability to fully meet its obligations on the basis of its regular revenues, i.e. without the need for any charges to be made to the participating banks for special contributions or any other type of extraordinary contribution.

According to the Resolution Fund’s announcement of 31 March 2017, the revision of the conditions of the financing granted by the Portuguese State and the participating banks was aimed at ensuring the sustainability and financial equilibrium of the Resolution Fund, based on a stable, predictable and affordable burden for the banking sector. Based on this revision, the Resolution Fund considered that the full payment of its liabilities as well as their respective remuneration was ensured, without the need for special contributions or any other extraordinary contributions from the banking sector.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the Portuguese State and by a bank syndicate, in which the Bank is included, and the public announcements made by the Resolution Fund and the Office of the Minister of Finance, these consolidated financial statements reflect the expectation of the Board of Directors that the Bank will not be called upon to make special contributions or any other extraordinary contributions to finance the Resolution Fund.

Any significant changes in this regard could have material implications for the Bank's consolidated financial statements.

Competition Authority

Last 9 September 2019, Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio) was notified of the final decision of the Competition Authority on the administrative process PRC-2012/9 (“Decision”), in which it concluded that more than ten banking institutions operating in Portugal, among them Banco Montepio, participated in a concerted practice of restrictive competition, of the exchange of sensitive commercial information, in breach of article 9 of Law no. 19/2012, of 8 May and article 101 of the Treaty on the Functioning of the European Union, having applied on Banco Montepio a fine of Euro 13 million.

The decision is subject to appeal to the Court of Competition, Regulation and Supervision by all parties concerned, including Banco Montepio. The lodging of an appeal determines the suspension of the obligation to pay the fine until the decision has become final. In like manner to many other institutions targeted that have publicly announced this intention, Banco Montepio judicially contested this Decision on 21 October 2019. In the light of all the relevant circumstances, it is considered that there is a serious and significant likelihood that the administrative fine will not become effective in light of the legal remedies that come to be lodged against the Decision.

We are not aware, to date, of any claim for damages related to the Decision or to the related facts. In the light of all the relevant circumstances, it is considered that the chances of success of any legal actions brought against Banco Montepio based on the Decision would be reduced.

Bank of Portugal

As at 31 December 2019, the Bank has been the subject of several administrative offense processes instituted by the Bank of Portugal, for alleged practices and infractions in regulatory matters that are applicable to the Bank, in a maximum global amount of possible fines that amounts to approximately Euro 30 million.

The evolution of these processes is regularly monitored by the Bank's Board of Directors, with technical-legal intervention under the responsibility of its Legal Department and, in certain cases, by law firms.

For some of these processes, the Bank of Portugal issued decisions in the scope of summary proceedings, whereby it proposed a single fine of substantially less than the amount of the potential maximum fine. Other processes are still in a preliminary phase, with the evidence requested by the defendants still not having been produced, which significantly limits the risk analysis; even so, it is considered that the Bank has serious and reasonable lines of defence, whether in terms of factual support, or in terms of the legal framework, with regard to most of the infractions attributed to it.

Thus, the Board of Directors admits as possible that the Bank's lines of defence may be successful, in whole or in part, in relation to many of the infractions that are attributed to it, even though the respective risk of conviction still exists, in relation to some of the imputed infractions, but not exceeding, however, the amount of provisions recognized by the Bank as at 31 December 2019.

58 Subsidiaries and associated companies of Banco Montepio

As at 31 December 2019, the companies directly or indirectly held by Banco Montepio are as follows:

					Group		Bank
Subsidiary	**Head office**	**Share capital**	**Currency**	**Activity**	**% of control**	**% of effective part**	**% of direct part**
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verde Escudo	Banking	100,00%	100,00%	100,00%
Montepio Holding, S.G.P.S., S.A.	Porto	175 000 000	Euro	Managements of shareholding	100,00%	100,00%	100,00%

Subsidiary	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	10 000 000	Accomodation, catering and similar/Hotels with restaurant	20,00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisboa	2 449 707	Management of real estate	26,00%
CESource, ACE	Lisboa	-	Management of IT systems	18,00%

As at 31 December 2019, Banco Montepio held investment units in investment funds as follows:

Subsidiary	Establishment year	Acquisition year	Head office	% of controlling interest	Consolidation method
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisboa	100%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional II (FIIAH)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisboa	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisboa	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisboa	100%	Full

59 Relevant facts

New Chairman of the Executive Committee

Mr. Pedro Manuel Moreira Leitão was authorized by the Bank of Portugal as executive member of the Board of Directors, on 21 December 2019, having taken office on 9 January 2020 and was designated Chairman of the Executive Committee by resolution of the Board of Directors of Banco Montepio on 9 January 2020.

New non-executive director

In accordance with the resolution taken by the Universal Shareholders' Meeting realized on 5 December 2019 and following the authorization granted by the Bank of Portugal Mr. José da Cunha Nunes Pereira took office as non-executive Director of the Board of Directors of Banco Montepio, with effect from 1 April 2020.

Resignation from the office of director

Mr. Luís Eduardo Henriques Guimarães tendered his resignation from the office of non-executive member of the Board of Directors of Banco Montepio, as well as from the office of Chairman of the Audit Committee, with effect from 30 September 2019.

Resignation from the office of executive member

Mr. Carlos Miguel López Leiria Pinto tendered his resignation from the office of executive member of the Board of Directors of Banco Montepio, with effect from 31 March 2020.

Atlas II

Banco Montepio celebrated, on 12 July 2019, and following a competitive sales process, a public deed of sale of a non-performing loan portfolio, in the form of a direct sale, to the company Panorama Jubilante S.A, a company validly incorporated and managed under Portuguese law, with registered office in Portugal.

The gross amount of the disposal was Euro 321 million, in respect of a portfolio comprised of approximately 13 thousand contracts.

The completion of this operation materializes the Group's strategy of reducing the exposure to non-productive assets.

Brick

Banco Montepio and the Group's real estate funds disposed of real estate assets, on 11 July 2019, to the company Façanha Cristalina, S.A. in the gross total value of Euro 104 million.

60 Subsequent events

The Bank analyses events occurring after the balance sheet date, i.e. the favourable and unfavourable events that occur between the balance sheet date and the date on which the financial statements are authorized for issue. Consequently, two types of events can be identified:

- Those that provide proof of conditions that existed at the balance sheet date (adjusting events);

- Those that are indicative of conditions that arose after the balance sheet date (non-adjusting events occurring after the balance sheet date).

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

As is well known, the extent of the dissemination of the virus called COVID-19 led the World Health Organization to declare it a pandemic. In recent weeks there have been significant developments in several countries, including in Portugal, with the prospect that the pandemic will determine adverse impacts, both direct and indirect, in various sectors of the economic activity.

In this context, bearing in mind not only the activity carried out by the Bank but also the information available at the present date, the Board of Directors does not estimate material effects on the financial statements for financial year 2019 as a result of the pandemic. However, given the uncertainty of these possible effects, it is not possible to estimate and quantify at this date, the future impacts of COVID-19 on the Portuguese economy, and particularly on the banking business, so the Board of Directors will continue to assess this situation carefully over the next financial year.

STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION ISSUED BY THE BOARD OF DIRECTORS

STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION ISSUED BY THE BOARD OF DIRECTORS

This declaration is issued under the terms of paragraph c) of no. 1 of article 245 of the Securities Code approved by Decree-Law no. 486/99, of 13 November, and republished by Law no. 35/2018.

It is the responsibility of the Board of Directors to prepare the management report and the financial statements, presenting, in a true and appropriate manner, the financial position of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio), the result of operations as well as the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system to prevent and detect any errors or irregularities.

We confirm, to the best of our knowledge and belief, that:

- All individual and consolidated financial information contained in the accounting documents, with reference to 31 December 2019, was prepared in accordance with the applicable accounting standards, giving a true and appropriate image of the assets and liabilities, the financial situation and the results of Banco Montepio and the companies included in the consolidation perimeter;
- The management report truly exposes the evolution of the business, the performance and the position of the Institution and the companies included in the consolidation perimeter, and contains a description of the main risks and uncertainties they face.

BOARD OF DIRECTORS

Chairman	Carlos Manuel Tavares da Silva
Non-Executive Members	Amadeu Ferreira de Paiva Carlos Francisco Ferreira Alves José da Cunha Nunes Pereira Manuel Ferreira Teixeira Pedro Jorge Gouveia Alves Rui Pedro Brás de Matos Heitor Vítor Manuel do Carmo Martins
Executive Chairman	Pedro Manuel Moreira Leitão
Executive Vice-Chairman	Dulce Maria Pereira Cardoso Mota Jorge Jacinto
Executive Members	Helena Catarina Gomes Soares de Moura Costa Pina José Carlos Sequeira Mateus Leandro Rodrigues da Graça Silva Nuno Cardoso Correia da Mota Pinto Pedro Miguel Nunes Ventaneira

Lisbon, 30 April 2019

COMPLIANCE WITH THE RECOMMENDATIONS REGARDING INFORMATION TRANSPARENCY AND ASSET VALUATION

COMPLIANCE WITH THE RECOMMENDATIONS REGARDING INFORMATION TRANSPARENCY AND ASSET VALUATION

The Banco de Portugal, through circular letter 97/08/DSBDR of 3 December 2008 and 58/09/DSBDR of 5 August 2009, recommends the need for institutions to comply appropriately with the recommendations of the Financial Stability Forum (FSB) and the Committee of European Banking Supervisors (CEBS) relative to the transparency of information and valuation of assets, taking into account the principle of proportionality, by preparing a specific annex to the Annual Report and Accounts aimed at replying to the questionnaire attached to circular letter 46/08/DSBDR of Banco de Portugal on the subject.

This chapter serves the purpose of complying with the Banco de Portugal recommendation, using references to the detailed information presented in the various chapters of this Report and Accounts, whenever applicable.

I.	Business Model	Document, Chapter and Page
1.	Description of the business model (i.e. reasons for the development of the activities/businesses and respective contribution to the process of value creation) and, if applicable, of any changes made (for example as a result of the period of turbulence).	**MR** – Business Segments, page 43, Transformation Plan, page 39
2.	Description of strategies and objectives (including those specifically related to the undertaking of securitisation operations and operations with structured products).	**MR** – Transformation Plan, page 39
3.	Description of the importance of the activities developed and their contribution to the business (including in quantitative terms).	**MR** – Business Segments, page 43, Financial analysis, page 68, **FSNO** – Indicators of the balance sheet and income statement by operating segment (NOTE 54)
4.	Description of the type of activities developed, including a description of the instruments used, their functioning and qualifying criteria that products/investments have to meet.	**MR** – Business Segments, page 43, Financial analysis, page 68, Risk Management, page 95
5.	Description of the objective and extent of the involvement of the institution (i.e. commitments and obligations assumed) relative to each activity developed.	**FSNO** – Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Hedging derivatives (NOTE 26), Other financial assets at amortised cost (NOTE 27)
II.	**Risks and Risk Management**	
6.	Description of the nature and extent of risks incurred in relation to the activities developed and instruments used.	**MR** – Risk Management, page 95 **FSNO** – Risk Management (NOTA 55)
7.	Description of risk management practices (including, in particular, under current circumstances, liquidity risk) of relevance to the activities, description of any identified weaknesses and corrective measures that have been adopted.	**MR** – Risk Management, page 95 **FSNO** – Risk Management (NOTA 55)
III.	**Impact of the period of financial turbulence on net income**	
8.	Qualitative and quantitative description of net income, with emphasis on losses (when applicable) and impact of write-downs on net income.	**MR** – Financial analysis, page 68

		Document, Chapter and Page
9.	Breakdown of write-downs/losses by type of product and instrument affected by the period of turbulence, namely, the following: commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), collateralised debt obligations (CDO) and asset-backed securities (ABS).	**MR** – Financial analysis, page 68, Risk Management, page 95 **FSNO** – Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (NOTE 6), Net gains / (losses) from financial assets at fair value through other comprehensive income (NOTE 7), Risk Management (NOTE 55)
10.	Description of the reasons and factors responsible for the impact incurred.	**MR** – Financial analysis, page 68
11.	Comparison of i) impacts between (relevant) periods; and ii) financial statements before and after the impact of the period of turbulence.	**MR** – Financial analysis, page 68 **FSNO** – Financial Statements, page 136
12.	Breakdown of write-downs between realised and unrealised amounts.	**MR** – Financial analysis, page 68 **FSNO** – Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Other financial assets at amortised cost (NOTE 27)
13.	Description of the influence of the financial turbulence on the entity's share price.	Not applicable.
14.	Disclosure of maximum loss risk and description of how the institution's situation could be affected by the prolonging or worsening of the period of turbulence or by a market recovery.	**MR** – Risk Management, page 95 **FSNO** – Risk Management (NOTE 55)
15.	Disclosure of the impact that the evolution of the spread associated to the institution's own liabilities had on net income, as well as the methods used to determine this impact.	**MR** – Financial Analysis, page 68 **FSNO** – Fair Value (NOTE 49), Risk Management (NOTE 55)
IV.	**Levels and types of exposure affected by the period of turbulence**	
16.	Nominal amount (or amortised cost) and fair values of outstanding exposures.	**FSNO** – Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Other financial assets at amortised cost (NOTE 27), Risk Management (NOTE 55)
17.	Information on mitigation of credit risk (i.e. through credit default swaps) and the respective effect on existing exposure.	**MR** – Risk Management, page 95 **FSNO** – Risk Management (NOTE 55)
18.	Detailed disclosure on exposures, with breakdown by: - Seniority level of exposure/tranches held; - Level of credit quality (e.g. ratings, vintages); - Geographic origin; - Activity sector; - Source of the exposure (issued, retained or acquired); - Product characteristics: e.g. ratings, weight/portion of associated subprime assets, discount rates, spreads, funding; - Characteristics of the underlying assets: e.g. vintages, loan-to-value ratio, information on liens, weighted average life of the underlying asset, assumptions on the evolution of situations of prepayment, and expected losses.	**MR** – Risk Management, page 95 **FSNO** – Loans and advances to customers (NOTE 22), Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Other financial assets at amortised cost (NOTE 27), Indicators of the balance sheet and income statement by operating segment (NOTE 54), Risk Management (NOTE 55)
19.	Movements that have occurred in exposures between relevant reporting periods and the underlying reasons for these variations (sales, write-downs, purchases, etc.).	**MR** – Financial analysis, page 68 **FSNO** – Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Other financial assets at amortised cost (NOTE 27)

		Document, Chapter and Page
20.	Explanation of exposure (including "vehicles" and, in this case, the respective activities) that have not been consolidated (or that have been recognised during the crisis) and the associated reasons.	The Group Banco Montepio consolidates all the exposures in which it holds the majority of the capital or a significant influence. Additional information on Special Purpose Vehicles (SPV) can be found in **FSNO** – Securitisation of assets (NOTE 53)
21.	Exposure to monoline insurers and quality of insured assets: - Nominal value (or amortised cost) of the insured exposure, as well as of the amount of acquired credit protection; - Fair values of outstanding exposures, as well as the related credit protection; - Amount of write-downs and losses, broken down into realised and unrealised amounts; - Breakdown of exposure by rating or counterpart.	Not applicable.
V.	**Accounting policies and valuation methods**	
22.	Classification of the transactions and structured products for accounting purposes and the related accounting treatment.	**FSNO** – Accounting policies (NOTE 1)
23.	Consolidation of the Special Purpose Entities (SPE) and other "vehicles", and their reconciliation with structured products affected by the period of turbulence.	**FSNO** – Accounting policies (NOTE 1), Securitisation of assets, page (NOTE 53)
24.	Detailed disclosures on fair values of financial instruments: - Financial instruments to which fair value is applied; - Fair value hierarchy (a breakdown of all exposures at fair value by different levels of the fair value hierarchy and a breakdown between cash and derivative instruments, as well as disclosures on migrations between the different levels); - Treatment of day 1 profits (including quantitative information); - Use of the fair value option (including its conditions for use) and related amounts (with appropriate breakdowns).	**FSNO** – Accounting policies (NOTE 1)
25.	Disclosures on the modelling techniques used for the valuation of financial instruments, including information about: - Modelling techniques and the instruments to which they are applied; - Valuation processes (including in particular the assumptions and inputs on which the models are based); - Types of adjustment applied to reflect model risk and other valuation uncertainties; - Sensitivity of the fair value (namely to variations in key assumptions and inputs); - Stress scenarios.	**MR** – Risk Management, page 95 **FSNO** – Risk Management (NOTE 55)
VI.	**Other relevant aspects in disclosures**	
26.	Description of the disclosure policies and principles used in the reporting of disclosures and in financial reporting.	**FSNO** – Accounting policies (NOTE 1)

Caption: **MR** – Management Report; **FSNO** – Financial Statements, Explanatory Notes and Opinions on the Accounts.

Banco Montepio

ALTERNATIVE PERFORMANCE MEASURES

ALTERNATIVE PERFORMANCE MEASURES

On 5 October 2015, the European Securities and Markets Authority published a set of guidelines – ESMA/2015/1415 – addressing the disclosure of information by entities, other than States, whose securities are admitted to trading on a regulated market and to which is required the disclosure of information as set out by the Transparency Directive 2004/109/EC of the European Parliament and of the Council.

These guidelines are mandatory for issuers as of 3 July 2016, and aim to promote transparency and clarify the usefulness of the indicators used by the issuers to measure their performance - Alternative Performance Measures (APM), contributing to improve the comparability, credibility and understanding of the APM presented.

This chapter serves the purpose of complying with ESMA guidelines on Alternative Performance Measures regarding 2019 financial information, with references to the various chapters of this Report.

BALANCE SHEET AND EXTRAPATRIMONIALS

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS (PAGE 74, 75, 78, 79)

Definition	Sum of the items 'Financial assets held for trading', 'Financial assets at fair value through other comprehensive income', 'Other financial assets at amortised cost', and 'Financial assets at fair value through profit or loss'.
Relevance	Assess the relative weight of this item from an assets' structure perspective.
Reference to FSNO	Page 137**Error! Bookmark not defined.**, (notes 23, 25, 27, 24)

Components and calculus

(thousand euros)

		2017	2018	2018 Restated	2019
(a)	Financial assets held for trading	184 076	23 739	23 739	35 905
(b)	Financial assets at fair value through other comprehensive income	2 200 893	444 073	444 073	1 859 691
(c)	Other financial assets at amortised cost	-	1 255 651	1 255 651	899 145
(d)	Financial assets at fair value through profit or loss*	-	492 594	492 594	384 675
(e)	Securities portfolio and other financial assets* (a + b + c + d)	2 384 969	2 216 057	2 216 057	3 179 416
(f)	Total net assets	20 200 024	18 351 327	18 332 243	17 740 142
	% Securities portfolio and other financial assets (e / f)	**11.8%**	**12.1%**	**12.1%**	**17.9%**

* Includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest) and derivatives.

OTHER INVESTMENTS (PAGE 74)

Definition	Total assets excluding 'Cash and deposits at central banks and loans and advances to credit institutions', 'Loans to customers', 'Financial assets held for trading' , 'Financial assets at fair value through other comprehensive income', 'Other financial assets at amortised cost', and 'Financial assets at fair value through profit or loss'.
Relevance	Assess the relative weight of this item compared to Loans to customers and Securities portfolio from an assets' structure perspective.
Reference to FSNO	Page 137, (notes 19, 20, 21, 22, 23, 25, 27, 24)

Components and calculus

(thousand euros)

		2017	2018	2018 Restated	2019
(a)	Total net assets	20 200 024	18 351 327	18 332 243	17 740 142
(b)	Cash and deposits at central banks and loans and advances to credit institutions	2 096 036	1 898 655	1 898 655	1 308 692
(c)	Net loans to customers	13 029 318	12 123 212	12 095 373	11 464 542
(d)	Financial assets held for trading	184 076	23 739	23 739	35 905
(e)	Financial assets at fair value through other comprehensive income	2 200 893	444 073	444 073	1 859 691
(f)	Other financial assets at amortised cost	-	1 255 651	1 255 651	899 145
(g)	Financial assets at fair value through profit or loss	-	492 594	492 594	384 675
(h)	Other investments (a - b - c - d - e - f - g)	2 689 701	2 113 403	2 122 158	1 787 492
	% of Other investments (h / a)	**13.3%**	**11.5%**	**11.6%**	**10.1%**

ISSUED DEBT (PAGE 74, 81, 83)

Definition	Sum of the balance sheet items 'Debt securities issued' and 'Other subordinated debt'.
Relevance	Assess the relative weight of this item from a funding structure perspective.
Reference to FSNO	Page 137, (notes 38, 40)

Components and calculus

(thousand euros)

		2017	2018	2018 Restated	2019
(a)	Debt securities issued	1 544 054	1 093 934	1 093 934	1 389 980
(b)	Other subordinated debt	236 193	50 044	50 044	157 847
(c)	Issued debt (a + b)	1 780 247	1 143 978	1 143 978	1 547 827
(d)	Total liabilities	18 437 103	16 814 394	16 815 337	16 288 154
	% of Issued debt (c / d)	**9.7%**	**6.8%**	**6.8%**	**9.5%**

COMPLEMENTARY RESOURCES (PAGE 81)

Definition	Total liabilities excluding 'Central bank resources and OCI, 'Customers' resources', 'Debt securities issued' and 'Other subordinated debt'.
Relevance	Assess the relative weight of this item compared to Customers' resources and Issued debt from a funding structure perspective.
Reference to FSNO	Page 137, (notes 35, 36, 37, 38, 40)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Total liabilities	18 437 103	16 814 394	16 815 337	16 288 154
(b) Central bank resources and OCI	3 344 557	2 640 755	2 640 755	1 813 194
(c) Customers' resources	12 561 040	12 575 224	12 575 224	12 524 697
(d) Debt securities issued	1 544 054	1 093 934	1 093 934	1 389 980
(e) Other subordinated debt	236 193	50 044	50 044	157 847
(f) Complementary resources (a - b - c - d - e)	751 259	454 437	455 380	402 436
% of Complementary resources (f / a)	**4.1%**	**2.7%**	**2.7%**	**2.5%**

OFF-BALANCE SHEET RESOURCES (PAGE 82, 83)

Definition	Assets under management by the Groups' subsidiaries being a constituent part of Total customers' resources.
Relevance	Contribute to the analysis of the evolution of total customers' resources.
Reference to FSNO	(note 51)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Securities investment funds	169 202	131 428	131 428	182 078
(b) Real estate investment funds	292 058	294 536	294 536	385 468
(c) Pension funds	220 773	227 964	227 964	249 258
(d) Capitalization Insurance	26 913	22 072	22 072	996
Off-balance sheet resources (a + b + c + d)	**708 946**	**676 000**	**676 000**	**817 800**

INCOME STATEMENT

COMMERCIAL NET INTEREST INCOME (PAGE 85)

Definition	Results arising from interest received on loans granted to customers and interest paid on customers' resources.
Relevance	Assess the evolution of the banking activity of financial intermediation between granting loans and deposit taking.
Reference to FSNO	(note 3)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Interest received from loans to customers	363 701	313 769	313 769	279 642
(b) Interest paid on customers' deposits	84 696	56 912	56 912	34 751
Commercial net interest income (a - b)	**279 005**	**256 857**	**256 857**	**244 891**

OPERATING COSTS (PAGE 85, 90, 91)

Definition	Sum of staff costs, general and administrative expenses and depreciation and amortisations.
Relevance	Assess the evolution of the operating costs underlying the banking activity.
Reference to FSNO	Page 138, (notes 11, 12, 13)

Components and calculus

(thousand euros)

	2017		2018 Restated	2019
(a) Staff costs	156 207	156 004	156 004	157 567
(b) General and administrative expenses	87 005	77 726	77 726	65 489
(c) Depreciation and amortisation	24 809	25 897	25 897	31 243
Operating costs (a + b + c)	**268 021**	**259 627**	**259 627**	**254 299**

RESULTS FROM THE COMMERCIAL ACTIVITY (PAGE 85)

Definition	Sum of the Commercial net interest income and Net fees and commissions, subtracted by the Operating costs required to develop the business.
Relevance	Assess the evolution of the core banking activity.
Reference to FSNO	Page 138, (notes 3, 5, 11, 12, 13)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Commercial net banking income	279 005	256 857	256 857	244 891
(b) Net commissions	119 808	118 399	118 399	121 540
(c) Operating costs	268 021	259 627	259 627	254 299
Results from the commercial activity (a + b - c)	**130 792**	**115 629**	**115 629**	**112 132**

RATIOS

LTD RATIO: NET LOANS TO CUSTOMERS / ON-BALANCE SHEET CUSTOMERS' RESOURCES (PAGE 12, 71, 72)

Definition	Percentage of net loans to customers funded by the total amount of on-balance sheet resources from customers.
Relevance	Asses the leverage degree of the banking activity through the relationship between funds raised with customers and loans granted to customers.
Reference to FSNO	Page 137, (notes 22, 37, 38)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Net loans to customers	13 029 318	12 123 212	12 095 373	11 464 542
(b) Customers' resources	12 561 040	12 575 224	12 575 224	12 524 697
(c) Debt securities issued	1 544 054	1 093 934	1 093 934	1 389 980
Net loans to customers / On-balance sheet customers' resources (a / (b + c))	**92.4%**	**88.7%**	**88.5%**	**82.4%**

EFFICIENCY RATIO: COST TO INCOME, WITHOUT SPECIFIC IMPACTS (PAGE 12, 91)

Definition	Operating efficiency ratio measured by the portion of the total operating income that is absorbed by operating costs, excluding results from financial operations, the net gains / (losses) arising from the sale of other financial assets and the other operating income / (expenses).
Relevance	Assess the evolution of operating efficiency underlying the banking activity, removing the volatility effect of results from financial operations, the net gains / (losses) arising from the sale of other financial assets and the other operating income / (expenses).
Reference to FSNO	Page 138, (notes 6, 7, 8, 9, 10, 11, 12, 13)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Total operating income	505 267	377 352	377 352	429 483
(b) Results from financial operations (i + ii + iii)	70 737	10 899	10 899	49 873
(i) Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(14 807)	12 273	12 273	8 510
(ii) Net gains / (losses) from financial assets at fair value through other comprehensive income	83 622	5 626	5 626	42 269
(iii) Net gains / (losses) from foreign exchange differences	1 922	(7 000)	(7 000)	(906)
(c) Other income (i + ii)	35 885	(8 130)	(8 130)	13 628
(i) Net gains / (losses) arising from the sale of other financial assets	37 850	9 075	9 075	22 932
(ii) Other operating income / (expenses)	(1 965)	(17 205)	(17 205)	(9 304)
(d) Operating costs	268 021	259 627	259 627	254 299
Cost-to-Income, excluding specific impacts ((d) / (a - b - c))	**67.2%**	**69.3%**	**69.3%**	**69.5%**

COST OF CREDIT RISK (PAGE 12, 91, 105)

Definition	Ratio that measures the cost recognized in the period, recorded as loan impairment in the income statement, to cover the risk of default of loans granted to customers.
Relevance	Assess the quality of the loan portfolio given the cost borne with the risk of loan default.
Reference to FSNO	(notes 14, 22)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Loan impairments (annualized[1])	160 711	73 191	72 330	120 313
(b) Average gross loans to customers[2]	14 738 284	13 709 146	13 709 146	12 569 759
Cost of credit risk (a / b)	1.1%	0.5%	0.5%	1.0%

1) Annualized values considering the total number of days elapsed and total days of the year.
2) Average balance for period (2017: 365 days / 2018: 365 days / 2019: 365 days).

RATIO OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS (PAGE 12, 105)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of credit and interest overdue for more than 90 days in relation to the total loan portfolio.
Reference to FSNO	(note 22)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Loans and interest overdue by more than 90 days	1 024 725	913 885	913 885	684 549
(b) Gross loans to customers	13 726 895	13 067 788	13 067 788	12 239 465
Ratio of loans and interest overdue by more than 90 days (a / b)	7.5%	7.0%	7.0%	5.6%

COVERAGE OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS BY IMPAIRMENT FOR BALANCE SHEET LOANS (PAGE 12, 105)

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the total amount of loans and interest overdue by more than 90 days.
Relevance	Assess the institution's ability to absorb potential losses arising from loans and interest overdue by more than 90 days.
Reference to FSNO	(note 22)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Impairment for balance sheet loans	1 101 065	944 576	972 415	774 923
(b) Loans and interest overdue by more than 90 days	1 024 725	913 885	913 885	684 549
Coverage of loans and interest overdue by more than 90 days (a / b)	107.4%	103.4%	106.4%	113.2%

NON-PERFORMING EXPOSURES / GROSS LOANS TO CUSTOMERS (PAGE 12,77, 104, 105)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of non-performing exposures (NPE, according to EBA's definition) in relation to the total customer loan portfolio.
Reference to FSNO	(note 55)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Stock of Non-performing exposures	2 304 759	1 879 079	1 879 079	1 488 355
(b) Gross customer loans	14 063 139	13 067 788	13 067 788	12 239 465
Non-performing exposures / Gross loans to customers (a / b)	**16.4%**	**14.4%**	**14.4%**	**12.2%**

COVERAGE OF NON-PERFORMING EXPOSURES BY IMPAIRMENT FOR BALANCE SHEET LOANS (PAGE 12, 77, 78, 105)

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the balance of non-performing exposures (NPE, according to the EBA definition).
Relevance	Assess the institution's capacity to absorb potential losses arising from the NPE portfolio.
Reference to FSNO	(note 55)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Impairment for balance sheet loans	1 033 821	944 576	972 415	774 923
(b) Stock of Non-performing exposures	2 304 759	1 879 079	1 879 079	1 488 355
Coverage of Non-performing exposures by Impairment for balance sheet loans (a / b)	**44.9%**	**50.3%**	**51.7%**	**52.1%**

COVERAGE OF NON-PERFORMING EXPOSURES BY IMPAIRMENT FOR BALANCE SHEET LOANS (PAGE 12, 77, 78, 105)

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the balance of non-performing exposures (NPE, according to the EBA definition).
Relevance	Assess the institution's capacity to absorb potential losses arising from the NPE portfolio.
Reference to FSNO	(note 55)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Impairment for balance sheet loans	1 033 821	944 576	972 415	774 923
(b) Associated collaterals and financial guarantees	970 986	675 440	675 440	522 910
(c) Stock of Non-performing exposures	2 304 759	1 879 079	1 879 079	1 488 355
Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees ((a + b) / c)	**87.0%**	**86.2%**	**87.7%**	**87.2%**

FORBORNE EXPOSURES / GROSS CUSTOMER LOANS (PAGE 12, 105)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of Forborne exposures (according to EBA's definition) in relation to the total loan portfolio.
Reference to FSNO	(note 55)

Components and calculus

(thousand euros)

	2017	2018	2018 Restated	2019
(a) Stock of Forborne exposures	1 159 129	941 589	941 589	867 782
(b) Gross customer loans	14 063 139	13 067 788	13 067 788	12 239 465
Forborne exposures / Gross loans to customers (a / b)	**8.2%**	**7.2%**	**7.2%**	**7.1%**

ACTIVITY REPORT AND OPINION OF THE SUPERVISORY BODY

Banco Montepio
Audit Committee

Activity Report of the Audit Committee

2019

I INTRODUCTION 3

II SUMMARY OF THE ACTIVITIES UNDERTAKEN IN 2019... 6

1. Meetings and opinions issued in 2019 6
2. Work Plan of the Audit Committee for 2019 7
3. Selection of the Statutory Auditor 7
4. Institutional Distinction Programme 8
5. Appraisal of the Internal Audit Plan for 2019... 8
6. Appraisal of the activity reports of the Audit and Inspection, Compliance and Risk Departments.. 9
7. Opinion on the Action Programme and Budget for 2019.. 9
8. Opinion on the Internal Control System for AML/CTF 9
9. Amendment of the Regulations for Non-Audit Services to be provided by the Statutory Auditor 9
10. Opinion on the Management Report and Individual and Consolidated Accounts of 2018.............. 10
11. Appraisal of the Activity Plan and Training Plan of the Compliance Function for 2019 10
12. Credit Recovery and Sale of the Non-Performing Loan Portfolio 11
13. Appraisal of the Regulations of the Internal Audit Function 11
14. Appraisal of the Organic Statutes of the Risk Department 11
15. Appraisal of the Regulations of the Internal Audit, Compliance and Risk Function 11
16. Approval of the Whistleblowing Report 2019 11
17. Follow-up of the Plans to Resolve Flaws 2018 and 2019 12
18. Opinion on the Internal Control System, individual and consolidated 12
19. Opinion on the appointment of the head of the Risk Management Function 13
20. Appraisal of the Impairment Report as at 30 June 2019 13
21. Work Plan – Collective Impairment Model 14

III CONCLUSION 14

I - INTRODUCTION

The Audit Committee (CAD) was constituted under the terms of the provisions in article 16 of the Articles of Association of Banco Montepio, dated 16 March 2018, and in subparagraph b) of number 1 of article 278 of the Commercial Companies Code, with the powers foreseen in article 423-F therein.

The Regulations of the Audit Committee were approved by the Board of Directors at a meeting held on 22 May 2018.

The Audit Committee's mission, under the terms established in the law and articles of association, is to supervise the company's administration, supervise the audit activities, the process of preparation and disclosure of financial information, the efficacy of the systems of internal control, risk management, control of compliance and the activity and independence of the statutory auditor.

The Audit Committee should ensure that the persons in charge of the internal control function can operate in an independent manner and are able to warn the supervisory function about adverse developments in terms of risk, as well as the supervision of the implementation and maintenance of policies on detection, management and mitigation of potential conflicts of interest.

The Audit Committee also held the attributions of the Remunerations, Nominations and Assessment Committee up to its appointment on 2 February 2019, pursuant to which it issued an opinion on whether a candidate member to a governing body was fit and proper.

The Audit Committee was composed, from January up to 30 September 2019, of a Chairman and four Members:

- Luís Eduardo Henriques Guimarães, Chairman
- Amadeu Ferreira de Paiva
- Manuel Ferreira Teixeira
- Vítor Manuel do Carmo Martins
- Carlos Francisco Ferreira Alves

A new Chairman, Manuel Ferreira Teixeira, was appointed on 1 October 2019, following the resignation presented by the former Chairman, Luís Eduardo Henriques Guimarães.

After this date and up to the end of 2019, the Audit Committee was then composed of four members:

- Manuel Ferreira Teixeira, Chairman

- Amadeu Ferreira de Paiva
- Vítor Manuel do Carmo Martins
- Carlos Francisco Ferreira Alves

José da Cunha Nunes Pereira took office as member of the Audit Committee on 1 April 2020.

The Audit Committee, which used to hold meetings at least once a month, under the terms of article 4 of its Regulations, from October onwards has held meetings at least twice a month, with the minutes being drawn up indicating the topics discussed and decisions taken. All the meetings of the Audit Committee, amounting to the total of 27, were attended by all of its members, as shown in the following table:

January / September 2019	
Luis Eduardo Henriques Guimarães (1)	19 / 19
Amadeu Ferreira de Paiva	19 / 19
Manuel Ferreira Teixeira	19 / 19
Vitor Manuel do Carmo Martins	19 / 19
Carlos Francisco Ferreira Alves (2)	17 / 17
October / December 2019	
Manuel Ferreira Teixeira	8 / 8
Amadeu Ferreira de Paiva	8 / 8
Vitor Manuel do Carmo Martins	8 / 8
Carlos Francisco Ferreira Alves	8 / 8

(1) Left office on 30 September 2019, due to having resigned.

(2) Started office on 15 January 2019.

Its meetings were regularly attended, by invitation of the Audit Committee by, among others, the heads of the Audit and Inspection Department, the Compliance Department, the Accounting and Financial Reporting Department, the Credit Recovery Department, the Information Systems Department, the Information Management Office, the Statutory Auditor and the executive directors: the CEO in replacement, the CRO, CTOO, CRCO and CHRO.

Duties

The Audit Committee, in addition to all its other duties attributed by the law and articles of association, also performs the following duties of:

a) Selecting and submitting to the deliberation of the General Meeting the election of the Statutory Auditor, as well as issuing an opinion on the fees for provision of legal review of accounts services to the Banco Montepio Group and additional services rendered by the Statutory Auditor;

b) Annually appraising the audit plan for the individual and consolidated accounts and for the internal control system of Banco Montepio and the Banco Montepio Group, as well as supervising the review of accounts;

c) Appraising, with the Board of Directors and Statutory Auditor, any issues and decisions of material relevance for the preparation of the documents presenting the accounts, including any significant changes of regulatory rules and accounting policies;

d) Annually preparing an opinion for Banco de Portugal, issuing a detailed opinion on the adequacy and efficacy of the internal control system of Banco Montepio and the Banco Montepio Group;

e) Complying with all other duties contained in the regulatory provisions of Banco de Portugal and the "Comissão do Mercado de Valores Mobiliários" (The Portuguese Securities Market Commission), namely, promoting, at Banco Montepio and all other companies of the Group subject to supervision on a consolidated basis, the pursuit of the fundamental objectives established on matters of internal control and risk management.

The Audit Committee is also responsible for:

f) Approving, under proposal of the Executive Committee, the annual plans and organisational rules of the Audit and Inspection, Risk Management and Compliance Departments, as well as appraising with the Executive Committee and each Director of these areas, the respective responsibilities, allocation of resources, methods of action and annual reports;

g) Supervising the internal audit and compliance activity of Banco Montepio and giving the Executive Committee a prior opinion on the appointment, replacement and dismissal of the persons in charge of the internal audit and compliance functions;

h) Issuing opinions on share capital increases by deliberation of the Board of Directors;

i) Calling the General Meeting when the Chairman of its board does not do so;

j) Supervising the efficacy of the internal audit, risk management and control of compliance activities and, especially, the action of the Audit and Inspection Department with respect to monitoring the internal control work;

k) Confirming and ensuring the independence of internal audit, being informed of any restriction of scope or difficulties in access to the required information;

l) Appraising the most significant reports, in particular those implying reputation risks or effective or real relevant losses, presented by internal audit to the Executive Committee and the subsequent action taken;

m) Monitoring all the inspection actions of Banco de Portugal, the "Comissão de Mercado de Valores Mobiliários" (Securities Market Commission), the "Autoridade de Supervisão de Seguros e Fundos de Pensões" (Insurance and Pension Funds Supervisory Authority) and the "Autoridade Tributária e Aduaneira" (Tax and Customs Authority) conducted to Banco Montepio and all other companies of the Group subject to supervision on a consolidated basis.

II – SUMMARY OF THE ACTIVITIES UNDERTAKEN IN 2019

The main activities developed during 2019 are indicated below.

1. Meetings and opinions issued in 2019

The Audit Committee held 27 meetings during the year and issued 73 opinions, the majority of which related to credit operations, approved by unanimous deliberation in writing, in compliance with determinations of Banco de Portugal and pursuant to the Regulations and Policy on Credit of Banco Montepio, as shown in the following table (amount in million euros):

	Opinions	
	Nr.	**Amount**
Loans > 20 million euros (non-related parties)	25	857.3
Loans to related parties	10	132.4
Monitoring of compliance with article 109	10	166.2
Sale of non-performing loans	2	426.3
Debt > 20 million euros	3	900
Liquidity investment in treasury bonds	1	500
Miscellaneous opinions	21	-
Divergence of decision	1	-
	73	

The minutes of the twenty-seven meetings of the Audit Committee provide a proper account of the topics discussed and decisions taken.

2. Work Plan of the Audit Committee for 2019

The Audit Committee prepared and approved, on 15 January 2019, its own Work Plan for 2019 taking into account i) the duties, powers and obligations arising from the Articles of Association of Banco Montepio; ii) the applicable legislation; iii) the determinations of Banco de Portugal; v) its own Regulations; and vi) the Work Plans of the Departments functionally reporting to it, Audit and Inspection, Compliance and Risk.

The Work Plan for 2019 considered the activities that must be ensured by the Audit Committee, including at least one monthly meeting one monthly meeting, in addition to other meetings required for fulfilment of its duties, as well as regular meetings with the heads of Department, particularly those that it monitors most closely: the Audit and Inspection Department, Compliance Department and Risk Department.

3. Selection of the Statutory Auditor or Audit Firm to provide legal review of accounts and external audit services to Banco Montepio for the three-year period 2019-2021

From January up to June 2019, the Audit Committee developed the entire process to select a new Statutory Auditor to provide the legal review of accounts and external audit services of Banco Montepio for the three-year period 2019-2021, following the decision of the CMVM which refused the Bank's request to extend the term of office of KPMG for 2019 and 2020.

The Audit Committee prepared a document entitled “Procedures for the selection of the Statutory Auditor/Audit Firm” which, in compliance with the internal regulations, covered all the aspects of the process.

The letters with the invitations and the terms of reference were sent to five audit firms: PwC, Deloitte, E&Y, BDO and Mazars.

The Audit Committee based its decision of selection of the Statutory Auditor/Audit Firm on two assessment matrices: a qualitative matrix, composed of eleven qualitative variables representing a weight of 60% in the final score of the audit firms, and a quantitative matrix, composed of a single variable, the price presented in the proposals of the audit firms, with a weight of 40% in the final choice.

The audit firms with the best results were PricewaterhouseCoopers (PwC) and Deloitte, with the Audit Committee having expressed its preference for PwC, as in two assessment criteria, quality and price, this firm attained the highest index of overall satisfaction.

The Audit Committee kept Banco de Portugal informed on the selection process and proposed to the General Meeting the names of the two external audit firms that achieved the best results in the selection process: PricewaterhouseCoopers (PwC) and Deloitte, recommending the appointment of PwC as the new Statutory Auditor of Banco Montepio for the three-year period 2019-2021.

The Annual General Meeting held on 27 May 2019, approved the election of PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. as the Statutory Auditor for the three-year period 2019-2021.

4. Institutional Distinction Programme

The Audit Committee regularly monitored the implementation of the Institutional Distinction Programme, which was specifically discussed during five of its meetings, ultimately aimed at assuring a clear public perception of the difference between Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio), with the new name of Banco Montepio, and Montepio Geral Associação Mutualista (MGAM), as well as the risk of the products issued by each of these institutions.

The Institutional Distinction Programme was based on following three areas of work: AM Product Marketing, Distinction of Brands and modes of working, in order to safeguard the conditions that enable Banco Montepio's action as the distribution network of MGAM; promoting the unmistakable distinction between Banco Montepio and MGAM and respective products distributed, fostering an internal culture of institutional distinction between Banco Montepio and MGAM; and ensuring complete operation separation between Banco Montepio and MGAM, minimising operational impacts and risks.

5. Appraisal of the Internal Audit Plan for 2019

The Audit Committee approved the Internal Audit Plan for 2019 due to considering that it assured a comprehensive and risk-driven examination of the activities, systems and processes of the institution, that enable assessing the adequacy of the internal control system.

The proposal submitted by the Audit and Inspection Department showed a positive evolution in relation to the previous year, as a measurement tool was developed that enables ordering the different auditable objects according to their importance, both in terms of materiality and in terms of risk, in line with the Bank's Risk Appetite Framework / Risk Appetite Statement.

6. Appraisal of the activity reports of the Audit and Inspection, Compliance and Risk Departments

The Audit Committee held regular meetings with the head of Audit and Inspection Department on 10 occasions, with the Compliance Department on 12 occasions and with the Risk department on 3 occasions, for analysis of the respective activity reports, including the degree of accomplishment of the actions foreseen in the Annual Activity Plan.

7. Opinion on the Action Programme and Budget for 2019

The Audit Committee appraised Banco Montepio's Action Programme and Budget for 2019, which was addressed to the Audit Committee by the Executive Committee, having issued a favourable opinion and monitored their implementation throughout the year via desktop reviews prepared by the external auditor, the overview of the results and budget control of the core business prepared by the areas of Accounting and Control.

8. Opinion of the Audit Committee in the context of the reporting on the Internal Control System for the Prevention of Money Laundering and Financing of Terrorism

The Audit Committee issued an opinion on the Internal Control System for the Prevention of Money Laundering and Financing of Terrorism for the purposes established in subparagraph c) of number 4 of article 73 of Banco de Portugal Notice 2/2018 ("Notice") and participated in the reporting process of the Board of Directors of Banco Montepio to Banco de Portugal on the adequacy and efficacy of the respective Internal Control System, in the specific context of anti-money laundering and counter-terrorism financing related to the period from 1 January to 31 December 2018.

In its opinion, the Audit Committee mentioned that the internal control system of Banco Montepio, in the specific context of anti-money laundering and counter-terrorism financing, was adequate in all materially relevant aspects, in view of the legal and regulatory rules in force, namely the requirements established in Banco de Portugal Notice 2/2018, although, without affecting its opinion, a series of flaws had been detected that needed to be resolved by the Executive Committee.

The Audit Committee monitored this issue on a monthly basis through analysis of the monthly reports prepared by the Compliance Department.

9. Approval of the amendment of the Regulations for Non-Audit Services to be provided by the Statutory Auditor

The Audit Committee approved the final version of the Regulations for Non-Audit Services to be provided by the Statutory Auditor. During the process of preparation of these regulations, communication was maintained with the Prudential Supervision Department of Banco de Portugal.

10. Opinion on the Management Report and Individual and Consolidated Accounts of 2018

The Audit Committee monitored the preparation of the Management Report and Accounts, drawn up in accordance with the International Financial Reporting Standards (IFRS) for the year ended on 31 December 2018. For the preparation of its opinion, the Audit Committee held meetings with other members of the Board of Directors, with the Strategic Planning, Control and Accounting Department, the Risk Department, the Compliance Department, the Audit and Inspection Department and the Statutory Auditor, having requested all the information and clarifications that it considered relevant for compliance with the applicable legal and statutory rules.

It should be recalled that the Legal Certification of the Accounts and Audit Report, and the Report on the Auditing of the Consolidated Financial Statements of KPMG expressed the opinion that “the consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Caixa Económica Montepio Geral (Banco Montepio), as at 31 December 2018, and of its financial performance and cash flows for the year ended on that date in accordance with the International Financial Reporting Standards (IFRS), as endorsed in the European Union”.

The Audit Committee considered that, according to the data of which it was aware, i) the financial information was prepared in conformity with the applicable accounting standards, including compliance with the accounting policies defined in IFRS 9, thus giving a true and appropriate image of the net worth, financial situation and results of Banco Montepio and the companies included in its consolidation perimeter; ii) the Management Report and Accounts likewise correctly portrayed the business and relevant associated risks to Banco Montepio.

The Audit Committee issued a favourable opinion on Banco Montepio's Report and Accounts, which included the financial statements, on an individual and consolidated basis, for the year ended on 31 December 2018, and was of the opinion that Banco Montepio's General Meeting should approve the Management Report and other documents presenting the financial statements, as well the Board of Directors' proposal on the appropriation of the positive net income recorded in the individual balance sheet of 2,018,835.12 euros.

11. Appraisal of the Activity Plan and Training Plan of the Compliance Function for 2019

The Audit Committee approved the Activity Plan and the Training Plan of the Compliance Function, as the two documents were in line with the applicable rules and regulations, namely Banco de Portugal Notice 5/2008.

12. Credit Recovery and Sale of the Non-Performing Loan Portfolio

The Audit Committee held regular meetings, on five occasions, with the managers in charge of the credit recovery area, monitoring the work carried out by the Bank concerning the recovery of loans in default, including the sale of two portfolios of non-performing loans:

i) A portfolio of non-performing loans, with and without collateral, with a gross book value of 321 million euros, named ATLAS, concentrated loans in default for more than 4 years, which was sold to 400 Capital/ARROW;
ii) A portfolio of 1,094 real estate properties, with a gross book value of 105.3 million euros, named BRICK, which was sold to AXA/ARROW.

13. Appraisal of the Regulations of the Internal Audit Function

The Audit Committee approved the proposals to update the Organic Status of the Audit and Inspection Department (DAI) and the Regulations of the Internal Audit Function of the Banco Montepio Group, which establish the rules on the powers, duties and organisation of operation of the DAI, in compliance with the legal and statutory provisions, including the requirements defined by the prudential supervision of Banco de Portugal.

14. Appraisal of the Organic Statutes of the Risk Department

The Audit Committee approved the proposals to update the Organic Statutes of the Risk Department (DRI), which establish the rules on the powers, duties and organisation of operation of the DRI, in compliance with the legal and statutory provisions, including the requirements defined by the prudential supervision of Banco de Portugal.

15. Appraisal of the Regulations of the Internal Audit, Compliance and Risk Function

The Audit Committee approved the annual reports prepared by the audit, compliance and risk functions, which in particular describe the activities carried out, the developments occurred and the levels of completion of the Activity Plans. In sum, the conclusions were that the Internal Control System of Banco Montepio was appropriate and effective, although required improvements to correct the detected shortcomings and greater timeliness in the implementation of the correction plan.

16. Whistleblowing Report 2019

The Audit Committee issued the Whistleblowing Report of 2018 which reflected compliance with the provisions in article 12 of the Regulations on Whistleblowing of Banco Montepio, approved by the Board of Directors on 24 January 2019, with its Work Order 01/2019 having entered into force on 30 January 2019.

The report noted that none of the six communications received and recorded in 2018 fell within the scope of this reporting, as the majority were related to attempted fraud (phishing) and complaints by customers; so, they were all forwarded to the units concerned for the proper and prompt handling of the situations.

17. Monitoring of the Plan to Resolve Internal Control Flaws reported in the Internal Control Report of 2018 and 2019

The Audit Committee appraised the monitoring report of the Plan to Resolve Internal Control Flaws reported in the Internal Control Report of 2018, with reference to 31 March 2019, having analysed, together with the Audit and Inspection Department, the state of resolution of the identified flaws as well as the flaws detected during the first quarter of 2019, with the goal being for a significant implementation of the recommendations to be achieved by the preparation of the following annual report.

The Audit Committee also analysed together with the DAI the report on the Plan to Resolve Internal Control Flaws reported in the Internal Control Report of 2019, with the continued goal of implementation of the majority of the recommendations by the end of the year.

The Audit Committee has maintained an ongoing monitoring of this topic and regular dialogue with the Board of Directors, and has also participated actively in the formulation of the methodologies that have been constructed to implement the Plans to Resolve Internal Control Flaws.

18. Opinion on the adequacy and efficacy of the Internal Control System, individual and consolidated, of Caixa Económica Montepio Geral (Banco Montepio)

The Audit Committee made a detailed analysis of the two reports on internal control, individual and consolidated, relative to June 2019 of Banco Montepio, with reference to the period between 1 June 2018 and 31 May 2019, aimed at obtaining reasonable certainty on whether the internal controls implemented at the Bank respect the principles and comply with the goals that have been defined.

The Audit Committee analysed the:

i) Monitoring Reports of the Plan to Resolve Internal Control Flaws, prepared by the Audit and Inspection Department, discussing in detail the existing flaws, the identified opportunities for improvement, the established measures to be implemented and the measures validated in the respective month, in order to assess their efficacy;

ii) Annual Internal Control Reports, having discussed their conclusions, particularly the existing flaws, the opportunities for improvement detected in the period or in previous periods and that have not yet been resolved, the attributed risk level, the corrective or improvement actions suggested and their timing.

The Audit Committee regularly held meetings with the Audit and Inspection Department, the Compliance Department and the Risk Department, and also took into account the information of the external auditors' reports.

The Internal Control Report, on an individual basis, of June 2019 and respective annexes, with reference to 31 May 2019, identified 187 flaws which had not yet been resolved by the Internal Control System of Banco Montepio, plus 14 of the Special Programmes. The Internal Control Report, on a consolidated basis, of June 2019, with reference to 31 May 2019, identified 340 flaws.

There were 22 flaws of high-risk level, with 13 being of the report on an individual basis and 9 of group companies: 4 of Finibanco Angola; 2 of Montepio Crédito; and 3 of Banco BEM.

The Audit Committee prepared two Opinions, having concluded that the internal control system was adequate and effective, despite having identified situations of high risk and the existence of coherence of the internal control system in terms of the entities that constitute the Group's consolidation perimeter.

19. Opinion on the appointment of the head of the Risk Management Function

The Audit Committee commented, pursuant to the provisions in number 3 of article 115-M of the Legal Framework of Credit Institutions and Financial Companies (RGICSF), on the replacement of Jaquelina Rodrigues, as head of the Risk Department (DRI), by Vasco Gil, who had previously been the head of the Model Validation Office. This change was the result of a determination of the Executive Committee, following a logic of rotation of senior personnel aimed at the creation of value and utilisation of the experience of the senior management team, and also in the aftermath of the division of the Strategic Planning, Control and Accounting Department (DPECC) into two departments, one of which, the Strategy, Planning and Control Department was later led as established by the head of the DRI at that time.

The Audit Committee took into account the opinions of the Risk Committee and the Remunerations, Assessment and Nominations Committee, and approved the replacement of the head of the risk management function, Jaquelina Rodrigues by Vasco Gil.

20. Appraisal of the Impairment Report as at 30 June 2019

The Audit Committee appraised the Report on Impairments of loans to customers of the Banco Montepio Group – 30 June 2019 submitted by PricewaterhouseCoopers, in compliance with the mandatory requirement of regular assessment by the external auditors of the process of quantification of the loan portfolio's impairment, pursuant to the provisions in Banco de Portugal Instruction 5/2013, republished by Instruction 18/2018.

In view of the conclusions presented by PwC, the Audit Committee endeavoured to obtain, from the Executive Committee, the work plan that Deloitte had presented in the context of the services to be rendered with respect to the credit impairment model/IFRS 9.

21. Work Plan – Collective Impairment Model

The Audit Committee monitored the evolution of the planning and of the process related to the review of the models for calculating the impairment for credit risks pursuant to IFRS 9, namely involving the definitions of staging, exposure at default (EAD) and loss given default (LGD), that was developed by Deloitte. The results obtained with this review shall affect the financial statements of 2019 and determine the need to restate the financial statements as at 31 December 2018.

The Audit Committee, together with the Risk Committee, monitored the planning and development of the process, having held regular meetings with the heads and managers of the Risk Department, Model Validation Office, PwC and later also with the managers of Deloitte, on a fortnightly basis.

III – CONCLUSION

In completing its annual report, the Audit Committee highlights the good institutional cooperation and fruitful relations established with the Committees of the Board of Directors and with all the other members of this body, with the Departments belonging to the organic structure of Banco Montepio and with the Statutory Auditor.

The Audit Committee also notes, with great appreciation, the sense of cooperation, the technical quality and the dedication to Banco Montepio of the heads and employees of all the Departments with which it worked directly, and acknowledges everyone else's contribution to the achieved results.

On a final note, emphasis is given to the appropriateness and timeliness of all the written and oral information provided by the aforesaid entities, being an indispensable support to the exercise of the duties and responsibilities inherent to the activity of this Audit Committee, with this fact having greatly contributed to its good operational functioning as a supervisory body.

Lisbon, 30 April 2020

The Audit Committee

____

Manuel Ferreira Teixeira
(Chairman)

____

Amadeu Ferreira de Paiva

____

Vítor Manuel do Carmo Martins

____

Carlos Francisco Ferreira Alves

____

José da Cunha Nunes Pereira

OPINION OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR OF 2019

1. Pursuant to the regulatory terms and its statutory duties, the Audit Committee appraised the Management Report and Accounts relative to the year ended on 31 December 2019 of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio), approved by the Board of Directors.

   The Audit Committee appraised the Legal Certifications of the Accounts and Audit Reports, as well as the Additional Report on the Audit Committee, drawn up by PricewaterhouseCoopers & Associados - Revisores Oficiais de Contas, S.A. (PwC), on the financial statements relative to the year ended on 31 December 2019, on an individual and consolidated basis, issued without reservations and with one emphasis concerning the possible impacts of the COVID-19 pandemic on the economy and, consequently, on the Group's future activity.

2. The Audit Committee monitored the preparation of the Management Report and Accounts, drawn up in accordance with the International Financial Reporting Standards (IFRS) for the year ended on 31 December 2019, namely their final version approved by the Board of Directors. For the preparation of its opinion, the Audit Committee held meetings with the Executive Committee, the Accounting and Financial Reporting Department and the Statutory Auditor, having requested all the information and clarifications that it considered relevant for compliance with the applicable legal and statutory rules.

3. As far as the Audit Committee is aware, the financial information was prepared in conformity with the applicable accounting standards, including compliance with the accounting policies defined in the IFRS, giving a true and appropriate image of the assets and liabilities, financial situation and results of Banco Montepio and the companies included in its consolidation perimeter. Likewise, and under the same assumptions, the Audit Committee considers that the Management Report correctly reflects the evolution of the business, performance and position of Banco Montepio and the companies included in its consolidation perimeter, and contains a description of the main risks and uncertainties faced.

4. The Legal Certifications of Accounts and Audit Reports on the individual and consolidated financial statements of Banco Montepio were prepared in accordance with the formats pursuant to Regulation (EU) 537/2014, of the European Parliament and of the Council of 16 April 2014, and Law 140/2015 of September 7, and include audit focus areas, referred to as '’Key Audit Matters’’ which PwC identified as being:
   (i) Impairment losses on loans and advances to customers;
   (ii) Valuation of real estate properties received by way of credit recovery;

(iii) Recoverability of the deferred tax assets;

(iv) Fair value of financial instruments not listed in active markets – level 3 of the fair value hierarchy;

(v) Liabilities related to pensions and other benefits;

(vi) Provisions and Contingencies.

All these topics were monitored by the Audit Committee of Banco Montepio, which ensured that it was permanently updated during its own meetings and those of the Board of Directors, having, in particular, held meetings with the different members of the Executive Committee, the heads of the Accounting and Financial Reporting Department, the Strategy, Planning and Control Department, the Compliance Department, the Internal Audit and Inspection Department and the Credit Recovery Department, as well as the Statutory Auditor.

5. The proposed appropriation of net income is not contrary to the applicable legal and statutory provisions.

6. To conclude:

The Audit Committee agrees with the content of the Legal Certifications of the Accounts and Audit Reports prepared by PwC, and issues a favourable opinion on the Management Report and Accounts of Banco Montepio, which includes the financial statements, on an individual and consolidated basis, for the year ended on 31 December 2019, approved on 30 April 2020 by the Board of Directors.

7. In view of the above, the Audit Committee is of the opinion that Banco Montepio's General Meeting should approve:
   a) The Management Report and all the other documents presenting the financial statements, both individual and consolidated, relative to the year ended on 31 December 2019;
   b) The information on corporate governance relative to 2019;
   c) The Board of Directors' proposal on the appropriation of the positive net income recorded in the individual balance sheet relative to 2019, of the value of 12,970,780.28 euros, as follows:

To the Legal Reserve	1,297,078.03 euros
To Retained Earnings	11,673,702.25 euros

Lisbon, 4 May 2020

Manuel Ferreira Teixeira, Chairman

Amadeu Ferreira de Paiva, Member

Vitor Manuel do Carmo Martins, Member

Carlos Francisco Ferreira Alves, Member

José da Cunha Nunes Pereira, Member

STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT TO THE CONSOLIDATED FINANCIAL STATEMENTS

Statutory Audit Report and Auditors' Report

(Free translation from a report originally issued in Portuguese language. In case of doubt, the Portuguese version will always prevail)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("Banco Montepio", "Bank" or "Group"), which comprise the consolidated balance sheet as at December 31, 2019 (which shows total assets of Euros 17.740.142 thousand and total shareholders' equity of Euros 1.451.988 thousand including a consolidated net profit of Euros 21.684 thousand), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Banco Montepio as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

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

Emphasis

We draw attention to the information disclosed in note 64 of the accompanying explanatory notes related to the possible impacts of the pandemic caused by COVID-19 in the economy and, consequently, in the Group's future activity.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	*Summary of the Audit Approach*
Impairment losses on loans and advances to Customers *Measurement and disclosures related to impairment losses on loans and advances to customers presented in notes 1 point c), 14, 22 and 55 attached to the consolidated financial statements of the Bank* The significant expression of loans and advances to customers, and the associated impairment losses, whose calculation requires a set of complex assumptions and judgements from the Bank's management in relation to the identification of clients with a significant increase in credit risk or in default, as well as the determination of impairment losses amount, justify that this has been key matter for the purposes of our audit. As at December 31, 2019, the gross amount of loans and advances to customers amounts to Euros 12.239.465 thousand and the corresponding impairment losses recognized at that date amounts to Euros 774.923 thousand. Impairment losses on loans and advances to customers are determined by management on an individual basis, through a case-by-case analysis of a significant component of the total impairment losses of the loans portfolio, and for the remaining portfolio determined through a collective analysis. For the most significant exposures, evaluated in terms of the total amount of responsibilities to the Bank and the possible existence of signs of default, the Bank performs an individual staging analysis ("ISA"), in order to corroborate the indicative allocation of automatic stage (stages 1, 2 and 3), and an individual impairment measurement analysis ("IIA"), being the impairment determined through a detailed analysis of the economic and financial position of each individual customer, having as reference (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities – "going" approach; or (ii) the evaluation attributed to the collateral received for the loan granted, whenever the recovery is anticipated through foreclosure, execution and/or sale of the collateral, less the costs inherent to its	The audit procedures developed included the identification, understanding and evaluation of policies and procedures established by the Bank for the impairment losses on the loans and advances to customers portfolio determination process as well as the key controls related to the approval, recording and monitoring of credit risk and to the timely identification, measurement and recording of impairment losses. On a sample basis, we have analysed a group of clients within the Bank's individual analysis perimeter, based on the criteria defined in internal normative, with the objective of: (i) reviewing the conclusions and results obtained by the Bank in the individual staging analysis and in the individual impairment measurement analysis; (ii) obtain our own judgment over the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Bank in its methodology. For a sample of exposures representative of the credit population subject to individual analysis by the Bank as of December 31, 2019, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verifying the adequacy of the cash flows used to determine impairment with those reflected in the contractual support; (iii) analysing the contractual support and the most relevant collaterals and confirming the registration of them in favour of the Bank; (iv) analysing the available appraisals of collaterals; (v) examining the criteria for determining the significant increase in credit risk (stage 2) and classification under impairment (stage 3) on an individual basis; (vi)

Key Audit Matter	*Summary of the Audit Approach*
recovery and sale – "gone" approach. For exposures not covered by the individual analysis, the Bank developed collective analysis models to determine expected impairment losses, in light of the IFRS 9 requirements, which include namely the classification of exposures in different stages according to the evolution of their credit risk since the date of its recognition and not according to the credit risk at the reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries. In order to be representative of the current economic context and simultaneously to incorporate a perspective of future economic evolution, these models use available forward looking prospective information such as (i) the expected GDP growth rate; (ii) the expected unemployment rate; (iii) the evolution of Euribor; and / or (iv) the perspectives for the real estate market. Taking into account these macroeconomic data, potential scenarios are developed in order to adjust the expected loss in each segment based on a probability of occurrence. In this context, changes in the assumptions or methodologies used by the Bank in the analysis and in the quantification of impairment losses of loans and advances to customers, as well as different recovery strategies, may impact the estimation of recovery flows and timing of their receipt and may have a material impact on the impairment losses amount recognized in each moment.	reviewing the incorporation of forward looking information; (vii) analysing the discounted cash flows underlying the impairment determination; (viii) assessing the evolution of exposures; and (ix) understanding the views of the Bank's responsibles regarding the economic and financial situation of the clients, as to the predictability of expected cash flows of the respective businesses, as well as their view regarding the collectability of the loans and advances. Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment and compared the results obtained with those calculated by the Bank, in order to assess the existence of possible material significant divergences. For the portfolio whose impairment is assessed through the collective model, we developed a set of specific procedures with the objective of evaluating how the assumptions considered by management include the risk variables by comparison to the historical performance and recoveries of the Bank's loan portfolio, namely the following: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation regarding the risk parameters backtesting exercise; (iii) review and testing of portfolio segmentation; (iv) analysis of the Bank's definition of default and the criteria applied in the classification of staging, on a sample basis; (v) review and testing of the main risk parameters; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), including the test of historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss (ECL) for the loan portfolio, with reference to December 31, 2019. During our audit procedures, we have also considered the restatement made by the Bank of certain comparative financial information for the year 2018, presented in the financial statements for the year ended December 31, 2019, resulting from the correction of materially misstatements identified in the model and respective assumptions used in the determination of credit impairment through collective analysis. Our audit procedures also included the review of the disclosures regarding loans and advances to customers, as well as their respective impairment losses, presented in the Bank's accompanying notes to the consolidated financial statements, considering the applicable accounting standards.

Key Audit Matter	Summary of the Audit Approach
Valuation of real estate properties received through credit recovery *<u>Measurement and disclosures related to the valuation of real estate properties presented in notes 1 point h), 30 and 34 attached to the financial statements of the Bank</u>*	
As of December 31, 2019, the net value of real estate received in respect of loan recovery and registered in Investment properties and Other assets amounts to Euros 144.868 thousand and Euros 608.957 thousand, respectively. According with the policies in force at the Group, real estate properties are subject to periodic valuations, carried out by valuation experts registered with the CMVM, which incorporate a number of assumptions, and which give rise to the recording of impairment losses whenever the value resulting from those valuations, net of selling costs, is lower than their book value. Given the significant expression of these assets in the Group's balance sheet and bearing in mind that their valuation requires the application of a number of assumptions and judgments by management, for the purposes of determining the amount and timing of recognition of the corresponding impairment losses, this was a key matter for our audit.	The audit procedures developed included the assessment of the key controls implemented by the Group to identify the real estate properties with impairment risk, classified as Investment Properties and Other assets, to determine the corresponding amounts of impairment losses and to ensure the corresponding accounting reflection in an appropriate and timely manner. Our procedures also included carrying out detailed tests. For a sample of properties, their valuation and, where applicable, the respective impairment loss recorded as a result of the valuations carried out by independent experts were analysed. This analysis also included an assessment of the reasonableness of the methodology applied and the assumptions used by the valuation experts in determining the valuation value of the selected properties. Where necessary, we have held meetings to understand and challenge the judgments and assumptions adopted in the valuations. We assessed the competence, capacity and objectivity of the valuation experts hired by the Bank, including confirmation of their registration with the CMVM. For a sample of properties sold during 2019, we compared the sale value with the last valuation obtained, in order to assess the reasonableness of the valuations previously obtained by the Group. Our audit procedures also included the review of the disclosures on Investment Properties and Other Assets presented in the Bank's accompanying notes to the consolidated financial statements, considering the applicable accounting standards.
Recoverability of deferred tax assets *<u>Measurement and disclosures related to deferred tax assets presented in notes 1 point u) and 33 attached to the consolidated financial statements of the Bank</u>*	
In the Bank’s balance sheet as of December 31,	The audit procedures developed included the

Key Audit Matter	***Summary of the Audit Approach***
2019, the deferred tax assets amounts to Euros 434.665 thousand, of which the recoverability of Euros 376.393 thousand depends on the ability to generate future taxable income (deferred tax assets not eligible under the special regime applicable to deferred taxes, approved by Law no. 61/2014 of August, 26), namely: (i) Euros 169.834 thousand related to the impairment losses for loans and guarantees; (ii) Euros (5.380) thousand related to other taxed impairment losses and provisions; (iii) Euros 40.273 thousand related to employee benefits and (iv) Euros 171.666 thousand originated by tax losses related to the individual activity of Banco Montepio, generated in 2015 and 2016. According to ISA 12 – Income Taxes, the recognition of deferred tax assets assumes the existence of future taxable profits to allow its recoverability. Management performed the analysis of the recoverability of the deferred tax assets based on Bank's business plan for the period from 2020 to 2028. This estimate required the application by management of a set of judgments, namely: (i) estimation of future taxable income, depending on the Bank's future strategy and the markets in which it operates; (ii) long-term growth rates; (iii) investments' rates of return; and (iv) discount rates. Any changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have relevant impacts on the recoverability of deferred tax assets recognized in the Bank's consolidated financial statements as of December 31, 2019. As a result, for the purposes of our audit this was considered as a key matter.	identification and understanding of key controls established by the Bank related to (i) the analysis of the recoverability of deferred tax assets recognized in the financial statements and (ii) identification of the main assumptions considered by the management to estimate the generation of future taxable profits that allow the recovery of deferred tax assets recognized in the balance sheet. We performed an understanding and analysis of the main assumptions considered relevant to the elaboration of the projections, in order to assess the recoverability of the deferred tax assets recognized on the Bank's financial statements at December 31, 2019. The reasonableness of the projections used was also analyzed based on the profits before tax presented in previous years, the future taxable income in the Bank's projections for 2020-2028, future perspectives presented by the Board of Directors at those dates and other available information on this matter. Our audit procedures have also included a review of disclosures related to the deferred tax assets presented in the Bank's accompanying notes to the consolidated financial statements, considering the applicable accounting standards.
Fair value of financial instruments not listed in an active market – level 3 of the fair value hierarchy *Measurement and disclosures related to the fair value of financial instruments not listed in an active market, classified as level 3 of the fair value hierarchy and presented in the notes 49 attached to the consolidated financial statements of the Bank* Due to its relevance on the Bank's consolidated financial statements context and its degree of judgement, the assessment of the fair value of financial instruments not listed in an active market was considered a key matter in our audit. As of December 31, 2019, the total of financial instruments valued based on valuation techniques that use variables which are not observable on the market and, therefore, are classified on the level 3 of the fair	Our audit procedures included the identification and comprehension of the key controls underlying the fair value assessment methodologies, implemented by the Bank. For a sample of financial instruments whose measurement consisted substantially on non-observable data, our procedures included a reasonableness evaluation whether the models

Key Audit Matter	*Summary of the Audit Approach*
value hierarchy, amounts to Euros 487.816 thousand. For the financial instruments classified as level 3 of the fair value hierarchy, and when observable market data is not available, the Bank determines the fair value of such instruments trough estimates, namely trough the use of valuation models based on discounted cashflows techniques, which incorporates a high level of judgement in the definition of assumptions and inputs to be used. As of December 31, 2019, the financial instruments not listed in an active market and classified as level 3 of the fair value hierarchy are composed by (i) debt securities with either a "hold to collect and sale" or trading business model, (ii) derivatives classified as trading or hedging derivatives, and (iii) equity instruments. In this context, any change in the assumptions and measurement techniques used by the management may have material impacts on the assessment of financial instruments' fair value recognized on the Bank's consolidated financial statements.	developed by the Bank, and the data and assumptions used are reasonable in the circumstances, by comparing the observed data with market information collected from external and independent sources, when available. Our audit procedures also included the review of the disclosures regarding financial instruments not listed in an active market presented in the Bank's accompanying notes to the consolidated financial statements, considering the applicable accounting standards.
Employees post-employment benefits	
Measurement and disclosures related to employees' post-employment benefits presented in notes 1 point t), 11, 41 and 50 attached to the financial statements of the Bank	
As of December 31, 2019, the liabilities resulting from past services of the Bank in relation to its pensioners, employees and directors amounts to Euros 850.910 thousand, mainly covering retirement and survivors' pensions, disability, health care and death benefit , in particular those foreseen in the Collective Labour Agreement ("Acordo Coletivo de Trabalho") for the banking sector. These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These valuations incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the characteristics of the benefits and to the population of administrators, employees and pensioners, and to the current and future behaviour of these variables. In the specific case of the discount rate used in the	The audit procedures developed included the identification and understanding of the key controls instituted by the Bank to ensure that the information collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs, as well as the adequacy of the fund's assets fair value estimation process. The audit work included meetings with the management and the independent actuary in order to identify the methodologies and options considered in the definition of the key financial and actuarial assumptions adopted. Given the relevance of the judgments required from management, we proceeded to evaluate the reasonableness of the key assumptions, comparing them with the data that, with independency, we were able to obtain. A compliance review was performed on: (i) the employee historical information used for the purpose of calculating responsibilities; (ii) the accounting recognition of costs related to past services and of

Key Audit Matter	Summary of the Audit Approach
actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity to the duration of the payment of the plan's benefits. In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on the net liabilities as well as on the assets held to meet these liabilities. Thus, this subject was considered a key matter for the purposes of our audit.	other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the fund's assets, calculating, whenever possible and in an independent manner, for a sample of assets. Finally, we have developed a detailed analysis of the actuarial study prepared with reference to December 31, 2019, based on the results of the procedures mentioned above. The audit procedures included the review of the disclosures on the post-employment benefits of directors, employees and pensioners presented in the Bank's accompanying notes to the consolidated financial statements, considering the applicable accounting standards.
Contingent Liabilities *Measurement and disclosures related to contingent liabilities presented in notes 1 point w), 39 and 60 attached to the consolidated financial statements of the Bank* From the contingent liabilities disclosed in note 39 and 60 attached to the consolidated financial statements of the Bank as of December 31, 2019, we would like to highlight the following ones: *Resolution Fund* The resolution measures applied in 2014 to Banco Espírito Santo, S.A. – process that originated the creation of Novo Banco S.A. ("Novo Banco") - and in 2015 to Banif – Banco Internacional do Funchal, S.A. ("Banif) created uncertainty regarding the eventual lack of the Resolution Fund's resources to ensure the fulfilment of its responsibilities, particularly the short-term redemption of the loans contracted to meet this purpose. Those uncertainties have highlighted a greater significance underlying the assumed responsibilities and contingent liabilities, namely: (i) of the effects of the application of the principle that any creditor of the financial institution under resolution can assume a loss higher than the one it would assume if such institution went into liquidation; (ii) of the legal proceedings initiated against the Resolution Fund; (iii) of the negative impacts of responsibilities or additional contingencies to Novo Banco and Banif, resulting from the resolution process, that must be neutralised by the Resolution Fund and (iv) of the contingent capitalisation mechanism related to the Novo Banco's sale process to Lone Star, under the terms in which the Resolution Fund, as a Novo Banco's shareholder, may be called to perform capital injections, if certain	The audit procedures developed for this matter included the identification and understanding of the processes and key controls implemented by the Bank, regarding the identification and monitorization of the contingent liabilities. Given the relevance and complexity of the judgements required to management, we performed in our audit, among others, the following procedures regarding the Resolution Fund: (i) monitorization of the most important changes on the Resolution Fund's simplified cash flow projections model presented by the Bank when the renegotiation of the granted loans took place, based on the contractual conditions agreed between the Banks and the Resolution Fund; (ii) appreciation of the relevant public communications regarding the responsibilities and contingent liabilities assumed by the Resolution Fund and/or Portuguese State; (iii) analysis of the evolution of the Bank's exposures with the Resolution Fund; and (iv) understanding of the perception Bank's responsible bodies regarding the Resolution Fund's financial and economic situation and the predictability of the expected cashflows of its regular revenue. Regarding the lawsuits initiated by the Competition Authority and by the Bank of Portugal, our work included (i) the analysis of the Bank's assessment of the nature and situation of the mentioned lawsuits, which justifies the non-constitution of provisions, in addition to the amounts recorded by the Bank for

Key Audit Matter	Summary of the Audit Approach
conditions regarding to the performance of a group of Novo Banco's assets and the evolution of its capitalisation levels are verified. *Competition Authority* In 2012, the Competition Authority initiated an administrative infraction proceeding against a group of banks, including Banco Montepio, due to alleged competition restrictive practices. On September 9 2019, the Competition Authority notified the banks of its decision, in which it is decided for their conviction, resulting in a penalty attributed to Banco Montepio of Euros 13 million. The Bank considers that it did not commit this infringement, having appealed against the aforementioned decision to the Competition, Regulation and Supervision Court on October 21, 2019. *Bank of Portugal* As of December 31, 2019, the Bank was sued in several administrative offence proceedings brought by the Bank of Portugal for alleged practices and infringements in regulatory matters applicable to the Bank, for a maximum overall amount of possible fines of approximately Euros 30 million. The Bank admits that its lines of defense may be successful, in whole or in part, in relation to many of the offences charged to it, even if the respective risk of conviction continues to exist, also in relation to some of the offences charged. The financial statements as of December 31, 2019 reflect the expectation of management that special contributions or any type of extraordinary contributions to finance the resolution matters applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund will not be demanded to Banco Montepio, as a participating entity of the Resolution Fund. Additionally, the Board of Directors believes that (i) the probabilities of the process ending without the Bank having to pay a penalty are higher than the alternative scenario, and (ii) overall, the fines that the Bank may have to bear as a result of the administrative offence proceedings initiated by the Bank of Portugal are below the applicable ceilings. The contingent liabilities may evolve differently from the originally expected, given that they are subject to a continuous revision in order to assess if the possibility of a cash outflow became probable. In these circumstances, the assessment of these contingent liabilities implies that the Bank's	some of the administrative proceedings initiated by the Bank of Portugal and (ii) the assessment of the information obtained from the Bank's external lawyers accompanying the proceedings. We also analyzed the available information regarding the developments on these matters that occurred as from December 31, 2019. Our audit procedures also included the review of the disclosures regarding contingent liabilities, presented on the Bank's accompanying notes to the consolidated financial statements, considering the applicable accounting standards.

Key Audit Matter	Summary of the Audit Approach
management uses estimates and complex judgements regarding the probability of materialization and measurement of the responsibilities that may arise from the litigations and contingencies in which the Bank is involved and, therefore, this matter was considered relevant to our audit.	

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of consolidated the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements, the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law and verifying that the non-financial statement was presented.

Report on other legal and regulatory requirements

Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified. As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the non-financial statement included in the Directors' report.

Non-financial statement set forth in article No. 508.º - G of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the entity included in its Directors' report the non-financial statement set forth in article No. 508.º - G of the Portuguese Company Law.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of the Banco Montepio in the Shareholders' General Meeting of May 27, 2019 for the period from 2019 to 2021.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of the same date; and

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

May 4, 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Manuel Henriques Bernardo, R.O.C.

STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT TO THE FINANCIAL STATEMENTS

Statutory Audit Report and Auditors' Report

(Free translation from a report originally issued in Portuguese language. In case of doubt, the Portuguese version will always prevail)

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("Banco Montepio" or "Bank"), which comprise the balance sheet as at December 31, 2019 (which shows total assets of Euros 19.661.506 thousand and total shareholders' equity of Euros 1.513.295 thousand including a net profit of Euros 12.971 thousand), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Banco Montepio as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of the Banco Montepio and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

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

Emphasis

We draw attention to the information disclosed in note 60 of the accompanying explanatory notes related to the possible impacts of the pandemic caused by COVID-19 in the economy and, consequently, in the Bank's future activity.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	***Summary of the Audit Approach***
Impairment losses on loans and advances to customers *Measurement and disclosures related to impairment losses on loans and advances to customers presented in notes 1 point b), 14, 21 and 52 attached to the financial statements of the Bank* The significant expression of loans and advances to customers, and the associated impairment losses, whose calculation requires a set of complex assumptions and judgements from the Bank's management in relation to the identification of clients with a significant increase in credit risk or in default, as well as the determination of impairment losses amount, justify that this has been key matter for the purposes of our audit. As at December 31, 2019, the gross amount of loans and advances to customers amounts to Euros 11.684.047 thousand and the corresponding impairment losses recognized at that date amounts to Euros 762.877 thousand. Impairment losses on loans and advances to customers are determined by management on an individual basis, through a case-by-case analysis of a significant component of the total impairment losses of the loans portfolio, and for the remaining portfolio determined through a collective analysis. For the most significant exposures, evaluated in terms of the total amount of responsibilities to the Bank and the possible existence of signs of default, the Bank performs an individual staging analysis (“ISA”), in order to corroborate the indicative allocation of automatic stage (stages 1, 2 and 3), and an individual impairment measurement analysis ("IIA") being the impairment determined through a detailed analysis of the economic and financial position of each individual customer, having as reference (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities – “going” approach; or (ii) the evaluation attributed to the collateral received for the loan granted, whenever the recovery is anticipated through the foreclosure, execution and/or sale of the collateral, less the costs inherent to	The audit procedures developed included the identification, understanding and evaluation of policies and procedures established by the Bank for the impairment losses on the loans and advances to customers portfolio determination process as well as the key controls related to the approval, recording and monitoring of credit risk and to the timely identification, measurement and recording of impairment losses. On a sample basis, we have analysed a group of clients within the Bank's individual analysis perimeter, based on the criteria defined in internal normative, with the objective of: (i) reviewing the conclusions and results obtained by the Bank in the individual staging analysis and in the individual impairment measurement analysis; (ii) obtain our own judgment over the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Bank in its methodology. For a sample of exposures representative of the credit population subject to individual analysis by the Bank as of December 31, 2019, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verifying the adequacy of the cash flows used to determine impairment with those reflected in the contractual support; (iii) analysing the contractual support and the most relevant collaterals and confirming the registration of them in favour of the Bank; (iv) analysing the available appraisals of collaterals ; (v) examining the criteria for determining the significant increase in credit risk (stage 2) and classification under impairment (stage 3) on an individual basis; (vi)

Key Audit Matter	*Summary of the Audit Approach*
its recovery and sale – “gone” approach. For exposures not covered by the individual analysis, the Bank developed collective analysis models to determine expected impairment losses, in light of the IFRS 9 requirements, which include namely the classification of exposures in different stages according to the evolution of their credit risk since the date of its recognition and not according to the credit risk at the reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries. In order to be representative of the current economic context and simultaneously to incorporate a perspective of future economic evolution, these models use available forward looking prospective information such as (i) the expected GDP growth rate; (ii) the expected unemployment rate; (iii) the evolution of Euribor; and / or (iv) the perspectives for the real estate market. Considering these macroeconomic data, potential scenarios are developed in order to adjust the expected loss in each segment based on a probability of occurrence. In this context, changes in the assumptions or methodologies used by the Bank in the analysis and in the quantification of impairment losses of loans and advances to customers, as well as different recovery strategies, may impact the estimation of recovery flows and timing of their receipt and may have a material impact on the impairment losses amount recognized in each moment.	reviewing the incorporation of forward looking information; (vii) analysing the discounted cash flows underlying the impairment determination; (viii) assessing the evolution of exposures; and (ix) understanding the views of the Bank's responsibles regarding the economic and financial situation of the clients, as to the predictability of expected cash flows of the respective businesses, as well as their view regarding the collectability of loans and advances. Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment and compared the results obtained with those calculated by the Bank, in order to assess the existence of possible material significant divergences. For the portfolio whose impairment is assessed through the collective model, we developed a set of specific procedures with the objective of evaluating how the assumptions considered by management include the risk variables by comparison to the historical performance and recoveries of the Bank's loan portfolio, namely the following: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation regarding the risk parameters backtesting exercise; (iii) review and testing of portfolio segmentation; (iv) analysis of the Bank's definition of default and the criteria applied in the classification of staging, on a sample basis; (v) review and testing of the main risk parameters; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), including the test of historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss (ECL) for the loan portfolio, with reference to December 31, 2019. During our audit procedures, we have also considered the restatement made by the Bank of certain comparative financial information for the year 2018, presented in the financial statements for the year ended December 31, 2019, resulting from the correction of materially misstatements identified in the model and respective assumptions used in the determination of credit impairment through collective analysis. Our audit procedures also included the review of the disclosures regarding loans and advances to customers, as well as their respective impairment losses, presented in the Bank’s accompanying notes to the financial statements, considering the applicable

Key Audit Matter	Summary of the Audit Approach
	accounting standards.
Valuation of real estate properties received through credit recovery *Measurement and disclosures related to the valuation of real estate properties presented in notes 1 point h) and 32 attached to the financial statements of the Bank* As of December 31, 2019, the net value of real estate properties received in respect of loan recovery and registered in Other assets amounts to Euros 563.668 thousand. According with the policies in force at the Bank, real estate properties are subject to periodic valuations, carried out by valuation experts registered with the CMVM, which incorporate a number of assumptions, and which give rise to the recording of impairment losses whenever the value resulting from those valuations, net of selling costs, is lower than their book value. Given the significant expression of these assets in the Bank's balance sheet and bearing in mind that their valuation requires the application of a number of assumptions and judgments by management, for the purposes of determining the amount and timing of recognition of the corresponding impairment losses, this was a key matter for our audit.	The audit procedures developed included the assessment of the key controls implemented by the Bank to identify the real estate properties with impairment risk, classified as Other assets, to determine the corresponding amounts of impairment losses and to ensure the corresponding accounting reflection in an appropriate and timely manner. Our procedures also included carrying out detailed tests. For a sample of properties, their valuation and, where applicable, the respective impairment loss recorded as a result of the valuations carried out by independent experts were analysed. This analysis also included an assessment of the reasonableness of the methodology applied and the assumptions used by the valuation experts in determining the valuation value of the selected properties. Where necessary, we have held meetings to understand and challenge the judgments and assumptions adopted in preparing the valuations. We assessed the competence, capacity and objectivity of the valuation experts hired by the Bank, including confirmation of their registration with the CMVM. For a sample of properties sold during 2019, we compared the sale value with the last valuation obtained, in order to assess the reasonableness of the valuations previously obtained by the Bank. Our audit procedures also included the review of the disclosures on Other Assets presented in the Bank's accompanying notes to the financial statements, considering the applicable accounting standards.
Recoverability of deferred tax assets *Measurement and disclosures related to deferred tax assets presented in notes 1 point t) and 31 attached to the financial statements of the Bank.* In the Bank's balance sheet as of December 31, 2019, the deferred tax assets amounts to Euros	The audit procedures developed included the identification and understanding of key controls

Key Audit Matter	*Summary of the Audit Approach*
462.295 thousand, of which the recoverability of Euros 404.023 thousand depends on the ability to generate future taxable income (deferred tax assets not eligible under the special regime applicable to deferred taxes, approved by Law no. 61/2014 of August, 26), namely: (i) Euros 171.255 thousand related to the impairment losses for loans and guarantees; (ii) Euros 21.060 thousand related to other taxed impairment losses and provisions; (iii) Euros 40.042 thousand related to employee benefits and; (iv) Euros 171.666 thousand originated by tax losses related to the individual activity of Banco Montepio, generated in 2015 and 2016. According to ISA 12 – Income Taxes, the recognition of deferred tax assets assumes the existence of future taxable profits to allow its recoverability. Management performed the analysis of the recoverability of the deferred tax assets based on Bank’s business plan for the period from 2020 to 2028. This estimate required the application by management of a set of judgments, namely: (i) estimation of future taxable income, depending on the Bank’s future strategy and the markets in which it operates; (ii) long-term growth rates; (iii) investments’ rates of return; and (iv) discount rates. Any changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have relevant impacts on the recoverability of deferred tax assets recognized in the Bank’s financial statements as of December 31, 2019. As a result, for the purposes of our audit this was considered as a key matter.	established by the Bank relate to (i) the analysis of the recoverability of deferred tax assets recognized in the financial statements and (ii) the identification of the main assumptions considered by the management to estimate the generation of future taxable profits that allow the recovery of deferred tax assets recognized in the balance sheet. We performed an understanding and analysis of the main assumptions considered relevant to the elaboration of the projections, in order to assess the recoverability of the deferred tax assets recognized on the Bank’s financial statements at December 31, 2019. The reasonableness of the projections used was also analyzed based on the profits before tax presented in previous years, the future taxable income in the Bank's projections for 2020-2028, future perspectives presented by the Board of Directors at those dates and other available information on this matter. Our audit procedures have also included a review of disclosures related to the deferred tax assets presented in the Bank’s accompanying notes to the financial statements, considering the applicable accounting standards.
Fair value of financial instruments not listed in an active market – level 3 of the fair value hierarchy *Measurement and disclosures related to the fair value of financial instruments not listed in an active market, classified as level 3 of the fair value hierarchy and presented in the notes 47 attached to the financial statements of the Bank.* Due to its relevance on the Bank’s financial statements context and its degree of judgement, the assessment of the fair value of financial instruments not listed in an active market was considered a key matter in our audit. As of December 31, 2019, the total of financial instruments valued based on valuation techniques that use variables which are not observable on the market and, therefore, are classified on the level 3 of the fair value hierarchy, amounts to Euros 755.307 thousand.	Our audit procedures included the identification and comprehension of the key controls underlying the fair value assessment methodologies, implemented by the Bank. For a sample of financial instruments whose measurement consisted substantially on non-observable data, our procedures included a reasonableness evaluation whether the models developed by the Bank, and the data and

Key Audit Matter	*Summary of the Audit Approach*
For the financial instruments classified as level 3 of the fair value hierarchy, and when observable market data is not available, the Bank determines the fair value of such instruments trough estimates, namely trough the use of valuation models based on discounted cashflows techniques, which incorporates a high level of judgement in the definition of assumptions and inputs to be used. As of December 31, 2019, the financial instruments not listed in an active market and classified as level 3 of the fair value hierarchy are composed by (i) debt securities with either a "hold to collect and sale" or trading business model, (ii) derivatives classified as trading or hedging derivatives, and (iii) equity instruments. In this context, any change in the assumptions and measurement techniques used by the management may have material impacts on the assessment of financial instruments' fair value recognized on the Bank's financial statements.	assumptions used are reasonable in the circumstances, by comparing the observed data with market information collected from external and independent sources, when available. Our audit procedures also included the review of the disclosures regarding financial instruments not listed in an active market presented on the Bank's accompanying notes to the financial statements, considering the applicable accounting standards.
Employees post-employment benefits *Measurement and disclosures related to employees' post-employment benefits presented in notes 1 point s), 11, 40 and 48 attached to the financial statements of the Bank.* As of December 31, 2019, the liabilities resulting from past services of the Bank in relation to its pensioners, employees and directors amounts to Euros 840.561 thousand, mainly covering retirement and survivors' pensions, disability, health care and death benefit , in particular those foreseen in the Collective Labour Agreement ("Acordo Coletivo de Trabalho") for the banking sector. These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These valuations incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the characteristics of the benefits and to the population of administrators, employees and pensioners, and to the current and future behaviour of these variables. In the specific case of the discount rate used in the actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will	The audit procedures developed included the identification and understanding of the key controls instituted by the Bank to ensure that the information collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs, as well as the adequacy of the fund's assets fair value estimation process. The audit work included meetings with the management and the independent actuary in order to identify the methodologies and options considered in the definition of the key financial and actuarial assumptions adopted. Given the relevance of the judgments required from management, we proceeded to evaluate the reasonableness of the key assumptions, comparing them with the data that, with independency, we were able to obtain. A compliance review was performed on: (i) the employee historical information used for the purpose of calculating responsibilities; (ii) the accounting recognition of costs related to past services and of other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the fund's assets, calculating, whenever possible, in an

Key Audit Matter	Summary of the Audit Approach
be paid (euros) and with a similar maturity to the duration of the payment of the plan's benefits. In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on the net liabilities as well as on the assets held to meet these liabilities. Thus, this subject was considered a key matter for the purposes of our audit.	independent manner, for a sample of assets. Finally, we have developed a detailed analysis of the actuarial study prepared with reference to December 31, 2019, based on the results of the procedures mentioned above. The audit procedures included the review of the disclosures on the post-employment benefits of directors, employees and pensioners in the notes to the financial statements of the Bank, taking into account applicable and current accounting standards.
Contingent Liabilities *Measurement and disclosures related to contingent liabilities presented in notes 1 point v), 38 and 57 attached to the financial statements of the Bank.* From the contingent liabilities disclosed in notes 38 and 57 attached to the financial statements of the Bank as of December 31, 2019, we would like to highlight the following ones: *Resolution Fund* The resolution measures applied in 2014 to Banco Espírito Santo, S.A. – process that originated the creation of Novo Banco S.A. ("Novo Banco") - and in 2015 to Banif – Banco Internacional do Funchal, S.A. ("Banif) created uncertainty regarding the eventual lack of the Resolution Fund's resources to ensure the fulfilment of its responsibilities, particularly the short-term redemption of the loans contracted to meet this purpose. Those uncertainties have highlighted a greater significance underlying the assumed responsibilities and contingent liabilities, namely: (i) of the effects of the application of the principle that any creditor of the financial institution under resolution can assume a loss higher than the one it would assume if such institution went into liquidation; (ii) of the legal proceedings initiated against the Resolution Fund; (iii) of the negative impacts of responsibilities or additional contingencies to Novo Banco and Banif, resulting from the resolution process, that must be neutralised by the Resolution Fund and (iv) of the contingent capitalisation mechanism related to the Novo Banco's sale process to Lone Star, under the terms in which the Resolution Fund, as a Novo Banco's shareholder, may be called to perform capital injections, if certain conditions regarding to the performance of a group of Novo Banco's assets and the evolution of its capitalisation levels are verified.	The audit procedures developed for this matter included the identification and understanding of the processes and key controls implemented by the Bank, regarding the identification and monitorization of the contingent liabilities. Given the relevance and complexity of the judgements required to management, we performed in our audit, among others, the following procedures regarding the Resolution Fund: (i) monitorization of the most important changes on the Resolution Fund's simplified cash flow projections model presented by the Bank when the renegotiation of the granted loans took place, based on the contractual conditions agreed between the Banks and the Resolution Fund; (ii) appreciation of the relevant public communications regarding the responsibilities and contingent liabilities assumed by the Resolution Fund and/or Portuguese State; (iii) analysis of the evolution of the Bank's exposures with the Resolution Fund; and (iv) understanding of the perception Bank's responsible bodies regarding the Resolution Fund's financial and economic situation and the predictability of the expected cashflows of its regular revenue. Regarding the lawsuits initiated by the Competition Authority and by the Bank of Portugal, our work included (i) the analysis of the Bank's assessment of the nature and situation of the mentioned lawsuits, which justifies the non-constitution of provisions, in addition to the amounts recorded by the Bank for some of the administrative proceedings initiated by the Bank of Portugal and (ii) the assessment of the information obtained from the Bank's external lawyers accompanying the proceedings. We also analyzed the available information regarding

Key Audit Matter	Summary of the Audit Approach
Competition Authority In 2012, the Competition Authority initiated an administrative infraction proceeding against a group of banks, including Banco Montepio, due to alleged competition restrictive practices. On September 9 2019, the Competition Authority notified the banks of its decision, in which it is decided for their conviction, resulting in a penalty attributed to Banco Montepio of Euros 13 million. The Bank considers that it did not commit this infringement, having appealed against the aforementioned decision to the Competition, Regulation and Supervision Court on October 21, 2019. *Bank of Portugal* As of December 31, 2019, the Bank was sued in several administrative offence proceedings brought by the Bank of Portugal for alleged practices and infringements in regulatory matters applicable to the Bank, for a maximum overall amount of possible fines of approximately Euros 30 million. The Bank admits that its lines of defense may be successful, in whole or in part, in relation to many of the offences charged to it, even if the respective risk of conviction continues to exist, also in relation to some of the offences charged. The financial statements as of December 31, 2019 reflect the expectation of management that special contributions or any type of extraordinary contributions to finance the resolution matters applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund will not be demanded to Banco Montepio, as a participating entity of the Resolution Fund. Additionally, the Board of Directors believes that (i) the probabilities of the process ending without the Bank having to pay a penalty are higher than the alternative scenario, and (ii) overall, the fines that the Bank may have to bear as a result of the administrative offence proceedings initiated by the Bank of Portugal are below the applicable ceilings. The contingent liabilities may evolve differently from the originally expected, given that they are subject to a continuous revision in order to assess if the possibility of a cash outflow became probable. In these circumstances, the assessment of these contingent liabilities implies that the Bank's management uses estimates and complex judgements regarding the probability of materialization and measurement of the responsibilities that may arise from the litigations and	the developments on these matters that occurred as from December 31, 2019. Our audit procedures also included the review of the disclosures regarding contingent liabilities, presented on the Bank's attached notes to the financial statements, taking into account the applicable accounting standards.

Key Audit Matter	Summary of the Audit Approach
contingencies in which the Bank is involved and, therefore, this matter was considered relevant to our audit.	

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Bank in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Bank's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Bank's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Bank's financial information.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

g) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

h) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements, the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law and verifying that the non-financial statement was presented.

Report on other legal and regulatory requirements

Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Bank, no material misstatements were identified. As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the non-financial statement included in the Directors' report.

Non-financial statement set forth in article No. 66-B of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the entity included in its Directors' report the non-financial statement set forth in article No. 66-B of the Portuguese Company Law.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of the Bank in the Shareholders' General Meeting of May 27, 2019 for the period from 2019 to 2021.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Banks supervisory board as of the same date; and

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Bank in conducting our audit.

May 4, 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Manuel Henriques Bernardo, R.O.C.

PART III

CORPORATE GOVERNANCE REPORT

PART III – CORPORATE GOVERNANCE REPORT

CONTENTS

1. Introduction

2. Mission and Objectives

3. Shareholder Structure

I Qualifying holdings in the share capital of the company (article 245-A, subparagraph c) of the "Código dos Valores Mobiliários" (Securities Code - CVM)

II Identification of shareholders with special rights and description of those rights (article 245-A, subparagraph d) of the CVM)

III Any restrictions on the right to vote, such as limitations on voting rights depending on ownership of a certain number or percentage of shares, deadlines for exercising voting rights or systems highlighting ownership rights (article 245-A, subparagraph f) of the CVM)

IV Rules applicable to the appointment and replacement of members of the management body and amendment of the articles of association of the company (article 245-A, subparagraph h) of the CVM)

V Powers of the management body, namely with respect to deliberations to increase share capital (article 245-A, subparagraph i) of the CVM)

4. Governance Model

I Banco Montepio Group

II Governing and Statutory Bodies

a) Governance model

b) Composition of the governing bodies

c) Committees of the Board of Directors

d) Executive Committee

e) Distribution of areas of responsibility

f) Supervision

g) Procedures and criteria applicable to the intervention of the supervisory body for the purposes of hiring additional services from the external auditor

h) Identification of the statutory auditor and partners representing it

i) Other services provided by the statutory auditor to the Company

j) Curricular information of members of the Board of Directors

k) Accumulation of positions by members of the Board of Directors

5. Internal Organisation

I Internal Control System

a) Main elements of the internal control and risk management systems (article 245-A, subparagraph m) of the CVM)

b) Policy on communication of irregularities (whistleblowing)

II Website for consultation: Articles of Association, Regulations and Corporate Information

III Number of meetings held

6. Remunerations

I Power to establish

II Remuneration of the members of the Management and Supervisory body

III Remuneration of Holders of Key Positions

ANNEXES OF THE CORPORATE GOVERNANCE REPORT:

Annex I - Curricular information of members of the Board of Directors.

Annex II - Accumulation of positions by members of the Board of Directors.

Annex III - Statement of the Remunerations, Nominations and Assessment Committee on the Remuneration Policy of Members of the Management and Supervisory Bodies of Banco Montepio relative to 2019.

1. Introduction

Founded in 1844 as an entity attached to Montepio Geral - Associação Mutualista, Caixa Económica Montepio Geral, caixa económica bancária, S.A. is a credit institution that, pursuant to Decree-Law 190/2015, of 10 September, takes the form of a savings bank, with this same legislation having given rise to its transformation into a public limited company

Following the transformation of Caixa Económica Montepio Geral into a public limited company and alteration of its institutional capital to share capital, represented by shares, conditions were created for the entry of social economy institutions into its share capital. Indeed, this occurred with the entrance of 33 social sector entities into the institution's share capital as at 31 December 2018, strengthened in 2019 with the entrance of a further 3 entities, to a total of 36 entities of the social sector, but without qualifying holdings.

As a consequence of the new strategy for the bank implemented during 2018, the Board of Directors approved a Transformation Plan that shall be carried out up to 2021, with the trade name “Banco Montepio” having been endorsed in February 2019 and that henceforth identifies this institution.

The aforesaid multiannual programme seeks to restructure and reposition Banco Montepio and is based on 4 strategic pillars - value and business proposition, strengthening of the balance sheet, organisation and support, which are underpinned by 12 strategic initiatives, primarily driven towards making Banco Montepio more competitive, efficient and digital, focused on the quality of customer service.

To this end, in May 2019, the Banco Montepio Group strengthened its positioning in the corporate segment with the announcement of Banco Empresas Montepio (BEM), the trade name used by the company Montepio Investimento, S.A. BEM is 100% controlled by Montepio Holding, S.G.P.S., S.A., both of which are part of the Banco Montepio Group, and was launched in a group perspective and of specialization of services, so as to enable the Banco Montepio Group to provide a complete and integrated service to companies that require banking support beyond the traditional financing modes.

In 2019, in addition to BEM and Montepio Holding, the Banco Montepio Group included the following entities by full consolidation: Montepio Crédito – Instituição Financeira de Crédito, S.A., in the specialized segment of consumer credit; Montepio Valor, Sociedade Gestora de Organismos de Investimento Coletivo, S.A., SSAGIncentive – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A., Banco Montepio Geral Cabo Verde, Sociedade Unipessoal S.A. exclusively for the purpose of banking trade in general, as non-residents, pursuant to the arrangement of restricted authorisation in the Republic of Cape Verde; and Finibanco Angola, S.A. which pursues banking activity with head office in the city of Luanda.

The Banco Montepio Group also included the following entities by the equity method: Montepio Gestão de Ativos Imobiliários, ACE and HTA – Hotéis e Turismo e Animação dos Açores S.A.

With this Corporate Governance Report, Banco Montepio complies with the duty to disclose annual information about the corporate structure and practice, stipulated in number 1, subparagraphs c), d), f), h), i) and m), and number 6 of article 245-A of the Securities Code. These are rules applicable to companies with securities, other than shares, listed for trading on regulated markets located or operating in Portugal, which is the case of Banco Montepio.

The following norms were also taken into account, among others: the Legal Framework of Credit Institutions and Financial Companies (RGICSF); the Securities Code (CVM), the Companies Code (CSC); Banco de Portugal Notice 10/2011 of 9/1/2012, about the remuneration policy of the members of the management and supervisory bodies and employees of the institutions and related duties of disclosure of information; Law 28/2009 of 19 June and Law 148/2015 of 9 September, concerning the obligations of entities of public interest; CMVM Regulation 7/2018, regarding duties of disclosure, as well as the regulations and guidelines of the competent European regulatory and supervisory entities.

2. Mission and Objectives

Banco Montepio, a public limited company since 2017, amended its articles of association and consequent governance model in order to comply with more stringent regulatory requirements and a tougher competitive environment, while remaining bound to the essential values of its foundation, namely regarding the important role that it performs in the context of the social economy.

Thus, Banco Montepio stands firmly as a unique financial institution in the national panorama due to its origin and mutualist foundations, and, consequently, due to its vocation as an institution geared towards savings and provision of universal financial services for its individual customers, at all stages of their life cycle, for all corporate customers and, in particular, for institutions of the social economy and social entrepreneurs, based locally, regionally and nationally.

In the development of its different business segments, Banco Montepio stands out as a trustworthy institution, attentive to the needs of its customers and the national economy, boosting the full use of their diverse capabilities.

The Group's structure already reflects this diversity, distinguishing between the lines of commercial banking and investment banking (and related activities), offering the opportunity of the autonomous and specialized development of these two major areas, while ensuring the necessary articulation and respect for the Group's common goals.

As priority is given to the domestic market, it ensures a prudent management of the existing international holdings – namely in the Portuguese-speaking countries – seeking possible alliances with international institutions with a similar philosophy, in particular of the cooperative and social economy sectors.

The social context of Banco Montepio highlights its interpersonal relations and its activity is founded on «banking of relations» between people, both in terms of geographical presence and through remote channels, with an intergenerational and interclass positioning.

The deepening of the relations of trust with its customers is the highest generator of value for the Bank and, consequently for the Group in which it is placed. Therefore, the improvement of service levels, of efficiency and the offer's adjustment to the needs of all its customers represent the pathway to follow with determination and persistence.

In this context, it is crucial to adapt the business models, using technological innovation, which enables combining increased efficiency with preservation of personalised relations with its customers.

The commitments undertaken are based on the pillars of high standards, rigour and ethics, in strict compliance with respect for human values and for the people who work for the institution, boosting their human capital and talent as irrefutable factors for sustained development.

The responsibilities of Banco Montepio to its shareholders are tied to the responsibilities assumed before the supervision authorities, in strict and scrupulous compliance with the applicable law and regulatory framework.

The driving force underlying the institution's destinations always bears in mind the principles of ethics in business, the primacy of the customers' interest and protection of the savings they entrust; loyalty to customers, investors and supervision authorities; but also, the solidarity and social responsibility that its vocation and centenary origin require.

3. Shareholder Structure

I. Qualifying holdings in the share capital of the company (article 245-A, subparagraph c) of the Securities Code - CVM)

As at 31 December 2019, the share capital of Banco Montepio is 2,420,000.00 euros, represented by 2,419,838,080 shares of Montepio Geral - Associação Mutualista (MGAM), which corresponds to a qualifying holding of 99.99% in the share capital, with the remaining share capital (0.01%), corresponding to 161,920 shares, being dispersed among the following 36 entities of the social economy:

	Shareholders	No. Shares
1	Santa Casa da Misericórdia de Albufeira	1 000
2	Santa Casa da Misericórdia de Alhos Vedros	1 000
3	Irmandade da Santa Casa da Misericórdia de Vila Cova de Alva	1 000
4	Santa Casa da Misericórdia do Barreiro	1 000
5	Fundação INATEL	10 000
6	A "Benéfica e Previdente" - Associação Mutualista	1 000
7	Associação e Socorros Mútuos João Deus	1 500
8	A Lacobrigense - Associação de Socorros Mútuos	1 500
9	Irmandade da Santa Casa da Misericórdia de Grândola	5 000
10	Santa Casa da Misericórdia de Évora	1 000
11	Santa Casa da Misericórdia do Porto	10 000
12	Santa Casa da Misericórdia de Boticas	1 000
13	Santa Casa da Misericórdia de Idanha-A-Nova	1 000
14	Santa Casa da Misericórdia de Vagos	1 000
15	Santa Casa da Misericórdia de Soure	1 000
16	Santa Casa da Misericórdia de Lisboa	75 000
17	CSC - Associação de Socorros Mútuos de Empregados no Comércio de Lisboa	10 000
18	União Mutualista Nossa Senhora da Conceição - Associação Mutualista	3 000
19	Santa Casa da Misericórdia de Santiago do Cacém	1 000
20	Santa Casa da Misericórdia de Vila Verde	1 000
21	CEEPS - Centro de Estudos em Economia Pública e Social	1 000
22	Santa Casa da Misericórdia de da Vila de São Sebastião	1 000
23	Santa Casa da Misericórdia de Póvoa do Lanhoso	2 420
24	Santa Casa da Misericórdia de Arganil	1 000
25	Mutualidade Popular - Associação Mutualista	5 000
26	Santa Casa da Misericórdia de Alcácer do Sal	1 500
27	Santa Casa da Misericórdia de Tomar	1 000
28	Santa Casa da Misericórdia de Castelo Branco	1 000
29	A Mutualidade da Moita, Associação Mutualista	1 000
30	Montepio Rainha D. Leonor - Associação Mutualista	5 000
31	A Associação Vilanovense de Socorro Mútuo	1 000
32	AME - Associação Mutualista dos Engenheiros	5 000
33	Liga das Associações de Socorros Mútuos de Vila Nova de Gaia	5 000
34	Santa Casa da Misericórdia do Bom Jesus de Matosinhos	1 000
35	Associação de Intervenção Social de Grândola (AISGRA)	1 000
36	Santa Casa da Misericórdia de Arcos de Valdevez	1 000
	TOTAL SHARES	**161 920**

II. Identification of shareholders with special rights and description of those rights (article 245-A, subparagraph d) of the CVM)

There are no shareholders with special rights.

III. Any restrictions on the right to vote, such as limitations on voting rights depending on ownership of a certain number or percentage of shares, deadlines for exercising voting rights or systems highlighting ownership rights (article 245-A, subparagraph f) of the CVM)

The General Meeting is composed of the shareholders with the right to vote and each share corresponds to one vote. Shareholders may exercise their right to vote by correspondence, but voting by electronic means is not permitted (see articles 6 and 7 of the Articles of Association of Banco Montepio).

Pursuant to article 10 of the Articles of Association of Banco Montepio, the deliberations of the General Meeting are taken by simple majority of the votes cast. Deliberations of the General Meeting taken at an extraordinary session concerning amendment of articles of association, merger, demerger, dissolution and incorporation of or in Banco Montepio, require the approval of a majority of two thirds of the votes cast.

IV. Rules applicable to the appointment and replacement of members of the management body and amendment of the articles of association of the company (article 245-A, subparagraph h) of the CVM)

The General Meeting is responsible for electing the members of the governing bodies and approving amendment of the articles of association. The Board of Directors is responsible for appointing directors by co-optation.

Pursuant to the Articles of Association - article 13, number 1, m), the Board of Directors is responsible for constituting, among others, a Remunerations, Appointments and Assessment Committee, composed of a Chairman, appointed by the Board of Directors from among its non-executive members or from among the members of the Audit Committee, where the majority, including the chairman, must have independent status.

The Remunerations, Nominations and Assessment Committee (CRNA) is responsible for performing the duties defined in the law with respect to the remuneration policy. The CRNA is also entrusted with commenting on the adequacy of the proposed arrangement of supplementary retirement pensions, due to old age or disability, of the directors, to be approved in specific regulations by the General Meeting, pursuant to article 402 of the Companies Code.

Pursuant to the internal regulations, the CRNA observes the interests of Banco Montepio, considering the long-term interests of the shareholders and investors, and weighing up the interests of other relevant players for the institution's sustainability, as well as the public interest, in order to prevent decision-making by the management body being dominated by any person or small group of people in detriment of the general interests of the Bank.

Concerning nominations, the CRNA is responsible for formulating and conveying to the Board of Directors recommendations on candidate members of the management and supervisory bodies, including the "fit & proper" process, appraising the respective profile in terms of suitability, professional qualification, independence and availability to hold the position, commenting on supervenient alterations or nominations for new duties and about nominations in terms of knowledge, skills, diversity and experience.

The CRNA is also responsible for proposing to the Board of Directors the approval at the General Meeting of the Policy on Selection and Evaluation of the Adequacy of the members of the management and supervisory bodies, and for establishing a goal for the representation of men and women in the management and supervisory bodies.

Concerning assessment, the CRNA is responsible for the annual assessment of the structure, size, composition and performance of the management and supervisory bodies, the knowledge, skills and experience of each member of these bodies and of the bodies as a whole, as well as with respect to the employees holding key positions and the members of the governing bodies of all the other companies in which Banco Montepio holds equity stakes, provided that the nomination is entrusted to Banco Montepio.

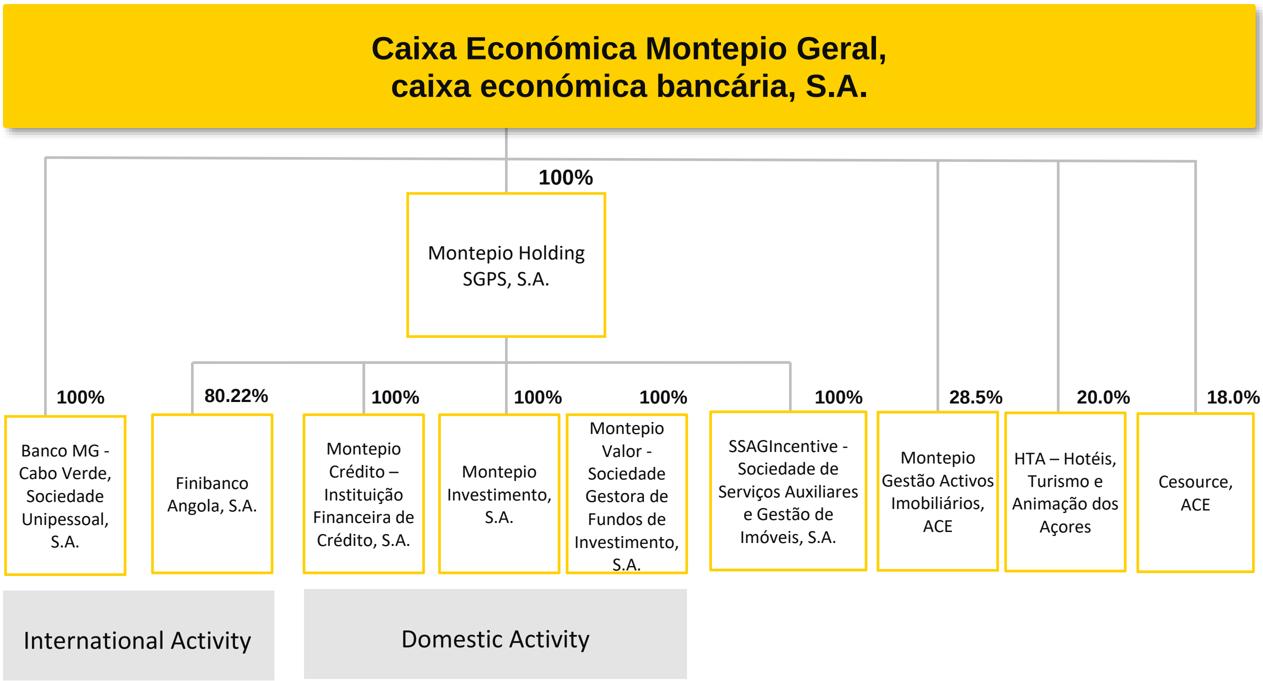
V. Powers of the management body, namely with respect to deliberations to increase share capital (article 245-A, subparagraph i) of the CVM)

The General Meeting is responsible for deliberating on share capital increases, under proposal of the Board of Directors. However, the Board of Directors can deliberate a share capital increase, by cash entries, once or more times, up to the maximum amount corresponding to 10% of the share capital in force.

4. Governance Model

I. Banco Montepio Group

As at 31 December 2019, the Banco Montepio Group was composed of the following related entities:



(% of capital share)

Under the strategic redefinition of its international subsidiaries, and with a view to refocusing the approach to the African market, a series of steps are being developed aimed at the deconsolidation of the subsidiary Finibanco Angola which, as at 31 December 2019, the Banco Montepio Group controlled and held an effective stake of 80.22%.

II. Governing and Statutory Bodies

a) Governance model

The management and supervisory structure of Banco Montepio corresponds to the mode established in subparagraph b) of number 1 of article 278 of the Companies Code, with a Board of Directors that includes an Audit Committee (elected at the General Meeting from among the non-executive members) and a Statutory Auditor.

The **Board of Directors** is responsible for deciding on any issue of the company's management, and may specifically entrust one or more directors to deal with certain management matters. The Board of Directors is authorised by the articles of association to create the committees deemed necessary to pursue its duties and to delegate the company's current management to one or more directors.

The Board of Directors of Banco Montepio created internal committees, composed only of non-executive directors, the majority of whom with independent status, including their chairs, such as the **Risk Committee**, the **Remunerations, Nominations and Assessment Committee**, which performs the duties attributed to the Nominations Committee and the Remuneration Committee established in the Legal framework of Credit Institution and Financial Companies (RGICSF) and the **Corporate Governance, Ethics and Sustainability Committee**.

The **Audit Committee**, elected at the General Meeting, supervises the company's management, supervises the audit activities, the process of preparation and disclosure of financial information, the efficacy of the systems of internal control, risk management, control of compliance, and the activity and independence of the statutory auditor and external auditor.

b) Composition of the governing bodies

Under the terms authorised by Banco de Portugal, Carlos Tavares held the positions of Chairman of the Board of Directors and Chairman of the Executive Committee, under an arrangement of accumulation of duties up to 11 February 2019, after which he held office as Chairman of the Board of Directors.

By unanimous resolution in writing of 23 November 2018 and authorisation by Banco de Portugal of 8 January 2019, Dulce Mota took office as Executive Director, having been appointed Vice-Chairman of the Executive Committee by resolution of the Board of Directors of 9 January 2019.

Following the end of the accumulation of the position of Chairman of the Executive Committee by the Chairman of the Board of Directors, the chair of the Executive Committee was held, under an alternate arrangement, by the Vice-Chairman of the Executive Committee from 11 February 2019 onwards.

At the Universal General Meeting of 5 December 2019, Pedro Moreira Leitão was elected Executive Director, with this performance of duties having been authorised by Banco de Portugal on 21 December 2019, and having been appointed Chairman of the Executive Committee by resolution of the Board of Directors of 9 January 2020.

The **current composition of the governing bodies of Banco Montepio for the term of office 2018-2021** is as follows, with indication of the changes that occurred during 2019:

Board of the General Meeting	Position
António Tavares	Chairman
Cassiano Galvão	Secretary

Board of Directors			
Name	**Position**	**Election**	**Start of Duties**
Carlos Tavares	Chairman	16/03/2018	21/03/2018
Manuel Ferreira Teixeira	Non-executive member	16/03/2018	21/03/2018
Amadeu Ferreira de Paiva	Non-executive member	16/03/2018	21/03/2018
Vítor do Carmo Martins	Non-executive member	16/03/2018	21/03/2018
Rui Heitor	Non-executive member	16/03/2018	21/03/2018
Pedro Gouveia Alves	Non-executive member	16/03/2018	23/08/2018
Carlos Ferreira Alves	Non-executive member	30/10/2018	15/01/2019
José Nunes Pereira	Non-executive member	05/12/2019	01/04/2020
Executive Committee			
Pedro Leitão	Chairman	05/12/2019	09/01/2020
Dulce Mota	Vice-Chairman	23/11/2018	09/01/2019
Nuno Mota Pinto	Executive member	16/03/2018	21/03/2018
José Carlos Mateus	Executive member	16/03/2018	21/03/2018
Pedro Ventaneira	Executive member	16/03/2018	21/03/2018
Helena Soares Moura	Executive member	16/03/2018	21/03/2018
Leandro Graça Silva	Executive member	30/10/2018	09/11/2018

NOTES:

(1) The Non-Executive Member and Chairman of the Audit Committee Luís Magalhães, elected on 16/03/2018, resigned from his position taking effect on 30/09/2019.

(2) The Executive Member Carlos Leiria Pinto, elected on 16/03/2018, reigned from his position taking effect on 31/03/2020.

Audit Committee	Position
Manuel Ferreira Teixeira **(a)**	Chairman
Amadeu Ferreira de Paiva	Member
Carlos Ferreira Alves	Member
José Nunes Pereira	Member
Vítor do Carmo Martins	Member

(a) Manuel Ferreira Teixeira was appointed Chairman of the Audit Committee, taking effect on 1 October 2019, following the resignation from office of Luís Eduardo Henriques Guimarães, non-executive member who was Chairman of the Audit Committee up to 30 September 2019, inclusively.

During the performance of its duties. The Audit Committee supervises the company's management, supervises the audit activities, the process of preparation and disclosure of financial information, the efficacy of the systems of internal control, risk management, control of compliance, and the activity and independence of the statutory auditor and external auditor.

Statutory Auditor	KPMG*
Represented by:	Hugo Jorge Gonçalves Cláudio Enrolled at the Statutory Auditors Association (OROC) under number 1597
	Alternate: Fernando Gustavo Duarte Antunes Enrolled at the Statutory Auditors Association (OROC) under number 1233
(*) Although the term of office ended on 31-12-2018, KPMG remained in office up to the election of the new Statutory Auditor for the term of office 2019-2021, which took place on 27-05-2019 at the General Meeting of Banco Montepio.	

Statutory Auditor	PricewaterhouseCoopers & Associados (PwC)*
Represented by:	José Manuel Henriques Bernardo Enrolled at the Statutory Auditors Association (OROC) under number 903
	Alternate: Carlos José Figueiredo Rodrigues Enrolled at the Statutory Auditors Association (OROC) under number 1737
(*) At the beginning of 2019, the Audit Committee conducted the process of selection and assessment of the adequacy of a new Statutory Auditor, which culminated with the election, at the General Meeting held on 27-05-2019, of the firm PricewaterhouseCoopers & Associados as the Statutory Auditor of Banco Montepio for the three-year period 2019-2021.	

c) Internal Committees of the Board of Directors

As foreseen in Chapter IV of the Regulations of the Board of Directors, the Internal Committees of the Board of Directors are as follows:

- Risk Committee (CR)
- Remunerations, Nominations and Assessment Committee (CRNA)
- Corporate Governance, Ethics and Sustainability Committee (CGSES)

Risk Committee	Position
Vítor do Carmo Martins	Chairman
Manuel Ferreira Teixeira	Member
Rui Heitor	Member
Remunerations, Nominations and Assessment Committee	**Position**
Manuel Ferreira Teixeira	Chairman
Amadeu Ferreira de Paiva	Member
Carlos Ferreira Alves	Member
Corporate Governance, Ethics and Sustainability Committee	**Position**
Carlos Tavares	Chairman
Carlos Ferreira Alves	Member
Rui Heitor	Member

d) Executive Committee

By resolution of the Board of Directors of 22 May 2018, this Board delegated the current management of Banco Montepio to an Executive Committee.

The Executive Committee is responsible for exercising the powers of the current management of the bank that are delegated to it by the Board of Directors, except for the powers related to matters whose delegation is prohibited by law, or those that the Board of Directors reserves for itself, under the terms of its Regulations.

The Chairman of the Executive Committee is especially responsible for proposing to the Board of Directors the distribution of the areas of responsibility, allocating one or more of its executive members the direct responsibility for specific areas, representing the Executive Committee and ensuring that relevant information is provided to all the other members of the Board of Directors regarding its activity and resolutions, as well as ensuring compliance with the limits of the delegation of powers, the approved strategy for the Bank and its Group, and the duties of collaboration with the Board of Directors and, in particular, its Chairman.

The composition of the Executive Committee on this date is as follows:

Executive Committee	
Pedro Leitão	Chairman
Dulce Mota	Vice-Chairman
Nuno Mota Pinto	Executive member
José Carlos Mateus	Executive member
Pedro Ventaneira	Executive member
Helena Soares Moura	Executive member
Leandro Graça Silva	Executive member

The Board of Directors has approved the constitution and operation of the following operational committees, tasked with the ongoing monitoring of certain specific issues:

- **Capital, Assets and Liability Committee**, with the mission of proposing to the Board of Directors (i) the liquidity management policies; (ii) the funding strategy for the Group; and (iii) the capital adequacy policies; as well as monitoring their implementation, so as to ensure their full effectiveness;
- **Impairment Committee**, with the mission of analysing the credit impairments of Banco Montepio;

- **Credit Committee** with decision-making power delegated to the Executive Committee on credit operations that are not reserved under the terms of the Regulations of the Board of Directors and that are accordingly framed under the Credit Regulation and Policy; and
- **Business, Distribution and Products Committee** with the mission of: (i) analysing and proposing for resolution the proposals for production and distribution of new products and services and/or significant changes to the offer being marketed (new products) with a view to submission to the approval of the Board of Directors; (ii) follow-up of compliance with the defined business objectives, analysing and proposing the commercial action priorities; (iii) monitoring the approved strategic actions for business development.

The composition of these committees is established in their operating regulations, which, at the present date, stipulate the following mandatory attendance:

Capital, Assets and Liabilities Committee	Position
Carlos Tavares – Chairs the committee	Chairman of the Board of Directors
Manuel Ferreira Teixeira	Chairman of the Audit Committee
Vítor do Carmo Martins	Chairman of the Risk Committee
Pedro Leitão	Chief Executive Officer (CEO)
Pedro Ventaneira	Chief Risk Officer (CRO)
José Carlos Mateus	Chief Financial Officer (CFO)
Impairment Committee	**Position**
Pedro Ventaneira – Chairs the committee	Chief Risk Officer (CRO)
José Carlos Mateus	Chief Financial Officer (CFO)
Leandro Graça Silva	Chief Technology & Operations Officer (CTOO)
Credit Committee	**Position**
Pedro Ventaneira – Chairs the committee	Chief Risk Officer (CRO)
José Carlos Mateus	Chief Credit Officer (CCO)
Leandro Graça Silva	Chief Credit Recovery Officer

Business, Distribution and Products Committee	Position
Pedro Leitão – Chairs the committee	Chief Marketing Officer (CMO)
Dulce Mota	Chief of Retail
Nuno Mota Pinto	Chief of Commercial Banking
José Carlos Mateus	Chief Financial Officer (CFO)
Pedro Ventaneira	Chief Risk Officer (CRO)
Helena Soares de Moura	Chief Legal Officer (CLO)
Leandro Graça Silva	Chief Operating Officer (COO)

e) Distribution of Areas of Responsibility

The Board of Directors has approved the distribution of areas of responsibility, which, on the present date, is as follows:

Areas of Responsibility	
Carlos Tavares Chairman of the Board of Directors	Office of the Board of Directors
	General Secretariat of the Company
	Office of Economic and Financial Studies
	Audit and Inspection Department
Pedro Leitão Chairman of the Executive Committee	Communication and Brand Department (institutional)
	Strategic Marketing Department
	People Management Department (1)
	Transformation and Innovation Centre
Dulce Mota Vice-Chairman of the Executive Committee	North and Centre Commercial Department
	South and Islands Commercial Department
	Commercial Dynamisation Department
	Operational Marketing Department
Nuno Mota Pinto Executive member	Corporate Banking Department
	Social Economy and Public Sector Department
José Carlos Mateus Executive member	Financial and International Department
	Financial Assets Monitoring Office
	Strategy, Planning and Control Department
	Credit Analysis Department
Pedro Ventaneira Executive member	Risk Department
	Information Management Office
	Model Validation Office
	Accounting and Financial Reporting Department
	Specialized Credit Analysis Department
Helena Soares de Moura Executive Member	People Management Department
	Legal Advisory Department
	Litigation Department
	Compliance Department
	Data Protection Office
	Customer and Quality Office
Leandro Graça Silva Executive member	Information Systems Department
	Services and Operations Department
	Credit Recovery Department
	Shared Services Unit (2)
	Procurement Centre (2)
	Real Estate Area (2)

(1) With delegation of follow-up by Helena Soares de Moura

(2) Shared service areas that are not part of the organisational chart of Banco Montepio

f) Supervision

Pursuant to the institution's governance model, the Audit Committee supervises the management of Banco Montepio which, in turn, supervises the audit activities, the process of preparation and disclosure of financial information, the efficacy of the systems of internal control, risk management, control of compliance, and the activity and independence of the statutory auditor and external auditor, as established in the Articles of Association of Banco Montepio and in the Regulations of the Audit Committee.

g) Procedures and criteria applicable to the intervention of the supervisory body for the purposes of hiring additional services from the external auditor

Pursuant to the provisions in the Regulations of the Audit Committee, this body is entitled to, on its own initiative, request independent opinions or hire specialized advisory or external consultant services.

The Board of Directors is responsible for negotiating the fees and contracting of the services to be carried out.

h) Identification of the statutory auditor and partners representing it

Considering the rotation policy established in the new Statutes of the Statutory Auditors Association (OROC), approved by Law 140/2015 of 7 September, which was enforced on 1 January 2016, and with a view to ensuring the maintenance of the high level of quality and independence, at the beginning of 2019, and pursuant to article 21 of the Articles of Association of Banco Montepio, the Audit Committee conducted a process of selection and assessment of the adequacy of a new Statutory Auditor. This culminated with the election, at the General Meeting held on 27 May 2019, of the firm PricewaterhouseCoopers & Associados (PwC) for the three-year period 2019-2021, represented by José Manuel Henriques Bernardo, ROC number 903 and suppletively by Carlos José Figueiredo Rodrigues, ROC number 1737.

i) Other services provided by the statutory auditor to the Company

PricewaterhouseCoopers & Associados (PwC), as Statutory Auditor of Banco Montepio, performs the duties of external auditor at this institution and non-audit services, in compliance with the legal requirements of independence established in article 77 of Law 140/2015 of 7 September.

The services provided by PwC are entirely functionally and hierarchically independent in relation to Banco Montepio, pursuant to the applicable regulatory and professional standards.

Any services other than legal review of accounts are previously approved by the Board of Directors, and refer to technical services, namely for the interpretation and review of the procedures required for Banco Montepio's submission of an application to use the internal ratings based approach to calculate solvency ratios.

Pursuant to the Regulations, the Audit Committee is responsible for issuing an opinion on the fees payable for the provision of legal review of accounts and audit services of the Banco Montepio Group and additional services provided by the auditors.

j) Curricular information of the current members of the Board of Directors

See ANNEX I

k) Accumulation of positions by members of the Board of Directors

See ANNEX II

5. Internal Organisation

I. Internal Control System

a) Main elements of the internal control and risk management systems implemented at the company regarding the procedure for reporting financial information (article 245-A, subparagraph m) of the CVM)

The **Board of Directors** is responsible for the implementation and maintenance of an adequate and effective internal control system that guarantees the achievement of the performance, information and compliance objectives.

The **Audit Committee** is responsible for performing a role of continuous assessment of the institution concerning the financial performance and decisions, which should be considered strategic due to their amount and risk. The Audit Committee is responsible for performing all the other duties contained in the regulatory provisions of Banco de Portugal and the Securities Commission (CMVM), namely, promoting at Banco Montepio and all other companies of the Group subject to supervision on a consolidated basis, the pursuit of the fundamental objectives established on matters of internal control and risk management, and annual preparation of an opinion for Banco de Portugal, issuing detailed comments on the adequacy and efficacy of the internal control system of Banco Montepio and of the Banco Montepio Group.

The mission of the **Risk Committee** is to permanently monitor the definition and implementation of the institution's risk strategy and risk appetite, and check that they are compatible with the medium and long-term sustainable strategy and with the action programme and budget that have been approved, advising the Executive Committee and Board of Directors in these spheres. At the level of the Banco Montepio Group, the Risk Committee is responsible for periodically reviewing and monitoring the scope and nature of the activities developed by the Banco Montepio Group related to risk management.

The Audit and Inspection Department (DAI) is responsible for the **internal audit function**, integrated in the process of monitoring the internal control system. As a third line of defence, the Audit and Inspection Department implements the supplementary autonomous assessments of the controls and their procedures, identifying any flaws and recommendations, duly documented and reported to the management body. These are subject to continuous monitoring, in order to guarantee that the necessary measures are taken and implemented in accordance with the respective implementation plan.

The **Risk Management function** is ensured by the Risk Department, supporting the Board of Directors in decision-making associated to the management of the different types of risk inherent to the activity, within the Banco Montepio Group. The Risk Department is responsible for the identification, quantification and monitoring of risk, the definition of limits and the assessment of their compliance.

The **Compliance function** is ensured by the Compliance Department and covers all the areas, processes and activities of the companies of the Banco Montepio Group in Portugal, while monitoring the affiliates abroad, pursuant to article 24 of Banco de Portugal Notice 5/2008. The mission of the Compliance Department is to contribute to the prevention and mitigation of “Compliance risks”, and prevent the institution incurring legal or regulatory penalties, financial or reputation loss as a result of failure in compliance with the application of the laws or regulations.

The **General Secretariat of the Company**, with a new organic status approved in the beginning of 2019, is the body responsible for providing functional support to the Board of Directors, Executive Committee and other committees and commissions of the Board of Directors, including the General Secretariat. The General Secretariat carries out the secretarial duties of the meetings and the reporting to the supervisory entities of mandatory corporate information and to the members of the governing bodies, ensuring the registration of corporate acts and support to the management in performing its shareholder function among the Group's companies, on matters of corporate management.

The main mission of the **Office of the Board of Directors**, created in 2019, is to provide advice to the Board of Directors and the Executive Committee on the management of the agenda of meetings, on training, disclosure and follow-up of the resolutions, on the provision of management information and on the monitoring of relations with the shareholders, regulators and other institutional entities, ensuring compliance with the duties of disclosure and provision of information to investors and the market in general through the Representative for Market Relations (investors@montepio.pt) in the context of the applicable legal and regulatory obligations, and to provide advice to the management and supervisory bodies on the governance of the internal control system and on the process of resolving flaws.

The **Statutory Auditor** is responsible for issuing an opinion on the suitability and efficacy of the internal control system underlying the process of preparation and disclosure of the individual and consolidated financial information (financial reporting).

b) Policy on communication of irregularities (whistleblowing)

Banco Montepio has implemented the specific, independent and autonomous means appropriate to the receipt, treatment and filing of reports on serious irregularities related to its management, accounting organisation, internal supervision and serious indications of breach of duty established in Legal Framework of Credit Institutions and Financial Companies (RGICSF), in Regulation (EU) 575/2013 of 26 June of the European Parliament and of the Council, in Regulation (EU) 596/2014 of 16 April of the European Parliament and of the Council, and respective regulations and delegated acts, facts related to the matters referred to in number 3 of article 388 of the Securities Code (CVM), as well as the duties imposed by Law 83/2017 of 18 August.

Accordingly, the institution's employees must inform the Audit Board, the supervisory body, of any irregular practices they detect or of which they have become aware or have grounds to suspect, in order to prevent or preclude irregularities, which might cause financial or reputation damages to Banco Montepio.

The Regulations of Communication of Irregularities in force, reviewed in January 2020 and published and made available to all the Employees, defines the procedures and terms under which whistleblowing can be done, in person or in writing (by electronic mail or via the post), indicating all the elements and information which the Employee possesses and considers necessary for assessment of the irregularity.

The reports are addressed to the Chairman of the Audit Committee, under an arrangement of anonymity, and may be done by email to comunicar.irregularidades@montepio.pt, or via postal mail to the Chairman of the Audit Committee (Presidente da Comissão de Auditoria, Rua Castilho nº 5, Piso 10, sala 80, 1250-066 Lisboa).

Confidentiality of the received reports and the protection of the personal data of the author of the communication are assured, with the Bank being able to convey the personal data collected to supervisory entities or judicial entities, in cases where this data proves relevant.

The Audit Committee is responsible for keeping records of all reports of irregularities covered by the scope of application of the Regulations of Communication of Irregularities (www.bancomontepio.pt/politicas-regulamentos).

II. Website for consultation: Articles of Association, Regulations and Corporate Information

Banco Montepio provides essential information to assure suitable knowledge on its activity through the addresses www.bancomontepio.pt\investidores (Portuguese version) and www.bancomontepio.pt\investors (English version).

The institution's website - www.bancomontepio.pt - provides all the general corporate information about Banco Montepio, including the Articles of Association and Regulations of the Board of Directors, Audit Committee, Executive Committee and all the other committees, as well as the Policies, miscellaneous Regulations and Code of Conduct.

The internal portal, the Intranet, also discloses the Internal Rules for information of all the employees, which includes, in addition to the legal, statutory and regulatory provisions, rules of conduct and ethical standards.

With regard to compliance with the prudential standards in force and the respective periods of reporting to external entities, Work Order 9/2020 presents and systematises the set of information, time limits and department responsible for ensuring compliance with this reporting duty.

At the beginning of 2019, the institution changed its trade name to Banco Montepio, having reformulated the image and accesses to the website. An improvement of the accesses and contents of the institutional area is currently underway, namely with respect to the Information to the Investors and Corporate Governance.

III. Number of meetings held

Although Banco Montepio's Articles of Association establish that the Board of Directors should hold a meeting at least once a month, the Board held fortnightly meetings during 2019, and in extraordinary sessions whenever called for such by the Chairman.

Although the Regulations of the Audit Committee establish that this Committee should hold a meeting at least once a month, the Committee held fortnightly meetings during 2019, and in extraordinary sessions whenever called for such by the Chairman.

The Executive Committee, pursuant to its Regulations, holds weekly meetings and whenever called by its Chairman or alternate.

During 2019, **the Board of Directors held 30 meetings**, with the minutes having been drawn up recording the presence of its members and the following occasional absences due to holidays, sickness, training, company travel abroad duly justified and accepted by the Board: Luís Guimarães (1*); Pedro Gouveia Alves (4); Dulce Mota (1); José Carlos Mateus (1); Pedro Ventaneira (2); Helena Soares de Moura (1); Carlos Leiria Pinto (3**); and Leandro Graça Silva (1).

(*) Resigned from this position on 30/09/2019

(**) Held office during 2019, having resigned from this position on 31/03/2020

Between 1 January and 31 December 2019, **the Executive Committee held 60 meetings (*)**, with the minutes having been drawn up recording the presence of the members who participated in them, including the following occasional absences due to holidays, sickness, training, company travel abroad duly justified and accepted by the Executive Committee: Dulce Mota (1); Nuno Mota Pinto (10); José Carlos Mateus (2); Pedro Ventaneira (7); Helena Soares de Moura (4); Carlos Leiria Pinto (3*); and Leandro Graça Silva (3).

(*) Up to 6 March 2019, in addition to the ordinary weekly meetings, the Executive Committee held weekly meetings in the form of a Credit Executive Committee, up to the operationalisation of the Credit Committee, which held its first session on 12/03/2019.

(**) Held office during 2019, having resigned from this position taking effect on 31/03/2020.

The **Audit Committee held 27 meetings** during 2019, which were attended by all of its members. The meetings held by all the committees, attended by all their members, are summarised below:

Committees	Composition	Number of meetings foreseen in the Regulations	Total meetings held in 2019
Audit Committee (CdA)	Manuel Teixeira – Chairman (1) Amadeu Paiva Vítor Martins Carlos Ferreira Alves José Nunes Pereira (2)	Periodicity: monthly Total annual: 12	Total meetings held: **27**
Risk Committee (CR)	Vítor Martins – Chairman Manuel Teixeira Rui Heitor	Periodicity: bimonthly Total annual: 6	Total meetings held: **16**
Remunerations, Nominations and Assessment Committee (CRNA)	Manuel Teixeira – Chairman Amadeu Paiva Carlos Ferreira Alves	Periodicity: bimonthly Total annual: 6	Total meetings (3) held: **15**
Corporate Governance, Ethics and Sustainability Committee (CGSES)	Carlos Tavares – Chairman Carlos Ferreira Alves Rui Heitor	Periodicity: quarterly Total annual: 4	Total meetings (4) held: **3**

(1) Manuel Ferreira Teixeira was appointed Chairman of the Audit Committee from 01/10/2019.
(2) Took office on 01/04/2020.
(3) The CRNA held its first session on 20/02/2019.
(4) The CGSES held its first session on 09/09/2019.

6. Remunerations

I. Power to establish

Pursuant to article 11, subparagraph c) of the Articles of Association of Banco Montepio, the General Meeting is responsible for electing a Remuneration Committee composed of three independent members empowered to establish the remunerations of the members of the governing bodies, see article 399, number 1 of the Companies Code.

Considering that this Remuneration Committee is not appointed by the shareholders, the power and duty to establish the remunerations of the members of the governing bodies of Banco Montepio are, under the terms of the law, entrusted to the General Meeting.

II. Remuneration of the members of the Management and Supervisory Body

The members of the Board of Directors elected for the term of office 2018-2021, earned the following fixed remunerations during 2019, with no variable remuneration having been attributed:

Board of Directors	Position	Total fixed remunerations paid in 2019 (€)
Carlos Tavares	BoD – Chairman	€ 401,429.52
Luís Guimarães	BoD – Non-Executive Member	€ 122,550.00
Manuel Ferreira Teixeira	BoD – Non-Executive Member	€ 138,000.00
Amadeu Ferreira de Paiva	BoD – Non-Executive Member	€ 126,000.00
Vitor do Carmo Martins	BoD – Non-Executive Member	€ 126,000.00
Rui Heitor	BoD – Non-Executive Member	€ 126,000.00
Pedro Gouveia Alves	BoD – Non-Executive Member	€ 86,000.00
Carlos Ferreira Alves	BoD – Non-Executive Member	€ 120,840.27
Executive Committee		
Dulce Mota	BoD – Executive Member	€ 343,691.00
Nuno Mota Pinto	BoD – Executive Member	€ 254,429.52
Pedro Ventaneira	BoD – Executive Member	€ 254,429.52
Helena Soares de Moura	BoD – Executive Member	€ 254,429.52
José Carlos Mateus	BoD – Executive Member	€ 254,129.74
Carlos Leiria Pinto	BoD – Executive Member	€ 254,417.97
Leandro Graça Silva	BoD – Executive Member	€ 255,877.05

The Remunerations, Nominations and Assessment Committee is responsible for formulating, at least on an annual basis, informed and independent judgements on the remuneration policy and practice, and respective criteria to establish the fixed and variable component or other existing remuneratory incentives, and for proposing to the Board of Directors the criteria to be used in the annual process of assessment and establishing of the variable component of the remuneration of the Executive Committee members, which should include the adequate weighting of merit, individual performance and contribution to the efficiency of the body.

III. Remuneration of Holders of Key Positions

The total remunerations paid in 2019 to a set of key employees who hold senior positions and can affect the institution's risk profile are as follows:

Categories	No. holders
Director	25
Assistant Manager	2
Deputy Director	4
Total Fixed Remuneration	€ 3,223,376.54
Total Variable Remuneration (*)	€ 4,427.50
Total Remuneration	**€ 3,227,804.04**

(*) Value relative to the exceptional distribution of profits, established in the collective labour agreement for 2018 and 2019, with this value, paid in 2019, being relative to the year of 2018.

Annex I - Curricular information of members of the Board of Directors.

Annex II - Accumulation of positions by members of the Board of Directors.

Annex III - Statement of the Remunerations, Nominations and Assessment Committee on the Remuneration Policy of Members of the Management and Supervisory Bodies of Banco Montepio relative to 2019.

Annex I

Curricular information of members of the Board of Directors

- **CARLOS MANUEL TAVARES DA SILVA**

Academic qualifications:

Licentiate degree in Economics from the Faculdade de Economia da Universidade do Porto.

Professional activities performed over the last few years:

Chairman of the Board of Directors of Banco Montepio, Chairman of the Corporate Governance, Ethics and Sustainability Committee, Chairman of the Capital, Asset and Liability Committee (since 2018); Chairman of the Board of Directors of Montepio Holding, SGPS (since 2018); Chairman of the Board of Directors of Montepio Investimento, S.A. (since 2018); Coordinator of the Working Group for the Reformation of the Financial Supervision Model (2017); Advisor of the Board of Directors of CGD (2016-2018); Chairman of the Governing Board / Board of Directors of the Securities Commission (2005-2016); Vice-Chairman of the European Securities and Markets Authority (ESMA) (2011-2016); Chairman of the Committee of Economic and Markets Analysis of the CESR (2007-2010); Chairman of the Committee of European Securities Regulators of the CESR (2010-2011); Chairman of the Standing Committee on Risk and Research / Committee on Emerging Risks of IOSCO (2011-2015); Chairman of the European Regional Committee of IOSCO (2010-2015); Member of the Board of the International Organization of Securities Commissions (IOSCO) (2010-2015); Member of the Board of Trustees of the University of Porto (2009-2014); Vice-Chairman of the Committee of European Securities Regulators (CESR) (2007-2010); Chairman of the Governing Board / Board of Directors of the CMVM (2005-2016); Director of the Bureau of European Policy Advisers of the European Commission (2004-2005); Minister of the Economy of the XV Constitutional Government (2002/2004); Vice-Chairman of the Executive Committee of Banco Santander de Negócios Portugal and Executive Director of Banco Totta and Crédito Predial Português (2000-2002); Chairman of the Board of Directors of BSN Dealer and Totta Finance (2000-2002); Vice-Chairman of Banco Totta & Açores and Banco Pinto e Sotto Mayor (1999-2000); Vice-Chairman of the Board of Directors of Banco Chemical Finance, S.A.; Director of Banco Pinto Sotto Mayor, Banco Totta e Açores and Crédito Predial Português (1998-1999); Director of Banco CISF (1996-1998); Chairman of the Board of Directors of BNU (1992-1996); Director of CGD (1992-1993); Vice-Chairman of CGD (1993-1996); Director of SIBS – Sociedade Interbancária de Serviços (1992-1993); Chairman of the Board of Directors of Unicre – Cartão Internacional de Crédito, S.A. (1992-1993); Chairman of the Board of Directors of Espaço Atlântico – Formação Financeira (1992-1995); Director of BPA (1992); Secretary of State and Treasury of the XI Constitutional Government (1989/1991); Member of the Monetary Committee and Coordination Group of the Economic Policies of the European Communities (1986-1991); Director of INGA – Instituto Nacional de Garantia Agrícola (1986-1987); Director of the Department of Economic Studies of the Ministry of Finance (1988-1989); Director of the Office of Analysis and Financing of the State and Public Enterprises (1987-1989); Chairman of the Supervisory Board of Companhia de Seguros Bonança (1986-1989); Advisor and Consultant of the Minister of Finance (1985-1989); Member of the Office of Economic Studies of Banco Português do Atlântico (1980-1985) performing duties of coordinator of the Department of Macroeconomics and coordinator of the team of the project of construction of a macroeconomic model of the Portuguese economy; Assistant at the Faculdade de Economia do Porto (1975/1985).

- **MANUEL FERREIRA TEIXEIRA**

Academic qualifications:

Licentiate degree in Economics from Instituto Superior de Economia e Gestão, Universidade Técnica de Lisboa (1981); Postgraduation in European Economics from Universidade Católica de Lisboa (1985); Masters in Economics from Instituto Superior de Economia e Gestão, Universidade Técnica de Lisboa (1989).

Professional activities performed over the last few years:

Non-Executive Director and Member of the Audit Committee of Caixa Económica Montepio Geral (since March 2018); Chairman of the Audit Committee and Chairman of the Remunerations, Nominations and Assessments Committee (since 2019); Consultant of Santa Casa da Misericórdia de Lisboa and Invited Professor at Universidade Nova – IMS (since 2015); Secretary of State for Health of the XIX Constitutional Government (2011-2015) and Undersecretary of State of the Minister of Health of the XX Constitutional Government (2015); Chairman of the Central Administration of the Health System (2005-2011); Secretary of State for the Budget of the XVI Constitutional Government (2004-2005); Chairman of the Instituto de Gestão Financeira da Segurança Social (2002-2004); Member of the Advisory Board of the Instituto de Gestão dos Fundos de Capitalização da Segurança Social (2002-2004); Member of the Board of Directors of the Fundo para a Revitalização e Modernização do Tecido Empresarial, SGPS, S.A. (2002-2004); Chairman of the Instituto de Gestão Informática e Financeira da Saúde (1999-2002); Member of IFADAP-Instituto de Financiamento da Agricultura e Pescas (1998-1999); Director-General of Public Accounts and subsequently Director-General of the Budget (1996-1998); Chairman of the Accounts Review Committee of the Fundação Calouste Gulbenkian (1996-1998); Member of the Audit Board of the Fundação Ricardo Espirito Santo (1996-1998); Subdirector-General of the Junta do Crédito Público (1992-1996); Member of the Audit Committee of Santa Casa Misericórdia de Lisboa (1996-2004); Consultant of the Ministry of Finance (1989-1992); Assistant at ISEG - Instituto Superior de Economia e Gestão (1982-1994).

- **AMADEU FERREIRA DE PAIVA**

Academic qualifications:

Licentiate degree in Economics from the Instituto Superior de Economia (ISE) of Universidade Técnica de Lisboa (1978); taught part of the doctorate in International Relations, Geopolitics and Geoeconomics of the Universidade Autónoma de Lisboa (2016).

Professional activities performed over the last few years:

Non-Executive Director and Member of the Audit Committee of Banco Montepio (since March 2018); Vice-Chairman of the Portuguese Committee for UNICEF (since 2018); Professor at Universidade Autónoma de Lisboa (1995-1999 and from 2007 up to date); Board Advisor at SIBS Internacional, S.A. (2017-2018); Member of the General Board of Montepio Geral - Associação Mutualista (2015-2018); Director, Assistant Managing Director and Managing Director (1990-2002) and Executive Director at Unicre, IFIC, S.A. (2002-2014); Chairman of the Board of the General Meeting of ACEPI-Associação de Economia Digital (since 2013); Member of the Board of Directors of Paywatch (2009-2013); Member of the Board of Directors of Visa Portugal - Associação Nacional dos Operadores de Cartões Visa (2004-2008); Member of the Products and Marketing Advisers Group (1992-2013) and Acquirer Forum of Visa Europe, Ltd.; Executive Director of Banco Comercial dos Açores (1989-1990); Coordinator of Montepio Geral-Associação Mutualista (1986-1988). Professor at ISE, then ISEG, and Invited Professor at Universidade dos Açores and Universidade Eduardo

Mondlane (1976-2005). Researcher at CEDEP - Centro de Estudos de Economia Internacional, and its Executive Director (1978-2009).

- **VÍTOR MANUEL DO CARMO MARTINS**

Academic qualifications:

Licentiate degree in Finance from ISCEF - Instituto Superior de Ciências Económicas e Financeiras; Audit from *Hautes Études Commerciales* in Jouy-en-Josas, France; Financial Accounting at Arthur Andersen & Co. in Madrid; Preparatory Course for Auditors – CROC; Industrial Project Analysis – IPE; Course of the Statutory Auditors Association (OROC) in the context of continuous training; Postgraduation in Corporate Governance at the Faculdade de Direito da Universidade de Lisboa.

Professional activities performed over the last few years:

Non-Executive Director at Banco Montepio and Member of the Audit Committee (since March 2018); Chairman of the Risk Committee (since 2019); Member of the General and Supervisory Board of Caixa Económica Montepio Geral (2015-2018); Statutory Auditor at companies of various economic, industrial, commercial, SPGS and financial sectors (1983-2018); Auditor at Arthur Anderson & Co. (1973-1974).

- **RUI PEDRO BRÁS MATOS HEITOR**

Academic qualifications:

Licentiate degree in Law from the Faculdade de Direito da Universidade de Lisboa; Attendance of the postgraduation in Arbitration at the Faculdade de Direito da Universidade Nova de Lisboa; Postgraduation in Corporate Governance from the Faculdade de Direito da Universidade de Lisboa-Centro Investigação Direito Privado; Corporate Governance-Leadership of Boards Programme at the Nova School of Business & Economics; Inspiring Strategic Reflection Programme at the Nova School of Business & Economics.

Professional activities performed over the last few years:

Non-Executive Director at Banco Montepio (since March 2018); Non-Executive Director at HTA – Hotéis Turismo e Animação dos Açores, S.A. (since 2018); Secretary of the Board of the General Meeting of Montepio Gestão de Ativos, Sociedade Gestora de Fundos de Investimento, S.A. (since 2018); Secretary of the Board of the General Meeting of Futuro – Sociedade Gestora de Fundos de Pensões, S.A. (since 2018); Secretary of the Board of the General Meeting of Residências Montepio, Serviços de Saúde, S.A. (since 2018); Member of the General and Supervisory Board of Banco Montepio (2015-2018); Employee of Banco Montepio, with duties of lawyer at the Credit Recovery Department and Litigation Department; Head of the area of lawyers at Montepio Recuperação de Crédito, A.C.E.; Head of the Department of Judicial Recovery and Lawyers of the Credit Recovery Division, and Assistant Secretary-General of Montepio Geral Associação Mutualista-MGAM (since 2005).

- **PEDRO JORGE GOUVEIA ALVES**

Academic qualifications:

Licentiate degree in Economics from the Faculdade de Economia da Universidade Católica Portuguesa, in Lisbon; Postgraduation in Marketing Management at Instituto Superior de Gestão; Postgraduation in Management of Information and Electronic Commerce at Universidade Católica Portuguesa, in Lisbon; Masters in Finance (Complete Curricular Programme, without Dissertation) at Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE), Instituto Universitário de Lisboa; Advanced Executive Education of Big Data to Decision: Artificial Intelligence and Machine Learning at the London Business School; Blue Ocean Strategy Program, INSEAD, Fontainebleau.

Professional activities performed over the last few years:

Non-Executive Director at Banco Montepio (since August 2018); Chairman of the Board of Directors of Montepio Crédito, S.A. (since 2018); General Coordinator of the Corporative Centre of Montepio Geral Associação Mutualista-MGAM (2016-2018); Non-Executive Member of the Board of Directors of Bolsimo, S.A., in representation of the shareholder MGAM (2016-2018); Member of the Management Board of ASFAC Logalty (since 2015); Non-Executive Member of the Board of Directors of the Portugal Venture Capital Initiative, SICAV, FIS/AIFM (REG), in representation of the shareholder MGAM (2009-2018); Chief Executive Officer (CEO) of Montepio Crédito, IFIC, S.A. (2014-2016); Executive Chairman of the Board of Directors (CEO) of Finicrédito, IFIC, S.A. (2012-2014); Chairman of the Supervisory Board of ASFAC – Associação Portuguesa de Instituições de Crédito Especializado (2012-2016); Member of the Board of ALF – Associação Portuguesa de Leasing, Factoring e Renting (2015-2016); Director of the Commercial Department of Companies and Institutions of Banco Montepio (2011-2012); Executive Member of the Board of Directors of Finibanco, S.A. (2011); Non-Executive Member of the Board of Directors of Finicrédito, IFIC, S.A. (2011-2012); Non-Executive Member of the Board of Directors of Finibanco Holding, SGSP, S.A. (2011-2013); Non-Executive Member of the Board of Directors of Lestinvest, SGSP, S.A. (2011-2012); Director of the Department of Planning and Economic Studies of Banco Montepio (2008-2010); Director of the Department of Marketing and New Channels of Banco Montepio (2004-2008); Director of the Department of New Distribution Channels of Banco Montepio (1999-2004); Assistant Director of the Department of Strategic Marketing of BES - Banco Espírito Santo, S.A. (1998-1999); Subdirector of the Department of Strategic Marketing of BES (1995-1997).

- **CARLOS FRANCISCO FERREIRA ALVES**

Academic qualifications:

Licentiate, Masters and Doctoral degree in Economics from the Faculdade de Economia da Universidade do Porto.

Professional activities performed over the last few years:

Non-Executive Director and Member of the Audit Committee of Banco Montepio (since January 2019); Member of the Coordinating Board of SEDES – Associação para o Desenvolvimento Económico e Social (since 2018); Chairman of the Academic Board of Porto Business School (since 2015); Associate Professor at the Faculdade de Economia da Universidade do Porto (since 2014); Chairman and Member of the Conselho Nacional de Supervisão de Auditoria (CNSA) (2012-2015); Chairman of the Committee for Economic and Markets Analysis (CEMA) and European Securities and Markets Authority (ESMA) (2011-2015); Representative of the CMVM at the General Board of the European Systemic Risk Board (ESBR) (2010-2016); Deputy Member of the Board of Supervisors of ESMA (2010-2016); Lecturer at Porto Business School (since 2009); Vice-Chairman of ECONET (2009-2010); Member of the Board of Directors of the CMVM - Comissão do Mercado de Valores Mobiliários (2008-2016); Member of the Board of the Instituto Português de Corporate Governance (2007-2010); Member of the Board of Directors of the Associação Portuguesa de Analistas Financeiros (2002-2008); Consultant of the Governing Board of the CMVM (2000-2008); Chairman of the Advisory Board of the Comissão Gestora dos Índices de Bolsa da

Euronext Lisboa (2000-2003); Vice-Chairman of the Comissão Gestora dos Índices de Bolsa da Euronext Lisboa (2000-2003); Member of the Governing Board of the CMVM (1998-2000); Chairman of the Audit Board of the Instituto Nacional de Estatística (1997-1998); Undersecretary of State for the Treasury and Finance of the XIII Constitutional Government (1995-1998); Director of the Instituto Mercado de Capitais (1994-1995); Member of the Gabinete de Estudos da Bolsa de Valores do Porto (1990-1994); Member of the Commission that drafted the White Paper on Corporate Governance in Portugal.

- **JOSÉ DA CUNHA NUNES PEREIRA**

Academic qualifications:

Licentiate degree in Law from the Faculdade de Direito da Universidade de Coimbra.

Professional activities performed over the last few years:

Non-Executive Director and Member of the Audit Committee of Banco Montepio (since April 2020); Member of the Steering Board of the Instituto de Valores Mobiliários of the Faculdade de Direito da Universidade de Lisboa; Member of the Ethics Committee of Banco de Portugal (2016-2019); Chairman of the Portuguese Delegation of GAFI - Grupo de Ação Financeira Internacional (2011-2014); Director of the Investigation and Disciplinary Action Department of Banco de Portugal (2011-2014); Director of the Banking Supervision Department of Banco de Portugal (2009-2010); Director of the Internal Audit Department of Banco de Portugal and Member of the Internal Auditors Committee of the European System of Central Banks, having chaired the Audit Task Force on Banknotes (2001-2009); Member of the Advisory Board of the Comissão do Mercado de Valores Mobiliários (2000-2003); Vice-Chairman of the Executive Committee of the International Organization of Securities Commissions (IOSCO) (1998-2000); Chairman of the Comissão do Mercado de Valores Mobiliários (1996-2000); Vice-Chairman of the Comissão do Mercado de Valores Mobiliários (1995); Member of the technical team appointed by the ministry to draft the Legal Framework of Credit Institutions and Financial Companies (RGICSF) (1991); Member of the Audit Board of the Comissão do Mercado de Valores Mobiliários (1991-1994); Legal Consultant of the Minister of Finance (1990-1993); Legal Consultant at Banco de Portugal (1983-1989); Member of the technical team appointed by the ministry to draft the Securities Code (1988); Assistant on Law of Obligations and Commercial Law at the Faculdade de Direito da Universidade de Coimbra (1973-1978).

- **PEDRO MANUEL MOREIRA LEITÃO**

Academic qualifications:

Licentiate degree in Economics from Universidade de Évora; Postgraduation in e-Business, Masters in Management and MBA, all at Instituto Superior de Economia e Gestão, Universidade Técnica de Lisboa; Postgraduation in Management Consulting at Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE), in Lisboa; Leading Businesses into the Future and Senior Executive Program at the London Business School, London; Leading Digital Business Transformation at IMD, Switzerland; Value Creation for Owners and Directors – Corporate Governance for Long Term Value Creation at INSEAD, France; Customer Focused Innovation at Stanford University, USA.

Professional activities performed over the last few years:

Chairman of the Executive Committee of Banco Montepio (since January 2020); Member of the Supervisory Board of Oeiras International School (since 2019); Executive Director of Banco Atlântico EUROPA, Portugal

(2015-2019); Executive Director of Banco Millennium Atlântico, Angola (2011-2016); Partner of Deloitte in financial services (2001-2011); Lecturer at Porto Business School (2008-2011) and ISEG - Licentiate degree in Economics and Postgraduation for Executives (2002-2010); Director and previously Manager and Customer Manager at Banco Bilbao Vizcaya Argentaria (1997-2001).

- **DULCE MARIA PEREIRA CARDOSO MOTA JORGE JACINTO**

Academic qualifications:

Licentiate degree in Corporate Organisation and Management from Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE); Senior Management Programme at AESE Business School; Top Management Programme at INSEAD.

Professional activities performed over the last few years:

Vice-Chairman of the Executive Committee of Banco Montepio (since January 2019) and Chairman of the Business, Distribution and Products Committee; CEO of Banco Activobank, S.A. (2018); Member of the Board of Directors of Fundação Millennium BCP (2013-2018); at Banco Comercial Português, S.A.: Director of Communication (2016-2017), Head of the Office of the Chairman of the Board of Directors (2012-2017), Director of Private Banking Marketing (2012-2016), Head of the Area of Individuals Internet (2004-2005), Head of the Investment Product Unit (2003-2004), Head of the Real Estate Credit Product Unit (2003) and Head of the Brokerage and Securities Product Unit (2002); Member of the Board of Directors of Banco Activobank, S.A. (2006-2010); Member of the Board of Directors of AF Investimentos – Sociedade Gestora de Fundos (1995-2010); Director of Communication and Marketing of AF Investimentos (1995-2000); at CTT – Correios de Portugal, S.A.: Director of the Business Unit (1995); Central Commercial and Marketing Director (1994); Central Marketing Director (1992-1994); Director of Correspondence (1989-1991); University Professor at ISCTE (subjects of Maths and Operational Research).

- **NUNO CARDOSO CORREIA DA MOTA PINTO**

Academic qualifications:

Licentiate degree in Economics from the Faculdade de Economia da Universidade de Coimbra; Master in Business Administration (MBA) at INSEAD, Fontainebleau.

Professional activities performed over the last few years:

Executive Director at Banco Montepio (since March 2018); Executive Director of the Board of Directors of Montepio Investimento, S.A. (since 2019); Executive Director of the Board of Directors of Montepio Holding, SGPS (since 2018); Non-Executive Director of the Board of Directors of Montepio Crédito, S.A. (since 2018); Chairman of the Board of Directors of Finibanco Angola, S.A. (since 2018); Alternate Director of the World Bank Group (2003-2018); Member of the Administration of the World Bank Group (2003-2018); Member of the Administration of the International Bank for Reconstruction and Development - IBRD (2003-2018); Member of the Administration of the International Finance Corporation – IFC (2003-2018); Member of the Administration of the Multilateral Investment Guarantee Agency – MIGA (2003-2018); Alternate member of the Board of Directors of the Global Environment Facility (since 2003); Financial Adviser *ex-officio* at the Portuguese Embassy in Washington DC (2011-2014); Representative of Portugal at the Donors Committee of the Multilateral Investment Fund of the Inter-American Development Bank Group (2009-2015); Member of the Advisory Board of the Programme of Partnerships for Development of Fundação Calouste Gulbenkian

(2013-2017); Member of the Advisory Board of the Faculdade de Economia da Universidade de Coimbra (since 2010); Director at Banco Português de Investimento, S.A. and Banco BPI, S.A. (1994-2003).

- **JOSÉ CARLOS SEQUEIRA MATEUS**

Academic qualifications:

Licentiate degree in Economics from Instituto Superior de Economia e Gestão (ISEG), Universidade Técnica de Lisboa; Masters in Maths Applied to Economics and Management (without presentation of dissertation) from Instituto Superior de Economia e Gestão (ISEG), Universidade Técnica de Lisboa.

Professional activities performed over the last few years:

Executive Director at Banco Montepio (since March 2018); Executive Director of the Board of Directors of Montepio Holding, SGPS (since 2018); Executive Director of the Board of Directors of Montepio Investimento, S.A. (since 2018); Non-Executive Director of the Board of Directors of Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. (since 2017); Non-Executive Director of Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A. (2015-2017); Non-Executive Director of Finivalor –Sociedade Gestora de Fundos de Investimento, S.A. (2011-2013); Member of the Board of Directors of Montepio Investimento (former Finibanco) (2011); Non-Executive Director of Montepio Gestão de Ativos (2008-2012); Director of the Financial and International Department of Banco Montepio (2008-2018); Executive Director of Banco Montepio Geral Cabo Verde (2008); Non-Executive Director of Futuro-Sociedade Gestora de Fundos de Pensões, S.A. (2008-2018); Central Subdirector - Global Markets Department at Millennium BCP (2007-2008); Director of the Treasury Department of Bank Millennium, in Poland (2001-2007); Director responsible for Funding & Liquidity at the Treasury Department of Banco Comercial Português (2000-2001); Lecturer at the Instituto de Formação Bancária and at Universidade Atlântica (1994-2001); Consultant in the Ministry of the Economy (1993-2001); Director, Subdirector and Manager at Banco Mello de Investimentos (1996-2000); Manager at Banco Totta & Açores (1990-1995); Consultant for the Government of Angola (1994); Lecturer at the Instituto de Economia e Gestão and at Universidade Técnica de Lisboa (1993-1994).

- **PEDRO MIGUEL NUNES VENTANEIRA**

Academic qualifications:

Licentiate degree in Corporate Organisation and Management from Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE), Lisbon; Postgraduation in International Financial Management at FUTOP – Training and IESF; Strategic Management in Banking and International Directors Banking Programmes, INSEAD.

Professional activities performed over the last few years:

Executive Director at Banco Montepio (since March 2018); Chairman of the Credit Committee and Chairman of the Impairment Committee; Executive Director of the Board of Directors of Montepio Investimento, S.A. (Since 2019); Non-Executive Member of the Board of Directors of Finibanco Angola, S.A. (since 2018) and Coordinator of the Risk, Asset and Liability Management Committee of Angola, S.A.; Haitong Bank, S.A. (formerly named Banco Espírito Santo de Investimento, S.A.): /Group Chief Risk Officer/Senior Managing Director (2016-2017), Director at the Centre/Senior Management and in the Management and Coordination of the Management Information Department (2005-2016), Director in the Management and Coordination of the Accounting and Oversight Department (2002-2016) and Director of Implementation and Management of the Group's Risk Control Area (2000-2016); Senior at PricewaterhouseCoopers – Audit and Financial Advisory Division (1996-1999); Certified accountant number 38845; CF 28, Financial Conduct Authority (FCA), issued in February 2017.

- **HELENA CATARINA GOMES SOARES DE MOURA COSTA PINA**

Academic qualifications:

Licentiate degree in Law from the Faculdade de Direito da Universidade de Lisboa (FDUL); Postgraduation in Studies on the Society of Information and Electronic Commerce at FDUL; Attendance of the postgraduation in Industrial Law at FDUL; Attendance of the Cross-Border dispute Resolution course at the Lex Mundi Institute, USA; Corporate Governance - Board Leadership Programme at Nova School of Business and Economics, Lisbon; International Directors Banking Programme at INSEAD, France.

Professional activities performed over the last few years:

Executive Director at Banco Montepio (since March 2018); Member of the Board of Directors of SIBS, SGPS, S.A. (since 2018), in representation of Banco Montepio; Member of the Board of Directors of SIBS, Forward Payment Solutions, S.A. (since 2018), in representation of Banco Montepio; Director of Litigation of the Ageas Group in Portugal (2017-2018); Member of the Business Board of the Associação Portuguesa de Arbitragem (since 2017); Partner (2013-2017), Senior Lawyer (2009-2013), Principal Associate (2005-2008), Associate Lawyer (1999-2004) and Intern (1997-1999) at the law firm Morais Leitão, Galvão Teles, Soares da Silva & Associados (formerly named Morais Leitão & Galvão Teles).

- **LEANDRO RODRIGUES DA GRAÇA SILVA**

Academic qualifications:

Licentiate degree in Finance from Instituto Superior de Economia e Gestão of Universidade Técnica de Lisboa.

Professional activities performed over the last few years:

Executive Director at Banco Montepio (since November 2018); Executive Director of the Board of Directors of Banco Nacional Ultramarino, S.A., in Macau (2014-2018); Member of the Board of Directors and Executive Head of Sogrupo, Compras e Serviços Partilhados, ACE, S.A. (2008-2014); Coordinator Director of the Department of Customers of Caixa Banco de Investimento, S.A. (2007-2008); Member of the Board of Directors and Executive Committee of Banco Comercial do Atlântico, S.A. and of Companhia de Seguros Garantia, S.A., in Cape Verde (2004-2007); Member of the Board of Directors of SISP – Sociedade Interbancária e Sistemas de Pagamento, S.A., in representation of Banco Comercial do Atlântico, S.A. (2004-2007); Deputy; head of Office and Advisor of the Minister of the Economy of the XV Constitutional Government (2002-2004); Deputy Director of the Research Department of Caixa Valores do Caixa Banco de Investimento, S.A. (Banco Totta & Sottomayor Investimentos) (1999-2002); Technician of the Corporate Research Department and of the Planning and Control Department of Banco CISF, S.A., Grupo Banco Comercial Português, S.A. (1991-1999).

Annex II - Accumulation of positions by members of the Board of Directors

Accumulated positions, including additional responsibilities at Commissions and Committees

Members of the Board of Directors	Within the consolidation perimeter – Banco Montepio Group	Outside the consolidation perimeter
Carlos Tavares	**Caixa Económica Montepio Geral** - Chairman of the Board of Directors - Chairman of the Corporate Governance, Ethics and Sustainability Committee - Chairman of the Capital, Assets and Liabilities Committee **Montepio Holding, SGPS** Chairman of the Board of Directors **Montepio Investimento, S.A.** Chairman of the Board of Directors	• Fundação da AEP - Associação Empresarial de Portugal (Representative of Banco Montepio at the Board of Trustees); • Fundação Casa da Música (Member of the Board of Founders); • APB – Associação Portuguesa de Bancos (Board member in representation of Banco Montepio); • Fundação Benjamim Dias Costa (Chairman of the Board of Trustees).
Manuel Ferreira Teixeira	**Caixa Económica Montepio Geral** - Non-Executive Director - Chairman of the Audit Committee - Chairman of the Remunerations, Nominations and Assessment Committee - Member of the Risk Committee - Member of the Capital, Assets and Liabilities Committee	• Universidade Nova de Lisboa – Information Management School (Invited Professor); • Santa Casa da Misericórdia de Lisboa (Consultant).
Amadeu Ferreira Paiva	**Caixa Económica Montepio Geral** - Non-Executive Director - Member of the Audit Committee - Member of the Remunerations, Nominations and Assessment Committee	• Universidade Autónoma de Lisboa (Professor); • Associação do Comércio Eletrónico e da Publicidade Interativa (Chairman of the General Meeting); • Casa do Conselho de Castro Daire (Chairman of the General Meeting); • Portuguese Committee for UNICEF - United Nations Children's Fund (Vice-Chairman).
Vítor do Carmo Martins	**Caixa Económica Montepio Geral** - Non-Executive Director - Chairman of the Risk Committee - Member of the Audit Committee - Member of the Capital, Assets and Liabilities Committee	• Floresta Atlântica, Soc. Gestora Fundos Investimento Imobiliário, S.A. (Chairman of the Supervisory Board); • Martins & Ahmad, SROC, Lda (Managing Partner); • Agrocapital – Sociedade de Capital de Risco S.A. (Member of the Supervisory Board).
Rui Matos Heitor	**Caixa Económica Montepio Geral** - Non-Executive Director - Member of the Risk Committee - Member of the Corporate Governance, Ethics and Sustainability Committee **HTA – Hotéis Turismo e Animação dos Açores S.A. *** Non-Executive Director	• Futuro – Sociedade Gestora de Fundos de Pensões, S.A. (Secretary of the Board of the General Meeting); • Residências Montepio, Serviços de Saúde, S.A. (Secretary of the Board of the General Meeting). • Montepio Gestão de Ativos, Sociedade Gestora de Fundos de Investimento, S.A. * (Secretary of the Board of the General Meeting) * Consolidation by the equity method.
Pedro Gouveia Alves	**Caixa Económica Montepio Geral** Non-Executive Director **Montepio Crédito, S.A.** Chairman of the Board of Directors	• ASFAC Logalty (Member of the Management Board); • Fundação Social Bancária (Member of the Board of Trustees).

Members of the Board of Directors	Within the consolidation perimeter – Banco Montepio Group	Outside the consolidation perimeter
Carlos Ferreira Alves	**Caixa Económica Montepio Geral** - Non-Executive Director - Member of the Audit Committee - Member of the Remunerations, Nominations and Assessment Committee - Member of the Corporate Governance, Ethics and Sustainability Committee	• Faculdade de Economia da Universidade do Porto (Associate Professor with Aggregation); • CEF.UP – Centro de Economia e Finanças of Universidade do Porto (Researcher); • Porto Business School (Chairman of the Academic Board/Professor); • Futebol Clube Paços de Ferreira (Chairman of the Supervisory Board); • SEDES – Associação para o Desenvolvimento Económico e Social (Member of the Coordinating Board).
José Nunes Pereira	**Caixa Económica Montepio Geral** - Non-Executive Director - Member of the Audit Committee	• Instituto de Valores Mobiliários (Member of the Steering Board)
Pedro Leitão	**Caixa Económica Montepio Geral** - Chairman of the Executive Committee - Member of the Capital, Assets and Liabilities Committee	• Oeiras Internacional School (Member of the Supervisory Board).
Dulce Mota	**Caixa Económica Montepio Geral** - Vice-Chairman of the Executive Committee - Member of the Credit Committee - Chairman of the Business, Distribution and Products Committee	• Alumni ISCTE (Member of the Advisory Board); • AFIP- Associação FinTech e Insurtech Portugal (Member of the Advisory Board); • Câmara de Comércio e Indústria Portuguesa (Member of the Management Board).
Nuno Mota Pinto	**Caixa Económica Montepio Geral** - Executive Director - Member of the Credit Committee **Montepio Holding, SGPS** Executive Director **Montepio Investimento S.A.** Executive Director **Montepio Crédito, S.A.** Non-Executive Director **Finibanco Angola, S.A.** (Chairman of the Board of Directors)	• Startup Lisboa (AIEL – Associação Para a Inovação e Empreendedorismo de Lisboa; Member of the Board in representation of Banco Montepio).
José Carlos Mateus	**Caixa Económica Montepio Geral** - Executive Director - Member of the Capital, Assets and Liabilities Committee - Member of the Impairment Committee - Member of the Credit Committee - Member of the Business, Distribution and Products Committee **Montepio Holding, SGPS** Executive Director **Montepio Investimento, S.A.** Executive Director	• AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado (Director of the General Board, in representation of Banco Montepio); • Associação Protetora Florinhas (Member of the Supervisory Board).

	Banco Montepio Geral Cabo Verde, Soc. Unip., S.A. Non-Executive Director	

Members of the Board of Directors	Within the consolidation perimeter – Banco Montepio Group	Outside the consolidation perimeter
Pedro Ventaneira	**Caixa Económica Montepio Geral** - Executive Director - Chairman of the Credit Committee - Chairman of the Impairment Committee - Member of the Capital, Assets and Liabilities Committee - Member of the Business, Distribution and Products Committee **Montepio Investimento S.A.** Executive Director **Finibanco Angola, SA** - Non-Executive Director - Coordinator of the Risk, Assets and Liabilities Management Committee	• APB – Associação Portuguesa de Bancos (B Board member in representation of Banco Montepio).
Helena Soares Moura	**Caixa Económica Montepio Geral** - Executive Director - Member of the Business, Distribution and Products Committee	• SIBS, SGPS, S.A. (Member of the Board of Directors, in representation of Banco Montepio) • SIBS, Forward Payment Solutions, S.A. (Member of the Board of Directors, in representation of Banco Montepio) • APA – Associação Portuguesa de Arbitragem (Member of the Business Board).
Leandro Graça Silva	**Caixa Económica Montepio Geral** - Executive Director - Chairman of the Costs and Investments Committee - Member of the Impairment Committee - Member of the Credit Committee - Member of the Business, Distribution and Products Committee	• Olympic Committee of Portugal (Chairman of the Supervisory Board); • Federação Portuguesa de Orientação (Chairman of the Supervisory Board).

Statement of the Remunerations, Nominations and Assessment Committee on the Remuneration Policy of Members of the Management and Supervisory Body of Banco Montepio relative to 2019

I – Overview

The purpose of this statement is to report on compliance with the remuneration policies and procedures concerning the Members of the Management and Supervisory Body (MOAF) of Banco Montepio for 2019, as established in article 115-C, number 6 of the Legal Framework of Credit Institutions and Financial Companies (RGICSF), in order to be approved by the respective General Meeting, in compliance with the provisions in Law 28/2009 of 19 June, and in article 16 of Banco de Portugal Notice 10/2011.

This Statement on the Remuneration Policy of the Members of the Management and Supervisory Body in 2019 is issued by the Remunerations, Nominations and Assessment Committee (CRNA), which was appointed by determination of the Board of Directors on 07/2/2019, under the terms of the powers established in the RGICSF, the Articles of Association of Banco Montepio and in conformity with the duties established in article 4, number 2, subparagraphs c) and d) of the Regulations of the CRNA.

The CRNA issues this Statement in observance of the interests of Banco Montepio, formulating an informed and independent judgement on the remuneration policy and practice, as well as on the incentives created for purposes of management of risks, capital and liquidity.

The decisions and information related to remunerations are prepared with the technical support and assistance of the People Management Department.

II – Governance model

During 2019, a one-tier governance model was enforced at Caixa Económica Montepio Geral, caixa económica bancária, S.A., hereinafter Banco Montepio, composed of a Board of Directors, which includes an Audit Committee and a Statutory Auditor.

Pursuant to article 13, number 1, subparagraph m) of the Articles of Association of Banco Montepio and article 6 of the Regulations of the Board of Directors, the Board of Directors (BoD) approved the constitution of three internal Committees composed exclusively of non-executive members: the Risk Committee (CR), the Remunerations, Nominations and Assessment Committee (CRNA) and the Corporate Governance, Ethics and Sustainability Committee (CGSES), and delegated the current management of Banco Montepio to an Executive Committee (CE).

The Board of Directors has approved the constitution and operation of the following operational Committees, tasked with the ongoing monitoring, and in some cases decision-making, of certain issues: Capital, Assets and Liability Committee, Impairment Committee, Credit Committee, Business, Distribution and Products Committee and the Costs and Investments Committee.

III – Remuneration policies of Banco Montepio

By Unanimous Determination in Writing of the General Meeting of 23/04/2018, the remunerations of the Members of the Management and Supervisory Body of Banco Montepio were established for the term of office 2018-2021, including the annual value paid to the members of the Board of the General Meeting, under the terms of the Law.

Pursuant to article 16 of the Articles of Association of Banco Montepio, the remunerations of the Members of the Management and Supervisory Body and of the Statutory Auditor are established by the Remunerations Committee as stipulated in article 11, subparagraph c) of the Articles of Association, which corresponds to the provisions established in article 399 of the Commercial Companies Code, by preparation of the decisions by the CRNA, an internal committee of the Board of Directors, foreseen in article 19 of the Articles of Association, and as established in the Remuneration Policy approved at the General Meeting.

As this Remunerations Committee is not appointed by the shareholders, the power and duty to establish the remunerations of the Members of the Management and Supervisory Body of Banco Montepio are, under the terms of the law, exclusively entrusted to the General Meeting.

The current **Remuneration Policy of the Members of the Management and Supervisory Body of Banco Montepio** is published on the Bank's institutional website, and was approved at the General Meeting of 27/05/2019. This policy is reviewed annually by the CRNA, as established in point 8.4 of this Policy, based on best practices of the sector, as well as on the regulator's recommendations. This review shall be submitted at the next General Meeting, on a date to be scheduled up to 30 June 2020, the legal deadline established in the context of the current scenario of the Covid-19 pandemic.

The **Remuneration Policy of the Key Employees** was submitted by the CRNA to the Board of Directors, and approved at the session held on 05/11/2019, currently being enforced and published in the institutional area of the website (OS number 114/2019, of 26 December).

A **Remuneration Policy of the Employees** is also in force, having been approved by the Board of Directors on 05/11/2019 (OS number 116/2019, of 30/12/2019), which coexists with the other two remunerations policies at Banco Montepio referred to above.

IV – Proposed review of the Remunerations Policy of the Members of the Management and Supervisory Body of Banco Montepio

The proposed review of the Remuneration Policy of the Members of the Management and Supervisory Body of Banco Montepio to be submitted at the next Annual General Meeting, as mentioned above, sought to better ensure the compatibility of the defined remuneration mechanisms with the long-term strategy, goals and interests of Banco Montepio, and ensure sound and prudent risk management that discourages excessive and imprudent risk-taking. The proposed review incorporates an approximation to the best remuneratory practices followed in the sector.

Accordingly, the Remuneration Policy of the Members of the Management and Supervisory Body establishes appropriate remuneratory practices for the personnel covered, stipulating criteria for the allocation, determination of the value, limits and composition of the variable component of remuneration, in the case that, if all the requirements for attribution are met, this is determined by the shareholders.

V – Remunerations of the Remuneration Policy of the Members of the Management and Supervisory Body paid in 2019

This information is based on the values that were indicated by the People Management Department (DGP) on the remunerations paid to the Members of the Management and Supervisory Body of Banco Montepio who were in office during 2019.

In 2019, the General Meeting did not determine the allocation of any variable remuneration to the Members of the Management and Supervisory Body.

Board of Directors	Position	Total fixed remunerations paid in 2019 (€)
Carlos Tavares	BoD – Chairman	€ 401,429.52
Luís Guimarães (1)	BoD – Non-executive member	€ 122,550.00
Manuel Ferreira Teixeira (2)	BoD – Non-executive member	€ 138,000.00
Amadeu Ferreira de Paiva	BoD – Non-executive member	€ 126,000.00
Vitor do Carmo Martins	BoD – Non-executive member	€ 126,000.00
Rui Heitor	BoD – Non-executive member	€ 126,000.00
Pedro Gouveia Alves (3)	BoD – Non-executive member	€ 86,000.00
Carlos Ferreira Alves (4)	BoD – Non-executive member	€ 120,840.27
Executive Committee		
Dulce Mota (5)	BoD – Executive member	€ 343,691.00
Nuno Mota Pinto	BoD – Executive member	€ 254,429.52
Pedro Ventaneira	BoD – Executive member	€ 254,429.52
Helena Soares de Moura	BoD – Executive member	€ 254,429.52
José Carlos Mateus (6)	BoD – Executive member	€ 254,129.74
Carlos Leiria Pinto (6)	BoD – Executive member	€ 254,417.97
Leandro Graça Silva (6)	BoD – Executive member	€ 255,877.05

(1) Luís Guimarães presented his resignation, taking effect from 30/09/2019.
(2) Manuel Teixeira was appointed Chairman of the Audit Committee from 01/10/2019.
(3) Pedro Gouveia Alves was not part of any of the Committees of the Board of Directors, as he performs the duties of Chairman of the Board of Directors of Montepio Crédito.
(4) Carlos Ferreira Alves took office on 15/01/2019.
(5) As Vice-Chairman of the Executive Committee, Dulce Mota chaired the Executive Committee, under a replacement arrangement, from 11/02/2019.
(6) Differences related to adjustments to lunch allowance due to taking holidays and proportional holiday allowance relative to 2018.

The values of the individual annual remunerations of the Members of the Management and Supervisory Body indicated herein are presented in the Corporate Governance Report of 2019 to be integrated in the Report and Accounts of Banco Montepio of 2019, under the terms established in article 3 of Law 28/2009 of 19/06 and in article 16 of Banco de Portugal Notice 10/2011.

Under proposal of the Audit Committee, in conformity with the provisions in articles 423-F, number 1 m) and 446, number 1 of the Commercial Companies Code, article 17, number 3 k) of the Articles of Association of Banco Montepio and article 5, number 1 a) of the Regulations of the Audit Committee, the General Meeting of 27/05/2019 elected a new Statutory Auditor for the three-year period 2019-2021, which is remunerated in accordance with the normal remuneratory practices and conditions for similar services, following the conclusion of a contract to provide services to the company.

VI – Conclusion

In view of the above, to summarise:

a) The Remunerations, Nominations and Assessment Committee (CRNA) considered the data reported by Banco Montepio's competent services related to compliance with the current Remuneration Policy, specifically the remunerations and benefits applied to the members of the governing bodies in office during 2019;

b) The Remuneration Policy of the Members of the Management and Supervisory Body enforced in 2019 was approved at the General Meeting of 27/05/2019;

c) The General Meeting of 27/05/2019 elected PricewaterhouseCoopers & Associados as the Statutory Auditor of Banco Montepio, for the three-year period 2019-2021, and under proposal of the Audit Committee, on 25/07/2019, the Board of Directors approved the Regulations on the provision of services by the Statutory Auditor or Audit Firm;

d) By determination of 5 November 2019, the Board of Directors approved, under proposal of the CRNA, a Remuneration Policy of the Key Employees as well as a Remuneration Policy of the Employees, which are both in force and duly published;

The CRNA, considering the provisions in article 16 of Banco de Portugal Notice 10/2011, and in compliance with the provisions in articles 2 and 3 of Law 28/2009 of 19 June, discloses the following information:

a) Information concerning the mechanisms that enable the alignment of the interests of the members of the management body with the interests of the company

The current Remuneration Policy of the Members of the Management and Supervisory Body observes the long-term interests of the shareholders, investors and other stakeholders of the institution, ensuring that the interests of the Members of the Management and Supervisory Body are in line with the interests of the company. Under its activity, the CRNA assesses the statutorily established mechanisms aimed at preventing conflicts of interest among the Members of the Management and Supervisory Body.

The CRNA concludes that the current remuneration policies and practices for the Members of the Management and Supervisory Body enable the alignment of the interests of the members of the management body with the interests of the company.

b) Criteria for definition of the variable component of remuneration

The total value of the variable component of remuneration is defined through the combination of the assessment of the member's performance, considering criteria of financial and non-financial nature, including the performance of the Executive Committee, the overall results of Banco Montepio and any adjustments deemed necessary in view of the current and future risks, and the cost of the own funds and liquidity required by CEMG (point 6.2.14 of the Remuneration Policy of the Members of the Management and Supervisory Body).

c) Existence of plans to attribute shares or share purchase options to members of the management and supervisory bodies

There are none.

d) Possibility of the payment of the variable component of remuneration, if existent, taking place, entirely or partially, after the ascertainment of the financial statements for the year corresponding to the entire term of office

The remuneration of the executive members under the terms currently in force does not include a variable component. However, the Remuneration Policy of the Members of the Management and Supervisory Body currently in force does permit this possibility, if determined at the General Meeting.

Under the terms incorporated in the Remuneration Policy of the Members of the Management and Supervisory Body, the remuneration of the Members of the Executive Committee is composed of a fixed component and a variable component, with the attribution of the latter not being assured and subject to partial deferral of its payment, aimed at balancing the short and long-term.

The variable component cannot limit Banco Montepio's capacity to reinforce its own funds and constitutes a special management instrument to reward (i) sustained performance commensurate with the institution's strategy, tolerance and risk culture; and (ii) individual sustained performance by reference to the pursuit of its mission and values (point 4.2 of the Remuneration Policy of the Members of the Management and Supervisory Body).

The remuneration aimed at compensating new members of the Executive Committee for termination of previous positions takes into account the long-term interests of Banco Montepio (point 6.2.18 of the Remuneration Policy of the Members of the Management and Supervisory Bodies).

***e*) Reference to mechanisms to limit the variable remuneration if the results show a significant deterioration of the company's performance recorded in the last year or when this is expected for the year in progress**

It is reiterated that the remuneration of the executive members under the terms currently in force does not include a variable component. However, the Remuneration Policy of the Members of the Management and Supervisory Board stipulates that, should variable remuneration exist, this component of the remuneration of the Members of the Executive Committee can only be attributed in years in which CEMG has not presented losses and should depend on a multiannual assessment of the performance of each member. In this way, the assessment process is based on long-term performance and the payment of the remuneration components dependent on it is divided over a period that takes into account the underlying economic cycle of CEMG and its business risks, to this end, not only considering the year to which the variable component of remuneration concerns, but also the previous years (point 6.2.2 of the Remuneration Policy of the Members of the Management and Supervisory Body.

The ascertainment of performance used to calculate the variable component of remuneration foresees the option of risk adjustments and the possibility of non-payment of the remuneration, considering the different types of risk, current and future, as well as the cost of the own funds and liquidity required by CEMG (point 6.2.3 of the Remuneration Policy of the Members of the Management and Supervisory Body).

The right to payment of the variable component of remuneration subject to deferral is acquired on an annual proportional basis throughout the deferral period, with this right being conditional to the existence of a sustainable financial situation of CEMG, to the non-occurrence of facts related to the year in question that could generate negative impacts, to a positive assessment of the performance of the member and to the verification of the current and future risks undertaken by CEMG (point 6.2.5 of the Remuneration Policy of the Members of the Management and Supervisory Body).

In order to promote stronger coherence between the remuneration policies applied at the Banco Montepio Group, and ensure alignment with the best practices of the sector, in conformity with the provisions in the Legal Framework of Credit Institutions and Financial Companies (RGICSF) and EBA Guidelines on Sound Remuneration Policies (EBA/GL/2015/22), the CRNA shall recommend to the Board of Directors that a draft review of the current Remuneration Policy of the Members of the Management and Supervisory Body of Banco Montepio should be submitted for the approval of the General Meeting.

Lisbon, 30 April 2020

The Remunerations, Nominations and Assessment Committee

Manuel Ferreira Teixeira (Chairman):

Amadeu Ferreira Paiva:

Carlos Ferreira Alves: