Banco Montepio

REPORT AND ACCOUNTS

1st Half 2019

Valores que
crescem consigo.

This report is the English version of the document “Relatório e Contas 1º Semestre 2019” published by Banco Montepio in the Portuguese Securities and Market Commission (CMVM) website in accordance with Portuguese Law. Should there be any doubt or contradiction between documents, the aforementioned Portuguese version prevails.

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PART I

MANAGEMENT REPORT

GOVERNING BODIES

GOVERNING BODIES

As at 30 June 2019, Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter referred to as "CEMG" or "Banco Montepio"), has a one-tier governance (Anglo-Saxon) model with a Board of Directors that includes the Audit Committee (chosen from among its non-executive members) and a Statutory Auditor, with the following composition of the governing and corporate bodies of Banco Montepio, for the term of office 2018-2021:

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

AUDIT COMMITTEE

Chairman	Luís Eduardo Henriques Guimarães[2]
Members	Amadeu Ferreira de Paiva
	Manuel Ferreira Teixeira
	Vítor Manuel do Carmo Martins
	Carlos Francisco Ferreira Alves

[1] Mr. Carlos Manuel Tavares da Silva held the position of Chairman of the Board of Directors and Chairman of the Executive Committee, under the terms authorised by Banco de Portugal, and henceforth perform duties of Chairman of the Board of Directors since 11 February 2019.
[2] Mr. Luís Eduardo Henriques Guimarães submitted his resignation from the position of non-executive member of the Board of Directors, and from the position of Chairman of the Audit Committee, which was communicated to the market on September 6, 2019.
[3] Mr. Carlos Francisco 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.
[4] Mrs. Dulce Maria Pereira Cardoso Mota Jorge Jacinto, elected by written unanimous resolution on November 23, 2018, was authorised by Banco de Portugal on January 8, 2019, took office on January 9, 2019 and has been performing, since February 11, 2019, in the capacity of executive Vice-Chairman by virtue of her office, the duties of Chairman of the Executive Committee.

Statutory Auditor

The term of office of KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. ended on 31 December 2018 with this firm having remained in office up to the election of the new Statutory Auditor at the General Meeting held on 27 May 2019.

KPMG representatives:

- Hugo Jorge Gonçalves Cláudio - Enrolled at the Statutory Auditors Association under number 1597
- Fernando Gustavo Duarte Antunes - Enrolled at the Statutory Auditors Association under number 1233

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 May 2019, of the firm PricewaterhouseCoopers & Associados (PwC) as the Statutory Auditor of Banco Montepio for the three-year period 2019-2021.

PwC representatives:

- José Manuel Henriques Bernardo - Enrolled at the Statutory Auditors Association under number 903
- Carlos José Figueiredo Rodrigues - Enrolled at the Statutory Auditors Association under number 1737

KEY INDICATORS

KEY INDICATORS

	Jun-18	Dec-18	Jun-19	Y.oY. Change
ACTIVITY AND RESULTS (million euros)				
Total assets	19 249	18 351	18 695	(2.9%)
Loans to customers (gross)	13 727	13 068	12 578	(8.4%)
Customers' deposits	12 483	12 575	12 680	1.6%
Net income	16	13	4	(77.2%)
SOLVENCY (a)				
Common Equity Tier 1 ratio	13.5%	13.5%	13.7%	0.2 p.p.
Tier 1 ratio	13.5%	13.5%	13.7%	0.2 p.p.
Total Capital ratio	13.6%	14.1%	15.2%	1.6 p.p.
Leverage ratio	7.8%	7.8%	7.5%	(0.3 p.p.)
Risk weighted assets (EUR million)	11 259	10 759	10 429	(7.4%)
LIQUIDITY RATIOS				
Loans to customers (net) / Customers' deposits (b)	101.5%	96.6%	92.0%	(9.5 p.p.)
Loans to customers (net) / On-balance sheet customers' resources	92.0%	88.7%	85.5%	(6.5 p.p.)
CREDIT QUALITY				
Cost of credit risk	0.7%	0.5%	0.7%	0.0 p.p.
Ratio of loans and interest overdue by more than 90 days	7.5%	7.0%	6.9%	(0.6 p.p.)
Coverage of loans and interest overdue by more than 90 days	107.4%	103.4%	106.4%	(1.0 p.p.)
Non-performing exposures (NPE) (d) / Gross customer loans	15.8%	14.4%	14.7%	(1.1 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	50.8%	50.3%	49.7%	(1.1 p.p.)
NPE (d) coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	88.3%	86.2%	82.9%	(5.4 p.p.)
Forborne exposures (d) / Gross customer loans	7.6%	7.2%	7.5%	(0.1 p.p.)
PROFITABILITY AND EFFICIENCY				
Total operating income / Average total assets (b)	2.1%	2.0%	2.0%	(0.1 p.p.)
Net income before income tax / Average total assets (b)	0.2%	0.3%	0.2%	0.0 p.p.
Net income before income tax / Average total equity (b)	2.2%	3.5%	1.9%	(0.3 p.p.)
Cost-to-income (Operating costs / Total operating income) (b)	66.1%	68.8%	68.8%	2.7 p.p.
Cost-to-Income, excluding specific impacts (e)	66.5%	69.3%	68.2%	1.7 p.p.
Staff costs / Total operating income (b)	42.0%	41.3%	42.7%	0.7 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group Banco Montepio total	4 193	3 944	3 937	-256
Banco Montepio	3 638	3 566	3 552	-86
Branches				
Domestic network - Banco Montepio	324	324	329	5
Of which: Proximity Branches	-	-	6	-
International Network	34	24	24	-10
Finibanco Angola (f)	24	24	24	0
Banco Terra (g)	10	-	-	-
Representation Offices - Banco Montepio	5	5	5	0

(a) Pursuant to CRD IV / CRR (phasing-in). The ratios include the accumulated net income for the period.
(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 31December 2018 Banco Terra does not include the consolidation perimeter of the Banco Montepio Group.

FIRST HALF 2019 LANDMARKS

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- **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:

  - Dulce Maria Pereira Mota Jorge Jacinto, took office as Executive Director on 9 January 2019;
  - Carlos Francisco Ferreira Alves, took office as Non-Executive Director and Chairman of the Audit Committee on 15 January 2019.

  The Chairman of the Board of Directors was authorised by Banco de Portugal to accumulate this position with that of Chairman of the Executive Committee up to 11 February 2019. After that date, Mrs. Dulce Mota assumed the latter role as a replacement, inherent in the position of Executive Vice-Chairman.

- **Appointment of the members of the Remuneration, Nomination and Evaluation Committee**

  The Remuneration, Nomination and Evaluation Committee, as provided for in article 19 of Banco Montepio's Articles of Association, was approved by the Board of Directors on 7 February 2019, with the appointment of Chairman Mr. Amadeu Ferreira de Paiva, and Members of the Board Mr. Carlos Ferreira Alves and Mr. Manuel Ferreira Teixeira and the respective Regulations approved on 21 February 2019.

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

  The Corporate Governance, Ethics and Sustainability Committee was created on 27 June, pursuant to article 18 of the Regulations of the Board of Directors. On 10 July 2019 was resolved the appointment of Mr. Carlos Tavares to exercise the function of Chairman of the Commission, as well as the Members, Mr. Carlos Ferreira Alves and Mr. Rui Heitor, in addition to the approval of the respective Regulations.

- **Annual General Meeting**

  Banco Montepio held the first general meeting of shareholders on 27 May 2019, which was attended by shareholders owning 99.9944% of its share capital, with the following deliberations 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 the firm *PricewaterhouseCoopers* & Associados – Sociedade de Revisores Oficiais de Contas, Lda., legal person 506 628 752, with head office at Palácio Sottomayor, Rua Sousa Martins, 1 – 3º, 1069-316 Lisboa, enrolled in the List of Statutory Auditor Firms under number 183 and enrolled at the CMVM under number 20161485, represented by Mr. José Manuel Henriques Bernardo (permanent), enrolled at the Statutory Auditors Association under number 903 and at the CMVM under number 20160522, and Mr. Carlos José Figueiredo Rodrigues (alternate), enrolled at the Statutory Auditors Association under number 1737 and enrolled at the CMVM under number 20160522 – Approved unanimously.

- **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 - Associação Mutualista Montepio Geral.

- **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). BEM is 100% controlled by Banco Montepio and was launched under the Transformation Plan in a group perspective and of specialization of services, thus representing an original development as it enables the Banco Montepio Group to provide a complete and integrated service to companies that require banking support beyond the traditional financing modes.

- **Opening of proximity branches**

Affirming local banking, "banking of relations and proximity" as a strategic pillar, in the first half of 2019, Banco Montepio opened six branches dedicated to proximity and convenience, with a small number of employees and shared management, in locations with a low offer of financial services. The opening of the Avanca branch is foreseen for the second half of the year.

- **Issuance of subordinated debt**

Banco Montepio carried out an issuance of subordinated debt amounting to 100 million euros for the period of 10 years («with issuer's early redemption call option» at the end of the 5th year). This issuance of 100 million euros is eligible to reinforce tier 2 own funds (Tier 2).

- **Intention of 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 merge Finibanco Angola S.A. The parties intend to attract the participation of strategic international partners for this operation, thus contributing to the consolidation, strengthening and opening of the Angolan banking and financial system.

  The Angolan and Portuguese regulatory authorities were informed of this process of negotiation. The development and completion of the negotiations are dependent on the necessary procedures among the shareholders and Angolan authorities, as well as on the results of the programme of appraisal of asset quality of the Angolan banking system, which is currently underway in Angola.

- **Sale of a portfolio of non-performing loans**

  At the beginning of the second half of the year, on 12 July 2019, and under the strategy of continuous reduction of non-performing assets, a public deed was concluded for sale of a portfolio of non-performing loans, in the form of direct sale. The gross amount sold was 321 million euros, in a portfolio that aggregated approximately 13 thousand contracts.

THE BANCO MONTEPIO GROUP

THE BANCO MONTEPIO GROUP

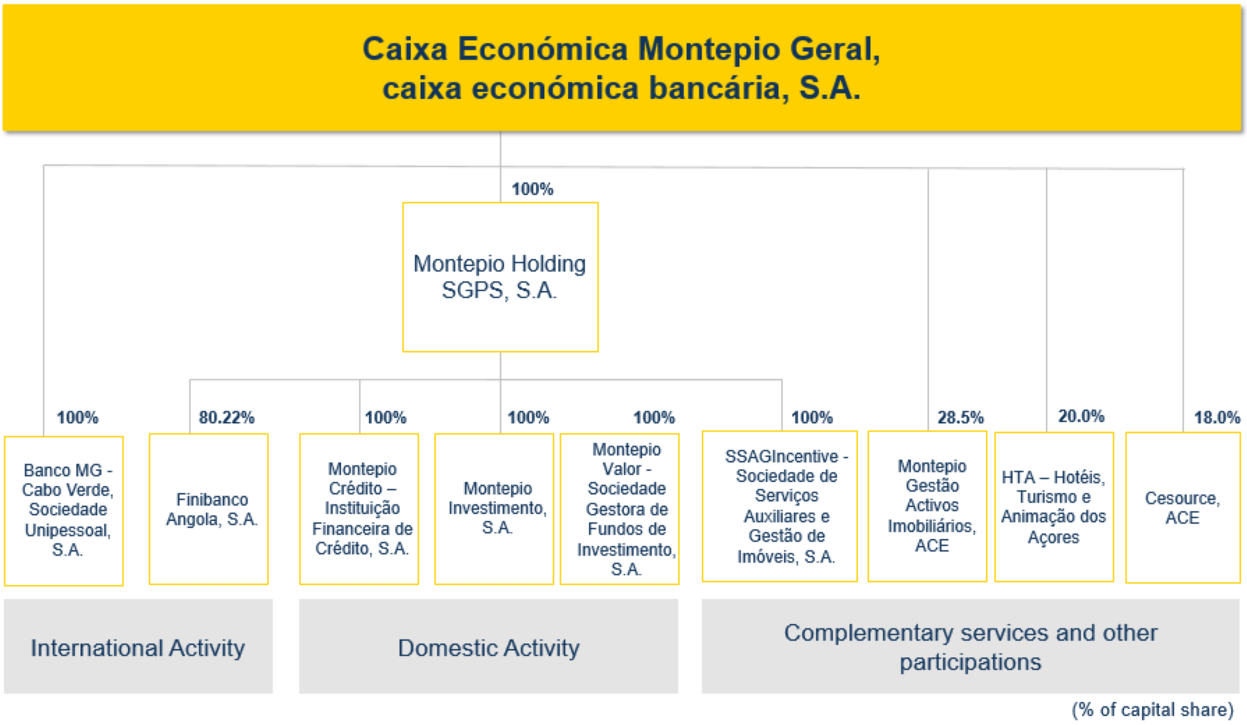
GROUP STRUCTURE

Pursuant to Decree-Law 190/2015, 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. (hereinafter referred to as "CEMG" or "Banco Montepio").

Banco Montepio holds a number of equity stakes in entities that aim to offer a broad and diversified range of banking and financial products and services, and which contribute with their earnings to the mutualist goals. The Banco Montepio Group thus presents itself as a diversified banking and financial group aligned with its mutualistic nature and purpose, which lend it unique features and an unmatched position in the sectors in which it operates and in Portuguese society.

As at 30 June 2019, the Banco Montepio Group was composed of the entities presented below:

- Consolidation by full consolidation method: 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.; 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 Ativos Imobiliários, ACE, HTA – Hotéis, Turismo e Animação dos Açores, S.A. and Cesource, ACE.



Under the strategic redefinition of its international subsidiaries, and with a view to refocusing the approach to the African market, as at 30 June 2019, the Banco Montepio Group had control of Finibanco Angola and an effective stake of 80.22%, with a series of procedures being underway for the deconsolidation of this subsidiary.

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 discontinuing 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 30 June 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; and PEF – Portugal Estates Fund e Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (FEIIA).

THE BANK MONTEPIO BRAND

PROTECTION AND ENHANCEMENT OF BRAND REPUTATION

Public Relations

The first half of 2019 was marked by a very positive media performance of the new trade name Banco Montepio. The growth trend started to be experienced in April 2019, to a large extent due to the proactive communication of strategic topics for the Bank, such as the opening of proximity branches, the launch of the campaign of housing loans with promotional reduction of the spread which placed the bank's offer as one of the most competitive of the market, and the launch of Banco de Empresas Montepio.

Accordingly, it was possible to improve the brand's media performance, which reached a peak value in June 2019, and the favourability of the published news, which stabilised at 3.7 (on a scale of 1 to 5, where 1 is bad and 5 is very positive) in the months of May and June 2019. In total, during this period around 3,500 news items were published about Banco Montepio.

“O Banco Explica” (The Bank Explains) Editorial Partnership

In June 2019, the new editorial project was launched between Banco Montepio and Rádio Renascença: “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 in the Rádio Renascença studios, in question/answer format, addressing financial topics, following a tutorial approach.

In just three minutes the initiative seeks to simplify banking topics and strengthen Banco Montepio's image as a trustworthy bank, close to and a partner of the Portuguese, endowing them with knowledge that will enable them to take conscious and informed financial decisions.

New trade name and brand logo

Banco Montepio's image and brand were presented in early 2019. The new brand logo is the most visible side of the internal transformation that Banco Montepio continues to carry out, in line with the objective of protecting and strengthening its reputation as a private brand.

The evolution to its current identity reflects Bank Montepio's new vision: a Portuguese 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, the brand's ancestral symbol, represents strength and confidence, the blue, inherited from Montepio's history, is its legacy, conveying trustworthiness, security and determination, and the new yellow, more optimistic and energetic, 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).

Following the redenomination, which also complies with the integration in the Institutional Distinction Program, the Banco Montepio brand climbed 16 positions in the Brand Finance ranking, which evaluates the strongest and most valuable brands in Portugal, establishing the positioning and value of the brand in the market.

AWARDS AND DISTINCTIONS

The Montepio brand was once again distinguished as a SuperBrand in 2019, recognition for the 10th time of its action of excellence in the banking sector. Superbrands® is an independent international organisation dedicated to identifying and promoting Brands of Excellence in eighty-nine countries, with selection criteria, based on studies conducted among consumers and the opinion of the Superbrands Council.

CHANNELS, NETWORKS AND CUSTOMER RELATIONSHIP

CHANNELS AND NETWORKS

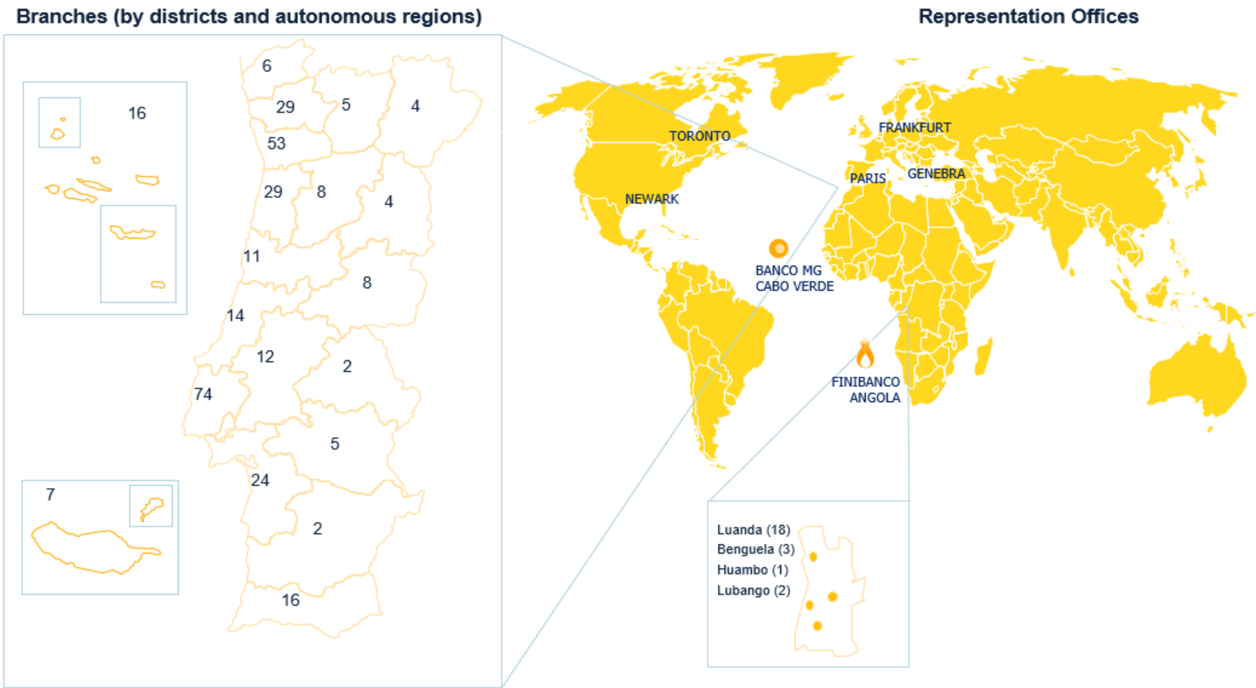
On 30 June 2019, Banco Montepio held a network of 329 branches in Portugal, 5 more compared to the 324 recorded as at 31 December 2018, as a result of the closing of one branch in Torres Vedras and the opening of 6 proximity and convenience branches. In the international activity, Finibanco Angola's distribution network had a total number of 24 branches (including 5 business centres), in line with the number recorded at the end of 2018.

No. of Branches and Representation Offices

	Jun-18	Dec-18	Jun-19
Domestic network	324	324	329
Of which: Proximity Branches	-	-	6
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.

As at 30 June 2019, Banco Montepio maintained its 5 representation offices (Frankfurt, Geneva, Paris, Newark and Toronto), which ensure the presence of Banco Montepio among communities resident abroad.



Banco Montepio also offers its Individual and Corporate 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, sms, app and the recent dedicated channel "Connect24", the internal network of "Chave24" automatic tellers, the automated teller machines (ATMs) and electronic funds transfer at point of sale (EFTPOS).

CUSTOMER MANAGERS

Banco Montepio's network of customer managers involved a total of 492 managers at the end of the first half of 2019, showing a reduction of 13 managers in relation to the same period of 2018. This reduction, more accentuated 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, seeking to increase the level of specialization, proximity and responsiveness 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 less than 20 million euros, 29 to Institutional and Social Economy, and 35 to Small, Medium-Sized and Large Companies (with turnover equal to or more than 20 million euros). In the first half of 2019, the Individuals segment had 200 managers, offering a personalised service and greater proximity to the customers, factors that characterise Banco Montepio.

No. of Managers per customer segment

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Retail Banking	**464**	**464**	**428**	**(36)**	**(7.8)**
Individuals	202	201	200	(2)	(1.0)
Small Business	185	185	183	(2)	(1.1)
Companies [(a)]	77	78	45	(32)	(41.6)
Social Economy [(b)]	**32**	**31**	**29**	**(3)**	**(9.4)**
Corporate Banking [(c)]	**9**	**9**	**35**	**26**	**-**
Total managers	**505**	**504**	**492**	**(13)**	**(2.6)**

(a) Turnover less than EUR 20 million.
(b) Includes Microcredit managers.
(c) Turnover of EUR 20 million or more.

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 in the first half of 2019 compared to the number recorded at the end of 2018, with a total number of 298,806 users in the Individuals segment (+4.4%) and 59,514 in the Corporate segment (+4.6%).

Distribution by Channel and Customer Segment

Distribution Channel / Segment	Serviço M24	Phone24	Net24	SMS24	Netmóvel24	App M24
Individuals	298 806	23 058	212 946	461	51 737	146 399
Companies	59 514	3 210	57 573	11	8 693	9 731

Connect24 was provided in the first half of 2019, which is a dedicated channel where the customer can authenticate him/herself and authorise access to information and banking operations when requested by certified entities, thus meeting Open Banking requirements.

AUTOMATED TELLER MACHINES (ATMs)

Montepio's total number of ATMs at the end of the first half of 2019 amounted to 969 machines, of which 379 were installed in branches and 590 were available at external locations. In net terms, the number of machines had fallen by 4 when compared to the number at the end 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 8.3%, compared to 8.4% recorded at the end of 2018. The total number of machines available in the national market of the SIBS Global Network increased by 41 machines, in relation to the number at the end of 2018, reaching a total of 11,688.

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.

ELECTRONIC FUNDS TRANSFER AT POINT OF SALE (EFTPOS)

Banco Montepio's total number of EFTPOS machines grew by 1.9% in the first half of 2019 compared to the number recorded at the end of 2018, with a total of 23,766 units installed.

Banco Montepio's market share in terms of number of EFTPOS remained stable at 6.8%, in relation to the share recorded at the end of 2018. The total number of machines available in the national market of the SIBS Global Network increased by 3,542 machines, in relation to the number recorded at the end of 2018, reaching a total of 351,292 units.

CUSTOMER RELATIONSHIP

Cards

Banco Montepio's card business recorded an increase of 2.6% in the first half of 2019 in relation to the number recorded at the end of 2018, compared to 0.3% reduction in the market, according to data provided by SIBS. As regards the transaction value, there was a 1.6% increase in Banco Montepio compared to the amount observed at the end of 2018, which compares with a 4.0% reduction in the market.

Proximity Branches

In the first half of 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. Six branches were opened under this new model (Viseu-Abraveses, Fão, Covilhã-Ferro, Ferreira do Alentejo, Oiã, and Pedras Salgadas), enabling the populations to have Banco Montepio right next to them during daily life. This project will continue to include proximity branches, with differentiated opening hours and shared management with nearby branches, accomplishing one of the measures of Banco Montepio's Transformation Plan, with the opening of the Avanca branch being soon foreseen.

Open Banking

Under the Open Banking initiatives, Banco Montepio joined a platform shared by 18 national financial entities, SIBS API Market (Open Banking API), which offers a dedicated interface to Third Party Providers (TPP) giving them access to the mandatory Application Programming Interface (API) displayed with information about accounts and for initiation of payment operations.

Through the new channel on the Montepio24 platform, named Connect24, Individual and Corporate customers are able to authorise operations initiated with TPP, using the following services:

- Service of information about accounts that enables authorising a given TPP, duly registered, to access account information in a regular form.
- Service of initiation of payments that enables initiating payments on Websites or Apps of third parties from their accounts held at Banco Montepio.

Online Account Opening - App M24

Banco Montepio now offers Online Account Opening through its App M24 via a video call with operator for validation of the identity and authenticity of the customer's data, thus accompanying the market trend of remote opening of demand accounts, through digital channels.

Immediate Transfers - App M24

In the first half of 2019, after Banco Montepio's launch of the innovative service of immediate transfers promoted by SIBS, Individual and Corporate customers were given the opportunity to carry out transfers through App M24, complementing all the other channels that are already available in the "Serviço Montepio24" (Montepio24 Service). These transfers enable immediate credit in the destination account, requiring merely 10 seconds for their materialisation.

INNOVATION AND QUALITY

Banco Montepio continues to implement the Transformation Plan started in 2018, where technological innovation is the transforming axis that enables the delivery of more service to more customers.

In the first half of 2019, priority was given to initiatives aimed at simplification and modernisation of the Information Technology system architecture, in particular the implementation of the new Branch platform (front, middle and BackOffice), of Omni channel architecture and with integration of tools supporting procedural flows (BPM-Business Process Management).

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

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 to BackOffice processes.

In a transversal and continuous manner, Banco Montepio has continued implementing the cloud first strategy (where cloud solutions are top priority) in conformity with the recommendations of the European Banking Authority (EBA), for alignment of system architecture and support to implementation of new functionalities to transform the customers' experience in digital interaction.

Banco Montepio

TRANSFORMATION PLAN

TRANSFORMATION PLAN

The Transformation Plan is a multi-annual program of Banco Montepio leading to its restructuring and repositioning, which defines the medium and long-term vision and objectives. It is a journey composed of twelve strategic initiatives that, over the next four years, the institution will be focused in four key areas: Partnerships, Brand, Relationship with customers and Customer experience. The goal is to increase business with adjusted levels of risk appetite, with more customers and greater binding.

Among Banco Montepio's strengths is the fact that it is a 175-year-old universal bank that continues to be recognized for its quality of service and friendliness. Banco Montepio has a customer base of 1.3 million, which covers the corporate segment, where small and micro enterprises assume a significant weight, individuals and social economy.

The Transformation Plan is based on 4 pillars:

Business Value Proposition

Sustainable growth backed by superior levels of customer loyalty and customer experience in both individuals and Companies

Balance Sheet Strengthening

Mix of high quality assets with lower weight of non-performing loans; backed by rigorous risk management and comfortable levels of liquidity

Organization

Simplified organization with more agile work model, supported by a meritocratic incentive model and effective talent management

Support

Lean process development; Greater Investment in Technology and acceleration of the digital transformation in business and support areas

These 4 pillars embody in 12 strategic initiatives:

Business Value Proposition	Value Proposition for Individuals
	Value Proposition for Companies
	Value Proposition for Social Economy
	Sustainable reduction in funding costs
Balance Sheet Strengthening	Risk and Credit
	Credit recovery
	Real Estate Management
Organization	Central Services
	Network and Omni Channel
	Culture, Incentives and Talent
Support	Efficiency: Supplies and External Services (SES)
	Systems, Dematerialization and Support

In this context, Banco Montepio considers essential:

- **Fully implement** the measures of the Transformation Plan, which derive from the approved Strategic Guidelines, emphasizing the Bank's affirmation as a unique Financial Institution in the national panorama, due to its origin and mutual base and, consequently, its vocation as a Savings Institution and provider of universal financial services to individual customers at all stages of their life cycle, to all corporate clients and, in particular, to locally based social economy institutions and social entrepreneurs, regional and national.

- **Implement** the measures of the Transformation Plan related to the "Business" pillar that translate:
    - In the segmentation of Customers, essential to bring the Bank closer to its Customers and to specialize in offering banking products and services.
    - In the unequivocal assumption of the difference between Banco Montepio as an institution with a mutualist root and aimed at segments of the population and economy with specific banking services needs that are less present in the competing offer.
    - In the global review of business processes, which allow a significant reduction in the times of preparation, analysis, decision and contracting of operations.

- **Boosting** the offer of mutual products that, in the past, were the reason for the conquest and loyalty of many Clients to whom the Group has provided financial and social support throughout the different cycles of their lives.

- **Diversify** the business portfolio in a healthy way, so that it is one of the fundamental pillars of a rigorous and simultaneously dynamic risk culture. This chapter highlights the conclusion of a wide range of Risk Policies and the creation of a Preventive Unit for Potential Defaults situations (EWS).

- **Innovate** technologically, choosing such innovation as the transforming and facilitating element that will allow to deliver more service to more customers, retaining them with levels of operational excellence, and having culture as a pillar. Measures associated with process robotization and the multiplicity of contact between the Customer and the Bank (Omni channel strategy) are highlighted.

- **Deepen** the objectives of improving operational efficiency by continuing to ensure customer service quality levels consistent with their expectations and inducing greater loyalty.

The main medium and long-term objectives set forth in the Transformation Plan standout:

1. To evolve Banco Montepio's business model so that it remains economically sustainable in the long term and results in a clear dynamic of shareholder value creation, always maintaining the appropriate safety margins over internal prudential and regulatory limits, a solid short-term liquidity position and an adequate balance sheet structure in the medium and long term;

2. Strengthen Banco Montepio's position as a reference financial institution for supporting the social economy by working in the segments of the population least benefited by banking services;

3. Develop new value propositions and service models, asserting itself as a reference bank for Small and Medium Enterprises (SMEs) and for different segments of individual customers;
4. Increase both the efficiency and effectiveness of the group's commercial, central and support structures, using new technologies and new ways of working;
5. Strengthen Banco Montepio's strategic pillar as a “relationship and proximity bank” for both individuals and companies, allowing to establish itself as a modern institution based on traditional values, adapting its offer of products and services and the channels used to different customer segments;
6. Improve asset quality by focusing on sustained strengthening of credit quality ratios and continued reduction of risk concentration in the building and real estate development sectors.

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, Social Economy, Specialized Credit, provided by Montepio Crédito, and Asset Management, promoted by Montepio Valor, Corporate and Investment Banking, provided by the Banco de Empresas Montepio, as well as complementary services, developed through SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A., and; abroad, the activity developed by the subsidiaries Finibanco Angola and Banco Montepio Geral Cabo Verde.

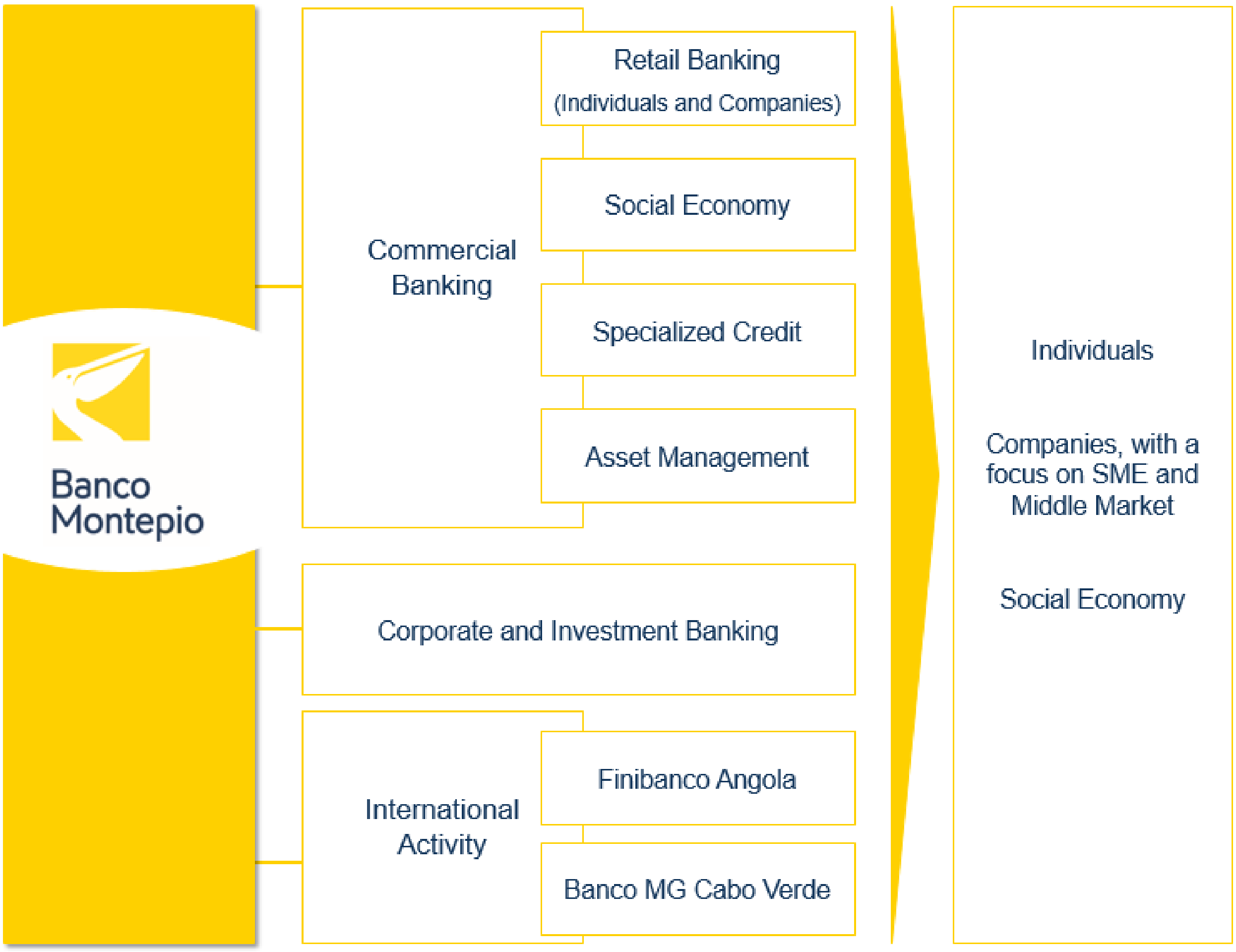
The Group's target customer segments consist of Individuals, Companies, with emphasis on small and medium-sized enterprises, the middle market, and Social Economy. Banco Montepio's business model is customer driven, focused on the well-being of families, on supporting the social economy and on attention 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 stake in Finibanco Angola is in the process of significant reduction, as part of the strategic redefinition of international holdings, particularly for the African market.

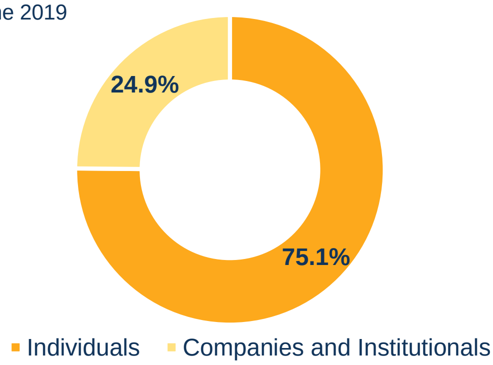
As at 30 June 2019, the operations in Portugal accounted for 97.8% of total assets, 100.0% of total loans to Customers (gross) and 98.8% of total Customer deposits. As at 30 June 2019, Banco Montepio had a network of 329 branches in Portugal, with market shares of 5.9% in Deposits and Loans to customers.

BUSINESS SEGMENTS OF THE BANCO MONTEPIO GROUP

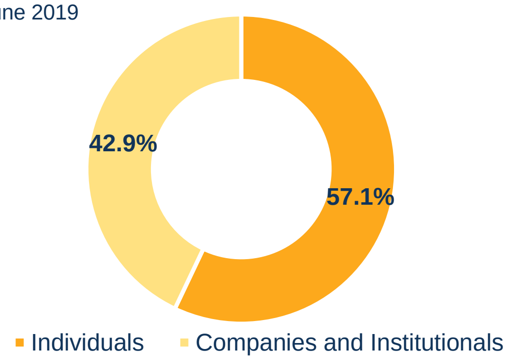


As at 30 June 2019, Bank Montepio's customer deposits stood at 12.7 billion euros, with individual customers representing 75.1% of this amount, and gross loans to customers reaching 12.6 billion, where 57.1% are individual customers and 42.9% are corporate and institutional customers.

Structure of Customers' Deposits
30 June 2019



Structure of Loans to Customers' (gross)
30 June 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 savings instruments, retirement solution products, like "PPR" (retirement saving plans), debit and credit cards, services for management of accounts and means of payment and services for placement of investment funds, purchase and sale of security and custody, 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)

	Jun-18	Jun-19	Y.oY. Change	
			Amount	%
Income Statement				
Net interest income	106.2	99.8	(6.4)	(6.1)
Net fees and commissions	52.9	49.4	(3.5)	(6.7)
Total operating income	159.3	149.3	(10.0)	(6.3)
Operating costs	86.7	89.7	3.0	3.4
Impairment	-4.0	7.9	11.9	-
Net Income	58.4	40.1	(18.3)	(31.4)
Balance Sheet				
Loans to customers (gross)	9 328	8 741	(586.3)	(6.3)
Customers' deposits	10 442	10 838	396.3	3.8

CORPORATE AND INVESTMENT BANKING

The Corporate and Investment Banking segment (companies with a turnover of 20 million euros or more) aggregates the activity provided by the Group with Small, Medium and Large Companies, through the commercial structure dedicated to this segment, as well as business with institutional customers, namely in the financial sector. 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, deposits, payment and receipt services, cards and custody services.

The Corporate and Investment business includes the Corporate segment in Portugal, which 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, which operates in the areas of Corporate Finance, Capital Markets, Structured Finance, Financial Advisory and Company Studies and Information.

A list of key indicators of the Corporate and Investment 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 - Corporate and Investment Banking			(million euros)	
	Jun-18	Jun-19	Y.oY. Change	
			Amount	%
Income Statement				
Net interest income	20.0	22.5	2.5	12.1
Net fees and commissions	6.1	4.3	(1.8)	(28.8)
Total operating income	25.4	27.8	2.4	9.3
Operating costs	6.8	6.6	(0.2)	(3.2)
Impairment	-2.1	-1.9	0.2	8.5
Net Income	15.2	17.7	2.5	16.5
Balance Sheet				
Loans to customers (gross)	1 971	1 693	(278.3)	(14.1)
Customers' deposits	505	306	(199.2)	(39.4)

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

Summary of indicators - Social Economy			(million euros)	
	Jun-18	Jun-19	Y.oY. Change	
			Amount	%
Income Statement				
Net interest income	2.3	2.3	0.0	1.5
Net fees and commissions	0.5	0.5	0.0	(7.8)
Total operating income	2.8	2.8	0.0	(0.4)
Operating costs	2.1	2.4	0.3	14.3
Impairment	0.1	0.0	(0.1)	-
Net Income	0.4	0.3	(0.1)	(33.7)
Balance Sheet				
Loans to customers (gross)	130	130	0.3	0.2
Customers' deposits	561	664	103.7	18.5

The main highlights of the first half 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 incentive for savings, 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 families.

DEPOSITS

In order to encourage and cultivate saving habits among the younger population, Banco Montepio has provided for the Segment of Minors (from 0 to 17 years old) a unique offer called "Conta Cresce" (Grow Account), which has a single 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).

On the occasion of the celebration of Banco Montepio's 175 years of activity, the deposit “Poupança Aniversário 175” (175 Anniversary Deposit) was provided during the months of March and April 2019 with an attractive rate and automatically renewable for the same period, also with beneficial conditions.

The Bank continued to materialise the concept of “offering savings” by providing via web, on "Serviço Montepio24" (Montepio24 Service), the obtaining of “vouchers-poupança” (saving vouchers), enabling offering any person the first step to strengthening or starting savings.

INVESTMENT FUNDS

Banco Montepio continued to promote the offer 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), managed respectively by the Management Companies Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. and SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.

Fundo Montepio Ações managed by Montepio Gestão de Activos received the award "Melhor Fundo Nacional Ações Europa" (Best National Shares Europe), attributed by Morningstar, in the context of the Morningstar Portugal Fund Awards 2019.

The "Fundo VIP" (VIP Fund) managed by SILVIP 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.

Two campaigns were carried out in the first half of 2019 promoted by Futuro - Sociedade Gestora de Fundos de Pensões, S.A., named “Reforma Crescente” (Growing Pension) and “Futuro a Sorrir” (Smiling Future), aimed at stimulating and encouraging savings 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.

PUBLIC SUBSCRIPTION OFFERS

As in previous years, Banco Montepio participated as a Placement Entity in Public Subscription Offers of Bonds, offering its customers, in the first half of 2019, the opportunity of subscription of bonds of three nationally renowned entities and diversification of their investments.

PAYMENT MEANS

In order to improve its customer service, Banco Montepio provided a new functionality, free of charge, which works as an extra protection for Classic, Gold and World credit cards, through branches and the "Serviço Montepio24" (Montepio24 Service), via web, enabling the customer to manage the functionalities of the cards, such as blocking, maximum value of use and geolocation.

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 motor insurance sector, as well as differentiated conditions in the health insurance sector.

COMMERCIAL SOLUTIONS

In the first half of 2019, the "Solução Consigo" (Solution with You) is noteworthy in facilitating the daily management of the customer. "Solução Consigo" (Solution with You) gathers 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 loans 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 with a view to stimulating housing loan solutions, namely updating the price list.

In the first half of 2019, reference is made of the launch of -the “Housing Loan 175 Years” allusive to the celebration of 175 years of activity of the Institution, which offers very special conditions for purchasing a house.

The functionalities of the online simulators were also improved, namely the existing circuit for follow-up of contact requests when the active or potential customer makes a Personal Credit or Housing Loan simulation on Banco Montepio's public website, in order to optimise the customer journey.

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. Ensuring the continuity of the commercial monitoring model based on the specialization and size of the customers, improvements were introduced in the first half of 2019, such as the provision of new functionalities online.

CREDIT

Banco Montepio strengthened its participation in the initiatives of public entities 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 1,600 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 Apoio ao Desenvolvimento de Negócio 2018 – StartUp (ADN 2018-StartUp)" (Business Development Support Line 2018 – StartUp (ADN 2018-StartUp)**

This line aims to support micro-enterprises in the initial stage of their life cycle, with a minimum of 15% of equity and that seek to carry out credit operations with associated mutual guarantee. The credit line has a total amount of up to 10 million, adjustable on a "first come first served" basis, with 5% being exclusively intended for companies of the primary sector.

RENTING

An automobile solution aimed at supporting customers who want, through the Vehicle Operational Renting service, to use one or various vehicles for personal or commercial purposes. Banco Montepio, 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 through 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 continues allied to 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 Statuses “PME Líder” and “PME Excelência” (Leader SME and Excellent SME).

SERVICES

- **Electronic Funds Transfer at Point of Sale (EFTPOS)**

With the aim of simplifying and expediting the flexibility of the payments received by Company customers, Banco Montepio provides this equipment in the modes of Fixed EFTPOS (terminal based on fixed communications), GPRS Mobile EFTPOS (terminal based on mobile communications, permitting relocation to the consumer to carry out the payment) and WI-FI EFTPOS (based on fixed communications, enabling total mobility, as it works on Wi-Fi).

In the first half of 2019, the "Serviço Montepio24" (Montepio24 Service) started to provide the ‘Consulta de movimentos’ (Movement Query) functionality via web, which enables accessing bank statement per month with all the movements, for consultation, and the viewing of the movements up to the last closing date of the terminal (EFTPOS), and the EFTPOS ‘Download de movimentos’ (Download of movements) functionality to Excel, facilitating the management and storage of information.

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

Aimed at customers who have joined the "Serviço Montepio24 Empresas" (Companies Montepio24 Service), this service enables carrying out an unlimited series of transfers via web, telephone and app with a single monthly fee. 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

During the first half of 2019, Banco Montepio continued to affirm the Social Economy as a differentiating pillar of the institution, through a business follow-up model based on a specific department, the “Direção Comercial da Economia Social e do Setor Público Social” (DCESSP) (Economy and Public Sector Commercial Department), with a team of experienced managers from the north to the south of the country, close to the customers, with specific knowledge of the sector and its varied areas of action.

DCESSP pursued the objective of transforming Banco Montepio a market leader in the Social Economy segment, seeking to strengthen its market share, increase turnover, sign partnerships, maintain dialogue and relations with the structures representing the sector and the different stakeholders, strengthen brand awareness and the values of the brand, and contribute to an economy of social impact.

DCESSP is composed of employees with commercial and technical duties, with 25 commercial managers dedicated to customers of the Social Economy and Public Sector and 4 managers dedicated to Microcredit and Social Entrepreneurship, responsible for customer follow-up, new customer attraction, commercial dynamization and business capture.

As a Bank of the Social Economy, Banco Montepio has contributed to the feasibility, maintenance and continuity of initiatives of Social Economy institutions, finding solutions to social challenges and boosting development and social inclusion. The following initiatives supported during the first half of 2019 are highlighted below:

- **e-Social**, a communication platform of Banco Montepio directed at all stakeholders of the Social Economy. Present on 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 took place between 7 and 10 February 2019, in Albufeira, in "Palácio de Congressos do Algarve" (Algarve Congress Palace), dedicated to the topic of "Rigor, Compromisso e Missão" (Rigour, Commitment and Mission).
- **"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) on 29 March 2019 at "Centro Social Paroquial de Azambuja" (Azambuja Parish Social Centre). This initiative was supported by Banco Montepio, through the provision of materials for the participants.
- **"Campanha Pirilampo Mágico 2019" (Magic Firefly Campaign 2019)**, for the third consecutive year Banco Montepio supported and joined the "Pirilampo Mágico" (Magic Firefly) cause, one of the most emblematic solidarity campaigns ever carried out in Portugal, with participation in the campaign's opening session on 8 May 2019 and the provision of mascots at its branches. The "Pirilampo Mágico" (Magic Firefly) campaign, promoted by the "Federação Nacional das Cooperativas de Solidariedade Social" (National Federation of Social Solidarity Cooperatives), aims to raise funds for "CERCI - 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, on 7 June 2019, 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), this year held 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.

Support to Entrepreneurship and Social Innovation

Social Entrepreneurship gathers 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.

In the first half of 2019, Banco Montepio once again revealed strong dynamism in the context of Entrepreneurship and Social Innovation, by supporting social incubators, entrepreneurship competitions and social entrepreneurship projects, among which the following are highlighted:

- "**Montepio Acredita Portugal" (Montepio Acredita Portugal) –** Acredita Portugal is a non-profit organisation which promotes, in partnership with Banco Montepio, the largest entrepreneurship competition of Portugal and the second largest worldwide, awarding the best entrepreneurial ideas and projects. In its 9th edition the "Montepio Acredita Portugal" (Montepio Believes Portugal) competition, held on 8 June 2019, received 10,340 applications, with the highest number of projects submitted having been related to the category of Social Entrepreneurship (2,098 applicants) which is supported by Banco Montepio, followed by the categories of Technology (1,759), Communication (449), Mobility (362), and Water and Sustainability (207).
- **"Título de Impacto Social" (Social Impact Bond) –** Banco Montepio was the first Bank in Portugal to invest in Social Impact Bonds, financing instruments provided by "Portugal Inovação Social" (Social Innovation Portugal) which aim to support innovative projects with social impact. The "Projeto Família" (Family Project), co-financed by Banco Montepio, 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.
- "**Centro de Inovação Social do Alentejo" (Alentejo Social Innovation Centre) –** Banco Montepio maintains its link to the "Fundação Eugénio de Almeida" (Eugénio de Almedia Foundation) through the first Social Innovation Centre in Alentejo, 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 population density.

As a national reference financial institution in the area of Social Economy, Entrepreneurship and Social Innovation, Banco Montepio is a partner of incubators and accelerators, namely:

- "**Casa de Impacto" (Impact House) –** As the only partner bank, Banco Montepio continues to be part of the Board of Curators of the "Casa de Impacto" (Impact House), a reference of Social Innovation in Portugal. Created by "Santa Casa da Misericórdia de Lisboa", "Casa do Impacto" (Impact House) seeks to foster innovative solutions to resolve social problems and needs with a view to building a more solidary and sustainable society.

- "**Incubadora Regional de Impacto Social (IRIS)" (Regional Incubator of Social Impact (IRIS)) –** An entity that aims to capture ideas and projects, and to 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 the support of Banco Montepio.
- "**Incubadora de Inovação Social do Baixo Alentejo" (Lower Alentejo Social Innovation Incubator) –** A project of the "Centro Social Nossa Senhora da Graça" (Our Lady of Grace Social Centre) created with the objective of promoting 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 and Social Entrepreneurship

Banco Montepio's Microcredit area, which combines the financial component to the solidarity component, promotes inclusion and self-employment, with a team of specialised managers, who follow up the business ideas from their very beginning, cooperate and guide the entrepreneurs and, together, find the best solutions for each case. Through partnerships with national organisations, which are distinguished by their experience in the field of social entrepreneurship and protocolled financing lines, Montepio Bank has contributed to making people and ideas grow, creating business, generating employment and producing wealth for entrepreneurs and society.

In this regard, during the first half of 2019, Banco Montepio maintained 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) embodied in the credit lines Microinvest and Invest+.

In the area of investment in Microcredit and support to Social Entrepreneurship, Banco Montepio supported in the first half of 2019:

65 Projects | **+ 1 million euros financing** | **97 jobs**

The training on microcredit and social entrepreneurship given 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.

SUBSIDIARIES

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

Montepio Investimento, S.A., a bank 100% controlled by the Banco Montepio Group, pursued, in the first half of 2019, an intervention directed towards Investment Banking, aimed at complementing the Group's offer of products and services. On 4 June 2019, it adopted the commercial designation of Banco de Empresas Montepio, and started to develop, in an integrated manner, the Commercial Banking activities (for companies with a turnover of over 20 million euros) and Investment Banking, with Corporate Finance, Capital Markets, Structured Finance, Financial Advisory and Research. In the area of commercial banking, there is also the development of business areas related to international trade, factoring and corporate cash management.

As at 30 June 2019, the Net assets of Banco de Empresas Montepio (still without operations arising from new activities) stood at 191.5 million euros, showing a decline of 8.2 million euros (-4.1%) in relation to the value recorded at the end of 2018 (199.7 million euros) and a decrease of 7.6% year-on-year.

The heading of Cash and deposits at other credit institutions, which records the amounts invested in Bank Montepio, stood at 29.6 million euros as at 30 June 2019, having increased by 27.9 million euros in relation to the value recorded at the end of 2018 (1.7 million euros).

Net loans to customers amounted to 24.7 million euros as at 30 June 2019, compared to 27.4 million euros recorded at the end of 2018, corresponding to a reduction of 2.7 million euros (-9.9%), due to the fact that this is an equipment leasing and real estate leasing portfolio undergoing amortisation.

As at 30 June 2019, the heading of Financial assets not held for trading mandatorily at fair value through profit or loss amounted to 84.2 million euros, compared to 91.2 million euros as at 31 December 2018 (-7.7%) as a result of principal repayments of Venture capital funds.

The heading of Financial assets at fair value through other comprehensive income stood at 25.5 million euros as at 30 June 2019, compared to 51.5 million euros as at 31 December 2018 (-50.5%).

As at 30 June 2019 the Non-current assets held for sale of the value of 18.6 million euros, essentially corresponding to real estate properties derived from the dissolution of customer credit contracts, were reclassified to the heading of Other assets.

The heading of Resources from other credit institutions as at 31 December 2018 amounted to 10.0 million euros relative to loans from Banco Montepio, which had been fully repaid by the end of June 2019.

As at 30 June 2019 Equity constituted the main source of Asset funding, representing 97.4% of Total assets (92.8% at the end of 2018).

Equity reached 186.4 million euros, revealing an increase of 1.2 million euros (+0.6%) in relation to the value recorded at the end of 2018 (185.2 million euros) and a reduction of -0.5% year-on-year, in this case influenced by the decrease of Revaluation reserves and Other reserves and retained earnings of 1.6 million euros, which was partially offset by the favourable evolution of the net income of the first half of 2019.

The Net income of the first half of 2019 was 1.5 million euros, comparing favourably to the value of 0.9 million euros recorded in the same period of 2018 (+70.0%), as a result of the positive evolution recorded in terms of Total operating income determined by the gains stated in Results from financial operations and in Results from sale of other assets, despite the increases observed in Operating costs and in allocations for Impairments and provisions.

Net interest income reached 1.3 million euros in the first six months of 2019, compared to 1.4 million euros recorded in the first half of 2018 (-0.1 million euros), reflecting the reduction observed in the interest of Loans to customers due to the reduction of the portfolio of Loans to customers and of the Securities portfolio, which was lower than the decrease observed in interest paid for Resources from other credit institutions.

Net fees and commissions stood at 0.2 million euros in the first half of 2019, corresponding to a reduction of 0.2 million euros in relation to the value recorded in the same period of 2018, justified by the lower gains from fees and commissions related to the structuring of operations and custody of securities.

The Results from financial operations stood at 0.1 million euros in the first half of 2019, having evolved favourably in relation to the -0.7 million euros recorded in the same period of 2018 (+0.8 million euros) incorporating, on the one hand, the adverse impact of the revaluation of the participation units of investment funds in portfolio, and, on the other hand, the gains upon maturity of corporate debt issuances.

The heading of Results from sale of other assets, which records the result of the sale of real estate properties derived from awards of properties under financial leasing at Montepio Investimento S.A., reached 1.2 million euros in the first half of 2019, compared to 0.4 million euros in the first half of 2018, reflecting the favourable evolution of the results from the sale of real estate properties for trading and from the sale of other assets under financial leasing.

Other operating results was negative by -0.2 million euros despite comparing favourably with the -0.3 million euros recorded in the same period of 2018, supported by the reduction of Other operating costs which more than offset the reduction recorded under Other operating income.

In the first half of 2019, Operating costs stood at 1.1 million euros, having increased by 0.5 million euros (+92.9%) in relation to the value stated in the same period of 2018, as a result of the increase recorded in all the components, +0.2 million euros in Staff costs (resulting from resources allocated to new activities which in 2018 did not exist), +0.3 million euros in General and administrative expenses, incorporating the increased costs related to consulting services (consultants and external auditors), assignment of personnel and provision of services by Montepio Gestão de Activos Imobiliários, ACE, and +0.1 million euros in Amortisation for the year.

The favourable evolution of Total operating income enabled offsetting the increased Operating costs, leading to the cost-to-income ratio reaching 44.0% in the first half of 2019, compared to 46.2% recorded in the same period of 2018.

Impairments and Provisions for the year in the first six months of 2019 stood at 43.4 thousand euros, compared to -817.6 thousand euros stated in the same period of 2018, reflecting the higher level of Impairments and Provisions constituted in relation to the Impairments and Provisions reinstated in the same period of 2018.

Income tax recorded through profit or loss includes the effect of Current tax and Deferred tax calculated in conformity with the taxation system in force. In the first half of 2019, current and deferred tax amounted to -0.1 million euros, compared to 0.6 million euros recorded in the first half of 2018, with -0.4 million euros corresponding to Current tax, incorporating gains of 0.8 million euros due to tax correction of 2018 under the special regime of corporate group taxation, and 0.3 million euros corresponding to Deferred tax.

The key indicators on the activity and results of Montepio Investimento is presented below.

Activity and Results					(million euros)
	Jun-18	**Dec-18**	**Jun-19**	Y.oY. Change	
				Amount	%
Total assets	207.2	199.7	191.5	(15.7)	(7.6)
Loans to customers (net)	32.8	27.4	24.7	(8.1)	(24.7)
Securities applications *	145.7	142.7	109.7	(36.0)	(24.7)
Non-current assets held for sale	20.6	19.8	0.0	(20.6)	-
Equity	187.4	185.2	186.4	(1.0)	(0.5)
Total operating income**	1.3	2.7	2.5	1.2	92.3
Operating costs	0.6	1.2	1.1	0.5	83.3
Cost-to-Income	46.2%	43.7%	44.0%	(2.2 p.p.)	
Net income	0.9	(1.0)	1.5	0.6	70.0

* Includes Financial assets not held for trading mandatorily at fair value through profit or loss and Financial assets at fair value through other comprehensive income.
** 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 the Banco Montepio Group, offers specialized credit in the automobile, home and services sectors, and equipment, complemented by a set of solutions for individual customers, companies and institutions of the Social Economy sector.

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 specialised 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.

As at 30 June 2019, Net assets reached 482.3 million euros, showing a decline of 7.4 million euros (-1.5%) in relation to the value recorded at the end of 2018 (489.7 million euros) and a growth of 4.6% compared to 30 June 2018.

Loans to customers reached 443.0 million euros at the end of the first half of 2019, representing an increase of 2.4% in relation to the value observed at the end of 2018 (432.8 million euros) and of 6% compared to the same period of 2018.

Resources from other credit institutions and Debt securities issued continued to be the main sources of Asset funding, representing 86.3% of Total assets as at 30 June 2019 (86.4% at the end of 2018).

Resources from other credit institutions stood at 305.3 million euros, showing growth of 36.7 million euros (+13.7%) in relation to the value recorded at the end of 2018 (268.6 million euros) and 22,0% compared to the end of June 2018.

The heading of Debt securities issued, composed of Pelican Finance No. 1 and Aqua Finance 4 Bonds, stood at 111.1 million euros at the end of the first half of 2019, reflecting a reduction of 28.0% in relation to the value recorded at the end of 2018 (154.3 million euros).

Equity reached 54.0 million euros, showing an increase of 2.9 million euros (+5.5%) in relation to the value recorded at the end of 2018 (51.1 million euros) and 21.0% year-on-year, revealing the favourable evolution of Net income for the period.

The Net income of the first half of 2019 amounted to 3.2 million euros, evolving favourably in relation to the 1.2 million euros recorded in the same period of 2018 (+2.0 million euros), fundamentally influenced by the increased Total operating income and by the lower level of Impairments and provisions of the period.

Total operating income reached 9.4 million euros in the first half of 2019, comparing favourably to the 7.4 million euros recorded in the same period of 2018, essentially due to the evolution of Other operating income which stood at 1.2 million euros compared to -0.5 million euros in the first half of 2018, as a result of the recognition of gains of 1.8 million euros associated to the correction of the tax estimate.

Net interest income stood at 6.5 million euros in the first half of 2019, corresponding to an increase of 2.3% in relation to the value of 6.3 million euros recorded in the first half of 2018, essentially reflecting the reduction of interest and similar costs (-9.3%) caused by the reduction of interest paid for the Resources from other credit institutions and Senior debt issued, which more than offset the reduction of interest and similar income

(-1.1%) in relation to the same period of 2018 derived from the reduction of interest earned from the loan portfolio.

Net fees and commissions reached 1.7 million euros in the first half of 2019, compared to 1.6 million euros recorded in the same period of 2018, representing an increase of 8.5% and reflecting, above all, the reclassification of the fees and commissions related to insurance mediation from the heading of Other operating income to Net fees and commissions.

Other operating income evolved favourably in the first half of 2019, standing at 1.2 million euros, compared to -0.5 million euros recorded in the first half of 2018, reflecting the recognition of gains of 1.8 million euros related to the correction of the tax estimate.

In the first half of 2019, Operating costs amounted to 5.6 million euros, corresponding to an increase of 0.2 million euros (+3.6%) compared to the same period of 2018, caused by the increased Staff costs (+3.7%) and Depreciation and amortisation (-0.3%), despite the reduction of General administrative expenses (-0.3%).

The evolution of Staff costs, which stood at 3.1 million euros in the first half of 2019, showing an increase of 0.2 million euros in relation to the value recorded in the same period of 2018, was primarily caused by the increased expenses related to the Pension Fund, to mandatory Social security charges and Remunerations.

General administrative expenses amounted to 2.3 million euros in the first half of 2019, remaining at the level observed in the same period of 2018, portraying the control exercised over these cost headings.

The increase of Depreciation and amortisation, which evolved from 0.1 million euros in the first half of 2018 to 0.2 million euros in the first half of 2019 was essentially due to the application of IFRS 16.

The favourable evolution of Total operating income led to the cost-to-income ratio reaching 59.3% in the first half of 2019, compared to 72.3% recorded in the same period of 2018.

Impairment and provisions stood at -0.1 million euros in the first half of 2019, compared to 0.3 million euros recorded in the same period of 2018. This evolution was influenced by the lower level of Loan impairments, which benefited from the recovery of Overdue loans and interest, and the reversal of Impairments of other financial assets, Impairments of other assets and Other provisions in relation to the same period of 2018.

Income tax recorded through profit or loss includes the effect of Current tax and Deferred tax calculated in conformity with the taxation system in force. In the first half of 2019, Current and deferred tax amounted to 0.7 million euros, compared to 0.5 million euros recorded in the same period of 2018.

The key indicators on the activity and results of Montepio Crédito are presented below.

Activity and Results (million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Total assets	461.3	489.7	482.3	21.0	4.6
Loans to customers (net)	418.0	432.8	443.0	25.0	6.0
Resources from other credit institutions	250.3	268.6	305.3	55.0	22.0
Debt securities issued	0.0	154.3	111.1	111.1	-
Equity	44.6	51.1	54.0	9.4	21.0
Total operating income	7.4	16.1	9.4	2.0	26.4
Operating costs*	5.4	11.3	5.6	0.2	3.6
Cost-to-Income	72.3%	70.4%	59.3%	(13.0 p.p.)	
Net income	1.2	8.0	3.2	2.0	-

* 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 5.8 million euros as at 30 June 2019, showing an increase of 4.6% in relation to the value recorded at the end of 2018 (5.5 million euros) and growth of 10.5% year-on-year.

As at 30 June 2019, the aggregate of the headings of Cash and deposits at central banks and Loans and advances to other credit institutions amounted to 4.5 million euros, showing a reduction of 0.3 million euros compared to the value recorded at the end of 2018 (4.8 million euros) and growth of 13.2% year-on-year.

Assets under management amounted to 552.4 million euros as at 30 June 2019 showing an increase of 42.6 million euros (+8.4%) in relation to the value recorded at the end of 2018 (509.8 million euros), due to the entry of the "Fundo Imourbe - Fundo de Investimento Imobiliário Fechado" (Imourbe Fund - Closed Real Estate Investment Fund) and the appreciation of the "Fundos Valor Prime - Fundo de Investimento Imobiliário Aberto" ((Prime Value Funds - Open Real Estate Investment Fund) and "Fundinvest - Fundo de Investimento Imobiliário Fechado" (Fundinvest - Closed Real Estate Investment Fund).

Equity stood at 4.4 million euros in line with the value recorded at the end of 2018 and for the same period of 2018.

The Net income recorded in the first half of 2019 reached 0.4 million euros, evolving favourably in relation to the value of 0.2 million euros recorded in the same half of 2018, supported by the increased Total operating income, despite the increased Operating costs and Net provisions.

In the first half of 2019, Total operating income reached 2.5 million euros reflecting an increase of 0.7 million euros (+35.0%) in relation to the value of 1.8 million euros recorded in the same period of 2018, sustained by the performance of Net fees and commissions which grew by 0.4 million euros and Other operating income which increased by 0.2 million euros.

Net interest income in the first six months of 2019 reached 10.0 thousand euros, compared to 3.3 thousand euros recorded in the first half of 2018 (+205.8%), reflecting the increased income from the investment of surplus liquidity.

Net fees and commissions stood at 2.4 million euros in the first half of 2019, evolving favourably in relation to the value recorded in the same period of 2018 of 2.0 million euros (+20.8%). This increase was the result of the entry of "Fundo Imourbe - Fundo de Investimento Imobiliário Fechado" (Imourbe Fund - Closed Real Estate Investment Fund) to the assets under management, the increased total net value of the real estate investment funds managed by the company on which the management fees and commissions to be earned are recorded and a performance fee is charged to the "Fundo Valor Prime - Fundo de Investimento Imobiliário Aberto" (Prime Value Fund - Open Real Estate Investment Fund).

Other operating income stood at 29.8 thousand euros in the first half of 2019, representing a year-on-year increase of 215.7 thousand euros, supported by the heading of Other operating costs, which in the first half of 2018 incorporated 240 thousand euros which were reclassified to the heading of Other provisions at the end of 2018.

Operating costs amounted to 1.7 million euros in the first half of 2019, compared to 1.5 million euros recorded in the same period of 2018, corresponding to an increase of 14.2% as a result of the increased Staff costs (+51.3%), despite the reduction recorded in General administrative expenses (-12.1%) and in Depreciation and amortisation (-3.9%). The increase observed in Staff costs in relation to the same period of 2018, essentially shows the rise of remunerations, namely those allocated to the governing bodies. The reduction of General administrative expenses reflects the reduction of charges related to assigned personnel, notwithstanding the increased costs related to consultants and external auditors.

The favourable evolution of net operating income allowed the Cost-to-income ratio to stand at 69.7% in the first half of 2019, compared to 82.4% in the same period of 2018.

Impairments and provisions for 2018 reached 0.2 million euros, essentially reflecting the allocations to Other provisions constituted during the year, despite the reversal and recovery of Impairments of other assets.

Income tax recorded through profit or loss includes the effect of Current tax and Deferred tax calculated in conformity with the taxation system in force. In the first half of 2019, Current and deferred tax amounted to 129.3 thousand euros, compared to 89.1 thousand euros recorded in the first half of 2018.

The key indicators on the activity and results of Montepio Valor are presented below.

Activity and Results					(million euros)
	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Assets under management	493.5	509.8	552.4	58.9	11.9
Total assets	5.3	5.5	5.8	0.5	10.5
Equity	4.4	4.4	4.4	0.0	(1.1)
Total operating income	1.8	4.3	2.5	0.7	35.0
Operating costs*	1.5	3.4	1.7	0.2	14.2
Cost-to-Income	82.4%	77.7%	69.7%	(12.7 p.p.)	
Net income	0.2	0.3	0.4	0.2	66.0

* 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 trading and management of real estate properties required for the installation and operation of the credit institutions or financial companies that are its shareholders and/or of the companies in a group or controlling relationship with it, as well as the management and purchase for resale of real estate properties acquired by its shareholders and/or companies in a group or controlling relationship with it as a result of the repayment of credit belonging to them.

As at 30 June 2019, the Assets of SSAGINCENTIVE amounted to 59.1 million euros, indicating a reduction of 1.2% in relation to the value recorded at the end of 2018 (59.8 million euros) and 3.1% year-on-year.

The heading of Inventories refers to the acquisitions made from Banco Montepio, namely related to real estate properties that were intended for sale, in particular divisions of properties stated at market value. On 30 June 2019, the heading of Inventories amounted to 45.6 million euros, of which 25.9 million euros refer to buildings and 19.7 million euros refer to plots of land, showing a reduction of 1.9 million euros in relation to the value 47.5 million euros recorded as at 31 December 2018, as a result of the sales occurred in the first half of 2019.

The heading of Cash and bank deposits amounted to 13.4 million euros as at 30 June 2019, showing an increase of 1.3 million euros (+10.5%) in relation to the 12.1 million euros recorded at the end of 2018, revealing the deposits made in Banco Montepio.

As at 30 June 2019, Equity stood at 58.9 million euros, corresponding to a reduction of 1.2% in relation to the value recorded at the end of 2018 (59.7 million euros) and -3.3% year-on-year, revealing the unfavourable impact of Net income for the first half of 2019 which was negative by 0.7 million euros.

Sales and services rendered stood at 1.4 million euros in the first half of 2019, representing a reduction of 0.7 million euros compared to the value of 2.1 million euros recorded in the same period of 2018, and correspond 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 1.3 million euros in the first half of 2019, compared to 2.0 million euros in eh same period of 2018, and represent the acquisition cost of the real estate properties sold, after deduction of their impairment.

The heading of Impairment of inventories amounted to 0.6 million euros in the first half of 2019, evolving adversely in relation to the value of 0.3 million euros recorded in the first half of 2018 as a result of the reinforcement of impairments of real estate properties for trading observed in the first six months of 2019.

The heading of Other income and gains evolved from 0.2 million euros in the first half of 2018 to 0.1 million euro in the first half of 2019, showing the increase of costs related to the Municipal Property Tax (IMI) and Surcharge to the Municipal Property Tax (AIM), and the reduction of revenue from the refund of Municipal Property Transfer Tax (IMT) and Stamp Duty (IS).

The heading of Other costs and losses, which includes costs related to the maintenance, legalisation and sales promotion of real estate properties, amounted to 0.2 million euros in the first half of 2019, in line with the value recorded in the first half of 2018.

The Net income of the first half of 2019 stood at -0.7 million euros, evolving unfavourably in relation to the value of -0.2 million euros recorded in the same period of 2018, as a result of the higher level of impairment of real estate properties and lower earnings related to the sale of real estate properties.

The key indicators on the activity and results of SSAGINCENTIVE are presented below.

Activity and Results (million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Total assets	61.0	59.8	59.1	(1.9)	(3.1)
Inventories	49.2	47.5	45.6	(3.6)	(7.3)
Equity	60.9	59.7	58.9	(2.0)	(3.3)
Total operating income	(0.2)	(0.9)	(0.7)	(0.5)	-
Net income	(0.2)	(1.5)	(0.7)	(0.5)	-

INTERNATIONAL ACTIVITY

The international activity of the Banco Montepio Group has been developed by the subsidiaries Finibanco Angola, S.A. and Banco MG Cabo Verde, Sociedade Unipessoal, S.A., as Banco Terra, S.A. was sold in December 2018, it is no longer part of the Group's consolidation perimeter as of 31 December 2018.

As part of the strategic redefinition of its international holdings, Banco Montepio is in a negotiating process aimed at refocusing its approach to the African market, 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 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 by promoting viable business initiatives.

Finibanco Angola completed 11 years of activity in 2019, having been created 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 at the end of the first half of 2019.

Banco MG Cabo Verde, S.A., 100% held by Banco Montepio, provides a broad offer of specialised 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)			Y.oY. Change	
	Jun-18	**Dec-18**	**Jun-18**	**Dec-18**	**Jun-19**	Amount	%
Total assets	504.3	449.6	454.1	449.6	446.6	(7.5)	(164.9%)
Loans to customers (net)	82.1	57.2	50.8	57.2	62.0	11.2	22.1%
Customers' deposits	380.2	334.2	356.1	334.2	330.9	(25.2)	(7.1%)
Total operating income	22.3	42.4	19.3	37.3	13.0	(6.3)	(32.3%)
Operating costs	8.7	18.6	5.5	12.8	6.2	0.7	13.9%
Cost-to-Income	39.2%	43.9%	28.4%	34.2%	47.9%	0.2	19.5 p.p.
Net income	7.6	11.2	7.5	11.7	5.5	(2.0)	(26.8%)

Note: For comparative purposes the financial statements of Jun-2018, Dec-2018 and Jun-2019 of Finibanco Angola and Jun-2018 and Dec-2018 of Banco Terra were restated using the same exchange rate: AOA / EUR 387,383; 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 446.6 million euros as at 30 June 2019, compared to 449.6 million euros recorded at the end of 2018, representing a reduction of 0.7%. This evolution was driven by the 2.4% increase observed in Finibanco Angola in relation to the value achieved at the end of 2018, despite the 5.8% reduction recorded in the Total assets of Banco MG Cabo Verde in this period.

The Loans to customers of the international activity recorded at the end of the first half of 2019 showed an increase of 8.4% in relation to the value at the end of 2018, in evolving from 57.2 million euros as at 31

December 2018 to 62.0 million euros as at 30 June 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 330.9 million euros as at 30 June 2019 corresponding to a reduction of 1.0% in relation to the value of 334.2 million euros recorded as at 31 December 2018.This reflects, on the one hand, the 3.3% increase in Customer deposits at Finibanco Angola which evolved from 175.7 million euros as at 31 December 2018 to 181.5 million euros as at 30 June 2019, representing 54.9% of the total deposits of the international activity, and, on the other hand, the 5.8% reduction in Customer deposits at Banco MG Cabo Verde which stood at 149.4 million as at 30 June 2019 compared to 158.5 million euros as 31 December 2018.

The Total operating income of the international activity in the first half of 2019 amounted to 13.0 million euros, compared to 19.3 million euros recorded in the first half of 2018. This represents a reduction of 32.3%, which was underpinned by the lower Net interest income which reached 8.0 million euros (-6.5%), Net fees and commissions which amounted to 2.5 million euros (-41.6%) and Results from foreign exchange differences which reached 3.4 million euros (-51.1%) and Other operating income which remained negative at 0.8 million euros (-65.1%).

At Finibanco Angola, Total operating income stood at 12.8 million euros in the first half of 2019, representing a 33.3% reduction in relation to the 19.1 million euros recorded in the same period of 2018, reflecting the reductions observed in Net interest income, Net fees and commissions, Results from foreign exchange differences and Other operating income.

At Banco MG Cabo Verde, Total operating income stood at 0.3 million euros, representing an increase of 0.2 million euros compared to the value recorded in the same half of 2018 based on the favourable evolution of Net interest income.

Operating costs of the international activity stood at 6.2 million euros, revealing an increase of 13.9% in relation to the 5.5 million euros recorded in the same period of 2018, caused by increases observed in all the components, +19.5% in Staff costs, +8.1% in General administrative expenses and +12.1% in Depreciation and amortisation.

At Finibanco Angola, Operating costs increased by 16.4% in the first half of 2019 compared to the value recorded in the same period of 2018, while at Banco MG Cabo Verde they fell by 20.4%, reflecting the evolution of the activity developed and the features of the corresponding markets. At Finibanco Angola the increase observed in Operating costs in the first half of 2019 was caused by the increases recorded in the components Staff costs (+21.0%), General administrative expenses (+11.8%) and Depreciation and amortisation (+12.2%) in comparison to the same period of 2018. At Banco MG Cabo Verde the year-on-year reduction in Operating costs in the first half of 2019 was the result of the decreases recorded in the components Staff costs (-18.4%), General administrative expenses (-21.3%) and Depreciation and amortisation (-0.2%).

As a result of this evolution, the cost-to-income ratio of the international activity in the first half of 2019 stood at 47.9%, compared to 28.4% recorded in the first half of 2018.

In the first half of 2019, the net income of the Banco Montepio Group's international activity amounted to 5.5 million euros (7.5 million euros in the first half of 2018), excluding non-controlling interests and currency effects, with positive results in Angola and Cape Verde (5,484 thousand euros and 15 thousand euros respectively).

FINANCIAL ANALYSIS

FINANCIAL ANALYSIS

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

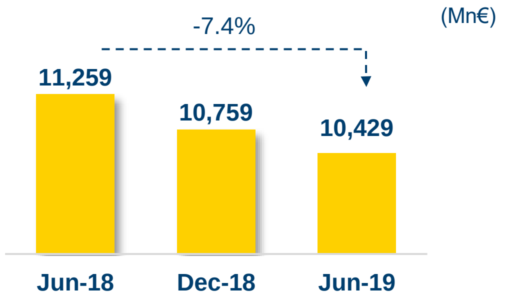
In the income statement, and whenever applicable, the net income of this subsidiary is stated under an operating account heading named “Results from discontinuing operations” and, the assets and liabilities are recorded in the balance sheet, respectively, under the headings named “Non-current assets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

CAPITAL

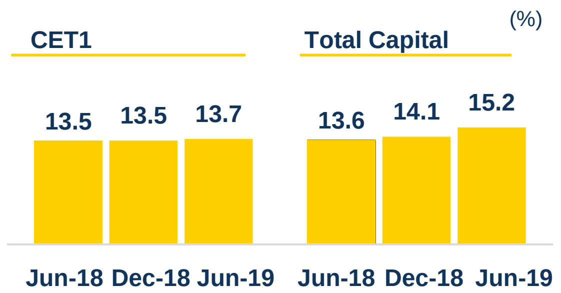
In line with the Transformation Plan presented at the end of 2018, Banco Montepio continued in the first half of 2019 to implement a series of measures aimed at strengthening the capital levels, in particular those related to balance sheet management and the organic generation of capital.

As at 30 June 2019, Banco Montepio showed a favourable evolution of the capital ratios in relation to the end of 2018, in accordance with the phasing-in rules, with the Common Equity Tier 1 (CET1) ratio having reached 13.7% and the Total Capital ratio standing at 15.2%, compared to, respectively, 13.5% and 14.1% at the end of 2018. The positive evolution of the Total Capital ratio benefited from the reinforcement of own funds, which stood at 1,590 million euros as at 30 June 2019, compared to 1,513 million euros as at 31 December 2018, reflecting the organic generation of capital, the increase of tier 2 own funds following the subordinated debt issuance of 100 million euros, and the reduction of 330 million euros of risk-weighted assets (RWA), as a result of an efficient management of risk allocation in the loan and debt securities portfolios.

Risk-Weighted Assets (phasing-in)



Capital Ratios (phasing-in)*



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

On a fully implemented basis, as at 30 June 2019, the CET1 ratio stood at 11.9% and the Total Capital ratio at 13.4%.

As at 30 June 2019, the capital ratios reported by Banco Montepio are above the required prudential levels, as per the decision of 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)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Total own funds					
Common Equity Tier 1	1 521	1 457	1 433	(88)	(5.8)
Tier 1	1 525	1 457	1 434	(91)	(6.0)
Total Capital	1 534	1 513	1 590	56	3.6
Risk-weighted assets	**11 259**	**10 759**	**10 429**	**(830)**	**(7.4)**
Phasing-in ratios					
Common Equity Tier 1	13.5%	13.5%	13.7%	20 bp	
Tier 1	13.5%	13.5%	13.7%	20 bp	
Total Capital	13.6%	14.1%	15.2%	160 bp	
Fully implemented ratios					
Common Equity Tier 1	11.4%	11.4%	11.9%	50 bp	
Tier 1	11.4%	11.4%	11.9%	50 bp	
Total Capital	11.5%	12.0%	13.4%	190 bp	
Leverage ratios					
Phasing-In	7.8%	7.8%	7.5%	(30) bp	
Fully implemented	6.6%	6.6%	6.5%	(10) bp	

Note: ratios include accumulated net income for the period.

LIQUIDITY

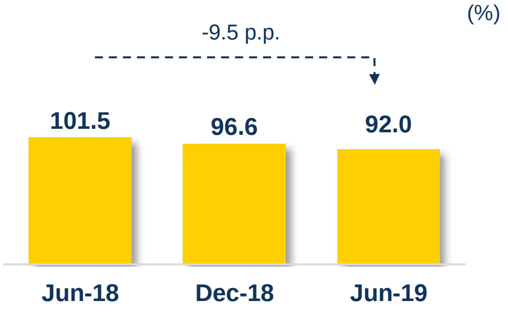
In the first half of 2019, Banco Montepio continued to develop a series of initiatives aimed at the continuous reinforcement of its liquidity position, in line with the regulatory objectives and as defined in the Transformation Plan, contributing to meet the regulatory levels in force in a comfortable manner.

The management of Banco Montepio's balance sheet enabled the Liquidity Coverage Ratio (LCR) to stand at 196.8% as at 30 June 2019, having evolved favourably in relation to the ratio of 160.5% recorded as at 31 December 2018, thus standing 96.8 p.p. above the minimum regulatory requirement of 100% applicable in 2019.

The performance of Customer deposits, on the one hand, and 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 92.0% as at 30 June 2019, compared to 96.6% as at 31 December 2018.

Loans to deposits ratio

Loans to customers, net / Customers' deposits



(a) Pursuant to Banco de Portugal Instruction n.º 16/2004, in its current version.

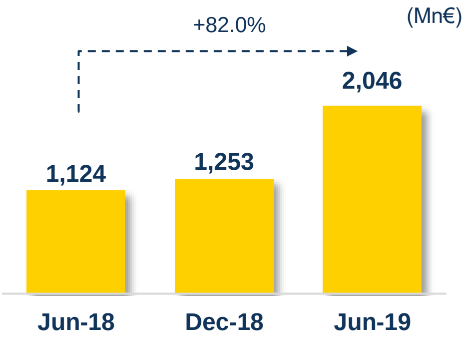
LOANS TO DEPOSITS RATIOS

	Jun-18	Dec-18	Jun-19	Y.oY. Change
Loans to customers (net) / Customers' deposits (a)	101.5	96.6	92.0	(9.5 p.p.)
Loans to customers (net) / Total on-balance sheet customers' resources (b)	92.0	88.7	85.5	(6.5 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 w ith the Financial Statements annexed to this report.

The total value of the pool of eligible assets at the end of the first half of 2019 showed an increase in relation to 31 December 2018 of the value of 791 million euros. As at 30 June 2019, the value of the pool of collateral for Eurosystem operations stood at 3,439 million euros, compared to 2,648 million euros recorded at the end of 2018. The use of European Central Bank (ECB) resources at the end of the first half of 2019 remained unchanged in relation to 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 63.3% in the first half of 2019, having evolved from 1,253 million euros at the end of 2018 to 2,046 million euros as at 30 June 2019.

Pool of eligible assets for refinancing operations with the ECB



POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Pool of eligible assets (a)	2 671	2 648	3 439	768	28.7
Use of the pool	1 547	1 395	1 393	(154)	(10.0)
Pool of available assets	**1 124**	**1 253**	**2 046**	**922**	**82.0**

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

Repurchase agreement operations (repos) showed a reduction of 59 million euros in the first half of 2019, having shifted from 873 million euros as 31 December 2018 to 814 million euros as at 30 June 2019.

In the euro interbank money market, Banco Montepio recorded liquidity providing of the value of 50 million euros at an average rate of -0.30% at the end of the first half of 2019. In the interbank money market of foreign currency, Banco Montepio showed a position of 16 million American dollars assigned at the average rate of 2.5%.

BALANCE SHEET

In the first half of 2019, Banco Montepio continued the process started in 2018 aimed at 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 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 a comfortable level.

In this regard, reference is made to the issuance of 100 million euros for the period of 10 years, which is eligible to reinforce tier 2 own funds (Tier 2).

Special note should also be made of the sale of a portfolio of non-performing loans for the value of 239 million euros on 27 December 2018 and at the beginning of the first half of 2019 the sale of another portfolio of non-performing loans for the gross amount of 321 million euros.

Furthermore, negotiations are still underway with the shareholders of Banco de Negócios Internacional, S.A. (Angola) with a view to merge Finibanco Angola S.A. and consequent deconsolidation of this subsidiary from the Banco Montepio Group.

SYNTHETIC BALANCE SHEET

(million euros)

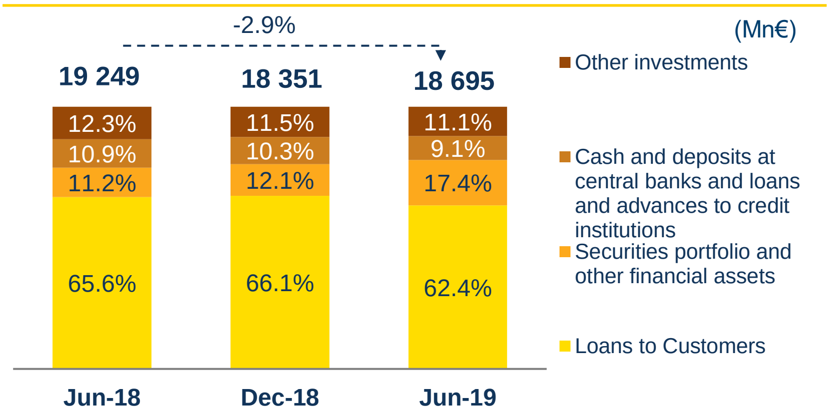
	Jun-18	Dec-18	Jun-19	Y.oY. Change Amount	Y.oY. Change %
Cash and deposits at central banks and loans and advances to credit institutions	2 092	1 899	1 710	(382)	(18.3)
Loans to customers	12 626	12 123	11 660	(966)	(7.6)
Securities portfolio and other financial assets*	2 155	2 216	3 246	1 091	50.7
Non current assets held for sale and investment properties	1 026	991	228	(798)	(77.8)
Non current assets held for sale - Discontinuing operations	355	295	261	(94)	(26.6)
Current and deferred tax assets	520	471	437	(83)	(15.9)
Other	475	356	1 153	678	-
Total assets	**19 249**	**18 351**	**18 695**	**(554)**	**(2.9)**
Deposits from central banks and OCI	3 263	2 641	2 693	(570)	(17.5)
Customers' resources	12 483	12 575	12 680	197	1.6
Issued debt	1 357	1 144	1 115	(242)	(17.8)
Non current liabilities held for sale - Discontinuing operations	257	194	157	(100)	(38.9)
Other	260	260	526	266	-
Total liabilities	**17 620**	**16 814**	**17 171**	**(449)**	**(2.5)**
Share capital*	2 420	2 420	2 420	0	0.0
Reserves, retained earnings and other	(806)	(896)	(901)	(95)	(11.8)
Net income	16	13	4	(12)	(77.2)
Total equity	**1 630**	**1 537**	**1 523**	**(107)**	**(6.5)**
Total liabilities and equity	**19 249**	**18 351**	**18 695**	**(554)**	**(2.9)**

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

ASSETS

Net assets stood at 18,695 million euros as at 30 June 2019, compared to the value of 19,249 million euros recorded in the same period of 2018 and to 18,351 million euros as at 31 December 2018. The evolution of the Net assets shows a reduction of 554 million euros (-2.9%) in relation to the value at the end of June 2018. The variation of the Assets was due to the fact that the decreases in the headings of Loans to customers and Cash and deposits at central banks and other credit institutions were higher than the increase of the Portfolio of securities and other instruments, as the reduction observed in Non-current assets held for sale and Investment properties is related to the

Assets structure



increase recorded in the aggregate Other showing the reclassification from the heading Non-current assets held to the heading of other assets.

CASH AND DEPOSITS AT CENTRAL BANKS AND LOANS AND ADVANCES TO 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 30 June 2019 the liquidity deposited at central banks and other credit institutions stood at 1,710 million euros, compared to 2,092 million euros recorded in the same period of 2018, corresponding to a reduction of 382 million euros (-18.3%), 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 30 June 2019 Loans to customers (gross) amounted to 12,578 million euros, representing a reduction of 3.7% in relation to the value of 13,068 million euros recorded as at 31 December 2018.

Throughout the first half of 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.

The loan portfolio, as at 30 June 2019, recorded a reduction of 490 million euros in relation to the end of 2018, revealing, on the one hand, the reductions of loans granted to companies, particularly in the sectors of Trade (-5.9%) and Construction and real estate activities (-4.7%), and to individuals, namely housing loans (-2.7%), which continues to show a higher level of repayment than the new operations raised, and on the other hand, the recording of loans written off from the assets of the value of 68.8 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 investment banking solutions, benefiting from the strategic focus on the segments of individuals, companies with emphasis on small and medium-sized enterprises (SMEs) and Social Economy entities.

LOANS TO CUSTOMERS

(By sector of activity)

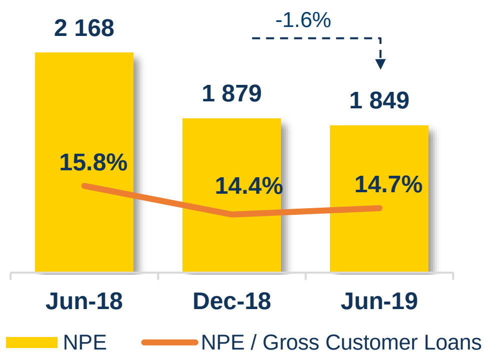
(million euros)

	Dec-18	Jun-19	Annual change	
			Amount	%
Individuals	**7 384**	**7 177**	**(207)**	**(2.8)**
Housing loans	6 252	6 080	(172)	(2.7)
Others	1 132	1 096	(36)	(3.2)
Companies	**5 684**	**5 402**	**(282)**	**(5.0)**
Manufacturing industries	933	907	(26)	(2.8)
Wholesale and retail trade	863	812	(51)	(5.9)
Construction and Public works, and Real estate activities	1 529	1 457	(72)	(4.7)
Accommodation and catering activities	432	429	(3)	(0.7)
Transportation and storage	410	395	(15)	(3.8)
Business Services	395	393	(2)	(0.5)
Other collective service activities	169	136	(33)	(19.2)
Others	952	872	(80)	(8.3)
Gross loans	**13 068**	**12 578**	**(490)**	**(3.7)**
Balance sheet impairment	**945**	**918**	**(27)**	**(2.8)**
Net loans	**12 123**	**11 660**	**(463)**	**(3.8)**

The balance of non-performing exposures (NPE) progressed favourably in relation to the value recorded at the end of 2018, standing at 1,849 million euros as at 30 June 2019, with the proportion of NPE in relation to the Total gross loans to customers standing at 14.7% (12.9% pro-forma with the estimated effect of the sale of the “ATLAS II” NPL portfolio), compared to 15.8% at 30 June 2018.

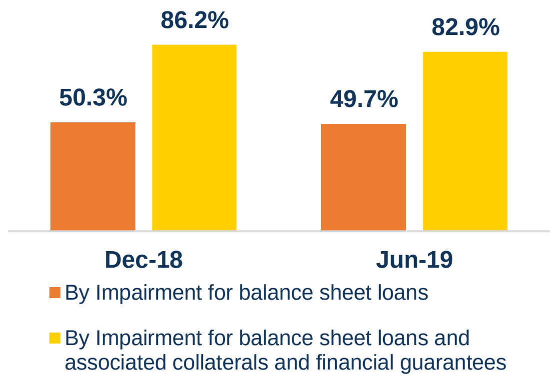
Non-performing exposures (NPE)*

(Mn€)



* 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 82.9% as at 30 June 2019, compared to 86.2% as at 31 December 2018, while the coverage for balance sheet impairments stood at 49.7%, practically in line with the 50.3% recorded as at 31 December 2018.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

In the context of the strategy of rebalancing the asset structure, Banco Montepio continued, in the first half of 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 30 June 2019, the portfolio of securities and other instruments amounted to 3,246 million euros, compared to 2,155 million euros recorded in the same period of 2018 and to 2,216 million euros as at 31 December 2018. The evolution of the portfolio of securities and other instruments in relation to the same period of 2018 reveals the increase of the portfolio of Financial assets at fair value through other comprehensive income from 444 million euros as at 30 June 2018 to 1,848 million euros as at 30 June 2019, influenced by the acquisition of public and corporate debt instruments.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

(million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Financial assets held for trading	53	24	48	(5)	(9.1)
Financial assets at fair value through other comprehensive income	992	444	1 848	856	86.2
Other financial assets at amortised cost	621	1 256	913	292	47.0
Financial assets not held for trading mandatorily at fair value through profit or loss*	489	492	437	(52)	(10.6)
Total Securities portfolio and other financial assets	**2 155**	**2 216**	**3 246**	**1 091**	**50.6**

* 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 is observed of 1,173 million euros in bonds and other debt instruments, which includes Portuguese, Italian and Spanish public debt, which led to the increase recorded in the portfolio of securities and other instruments (+50.6% compared to June 2018).

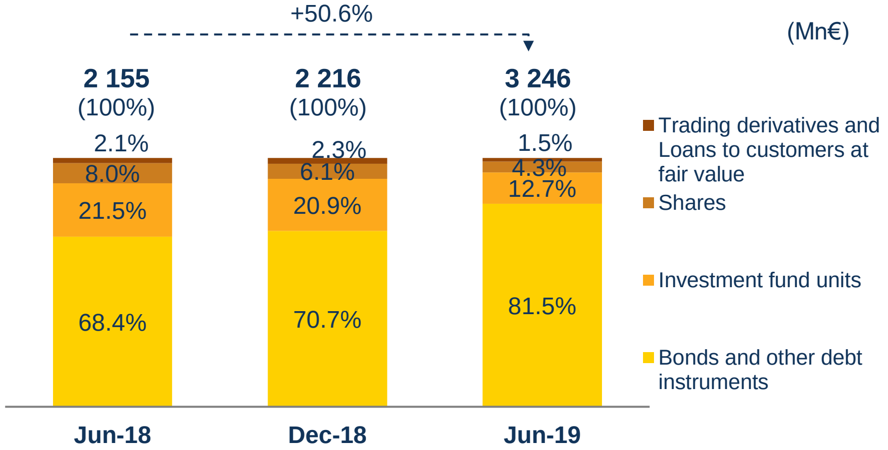
SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS BY TYPE OF INSTRUMENT

(million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Bonds and other debt instruments	1 474	1 567	2 647	1 173	79.6
Shares	172	133	140	(32)	(18.5)
Investment fund units	463	464	411	(52)	(11.3)
Trading derivatives	24	24	22	(2)	(8.2)
Loans to customers at fair value	22	28	26	4	16.8
Total Securities portfolio and other financial assets	**2 155**	**2 216**	**3 246**	**1 091**	**50.6**

The structure of the securities portfolio and other instruments remained as at 30 June 2019, composed mainly of bonds and other debt instruments, whose weight in the total portfolio increased to 81.5%. In turn, the proportion of shares and investment fund units decreased to 4.3% and 12.7% of the portfolio respectively.

Structure of the Securities portfolio and other financial assets

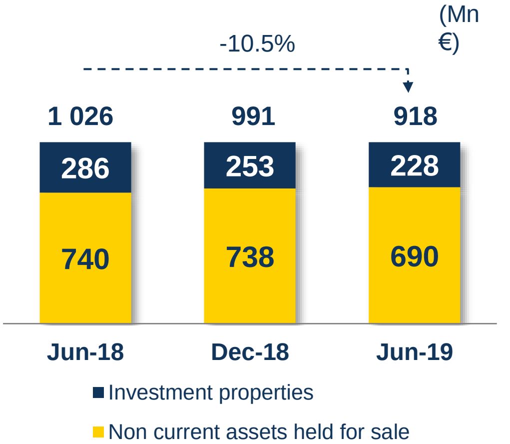


NON CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

The aggregate of the headings of Non-current assets held for sale and Investment properties was influenced by the reclassification of 690 million euros relative to real estate properties held for sale to the heading of Other assets, reflecting the dependence of the divestment processes, in terms of swiftness, on circumstances beyond the Bank's control. Nevertheless, the Bank continues to be strongly committed to the sales plan of the assets in question.

The evolution of the exposure to real estate asset, incorporating the aforesaid reclassification for purposes of comparability, showed a year-on-year decrease of 10.5% as at 30 June 2019, in having shifted from 1,026 million euros at the end of June 2018 to 918 million euros as at 30 June 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



The heading of Non-current assets held for sale, together with the value reclassified as at 30 June 2019 to the heading of Other assets, essentially shows the amount associated to real estate properties derived from the dissolution of loan contracts with customers, which decreased by 6.8% in evolving from 740 million euros as at 30 June 2018 to 690 million euros at the end at June of 2019, revealing the effect of the credit recovery and good performance of the sales of real estate properties made in the retail market.

Regarding Investment properties, the heading that records the real estate properties held by the Real Estate Investment Funds in Banco Montepio's consolidation perimeter, it decreased by 20.3%, in evolving from 286 million euros as at 30 June 2018 to 228 million euros at the end of June 2019, continuing to accomplish the goal of reducing exposure to real estate risk.

NON CURRENT ASSETS HELD FOR SALE – DISCONTINUING OPERATIONS

As at 30 June 2019, the heading of Non-current assets held for sale - discontinuing operations amounted to 261 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 30 June 2019, the aggregate of Current and deferred tax assets amounted to 437 million euros, compared to 471 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 at the balance sheet date.

OTHER

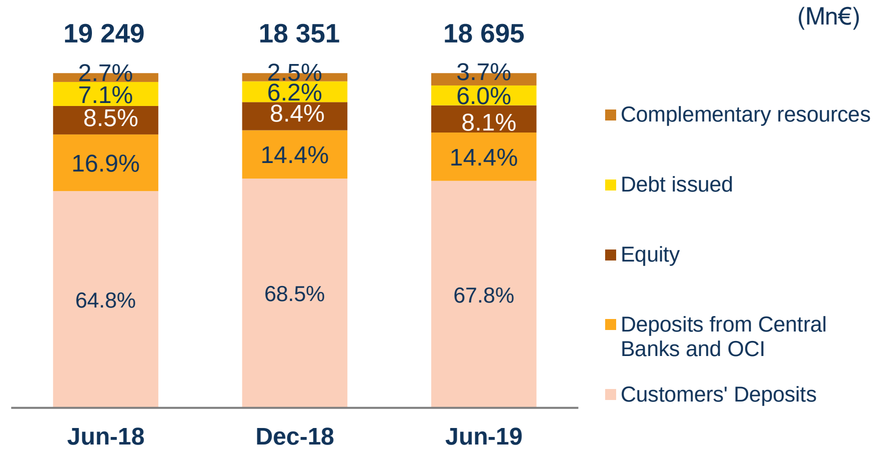
The aggregate Other, presented in the Assets of the synthetic balance sheet, stood at 1,153 million euros as at 30 June 2019, of which 690 million euros correspond to real estate properties held for sale previously stated under the heading of non-current assets held for sale.

Excluding the effect of the previously mentioned reclassification, the aggregate Other reached 463 million euros, compared to 475 million euros recorded as at 30 June 2018 and 356 million euros 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 June 2019, in relation to the value recorded as at 31 December 2018, was caused by the increase of 67 million euros in Other assets, 26 million euros in Other tangible assets and 12 million euros in Hedging derivatives.

LIABILITIES

As at 30 June 2019, Total liabilities stood at 17,171 million euros, revealing an increase of 357 million euros (+2.1%) in relation to the value of 16,814 million euros recorded as at 31 December 2018. This shows, on the one hand, the increase recorded in Customers' resources (105 million euros), in Resources of central banks and other credit institutions (52 million euros), and in the aggregate Other presented in the Liabilities of the synthetic balance sheet (266 million euros) via the increase of the heading of Other liabilities by 274 million euros, and which incorporates the effect of operation with securities pending financial settlement on the reporting date, and on the other hand, the reduction of Issued debt (-29 million euros) and of Non-current liabilities held for sale - discontinuing operations (-37 million euros). As at 30 June 2019, the Equity funding 8.1% of the Assets while Customer deposits continued to be the main source of balance sheet funding, representing 67.8% of total liabilities and equity.

Liabilities and Equity Structure



DEPOSITS FROM CENTRAL BANKS AND OCI

As at 30 June 2019, the funding obtained from central banks and other credit institutions amounted to 2,693 million euros, compared to 2,641 million euros recorded at the end of 2018, revealing an increase of 2.0%. This heading incorporates funds taken at the ECB, which amounted to 1,392 million euros as at 30 June 2019, compared to 1,395 million euros as at 31 December 2018 (-0.2%), and the funding obtained from Other credit institutions which stood at 1,300 million euros as at 30 June 2019, compared to 1,245 million euros at the end of 2018 (+4.4%).

CUSTOMERS’ RESOURCES

During the first half of 2019, Banco Montepio developed a series of initiatives related to the capture and retention of customers' resources, duly articulated with the aim of diversifying the funding sources.

Total customers' resources amounted to 13,583 million euros at the end of the first half of 2019, of which 12,851 million euros correspond to on balance customer resources, of which 98.7% refer to customers' deposits.

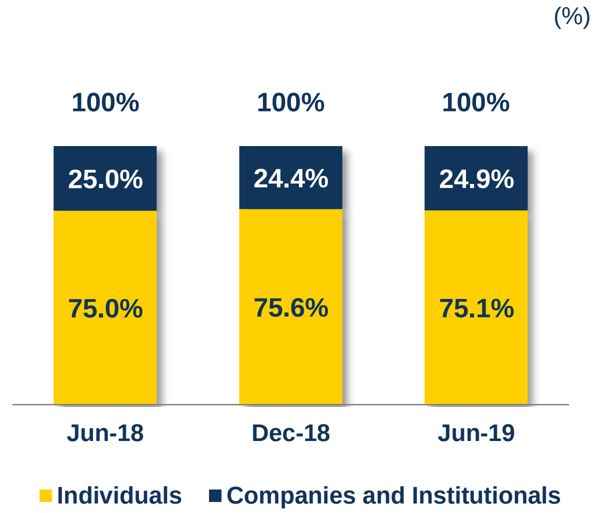
As at 30 June 2019, Customer deposits stood at 12,680 million euros, essentially concentrated in individual customers, a segment that has continued predominant in representing 75.1% of total deposits.

Customer deposits as at 30 June 2019 grew in relation to the value at the end of 2018, notwithstanding the context of interest rates at historically low levels and more competitive environment.

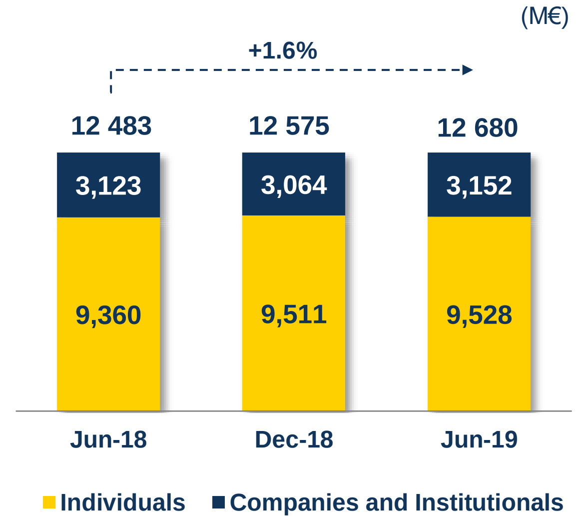
At the end of the first half of 2019, the heading of Securities placed with customers stood at 171 million euros, compared to 181 million euros as at 31 December 2018, reflecting the maturity of securitised debt.

Off-balance sheet resources reached 732 million euros as at 30 June 2019, compared to 683 million euros recorded at the end of 2018, representing a 7.3% increase, 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/Bancassurance

Customer deposits structure



Customer deposits



CUSTOMERS' RESOURCES

(million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Customer Deposits	**12 483**	**12 575**	**12 680**	**197**	**1.6**
Sight Deposits	3 917	3 999	4 528	611	15.6
Term Deposits	8 566	8 576	8 152	(414)	(4.8)
Securities placed with Customers	331	181	171	(160)	(48.2)
Total On-Balance sheet resources	**12 814**	**12 756**	**12 851**	**37**	**0.3**
Off-Balance sheet resources	689	683	732	43	6.3
Total Customers' resources	**13 503**	**13 439**	**13 583**	**80**	**0.6**

ISSUED DEBT

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

As at 30 June 2019, the amount of Issued debt fell by 29 million euros (-2.5%) to stand at 1,115 million euros, compared to 1,144 million euros recorded as at 31 December 2018, as a result of the decrease recorded in Debt securities issued (-133 million euros), partially offset by the increase in Other subordinated debt (+105 million euros). The observed evolution reveals, on the one hand, the repayment upon maturity of senior debt issuances and, on the other hand, the issuance of 100 million euros of subordinated debt undertaken in the first half of 2019.

NON CURRENT LIABILITIES HELD FOR SALE – DISCONTINUING OPERATIONS

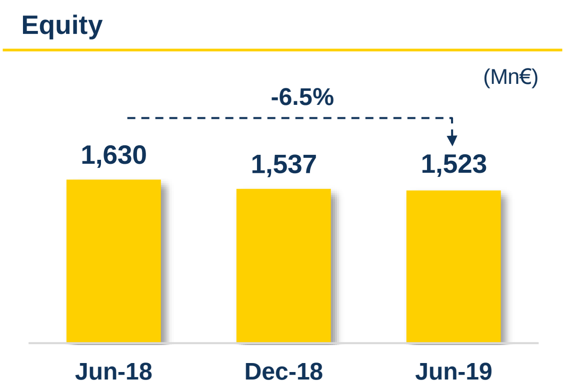
As at 30 June 2019, the heading of Non-current liabilities held for sale - discontinuing operations amounted to 157 million euros, and corresponds to the value of the liabilities recorded by the Group's operations in Angola, after having been adjusted for the necessary movements of the consolidation 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 526 million euros as at 30 June 2019, compared to 260 million euros recorded as at 30 June 2018 and 31 December 2018, and incorporates the headings of Financial liabilities held for trading, Hedging derivatives, Current tax liabilities and Other liabilities. The increase recorded in this aggregate at the end of June 2019, in relation to the value recorded as at 31 December 2018, was caused by the increase of 274 million euros in Other liabilities which incorporates the effect of operations with securities pending financial settlement on the reporting date.

EQUITY

Equity stood at 1,523 million euros as at 30 June 2019, reflecting a 0.9% decrease in relation to the value of the end of 2018, determined by the adverse impacts related to negative actuarial deviations of 59 million euros and the recording of negative foreign exchange reserves of 6 million euros, notwithstanding the favourable effect of the fair value reserves of 48 million euros and the net income of 3.6 million euros recorded in the first half of 2019.



EARNINGS

Banco Montepio recorded a consolidated net income of 3.6 million euros in the first half of 2019 compared to the net income of 15.8 million euros stated in the same period of 2018, reflecting the positive effect associated to the increased earnings before tax and the adverse effect of the evolution of the headings of taxes and discontinuing operations.

SYNTHETIC INCOME STATEMENT

(million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Net interest income	**134.2**	**248.1**	**120.1**	**(14.1)**	**(10.6)**
Commercial net interest income	*134.5*	*256.9*	*123.7*	*(10.8)*	*(8.0)*
Net fees and commissions	57.4	118.4	57.7	0.3	0.5
Core total operating income	**191.6**	**366.5**	**177.8**	**(13.8)**	**(7.2)**
Income from equity instruments	7.9	8.1	6.2	(1.7)	(21.7)
Results from financial operations	5.2	10.9	(0.3)	(5.5)	-
Other operating income	(4.0)	(8.1)	(1.5)	2.5	63.4
Total operating income	**200.7**	**377.4**	**182.2**	**(18.5)**	**(9.2)**
Staff Costs	84.2	156.0	77.8	(6.4)	(7.6)
General and administrative expenses	36.4	77.7	31.2	(5.2)	(14.2)
Depreciation and amortization	12.1	25.9	16.4	4.3	35.4
Operating costs	**132.7**	**259.6**	**125.4**	**(7.3)**	**(5.5)**
Net operating income before provisions and impairments	**68.0**	**117.8**	**56.8**	**(11.2)**	**(16.5)**
Net provisions and impairments	59.5	93.5	47.2	(12.3)	(20.7)
Share of profit of associates under the equity method	(0.1)	0.2	(0.0)	0.1	54.8
Income before income tax	**8.4**	**24.5**	**9.6**	**1.2**	**14.3**
Income tax	(2.2)	(44.8)	(10.7)	(8.5)	-
Income after income tax from continuing operations	**6.2**	**(20.3)**	**(1.1)**	**(7.3)**	**-**
Income from discontinuing operations	11.9	36.1	5.9	(6.0)	(51.0)
Non-controlling interests	2.3	3.3	1.2	(1.1)	(49.2)
Net Income	**15.8**	**12.5**	**3.6**	**(12.2)**	**(77.2)**

TOTAL OPERATING INCOME

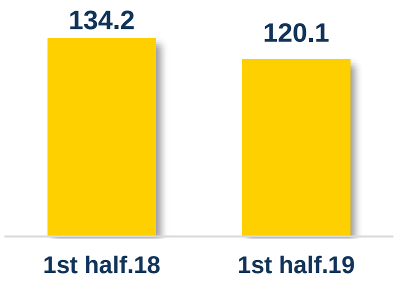
The Total operating income of the first half of 2019 amounted to 182.2 million euros, compared to the value of 200.7 million euros recorded in the same half of 2018, influenced by the adverse contributions of Net interest income and Results from financial operations despite the favourable evolution of Net fees and commissions and Other operating income.

NET INTEREST INCOME

Net interest income in the first half of 2019 stood- at 120.1 million euros, compared to the value of 134.2 million euros recorded in the same period of 2018. The evolution of net interest income was driven by the reduction of the interest received from the loan portfolio and the cash and deposits at/loans and advances to other credit institutions, as the reduction observed in interest paid for customer deposits and issued senior debt was not sufficient to annul this impact.

Net interest income

(Mn€)



In the first half of 2019 there was a decrease in the interest of the portfolio of Loans to customers of 24.0 million euros via the volume effect and price effect, revealing the deleveraging in non-performing loans, with the average interest rate having evolved from 2.39% in the first half of 2018 to 2.22% in the first half of 2019, reflecting the effect of the repricing of operations, in a context in which the main indexers continue on negative ground.

Concerning Cash and deposits, essentially reflecting the interest of funds taken from the ECB, also recorded a reduction in interest of 8.1 million euros in relation to the first half of 2018, determined via the price effect, by incorporating income of 7.7 million euros in the first half of 2018 derived from the recalculation of interest

In the first half of 2019, Net interest income benefited from the positive impact of the cost reduction associated to Customer deposits of 13.3 million euros, via the price effect, showing the impacts of the reduction of the average rate, from 0.53% in the first half of 2018 to 0.31% in the first half of 2019, revealing the management of the pricing applied in the capture of new deposits, as well as in the renovation of existing deposits, which led 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 5.2 million euros between the first half of 2018 and the first half of 2019, via the volume effect and price effect, with the average interest rate having evolved from 1.51% in the first half of 2018 to 1.06% in the first half of 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 3.6 million euros, via the volume and price effect, with the average interest rate having fallen from 0.95% in the first half of 2018 to 0.76% in the first half of 2019.

Interest on subordinated debt issued increased by 3.5 million euros between the first half of 2018 and the first half of 2019 reflecting subordinated debt issues made of 50 million euros in December 2018 and 100 million euros at the end of the first quarter of 2019.

As a result of this performance, the Net interest income margin of the first half of 2019 stood at 1.45%, compared to 1.54% in the same period of 2018, primarily revealing the context of low interest rates and competitive dynamics that continue to constrain the performance of Net interest income.

Banco Montepio

BREAKDOWN OF NET INTEREST INCOME

(million euros)

	1st Half 2018			1st Half 2019		
	Avg. amount	Avg. rate (%)	Interest	Avg. amount	Avg. rate (%)	Interest
Assets						
Cash and deposits	1 187	1.82	10.9	1 261	0.45	2.8
Loans and advances to OCI	340	1.38	2.4	258	1.02	1.3
Loans to customers	13 944	2.39	167.4	12 834	2.22	143.4
Other assets at fair value	1 892	0.73	7.0	2 083	0.69	7.2
Securities portfolio	22	1.52	0.2	27	1.27	0.2
Other (includes derivatives)	-	-	9.4	-	-	9.6
subtotal	17 385	2.26	197.3	16 463	1.99	164.5
Liabilities						
Resources from central banks	1 556	0.27	2.1	1 394	0.30	2.1
Resources from OCI	1 767	0.95	8.4	1 249	0.76	4.8
Customers' deposits	12 297	0.53	32.9	12 568	0.31	19.6
Senior debt	1 393	1.51	10.6	1 015	1.06	5.4
Subordinated debt	156	1.22	1.0	109	8.23	4.5
Other (includes derivatives)	-	-	8.1	-	-	8.0
subtotal	17 169	0.73	63.1	16 335	0.54	44.4
Net interest income		**1.54**	**134.2**		**1.45**	**120.1**

DETAILED EVOLUTION OF NET INTEREST INCOME BETWEEN THE FIRST HALF OF 2018 AND THE FIRST HALF OF 2019

(million euros)

	Volume effect	Price effect	Residual effect	Total
Assets				
Cash and deposits	0.7	(8.2)	(0.6)	(8.1)
Loans and advances to OCI	(0.6)	(0.6)	0.1	(1.1)
Loans to customers	(13.3)	(11.6)	1.0	(24.0)
Other assets at fair value	0.7	(0.4)	(0.1)	0.2
Securities portfolio	0.0	(0.0)	(0.0)	0.0
Other (includes derivatives)	0.0	0.0	0.2	0.2
subtotal	(10.5)	(23.6)	1.3	(32.8)
Liabilities				
Resources from central banks	(0.2)	0.2	(0.0)	0.0
Resources from OCI	(2.5)	(1.7)	0.6	(3.6)
Customers' deposits	0.7	(13.7)	(0.4)	(13.3)
Senior debt	(2.9)	(3.2)	0.8	(5.2)
Subordinated debt	(0.3)	5.5	(1.7)	3.5
Other (includes derivatives)	0.0	0.0	(0.1)	(0.1)
subtotal	(3.1)	(16.4)	0.8	(18.7)
Change in net interest income	**(7.4)**	**(7.2)**	**0.5**	**(14.1)**

INCOME FROM EQUITY INSTRUMENTS

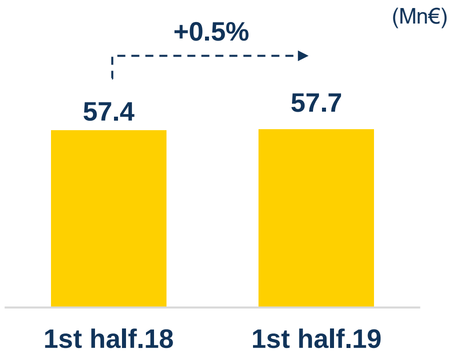
The heading of Income from equity instruments includes the income associated to variable yield securities, namely shares related to investments stated in the portfolio of assets available for sale. The value stated in the first half of 2019 amounted to 6.2 million euros, compared to 7.9 million euros recorded in the first half of 2018, due to the reclassification of the income from Participation Units in investment funds to Results from financial operations following the adoption of IFRS 9.

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 adjustment to the 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 customer base with a higher transaction level and binding.

Net fees and commissions related to services rendered to customers stood at 57.7 million euros in the first half of 2019, compared to 57.4 million euros recorded in the same period of 2018. This reflects, on the one hand, the increase of Market fees and commissions[5] (+1.5 million euros) and the fees and commissions of Payment services[6] (+1.2 million euros), and, on the other hand, the reduction of fees and commissions related to Loans (-0.6 million euros), reflecting lower levels of credit production, and Other fees and commissions[7] (-1.9 million euros).

Net fees and commissions



RESULTS FROM FINANCIAL OPERATIONS

The Results from financial operations stood at -0.3 million euros in the first half of 2019, compared to 5.2 million euros recorded in the same period of 2018. This primarily reflects the lower results from the securities portfolio, in particular the public debt portfolio (-6.5 million euros in relation to the same period of 2018), and the unfavourable effect on the portfolio of instruments and respective fair value of financial assets and liabilities (-4.6 million euros), partially offset by the results from investment funds participation units (+5.3 million euros) and foreign exchange differences (+1.1 million euros).

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

RESULTS FROM FINANCIAL OPERATIONS

(million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss	2.0	12.3	2.3	0.3	15.5
Net gains / (losses) from financial assets at fair value through other comprehensive income	4.0	5.6	(2.9)	(6.9)	-
Net gains / (losses) from foreign exchange differences	(0.8)	(7.0)	0.3	1.1	-
Results from financial operations	**5.2**	**10.9**	**(0.3)**	**(5.5)**	**-**
of which: Results from the sale of Portuguese public debt	6.5	8.2	0.6	(5.9)	(90.7)

OTHER RESULTS

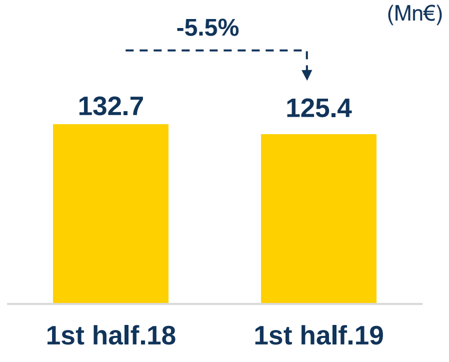
The heading of Other results incorporates the Results from sale of other assets and Other operating income, which include, among others, the income obtained from the revaluation of investment properties, from services rendered, from investment property rents and from the reimbursement of expenses, as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

In the first half of 2019, Other results showed a favourable evolution in relation to the same period of 2018, in evolving from -4.0 million euros to -1.5 million euros (+2.5 million euros). This evolution was positively influenced by the increase of results from the sale of other assets of 11.2 million euros, boosted by the sale of debt instruments measured at amortised cost, and by the reduction of the contributions to the Resolution Fund, on the Banking Sector and to the Single Resolution Fund of 1.2 million euros, and, negatively influenced by the reduction of 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 3.3 million euros, and by the alteration of the accounting of income related to personnel assignment by 6.8 million euros, following the reclassification to the heading of Staff cost carried out at the end of 2018.

OPERATING COSTS

In the first half of 2019, Operating costs amounted to 125.4 million euros representing a 5.5% reduction in relation to the value recorded in the same period of 2018, underpinned by the reduction of Staff costs by -6.4 million euros (-7.6%) and General administrative expenses by 5.2 million euros (-14.2%) notwithstanding the increase recorded in Amortisation and depreciation of 4.3 million euros (+35.4%).

Operating costs



Staff costs in the first half of 2019 stood- at 77.8 million euros, compared to 84.2 million euros in the same period of 2018, having benefited from the impact of the change in recording for accounting purposes of the income from assignment of employees (-6.8 million euros). On a comparable basis, excluding the effect of the assignment of employees, personnel costs decreased by 0.5 million euros.

General administrative expenses stood at 31.2 million euros in the first half of 2019, having evolved favourably in relation to the value of 36.4 million euros recorded in the same period of 2018. This reflects the reduction of costs related to rents of 3.9 million euros associated to the adoption of IFRS 16, alongside the decrease shown in other administrative costs (of 2.3 million euros, of which 1.2 million euros in the costs related to Real estate investment funds), and despite the impact of 1.4 million euros in information technology costs related to the reclassification for accounting purposes of contracts for the provision of services occurred in the second quarter of 2018.

Following the adoption of IFRS 16, the Depreciation and amortisation showed an increase of 35.4% in relation to the value recorded in the same period of 2018, standing at the total of 16.4 million euros in the first half of 2019, with a reduction having been recorded in the heading of rents under general administrative expenses of the corresponding amount.

In the first half of 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 68.2%, compared to 66.5% recorded in the first half of 2018.

OPERATING COSTS

(million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Staff Costs	84.2	156.0	77.8	(6.4)	(7.6)
General and administrative expenses	36.4	77.7	31.2	(5.2)	(14.2)
Depreciation and amortisation	12.1	25.9	16.4	4.3	35.4
Operating costs	**132.7**	**259.6**	**125.4**	**(7.3)**	**(5.5)**
Efficiency ratios					
Cost-to-income (Operating costs / Total operating income) (a)	66.1%	68.8%	68.8%	2.7 p.p.	
Cost-to-income, excluding specific impacts (b)	66.5%	69.3%	68.2%	1.7 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).

IMPAIRMENT AND PROVISIONS

The allocations for Impairments and provisions in the first half of 2019 amounted to 47.2 million euros, reflecting a reduction of 12.3 million euros (-20.7%) in relation to the same period of the previous year, driven by the reductions of Loan impairment of -3.8 million euros, Impairments of other assets of -6.0 million euros and Other provisions of -3.0 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 the first half of 2019 Loan impairment stood at 42.0 million euros, having evolved favourably in relation to the value of 45.8 million euros recorded in the same period of 2018 (-3.8 million euros), while Loans to customers (gross) fell by 1,149 million euros, leading to the cost of credit risk to stand at 0.7%, in line with the ratio recorded in the same period of 2018.

The Impairment of other financial assets stood at 3.1 million euros, having increased by 0.5 million euros in relation to the value of 2.6 million euros recorded in the first half of 2018.

In relation to the Impairment of other assets, the value stated in the first half of 2019 stood at 3.4 million euros, representing a reduction of 63.9% in relation to the value recorded in the same period of 2018.

In turn, Other provisions amounted to -1.3 million euros in the first half of 2019, revealing a reduction of 3 million euros in relation the value of 1.7 million euros recorded in the same period of 2018.

IMPAIRMENT AND PROVISIONS

(million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change	
				Amount	%
Loan impairment	45.8	73.2	42.0	(3.8)	(8.4)
Other financial assets impairment	2.6	2.9	3.1	0.5	18.4
Other assets impairment	9.4	13.2	3.4	(6.0)	(63.9)
Other provisions	1.7	4.2	(1.3)	(3.0)	-
Total net provisions and impairment	**59.5**	**93.5**	**47.2**	**(12.3)**	**(20.7)**

INCOME TAX

The current and deferred taxes in the first half of 2019 amounted to 10.7 million euros, compared to 2.2 million euros recorded in the same period of 2018, having been stated 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.

RESULTS FROM DISCONTINUING OPERATIONS

The heading of Results from discontinuing operations incorporates 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 5.9 million euros in the first half of 2019.

NON-CONTROLING INTERESTS

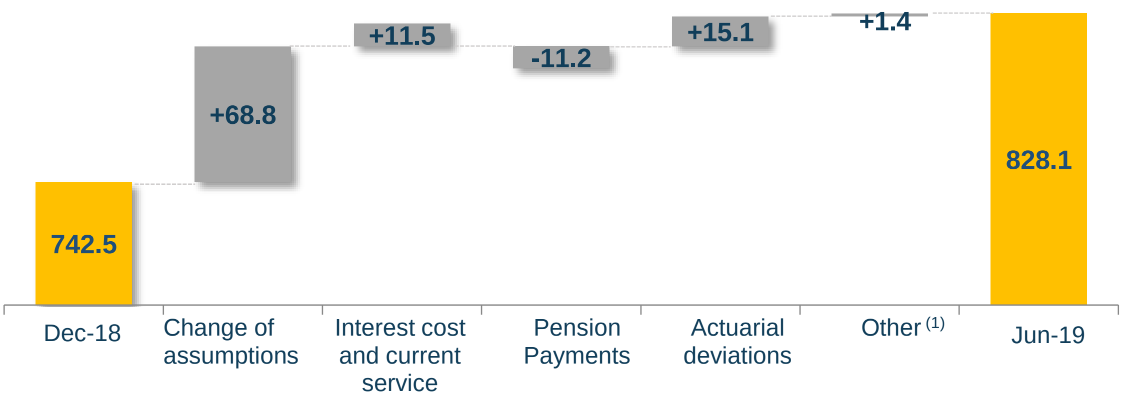
The Non-controlling interests recorded in the first half of 2019 correspond to the portion of equity held by third parties in the subsidiary Finibanco Angola, S.A.

PENSION FUND

The liabilities related to retirement and survivor's pensions amounted to 828.1 million euros as at 30 June 2019, compared to 742.5 million euros recorded as at 31 December 2018, showing an increase of 85.6 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 68.8 million euros, and by the increases derived from the cost of interest and current service 11.5 million euros and by the negative actuarial deviations of 15.1 million euros, and, on the other hand, by the payment of pensions in the period of the value of 11.2 million euros, as illustrated by the following chart.

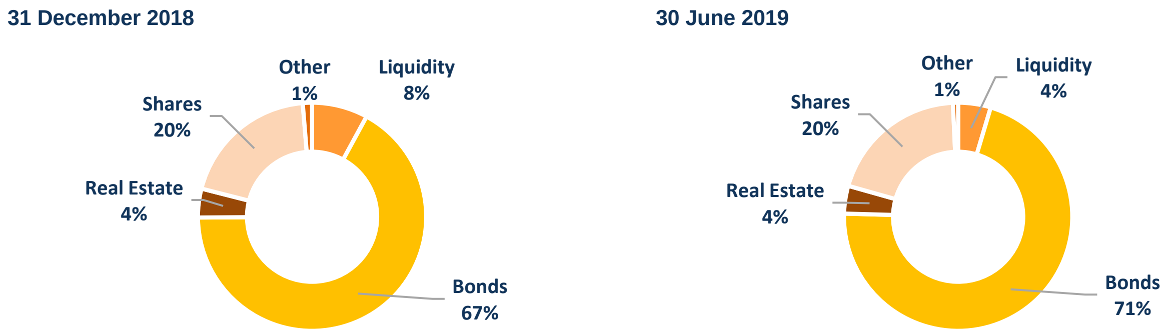
Evolution of pension liabilities in June 2019 (Mn€)



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

The value of the Pension Fund's assets increased by 3.3%, reaching the total value of 750.0 million euros as at 30 June 2019, compared to 725.8 million euros recorded at the end of 2018, continuing to show a conservative distribution, with 71% 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 as at December 2018 and 30 June 2019 are presented below, namely its liabilities, assets and their funding levels.

PENSION FUND

(million euros)

	Dec-18	Jun-19	Annual Change	
			Amount	%
Total liabilities	742.5	828.1	85.6	11.5
Minimum liabilities to be financed	720.8	813.0	92.2	12.8
Value of the Pension Fund's assets	725.8	750.0	24.2	3.3
Coverage:				
Minimum liabilities (1)	103.1%	94.2%	(8.9 p.p.)	
Total liabilities (2)	100.1%	92.5%	(7.6 p.p.)	

(1) Also considering, in Dec-2018 and Jun-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).

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 1.60% in June of 2019 (2.25% in 2018), 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 30 June 2019, the duration of the liabilities was 19.9 years (19.7 years as at 31 December 2018).

The main actuarial assumptions used in the determination of the liabilities, as 31 December 2018 and 30 June 2019 were the following:

ACTUARIAL ASSUMPTIONS

	Dec-18	Jun-19
Financial Assumptions		
Salary growth rate	1.00%	0.75%
Pension growth rate	0.50%	0.50%
Rate of return of Fund assets	2.25%	1.60%
Discount rate	2.25%	1.60%
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 Methods (1)	PCU	PCU

(1) PCU - 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, 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.

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 statement on risk appetite, considering aspects of solvency, liquidity, profitability and asset quality.

The risk management function is responsible for the effective application of the risk management system, which at Banco Montepio is the responsibility of the Risk Department (DRI). 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 best practices of internal governance.

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 are listed below, in conformity with the internal regulation of the function and the organic statutes, and taking into account the regulatory framework and the guidelines of the EBA:

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.

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 scrutinised to identify and appraise aspects that might contribute to compliance risk, especially in institutional processes, associated to products and services, duties of disclosure of information to customers and, in general, providing specialised 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 identified breaches and flaws.

In the first half of 2019, under its activities, particular notes 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. The improvement of the processes of detection and analysis of operations in the context of prevention of money laundering and terrorist financing was also promoted in constant alignment with the provisions of Banco de Portugal Notice 2/2018.

Other main activities to be highlighted are the developments carried out to respond to the new regulatory challenges: on matters of Insurance Distribution with the publication of Law 7/2019, of 16 January of Payment Systems with the publication of Decree-Law 91/2018, of 12 November and of Prevention of Money Laundering and Terrorist Financing, pursuant to the Banco de Portugal Notice referred to above.

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, 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 Management Governance Model

Banco Montepio's Risk Department (DRI) is a first-line organic unit 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 (CA), under which are the Audit Committee, the Bank's supervisory body, and the Risk Commission, the specialised 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 Commission, 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, which should be 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 Commission

The Board of Directors appoints the Risk Commission, 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 Commission 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 Own Funds, 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 area appraised and decided in accordance with the policy and regulation on loan concession. The Capital, Asset 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 function, 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.

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.

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 Commission 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 (ECL, PD, LGD and SICR) relative to collective analysis. The Model Validation Office also started procedures of validation of the scoring models of Montepio Crédito (application car loans and application household loans). 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 Model Validation Office prepared the Group's annual report on model risk at the end of the first quarter of 2019, with the support of various model owners and the internal audit function, and ensured the presentation and reporting to the Risk Commission and Executive Committee, pursuant to the requirements defined in the Model Risk Management Corporate Policy that the Office created in 2018. The annual report includes the inventory and characterisation of the Group's models in terms of the technical specifications and risk tiering, the main activities carried out in 2018 concerning development, alteration, validation and audit of models, the planning of activities for 2019 in terms of the development, review, validation and audit of models, the current situation of insufficiencies in terms of the models issued for validation, whether identified by the Model Validation Office, by the Audit and Inspection Department or by an external entity, and the overall assessment of model risk through the qualitative assessment of the model risk and situations of overrunning the defined model risk limits.

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 have been made in the modernisation of the technological infrastructure and in the acquisition of new and sophisticated software tools to support all the governance and data quality processes.

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 ensuring compliance with the regulatory requirements in this sphere.

Main developments in the first half of 2019

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

- Review of the model for calculating profitability and pricing adjusted to the risk of the credit operations.
- Improvement 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.
- 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 - KRIs), reviewing some of the measurements and limits of risk acceptance/appetite, and adding new indicators related to the main macro processes 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 (BIAs) 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 Banco de Empresas Montepio (BEM), in accordance with the new strategy.
- Reinforcement and improvement of the risk management information system and reporting produced by the Risk Department.

CREDIT RISK

Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their 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 the first half of 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.

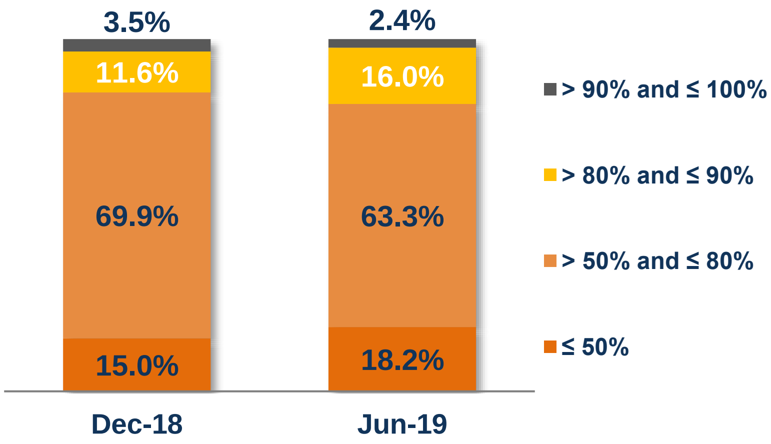
The decision-making process for loan operations is based on a series of policies using scoring models for the retail and business portfolios and rating models for the corporate segment. These models, developed based on internal historical data, enable obtaining an assessment, which is reflected in the 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, Debt-Service-to-Income - DSTI) and whenever the pricing associated to a particular operation represents a risk of adverse selection.

In the housing loan segment, for the loans granted in the first half of the year the levels of the Loan-to-Value (LTV) ratio – the loan value divided by the assessment value of the collateral) showed an increase in relation to 2018 to 66.9% (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 30 June 2019, the weight of the non-performing exposures (NPE) measured based on the heading of Gross loans to customers recorded a year-on-year reduction of 1.1 p.p., to stand at 14.7%. This evolution was conditioned by the denominator effect of the ratio, derived from the significant contraction of loans, which fell by approximately 1.1 billion euros in the period.

The amount of impairments for credit risk reached 918 million euros at the end of the first half of the year, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 106.4%, a reinforcement of 1.0 p.p. in relation to the same period of the previous year. Moreover, the coverage of non-performing exposures stood at approximately 49.7%; while the coverage ratio, also considering the associated total collateral and financial guarantees, reached 82,9%.

LOAN QUALITY INDICATORS

(million euros)

	Jun-18	Dec-18	Jun-19	Y.oY. Change Amount	%
Gross loans to customers	13 727	13 068	12 578	(1 149)	(8.4)
Loans and interest overdue by more than 90 days	1 025	914	863	(162)	(15.8)
Loans impairment	1 101	945	918	(183)	(16.6)
Ratios (%)					
Cost of credit risk	0.7	0.5	0.7	0.0 p.p.	
Loans and interest overdue by more than 90 days	7.5	7.0	6.9	(0.6 p.p.)	
Non-performing exposures (NPE) (a) / Gross loans to customers	15.8	14.4	14.7	(1.1 p.p.)	
Forborne exposures (a) / Gross loans to customers	7.6	7.2	7.5	(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	(1.0 p.p.)	
Non-performing exposures (NPE) (a)	50.8	50.3	49.7	(1.1 p.p.)	
Non-performing exposures (NPE), also including associated collaterals and financial guarantees (a)	88.3	86.2	82.9	(5.4 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 methodology are interest rate risk, exchange rate risk, price risk, spread risk and commodities 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 produced reports 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.

In the field of 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.

Concerning the policy on investment in the banking book, there was an increase up to June 2019 of exposure to Portugal public debt securities. The weight of bonds classified as investment grade in the total bond portfolio in June 2019 represented 94.8% (in relation to 90.2% in December 2018). It should also be stressed that in June 2019, Banco Montepio only held positions in derivatives in the trading book.

STRUCTURE OF THE BOND PORTFOLIO BY RATING CLASSES

Rating	Dec-18		Jun-19		Chage	
	Amount	%	Amount	%	Amount	%
AAA	-	-	5	0.2	5	-
AA+	1	0.1	1	-	0	0.0
AA	-	-	8	0.3	8	-
AA-	-	-	16	0.6	16	-
A+	2	0.1	18	0.7	16	>100
A	1	0.1	22	0.8	21	>100
A-	3	0.2	36	1.3	33	>100
BBB+	212	12.6	271	9.9	59	27.8
BBB	16	0.9	47	1.7	31	>100
BBB-	1 280	76.2	2 181	79.3	901	70.4
BB	-	-	5	0.2	5	-
BB-	-	-	-	-	0	-
B+	-	-	2	0.1	2	-
NR	52	3.0	35	1.2	(17)	(32.7)
Subtotal	**1 567**	**93.2**	**2 647**	**96.3**	**1 080**	**68.9**
Discontinuing subsidiaries	114	6.8	103	3.7	(11)	(9.6)
Total	**1 681**	**100.0**	**2 750**	**100.0**	**1 069**	**63.6**

In June 2019, the total of 2,750 million euros includes the value of 103 million euros corresponding to the securities portfolio of Finibanco Angola (securities with B- rating), which are stated under the heading of Non-current assets held for sale of discontinuing operations.

A summary of the value at risk (VaR) indicators in December 2018 and June 2019 is presented below:

VaR INDICATORS (1)

	Jun-19		Dec-18	
	Banking Book	Trading Portfolio	Banking Book	Trading Portfolio
Market VaR (1) (2) (3)	**0.58%**	**2.07%**	**0.90%**	**0.17%**
Interest Rate Risk	0.42%	0.29%	0.41%	0.17%
Exchange Rate Risk	0.12%	0.09%	0.15%	0.00%
Price Risk	0.16%	1.31%	0.29%	0.00%
Credit risk (spread)	0.94%	1.31%	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 Bank Montepio Group in consolidated terms is essentially the result of structural positions derived from the conversion of the balances of the subsidiaries in their main currencies, namely the Kwanza, Brazilian Real and American Dollar, concerning Finibanco Angola.

Limits of exposure have been defined for the exchange rate risk of the banking book, which are monitored by the management bodies and Capital, Asset 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 of 15 June, 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 Capital, Asset 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 JUNE 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	7 670	3 062	898	1 790	1 249
Off balance sheet	21	0	5	1 130	0
Total assets	**7 691**	**3 062**	**903**	**2 920**	**1 249**
Liabilities	3 053	1 443	2 753	4 362	46
Off balance sheet	768	0	0	0	2
Total liabilities	**3 821**	**1 443**	**2 753**	**4 363**	**48**
GAP (Assets - Liabilities) in Jun 2019	**3 870**	**1 619**	**(1 850)**	**(1 443)**	**1 201**
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 30 June 2019, 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 -57.0 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 liquid 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, Asset and Liability Committee (CCAP). Under the control of risk levels, limits are defined for various liquidity risk indicators, which are monitored through weekly and monthly reports.

The evolution of the liquidity situation is monitored, 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, loans-to-deposits ratio, concentration of funding sources, short-term funding and eligible assets.

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

LIQUIDITY POSITION GAPS IN JUNE 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	3 535	3 525	3 484	3 376	3 307

Customer resources constitute the main source of funding, accounting for 73.8% of total funding sources in June 2019.

Liabilities	%
Resources from central banks	8.1
Resources from other credit institutions	7.6
Resources from Customers	73.8
Debt securities issued	5.6
Other liabilities	4.9
Total	**100.0**

The Liquidity Coverage Ratio (LCR) reached 196.8% in June 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 the first half of 2019, the Bank Montepio Group's exposure to real estate risk, in the components described above, fell by approximately 77 million euros, in shifting from 1,288 million euros at the end of 2018 to 1,211 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 June 2019, the accumulated negative actuarial deviation of the Pension Fund stood at -282 million euros, with 59 million euros referring to the first half of 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.

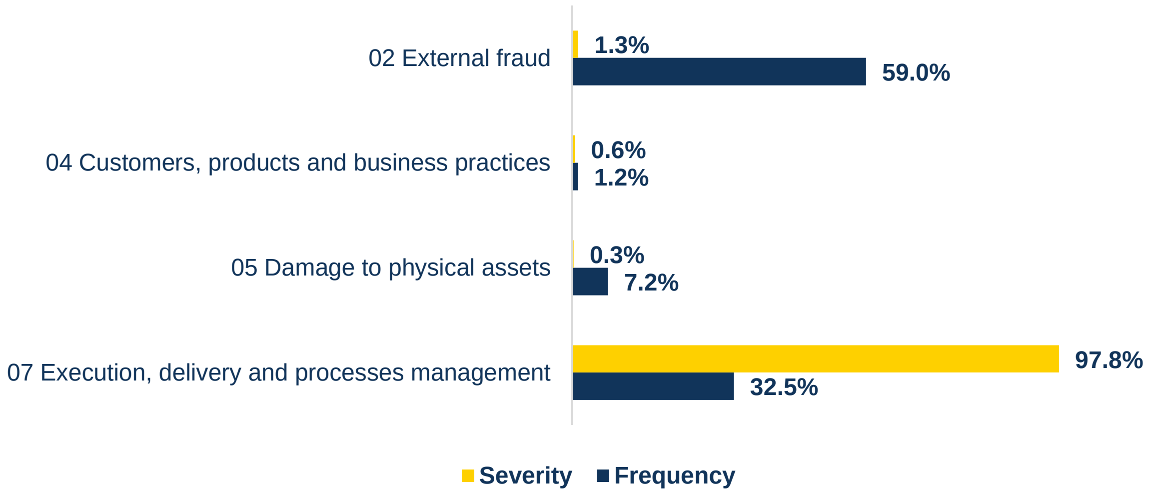
The implemented operational risk management model follows the principle of the 3 lines of defence.

The Risk Department performs the corporate function of operational risk management for Banco Montepio. This is supported by specific interlocutors 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 the first half of 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 (87% 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 (1st half of 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 (BM), the key risk indicators (KRIs) 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 KPIs, changing the measurement and limits of risk acceptance/appetite, and adding new indicators related to the main macro processes 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 interlocutors 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 (BIAs) 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 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 risk and business strategies;
- Assure an appropriate identification, quantification, control and mitigation of the material risks to which the Group is exposed;
- Assure the suitable 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, the 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).

RISK RATINGS

RISK RATINGS

Rating events relative to the first half of 2019

In a press release dated 26 February 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 28 March 2019, the financial rating agency DBRS announced an upward revision of the risk rating of 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 position of certain debt instruments in the hierarchy of insolvency.

The risk ratings attributed to Banco Montepio by the rating agencies as at 30 June 2019 and 30 June 2018 are presented in the table below.

Risk Ratings

Rating Agencies	Covered Bonds (CPT[1])		Long-term		Short-term		Outlook	
	30 June 2018	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018	**30 June 2019**
Fitch Ratings	AA-	**AA-**	B+*	**B+***	B	**B**	Stable	**Stable**
Moody's Investors Service	A3	**A3**	B3	**B3**	NP	**NP**	Developing	**Positive**
DBRS Ratings Limited	A	**A**	BB	**BB**	R-4	**R-4**	Negative	**Negative**

(1) Conditional Pass-through Covered Bond Programme.
* Issuer default Rating.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE 1ST HALF OF 2019

CONSOLIDATED FINANCIAL STATEMENTS FOR THE 1ST HALF OF 2019

Banco Montepio

Interim condensed consolidated statement of income
for the periods ended as at 30 June 2019 and 2018

(Thousands of Euro)

	Jun 2019	Jun 2018
Interest and similar income	164 490	197 363
Interest and similar expense	44 439	63 125
Net interest income	120 051	134 238
Dividends from equity instruments	6 210	7 935
Net fee and commission income	57 689	57 399
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	2 260	1 956
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	(2.902)	4 001
Net gains/ (losses) arising from exchange differences	270	(793)
Net gains/ (losses) arising from sale of other financial assets	16 714	5 499
Other operating income/ (expense)	(18.064)	(9.557)
Total operating income	182 228	200 678
Staff costs	77 854	84 218
General and administrative expenses	31 206	36 381
Depreciation and amortisation	16 379	12 099
	125 439	132 698
Loans impairment	42 000	45 842
Other financial assets impairment	3 074	2 597
Other assets impairment	3 376	9 364
Other provisions	(1.316)	1 708
Operational profit	9 655	8 469
Profit/ (loss) of associates under the equity method	(47)	(104)
Profit before income tax	9 608	8 365
Income Tax		
Current	(2.051)	(1.118)
Deferred	(8.650)	(1.110)
Profit/ (loss) after income tax from continuing operations	(1.093)	6 137
Profit/ (loss) from discontinued operations	5 854	11 940
Consolidated net profit/ (loss) after income tax	4 761	18 077
Consolidated net profit/ (loss) for the period attributable to the shareholder	3 603	15 797
Non-controlling Interests	1 158	2 280
Consolidated net profit/ (loss) for the period	4 761	18 077

Banco Montepio

Interim condensed consolidated balance sheet as at 30 June 2019 and 2018

(Thousands of Euro)

	Jun 2019	Dec 2018
Asset		
Cash and deposits at central banks	1 418 016	1 610 635
Loans and advances to credit institutions repayable on demand	39 972	78 088
Other loans and advances to credit institutions	251 934	209 932
Loans and advances to customers	11 660 223	12 123 212
Financial assets held-for-trading	47 766	23 739
Financial assets at fair value through profit or loss	437 396	492 594
Financial assets at fair value through other comprehensive income	1 848 006	444 073
Repurchase agreement assets	13	-
Hedging derivatives	18 261	5 666
Other financial assets at amortised cost	913 225	1 255 651
Investments in associates	4 207	4 282
Non-current assets held for sale	-	737 937
Non-current assets held for sale - discontinued operations	260 771	294 725
Investment properties	228 232	253 097
Other tangible assets	255 521	229 599
Intangible assets	32 596	32 326
Current tax assets	6 406	11 073
Deferred tax assets	431 049	460 268
Other assets	841 019	84 430
Total Assets	18 694 613	18 351 327
Liabilities		
Deposits from central banks	1 392 489	1 395 320
Deposits from other credit institutions	1 300 175	1 245 435
Deposits from customers	12 680 242	12 575 224
Debt securities issued	960 618	1 093 934
Financial liabilities held for trading	13 386	13 496
Hedging derivatives	706	-
Non current liabilities held for sale - discontinued operations	157 104	193 995
Provisions	30 606	31 080
Current tax liabilities	2 202	10 960
Other subordinated debt	154 552	50 044
Other liabilities	479 338	204 906
Total Liabilities	17 171 418	16 814 394
Own capitals		
Share capital	2 420 000	2 420 000
Other equity instruments	6 323	6 323
Fair value reserves	30 001	(18 710)
Other reserves and retained earnings	(951 273)	(898 743)
Consolidated net income for the period attributable to the shareholder	3 603	12 512
Total Equity Attributable to Shareholder	1 508 654	1 521 382
Non-controlling Interests	14 541	15 551
Total Equity	1 523 195	1 536 933
Total Liabilities and Equity	18 694 613	18 351 327

Banco Montepio

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

Interim condensed consolidated statement of income
for the periods ended as at 30 June 2019 and 2018

(Thousands of Euro)

	Notes	Jun 2019	Jun 2018
Interest and similar income	3	164 490	197 363
Interest and similar expense	3	44 439	63 125
Net interest income	3	120 051	134 238
Dividends from equity instruments	4	6 210	7 935
Net fee and commission income	5	57 689	57 399
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	6	2 260	1 956
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	7	(2.902)	4 001
Net gains/ (losses) arising from exchange differences	8	270	(793)
Net gains/ (losses) arising from sale of other financial assets	9	16 714	5 499
Other operating income/ (expense)	10	(18.064)	(9.557)
Total operating income		182 228	200 678
Staff costs	11	77 854	84 218
General and administrative expenses	12	31 206	36 381
Depreciation and amortisation	13	16 379	12 099
		125 439	132 698
Loans impairment	14	42 000	45 842
Other financial assets impairment	15	3 074	2 597
Other assets impairment	16	3 376	9 364
Other provisions	17	(1.316)	1 708
Operational profit		9 655	8 469
Profit/ (loss) of associates under the equity method	18	(47)	(104)
Profit before income tax		9 608	8 365
Income Tax			
Current	33	(2.051)	(1.118)
Deferred	33	(8.650)	(1.110)
Profit/ (loss) after income tax from continuing operations		(1.093)	6 137
Profit/ (loss) from discontinued operations	61	5 854	11 940
Consolidated net profit/ (loss) after income tax		4 761	18 077
Consolidated net profit/ (loss) for the period attributable to the shareholder		3 603	15 797
Non-controlling Interests	47	1 158	2 280
Consolidated net profit/ (loss) for the period		4 761	18 077

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim condensed consolidated balance sheet as at 30 June 2019 and 2018

(Thousands of Euro)

	Notes	Jun 2019	Dec 2018
Asset			
Cash and deposits at central banks	19	1 418 016	1 610 635
Loans and advances to credit institutions repayable on demand	20	39 972	78 088
Other loans and advances to credit institutions	21	251 934	209 932
Loans and advances to customers	22	11 660 223	12 123 212
Financial assets held-for-trading	23	47 766	23 739
Financial assets at fair value through profit or loss	24	437 396	492 594
Financial assets at fair value through other comprehensive income	25	1 848 006	444 073
Repurchase agreement assets	-	13	-
Hedging derivatives	26	18 261	5 666
Other financial assets at amortised cost	27	913 225	1 255 651
Investments in associates	28	4 207	4 282
Non-current assets held for sale	29	-	737 937
Non-current assets held for sale - discontinued operations	61	260 771	294 725
Investment properties	30	228 232	253 097
Other tangible assets	31	255 521	229 599
Intangible assets	32	32 596	32 326
Current tax assets	-	6 406	11 073
Deferred tax assets	33	431 049	460 268
Other assets	34	841 019	84 430
Total Assets		18 694 613	18 351 327
Liabilities			
Deposits from central banks	35	1 392 489	1 395 320
Deposits from other credit institutions	36	1 300 175	1 245 435
Deposits from customers	37	12 680 242	12 575 224
Debt securities issued	38	960 618	1 093 934
Financial liabilities held for trading	23	13 386	13 496
Hedging derivatives	26	706	-
Non current liabilities held for sale - discontinued operations	61	157 104	193 995
Provisions	39	30 606	31 080
Current tax liabilities	-	2 202	10 960
Other subordinated debt	40	154 552	50 044
Other liabilities	41	479 338	204 906
Total Liabilities		17 171 418	16 814 394
Own capitals			
Share capital	42	2 420 000	2 420 000
Other equity instruments	43	6 323	6 323
Fair value reserves	45	30 001	(18 710)
Other reserves and retained earnings	44 e 45	(951 273)	(898 743)
Consolidated net income for the period attributable to the shareholder		3 603	12 512
Total Equity Attributable to Shareholder		1 508 654	1 521 382
Non-controlling Interests	47	14 541	15 551
Total Equity		1 523 195	1 536 933
Total Liabilities and Equity		18 694 613	18 351 327

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim condensed consolidated statement of cash flows for the periods ended as at 30 June 2019 and 2018

(Thousands of Euro)

	Jun 2019	Jun 2018
Cash from operating activities		
Interest income received	153 007	166 437
Commissions income received	71 787	70 279
Interest expense paid	(37 717)	(70 766)
Commissions expense paid	(14 569)	(15 648)
Payments to employees and suppliers	(79 942)	(122 604)
Recovery of loans and interests	3 455	2 926
Other payments and receivables	(16 409)	(74 417)
Income tax payment	981	(2 382)
	80 593	(46 175)
(Increases) / Decreases in operating assets		
Loans and advances to credit institutions and customers	361 438	205 367
Deposits held for monetary control purposes	168 901	(9 142)
Other assets	146 402	(107 474)
	676 741	88 751
Increases / (decreases) in operating liabilities		
Deposits from customers	110 740	(66 787)
Deposits from credit institution	54 650	(71 101)
	165 390	(137 888)
	922 724	(95 312)
Cash From Investing Activities		
Non-current assets / liabilities held for sale - discontinued operations	(4 952)	65 696
Dividends Received	6 210	7 935
(Purchase) / Sale of financial assets held for trading	(28 968)	121 710
(Purchase) / Sale of financial assets at fair value through profit or loss	(403 822)	(488 926)
(Purchase) / Sale of financial assets at fair value through other comprehensive income	(878 145)	1 141 577
Interest received on financial assets at fair value through other comprehensive income	2 173	15 424
(Purchase) / Sale of hedging derivatives	(1 726)	14 446
(Purchase) / Sale of other assets at amortised cost	353 187	(622 256)
(Purchase) / Sale of Investments in Associates	-	(43)
Purchase of fixed assets and investment properties	(10 938)	(6 825)
Sale of fixed assets and investment properties	25 352	22 109
Change in the consolidation perimeter of investment properties	-	230 659
	(941 629)	501 506
Cash From Financing Activities		
Dividends paid	(1 285)	-
Other equity instruments	(163)	(163)
Issuance of cash bonds and subordinated debt	100 000	-
Repayment of cash bonds and subordinated debt	(141 737)	(423 200)
	(43 185)	(423 363)
Effects of changes in cash exchange rate and cash equivalents	270	(794)
Net change in cash and cash equivalents	(61 820)	(17 963)
Cash and cash equivalents at beginning of period		
Cash (Note 19)	194 597	178 927
Loans and advances to credit institutions repayable on demand	78 074	50 205
	272 671	229 132
Cash and cash equivalents at end of period		
Cash (Note 19)	170 879	157 151
Loans and advances to credit institutions repayable on demand	39 972	54 018
	210 851	211 169

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

Banco Montepio

Interim condensed consolidated statement of changes in equity
for the periods ended as at 30 June 2019 and 2018

(Thousands of Euro)

	Share capital (Note 42)	Other equity instruments (Note 43)	Fair value reserves (Note 45)	General and special reserves (Note 44)	Retained earnings (Note 45)	Consolidated net profit/ (loss) for the period	Equity attributable to the shareholder	Non-controlling interests (Note 47)	Total equity
Balances at December 31, 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	-	-	(15 868)	-	(136 355)	-	(152 223)	(482)	(152 705)
Taxes	-	-	6 068	-	49 872	-	55 940	95	56 035
Balances on January 1st, 2018	**2 420 000**	**6 323**	**18 124**	**186 000**	**(1 003 081)**	**6 437**	**1 633 803**	**32 448**	**1 666 251**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(34 555)	-	(34 555)	(8 768)	(43 323)
Appropriation to retained earnings of net profit/ (loss) of the previous period	-	-	-	-	6 437	(6 437)	-	-	-
Remeasurements in the period (note 50)	-	-	-	-	(5 489)	-	(5 489)	-	(5 489)
Changes in fair value (Note 45)	-	-	(8 770)	-	-	-	(8 770)	-	(8 770)
Gains on equity instruments	-	-	-	-	(37)	-	(37)	-	(37)
Deferred taxes related to fair values changes (notes 33 and 45)	-	-	(578)	-	-	-	(578)	-	(578)
IAS 29 impact related to the equity of Finibanco Angola S.A.	-	-	-	-	5 345	-	5 345	2 385	7 730
Consolidated net profit/ (loss) for the period	-	-	-	-	-	15 797	15 797	2 280	18 077
Total comprehensive income for the period	-	-	(9 348)	-	(28 299)	9 360	(28 287)	(4 103)	(32 390)
Change in the consolidation perimeter	-	-	-	-	(236)	-	(236)	799	563
Costs related to the issue of perpetual subordinated instruments	-	-	-	-	(163)	-	(163)	-	(163)
Legal reserve	-	-	-	5 767	(5 767)	-	-	-	-
Dividend paid	-	-	-	-	(2 474)	-	(2 474)	(1 137)	(3 611)
Other consolidation reserves	-	-	-	-	(1 015)	-	(1 015)	(109)	(1 124)
Balances as of June 30, 2018	2 420 000	6 323	8 776	191 767	(1 041 035)	15 797	1 601 628	27 898	1 629 526
Impact of transition to IFRS 9									
Gross value	-	-	(1)	-	(160)	-	(161)	332	171
Taxes	-	-	(177)	-	(31 792)	-	(31 969)	(95)	(32 064)
Adjustment with reference to January 1, 2018	**-**	**-**	**(178)**	**-**	**(31 952)**	**-**	**(32 130)**	**237**	**(31 893)**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(10 000)	-	(10 000)	(2 694)	(12 694)
Remeasurements in the period (note 50)	-	-	-	-	(29 922)	-	(29 922)	-	(29 922)
Taxes on changes in equity recorded against retained earnings (note 33)	-	-	-	-	10 387	-	10 387	-	10 387
Changes in fair value (Note 45)	-	-	(27 482)	-	-	-	(27 482)	-	(27 482)
Gains on equity instruments	-	-	-	-	37	-	37	-	37
Taxes on changes in fair value (notes 33 and 45)	-	-	174	-	-	-	174	-	174
Application of IAS 29 on Capitals Finibanco's own Angola, S.A. (note 62)	-	-	-	-	2 646	-	2 646	(415)	2 231
BTM alienation	-	-	-		6 843	-	6 843	(11 881)	(5 038)
Consolidated net income for the period	-	-	-	-	-	(3 285)	(3 285)	1 025	(2 260)
Total comprehensive income for the period	-	-	(27 308)	-	(20 009)	(3 285)	(50 602)	(13 965)	(64 567)
Change in consolidation perimeter	-	-	-	-	78	-	78	-	78
Financial cost relating to the issuance of perpetual securities	-	-	-	-	(159)	-	(159)	-	(159)
Reserves paid	-	-	-		235	-	235	-	235
Dividend paid	-	-	-	-	805	-	805	14	819
Other consolidation reserves	-	-	-	-	1 527	-	1 527	1 367	2 894
Balances as of December 31, 2018	**2 420 000**	**6 323**	**(18 710)**	**191 767**	**(1 090 510)**	**12 512**	**1 521 382**	**15 551**	**1 536 933**
Other comprehensive income:									
Exchange difference resulting from consolidation	-	-	-	-	(5 287)	-	(5 287)	(1 728)	(7 015)
Incorporation into reserves of 2018 net income	-	-	-	-	12 512	(12 512)	-	-	-
Remeasurements in the period (note 50)	-	-	-	-	(59 320)	-	(59 320)	-	(59 320)
Taxes on changes in equity recorded against reserves (note 33)	-	-	-	-	(398)	-	(398)	-	(398)
Changes in fair value (Note 45)	-	-	68 686	-	-	-	68 686	-	68 686
Taxes on changes in fair value (notes 33 and 45)	-	-	(19 975)	-	(196)	-	(20 171)	-	(20 171)
Own credit risk	-	-	-	-	-	-	-	-	-
Consolidated net income for the period	-	-	-	-	-	3 603	3 603	1 158	4 761
Total comprehensive income for the period	-	-	48 711	-	(52 689)	(8 909)	(12 887)	(570)	(13 457)
Change in consolidation perimeter	-	-	-	-	-	-	-	-	-
Financial cost relating to the issuance of perpetual securities	-	-	-	-	(163)	-	(163)	-	(163)
Legal reserve	-	-	-	202	(202)	-	-	-	-
Reserves paid	-	-	-		25	-	25	-	25
Dividend Payment	-	-	-	-	(1 147)	-	(1 147)	(776)	(1 923)
Other consolidation reserves	-	-	-	-	1 444	-	1 444	336	1 780
Balances as of June 30, 2019	**2 420 000**	**6 323**	**30 001**	**191 969**	**(1 143 242)**	**3 603**	**1 508 654**	**14 541**	**1 523 195**

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

Banco Montepio

Interim condensed consolidated statement of comprehensive income
for the periods ended as at 30 June 2019

(Thousands of Euro)

	Notes	jun 2019 Continuing Operations	Discontinued operations	Total	Shareholder	Non-controlling interests
Items that may be reclassified into the Income Statement						
Fair value reserves						
Financial assets at fair value						
through other comprehensive income and loans and advances to customers						
Debt instruments	45	66 615	-	66 615	66 615	-
Loans and advances to customers	45	-	-	-	-	-
Own credit risk	45	1 067	-	1 067	1 067	-
Taxes related to fair value changes	33	(20 171)	-	(20 171)	(20 171)	-
Exchange difference arising from the consolidation	45	-	(7 015)	(7 015)	(5 287)	(1 728)
		47 511	(7 015)	40 496	42 224	(1 728)
Items that won't be reclassified into the Income Statement						
Financial assets at fair value						
through other full comprehensive income or loans to costumers						
Equity instruments	45	(14 866)	-	(14 866)	(14 866)	-
Acturial gains/ (losses) for the period	50	(59 320)	-	(59 320)	(59 320)	-
Taxes on changes in equity recorded against retained earnings	33	(398)	-	(398)	(398)	-
		(74 584)	-	(74 584)	(74 584)	-
Other comprehensive income/ (loss) for the period		(27 073)	(7 015)	(34 088)	(32 360)	(1 728)
Consolidated net profit/ (loss) for the period		(1 093)	5 854	4 761	3 603	1 158
Total consolidated comprehensive income/ (loss) for the period		(28 166)	(1 161)	(29 327)	(28 757)	(570)

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

Banco Montepio

Interim Consolidated Statement of Comprehensive Income
for the periods ended as at 30 June 2018

(Thousands of Euro)

	Notes	jun 2018 Continuing Operations	Discontinued operations	Total	Shareholder	Non-controlling interests
Items that may be reclassified into the Income Statement						
Fair value reserves						
Financial assets at fair value						
through other comprehensive income and loans and advances to customers						
Debt instruments	45	(8 858)	-	(8 858)	(8 858)	-
Loans and advances to customers	45	(325)	-	(325)	(325)	-
Own credit risk	45	(578)	-	(578)	(578)	-
Taxes related to fair value changes	33	-	(43 323)	(43 323)	(34 555)	(8 768)
Exchange difference arising from the consolidation	61	-	7 730	7 730	5 345	2 385
		(9 761)	(35 593)	(45 354)	(38 971)	(6 383)
Items that won't be reclassified into the Income Statement						
Financial assets at fair value						
through other full comprehensive income or loans to costumers						
Equity instruments	45	413	-	413	413	-
Acturial gains/ (losses) for the period	50	(37)	-	(37)	(37)	-
Taxes on changes in equity recorded against retained earnings	33	(5 489)	-	(5 489)	(5 489)	-
		(5 113)	-	(5 113)	(5 113)	-
Other comprehensive income/ (loss) for the period		(14 874)	(35 593)	(50 467)	(44 084)	(6 383)
Consolidated net profit/ (loss) for the period		6 137	11 940	18 077	15 797	2 280
Total consolidated comprehensive income/ (loss) for the period		(8 737)	(23 653)	(32 390)	(28 757)	(4 103)

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

1 Políticas contabilísticas

a) Basis of presentation

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 Banco de 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.

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Counsel, of 19 July and Regulation no. 5/2015 of Banco de Portugal, of 7 December, Banco Montepio Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and by their predecessor bodies. The Group adopted in the preparation of the consolidated financial statements as at 30 June 2019 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2019.

The condensed interim consolidated financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 27 September 2019. 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 condensed interim consolidated financial statements of the Group for the period ended on 30 June 2019 have been prepared, for the purpose of recognition and measurement, in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"), as adopted by the EU, not including all the information required in the preparation of consolidated financial statements prepared in accordance with IFRS as adopted by the EU, for which reason they should be read together with the consolidated financial statements for the financial period ended on 31 December 2018.

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).

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

The following entities integrate Banco Montepio Group (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.

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 is a company integrating the specialized credit sector of Montepio Group, having as its mission to make available to Customers and Partners, a set of products and services of the financial area.

Montepio Investimento, S.A.

Montepio Investimento has as its main activity the rendering of banking and financial services in the Corporate Finance and Financial Advisory areas related to Commercial Banking, Investment Banking and Asset Management.

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 indispensable to the installation and functioning of companies of Banco Montepio Group, 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 Banco Montepio 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 Banco Montepio 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.

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 prior period's financial statements, 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 an inventory 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.

b) Basis 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 periods ended on 30 June 2019 and 2018.

Subsidiaries

Subsidiaries are entities (including investment funds and securitisation 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 of 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:

- 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 the Group and the investee;
- interchange of management personnel; and
- 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

Banco Montepio Group consolidates by the full consolidation method certain special purpose entities, namely vehicles and funds created as part of securitisation 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 amortisation.

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 period 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 of the period. 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.

Investment 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 operating unit.

As at 31 December 2018, for Angola, the accumulated inflation rate 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 61. 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.

As from 1 January 2019, the conditions set out in IAS 29 for qualifying the Angolan economy as hyperinflationary were not met.

Regarding shareholdings in foreign currency accounted by the Group 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 period.

The income and expenses of these subsidiaries 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 period, 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*

As a result of the application of IFRS 9 as from 1 January 2018, the Group classifies its financial assets into one of the following valuation categories:

- Financial assets at amortised 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:

- Banco Montepio 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 amortised 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 included in the caption Other financial assets at amortised cost, the category of financial assets at amortised 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 Banco Montepio 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. Less common, 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 amortisation 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 coincide 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 amortised 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) <u>Classification of financial liabilities</u>

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be effected 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 amortised 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) <u>Recognition and initial valuation of financial instruments</u>

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 Banco Montepio 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) amortised 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, Banco Montepio Group values its financial assets at (i) amortised 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 amortised 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 amortised 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 amortised cost are 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 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 amortised 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 amortised 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 Banco Montepio Group changes its financial asset management business model, which changes are expected to be non-recurrent. 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. Montepio Group shall not reclassify any financial liability.

c.7) *Modification of loans*

Occasionally Banco Montepio 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, Banco Montepio 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, including 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 included 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*

Banco Montepio 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 Banco Montepio 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 amortised 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, taking into account all reasonable, reliable and duly substantiated information that is available, including forward-looking information.

Impairment losses of debt instruments that are measured at amortised cost are recognized against a cumulative balance sheet caption, 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 allocations and reversals are included 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 taken into account:

a) Credit losses: correspond to the difference between all cash flows owed to Banco Montepio Group, according to the contractual conditions of the financial asset, and all cash flows that Banco Montepio 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 Banco Montepio 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 Banco Montepio Group that are not measured at fair value through profit or loss:

- Financial assets at amortised cost (including Loans and advances to customers, Loans and advances to credit institutions and Other financial assets at amortised cost);
- Financial assets classified as debt instruments at fair value through other comprehensive income;
- Commitments and financial guarantees issued.

Under IFRS 9 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 in accordance with IFRS 9 is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:

- Assessment of the existence of a significant increase in credit risk since initial recognition; and
- 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 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 Banco Montepio Group expects to receive;

- Financial guarantees: the present value of the expected reimbursement payments less the amounts that Banco Montepio Group expects to recover.

IFRS 9 defines financial assets with signs of impairment in a similar way to how IAS 39 defined impaired financial assets.

c.10.2) Definition of default

In the scope of the application of IFRS 9, Banco Montepio 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)

Under IFRS 9, 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 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 Banco Montepio Group´s history (expert judgment).

Under IFRS 9, the identification of a significant increase in credit risk is performed by comparing:

- The remaining lifetime PD at the reporting date, and
- The remaining lifetime PD at this moment, that will have been estimated at the initial moment of the exposure´s recognition.

Banco Montepio Group identifies the occurrence of a significant increase in credit risk through the comparison of the actual 12-months PD and the 12-months PD estimated at the contract's inception, as a proxy for the comparison between the actual remaining lifetime PD and the remaining lifetime PD calculated at the contract's inception.

When evaluating the significant increase in credit risk, Banco Montepio Group considers as a backstop the existence of more than 30 days of delay, among others.

c.10.4) Degrees of credit risk

In accordance with the current management of Banco Montepio Group´s credit risk, each customer, and, consequently, respective exposure, is allocated to a degree of risk of its master scale.

Banco Montepio Group uses these degrees of risk as a primary factor for the identification of a significant increase in credit risk, in the scope of IFRS 9.

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 degrees of risk are highly important input for the determination of the PDs associated with each exposure. Banco Montepio 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. Banco Montepio 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. Banco Montepio 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 amortisations 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 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.

c.11) *Securitized loans not derecognized*

Banco Montepio Group does not derecognize from assets the credits sold in securitisation 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 included 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 securitisation 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 securitisation vehicles and held by Banco Montepio are eliminated in the consolidation process.

d) Derivative financial instruments and hedge accounting

Banco Montepio 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.

Hedging derivatives 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 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 assessed 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.

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 amortised 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 has to be demonstrated. As such, Banco Montepio 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 Banco Montepio 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 period to which it relates. Subsequent commissions are recognized in profit or loss in the period 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 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 arrangements continue to be recognized on the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. The amount received in respect of securities lent is recognized as a financial liability. Securities borrowed under securities' borrowing agreements are not recognized on-balance sheet. The amount placed 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 on 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 on 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, 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. 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 subsequently 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/amortisation 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/amortisation 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 year 2019 the Group changed the classification of these assets from non-current assets held for sale to other assets, as they were in the portfolio for more than 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)

As described in note 1 a), the Group adopted IFRS 16 - Leases on 1 January 2019 to replace IAS 17 - Leases, which was effective until 31 December 2018. The Group had not early adopted any of the requirements of IFRS 16.

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 period under 12 months or for leases that relate to low-value assets, for which the lessee may opt for the recognition exemption foreseen under 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, less than or equal to one year, and to lease agreements in which the underlying asset has a low value, considering for this purpose the amount of Euro 5 thousand. The option not to apply this standard to intangible asset leases has been used.

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 a retribution.

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 supported 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 depreciation/amortisation according to the lease term of each contract 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 initial 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.

Since it is not possible to easily determine the implicit interest rate 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, 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 fixed lease payments in substance and the revision of the lease term.

The Group re-values 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 which case 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, 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 which case 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 periods presented.

Right-of-use assets are depreciated/amortised 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 depreciated/amortised from the date of the agreement's entry into force to the end of the useful life of the underlying asset. Depreciation/amortisation begins on the date of the lease agreement's entry into force.

The adoption of the standard implies changes in the Group's financial statements, as also mentioned in note 58, namely:

- In the consolidated income statement:

  (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 amortisation of the depreciation cost of right-of-use assets.

- In the consolidated balance sheet:

  (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.

- In the statement of cash flows, the caption Cash flows from operating activities - Cash payments to employees and suppliers includes amounts related to short-term and to low-value lease agreements and the caption Decrease in other liability accounts and non-controlling interests includes amounts relating to payments of the capital portion of the lease liabilities, as detailed in the Condensed interim consolidated statements 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 that defined in IAS 17, leases were 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 were 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 were classified as operating. The classification of the leases was 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. The debt is accounted net of financial charges. Lease rentals are composed of the financial charge and the amortisation of the capital outstanding. The financial charge is allocated to the financial periods during the lease term so as to produce a constant periodic interest rate 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 Banco Montepio Group has no call option at the end of the lease, or over the estimated useful life, when Banco Montepio 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 included in the balance sheet as lease principal by an amount equal to the net finance lease investment. Lease rentals are composed of the financial income and the amortisation 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 properties and 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 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 interests 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 amortised 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 is recognized in accordance with the following criteria:

- when earned as the services are provided, they are recognized in income in the period in which the service is provided; or
- when earned on the execution of a service, they are recognized as income when the service is completed; and
- when they are an integral part of the effective interest rate of a financial instrument, they are recognized in net interest income.

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.

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 properties 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 period in which they occur, in the caption Other operating income/(expense).

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 employment benefits

Defined benefit plans

Banco Montepio Group 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, the Group set up a pension fund to cover the liabilities assumed with pensions on retirement, disability and survival, health-care 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%, where 22.4% is paid by Banco Montepio 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, which was published on 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 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 periods. 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 30 June 2019 and 31 December 2018, Banco Montepio 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 the income statement in the period to which it relates.

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/she 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 of 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, Banco Montepio 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 March 23, approving the State Budget for 1996.

With effect from 1 January 2012, Banco Montepio 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 profit or loss comprises 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 it is recognized in equity. Deferred taxes arising from the revaluation of financial assets at fair value through other comprehensive income and from cash-flow 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 goodwill, which is 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, 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 financial period 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”, hereinafter “RETGS”). The previous dominant company was Montepio Holding, S.G.P.S., S.A..

For this purpose, the Group considers that the effects arising from the assessment of the taxable income in accordance with RETGS are incorporated in the assessment of the current tax for the period of each one of the entities, including the effect on the current tax for the period arising from the use of a tax loss generated by another Group entity.

v) Segment 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.

Contingent assets

Contingent assets are not recognized in the financial statements, being disclosed when a future economic inflow of resources is probable.

Contingent liabilities

If the future expenditure of funds is not probable the liability is contingent.

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 Montepio 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

Banco Montepio 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, in the Insurance Brokerage Services area, 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 area, Banco Montepio Group sells insurance contracts. As remuneration for the insurance brokerage services rendered, Banco Montepio Group receives brokerage commissions on insurance contracts and investment contracts, which are defined in agreements/protocols established between Banco Montepio Group and the Insurance Companies.

The commissions received for the insurance brokerage services have the following typology:

- 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 Group and the variable component is calculated based on predetermined criteria, with the total annual commission being the sum of the commissions calculated in monthly basis;
- 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 (by 31 January).

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 Banco Montepio Group by the weighted average number of ordinary shares outstanding. For the calculation of diluted earnings per share, 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) Judgements and accounting 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 amortised 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. It is based on 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 on 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 60.

Income taxes

The Group is subject to the payment of corporate income taxes in several jurisdictions. 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.

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, approximating 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 period 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, the analysis was carried out as at 30 June 2019 and 31 December 2018. The tax rules in force on each date were identical to those in 2015, 2016 and 2017. Decree-Laws published at the end of each of those years established that the limits set forth in Notice no. 3/95 of Banco de Portugal 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. Considering that 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 Group and its 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. 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.

Measurement of assets received in recovery of credit, non-current assets held for sale and investment properties

Assets received in recovery of credit, non-current assets held for sale and investment properties 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. Fair value is determined on the basis of periodic assessments made by external experts registered with the CMVM. Different methodologies and assumptions could have an impact 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 through other comprehensive income

The IFRS in force requires a separate disclosure of net interest income, net gains/(loss) arising from 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 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:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Net interest income	120 051	134 238
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	2 260	1 956
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	(2 902)	4 001
	119 409	140 195

3 Net interest income

The amount of this caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Interest and similar income		
Loans and advances to customers	143 374	167 402
Deposits and other short-term investments	4 168	13 220
Financial assets held-for-trading	6 407	8 101
Financial assets at fair value through other comprehensive income	1 388	5 076
Financial assets at fair value through other profit or loss	173	131
Other financial assets at amortised cost	5 670	158
Derivative hedging	3 254	3 254
Other interest and similar income	56	21
	164 490	197 363
Interest and similar expense		
Deposits from customers	19 636	32 872
Securities issued	5 404	10 575
Deposits from central banks and other credit institutions	6 839	10 544
Financial liabilities held-for-trading	5 606	6 348
Derivative hedging	1 895	1 822
Other subordinated liabilities	4 508	959
Leases	548	-
Other interest and similar expense	3	5
	44 439	63 125
Net interest income	120 051	134 238

The caption Interest and similar income – Loans and advances to customers includes, respectively, the amount of Euro 9,844 thousand and the amount of Euro 4,268 thousand (30 June 2018: Euro 10,549 thousand and Euro 4,180 thousand), related to commissions and to other gains/(losses), which are accounted for under the effective interest rate method, as referred in the accounting policy described in note 1 c).

The caption Financial assets at fair value through profit or loss, included in the breakdown of Interest and similar income, includes the amount of Euro 173 thousand (30 June 2018: 131 thousand) related to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

As at 30 June 2019, the caption Interest and similar income – Loan and advances to customers also includes the amount of Euro 8,824 thousand (30 June 2018: Euro 16,093 thousand) related to customers classified under stage 3.

The caption Interest and similar expense - Leases 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

As at 30 June 2019, this caption includes the amount of Euro 6,210 thousand (30 June 2018: Euro 7,935 thousand) in which is included Euro 2,375 thousand (30 June 2018: Euro 2,375 thousand) related to dividends received from the company Almina and Euro 2,672 thousand (30 June 2018: Euro 2,169 thousand) related to dividends received from the company Monteiro Aranha, S.A.

5 Net fee and commission income

The amount of this caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Fee and commission income		
From banking services	50 884	50 928
From transactions on behalf of third parties	12 109	14 610
From insurance brokerage services	4 277	3 458
Guarantees provided	2 502	2 902
Commitments to third parties	855	828
Operations with financial instruments	157	-
Other fee and commission income	1 473	322
	72 257	73 048
Fee and commission expense		
From banking services rendered by third parties	10 309	9 966
From transactions with securities	215	631
Other fee and commission expense	4 044	5 052
	14 568	15 649
Net fee and commission income	57 689	57 399

As at 30 June 2019 and 2018, the caption Insurance brokerage services is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Life insurance	2 385	2 021
Non-Life insurance	1 892	1 437
	4 277	3 458

The remuneration of insurance brokerage services were received in full and all its commissions were originated by insurance intermediation carried out by Lusitania, Companhia de Seguros, S.A. and 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 is presented as follows:

(Thousands of Euro)

	Jun 2019			Jun 2018		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held-for-trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	2 087	732	1 355	1 470	1 779	(309)
Issued by other entities	81	-	81	2 031	854	1 177
Shares	659	640	19	1 318	1 426	(108)
Investment units	389	9	380	150	387	(237)
	3 216	1 381	1 835	4 969	4 446	523
Derivative financial instruments						
Interest rate contracts	35 042	36 413	(1 371)	34 594	34 602	(8)
Exchange rate contracts	11 378	11 502	(124)	15 765	16 147	(382)
Futures contracts	1 088	1 942	(854)	3 086	3 222	(136)
Option contracts	1 470	1 406	64	831	632	199
Commodities contracts	423	479	(56)	447	-	447
	49 401	51 742	(2 341)	54 723	54 603	120
Financial assets at fair value through profit or loss						
Investment units	9 663	4 212	5 451	2 399	1 453	946
Loans and advances to customers	364	1 689	(1 325)	119	-	119
	10 027	5 901	4 126	2 518	1 453	1 065
Other financial assets at fair value through profit or loss						
Shares	-	1 742	(1 742)	-	-	-
Loans and advances to customers	143	5	138	13	176	(163)
	143	1 747	(1 604)	13	176	(163)
Financial liabilities at fair value through profit or loss						
Deposits from customers	11	-	11	9	-	9
Debt securities issued	901	812	89	58	55	3
	912	812	100	67	55	12
Derivative hedging						
Interest rate contracts	23 001	14 197	8 804	33 686	29 509	4 177
	23 001	14 197	8 804	33 686	29 509	4 177
Hedged financial liabilities						
Debt securities issued	1 461	10 121	(8 660)	5 835	9 613	(3 778)
	1 461	10 121	(8 660)	5 835	9 613	(3 778)
	88 161	85 901	2 260	101 811	99 855	1 956

In accordance with the accounting policies followed by the Group, financial instruments are initially recognized at fair value. There is an assumption that the fair value of the instrument at inception is deemed to be the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

Banco Montepio 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 is presented as follows:

(Thousands of Euro)

	Jun 2019			Jun 2018		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Fixed income securities						
Issued by public entities	144	3 223	(3 079)	10 693	6 905	3 788
Issued by other entities	177	-	177	213	-	213
	321	3 223	(2 902)	10 906	6 905	4 001

As at 30 June 2019, the caption Fixed income securities – Issued by public entities includes Euro 144 thousand and Euro 3,223 thousand related to capital gains generated on the sale of Spanish public debt bonds and to capital losses of Italian and Greek public debt, respectively. As at 30 June 2018, this caption included the amount of Euro 6,017 thousand related to capital gains generated on the sale of Portuguese public debt bonds and Euro 2,101 thousand related to capital losses of Spanish and Italian and Greek public debt bonds.

8 Net gains/ (losses) arising from exchange differences

The amount of this caption is presented as follows:

(Thousands of Euro)

	Jun 2019			Jun 2018		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	14 365	14 095	270	21 859	22 652	(793)
	14 365	14 095	270	21 859	22 652	(793)

This caption includes the results arising from the foreign exchange revaluation 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 is presented as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Sale of financial assets at amortised cost	10 024	-
Sale of other assets	6 986	(945)
Sale of loans and advances to customers	(296)	-
Sale of non-current assets held for sale	-	6 444
	16 714	5 499

As at 30 June 2019, the caption Sale of other assets includes the net gains/(losses) from the sale of properties, resulting from the transfer of the balance of the caption Non-current assets held for sale, as per note 29, to the caption Other assets, as per note 34. As at 30 June 2018, the result generated by the sale of properties is presented in the caption Sale of non-current assets held for sale.

10 Other operating income/(expense)

The amount of this caption is presented as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Other operating income		
Profits arising from investment properties revaluation	4 154	5 744
Reimbursement of expenses	3 298	3 567
Profits arising from deposits on demand management	2 877	3 743
Profits arising from investment properties rentals	1 477	4 773
Services rendered	2 206	2 528
Employee assigment	-	5 770
Other	5 332	7 424
	19 344	33 549
Other operating expenses		
Contributions:		
Banking sector	9 819	11 080
Ex-ante for the Single Resolution Fund	6 559	8 113
National Resolution Fund	4 296	2 691
Deposit Guarantee Fund	22	22
Expenses with investment properties revaluation	3 446	4 476
Servicing and expenses with the recovery and disposal of loan	1 353	2 146
Taxes	1 314	1 746
Expenses with issuances	349	308
Donations and membership	337	342
Other	9 913	12 182
	37 408	43 106
	(18 064)	(9 557)

As at 30 June 2018, the caption Other operating income – Employee assignment includes the amount of Euro 5,714 thousand related to employee assignment from Banco Montepio to MGAM and to entities of Banco Montepio Group. As at 30 June 2019, income associated with employee assignment in the amount of Euro 5,757 thousand was included in the caption Staff costs, as referred in note 11.

The caption Contribution of 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 on the balance sheet less the core capital (Tier 1) and the supplementary capital (Tier 2) and the deposits covered by the Deposit 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 Banco de Portugal, in its quality of 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 Mutualisation 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 Banco de Portugal, in its quality of 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 the 1st half of 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, Banco Montepio settled Euro 6,024 thousand (30 June 2018: Euro 4,886 thousand), in the form of irrevocable payment commitments, included under the caption Loans and advances to credit institutions abroad - Term deposits, as disclosed in notes 21 and 59. It should be noted that only cash is accepted as collateral for irrevocable payment commitments.

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 Banco de 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.

11 Staff costs

The amount of this caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Remunerations	56 716	63 303
Mandatory social security charges	16 146	15 856
Charges with the Pension Fund	3 450	3 346
Other staff costs	1 542	1 713
	77 854	84 218

As at 30 June 2019, the caption Staff costs reflects the effect of Staff assignments from Banco Montepio to MGAM and to entities of Banco Montepio Group, in the amount of Euro 5,757 thousand. As at 30 June 2018, this amount was Euro 5,714 thousand and was included in the caption Other operating income/(expense), as referred in note 10.

The remuneration of the members of the Board of Directors aims to compensate 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 the 1st half of 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 office until 20 March 2018, amounted to Euro 1,148 thousand and Euro 455 thousand, respectively.

As at 30 June 2019 and 2018, neither the members of the Board 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 and respective social charges attributed to the members of the Board of Directors, Audit Committee, General Meeting Board, Boards of Directors of Banco Montepio's subsidiaries and Other key management staff of the Group, during the 1st half of 2019, are presented as follows:

(Thousands of Euro)

	Board of Directors	Audit Committee	General Meeting Board	Board of Directors of CEMG subsidiaries	Supervisory Board	Other key managament staff	Total
Remunerations and other short-term benefits	1 385	150	7	531	140	2 096	4 309
Pension costs	11	-	-	1	-	60	72
Costs with health-care benefits (SAMS)	8	-	-	4	-	38	50
Social Security Charges	300	28	1	114	27	462	932
	1 704	178	8	650	167	2 656	5 363

As at 30 June 2018, the remuneration earned by the members of the General and Supervisory Board during the period in which it was in office amounted to Euro 335 thousand.

The costs with remuneration and other benefits, including the respective social charges, attributed to members of the Board of Directors, Audit Committee of CEMG, General Meeting Board, previous Executive Board of Directors, previous General and Supervisory Board and Other key management staff of the Group, during the 1st half of 2018, are presented as follows:

(Thousands of Euro)

	Board of Directors	Audit Committee	General Meeting Board	Board of Directors of CEMG subsidiaries	Previous Executive Board of Directors	Previous General and Supervisory Board	Other key managament staff	Total
Remunerations and other short-term benefits	484	72	7	226	528	284	2033	3 634
Pension costs	-	-	-	-	7	-	67	74
Costs with health-care benefits (SAMS)	2	-	-	1	10	-	37	50
Social Security charges	105	13	2	38	118	51	451	778
	591	85	9	265	663	335	2 588	4 536

As at 30 June 2019, loans granted to member of the Board of Directors of Banco Montepio amounted to Euro 515 thousand (30 June 2018: Euro 345 thousand), to members of the Boards of Directors of Banco Montepio's subsidiaries Euro 2,455 thousand (30 June 2018: Euro 1,902 thousand), to members of the Audit Committee Euro 161 thousand (30 June 2018: Euro 1 thousand), and to key management staff Euro 3,740 thousand (30 June 2018: Euro 4.071 thousand). As at 30 June 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.

12 General and administrative expenses

The amount of this caption is presented as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Rental costs	710	4 655
Specialised services		
Other specialised services	8 491	9 654
IT services	5 681	4 236
Independent work	762	1 037
Maintenance and repair	2 310	3 258
Communication costs	3 010	2 758
Water, energy and fuel	2 127	2 160
Advertising costs	1 240	1 569
Transportation	1 310	1 280
Consumables	479	711
Insurance	529	646
Travel, hotel and representation costs	580	546
Training	158	269
Other general and administrative costs	3 819	3 602
	31 206	36 381

The caption Rental costs includes, in the 1st half of 2019, the amount of Euro 575 thousand related to short-term lease agreements. Of this amount, Euro 284 thousand correspond to leasehold rentals and Euro 291 thousand to rentals paid on vehicles, in both cases used by Banco Montepio as lessee. As at 30 June 2018, the caption Rental costs included the amount of Euro 3,683 thousand corresponding to leasehold rentals used by Banco Montepio Group as lessee.

The caption Other general and administrative costs includes the amount of Euro 1,791 thousand (30 June 2018: Euro 1,648 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

As at 30 June 2018, the Group has several motor vehicle operating leasing agreements. Payments made under such leasing agreements are recognized in profit or loss over the term of the agreement. The minimum future payments for irrevocable operating lease agreements, by maturity, amounted to Euro 4,043 thousand, of which up to 1 year the amount of Euro 1,313 thousand and from 1 to 5 years the amount of Euro 2,730 thousand.

13 Depreciation and amortisation

The amount of this caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Intangible assets		
Software	7 395	6 634
Property, plant and equipment		
Land and buildings		
For own use	1 661	2 373
Leasehold improvements in rented buildings	326	609
Equipment		
IT equipment	1 685	1 474
Interior installations	774	645
Furniture	120	189
Security equipment	68	103
Transportation	47	60
Machinery and tools	8	5
Operating leases	-	6
Right-of-use assets		
Land and buildings	3 761	-
Vehicles	534	-
Other tangible assets	-	1
	8 984	5 465
	16 379	12 099

As at 30 June 2019, as a result of the application of IFRS 16 as from 1 January 2019, the caption Right-of-use assets correspond, essentially, to Land and buildings (branches and central buildings) and Vehicles, being depreciated according to the term of each leasing agreement, as indicated in accounting policy 1 i) and in note 58.

14 Loans impairment

The amount of this caption is presented as follows:

(Thousands of Euro)	Jun 2019	Jun 2018
Other loans and advances to credit institutions (Note 21)		
Charge for the period	487	1 779
Write-back for the period	(702)	(1 859)
	(215)	(80)
Loans and advances to customers (Note 22)		
Charge for the period net of reversals	45 670	48 848
Recovery of loans and interests charged-off	(3 455)	(2 926)
	42 215	45 922
	42 000	45 842

This caption relates to the estimate of the expected losses determined according to the accounting policy described in note 1 c).

15 Other financial assets impairment

The amount of this caption is presented as follows:

(Thousands of Euro)	Jun 2019	Jun 2018
Impairment of financial assets at fair value through other comprehensive income (Note 25)		
Charge for the period net of reversals	689	1 233
Impairment of other financial assets at amortised cost (Note 27)		
Charge for the period net of reversals	2 385	1 364
	3 074	2 597

16 Other assets impairment

The amount of this caption is presented as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Impairment for non-current assets held for sale (Note 29)		
Charge for the period	-	9 572
Write-back for the period	-	(1 132)
	-	8 440
Impairment for other assets (Note 34)		
Charge for the period	6 743	2 792
Write-back for the period	(3 367)	(1 868)
	3 376	9 364

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 is presented as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Provisions for guarantess and commitments (Note 39)		
Charge for the period	9 109	5 836
Write-back for the period	(10 178)	(5 060)
	(1 069)	776
Provisions for other risks and charges (Note 39)		
Charge for the period	1 435	1 146
Write-back for the period	(1 682)	(214)
	(247)	932
	(1 316)	1 708

18 Profit/(loss) of associates under the equity method

The profits/ (losses) of associates recognized under the equity method is analysed as follows:

	(Thousand of Euro)	
	Jun 2019	**Jun 2018**
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	(47)	(104)

19 Cash and deposits at central banks

This caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Cash	170 879	194 597
Deposits at central banks		
Banco de Portugal	1 247 137	1 416 038
	1 418 016	1 610 635

As at 30 June 2019, the balance with the Bank de Portugal includes the amount of Euro 90,224 thousand (31 December 2018: Euro 90,286 thousand) to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the amount 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.

As at 30 June 2019 and 31 December 2018, deposits at the Bank de Portugal were remunerated at the rate of -0.4%.

20 Loans and advances to credit institutions repayable on demand

This caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Credit institutions in Portugal	1 355	1 252
Credit institutions abroad	15 180	50 799
Amounts due for collection	23 437	26 037
	39 972	78 088

The caption Amounts due for collection 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:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Loans and advances to credit institutions in Portugal		
Term deposits	5 557	1 987
Other Loans	90	-
Other loans and advances	14 062	112
	19 709	2 099
Loans and advances to credit institutions abroad		
Very short-term deposits	-	-
CSA's	25 009	27 179
Term deposits	10 366	9 226
Reverse repos	561	2 190
Subordinated deposits	261	243
Other loans and advances	196 212	169 394
	232 409	208 232
	252 118	210 331
Impairment for credit risk over other loans and advances to credit institutions	(184)	(399)
	251 934	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 25,009 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 59.

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 securitisation operations.

Impairment movements for credit risks of Other loans and advances to credit institutions are analysed as follows:

	(Thousands of Euro)	
	Jun 2019	Jun 2018
Balance on 1 January	399	-
IFRS 9 transition adjustment	-	935
Charge for the period net of reversals	(215)	(80)
Balance on 30 June	184	855

22 Loans and advances to customers

This caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	Dec 2018
Corporate		
Loans not represented by securities		
Loans	2 590 699	2 688 150
Commercial lines of credit	409 198	447 699
Finance lease	435 476	444 928
Discounted bills	65 576	66 035
Factoring	163 426	175 467
Overdrafts	2 072	5 421
Other loans	589 569	639 142
Loans represented by securities		
Commercial paper	202 856	277 787
Bonds	167 385	169 922
Retail		
Mortgage loans	5 995 813	6 170 438
Finance lease	61 830	63 137
Consumer credit and other loans	947 779	968 586
	11 631 679	12 116 712
Correction value of assets subject to hedge operations		
Other loans	31	(107)
Overdue loans and interests		
Below 90 days	83 543	37 298
Above 90 days	862 843	913 885
	946 386	951 183
	12 578 096	13 067 788
Impairment for credit risks	(917 873)	(944 576)
	11 660 223	12 123 212

As at 30 June 2019, the caption Loans and advances to customers includes de amount of Euro 2,731,326 thousand (31 December 2018: Euro 2,728,028 thousand) related to the issue of covered bonds realized by the Group, as referred in note 38.

As at 30 June 2019, loans and advances, guarantees and irrevocable credit facilities (excluding interbank and money market transactions) that the Group granted to its shareholders and to related parties amounted to Euro 32,397 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 218 thousand as at 30 June 2019 (31 December 2018: Euro 362 thousand).

As at 30 June 2019, Loans and advances to customers includes the amount of Euro 2,340,663 thousand (31 December 2018: Euro 2,513,976 thousand) related to loans and advances that were the object of securitisation and that, in accordance with the accounting policy outlined in note 1 c), were not subject to de-recognition, as described in note 53.

In the caption Correction value of assets subject to hedge operations is accounted the fair value of the part of the portfolio that is hedged. This valuation 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 15,137 thousand (31 December 2018: Euro 15,139 thousand). The fair value adjustment amounted to a positive Euro 32 thousand (31 December 2018: Euro 107 thousand), and the impact on profit or loss was positive in the amount of Euro 139 thousand (31 December 2018: negative in Euro 107 thousand), as per note 24.

The fair value of the Loans and advances to customers' portfolio is disclosed in note 49.

The analysis of the caption Loans and advances to customers, by interest rate type, as at 30 June 2019 and 31 December 2018, is as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Variable interest rate contract	10 963 722	11 321 912
Fixed interest rate contract	1 614 374	1 745 876
	12 578 096	13 067 788

The analysis of Overdue loans and interests, by credit type, is as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Asset-backed loans	587 707	608 484
Other guarantee loans	203 629	180 302
Financial leases	12 504	14 045
Secured loans	33 000	33 000
Other loans	109 546	115 352
	946 386	951 183

The analysis of the caption Loans and advances to customers, by maturity and by type of credit, as at 30 June 2019, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	173 566	602 586	8 147 491	587 707	9 511 350
Other guarantee loans	434 528	220 071	351 617	203 629	1 209 845
Financial leases	54 496	209 311	233 499	12 504	509 810
Secured loans	194 741	8 115	-	33 000	235 856
Loans represented by securities - Bonds	90 378	65 487	11 520	-	167 385
Other loans	209 402	122 066	502 836	109 546	943 850
	1 157 111	1 227 636	9 246 963	946 386	12 578 096

The analysis of the caption Loans and advances to customers, by maturity and by type of credit, as at 31 December 2018, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	172 912	585 755	8 438 490	608 484	9 805 641
Other guarantee loans	500 201	236 550	346 019	180 302	1 263 072
Financial 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	107 572	302 569	470 763	115 352	996 256
	1 141 552	1 462 493	9 512 560	951 183	13 067 788

Financial leases by residual maturity, as at 30 June 2019, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	68 590	221 052	125 798	415 440
Outstanding interests	(10 458)	(32 810)	(26 036)	(69 304)
Residual values	39 847	60 459	50 864	151 170
	97 979	248 701	150 626	497 306

Financial leases by residual maturity, as at 31 December 2018, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	68 948	228 187	134 045	431 180
Outstanding interests	(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 Overdue loans and interests, by customer type and purpose, is as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Corporate		
Construction/ Production	192 651	197 762
Investment	327 544	347 800
Treasury	226 858	187 479
Other loans	28 219	36 039
Retail		
Mortgage loans	84 544	81 558
Consumer credit	43 199	46 664
Other loans	43 371	53 880
	946 386	951 183

Movements in impairment for credit risks are analysed as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Balance on 1 January	944 576	1 033 821
IFRS 9 transition adjustment	-	144 833
Charge for the period net of reversals		
Continuing operations	45 670	48 848
Discontinuing operations	(213)	5 042
Impairment charged-off	(86 655)	(126 437)
Transfers related to discontinuing operations	213	(5 042)
	14 282	-
Balance on 30 June	917 873	1 101 065

During financial period 2018, the Group sold a portfolio of loans and advances to customers in default, recorded on- and off-balance sheet, and used impairment for credit risk in the amount of Euro 139,849 thousand.

If the amount of an impairment loss decreases in a period subsequent to its accounting and that decrease can be objectively associated with an event that occurred after the recognition of that loss, the excess impairment is reversed through profit or loss.

In compliance with the accounting policy described in note 1 c), loans and advances to customers are written off when there are no realistic expectations of recovering the loan amount and, for collateralized loans, when the proceeds from the execution of the respective collaterals have already been received.

The impairment for credit risks, by credit type, is as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Asset-backed loans	611 313	715 281
Other secured loans	191 533	243 603
Unsecured loans	115 027	142 181
	917 873	1 101 065

The analysis of loans impairment charged-off, by credit type, is as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Asset-backed loans	32 008	47 293
Other secured loans	36 371	31 192
Unsecured loans	18 276	47 952
	86 655	126 437

The total amount of loans and advances and interest recovered as at 30 June 2019 amounted to Euro 3,455 thousand (30 June 2018: Euro 2,926 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 945,197 thousand (31 December 2018: Euro 949,942 thousand), which have an impairment of Euro 396,748 thousand (31 December 2018: Euro 387,396 thousand).

Banco Montepio 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 within 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.

The restructuring operations performed during the 1st half of 2019 and during financial period 2018 were found to be positive, allowing for the mitigation of the effect of the economic and financial crisis and, in a conjuncture in which some economic recovery signs have been observed, adapting the debt service to the disposable income of customers.

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, executed during the 1st half of 2019 and during financial period 2018, by credit type, is as follows:

		(Thousands of Euro)
	Jun 2019	**Dec 2018**
Corporate		
Loans not represented by securities		
Loans	73 796	55 254
Commercial lines of credit	363	21 288
Financial leases	588	6 587
Other loans	1 033	3 627
Retail		
Mortgage loans	3 815	9 397
Consumer credit and other loans	5 518	4 992
	85 113	101 145

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 also considering the new collaterals presented.

As regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 25,488 thousand (31 December 2018: Euro 25,342 thousand).

Banco Montepio Group uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the course of housing loans and mortgages on other types of properties in the course 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:

(Thousand of Euro)

	Jun 2019	Dec 2018
Financial assets held-for-trading		
Securities		
Shares	2 741	-
Bonds	22 520	-
	25 261	-
Derivative instruments		
Derivative financial instruments with positive fair value	22 505	23 739
	47 766	23 739
Financial liabilities held-for-trading		
Securities		
Short sale	76	-
Derivative instruments		
Derivative financial instruments with negative fair value	13 310	13 496
	13 386	13 496

As at 31 December 2017, within an asset sales operation (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 cost as at 31 December 2016 amounted to Euro 12,000 thousand. As at 30 June 2019, the value of this right amounts to Euro 12,637 thousand (31 December 2018: Euro 12,214 thousand) and is included 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:

(Thousands of Euro)

	Jun 2019			
	Level 1	Level 2	Level 3	Total
Financial assets held-for-trading				
Securities				
Shares	2.741	-	-	2.741
Bonds	22.520	-	-	22.520
	25.261	-	-	25.261
Derivative instruments				
Derivative financial instrument with positive fair value	-	9.868	12.637	22.505
	25.261	9.868	12.637	47.766
Financial liabilities held-for-trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	13 310	-	13.310
	-	13 310	-	13 310

(Thousands of Euro)

	Dec 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

The trading portfolio is measured at fair value in accordance with the accounting policy described in note 1 c). As referred in the accounting policy, securities held for trading are acquired with the purpose of being sold in the short term, regardless of their maturity.

The book value of the derivative financial instruments as at 30 June 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:

(Thousands of Euro)

		Jun 2019						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	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	117	(184)	(772)	(850)	3 354	3 300
Interest rate swap	Deposits from customers	-	-	32	-	(11)	-	-
Interest rate swap	Loans and advances to customers	14 507	(31)	(154)	32	139	15 137	15 120
Interest rate swap	Others	3 157 674	(2.904)	(811)	-	-	-	-
Currency Swap (Short)	-	50 761	110	148	-	-	-	-
Currency Swap (Long)	-	50 837						
Future options (Short)	-	9 182	(15)	(15)	-	-	-	-
Future options (Long)	-	-						
Forwards (Short)	-	5 404	-	-	-	-	-	-
Forwards (Long)	-	5 408						
Options (Short)	-	34 105	11 918	(64)	-	-	-	-
Options (Long)	-	336 783						
		3 667 961	9 195	(1.048)	(740)	(722)	18 491	18 420

[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.

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:

(Thousands of Euro)

		Dec 2018						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	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	301	(113)	78	(185)	3 460	3 300
Interest rate swap	Deposits from customers	14 850	(32)	75	11	(22)	14 597	14 597
Interest rate swap	Loans and advances to customers	15 257	123	168	(107)	(107)	15 139	15 120
Interest rate swap	Others	3 324 917	(2.093)	395	-	-	-	-
Currency Swap (Short)	-	38 811	(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	11 982	773	-	-	-	-
Options (Long)	-	353 859						
		3 843 345	10 243	960	(18)	(314)	33 196	33 017

[1] Includes the result of derivatives disclosed in note 6.

24 Financial assets at fair value through profit or loss

(Thousands of Euro)

	Jun 2019	Dec 2018
Variable income securities		
Investment units	411 624	464 502
Loans and advances to customers at fair value		
Loans not represented by securities	25 772	28 092
	437 396	492 594

The caption Variable income securities – Investment units includes, as at 30 June 2019, the amount of Euro 68,946 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:

(Thousands of Euro)

	Jun 2019			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	7.188	-	404.436	411.624
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	25.772	25.772
	7.188	-	430.208	437.396

(Thousands of Euro)

	Dec 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 30 June 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 404,436 thousand (31 December 2018: Euro 457,946 thousand), of which Euro 293,057 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 30 June 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, having been determined an impact of Euro 40,444 thousand (31 December 2018: Euro 45,795 thousand).

The movements occurring in the Financial assets at fair value through profit or loss – Variable income securities, recorded under level 3, are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Opening balance	457 946	374 560
Deconsolidation impact of Valor Prime	-	82 140
Acquisitions	499	1 313
Remeasurements	(4 238)	(10)
Disposals	(49 771)	(57)
Closing balance	404 436	457 946

The collateral granted in the scope of the loan obtained from the EIB includes a basket of Portuguese, Spanish and Italian sovereign bonds with a nominal value of Euro 2,500 thousand, as described in note 36.

25 Financial assets at fair value through other comprehensive income

This caption is presented as follows:

(Thousands of Euro)

	Jun 2019				
	Cost [(1)]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	1 154 982	53 155	-	(2 466)	1 205 671
Foreign	297 495	3 642	(20)	(594)	300 523
Bonds issued by other entities					
Domestic	30 359	275	(1 564)	(109)	28 961
Foreign	173 960	2 179	(408)	(110)	175 621
Variable income securities					
Shares					
Domestic	74 291	6 439	(4 340)	-	76 390
Foreign	71 554	4 678	(15 392)	-	60 840
	1 802 641	70 368	(21 724)	(3.279)	1 848 006

(1) Acquisition cost related to variable income securities and amortised cost by debt securities.

(Thousands of Euro)

	Dec 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					
Foreign	74 233	6 439	(4 340)	-	76 332
	71 532	2 693	(17 996)	-	56 229
	464 007	10 900	(30 163)	(671)	444 073

(1) Acquisition cost related to variable income securities and amortised cost by debt securities.

The main assumptions used in the valuation of shares, which book value is determined based on Banco Montepio's internal models, are as follows:

Almina

Banco Montepio Group holds 19.0% of Almina. The book value of Almina amounts to Euro 65,631 thousand as at 30 June 2019 and 31 December 2018.

The valuation of Almina with reference to 30 June 2019 was carried out based on the Almina Holding Group's business plan, as well as other information provided by Almina's management.

The two businesses relevant for Almina's valuation correspond to ore exploitation: zinc and copper. The main assumptions used were: use of a discount rate between 8.0% and 9.8% and the determination of ore market prices based on international indices.

With reference to the 1st half of 2019 and financial period 2018, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(Thousands of Euro)

	Jun 2019				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	1 205 671	-	-	-	1 205 671
Foreign	300 523	-	-	-	300 523
Bonds issued by other entities					
Domestic	22 110	3 015	3 836	-	28 961
Foreign	162 994	12 627	-	-	175 621
	1 691 298	15 642	3 836	-	1 710 776
Variable income securities					
Shares					
Domestic	-	-	74 161	2 229	76 390
Foreign	49 917	-	10 462	461	60 840
	49 917	-	84 623	2 690	137 230
	1 741 215	15 642	88 459	2 690	1 848 006

(Thousands of Euro)

	Dec 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, having been determined an impact of Euro 8,846 thousand as at 30 June 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 620 thousand (31 December 2018: negative 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 30 June 2019, the impairment recorded for these securities amounted to Euro 65 thousand (31 December 2018: Euro 74 thousand).

The movements occurring in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Opening balance	87 226	533 744
Acquisitions	-	-
Revaluations	1 233	(13 815)
Disposals	-	-
Transfers from level 3 to level 1	-	(66 673)
Trasfers to level 3	-	8 530
Transfers to financial assets at fair value though profit or loss	-	(374 560)
Closing balance	88 459	87 226

The movements occurring in impairment of financial assets at fair value through other comprehensive income are analysed as follows:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Balance on 1 January	671	78 926
IFRS 9 transition adjustment	-	(38 603)
Charge for the period		
Continuing operations	690	1 274
Discontinuing operations	-	-
Write-back for the period		
Continuing operations	(1)	(41)
Discontinuing operations	-	-
Impairment charged-off	(494)	(5 175)
Transfers	2 413	-
Balance on 30 June	3 279	36 381

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 30 June 2019, to Euro 2,667,283 thousand after hair-cut (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 30 June 2019 and 31 December 2018;
- The EIB loan obtained is collateralized by securities of Portuguese, Spanish and Italian sovereign bonds with a nominal amount of Euro 264,738 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 30 June 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:

(Thousands of Euro)

	Jun 2019	Dec 2018
Assets		
Interest rate swaps	18 261	5 666
Liabilities		
Interest rate swaps	706	-
Net value	17 555	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 maturity date, as at 30 June 2019 and 31 December 2018, is as follows:

(Thousands of Euro)

	Jun 2019			
	Notional by maturity date		Fair value	
	Above 1 year	Total	Above 1 year	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	17 555	17 555
	750 000	750 000	17 555	17 555

(Thousands of Euro)

	Dec 2018			
	Notional by maturity date		Fair value	
	Above 1 year	Total	Above 1 year	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 30 June 2019 and 31 December 2018, the fair value hedging operation can be analysed as follows:

(Thousands of Euro)

Jun 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	17 555	11 889	13 077	8 660
			750 000	17 555	11 889	13 077	8 660

(1) Includes accrued interest.
(2) Attributable to the hedged risk.

(Thousands of Euro)

Dec 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 swap	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.

27 Other financial assets at amortised cost

This caption is presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Fixed income securities		
Bonds issued by public entities		
Domestic	713 265	1 037 815
Foreign	201 772	220 386
	915 037	1 258 201
Impairment for other financial assets at amortised cost	(1 812)	(2 550)
	913 225	1 255 651

The fair value of the portfolio of Other financial assets at amortised cost is disclosed in note 49.

Other financial assets at amortised cost, as at 30 June 2019, can be analysed as follows:

(Thousands of Euro)

Securities	Issue date	Maturity date	Interest rate	Nominal value	Book value
OT APR21	23 february 2005	15 april 2021	3,850%	120 000	128 792
BONOS 0,750% 30JUL2021	8 march 2016	30 july 2021	0,750%	35 000	35 721
OT 2,200% 17-OCT-2022	9 september 2015	17 october 2022	2,200%	212 500	228 230
BONOS 0,350% 30JUL2023	22 may 2018	30 july 2023	0,350%	166 000	165 761
OT 4,95% 25-OCT-2023	10 june 2008	25 october 2023	4,950%	170 000	205 928
OT 5.65% 15-FEV-2024	14 may 2013	15 february 2024	5,650%	5 000	6 158
OT 2,875% 15-OCT-2025	20 january 2015	15 october 2025	2,875%	65 000	72 420
OT 2,875% 21JUL2026	21 january 2016	21 july 2026	2,875%	25 000	28 240
OT 4,125% 14APR2027	18 january 2017	14 april 2027	4,125%	35 000	41 975
				833 500	913 225

Other financial assets at amortised cost, as at 31 December 2018, can be analysed as follows:

(Thousands of Euro)

Securities	Issue date	Maturity 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	8 march 2016	30 july 2021	0.750%	35 000	35 717
OT 2,200% 17-OCT-2022	9 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 2018	17 october 2028	2.125%	20 000	20 387
				1 105 000	1 255 651

Other financial assets at amortised cost are recognized in accordance with the accounting policy described in note 1 c).

As at 30 June 2019, the loan obtained from EIB is collateralized, in part, by Portuguese, Spanish and Italian sovereign bonds with a nominal value of Euro 92,300 thousand (31 December 2018: Euro 253,211 thousand), provided as collateral and included in the caption Other financial assets at amortised cost, as disclosed in note 36.

As at 30 June 2019, the nominal value of the assets pledged as collateral to the European Central Bank under the liquidity-providing operations amounts to Euro 713,417 thousand (31 December 2018: Euro 675,747 thousand) after hair-cut.

The movements in Impairment of other financial assets at amortised cost are analysed as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Balance on 1 January	2 550	-
Charge for the period	2 385	1 364
Charge-off	(710)	-
Transfers	(2 413)	-
Balance on 30 June	1 812	1 364

28 Investments in associates

This caption is presented as follows:

(Thousands of Euro)	Jun 2019	Dec 2018
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 509	3 584
Montepio - Gestão de Activos Imobiliários, ACE	698	698
Naviser – Transportes Marítimos Internacionais, S.A.	150	150
	4 357	4 432
Impairment of investments in associated companies	(150)	(150)
	4 207	4 282

The associated companies included in the Group's consolidation perimeter are listed in note 60.

The financial information of the associated companies, excluding the shareholding held in Naviser that is fully impaired, is presented in the following tables:

(Thousands of Euro)

	Assets	Liabilities	Equity	Income	Net profit/ (loss)	Acquisition cost
30 June 2019						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	35,737	18,191	17,546	4,674	168	3,509
Montepio - Gestão de Ativos Imobiliários, ACE	3,681	1,232	2,450	2,299	-	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	-	-	-	-	-	-

(Thousands of Euro)

	Percentage held		Book value		Associated companies net profit	
	jun 2019	dec 2018	jun 2019	dec 2018	jun 2019	dec 2018
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20.00%	20.00%	3 509	3 584	33	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:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Openning balance	4 432	4 247
Disposals	-	-
Share of profit of associated companies	(47)	252
Other reserves and retained earnings	(28)	(67)
Closing balance	4 357	4 432

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 properties and other assets recorded as at 31 December 2018 in Non-current assets held for sale, related to assets received in recovery of credit, were transferred to Other assets, as described in note 34.

As at 31 December 2018, this caption was analysed as follows:

	(Thousands of Euro)
	Dec 2018
Properties and other assets resulting from the resolution of customer loan agreements	876 762
Impairment for 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 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:

(Thousands of Euro)	Dec 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:

(Thousands of Euro)	Jun 2018
Balance on 1 January	142 989
Charge for the period	9 572
Reversal for the period	(1 132)
Charge-off	(5 025)
Balance on 31 December	146 404

30 Investment properties

The caption Investment properties includes the real estate properties owned by "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional", "Montepio Arrendamento II – Fundo de Investimento Fechado para Arrendamento Habitacional", "Montepio Arrendamento III – Fundo de Investimento Fechado para Arrendamento Habitacional", "Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular", "Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular" and "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto" which are consolidated by the full consolidation method, according to the accounting policy described in note 1 b) and the real estate held by Ssagincentive – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. The real estate properties are measured in accordance with the accounting policy described in note 1 o), based on independent valuations performed by experts registered with the CMVM and in compliance with the legal requirements.

The amount of rental income received related to investment properties amounts to Euro 1,477 thousand (30 June 2018: Euro 4,773 thousand) and maintenance costs of leased and non-leased properties amounts to Euro 2,502 thousand (30 June 2018: Euro 3,347 thousand).

The movements in this caption are analysed as follows:

	Jun 2019	Dec 2018
	(Thousands of Euro)	
Opening balance	253 097	538 625
Acquisitions	-	95
Revaluations	1 625	(3 240)
Disposals	(26 707)	(51 724)
Change in the consolidation perimeter	-	(230 659)
Transfers	217	-
Closing balance	228 232	253 097

During financial period 2018, Fundo Valor Prime was deconsolidated, as per note 60.

The fair value of the investment properties is presented in note 49.

The valuation methodologies applicable to the caption Investment properties are described in note 1 o).

31 Other tangible assets

This caption is presented as follows:

	Jun 2019	Dec 2018
	(Thousands of Euro)	
Investments		
Land and buildings		
For own use	218 378	217 948
Leasehold improvements in rented buildings	40 067	40 067
Equipment		
IT equipment	94 330	92 970
Interior installations	29 892	29 600
Furniture	18 934	18 917
Security equipment	7 605	7 589
Machinery and tools	2 730	2 701
Transportation	1 540	1 546
Other equipment	5	5
Works of art	2 870	2 870
Assets in operating lease	109	109
Righ-of-use assets		
Land and buildings	27 794	-
Vehicles	3 117	-
Other property, plant and equipment	1 765	1 123
Work in progress	2 095	2 099
	451 231	417 544
Accumulated depreciation		
Charge for the period	(8 984)	(11 765)
Accumulated charge in previous periods	(186 726)	(176 180)
	(195 710)	(187 945)
	255 521	229 599

The caption Right-of-use assets corresponds, essentially, to real estate properties (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.

32 Intangible assets

This caption is presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Investments		
Software	129 079	124 900
Work in progress	5 394	4 150
Other property, plant and equipment	2 242	-
	136 715	129 050
Accumulated depreciation		
Charge for the period	7 395	14 132
Accumulated charge in previous periods	96 724	82 592
	32 596	32 326

33 Taxes

Deferred tax assets and liabilities, as at 30 June 2019 and 31 December 2018, can be analysed as follows:

(Thousands of Euro)

	Assets		Liabilities		Net	
	Jun 2019	Dec 2018	Jun 2019	Dec 2018	Jun 2019	Dec 2018
Deferred taxes not dependent on future profitability						
Impairment on loans granted	39 741	42 625	-	-	39 741	42 625
Benefits to employees	19 673	21 114	-	-	19 673	21 114
	59 414	63 739	-	-	59 414	63 739
Deferred taxes dependent on future profitability						
Financial instruments	-	(1 606)	(21 625)	(1 171)	(21 625)	(2 777)
Outros ativos tangíveis			-	-	-	-
Provisions / Impairment						
Impairment on loans granted	168 075	173 285	-	-	168 075	173 285
Other risks and charges	7 593	8 053	-	-	7 593	8 053
Impairment in securities and non-financial assets	7 737	8 413	-	-	7 737	8 413
Impairment in financial assets	915	2 235	-	-	915	2 235
Benefits to employees	35 294	35 237	-	-	35 294	35 237
Other	1 903	1 936	(45)	(45)	1 858	1 891
Taxes losses carried forward	171 788	170 192	-	-	171 788	170 192
Net deferred tax assets/ (liabilities)	452 719	461 484	(21.670)	(1.216)	431 049	460 268

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 and 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 densified 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 modified 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 calculated 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 on the balance sheet date.

The caption Post-employment and long-term employment benefits includes, on 30 June 2019, the amount of Euro 6,858 thousand (31 December 2018: Euro 8,230 thousand) related to deferred taxes associated with actuarial losses recognized against reserves as a result of the change in accounting policy. As at 30 June 2019, this caption also includes the amount of Euro 5,539 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 Group's case).

As at 30 June 2019 and 31 December 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.

As at 30 June 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 21.0%, 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 latest exercise prepared, based on the 2019 budget that assumes a pre-tax income growth assumption between 2019 and 2026.

Thus, the assessment of the realization of the deferred tax assets, namely those related to tax losses carried forward, is based on the Group's prospective financial statements, prepared in the scope of the aforementioned budget, which considered the macroeconomic and competitive environment in which the Group operates as well as the strategic priorities established in the Transformation Plan for the period 2019-2023, which was approved by the Board of Directors on 8 November 2018.

The recovery of the levels of profitability, liquidity and capital recommended in the Transformation Plan for the period 2019-2023 is fundamentally supported by the favourable impacts associated with:

(i) Evolution of the commercial network business, which incorporates the ambition to increase the loan and deposit portfolios. 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 Banco de Empresas Montepio, through the offer of an integrated value proposal. 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. Thus, 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 continued 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" share, leading to the progressive increase of the customer base with a greater transactionality and level of commitment.

(ii) 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.

(iii) 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 30 June 2019 and 31 December 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:

(Thousands of Euro)

Expiry Date	Jun 2019	Dec 2018
2022	5 553	5 553
2024	1 520	-
2027	36 409	36 333
2028	128 306	128 306
	171 788	170 192

Tax recognized in the income statement and in reserves during the 1st half of 2019 and financial period 2018 originated as follows:

(Thousands of Euro)

	Jun 2019		Dec 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	1 323	(20 171)	(8 050)	11 843
Provisions / Impairment	(10 551)	-	(68 828)	55 657
Employee benefits	(12)	(1 371)	10 068	3 885
Other	(33)	-	(50)	-
Tax losses carried forward	623	973	21 069	(30 308)
Deferred taxes/ recognised as profit/ (losses)	(8 650)	(20 569)	(45 791)	41 077
Current taxes	(2 051)	-	963	(7 123)
	(10 701)	(20 569)	(44 828)	33 954

The reconciliation of the effective tax rate, as regards the part recognized in the income statement, can be analysed as follows:

(Thousands of Euro)

	Jun 2019		Jun 2018	
	%	Value	%	Value
Profit before income tax		9 608		8 365
Income tax based on the current nominal tax rate	(21.0)	(2 018)	(29.5)	(2 468)
Equity contribution for the banking sector	(21.6)	(2 072)	(38.9)	(3 250)
Post-employement benefits and Pension Fund	-	-	66.7	5 580
Tax benefits	-	-	(20.9)	(1 747)
Taxable priovisions / impairment	(8.7)	(837)	-	-
Autonomous taxation	(5.7)	(546)	(4.3)	(363)
Other	(19.4)	(1 864)	72.4	6 056
Corrections to previous periods	(0.5)	(46)	(0.0)	(2)
Effect of differences in income tax for the period	(13.4)	(1 287)	-	-
Deductions / (Accruals) for taxable profit purposes (*)	(21.1)	(2 031)	(72.1)	(6 034)
Income tax for the period	(111.4)	(10 701)	(26.6)	(2 228)

(*) Corresponds to the losses estabilished by investment funds included in the perimeter and other consolidation adjustment

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 an adjustment period of up to 5 years.

For the current and deferred tax assessment as at 30 June 2019, Banco Montepio 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 an inspection by the Tax Authority up to and including the 2015 tax period. The tax inspection of financial period 2016 is currently underway.

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.

34 Other assets

This caption is presented as follows:

(Thousands of Euro)	Jun 2019	Dec 2018
Assets received for credit recovery	825 740	-
Other debtors	91 739	87 799
Sundry debtors	70 399	15 912
Other amounts receivable	6 486	4 162
Deferred costs	5 910	3 759
Recoverable grants receivable from the Portuguese Government	5 070	4 907
	1 005 344	116 539
Impairment for other assets	(164 325)	(32 109)
	841 019	84 430

On 30 June 2019, non-current assets held for sale were transferred to this asset category, as described in note 29.

The caption Assets received for credit recovery is presented as follows:

(Thousands of Euro)	Jun 2019
Assets received for credit recovery	825 740
Impairment for assets received for credit recovery	(136 230)
	689 510

The assets included in the caption Assets received for credit recovery are accounted for in accordance with the accounting policy described in note 1 h). Note 55 presents additional information on the assets received for credit recovery.

The caption Assets received for credit recovery includes the amount of Euro 1,815 thousand related to equipment resulting from the resolution of loans and advances to customers' agreements, which have an associated impairment of Euro 1,676 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 Banco Montepio 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.

Banco Montepio Group has implemented a plan aimed at the immediate sale of the assets received for credit recovery. According to Banco Montepio 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 properties for which promissory contracts to buy and sell, in the amount of Euro 20,421 thousand, have already been celebrated.

The movements, in the 1st half year of 2019, in Assets received for credit recovery are analysed as follows:

	(Thousands of Euro)
	Jun 2019
Opening balance	876 762
Acquisitions	14 265
Disposals	(65 032)
Other movements	(255)
Closing balance	825 740

The movement in impairment of Assets received for credit recovery are analysed as follows:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Balance at 1 January	138 825	138 307
Charge of the period	5 720	8 502
Reversal of the period	(93)	(1 011)
Charge off	(8 222)	(4 880)
Balance at 30 June	136 230	140 918

The evolution of the caption Sundry debtors, in the 1st half of 2019, includes the amount of Euro 50,706 thousand related to stock market operations pending liquidation.

As at 30 June 2019 and 31 December 2018, the caption Other debtors is analysed as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
SilverEquation	29 909	29 909
Supplementary capital contributions	14 910	14 910
Public entities	2 399	6 429
Other	44 521	36 551
	91 739	87 799

The caption Supplementary capital contributions includes the value of supplementary capital contributions subscribed in the scope of a loan sales operation in the amount of Euro 14,910 thousand, loans which are fully provided against.

As at 30 June 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 Recoverable grants receivable from the Portuguese State corresponds to recoverable grants in respect of 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 30 June 2019 and 31 December 2018, the caption Recoverable grants receivable from the Portuguese State are presented as follows:

	Jun 2019	Dec 2018
	(Thousands of Euro)	
Overdue grants unclaimed	2 580	3 278
Unsettled recoverable grants from the Portuguese Government	2 394	1 516
Unclaimed grants	96	113
	5 070	4 907

The movements in Impairment of other assets are analysed as follows:

	Jun 2019	Jun 2018
	(Thousands of Euro)	
Balance on 1 January	32 109	35 689
IFRS 9 transition adjustment	-	4 497
Charge for the period	1 024	2 792
Reversal for the period	(3 275)	(1 868)
Charge-off	(1 763)	(939)
Change in the consolidation perimeter	-	(7 594)
Balance on 30 June	28 095	32 577

35 Deposits from central banks

As at 30 June 2019 and 31 December 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 amortised cost, as described in notes 25 and 27.

These deposits are composed of three operations with maturities in July 2020, in the amount of Euro 543,302 thousand, in September 2020, in the amount of Euro 395,534 thousand and in March 2021, in the amount of Euro 453,653 thousand.

The operations are remunerated at the Banco de Portugal rates in force as at the contract date.

36 Deposits from other credit institutions

This caption is presented as follows:

(Thousands of Euro)

	Jun 2019			Dec 2018		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	18 960	-	18 960	4 383	-	4 383
Term deposits	-	14 667	14 667	-	836	836
OIC loans	-	-	-	-	8	8
Other deposits	-	-	-	-	2	2
	18 960	14 667	33 627	4 383	846	5 229
Deposits from credit institutions abroad						
BEI loan	-	350 425	350 425	-	350 407	350 407
Deposits repayable on demand	16 585	-	16 585	10 073	-	10 073
Term deposits	-	576	576	-	7 839	7 839
Sales operations with repurchase agreement	-	870 749	870 749	-	850 317	850 317
Repos collaterals	-	22 850	22 850	-	17 499	17 499
Other deposits	5 363	-	5 363	4 071	-	4 071
	21 948	1 244 600	1 266 548	14 144	1 226 062	1 240 206
	40 908	1 259 267	1 300 175	18 527	1 226 908	1 245 435

The amount of the EIB loan is collateralized by Portuguese, Spanish and Italian sovereign bonds in the amount of Euro 359,538 thousand (31 December 2018: Euro 405,211 thousand), included 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 amortised 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:

(Thousands of Euro)

	Jun 2019			Dec 2018		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	3 944 807	562 905	4 507 712	3 576 334	398 347	3 974 681
Term deposits	-	8 031 538	8 031 538	-	8 457 777	8 457 777
Saving accounts	-	121 030	121 030	-	118 918	118 918
Other deposits	19 962	-	19 962	23 837	-	23 837
Adjustments arising from fair value option operations	-	-	-	11	-	11
	3 964 769	8 715 473	12 680 242	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 the notice of Banco de Portugal 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 evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 14,597 thousand. Thus, in accordance with the hierarchy of valuation sources, as laid down 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 loss having been recognized, as at 30 June 2019, in the amount of Euro 11 thousand (31 December 2018: loss of Euro 22 thousand) related to fair-value variations.

As at 30 June 2019, deposits from customers were remunerated at the average rate of 0.31% (31 December 2018: 0.45%).

38 Debt securities issued

The analysis of Debt securities issued is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Cash bonds	27 084	124 719
Covered bonds	765 818	753 612
Securitisations	167 716	215 603
	960 618	1 093 934

The fair value of the debt securities issued is presented in note 49.

The caption Debt securities issued includes issues recognized at fair value through profit or loss, in the amount of Euro 6,537 thousand (31 December 2018: Euro 6,776 thousand), in accordance with internal valuation techniques and considering, mainly, observable market data. According to the hierarchy of valuation sources, as laid down in IFRS 13, these instruments are categorized in Level 2.

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, the Group has issues in circulation in a total amount of Euro 2,300,000 thousand, at nominal value, as at 30 June 2019 and 31 December 2018.

As at 30 June 2019, the main characteristics of the covered bonds issues in circulation are as follows:

(Thousands of Euro)

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	500 133	-	december 2015	december 2020	quarterly	Euribor 3M + 0,80%	A3/AA-/A
Covered bonds - 6S	300 000	300 211	-	november 2016	november 2023	quarterly	Euribor 3M + 0,80%	A3/AA-/A
Covered bonds - 8S	500 000	500 105	-	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	765 818	765 818	october 2017	october 2022	annual	Fixed at 0,875%	A3/AA-/A
	2 300 000	2 316 412	765 818					

As at 31 December 2018, the main characteristics of the covered bonds issues in circulation are as follows:

(Thousands of Euro)

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					

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 notices of Banco de Portugal 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 Banco de Portugal.

As at 30 June 2019, the value of the loans collateralizing these issues amounted to Euro 2,731,326 thousand (31 December 2018: Euro 2,728,028 thousand), according to note 22.

The movements in Debt securities issued during the period ended on 30 June 2019, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June
Cash bonds	124 719	(93 850)	-	(3 785)	27 084
Covered bonds	753 612	-	-	12 206	765 818
Securitisations	215 603	(47 887)	-	-	167 716
	1 093 934	(141 737)	-	8 421	960 618

(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 period 2018, are analysed as follows:

Thousands of Euro)

	Balance on 1 January	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
Securitisations	422 516	(188 372)	(18 541)	-	215 603
Euro Medium Term Notes (EMTN)					
	1 544 054	(431 041)	(18 541)	(538)	1 093 934
	1 544 054	(431 041)	(18 541)	(538)	1 093 934

(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 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.

39 Provisions

This caption is presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Provisions for guarantess and commitments	14 211	14 438
Provisions for other risks and charges	16 395	16 642
	30 606	31 080

The movements in provisions for guarantees and commitments assumed in the 1st half of 2019 and 2018, are analysed as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Balance on 1 January	14 438	16 147
IFRS 9 transition adjustment	-	944
Charge for the period		
Continuing operations	9 109	5 836
Discontinuing operations	329	437
Write-back for the period		
Continuing operations	(10 178)	(5 060)
Discontinuing operations	(179)	(529)
Transfers related to discontinuing operations	692	92
	14 211	17 867

The movements in provisions for other risk and charges are analysed as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Balance on 1 January	16 642	10 949
Charge for the period		
Continuing operations	1 435	1 146
Discontinuing operations	-	1
Write-back for the period		
Continuing operations	(1 682)	(214)
Discontinuing operations	-	-
Charge-off	-	(353)
Transfers related to discontinuing operations	-	(1)
	16 395	11 528

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 30 June 2019, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Jun 2019	Dec 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	52 027	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%	102 525	-
					154 552	50 044

The movements in Other subordinated debt during the 1st half of 2019 and the financial period ended on 31 December 2018, were as follows:

(Thousands of Euro)

	Jun 2019					
	Balance at 1 January	Issued	Refunds	Purchases (Liquids)	Other movements	Balance at 30 June
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	-	1 983	52 027
MONTEPIO EMTN SUB 2019/2029	-	100 000	-	-	2 525	102 525
	50 044	100 000	-	-	4 508	154 552

(a) Including the accrued interest in the balance.

(Thousands of Euro)

	Dec 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.

On 30 June 2019, under the Euro Medium Term Note Program (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.

On 31 December 2018, under the Euro Medium Term Note Program (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 period 2018, Banco Montepio redeemed Euro 235,892 thousand.

41 Other liabilities

This caption is presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Domestic and foreign operations pending settlement	313 877	96 696
Other expenses	88 854	50 178
Charges with staff expenses	24 266	23 546
Lease Liabilities	24 021	-
Other sundry liabilities	13 576	14 159
Suppliers	9 905	7 556
Administrative public sector	3 706	11 168
Deferred income	1 133	1 603
	479 338	204 906

As at 30 June 2019, the caption charges with staff expenses includes the amount of Euro 14,872 thousand (31 December 2018: Euro 19,869 thousand), related to holidays and holidays subsidies. Additionally, as at 30 June 2019, this caption also includes the amount of Euro 1,401 thousand (31 December 2018: Euro 1,152 thousand) related to seniority bonus.

The main actuarial assumptions used in the calculation of seniority bonus awards are the same as those used to calculate liabilities for post-employment benefits of employees, as described in note 50.

The evolution of the caption Domestic and foreign operations pending settlement in the 1st half of 2019 includes the amount of Euro 160,291 thousand related to stock market operations pending financial settlement.

42 Share capital

As at 30 June 2019 and 31 December 2018, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

On 30 June 2019, MGAM sold 3,000 (31 December 2018: 158,920) shares of Banco Montepio's share capital, which is now held as follows:

	Jun 2019		Dec 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%

43 Other equity instruments

This caption includes the issue of Euro 15,000 thousand occurred in the first quarter of 2010, of Subordinated Perpetual Securities with conditional interest 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, as referred in the accounting policy described in note 1 a).

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.

As at 30 June 2019 and in financial period 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 Banco de Portugal's opinion, this payment endangers the compliance with the Regulation of Own Funds requirements.

During the 1st half of 2019, the Group paid interest on this issue in the amount of Euro 163 thousand (31 December 2018: Euro 322 thousand).

Redemption

These securities are perpetual, only being redeemable according to the prepayment terms provided below.

With the agreement of the Banco de Portugal, the issuer may redeem these, in whole or in part, as from the 10th date of interest payment, inclusive (5th year).

As at 30 June 2019 and 31 December 2018, these securities are considered as a positive element of 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:

(Thousands of Euro)

	Jun 2019	Dec 2018
Fair value reserves		
Fair value reserve		
Financial assets at fair value through other comprehensive income		
Debt instruments	57 259	(6 059)
Equity instruments	(8 615)	(13 204)
Loans and advances to customers	1 491	1 491
Own credit risk	924	145
	51 059	(17 627)
Taxes		
Financial assets at fair value through other comprehensive income	(20 603)	(628)
Loans and advances to customers	(455)	(455)
	(21 058)	(1 083)
Fair value reserve net of taxes	30 001	(18 710)
Other reserves and retained earnings		
Legal reserve	191 969	191 767
Consolidation exachange reserves	(73 766)	(66 761)
Other reserves and retained earnings	(1 069 476)	(1 023 749)
	(951 273)	(898 743)

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 includes 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.

The movements in the fair value reserve related to financial assets at fair value through other comprehensive income, during the 1st half of 2019, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 30 June
Fixed income securities						
Bonds issued by Portuguese public entities	863	2 464	52 268	-	(2 440)	53 155
Bonds issued by foreign public entities	(5 009)	166	3 520	5 106	(161)	3 622
Bonds issued by other entities:						
Domestic	(1 329)	240	63	(308)	45	(1 289)
Foreign	(584)	968	1 410	29	(52)	1 771
	(6 059)	3 838	57 261	4 827	(2 608)	57 259
Variable income securities						
Shares						
Domestic	2 099	-	-	-	-	2 099
Foreign	(15 303)	4 597	(8)	-	-	(10 714)
	(13 204)	4 597	(8)	-	-	(8 615)
	(19 263)	8 435	57 253	4 827	(2 608)	48 644

In the scope of the adoption of IFRS 9, the investment units held by the Group, classified in the portfolio of financial assets at fair value through other comprehensive income until 31 December 2017, were reclassified to the portfolio of financial assets at fair value through profit or loss, as described in notes 24 and 25.

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:

(Thousands of Euro)

	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	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:							
Domestic	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							
Domestic	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:

(Thousands of Euro)

	Jun 2019	Dec 2018
Amortised cost of financial assets at fair value through other comprehensive income	1 802 658	464 007
Recognised accumulated impairment	(3 279)	(671)
Amortised cost of financial assets at fair value through other comprehensive income	1 799 379	463 336
Market value of financial assets at fair value through other comprehensive income	1 848 006	444 073
Potential realised gains/ (Losses) recognised in the fair value reserve	48 627	(19 263)

46 Distribution of dividends

In the 1st half of 2019 and during financial period 2018, Banco Montepio did not distribute dividends.

47 Non-controlling interests

This caption is presented as follows:

(Thousands of Euro)

	Balance Sheet		Income Statement	
	Jun 2019	Dec 2018	Jun 2019	Jun 2018
Finibanco Angola, S.A.	14 541	15 551	1 158	2 253
Banco Terra, S.A.	-	-	-	27
	14 541	15 551	1 158	2 280

The movements in this caption are analysed as follows:

	Jun 2019	Dec 2018
	(Thousands of Euro)	
Opening balance	15 551	32 835
IFRS 9 transition adjustment	-	(150)
Foreign exchange differences	(1 728)	(11 462)
Other reserves	336	1 258
Dividends	(776)	(1 123)
Impact of the IAS 29 adoption	-	1 970
Change in the consolidation perimeter	-	(11 082)
	13 383	12 246
Net income attributable to non-controlling interests	1 158	3 305
	14 541	15 551

Name	Head office	Segment	Percentage held by non-controlling interests	
			Jun 2019	Dec 2018
Finibanco Angola, S.A.	Luanda	Banking	19.78%	19.78%

The summary of the financial information of the Institutions mentioned above, prepared in accordance with IFRS, is disclosed in note 61.

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:

	Jun 2019	Dec 2018
	(Thousands of Euro)	
Guarantees granted	442 463	464 929
Commitments to third parties	1 287 418	1 238 676
Deposit and custody of securities	8 123 580	7 353 294
	9 853 461	9 056 899

The amounts of Guarantees granted and Commitments to third parties are analysed as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Garantees granted		
Guarantees	392 977	411 783
Letters of credit	49 486	53 146
	442 463	464 929
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	568 965	553 073
Securities subscription	8 149	12 280
Term liability to the Guarantee Deposits Fund	22 768	22 768
Potential liability with the Investor's Indemnity System	1 533	1 533
Revocable commitments		
Revocable credit facilities	686 003	649 022
	1 287 418	1 238 676

Bank guarantees granted are financial operations that do not necessarily result in mobilization on funds by the Group.

The caption Guarantees granted and Commitments to third parties - Irrevocable commitments – irrevocable credit facilities include the amount of Euro 35,793 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 61.

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 changeable 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 was 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 30 June 2019 and 31 December 2018, the caption Term liability to the Guarantee Deposits 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 30 June 2019 and 31 December 2018, under the Guarantee Deposits 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 30 June 2019 and 31 December 2018, the caption Potential liability with the Investor's Indemnity 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.

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:

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 on the basis of 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.

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 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, that derivative is still considered in level 3.

Financial instruments recorded in the balance sheet at amortised cost

For financial instruments recorded in the balance sheet at amortised 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 Repurchase agreements assets*

  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 30 June 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 30 June 2019, the average discount rate was 0.07% (31 December 2018: 0.23%) for Repos and -0.21% (31 December 2018: 0.07%) for the remaining deposits.

  For Other loans and advances to 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 amortised cost*

  These financial instruments are accounted for at amortised 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 2.79% for mortgage loans (31 December 2018: 2.88%), 6.33% for individual credit (31 December 2018: 6.27%) and 4.57% 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 30 June 2019 was 0.25% (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, apart from 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 7.63% (31 December 2018: 7.91%). The average discount rate calculated for senior issues placed on the retail market was 0.32% (31 December 2018: 0.47%).

The change in the discount rate for the subordinated issue reflects the issuance conditions verified in 2019 and 2018. It should be noted that the Group issued subordinated debt in 2018 and 2019.

Issues placed on the institutional market were revalued at the market value available on 30 June 2019 and 31 December 2018.

- *Cash and 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* Exchange rate options Interest rate options	Discounted Cash Flow Method [2] *Black-Scholes Model* Normal Model	Interest rate curves Implied Volatilities 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	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	Equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3]
Financial assets at amortised cost	Debt securities Debt representative financial instruments		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 amortised 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 terms, with the CVA by counterparty being calculated through the sum of the various CVA values in 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

(Thousands of Euro)

	Jun 2019	Dec 2018
Adjustment	715	235
Of which: Derivatives maturity	(5)	-

Fair value of assets received in recovery of credit

The fair value and impairment constituted for real estate assets received for credit recovery 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 of an *in-situ* valuation;
- 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 Banco de 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 take into account 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 30 June 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:

	Currencies				
	Euro	United States Dollar	Serling Pound	Swiss Franc	Japanese Yen
1 day	-0.403000	2.370000	0.750000	-0.795000	-0.114500
7 days	-0.403000	2.375031	0.750000	-0.795000	-0.114500
1 month	-0.388000	2.380000	0.750000	-0.800000	-0.250000
2 months	-0.366148	2.360000	0.780000	-0.750000	-0.320000
3 months	-0.345000	2.310000	0.790000	-0.750000	-0.340000
6 months	-0.311000	2.180000	0.880000	-0.720000	-0.350000
9 months	-0.262500	2.170000	0.950000	-0.680000	-0.290000
1 year	-0.214000	2.150000	0.990000	-0.560000	-0.230000
2 years	-0.370000	2.137643	0.987562	-0.785000	-0.230059
3 years	-0.350000	2.125183	0.987562	-0.757500	-0.230059
5 years	-0.230000	2.100536	0.987562	-0.632500	-0.230059
7 years	-0.070000	2.075821	0.987562	-0.465000	-0.230059
10 years	0.175000	2.038715	0.987562	-0.217500	-0.230059
15 years	0.490000	2.068006	0.987562	0.112500	-0.230059
20 years	0.653000	2.158000	0.987562	0.112500	-0.230059
30 years	0.723000	2.195500	0.987562	0.112500	-0.230059

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:

	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	**jun 2019**	**dec 2018**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1380	1.1450	5.750	5.787	5.975	6.175	6.400
EUR/GBP	0.8966	0.8945	5.475	6.275	8.025	8.400	8.680
EUR/CHF	1.1105	1.1269	5.100	5.052	5.130	5.230	5.325
EUR/JPY	122.60	125.85	6.960	6.950	7.375	7.650	7.800
EUR/BRL	4.3511	4.444	14.025	13.650	13.600	13.675	13.675
EUR/AOA	387.2670	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, at 30 June 2019 and 31 December 2018, is presented as follows:

(Thousands of Euro)

	Jun 2019				
	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	-	-	1 418 016	1 418 016	1 418 016
Loans and advances to credit institutions repayable on demand	-	-	39 972	39 972	39 972
Loans and advances to credit institutions	-	-	251 934	251 934	251 934
Loans and advances to customers	15 137	-	11 645 086	11 660 223	11 521 652
Financial assets held for trading	47 766	-	-	47 766	47 766
Financial assets at fair value through profit or loss	437 396	-	-	437 396	437 396
Financial assets at fair value through other comprehensive income	-	1 848 006	-	1 848 006	1 848 006
Hedging derivatives	18 261	-	-	18 261	18 261
Other financial assets at amortised cost	-	-	913 225	913 225	944 413
	518 560	1 848 006	14 268 233	16 527 416	16 527 416
Financial liabilities					
Deposits from central bank	-	-	1 392 489	1 392 489	1 392 489
Deposits from other credit institutions	-	-	1 300 175	1 300 175	1 306 107
Deposits from customers	-	-	12 680 242	12 680 242	12 695 035
Debt securities issued	6 359	-	954 259	960 618	955 293
Financial liabilities held for trading	13 386	-	-	13 386	13 386
Hedging derivatives	706	-	-	706	706
Other subordinated debt	-	-	154 552	154 552	165 598
	20 451	-	16 481 717	16 502 168	16 528 614

(Thousands of Euro)

	Dec 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 advances to credit institutions repayable on demand	-	-	78 088	78 088	78 088
Loans and advances to credit institutions	-	-	209 932	209 932	209 932
Loans and advances to customers	24 633	-	12 098 579	12 123 212	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 amortised cost	-	-	1 255 651	1 255 651	1 267 168
	546 632	444 073	15 252 885	16 243 590	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 30 June 2019:

(Thousands of Euro)

	Jun 2019				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 418 016	-	-	-	1 418 016
Loans and advances to credit institutions repayable on demand	39 972	-	-	-	39 972
Other loans and advances to credit institutions	-	-	251 934	-	251 934
Loans and advances to customers	-	15 137	11 506 515	-	11 521 652
Financial assets held for trading	25 261	9 868	12 637		47 766
Financial assets at fair value through profit or loss	7 188	-	430 208		437 396
Financial assets at fair value through other comprehensive income	1 741 215	15 642	88 459	2 690	1 848 006
Hedging derivatives	-	18 261	-	-	18 261
Other financial assets at amortised cost	944 413	-	-	-	944 413
	4 176 065	58 908	12 289 753	2 690	16 527 416
Financial liabilities					
Deposits from central banks	1 392 489	-	-	-	1 392 489
Deposits from other credit institutions	-	-	1 306 107	-	1 306 107
Deposits from customers	-	-	12 695 035	-	12 695 035
Debt securities issued	-	771 532	183 761	-	955 293
Financial liabilities held for trading		13 386			13 386
Hedging derivatives	-	706	-	-	706
Other subordinated debt	-	-	165 598	-	165 598
	1 392 489	785 624	14 350 501	-	16 528 614

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2018:

(Thousands of Euro)

	Dec 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 advances 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 employment benefits

The Group 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 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.

In addition to the change in terms of benefits, there were also a number of special temporary provisions which have an impact on the calculation of the present value of the liabilities, namely the freezing of salary increases and automatic career promotions for the years 2016 and 2017. 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	
	Jun 2019	**Dec 2018**
Financial assumptions		
Wage growth rate	0.75%	1.00%
Pension growth rate	0.50%	0.50%
Rate of return of plan assets	1.60%	2.25%
Discount rate	1.60%	2.25%
Revaluation rate		
Wage 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 indexes, for high-quality corporate bonds, and (ii) duration of the liabilities.

As at 30 June 2019, the average duration of the pension liabilities of Banco Montepio Group's employees is 19.9 years (31 December 2018: 19.7 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

	Jun 2019	**Dec 2018**
Active	3 400	3 431
Retirees and survivors	1 312	1 315
	4 712	4 746

The liabilities for pensions and other benefits and respective coverage levels are presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Net assets / (liabilities) recognised in the balance sheet		
Liabilities with pension benefits		
Pensioners	(318 310)	(286 971)
Active	(440 747)	(396 395)
	(759 057)	(683 366)
Liabilities with healthcare benefits		
Pensioners	(23 057)	(21 684)
Active	(42 429)	(34 440)
	(65 486)	(56 124)
Liabilities with death benefits		
Pensioners	(1 867)	(1 677)
Active	(1 662)	(1 329)
	(3 529)	(3 006)
Total liabilities	(828 072)	(742 496)
Coverages		
Pension Fund value	749 985	725 797
Net assets / (liabilities) in the balance sheet	(78 087)	(16 699)
Accumulated actuarial losses recognised in other comprehensive income	282 368	223 048

The evolution of liabilities with retirement pensions, health benefits and death subsidy can be analysed as follows:

(Thousands of Euro)

	Jun 2019				Dec 2018			
	Pension benefits	Health-care benefits	Death benefits	Total	Pension benefits	Health-care benefits	Death benefits	Total
Liabilities at the beginning of the period	683 366	56 124	3 006	742 496	682 000	55 559	3 198	740 757
Recognized in results (Note 11)								
Current service cost	2 414	737	30	3 181	5 212	1 891	55	7 158
Interest cost	7 688	631	34	8 353	14 323	1 166	68	15 557
Early retirement, mutually agreed termination and others	81	-	-	81	1 802			1 802
Actuarial gains/ (losses) (Note 45)								
- Changes in assumptions	60 076	8 298	470	68 844	(18 691)	(1 710)	(108)	(20 509)
- Not related to changes in assumptions	15 447	(304)	(11)	15 132	18 147	(782)	(207)	17 158
Others								
Pensions paid by the Fund	(9 810)	-	-	(9 810)	(17 062)	-	-	(17 062)
Pensions paid by Banco Montepio	(1 382)	-	-	(1 382)	(4 725)			(4 725)
Participant contributions	1 177	-	-	1 177	2 360	-	-	2 360
Liabilities at the end of the period	759 057	65 486	3 529	828 072	683 366	56 124	3 006	742 496

The evolution of the Pension Fund's net asset value in the periods ended on 30 June 2019 and 31 December 2018 can be analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Value of Fund at beginning of period	725 797	733 850
Recognized in results		
Share of net interest	8 165	15 410
Recognized in equity (note 45)		
Financial deviations	24 656	(38 761)
Others		
Contributions from Banco Montepio	-	30 000
Participant Contributions	1 177	2 360
Pensions paid by the Fund	(9 810)	(17 062)
Value of Fund at end of period	749 985	725 797

As at 30 June 2019 and 31 December 2018, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Thousands of Euro)

	Jun 2019				Dec 2018			
	Assets of the fund	%	Quoted	Unquoted	Assets of the fund	%	Quoted	Unquoted
Variable income securities								
Shares	51 415	7%	51 415	-	59 142	8%	59 142	-
Shares investment fund	97 821	13%	20 332	77 489	83 999	12%	9 742	74 257
Bonds	531 219	71%	476 393	54 826	486 044	67%	452 685	33 359
Real estate	5 438	1%	-	5 438	5 595	1%	-	5 595
Real estate invesment fund	24 017	3%	684	23 333	24 017	3%	684	23 333
Venture capital funds	5 478	1%	-	5 478	9 479	1%	-	9 479
Investments in banks and other	34 597	4%	-	34 597	57 521	8%	-	57 521
Total	749 985	100%	548 824	201 161	725 797	100%	522 253	203 544

The assets of the Pension Fund related to securities, real estate and loans and advances to banks within the Group's perimeter are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Investments in banks and other	34 597	57 522
Real estate	5 438	5 595
Bonds	1 726	2 283
	41 761	65 400

The evolution of the re-measurements in the balance sheet are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Actuarial gains/ (losses) at the beginning of the period	223 048	187 637
Actuarial gains/ (losses) for the period		
Changes in financial assumptions	98 377	(20 509)
Payroll update	(29 533)	-
Deviation on the Pension Fund return	(24 656)	38 761
Others	15 132	17 159
Actuarial gains/ (losses) in other comprehensive income	282 368	223 048

The costs with retirement pensions, health benefits and death subsidy are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Current service cost	3 181	7 158
Net interest income/ (expense) in the liabilities coverage balance	188	147
Costs with early retirement, mutually agreed termination and otł	81	1 802
Costs for the period	3 450	9 107

The evolution of net assets/ (liabilities) in the balance sheet, in the periods ended on 30 June 2019 and 31 December 2018, is analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
At the beginning of the period	(16 699)	(6 907)
Group contribution	-	30 000
Current service cost	(3 181)	(7 158)
Net interest income/ (expense) in the liabilities coverage balance	(188)	(147)
Actuarial gains/ (losses)	(83 976)	3 351
Financial gains/ (losses)	24 656	(38 761)
Change of the retirement age	-	-
Pensions paid by Banco Montepio	1 382	4 725
Early retirement, mutually agreed terminations and others	(81)	(1 802)
At the end of the period	(78 087)	(16 699)

The actuarial assumptions have a significant impact on the liabilities for pensions and other benefits. Considering this impact, 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 impact on the value of pension liabilities, which impact is analysed as follows:

(Thousands of Euro)

	Jun 2019		Dec 2018	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(38 008)	37 428	(31 206)	33 302
Wage growth rate (0.25% change)	25 810	(23 841)	23 143	(21 378)
Pension growth rate (0.25% change)	32 437	(31 020)	29 085	(27 814)
SAMS contribution (0.25% change)	3 667	(3 667)	3 288	(3 288)
Future mortality (1 year change)	(25 078)	25 040	(22 486)	22 452

As a result of the ACT's amendment, as at 30 June 2019 the cost associated with the end-of-career award, which replaced the extinguished seniority bonus, amounted to Euro 249 thousand (31 December 2018: Euro 674 thousand), in accordance with the accounting policy described in note 1 t).

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 30 June 2019 and 31 December 2018, the amount of the funds for which the Group acts as depository bank is analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Securities investment fund	158 609	137 984
Real estate investment fund	545 124	513 344
Pension fund	237 479	227 963
Bank and insurance	6 239	22 072
	947 451	901 363

The amounts recognized in these captions are measured at fair value determined as at the balance sheet date.

52 Transactions with related parties

As defined in IAS 24, the companies detailed in note 60, the Pension Fund, the members of the Board of Directors, the Supervisory Board and key management personnel are considered related parties of the Group. In addition to the members of the Board of Directors, the Supervisory Board 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.

The Group's first-line managers are considered Other key management personnel.

On this basis, with reference to 30 June 2019, the list of related parties considered by the Group is presented as follows:

Shareholder
Montepio Geral Associação Mutualista

Board of Directors
Chairman of the Board of Directors
Carlos Manuel Tavares da Silva
Non-executive members
Luís Eduardo Henriques Guimarães (*)
Amadeu Ferreira de Paiva
Manuel Ferreira Teixeira
Vítor Manuel do Carmo Martins
Rui Pedro Brás de Matos Heitor
Pedro Jorge Gouveia Alves
Carlos Francisco Ferreira Alves
Executive committee
Chairman of the Executive Committee
Dulce Maria Pereira Cardoso Mota Jorge Jacinto
Executive members
Nuno Cardoso Correia da Mota Pinto
José Carlos Sequeira Mateus
Pedro Miguel Nunes Ventaneira
Carlos Miguel López Leiria Pinto
Helena Catarina Gomes Soares de Moura Costa Pina
Leandro Rodrigues da Graça Silva
Audit Committee
Chairman of the Audit Committee
Luís Eduardo Henriques Guimarães (*)
Members
Amadeu Ferreira de Paiva
Manuel Ferreira Teixeira
Vítor Manuel do Carmo Martins
Carlos Francisco Ferreira Alves

Other Related Parties
Board of Directors
Alfredo Jorge Alves Gomes de Sá
Amândio Manuel Carrilho Coelho
António Manuel de Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
António Tomás Correia
Artur Luís Martins
Carlos Vicente Morais Beato
Edite da Encarnação Paiva Baptista Cheira
Eduardo José da Silva Farinha
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 Ferrão
Isabel Maria Loureiro Alves Brito
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 Manuel Marques Cardoso
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
Laura Catarina Simões Cardoso Duarte Teodósio
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Gabriel Moreira Maia de Almeida

Other Related Parties
Board of Directors
Luís Miguel Marques Ferreira Cardoso
Luís Paulo da Silva Mendes
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Lúcia Ramos Bica
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
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 Guerreiro Almeida
Ana Maria Sousa Capelão Teixeira Fernandes Mendonça Neves
Ana Paula Maia Fernandes
António Fernando Figueiredo Lopes
António José Boavista Coelho
António José Miranda Lopes Coutinho
Armando José Lemos Cardoso
Carla Pereira Jiva Silva
Carlos Alberto Figueiral Azevedo
Daniel Maximino Caçador
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
Helder Ferreira Reis
Hélio Miguel Gomes Marques
Jaquelina Maria Almeida Rodrigues Miguens
João Tiago Maia Barros Silva Teixeira
Joaquim António Canhoto Gonçalves Silva
José Luís Dias Jesus
Luis Filipe Pereira Cruz Nunes
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Manuel Fernando Caixado Castanho
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Paulo Miguel Ferreira Trindade
Pedro Jorge Ponte Araújo
Pedro Nuno Coelho Pires
Ricardo Artur Silva Ribeiro
Rui Luís Magalhães Moura
Rui Sérgio Carvalho Santos Calheiros Gama
Sandra Maria Santos Gameiro Henriques Jesus Brito Pereira
Sanguini Shirish
Tânia Carina Cardoso Madeira
Vasco Francisco Coelho Almeida
Vasco Martins Fernandes Gil
Vítor António Santos Ventura
Vitor Fernando Santos Cunha

(*) At the 6th of setember of 2019 renounced to the non-executive member of the Board of

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.
Valor Prime - Fundo de Investimento Imobiliário Aberto

As at 30 June 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 Provisions for guarantees and commitments provided, are presented as follows:

(Thousands of Euro)

	Jun 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 assumed	Provisions for guarantees and commitments provided	Total
Board of Directors	515	-	-	-	-	-	-	515
Audit Committee	161	-	-	-	-	-	-	161
Board of Directors of Other Related Parties	2 455	2	-	-	-	8	-	2 465
Other Key Management Personnel	3 740	5	-	-	-	-	-	3 745
CESource, ACE	-	-	-	-	95	-	-	95
Germont – Empreendimentos Imobiliários, S.A.	7 108	73	-	-	-	4 931	4	12 112
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	1 000	1	1 000
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	1	-	925	60	-	46	-	1 032
Moçambique Companhia de Seguros, S.A.R.L.	-	-	416	-	-	-	-	416
Montepio Geral Associação Mutualista	6	4	-	-	2 630	382	-	3 022
Montepio Gestão de Activos - S.G.F.I., S.A.	-	-	1	-	-	-	-	1
Montepio Imóveis – Sociedade Imobiliária, S.A.	7 627	61	-	-	-	-	-	7 688
NovaCâmbios - Instituição de Pagamento, S.A.	1 143	56	-	-	-	1 361	6	2 560
SAS Apostas Sociais, Jogos e Apostas Online, S. A.	-	-	-	-	-	1 100	6	1 100
Residências Montepio, Serviços de Saúde, S.A.	312	3	-	-	-	500	1	815
	23 069	204	1 342	60	2 725	9 328	18	36 728

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 Provisions of guarantees and other commitments assumed, are presented as follows:

(Thousands of Euro)

	Dec 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	Other assets	Guarantees and commitments assumed	Provisions for guarantees and commitments provided	Total
Board of Directors (after march 20 of 2018)	337	-	-	-	-	-	-	337
Audit Committee (after march 20 of 2018)	163	-	-	-	-	-	-	163
Executive Board of Directors (until march 20 of 2018)	132	-	-	-	-	-	-	132
General and Supervisory Board (until march 20 of 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 30 June 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:

(Thousands of Euro)

	Jun 2019		
Companies	**Deposits from customers**	**Debt securies issued and other subordinated debt**	**Total**
Board of Directors	909	-	909
Audit Committee	1 018	-	1 018
Board of Directors of Other Related Parties	5 502	-	5 502
Other Key Management Personnel	1 752	-	1 752
Bolsimo - Gestão de Activos, S.A.	2 254	-	2 254
Clínica CUF Belém, S.A.	24	-	24
Clínica de Serviços Médicos Computorizados de Belém, S.A.	8	-	8
Empresa Gestora de Imóveis da Rua do Prior S.A	124	-	124
Fundação Montepio Geral	1 310	-	1 310
Fundo de Pensões - Montepio Geral	36 409	1 700	38 109
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 401	-	2 401
Germont – Empreendimentos Imobiliários, S.A.	484	-	484
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	87	-	87
In Posterum, A.C.E.	10	-	10
Lusitania Vida, Companhia de Seguros, S.A.	20 739	-	20 739
Lusitania, Companhia de Seguros, S.A.	6 138	-	6 138
Montepio Geral Associação Mutualista	168 738	160 244	328 982
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	1 728	-	1 728
Montepio Gestão de Activos Imobiliários, ACE	2 447	-	2 447
Montepio Imóveis – Sociedade Imobiliária, S.A.	157	-	157
Montepio Residências para Estudantes, S.A:	398	-	398
Montepio Seguros, S.G.P.S., S.A.	1 074	-	1 074
N Seguros, S.A.	696	-	696
NovaCâmbios - Instituição de Pagamento, S.A.	597	-	597
Residências Montepio, Serviços de Saúde, S.A.	543	-	543
SAGIES - Segurança e Higiene no Trabalho, S.A.	71	-	71
SAS, Apostas Sociais, Jogos e Apostas Online, S.A.	1 758	-	1 758
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 461	-	2 461
Sociedade Portuguesa de Administrações, S.A.	195	-	195
	260 032	161 944	421 976

For members of the current Corporate Bodies, and who had been so previously, it was considered that, for purposes of this report, 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:

(Thousands of Euro)

	Dec 2018		
Companies	Deposits from customers	Debt securities issued and other subordinated debt	Total
Board of Directors (after march 20 of 2018)	594	-	594
Audit Committee (after march 20 of 2018)	946	-	946
Executive Board of Directors (until march 20 of 2018)	865	-	865
General and Supervisory Board (until march 20 of 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 Pime - Fundo de Investimento Imobiliário Aberto	3 298	-	3 298
	258 243	176 904	435 147

As at 30 June 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:

(Thousands of Euro)

Companies	jun 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	-	-	-	-	-	-
Audit Committee	-	1	-	-	-	-
Board of Directors of Other Related Parties	4	5	2	-	-	-
Other Key Management Personnel	10	3	2	-	-	-
Bolsimo -Gestão de Activos, S.A.	-	-	-	(39)	-	-
CESource, ACE	-	-	-	(289)	-	-
Fundação Montepio Geral	-	-	-	-	-	-
Fundo de Pensões - Montepio Geral	-	10	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	5	1 278	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	173	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	14	-	-	-	-	-
Lestinvest, S.G.P.S., S.A.	-	-		-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	5	2 010	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	5	1 831	-	4	-
Montepio Geral Associação Mutualista	1	5 543	1 117	(4 677)	3	2 351
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	3	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	(1 285)	-	1 791
Montepio Imóveis – Sociedade Imobiliária, S.A.	108	1	-	-	-	-
Montepio Residências para Estudantes, S.A.	-	2	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	28	-	-	-
N Seguros, S.A.	-	-	5	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	14	-	31	-	2	-
Residências Montepio, Serviços de Saúde, S.A.	9	-	10	(48)	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	5	-	-	-	-
SAS Apostas Sociais, Jogos e Apostas Online, S.A.	15	-	2	-	-	
	348	5 585	6 319	(6 338)	9	4 142

As at 31 December 2018, pursuant to article 109, the Group’s income and expenses with related parties included Interest and similar income, Interest and similar expense, Net fee and commission income, Staff costs, Other operating income/(expense) and General and administrative expenses, which are analysed as follows:

(Thousands of Euro)

Companies	Dec 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 march 20 of 2018)	-	-	1	-	-	-
Audit Committee (after march 20 of 2018)	-	3	-	-	-	-
Executive Board of Directors (until march 20 of 2018)	-	1	-	-	-	-
General and Supervisory Board (until march 20 of 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	-	-	-
Lestinvest, S.G.P.S., S.A.	-	-		-	-	-
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.

During the 1st half of 2019 and financial period 2018, there were no transactions with the Group’s Pension Fund.

53 Securitisation of assets

As at 30 June 2019, there are seven securitisation operations, six of which originated in Banco Montepio, 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, as mentioned in the accounting policy described in note 1 a).

The following paragraphs present some additional details of these securitisation operations.

As at 30 March 2007, Banco Montepio celebrated a mortgage loan securitisation 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 value, with the initial sale process costs representing 0.0165% of the par value.

As at 20 May 2008, Banco Montepio celebrated a mortgage loan securitisation 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 value, with the initial sale process costs representing 0.083% of the par value.

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 securitisation 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 value, with the initial sale process costs representing 0.0564% of the par value.

As at 5 March 2012, Banco Montepio celebrated a mortgage loan securitisation 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 value, with the initial sale process costs representing 0.1083% of the Asset Backed Notes.

As at 7 May 2014, Banco Montepio and Montepio Crédit, 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 securitisation 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 value, 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 securitisation 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 value, 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 securitisation operations is Banco Montepio Group, assuming the collection of the loans sold and channelling the amounts received to the respective Credit Securitisation 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 securitisation operations referred above were not derecognized from the balance sheet as the Group retained most of the risks and benefits associated with the securitized loans. If the Bank substantially transfers the risks and benefits associated with their holding, the securitisation operations are derecognized.

As at 30 June 2019, the securitisation operations realized by the Group are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit		Securities issued		
				Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	187 274	762 375	191 088	56 661
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	527 079	1 028 600	555 124	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	99 865	236 500	551 536	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	529 155	1 027 500	750 572	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	694 625	1 107 000	96 463	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	153 688	308 700	162 949	-
Aqua Finance No. 4	July 2017	Euro	Consumer credit and other	200 200	148 977	200 200	156 876	111 055
				4 670 875	2 340 663	4 670 875	2 464 608	167 716

* Includes nominal value, accrued interest and other adjustments.

As at 31 December 2018, the securitisation operations realized by the Group are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Assets transferred	Credit		Securities issued		
				Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	198 329	762 375	202 235	61 343
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	556 515	1 028 600	584 078	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	106 184	236 500	102 335	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	556 280	1 027 500	578 463	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	730 645	1 107 000	784 952	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	191 217	308 700	201 703	-
Aqua Finance No. 4	July 2017	Euro	Consumer credit 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, accrrued interest and other adjustments.

Additionally, the detail of the securitized loans not derecognized, by securitisation operation and nature of contract, as at 30 June 2019, is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions							
	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	Aqua Finance n.º 4	Total
Domestic credit								
Corporate								
Loans	-	-	-	-	-	-	-	-
Pledged current account	-	-	-	-	-	-	-	-
Other loans	-	-	-	-	-	-	75 213	75 213
Retail								
Mortgage	186 082	523 972	95 711	526 200	679 310	-	-	2 011 275
Consumer credit and other	-	-	-	-	-	147 395	71 844	219 239
	186 082	523 972	95 711	526 200	679 310	147 395	147 057	2 305 727
Overdue loans and interests								
Below 90 days	80	1 001	883	642	3 779	417	469	7 271
Above 90 days	1 112	2 106	3 271	2 313	11 536	5 876	1 451	27 665
	1 192	3 107	4 154	2 955	15 315	6 293	1 920	34 936
	187 274	527 079	99 865	529 155	694 625	153 688	148 977	2 340 663

Additionally, the detail of the securitized loans not derecognized, by securitisation operation and nature of contract, as at 31 December 2018, is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions							
	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	Aqua Finance n.º 4	Total
Domestic credit								
Corporate								
Loans	-	-	-	-	-	-	-	-
Pledged current account	-	-	-	-	-	-	-	-
Other credits	-	-	-	-	-	-	93 369	93 369
Retail								
Mortgage	197 170	553 448	101 734	553 090	716 929	-	-	2 122 371
Consumer credit 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
Overdue loans and interests								
Below 90 days	74	931	781	908	3 422	332	213	6 661
Above 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 securitisation 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 MG 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 recorded as Financial assets at fair value through other comprehensive income, as per note 25, and as at 30 June 2019, 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	176 527 987	119 867 763	2054	AAA	Aaa	AAA	n.a.	BBB	A2	A	n.a.
	Class B	14 250 000	4 557 703	4 557 703	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	3 838 065	3 838 065	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	2 038 972	2 038 972	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	415 251 488	415 251 488	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AA (h)
	Class B	55 500 000	36 759 617	36 759 617	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	39 740 126	39 740 126	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	16 558 386	17 468 956	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	18 214 225	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.
Pelican Mortgages No 5	Class A	750 000 000	364 753 643	364 753 643	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	127 750 277	127 750 277	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	18 016 065	18 016 065	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	18 016 065	18 016 065	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	395 372 210	395 372 210	2063	A	n.a.	A-	AA	A+	n.a.	AA	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	70 354 078	70 354 078	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	22 609 133	22 609 133	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	91 994 046	91 994 046	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	91 100 000	56 255 273	56 255 273	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 n.º 4	Class A	140 000 000	96 675 992	-	2035	n.a.	A3	n.a.	A(lo)	n.a.	A1	n.a.	A
	Class B	15 000 000	15 000 000	-	2035	n.a.	Ba2	n.a.	BBB(lo)	n.a.	Baa3	n.a.	BBB(h)
	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 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	17 468 958	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.
Aqua Finance n.º 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.	BBB (lo)	n.a.	Baa3	n.a.	BBB (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 effected sequentially and in function of the degree of subordination of the bonds.

54 Balance sheet and income statement indicators by operating 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. Banco Montepio 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, Banco Montepio 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 30 June 2019, Banco Montepio Group had a network of 330 branches in Portugal, a local bank in Cape Verde and a bank in Angola with 24 branches.

The information by operating segment as at 30 June 2019 reflects the structure defined in the Transformation Plan approved at the end of 2018 for the purpose of monitoring the business of Banco Montepio Group.

In evaluating the performance by business area, Banco Montepio 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 developed 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 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 custodian 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 (Banco Montepio Geral Cabo Verde and associated entities) is evaluated separately, as these units are considered investment centers. Additionally, considering the characteristics of the primary business developed by these units, their assets, liabilities, income and expenses are included in the corresponding operating segments.

Group structures dedicated to the segment

The Group's activity comprises most of its operating segments and is, therefore, disaggregated 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 securitise some of these originated assets;

(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 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 Banco Montepio 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 result before tax, with the remainder of the tax amount recognized in the income statement being allocated to the segment 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 margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending). 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 majority of the income results from the difference between the interest received on its assets and the interest paid from liabilities. 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 Other segments.

Non-current assets

Non-current assets, according to IFRS 8, include Other tangible assets and Intangible assets. Banco Montepio Group includes these assets in the segment in which they mostly develop their business.

Assets and liabilities for post-employment benefits

Considering that the factors that influence both the amount of responsibilities and the assets of the Group's Pension Fund correspond, mainly, 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 30 June 2019, is presented as follows:

(Thousands of Euro)

	Consolidated Banco Montepio										
	Commercial Bank										
	Retail Bank	Social Economy	Specialised Credit	Asset Management	**Sub-total**	Banking and Investment	International Activity	Markets	Non-Core Segments	Other segments	**Total**
Interest and similar income	128 901	3 433	11 204	10	**143 548**	27 514	1 211	19 797	10 846	(38 426)	**164 490**
Interest and similar expense	29 124	1 132	4 719	-	**34 975**	5 061	943	23 293	5 589	(25 422)	**44 439**
NET INTEREST INCOME	**99 777**	**2 301**	**6 485**	**10**	**108 573**	22 453	**268**	**(3 496)**	**5 257**	**(13 004)**	**120 051**
Dividends from equity instruments	-	-	-	-	**-**	-	-	-	-	6 210	**6 210**
Net fee and commission income	49 419	505	1 707	2 428	**54 059**	4 314	-	-	(2 675)	1 991	**57 689**
Net gains/ (losses) arising from financing activities	-	-	(22)	-	**(22)**	61	3	258	(17)	(655)	**(372)**
Other operating income/(expense)	91	(39)	1 199	30	**1 281**	970	-	10 024	2 986	(16 611)	**(1 350)**
TOTAL OPERATING INCOME	**149 287**	**2 767**	**9 369**	**2 468**	**163 891**	**27 798**	**271**	**6 786**	**5 551**	**(22 069)**	**182 228**
Staff costs	56 717	1 370	3 053	943	**62 083**	3 114	82	922	4 155	7 498	**77 854**
General and administrative expenses	19 533	649	2 267	761	**23 210**	2 417	212	219	2 127	3 021	**31 206**
Depreciation and amortisation	13 421	364	239	17	**14 041**	1 047	3	80	364	844	**16 379**
OPERATING EXPENSE	**89 671**	**2 383**	**5 559**	**1 721**	**99 334**	**6 578**	**297**	**1 221**	**6 646**	**11 363**	**125 439**
Total provisions and impairment	7 853	(12)	(97)	232	**7 976**	(1 936)	(41)	3 074	39 370	(1 309)	**47 134**
Profit/ (loss) of associates under the equity method	-	-	-	-	**-**	-	-	-	-	(47)	**(47)**
PROFIT/ (LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**51 763**	**396**	**3 907**	**515**	**56 581**	**23 156**	**15**	**2 491**	**(40 465)**	**(32 170)**	**9 608**
Taxes	11 700	101	697	129	**12 627**	5 448	-	635	(9 431)	1 422	**10 701**
Non-controlling interests	-	-	-	-	**-**	-	1 158	-	-	-	**1 158**
Profit/ (loss) from discontinuing operations	-	-	-	-	**-**	-	5 854	-	-	-	**5 854**
NET PROFIT/ LOSS	**40 063**	**295**	**3 210**	**386**	**43 954**	**17 708**	**4 711**	**1 856**	**(31 034)**	**(33 592)**	**3 603**
Assets	8 741 455	129 764	592 639	5 787	**9 469 645**	1 857 501	418 653	4 956 316	2 620 129	(627 631)	**18 694 613**
Liabilities	10 838 335	664 399	538 687	1 405	**12 042 826**	311 115	306 629	3 807 834	-	703 014	**17 171 418**
Investments in associates	-	-	-	-	**-**	-	-	4 207	-	-	**4 207**

The caption Other segments - 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 61.

As at 30 June 2018, the reporting by operating segment, is presented as follows:

Income Statement	**Retail Bank**	**Corporate and Institutional**	**Other Segments**				**Total**
			Markets	**Non-core Assets**	**Discontinued Operations**	**Other segments Operations**	
Interest and similar income	109 212	48 017	27 489	9 470	-	3 175	**197 363**
Interest and similar charges	25 404	4 208	31 568	4 087	-	(2 142)	**63 125**
NET INTEREST INCOME	**83 808**	**43 809**	**(4 079)**	**5 383**	**-**	**5 317**	**134 238**
Dividends from equity instruments	-	-	7 935	-	-	-	**7 935**
Net fee and commissions income	49 195	10 486	-	-	-	(2 282)	**57 399**
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	-	-	1 956	-	-	-	**1 956**
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	-	-	4 001	-	-	-	**4 001**
Net gains/(losses) arising from exchange differences	-	-	(793)	-	-	-	**(793)**
Net gains/(losses) arising from sale of other financial assets	-	-	-	6 444	-	(945)	**5 499**
Other operating income/ (expense)	3 373	370	(308)	3 895	-	(16 887)	**(9 557)**
TOTAL OPERATING INCOME	**136 376**	**54 665**	**8 712**	**15 722**	**-**	**(14 797)**	**200 678**
Staff costs	55 851	8 337	1 369	4 738	-	13 923	**84 218**
General and administrative expenses	20 562	3 202	933	8 498	-	3 186	**36 381**
Depreciation and amortisation	-	-	-	-	-	12 099	**12 099**
	76 413	**11 539**	**2 302**	**13 236**	**-**	**29 208**	**132 698**
Total provisions and impairment	(9 564)	629	2 517	63 298	-	2 631	**59 511**
Operational result	**69 527**	**42 497**	**3 893**	**(60 812)**	**-**	**(46 636)**	**8 469**
Profit/(loss) of associates under the equity method	**-**	**-**	**-**	**-**	**-**	**(104)**	**(104)**
Earnings before tax and non-controlling interests	**69 527**	**42 497**	**3 893**	**(60 812)**	**-**	**(46 740)**	**8 365**
Current and deferred taxes	**(20 510)**	**(12 537)**	**(1 148)**	**17 939**	**-**	**14 028**	**(2 228)**
After-tax income from continuing operations					**-**	**-**	**6 137**
Results of discontinued operations	**-**	**-**	**-**	**-**	**11 940**	**-**	**11 940**
Consolidated net income after tax	**-**	**-**	**-**	**-**	**11 940**	**-**	**18 077**
Non-controlling Interests	**-**	**-**	**-**	**-**	**2 280**	**-**	**2 280**
Consolidated net profit attributable to the shareholder	**49 017**	**29 960**	**2 745**	**(42 873)**	**9 660**	**(32 712)**	**15 797**
Assets	8 624 643	2 875 021	2 154 628	2 470 458	355 341	2 769 151	**19 249 242**
Liabilities	10 519 502	1 963 206	1 356 734	-	257 145	3 523 129	**17 619 716**
Investments in associates	-	-	3 967	-	-	-	**3 967**

The caption Other segments - 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 61.

As at 30 June 2019, the net contribution of the main geographical areas is presented as follows:

(Thousands of Euro)

Income Statement	Activity Domestic	Activity International	Total
Interest and similar income	163 279	1 211	164 490
Interest and similar expense	43 496	943	44 439
Net interest income	119 783	268	120 051
Dividends from equity instruments	6 210	-	6 210
Net fee and commission income	57 689	-	57 689
Net gains/ (losses) arising from financial assets and liabilities	2 260	-	2 260
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	(2 902)	-	(2 902)
Net gains/ (losses) arising from foreign exchange differences	267	3	270
Net gains/ (losses) arising from sale of other financial assets	16 714	-	16 714
Other operating income/ (expense)	(18 064)	-	(18 064)
Total operating income	181 957	271	182 228
Staff costs	77 772	82	77 854
General and administrative expenses	30 994	212	31 206
Depreciation and amortisation	16 376	3	16 379
	125 142	297	125 439
Loans impairment	42 041	(41)	42 000
Other financial assets impariment	3 074	-	3 074
Other assets impairment	3 376	-	3 376
Other provisiosn	(1 316)	-	(1 316)
Operating profit	9 640	15	9 655
Profit/ (loss) of associates under the equity method	(47)	-	(47)
Income before taxes and non-controlling interests	9 593	15	9 608
Current taxes	2 051	-	2 051
Deferred taxes	8 650	-	8 650
Profit/ (loss) from discontinuing operations	-	5 854	5 854
Non-controlling interests	-	1 158	1 158
Consolidated net profit/(loss) for the period attributable to the Shareholder	(1 108)	4 711	3 603

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 61.

As at 30 June 2019, the net contribution of the main geographical areas is presented as follows:

(Thousands of Euro)

Balance Sheet	Activity		
	Domestic	International	Total
Cash and deposits at credit institutions	1 552 112	157 810	1 709 922
Loans and advances to customers	11 660 223	-	11 660 223
Investments in financial assets and associated companies	3 268 874	-	3 268 874
Investment properties	228 232	-	228 232
Non-current assets held for sale - discontinuing operations	-	260 771	260 771
Other assets	1 566 519	72	1 566 591
Total Assets	18 275 960	418 653	18 694 613
Deposits from central banks and other credit institutions	2 692 664	-	2 692 664
Deposits from customers	12 530 888	149 354	12 680 242
Debt securities issued and other subordinated debt	1 115 170	-	1 115 170
Non-current liabilities held for sale - discontinuing operations	-	157 104	157 104
Other liabilities	526 067	171	526 238
Total Liabilities	16 864 789	306 629	17 171 418
Non-controlling interests	-	14 541	14 541
Total Equity attributable to the Shareholder	1 411 171	97 483	1 508 654
Total Equity	1 411 171	112 024	1 523 195
Total Liabilities and Equity	18 275 960	418 653	18 694 613

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 61.

As at 30 June 2018, the net contribution of the main geographical areas is presented as follows:

(Thousands of Euro)

Income Statement	**Activity**		
	Domestic	**International**	**Total**
Interest and similar income	195 838	1 525	197 363
Interest and similar expense	61 721	1 404	63 125
Net interest income	134 117	121	134 238
Dividends from equity instruments	7 935	-	7 935
Net fee and commission income	57 399	-	57 399
Net gains/ (losses) arising from financial assets and liabilities	1 956	-	1 956
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	4 001	-	4 001
Net gains/ (losses) arising from foreign exchange differences	(796)	3	(793)
Net gains/ (losses) arising from sale of other financial assets	5 499	-	5 499
Other operating income/ (expense)	(9 558)	1	(9 557)
Total operating income	200 553	125	200 678
Staff costs	84 118	100	84 218
General and administrative expenses	36 111	270	36 381
Depreciation and amortisation	12 096	3	12 099
	132 325	373	132 698
Loans impairment	45 842	-	45 842
Other financial assets impariment	2 597	-	2 597
Other assets impairment	9 364	-	9 364
Other provisiosn	1 708	-	1 708
Operating profit	8 717	(248)	8 469
Profit/ (loss) of associates under the equity method	(104)	-	(104)
Income before taxes and non-controlling interests	8 613	(248)	8 365
Current taxes	(1 118)	-	(1 118)
Deferred taxes	(1 110)	-	(1 110)
Profit/ (loss) from discontinuing operations	-	11 940	11 940
Non-controlling interests	-	2 280	2 280
Consolidated net profit/(loss) for the period attributable to the Shareholder	6 385	9 412	15 797

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 61.

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As at 31 December 2018, the net contribution of the main geographical areas is presented as follows:

(Thousands of Euro)

Balance Sheet	Activity		
	Domestic	International	Total
Cash and deposits at credit institutions	1 731 114	167 541	1 898 655
Loans and advances to customers	12 123 212	-	12 123 212
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 - discontinuing operations	-	294 725	294 725
Other assets	817 622	74	817 696
Total Assets	17 888 987	462 340	18 351 327
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	1 143 977	1	1 143 978
Non-current liabilities held for sale - discontinuing operations	-	193 995	193 995
Other liabilities	259 646	796	260 442
Total Liabilities	16 461 125	353 269	16 814 394
Non-controlling interests	-	15 551	15 551
Total Equity attributable to the Shareholder	1 427 862	93 520	1 521 382
Total Equity	1 427 862	109 071	1 536 933
Total Liabilities and Equity	17 888 987	462 340	18 351 327

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 61.

55 Risk management

Objectives of the Risk Management Policy

Banco Montepio 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 Banco Montepio Group.

The control and an efficient management of the risks have played 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 a conservative 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 Group, which regularly informs the Board of Directors of the evolution of the risk profile and proposes measures when necessary.

Banco Montepio 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 Banco Montepio 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.

Banco Montepio 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 its monitoring.

Banco Montepio 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, focused on the monitoring and control of the main types of financial risk – credit, market, liquidity, real estate and operating – to which Banco Montepio 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 Banco Montepio 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 Banco Montepio 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 Banco Montepio 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 developed 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 its obligations.

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 supporting 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.

Regarding the analysis' methodologies used within the credit risk, 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 and control of the Banco Montepio’s risk, 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 segments, 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 receivable, 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 following information 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 included 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 signs of impairment:

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 indications, 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 a going concern approach a critical analysis is done to the company's 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 a gone concern approach, 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:

(Thousands of Euro)

	Jun 2019	Dec 2018
Loans and advances to credit institutions repayable on demand	39 972	78 088
Other loans and advances to credit institutions	251 934	209 932
Loans and advances to customers	11 660 223	12 123 212
Financial assets held for trading	45 025	23 739
Financial assets at fair value through profit or loss	25 772	28 092
Financial assets at fair value through other comprehensive income	1 710 776	311 512
Hedging derivatives	18 261	5 666
Other financial assets at amortised cost	913 225	1 255 651
Investments in associates	4 207	4 282
Other assets	826 480	75 228
Guarantees granted	442 463	464 929
Irrevocable lines of credit	568 965	553 073
	16 507 303	15 133 404

The analysis of the main credit risk exposures by sector of activity, for the period ended as at 30 June 2019, can be analysed as follows:

(Thousands of Euro)

Activity	Jun 2019: Loans and advances to other credit institutions repayable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets 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 granted	Irrevocable credir facilities	Provisions for off-balance sheet liabilities
	Book value	Book value	Impairment	Book value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry and fishing	-	-	-	73 857	3 787	-	-	-	-	-	-	-	877	3 769	103
Extractive Industries	-	-	-	13 701	440	-	-	-	-	-	-	-	1 391	1 678	71
Manufacturing industries	-	-	-	906 947	77 696	-	2 049	44 087	33	-	-	-	20 467	94 898	960
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	38 736	1 790	-	9 397	41 154	46	-	-	-	1 285	13 218	20
Water supply	-	-	-	77 583	2 069	-	-	-	-	-	-	-	1 863	5 123	51
Construction	-	-	-	716 138	244 101	-	438	2 088	2	-	-	-	99 226	87 633	6 145
Wholesale and retail trade	-	-	-	812 076	94 055	-	7 153	10 582	21	-	-	-	63 989	112 630	3 165
Transport and storage	-	-	-	394 757	39 407	-	16	-	-	-	-	-	7 393	14 778	770
Accommodation and catering activities	-	-	-	428 907	16 212	-	1	-	-	-	-	-	8 530	14 902	232
Information and Communication	-	-	-	60 962	12 142	-	-	7 783	5	-	-	-	2 580	21 568	37
Financial and insurance activities	39 972	252 118	184	505 394	51 084	22 505	-	92 516	103	18 261	-	-	126 337	46 315	77
Real estate activities	-	-	-	741 000	120 822	-	73	-	-	-	-	-	16 970	73 713	1 433
Consulting, scientific, technical and similar	-	-	-	287 829	18 139	-	2 654	3 016	6	-	-	-	24 219	29 362	437
Administrative and service activities of support	-	-	-	104 976	9 045	-	237	-	-	-	-	-	6 424	11 537	184
Public administration and defense, compulsory social security	-	-	-	36 089	240	22 520	3 554	1 510 257	3 062	-	915 037	1 812	76	7	-
Education	-	-	-	37 421	2 452	-	-	-	-	-	-	-	290	2 158	11
Human Health Services and Activities social action	-	-	-	89 999	4 129	-	-	-	-	-	-	-	3 089	6 646	175
Artistic activities, shows and recreational	-	-	-	46 483	9 171	-	60	-	-	-	-	-	6 754	6 269	27
Other services	-	-	-	28 705	2 276	-	140	-	-	-	-	-	40 299	2 322	20
Private															
Mortgage Loan	-	-	-	6 080 357	134 505	-	-	2 572	1	-	-	-	-	-	-
Others	-	-	-	1 096 179	74 311	-	-	-	-	-	-	-	10 404	20 439	293
	39 972	**252 118**	**184**	**12 578 096**	**917 873**	**45 025**	**25 772**	**1 714 055**	**3 279**	**18 261**	**915 037**	**1 812**	**442 463**	**568 965**	**14 211**

The analysis of the main credit risk exposures by sector of activity, for the period ended as at 31 December 2018, can be analysed as follows:

(Thousands of Euro)

Activity	Dec 2018															
	Loans and advances to other credit institutions repayable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Investment in Associates	Guarantees granted	Irrevocable credir facilities	Provisions for off-balance sheet liabilities
	Book value	Book value	Impairment	Book value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Book Value	Off-balance sheet value		Provisions
Corporate																
Agriculture, forestry and fishing	-	-	-	80 867	3 571	-	-	-	-	-	-	-	-	1 049	3 866	114
Extractive Industries	-	-	-	13 664	445	-	-	-	-	-	-	-	-	1 411	1 474	130
Food, beverage and tobacco industries	-	-	-	202 639	10 367	-	-	-	-	-	-	-	-	3 009	31 924	108
Textiles and Clothing	-	-	-	86 217	9 997	-	-	-	-	-	-	-	-	1 398	7 577	13
Leather and shoes	-	-	-	42 994	4 518	-	-	-	-	-	-	-	-	3	5 708	1
Wood and cork	-	-	-	32 779	4 374	-	728	-	-	-	-	-	-	463	4 588	28
Paper and graphic industries	-	-	-	34 413	4 919	-	-	2 658	5	2 663	-	-	-	387	2 599	30
Oil refining	-	-	-	817	54	-	-	3 447	7	3 454	-	-	-	-	-	-
Rubber & Chemicals	-	-	-	92 267	5 384	-	-	3 012	3	3 015	-	-	-	5 271	12 887	105
Non-metallic mineral products	-	-	-	139 387	5 619	-	-	-	-	-	-	-	-	744	4 470	47
Basic metallurgical industries and metal products	-	-	-	163 263	14 860	-	-	-	-	-	-	-	-	7 471	17 602	113
Machine Manufacturing, Equipment and Electrical Appliances	-	-	-	42 213	3 347	-	623	-	-	-	-	-	-	1 438	4 281	117
Transportation Material Manufacturing	-	-	-	46 587	1 534	-	-			-	-	-	-	3 142	1 522	172
Other manufacturing industries	-	-	-	49 452	9 599	-	-	-	-	-	-	-	-	375	3 887	16
Electricity, gas and water	-	-	-	114 747	2 560	-	10 106	18 423	20	18 443	-	-	-	3 175	10 717	95
Construction and public works	-	-	-	775 325	273 030	-	250	-	-	-	-	-	-	113 525	78 969	5 992
Wholesale and retail trade	-	-	-	862 759	93 343	-	8 673	10 217	21	10 238	-	-	-	67 044	118 440	2 756
Tourism	-	-	-	432 088	13 955	-	-	-	-	-	-	-	3 584	8 737	15 305	274
Transports	-	-	-	410 429	38 129	-	-	-	-	-	-	-	-	11 242	13 765	778
Information and communication activities	-	-	-	74 230	6 365	-	-	3 018	3	3 021	-	-	-	5 911	24 929	68
Financial activities	78 088	210 331	399	582 229	54 026	23 739	149	15 881	81	15 962	-	-	-	134 815	24 941	382
Real estate activities	-	-	-	754 129	120 744	-	-	3 716	6	3 722	-	-	-	19 200	80 781	1 858
Business Services	-	-	-	394 877	24 124	-	3 001	27 996	58	28 054	-	-	698	31 039	41 639	808
Administration and public services	-	-	-	73 172	3 365		4 424	217 318	459	217 777	1 258 201	(2,550)	-	381	2 749	14
Other collective service activities	-	-	-	168 983	26 549	-	138	3 452	7	3 459	-	-	-	15 003	12 517	1 565
Others	-	-	-	12 998	450	-	-	-	-	-	-	-	-	29 125	3 106	(1,146)
Private				-	-					-						
Mortgage Loan	-	-	-	6 251 996	138 119	-	-	3 045	1	3 046	-	-	-	-	-	-
Others	-	-	-	1 132 267	71 229	-	-	-	-	-	-	-	-	-	22 830	-
	78 088	210 331	399	13 067 788	944 576	23 739	28 092	312 183	671	312 854	1 258 201	(2,550)	4 282	465 358	553 073	14 438

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 provided in the aggregate amount of Euro 442,463 thousand (31 December 2018: Euro 464,929 thousand) and the irrevocable credit facilities amounting to Euro 568,965 thousand (31 December 2018: Euro 553,073 thousand), broken down between loans with impairment and loans without impairment, is presented as follows:

(Thousands of Euro)

	Jun 2019			Dec 2018		
Stage impacts	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Collective analysis	**9 183 821**	**385 511**	**8 798 310**	**9 441 775**	**393 403**	**9 048 372**
Stage 1	6 434 044	8 007	6 426 037	6 513 590	6 835	6 506 755
Stage 2	2 103 724	39 051	2 064 673	2 255 628	36 310	2 219 318
Stage 3	646 053	338 453	307 600	672 557	350 258	322 299
Individual analysis	**4 405 703**	**546 574**	**3 859 129**	**4 644 015**	**565 611**	**4 078 404**
	13 589 524	**932 085**	**12 657 439**	**14 085 790**	**959 014**	**13 126 776**

As at 30 June 2019 and 31 December 2018, the detail of the loans and advances subject to collective analysis, structured by segment and by stage, is as follows:

(Thousands of Euro)

Jun 2019			
Segment	**Gross value**	**Impairment**	**Net value**
Retail	**6 822 473**	**202 576**	**6 619 897**
Mortgage loans	6 068 235	134 041	5 934 194
Stage 1	4 369 205	475	4 368 730
Stage 2	1 455 172	16 097	1 439 075
Stage 3	243 858	117 469	126 389
Consumer credit	696 911	65 018	631 893
Stage 1	480 682	1 358	479 324
Stage 2	125 134	7 117	118 017
Stage 3	91 095	56 543	34 552
Credit cards	57 327	3 517	53 810
Stage 1	27 451	307	27 144
Stage 2	26 061	1 376	24 685
Stage 3	3 815	1 834	1 981
Corporate	**2 361 348**	**182 935**	**2 178 413**
Non Construction	2 128 610	143 594	1 985 016
Stage 1	1 433 593	5 253	1 428 340
Stage 2	448 520	13 303	435 217
Stage 3	246 497	125 038	121 459
Construction	232 738	39 341	193 397
Stage 1	123 113	614	122 499
Stage 2	48 837	1 158	47 679
Stage 3	60 788	37 569	23 219
	9 183 821	**385 511**	**8 798 310**

(Thousands of Euro)

Segment	Gross value	Impairment	Net value
	Dec 2018		
Retail	**7 004 749**	**207 490**	**6 797 259**
Mortgage loans	6 237 220	134 854	6 102 366
Stage 1	4 416 811	405	4 416 406
Stage 2	1 550 924	16 713	1 534 211
Stage 3	269 485	117 736	151 749
Consumer credit	709 386	69 759	639 627
Stage 1	482 482	896	481 586
Stage 2	129 704	3 783	125 921
Stage 3	97 200	65 080	32 120
Credit cards	58 143	2 877	55 266
Stage 1	26 606	148	26 458
Stage 2	28 032	738	27 294
Stage 3	3 505	1 991	1 514
Corporate	**2 437 026**	**185 913**	**2 251 113**
Non Construction	2 199 957	142 716	2 057 241
Stage 1	1 469 694	4 876	1 464 818
Stage 2	493 727	13 870	479 857
Stage 3	236 536	123 970	112 566
Construction	237 069	43 197	193 872
Stage 1	117 997	510	117 487
Stage 2	53 241	1 206	52 035
Stage 3	65 831	41 481	24 350
	9 441 775	**393 403**	**9 048 372**

As at 30 June 2019 and 31 December 2018, impairment is detailed as follows:

(Thousands of Euro)

	Jun 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	4 364 359	540 334	2 361 348	182 935	6 725 708	723 269	6 002 439
Mortgage loans	20 263	464	6 068 235	134 041	6 088 497	134 505	5 953 992
Other loans	21 080	5 776	754 238	68 535	775 318	74 311	701 007
	4 405 702	546 574	9 183 821	385 511	13 589 523	932 085	12 657 438

(Thousands of Euro)

	Dec 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	4 589 715	549 901	2 437 026	185 912	7 026 741	735 813	6 290 928
Mortgage loans	17 728	392	6 237 219	134 854	6 254 947	135 246	6 119 701
Other loans	36 572	15 318	767 530	72 637	804 102	87 955	716 147
	4 644 015	565 611	9 441 775	393 403	14 085 790	959 014	13 126 776

As at 30 June 2019 and 31 December 2018, the fair value analysis of collaterals associated with the Group's total credit portfolio, is as follows:

(Thousands of Euro)

Fair value of collaterals	Jun 2019	Dec 2018
Individual analysis		
Securities and other financial assets	*119 526*	*166 904*
Real Estate - Mortgage loans	*33 118*	*28 352*
Real Estate - Construction and CRE	*2 359 731*	*2 441 259*
Other real estate	*1 708 050*	*1 698 309*
Other guarantees	*498 308*	*528 051*
Collective analysis - Stage 1		
Securities and other financial assets	*193 845*	*201 624*
Real Estate - Mortgage loans	*9 463 521*	*9 461 860*
Real Estate - Construction and CRE	*252 944*	*249 138*
Other real estate	*660 163*	*631 702*
Other guarantees	*346 556*	*350 270*
Collective analysis - Stage 2		
Securities and other financial assets	*49 159*	*59 329*
Real Estate - Mortgage loans	*2 870 553*	*2 981 190*
Real Estate - Construction and CRE	*121 066*	*113 126*
Other real estate	*350 905*	*387 488*
Other guarantees	*20 130*	*17 055*
Collective analysis - Stage 3		
Securities and other financial assets	*4 562*	*5 137*
Real Estate - Mortgage loans	*310 387*	*346 613*
Real Estate - Construction and CRE	*96 111*	*124 892*
Other real estate	*108 691*	*111 949*
Other guarantees	*10 445*	*11 805*
	19 577 771	**19 916 053**

Banco Montepio Group uses physical and financial collaterals as instruments to mitigate credit risk. The physical 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 Group's total loans and advances portfolio, by segment, and respective impairment, recorded in the 1st half of 2019 and financial period 2018, is presented as follows:

(Thousands of Euro)

	Jun 2019		Dec 2018	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate loans	4 651 102	320 075	4 876 053	315 778
Construction and CRE	2 074 606	403 194	2 150 688	420 035
Mortgage loans	6 088 497	134 504	6 254 947	135 246
Other loans	775 318	74 312	804 102	87 955
	13 589 523	932 085	14 085 790	959 014

The loans and advances portfolio, by segment and by production year, in the 1st half of 2019, is presented as follows:

(Thousands of Euro)

	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	1 579	86 304	7 533	1 019	171 017	82 525	50 105	1 610 938	45 678	27 122	13 509	3 991
2005	674	20 301	3 592	299	50 972	31 062	12 094	611 675	16 661	8 491	5 502	731
2006	821	38 231	6 111	354	83 739	40 684	14 640	756 611	21 322	19 189	21 892	4 903
2007	1 038	42 494	7 588	448	84 512	36 267	14 963	765 179	22 955	47 156	24 700	4 507
2008	2 774	55 802	8 040	770	37 898	9 486	7 738	398 383	12 279	70 834	28 336	4 966
2009	2 861	82 872	6 235	925	80 561	29 056	4 216	243 931	5 642	55 177	25 507	6 138
2010	2 958	128 517	20 691	748	61 761	21 496	4 344	280 521	4 501	39 892	20 796	8 618
2011	3 715	117 416	10 861	844	37 939	13 449	1 603	102 090	1 135	33 721	19 678	8 723
2012	4 144	151 283	24 911	714	43 573	13 515	1 018	65 235	757	24 453	15 210	4 158
2013	8 123	325 161	49 758	1 158	93 083	14 034	1 310	85 026	928	24 996	27 512	4 938
2014	11 866	509 397	38 489	2 882	177 044	27 333	1 556	104 376	684	31 027	52 802	7 230
2015	12 509	485 933	33 161	1 990	159 379	11 044	1 858	130 113	348	30 601	65 249	4 509
2016	14 102	737 574	39 409	2 932	243 008	32 525	2 554	201 781	514	46 723	98 642	4 418
2017	15 331	564 975	22 571	2 532	372 074	18 901	3 434	284 947	475	39 172	116 412	3 423
2018	15 876	644 435	27 618	3 198	226 655	18 926	3 534	292 150	347	51 227	155 137	2 388
2019	13 062	660 407	13 507	2 038	151 391	2 891	1 956	155 541	278	22 709	84 434	671
	111 433	4 651 102	320 075	22 851	2 074 606	403 194	126 923	6 088 497	134 504	572 490	775 318	74 312

The loans and advances portfolio, by segment and by production year, in financial period 2018, is presented as follows:

(Thousands of Euro)

	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	1 768	99 031	12 224	1 093	177 261	83 494	52 364	1 720 785	47 435	37 458	22 928	4 278
2005	728	22 610	4 006	317	53 214	32 436	12 495	645 208	16 636	6 565	6 892	955
2006	845	40 001	5 696	394	88 726	40 459	15 135	796 634	22 436	9 569	22 958	6 465
2007	1 109	51 188	10 089	492	89 772	36 132	15 429	803 744	21 814	37 451	35 081	12 825
2008	3 377	61 050	8 610	828	42 706	10 499	7 975	416 860	12 127	48 256	30 938	5 376
2009	3 047	92 835	9 114	975	86 831	29 742	4 356	255 846	5 218	33 319	26 953	6 685
2010	3 260	169 217	22 591	805	65 337	22 448	4 504	295 223	4 021	14 133	23 221	10 380
2011	4 079	125 949	11 529	948	45 795	14 154	1 671	108 266	1 234	16 740	22 381	9 307
2012	4 345	162 680	18 953	819	46 643	12 862	1 066	69 625	939	9 522	19 892	6 356
2013	8 855	357 215	49 756	1 232	105 258	16 978	1 367	90 785	1 024	13 929	31 820	6 162
2014	13 061	560 844	33 927	3 207	194 277	29 944	1 643	111 180	629	21 622	61 413	7 724
2015	15 904	556 732	34 114	2 281	179 980	9 900	1 934	138 833	383	24 169	77 880	4 250
2016	15 150	807 374	38 501	3 203	274 694	40 025	2 658	213 629	560	32 927	114 929	3 436
2017	15 285	637 421	26 951	2 845	409 826	22 708	3 536	295 012	426	30 562	133 962	2 558
2018	22 657	1 131 906	29 717	4 110	290 366	18 254	3 587	293 317	364	40 009	172 854	1 198
	113 470	4 876 053	315 778	23 549	2 150 686	420 035	129 720	6 254 947	135 246	376 231	804 102	87 955

The gross exposure of loans and advances to customers and impairment amount, individual and collective, by segment, in the 1st half of 2019 and in financial period 2018, is analysed as follows:

(Thousands of Euro)

	Jun 2019									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 768 288	194 228	1 596 072	346 106	20 263	464	21 080	5 776	4 405 703	546 574
Collective	1 882 814	125 847	478 534	57 088	6 068 235	134 041	754 238	68 535	9 183 821	385 511
	4 651 102	320 075	2 074 606	403 194	6 088 498	134 505	775 318	74 311	13 589 524	932 085

(Thousands of Euro)

	Dec 2018									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 929 281	190 749	1 660 434	359 152	17 728	392	36 572	15 318	4 644 015	565 611
Collective	1 946 772	125 029	490 254	60 883	6 237 219	134 854	767 530	72 637	9 441 775	393 403
	4 876 053	315 778	2 150 688	420 035	6 254 947	135 246	804 102	87 955	14 085 790	959 014

The gross exposure of loans and advances to customers and impairment amount, individual and collective, by activity sector, in the 1st half of 2019 and in financial period 2018, is analysed as follows:

(Thousands of Euro)

	Jun 2019											
	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	695 727	215 389	561 759	39 572	335 218	43 434	719 258	112 653	2 052 398	129 286	4 364 360	540 334
Collective	232 738	39 341	483 400	36 526	704 743	53 313	114 778	8 211	825 689	45 544	2 361 348	182 935
	928 465	254 730	1 045 159	76 098	1 039 961	96 747	834 036	120 864	2 878 087	174 830	6 725 708	723 269

(Thousands of Euro)

	Dec 2018											
	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	727 631	231 041	580 432	39 014	352 683	44 742	743 349	112 808	2 185 620	122 296	4 589 715	549 901
Collective	237 068	43 197	513 857	36 091	725 987	52 148	118 004	8 047	842 110	46 429	2 437 026	185 914
	964 699	274 238	1 094 289	75 105	1 078 670	96 890	861 353	120 855	3 027 730	168 725	7 026 741	735 815

The gross exposure of performing and non-performing loans and advances to customers, in the 1st half of 2019 and in financial period 2018, is analysed as follows:

(Thousands of Euro)

	Jun 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)	3 032 335	-	-	33 000	33 000	33 000	-	7 495	-	3 576	-	-	-
Other balance sheet credit exposures (b)	13 790 569	60 202	117 254	1 815 601	1 765 059	1 813 679	824 443	69 796	9 428	842 282	387 236	614 594	390 203
Off-balance sheet exposures (c)	1 697 431	1 703	3 001	136 376	131 553	136 376	7 687	2 573	5	11 638	78	-	-

(Thousands of Euro)

	Dec 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)	2 051 091	-	-	33 000	33 000	33 000	-	6 109	-	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	76 752	4 188	862 253	383 036	675 440	401 457
Off-balance sheet exposures (c)	1 667 025	2 207	2 650	187 924	170 377	187 924	32 744	3 133	7	11 304	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 Construction and Commercial Real Estate ("CRE") and Mortgage segments, as at 30 June 2019, is presented as follows:

(Thousands of Euro)

	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€	3 122	374 576	892	53 080	99 468	12 364 048	334	9 869
>= 0,5 M€ and <1M€	218	153 232	33	20 189	380	236 481	1	500
>= 1 M€ and <5M€	203	425 875	17	30 912	44	64 934	-	-
>= 5 M€ and <10M€	33	232 984	6	46 177	-	12 116	-	-
>= 10 M€ and <20M€	22	292 717	-	-	2	-	-	-
>= 20 M€ and <50M€	10	344 395	2	66 000	-	-	-	-
>= 50M€	6	1 006 072	-	-	-	-	-	-
	3 614	2 829 851	950	216 358	99 894	12 677 579	335	10 369

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:

(Thousands of Euro)

	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€	3 288	384 536	1 681	69 782	101 511	12 519 977	341	10 250
>= 0,5 M€ and <1M€	212	147 318	33	21 204	367	227 914	1	500
>= 1 M€ and <5M€	196	409 124	17	33 030	44	65 025	-	-
>= 5 M€ and <10M€	33	232 911	6	44 830	-	5 099	-	-
>= 10 M€ and <20M€	27	366 295	1	13 491	1	-	-	-
>= 20 M€ and <50M€	13	432 369	2	66 000	-	-	-	-
>= 50M€	5	955 862	-	-	-	-	-	-
	3 774	2 928 415	1 740	248 337	101 923	12 818 015	342	10 750

The LTV (loan-to-value) ratio of the Corporate, Construction and CRE and Mortgage segments, as at 30 June 2019 and 31 December 2018, is presented as follows:

(Thousands of Euro)

	Jun 2019			Dec 2018		
Segment/ Ratio	No. of real estate	Total exposure	Impairment	No. of real estate	Total exposure	Impairment
Corporate						
Without real estate (*)	-	3 280 816	328 906	-	3 795 844	216 254
< 60%	2 048	337 455	41 956	2 146	368 389	24 647
>= 60% and < 80%	877	421 933	27 939	820	466 678	27 331
>= 80% and < 100%	811	139 769	32 373	879	199 141	21 031
>= 100%	40	4 561	35 394	24	46 001	26 515
Construction and CRE						
Without real estate (*)	-	620 493	290 027	-	962 259	162 651
< 60%	1 429	344 610	181 982	1 401	511 869	109 767
>= 60% and < 80%	759	265 533	85 928	906	349 903	54 658
>= 80% and < 100%	1 071	141 842	61 218	1 068	216 969	40 695
>= 100%	355	25 952	57 021	399	109 687	52 264
Mortgage						
Without real estate (*)	-	474 602	44 118	-	533 930	34 675
< 60%	63 916	2 512 387	43 731	64 492	2 576 393	29 004
>= 60% and < 80%	25 504	2 045 674	30 742	26 024	2 121 153	24 825
>= 80% and < 100%	9 659	832 377	34 233	10 536	946 844	23 945
>= 100%	815	35 212	35 421	871	76 627	22 797

(*) Includes operations with other associated collaterals, namely financial collaterals.

The fair value and the net value of real estate received in recovery/execution of loans, by asset type, as at 30 June 2019 and 31 December 2018, are presented as follows:

(Thousands of Euro)

Assets	Jun 2019 No. of real estate	Jun 2019 Fair value	Jun 2019 Book value
Land	**1 924**	**378 384**	**332 791**
Urban	1 639	324 013	281 884
Rural	285	54 371	50 908
Buildings under construction	**562**	**89 463**	**82 624**
Commercial	64	4 355	4 203
Housing	404	84 454	77 791
Other	94	654	630
Constructed buildings	**2 466**	**310 020**	**274 095**
Commercial	926	128 798	112 708
Housing	1 007	173 811	155 071
Other	533	7 411	6 316
	4 952	777 867	689 510

(Thousands of Euro)

Assets	Dec 2018 No. of real estate	Dec 2018 Fair value	Dec 2018 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
Housing	514	115 423	105 233
Other	94	652	630
Constructed buildings	**2 618**	**314 629**	**278 568**
Commercial	957	133 776	116 456
Housing	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 properties, as at 30 June 2019 and 31 December 2018, is presented as follows:

(Thousands of Euro)

Jun 2019					
Elapsed time since recovery/execution	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
Land	**1 010**	**78 674**	**85 994**	**167 113**	**332 791**
Urban	(452)	70 749	70 546	141 041	281 884
Rural	1 462	7 925	15 449	26 072	50 908
Buildings under construction	**15 396**	**23 157**	**20 286**	**23 785**	**82 624**
Commercial	-	713	1 163	2 327	4 203
Housing	15 396	22 353	19 091	20 951	77 791
Other	-	91	32	507	630
Constructed buildings	**17 169**	**45 585**	**95 582**	**115 759**	**274 095**
Commercial	5 436	19 360	36 411	51 501	155 192
Housing	11 367	25 382	56 519	61 803	13 943
Other	366	843	2 652	2 455	104 960
	33 575	147 416	201 862	306 657	689 510

(Thousands of Euro)

Dec 2018					
Elapsed time since recovery/execution	< 1 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
Housing	32 740	18 847	31 894	21 752	105 233
Other	93	-	29	508	630
Constructed buildings	**30 597**	**54 330**	**86 876**	**106 765**	**278 568**
Commercial	11 329	20 386	36 792	47 949	116 456
Housing	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 Banco Montepio 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 Banco Montepio 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 Banco Montepio Group entities.

In order to reduce concentration risk, Banco Montepio 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 way, with regular monitoring of the concentration indexes 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, both 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 in bonds, and as at 30 June 2019 it represented 82.8% (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.

Concerning the credit derivatives, Banco Montepio held no position in these instruments as at 30 June 2019 and 31 December 2018.

Regarding the credit quality of debt securities, approximately 94.8% of the portfolio is investment grade (90.2% in December 2018), and most of them are the Portuguese and Italian sovereign bonds with a rating of BBB representing 70.0% of the portfolio. Concerning the composition of the portfolio, it was verified an increase in Portuguese sovereign debt exposure and a decrease in sovereign debt exposure.

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 amortised cost (which excludes positions held by subsidiaries subject to the application of IFRS 5), is presented as follows:

(Thousands of Euro)

Rating	Jun 2019		Dec 2018		Change	
	Amount	%	Amount	%		%
AAA	4 528	0.2	-	-	4 528	-
AA+	1 003	0.0	1 091	0.1	(88)	(8.1)
AA	7 854	0.3	-	-	7 854	-
AA-	16 095	0.6	-	-	16 095	-
A+	18 386	0.7	1 718	0.1	16 668	970.2
A	21 978	0.8	1 031	0.1	20 947	2,031.7
A-	35 611	1.3	3 128	0.2	32 483	1,038.5
BBB+	271 267	9.9	212 081	12.6	59 186	27.9
BBB	47 033	1.7	15 666	0.9	31 367	200.2
BBB-	2 180 613	79.3	1 279 957	76.2	900 656	70.4
BB	4 525	0.2	234	-	4 291	1,833.8
B+	2 000	0.1	-	-	2 000	-
NR	35 628	1.3	52 257	3.1	(16 629)	(31.8)
Subtotal	2 646 521	96.3	1 567 163	93.2	1 079 358	68.9
Discontinuing subsidiaries	102 984	3.7	113 635	6.8	(10 651)	(9.4)
Total	2 749 505	100.0	1 680 798	100.0	1 068 707	63.6

As at 30 June 2019, the amount of Euro 2,749,505 thousand (31 December 2018: Euro 1,680,798 thousand) includes the amount of Euro 102,984 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 amount of securities recognized in the portfolio of Financial assets at fair value through other comprehensive income amounts to Euro 1,848,006 thousand (31 December 2018: Euro 311,512 thousand), the position in Other financial assets at amortised cost amounts to Euro 900,089 thousand (31 December 2018: Euro 1,255,651 thousand), and the position in Financial assets held-for-trading amounts to Euro 22,520 thousand.

Regarding the trading portfolio, as at 30 June 2019 the main VaR indicators are as follows:

(Thousands of Euros)

	Jun 2019	Average	Minimum	Maximum	Dec 2018
Market VaR	509	415	5	590	5
Interest rate risk	71	46	5	35	5
Exchange risk	52	79	-	104	-
Price risk	324	295	-	551	-
Spread Risk	324	312	-	498	-
Diversification effect	*(262)*	*(397)*	-	*(598)*	-

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 Banco Montepio Group 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 indexes 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 the 1st half of 2019 and in financial period 2018:

(Thousands of Euro)

	Below 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years
30 June 2019					
Assets					
Debt securities	267 335	53 185	24 473	1 204 322	1 052 478
Loans and advances	7 308 233	3 008 912	873 972	585 686	176 560
Others	94 396	-	-	-	20 209
Off-balance sheet	21 003	-	4 639	1 130 417	-
Total	7 690 967	3 062 097	903 084	2 920 425	1 249 247
Liabilities					
Debt securities issued	6 824	76 875	5 046	872 380	23 826
Deposits with defined maturity	2 242 345	1 353 662	2 206 222	2 443 836	-
Others	804 179	12 205	541 495	1 046 275	22 377
Off-balance sheet	767 969	-	122	487	1 930
Total	3 821 317	1 442 742	2 752 885	4 362 978	48 133
GAP (Assets - Liabilities)	3 869 650	1 619 355	(1 849 801)	(1 442 553)	1 201 114
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	-	-
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

(Thousands of Euros)

	Jun 2019				Dec 2018			
	June	Annual Average	Maximum	Minimum	December	Annual Average	Maximum	Minimum
Interest Rate Gap	3 397 764	3 215 191	3 397 764	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 30 June 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 approximately Euro 57,038 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 the 1st half of 2019 and financial period 2018, as well as the respective average balances and the income and expense for the period:

(Thousands of Euros)

	Jun 2019			Dec 2018		
	Average balance	**Average interest rate (%)**	**Interest**	**Average balance**	**Average interest rate (%)**	**Interest**
Interest assets generators						
Deposits at central banks and OCI	1 260 793	0.45	2 840	1 370 858	1.01	14 043
Loans and advances to OCI	258 031	1.02	1 327	323 513	0.78	2 558
Loans and advances to customers	12 834 056	2.22	143 374	13 709 270	2.26	313 856
Securities portfolio	2 082 680	0.69	7 242	1 732 981	0.67	11 764
Other (includes derivatives)	27 032	1.27	173			
	-	-	9 534	-	-	19 487
	16 462 592	**1.99**	**164 490**	**17 136 622**	**2.08**	**361 708**
Interest liabilities generators						
Deposits from ECB	1 393 908	0.30	2 085	1 539 715	0.32	5 001
Deposits from OCI	1 249 401	0.76	4 754	1 636 717	0.95	15 809
Deposits from customers	12 568 020	0.31	19 636	12 389 580	0.45	56 912
Senior debt	1 014 621	1.06	5 404	1 286 957	1.42	18 550
Subordinated debt	108 885	8.23	4 508	90 681	1.24	1 140
Other (includes derivatives)	-	-	8 052	-	-	16 192
	16 334 835	**1.56**	**44 439**	**16 943 650**	**0.66**	**113 604**
Net interest income		**1.45**	**120 051**		**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, as at 30 June 2019 and 31 December 2018, is analysed as follows:

(Thousands of Euro)

	Jun 2019							
	Euro	United States Dollar	Angolan Kwanza	Mozambican Metical	Sterling Pound	Brazilian Real	Other foreign currencies	Total
Assets by currency								
Cash and deposits at central banks	1 405 001	8 950	-	-	1 129	-	2 936	1 418 016
Loans and advances to credit institutions repayable on demand	2 312	27 959	7 821	-	207	-	1 673	39 972
Other loans and advances to credit institutions	215 935	8 494	-	-	3 664	-	23 841	251 934
Loans and advances to customers	11 574 126	86 013	-	-	12	-	72	11 660 223
Financial assets held-for-trading	46 659	915	-	-	63	-	129	47 766
Financial assets at fair value value through profit or loss	437 396	-	-	-	-	-	-	437 396
Financial assets at fair value through other comprehensive income	1 798 089	-	-	-	-	49 917	-	1 848 006
Hedging derivatives	18 261	-	-	-	-	-	-	18 261
Other financial assets at amortised cost	913 225	-	-	-	-	-	-	913 225
Repurchase agreement assets	13	-	-	-	-	-	-	13
Investments in associates	4 207	-	-	-	-	-	-	4 207
Non-current assets held for sale	-	-	-	-	-	-	-	-
Non-current assets held for sale - - discontinued operations	26 908	107 047	126 815	-	1	-	-	260 771
Investment properties	228 232	-	-	-	-	-	-	228 232
Other tangible assets	255 521	-	-	-	-	-	-	255 521
Intangible assets	32 596	-	-	-	-	-	-	32 596
Current tax assets	6 406	-	-	-	-	-	-	6 406
Deferred Tax Assets	431 049	-	-	-	-	-	-	431 049
Other assets	809 201	31 811	-	-	1	-	6	841 019
Total Assets	**18 205 137**	**271 189**	**134 636**	**-**	**5 077**	**49 917**	**28 657**	**18 694 613**
Liabilities by currency	1 392 489	-	-	-	-	-	-	1 392 489
Deposits from central banks	1 206 670	65 334	-	-	4 043	-	24 128	1 300 175
Deposits from other credit institutions	12 519 021	109 064	-	-	10 473	-	41 684	12 680 242
Deposits from customers	960 618	-	-	-	-	-	-	960 618
Debt securities issued	13 376	10	-	-	-	-	-	13 386
Financial liabilities held-for-trading	706	-	-	-	-	-	-	706
Hedging derivatives	32 923	44 559	79 613	-	7	-	2	157 104
Non current liabilities held for sale - discontinued operations	30 606	-	-	-	-	-	-	30 606
Provisions	2 202	-	-	-	-	-	-	2 202
Current tax liabilities	-	-	-	-	-	-	-	-
Other subordinated debt	154 552	-	-	-	-	-	-	154 552
Other liabilities	475 326	3 328	-	-	598	-	86	479 338
Total Liabilities	**16 788 489**	**222 295**	**79 613**	**-**	**15 121**	**-**	**65 900**	**17 171 418**
Exchange forward transactions	-	(48,292)	-	-	9 815	-	37 701	(81)
Exchange gap	-	603	55 023	-	(228)	49 917	458	-
Stress Test	-	**(120)**	**(11,005)**	**-**	**46**	**(9,983)**	**(91)**	-

(Thousands of Euro)

	Dec 2018							
	Euro	United States Dollar	Angolan Kwanza	Mozambican Metical	Sterling Pound	Brazilian Real	Other foreign currencies	Total
Assets by currency								
Cash and deposits at central banks	1 590 381	14 110	-	-	1 512	-	4 632	1 610 635
Loans and advances 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	12 007 287	114 837	-	-	1 069	-	19	12 123 212
Financial assets held-for-trading	23 727	12	-	-	-	-	-	23 739
Financial assets at fair value value through profit or loss	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 amortised cost	1 255 651	-	-	-	-	-	-	1 255 651
Investments in associates and other	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	460 268	-	-	-	-	-	-	460 268
Other assets	83 281	990	-	-	1	-	158	84 430
Total Assets	**17 828 670**	**287 567**	**143 181**	**-**	**11 829**	**47 310**	**32 770**	**18 351 327**
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
Hedging derivatives	-	-	-	-	-	-	-	-
Non current liabilities held for sale - discontinued operations	46 171	52 384	95 431	-	7	-	2	193 995
Provisions	31 080	-	-	-	-	-	-	31 080
Current tax liabilities	10 960	-	-	-	-	-	-	10 960
Deferred tax liabilities	-	-	-	-	-	-	-	-
Other subordinated debt	50 044	-	-	-	-	-	-	50 044
Other liabilities	189 349	13 390	-	-	296	-	1 871	204 906
Total Liabilities	**16 397 875**	**239 046**	**95 431**	**-**	**14 265**	**-**	**67 777**	**16 814 394**
Exchange forward transactions		(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 weekly 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 weekly basis.

As at 30 June 2019, the LCR amount was 196.8% (31 December 2018: 160.5%).

As at 30 June 2019, Banco Montepio Group's financing structure was as follows:

(Thousands of Euro)

	Jun 2019	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 392 489	-	-	-	-	1 392 489
Deposits from other credit institutions	1 300 175	-	202 890	730 537	10 288	356 460
Deposits from customers	12 680 242	-	5 253 683	2 066 068	2 085 625	3 274 866
Debt securities issued	960 618	-	1	22 970	6 302	931 345
Financial liabilities held for trading	13 386	-	123	-	49	13 214
Financial liabilities held for sale - - discontinuing operations	157 104	157 104	-	-	-	-
Other subordinated debt	154 552	-	-	2 027	2 525	150 000
Other liabilities	479 338	479 338	-	-	-	-
Total financing	**17 137 904**	**636 442**	**5 456 697**	**2 821 602**	**2 104 789**	**6 118 374**

As at 31 December 2018, Banco Montepio Group's financing structure was as follows:

(Thousands of Euro)

	Dec 2018	Undetermined	Below 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
Financial liabilities held for sale - - discontinuing operations	-	193 995	-	-	-	-
Other subordinated debt	50 044	-	-	-	44	50 000
Other liabilities	204 906	204 906	-	-	-	-
Total financing	**16 772 254**	**398 901**	**4 940 818**	**3 087 670**	**2 526 918**	**5 817 947**

In the scope of Banco de 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 30 June 2019 and 31 December 2018, on the assets and related collaterals:

(Thousands of Euro)

Assets	Jun 2019			
	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	3 900 028	-	14 794 584	-
Equity instruments	-	-	551 595	551 590
Debt securities	804 626	721 495	2 239 158	2 471 568
Other assets	-	-	2 220 743	-

(Thousands of Euro)

Assets	Dec 2018			
	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	-	14 354 829	-
Equity instruments	-	-	597 063	1 007 687
Debt securities	768 038	735 169	1 273 863	1 447 186
Other assets	-	-	2 331 739	-

(Thousands of Euro)

Collateral received	Jun 2019	
	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	-	-
Equity instruments	-	-
Debt securities	-	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

Collateral received	Dec 2018	
	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	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

Encumbered assets, encumbered collateral received and associated liabilities	(Thousands of Euro) Jun 2019 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	2 626 653
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	3 872 390

Encumbered assets, encumbered collateral received and associated liabilities	(Thousands of Euro) Dec 2018 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 covered bonds and encumbered ABS	4 015 260

The encumbered assets are mostly related to Banco Montepio Group financing operations, namely of the ECB, of repo operations, of the issuance of covered bonds and of securitisation programs. The type of assets used as collateral for securitisation 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 securitisation 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 the 1st half of 2019 and in financial period 2018 and reflect the high level of collateralization of the wholesale funding of Banco Montepio Group. The buffer of eligible assets for the ECB, after haircuts, uncommitted and available for use in new operations, as at 30 June 2019 amounts to Euro 2,029,950 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 30 June 2019 amounts to Euro 3,380,700 thousand (31 December 2018: Euro 2,603,413 thousand) with a usage of Euro 1,409,820 thousand (31 December 2018: Euro 1,395,320 thousand):

(Thousands of Euro)

	Jun 2019	Dec 2018
Total eligible collateral	**4 711 731**	**3 882 678**
Total collateral in the pool	3 380 700	2 603 413
Collateral outside the pool	1 331 031	1 279 265
Used collateral	**2 681 780**	**2 627 755**
Collateral used for ECB	1 409 820	1 395 320
Collateral committed to other financing operations	1 271 960	1 232 435
Collateral available for ECB	**1 970 880**	**1 208 093**
Total available collateral	**2 029 951**	**1 254 923**

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 credit recovery processes or from real estate fund units 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 needed for the definition of the real estate risk management policy.

As at 30 June 2019 and 31 December 2018, the exposure to real estate and investment units in real estate funds presented the following values:

(Thousands of Euro)

	Jun 2019	Dec 2018
Real estate received as loan guarantee	689 469	737 930
Investment properties	228 232	253 097
Real estate investment fund units	293 057	296 550
	1 210 758	1 287 577
Stress test	(121 076)	(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 in real estate fund units.

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 Group has the approval from Banco de 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 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 control of these limits is monitored daily by means of a detailed analysis of “legal limits and investments exceeded”, with a set of procedures being performed if the limits are exceeded.

Subsequently, the Risk Department monitors the effect of the 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 decided to strengthen 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. In the case of shares, this analysis is done based on the number of days to settle, 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 amortisations 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 against the objectives/limits established, 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 are assured, depending on the cases, either by statistical and computerized methods or by review or revaluation of the valuation amount by an expert appraiser.

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 the prior's.

Banco Montepio 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.

With regard to the banking portfolio, interest rate and foreign exchange risk mitigation techniques correspond to the negotiation of hedging operations with derivatives and closing exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of Banco Montepio Group are established 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 Banco de 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 Banco Montepio 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, on the balance sheet as at 1 January 2014, is the transitional cumulative recognition plan maintained on a 10% annual basis, with, in 2018, this having attained 40%;

- *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 Banco de Portugal. Non-controlling interests relating to additional own funds' minimum requirements of the institutions in which Banco Montepio 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 Banco de Portugal. Non-

controlling interests relating to the own fund's minimum requirements of the institutions in which Banco Montepio 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 2018, Banco Montepio only recognized prudentially 5% of the impact related to the adoption of IFRS 9, and in the first half of 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, 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, reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions) are applied, the value of which is defined by Banco de Portugal. In 2018, Banco de Portugal defined a 0% Counter-Cyclical Reserve. Regarding the Conservation Reserve, Banco de 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, Banco de 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, Banco de Portugal defined for Banco Montepio an additional Pillar 2 requirement of 3%, to be met on a consolidated basis.

Pursuant to these provisions, as at 30 June 2019, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 10.125%, 11.625% and 13.625%, respectively, including the own fund reserves referred to above.

The summary of the calculation of Banco Montepio Group's capital requirements as at 30 June 2019 and 31 December 2018, under phasing-in, is presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 420 000
Net profit, reserves and retained earnings	(917 669)	(904 940)
Minority interests eligible for CET1	5 861	6 597
Other regulatory adjustments	(74 898)	(65 129)
	1 433 294	1 456 528
Capital Tier 1		
Minority interests eligible for Tier 1	318	382
Regulatory adjustments	-	-
	1 433 612	1 456 910
Capital Tier 2		
Subordinated loans	156 323	56 323
Minority interests eligible for Tier 2	-	-
Regulatory adjustments	-	-
	156 323	56 323
Total own funds	1 589 935	1 513 233
Own funds requirements		
Credit risk	721 498	747 151
Market risk	9 720	8 501
Operating risk	61 884	61 884
Other requirements	41 197	43 147
	834 299	860 683
Prudential Ratios		
Common Equity Tier 1 Ratio	13.74%	13.54%
Tier 1 Ratio	13.75%	13.54%
Total Capital Ratio	15.25%	14.07%

It should be noted that the ratios, as at 30 June 2019, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 33.

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 IFRS 9 adoption. If Banco Montepio did not apply this transition plan to the impacts arising from the adoption of IFRS 9, Banco Montepio's prudential ratios as at 30 June 2019 and 31 December 2018 would be:

(Thousands of Euro)

	Jun 2019	Dec 2018
Capital Common Equity Tier 1	311 415	1 322 018
Capital Tier 1	1 311 733	1 322 400
Total own funds	1 468 056	1 378 723
Own funds requirements	827 053	851 561
Prudential Ratios		
Common Equity Tier 1 Ratio	12.69%	12.42%
Tier 1 Ratio	12.69%	12.42%
Total Capital Ratio	14.20%	12.95%

56 Accounting standards recently issued

The new standards, amendments to the standards and interpretations that became effective on 1 January 2019 and which Banco Montepio Group has already incorporated in the interim financial statements as at 30 June 2019 are:

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". This new standard may be applied retrospectively or a modified retrospective approach may be followed. The impact of adopting this standard is presented in note 58 to this report.

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 amortised cost, provided that specific conditions are fulfilled, rather than being stated at fair value through profit or loss. These changes had no material impact on the financial statements of Banco Montepio 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 after the amendment, reduction or settlement of the plan; and (ii) recognize, in the income statement, as part of the cost of past service, or as a gain or loss in the settlement, any reduction in excess of coverage, even if the excess coverage had not been previously recognized due to the impact of the asset ceiling. The impact on the asset ceiling is recognized in Other Comprehensive Income, not being allowed to recycle it through profit for the year. These changes had no material impact on the financial statements of Banco Montepio Group.

d) IAS 28 (amendment), “Long-term interests in associates and joint ventures”. This amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investment in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9 – “Financial instruments”. The long-term investments in associates and joint ventures are subject to the expected credit loss model prior to being added, for impairment testing purposes, to the whole investment in an associate and joint venture, when impairment indicators exist. These changes had no material impact on the financial statements of Banco Montepio Group.

e) Improvements to 2015 - 2017 Standards. This improvement cycle affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11. These changes had no material impact on the financial statements of Banco Montepio Group.

f) IFRIC 23 (new), “Uncertainty over Income Tax Treatments”. This is an interpretation of IAS 12 – “Income Tax”, and refers to the measurement and recognition requirements to be applied when there is uncertainty 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 Group.

The new standards and amendments to published standards, the application of which is mandatory for annual periods beginning on or after 1 January 2020, but which the European Union has not yet endorsed, are as follows:

g) 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, as well as a substantial process that jointly generate outputs. Outputs are now defined as goods and services rendered to customers, which generate investment income and other income, and exclude returns as lower costs 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 Group does not anticipate any significant impact on the application of these changes to its financial statements.

h) IAS 1 and IAS 8 (amendment), “Definition of material” (effective for annual periods beginning on or after 1 January 2020). This amendment is still subject to endorsement by the European Union. 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 “existing or potential investors, lenders and creditors” that rely on the financial statements to obtain a significant portion of the information they need. Banco Montepio Group does not anticipate any significant impact on the application of these changes to its financial statements.

i) Conceptual Framework, “Amendments to References to Other IFRS” (effective for annual periods beginning on or after 1 January 2020). These amendments are still subject to endorsement by the European Union. 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, in addition to some of the characteristics of the financial information. These amendments are retrospective, except if impracticable. Banco Montepio Group does not anticipate any significant impact on the application of these changes to its financial statements.

j) 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 is different depending on whether it is positive or negative. IFRS 17 is retrospective in application. Banco Montepio Group does not anticipate any significant impact on the application of these changes to its financial statements

57 Transfer of assets

The Group carried out a number of 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 their value.

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 on the assets.

The specialized funds that acquired financial assets from the Group are closed funds, in respect of which the holders have no possibility of requesting the reimbursement of their investment units throughout the useful life of the funds.

These investment units are held by several banks in the market, which are the sellers of 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 establishment of the funds.

The management structure of the fund has as main responsibilities:

- 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, provide 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 give rise to their recovery arise mainly from a broad set of assets transferred from 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 market value, as disclosed by the funds and audited at each year end; and
- Junior bonds (with a higher subordination level), issued by the Portuguese-law companies controlled by the funds, which are fully provided against to reflect the best estimate of the impairment of the financial assets transferred.

In this context, not holding control but maintaining some exposure to certain risks and rewards, the Group, in accordance with IAS 39.21 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 IAS 39.20 c (i), derecognized the assets transferred and recognized the assets received in return as follows:

(Thousands of Euro)

	Jun 2019			Dec 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	-	-	-	-	-	-
Discovery Portugal Real Estate Fund	13 698	15 415	1 717	13 698	15 415	1 717
Fundo Aquaris, FCR	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 30 June 2019 and 31 December 2018, the assets received under these operations are as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
	Senior securities	
Fundo Vega, FCR	25 734	26 008
Discovery Portugal Real Estate Fund	15 531	15 828
Fundo Aquarius, FCR	13 170	12 969
Fundo de Reestruturação Empresarial, FCR	30 042	40 087
	84 477	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 holding of 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), Banco Montepio 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 Banco Montepio 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.

Banco Montepio Group has opted not to apply this standard to short-term lease agreements, less than or equal to one year, and to lease agreements in which the underlying asset has little 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 Group carried out an inventory of all existing contracts on that date 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.

In accordance with IFRS 16, Banco Montepio 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.

Banco Montepio Group, using the practical expedient available on the transition to IFRS 16, recognized a present value liability of the future payments, using an incremental 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 case-by-case. In 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 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 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 Banco Montepio 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 amortisation for the period, 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, the caption Cash flows from operating activities – (Cash) payments to employees and suppliers includes amounts related to short-term and low-value asset lease agreements and the caption Decrease in other liability accounts and non-controlling interests includes amounts relating to payments of the capital portion of lease liabilities, as detailed in the Condensed interim consolidated statements 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 adoption of IFRS 16 had no impact on Banco Montepio Group’s net cash flows.

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:

(Thousands of Euro)

	IAS 17 31-Dec-2018	IFRS 16 adjustment	IFRS 16 01-Jan-2019
Assets			
Cash and deposits at central banks	1 610 635	-	1 610 635
Loans and advances 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	12 123 212	-	12 123 212
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 amortised cost	1 255 651	-	1 255 651
Investments in associates	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	460 268	-	460 268
Other assets	84 430	-	84 430
Total Assets	18 351 327	27 626	18 378 953
Passive			
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
Hedging derivatives	-	-	-
Non-current liabilities held for sale - discontinued operations	193 995	-	193 995
Provisions	31 080	-	31 080
Current tax liabilities	10 960	-	10 960
Other subordinated debt	50 044	-	50 044
Other liabilities	204 906	27 626	232 532
Total Liabilities	16 814 394	27 626	16 842 020
Own capitals			
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	(898 743)	-	(898 743)
Consolidated net income for the year attributable to the shareholder	12 512	-	12 512
Total Equity Attributable to Shareholder	1 521 382	-	1 521 382
Non-controlling Interests	15 551	-	15 551
Total Equity	1 536 933	-	1 536 933
Total Liabilities and Equity	18 351 327	27 626	18 378 953

59 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 Banco de 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 Banco de Portugal based, essentially, on the amount of its liabilities. In the 1st half of 2019, the periodic contribution made by the Group amounted to Euro 2,691 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, Banco de 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, Banco de 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 (approximately 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 on 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.

According to the results for financial period 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 of Banif – Banco Internacional do Funchal, S.A. (Banif)

The Banco de 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.

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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 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

On 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 was 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 line with many other institutions targeted that have publicly announced this intention, Banco Montepio will challenge this Decision. Based on all the relevant circumstances, it is considered that there is a serious and significant likelihood that the administrative fine will not become effective following the legal remedies that come to be lodged against the Decision.

We are not aware, until the present date, of any claim for damages related to the Decision or to the related facts. Taking into consideration 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

60 Subsidiary and associated companies

As at 30 June 2019, the Group's subsidiaries, consolidated under the full consolidation method, are as follows:

Subsidiary	Head office	Share capital	Currency	Activity	Group	
					% of control	% of effective part
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verde 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.	Porto	30 000 000	Euro	Specialised loans	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Lisboa	175 000 000	Euro	Managements of shareholding	100.00%	100.00%
Montepio Investimento, S.A.	Lisboa	180 000 000	Euro	Banking	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Lisboa	1 550 000	Euro	Managements of investment funds	100.00%	100.00%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisboa	100 000	Euro	Management of real estate	100.00%	100.00%

As at 30 June 2019, the Group´s associated companies accounted for under the equity method, are as follows:

Subsidiary	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	euros 10 000 000	Accomodation, catering and similar/Hotels with restaurant	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisboa	euros 2 449 707	Management of real estate	28.50%
CESource, ACE	Lisboa	-	Management of IT systems	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 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.

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.

Upon full settlement of the transaction, the Group continued to control Finibanco Angola, S.A.

As at 30 June 2019, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsidiary	Establishment year	Acquisition year	Head office	% of controlling interest	Consolidation method
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisboa	100%	Full
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisboa	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisboa	100%	Full

On 31 March 2018, the Group deconsolidated Valor Prime – Fundo de Investimento Imobiliário Aberto.

In 2014, considering the provisions of IFRS 10 and the responsibilities allocated to Banco Montepio in the scope of the management of the activity of Banco Terra S.A., and that consist of the ability to manage the main activities, and having the ability to control the powers and responsibilities of the Chief Executive Officer, who will be appointed by the Group, to influence the remaining areas, the shareholding was consolidated by the full consolidation method. This situation remained unchanged until 31 December 2018.

61 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 accordance with paragraph 33(a) of IFRS 5, the net cash flows attributable to operating, investing and financing activities of discontinued operations are to be disclosed, but this is not mandatory for asset groups held for sale that are recently acquired subsidiaries that meet the criteria for classification as available for sale on acquisition.

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 2017. The table below presents the index and the cumulative percentage variation over the last 3 years:

(Thousands of Euro)

	2015	2016	2017	2018	Jun 2019
IPCN (Basis - 31 December 2014 = 100)	114.27	162.20	204.79	241.08	258.54
Annual variation	14%	48%	42%	18%	7%

It should be noted that as at 30 June 2019, the IPCN was 258.54 representing an increase of 7.2% over 31 December 2018.

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 2017 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 company.

The application of IAS 29 to the financial shareholding held by the Group in Finibanco Angola, S.A. had equity impacts in 2019, involving:

(i) an increase in reserves and retained earnings as at 31 December 2018 of Euro 7,088 thousand; and

(ii) a decrease of net income of Euro 26 thousand (31 December 2018: Euro 3,975 thousand);

The Balance Sheet of Finibanco Angola, S.A., as at 30 June 2019, is presented as follows:

(Thousands of Euro)

	Jun 2019		
	Finibanco Angola	Intercompany balances	Total
Cash and deposits at central banks and credit institutions	65 350	(26 864)	38 486
Other loans and advances to credit institutions	4 800	(943)	3 857
Loans and advances to customers	62 019	-	62 019
Securities portfolio and derivatives	102 566	-	102 566
Intangible assets	1 284	-	1 284
Other assets	52 663	(104)	52 559
Total assets	**288 682**	**(27 911)**	**260 771**
Deposits from other credit institutions	1 040	-	1 040
Deposits from customers	181 540	(31 135)	150 405
Other subordinated debt	26 853	(26 853)	-
Provisions	2 341	-	2 341
Other liabilities	3 398	(80)	3 318
Total liabilities	**215 172**	**(58 068)**	**157 104**

The Balance Sheet of Finibanco Angola, S.A. and Casa da Sorte Group, as at 31 December 2018, is presented as follows:

(Thousands of Euro)

	Dec 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
Securities portfolio 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:

(Thousands of Euro)

	Jun 2019	Dec 2018		
	Finibanco Angola	Finibanco Angola	Banco Terra	Total
Net interest income	8 230	24 516	4 614	29 130
Dividends from equity instruments	-	-	-	-
Net fee and commission income	2 699	10 944	471	11 415
Net gains/ (losses) arising from financing activities	3 595	16 444	124	16 568
Other operating income/ (expense)	(920)	21 776	(4 194)	17 582
Total operating income	**13 604**	**73 680**	**1 015**	**74 695**
Staff costs	3 295	8 209	3 009	11 218
General and administrative expenses	2 566	6 151	2 227	8 378
Depreciation and amortisation	480	1 121	527	1 648
Total operating expense	**6 341**	**15 481**	**5 763**	**21 244**
Loans, other assets and other provisions impairment	(18)	10 528	(330)	10 198
Operating profit	**7 281**	**47 671**	**(4 418)**	**43 253**
Profit before income tax	**7 281**	**47 671**	**(4 418)**	**43 253**
Taxes	1 427	7 097	-	7 097
Net profit/ (loss) for the period	**5 854**	**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 amounts to USD 67,749 thousand, approximately Euro 58,534 thousand.

As at 30 June 2019, the amount registered in the balance sheet, related to goodwill and consolidation 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 subidiary Casa da Sorte - Organização Nogueira da Silva, S.A.

62 Relevant facts

Atlas II

Caixa Económica Montepio Geral, caixa económica bancária, S.A. celebrated, on 12 July 2019, 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 Banco Montepio's strategy of the continued reduction of non-productive assets.

Brick

Caixa Económica Montepio Geral, Caixa económica bancária, S.A. and Banco Montepio Group's real estate funds have disposed of real estate assets, on 11 July 2019, to the company Façanha Cristalina, S.A. in the gross total value of Euro 105 million, with the associated deed execution process being in progress.

Resignation from the office of director

Mr. Luís Eduardo Henriques Guimarães submitted his resignation from the office of non-executive member of the Board of Directors of Banco Montepio, as well as from the office of President of the Audit Committee.

63 Subsequent events

The Group 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.

FINANCIAL STATEMENTS AND NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

FINANCIAL STATEMENTS AND NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

Banco Montepio

Interim Condensed Individual income statement
for the periods ended at 30 June 2019 and 2018

(Thousands of Euro)

	Notes	Jun 2019	Jun 2018 Restated
Interest and similar income	3	176 060	217 856
Interest and similar expense	3	64 335	90 969
Net interest income		111 725	126 887
Dividends from equity instruments	4	6 210	8 293
Net fee and commission income	5	57 668	58 371
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	6	(644)	(86)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	7	(2 954)	4 129
Net gains/ (losses) arising from exchange differences	8	922	774
Net gains/ (losses) arising from sale of other financial assets	9	16 556	5 160
Other operating income/ (expense)	10	(20 619)	(12 946)
Total operating income		168 864	190 582
Staff costs	11	73 008	80 520
General and administrative expenses	12	27 111	31 565
Depreciation and amortisation	13	15 865	10 856
		115 984	122 941
Loans impairment	14	41 163	46 919
Other financial assets impairment	15	3 074	2 597
Other assets impairment	16	1 581	7 917
Other provisions	17	(1 529)	1 728
Profit before income tax		8 591	8 480
Income Tax			
Current	31	(1 116)	(329)
Deferred	31	(5 905)	(641)
Net profit/ (loss) for the period		1 570	7 510

THE CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Condensed Individual Balance Sheet as at 30 June 2019 and 31 December 2018

(Thousands of Euro)

	Notes	Jun 2019	Dec 2018 Restated	1 January 2018 Restated
Assets				
Cash and deposits at central banks	18	1 418 014	1 610 634	1 733 626
Loans and advances to credit institutions repayable on demand	19	53 780	75 572	59 472
Other loans and advances to credit institutions	20	429 140	336 782	377 751
Loans and advances to customers	21	11 197 032	11 796 170	12 748 717
Financial assets held-for-trading	22	42 363	15 660	174 893
Financial assets at fair value through profit or loss	23	862 345	913 406	115 640
Financial assets at fair value through other comprehensive income	24	1 822 509	392 589	2 602 791
Repurchase agreement assets	-	13	-	-
Hedging derivatives	25	18 261	5 666	-
Other financial assets at amortised cost	26	2 936 522	3 417 114	3 037 463
Investments in subsidiaries and associated companies	27	348 828	346 723	315 903
Non-current assets held for sale	28	-	705 351	714 133
Other tangible assets	29	243 128	217 741	220 002
Intangible assets	30	30 644	31 657	30 092
Current tax assets	-	2 509	6 144	6 589
Deferred tax assets	31	457 566	484 147	458 864
Other assets	32	922 017	68 418	176 615
Total Assets		20 784 671	20 423 774	22 772 551
Liabilities				
Deposits from central banks	33	1 392 489	1 395 320	1 557 840
Deposits from other credit institutions	34	1 510 322	1 442 548	2 011 197
Deposits from customers	35	12 769 462	12 626 578	12 555 325
Debt securities issued	36	792 902	878 331	1 121 538
Financial liabilities associated to transfered assets	37	2 081 491	2 214 194	3 232 894
Financial liabilities held-for-trading	22	11 295	12 274	14 698
Hedging derivatives	25	706	-	1 663
Provisions	38	29 227	30 756	26 207
Current tax liabilities	-	499	4 241	1 104
Other subordinated debt	39	154 552	50 044	237 016
Other liabilities	40	472 771	191 502	284 058
Total Liabilities		19 215 716	18 845 788	21 043 540
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	29 245	(19 764)	27 976
Other reserves and retained earnings	43 e 44	(888 183)	(830 592)	(782 948)
Net profit/ (loss) for the period		1 570	2 019	57 660
Total Equity		1 568 955	1 577 986	1 729 011
Total Liabilities and Equity		20 784 671	20 423 774	22 772 551

THE CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Condensed Individual Statement of Cash Flows
for the periods ended at 30 June 2019 and 2018

(Thousands of Euro)

	Jun 2019	Jun 2018
Cash flows arising from operating activities		
Interest income received	154 008	153 569
Commission income received	69 363	70 937
Interest expense paid	(61 390)	(102 490)
Commission income paid	(11 506)	(11 832)
Payments to employees and suppliers	(69 632)	(112 454)
Recovery of loans and interests	2 968	2 608
Other payments and receivables	(102 969)	(15 128)
Income tax payment	1 159	112
	(17 999)	(14 678)
(Increases) / decreases in operating assets		
Loans and advances to credit institutions and customers	455 999	224 184
Deposits held for monetary control purposes	168 901	(9 142)
Other assets	(139 072)	(3 145)
	485 828	211 897
(Increases) / decreases in operating liabilities		
Deposits from customers	148 165	(54 380)
Deposits from credit institutions	67 760	(75 526)
Deposits from central banks	-	-
	215 925	(129 906)
	683 754	67 313
Cash from investing activities		
Dividends received	6 210	8 293
(Purchase) / Sale of financial assets held-for-trading	122 137	133 224
(Purchase) / Sale of financial assets at fair value through other comprehensive income	(1 344 330)	771 681
Interest received from financial assets at fair value through other comprehensive income	6 871	46 910
(Purchase) / Sale of Hedging derivatives	(1 726)	(1 665)
(Purchase) / Sale of other financial assets at amortised cost	484 772	(615 382)
(Purchase) / Sale of other financial assets	(90)	(705)
Purchase of fixed assets	(10 208)	(5 852)
	(736 364)	336 504
Cash from financing activities		
Other equity instruments	(163)	(163)
Issuance of cash bonds and subordinated debt	100 000	-
Repayment of cash bonds and subordinated debt	(93 850)	(423 297)
	5 987	(423 460)
Effect of changes in cash exchange rate and cash equivalents	1 113	1 489
Net change in cash and cash equivalents	(45 510)	(18 154)
Cash and cash equivalents at the beginning of the period:		
Cash (note 18)	194 596	178 925
Loans and advances to credit institutions repayable on demand (note 19)	75 572	59 472
	270 168	238 397
Cash and cash equivalents at the end of the period:		
Cash (note 18)	170 878	157 148
Loans and advances to credit institutions repayable on demand (note 19)	53 780	63 095
	224 658	220 243

To be read with the notes attached to the Interim Separate Financial Statement

Banco Montepio

Interim Condensed Individual Statement of Changes in Equity
for the periods ended at 30 June 2019 and 2018

(Thousands of Euro)

	Share capital (note 41)	Other equity instruments (note 42)	General and special reserves	Fair value reserves	Retained earnings	Total equity
Balances at December 31, 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 on January 1, 2018	**2 420 000**	**6 323**	**186 000**	**15 538**	**(992 083)**	**1 635 778**
Other comprehensive income:						
Taxes (note 31)	-	-	-	-	(5 081)	(5 081)
Changes in fair value (Note 44)	-	-	-	(7 549)	-	(7 549)
Gains on equity instruments	-	-	-	-	(37)	(37)
Taxes on changes in fair value (Note 31)	-	-	-	(428)	-	(428)
Net income for the period	-	-	-	-	7 510	7 510
Total comprehensive income for the period	-	-	-	(7 977)	2 392	(5 585)
Costs related to the issue perpetual subordinated instruments perpetual securities (note 41)	-	-	-	-	(163)	(163)
Legal reserve	-	-	5 766	-	(5 766)	-
Balances as of June 30, 2018	**2 420 000**	**6 323**	**191 766**	**7 561**	**(995 620)**	**1 630 030**
Other comprehensive income:						
Remeasurements in the period (note 48)	-	-	-	-	(34 992)	(34 992)
Taxes (note 31)	-	-	-	-	15 652	15 652
Changes in fair value (Note 44)	-	-	-	(27 273)	-	(27 273)
Gains on equity instruments	-	-	-	-	37	37
Reserves paid	-	-	-	-	235	235
Taxes on changes in fair value (Note 31)	-	-	-	(52)	-	(52)
Net income for the period	-	-	-	-	(5 491)	(5 491)
Total comprehensive income for the period	-	-	-	(27 325)	(24 559)	(51 884)
Costs related to the issue perpetual subordinated instruments perpetual securities (note 42)	-	-	-	-	(159)	(159)
Legal reserve	-	-	1	-	(1)	-
Balances as of December 31, 2018	**2 420 000**	**6 323**	**191 767**	**(19 764)**	**(1 020 339)**	**1 577 987**
Other comprehensive income:						
Remeasurements in the period (note 48)	-	-	-	-	(58 879)	(58 879)
Taxes (note 31)	-	-	-	-	(398)	(398)
Changes in fair value (Note 44)	-	-	-	69 091	-	69 091
Gains on equity instruments	-	-	-	-	-	-
Reserves paid - shares	-	-	-	-	25	25
Taxes on changes in fair value (Note 31)	-	-	-	(20 082)	(196)	(20 278)
Net income for the period	-	-	-	-	1 570	1 570
Total comprehensive income for the period	-	-	-	49 009	(57 878)	(8 869)
Costs related to the issue perpetual subordinated instruments perpetual securities (note 42)	-	-	-	-	(163)	(163)
Legal reserve	-	-	202	-	(202)	-
Balances as of June 30, 2019	**2 420 000**	**6 323**	**191 969**	**29 245**	**(1 078 582)**	**1 568 955**

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

Banco Montepio

Interim Condensed Individual Statement of Comprehensive Income
for the periods ended as at 30 June 2019 and 2018

(Thousands of Euro)

	Notes	Jun 2019	Jun 2018
Items that may be reclassified into the Income Statement			
Fair value reserves			
Financial assets at fair value			
through other comprehensive income			
Debt instruments	44	66 530	(7 635)
Loans and advances to customers	44	-	(325)
Own credit risk	44	(779)	-
Taxes related to fair value changes	31 e 44	(20 278)	(428)
		45 473	(8 388)
Items that won't be reclassified into the Income Statement			
Fair value reserves			
Financial assets at fair value			
through other comprehensive income	44	(17 602)	413
Equity instruments	44	-	(37)
Acturial gains/ (losses) for the period	48	(58 879)	-
Taxes	31	(398)	(5 083)
		(76 879)	(4 707)
Other comprehensive income/ (loss) for the period		(31 406)	(13 095)
Net profit/ (loss) for the period		1 570	7 510
Total comprehensive income/ (loss) for the period		(29 836)	(5 585)

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

1 Accounting policies

a) Basis of presentation

A 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 authorised 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 authorised to perform banking operations in addition to those mentioned in its by-laws, if previously authorised 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.

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Counsel, 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 International Financial Reporting Standards (“IFRS”) as endorsed by the European Union (“EU”). IFRS comprise accounting standards issued by the International Accounting Standards Board (“IASB”) as well as interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and by their predecessor bodies. Banco Montepio adopted in the preparation of the individual financial statements as at 30 June 2019 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2019.

The interim condensed individual financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 27 September 2019. 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 interim condensed individual financial statements of Banco Montepio for the period ended on 30 June 2019 have been prepared, for the purpose of recognition and measurement, in accordance with International Accounting Standard 34 – Interim Financial Reporting (“IAS 34”), as adopted by the EU, not including all the information required in the preparation of individual financial statements prepared in accordance with IFRS as adopted by the EU, for which reason they should be read together with the financial statements for the financial period ended on 31 December 2018.

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).

Comparability of information

Banco Montepio adopted IFRS and interpretations of mandatory application for periods beginning on or after 1 January 2019, as described in note 53. The accounting policies are consistent with those used in the preparation of the prior period's financial statements, except for changes arising from the adoption of 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, Banco Montepio realized an inventory of existing contracts as at that date 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, Banco Montepio 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, Banco Montepio 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 55. The balances included in the financial statements as at 31 December 2018 are presented solely for comparative purposes.

b) Financial instruments – IFRS 9

b.1) Classification of financial assets

As a result of the application of IFRS 9 as from 1 January 2018, the Bank classifies its financial assets into one of the following valuation categories:

- Financial assets at amortised 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 amortised 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 amortised cost, the category of financial assets at amortised 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 periods, the reasons for such sales and the expectations regarding future sales. Less common, 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 amortisation 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 coincide 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 amortised 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) <u>Classification of financial liabilities</u>

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be effected 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 amortised 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, in 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 assets associated to transferred assets

This category includes liabilities associated with credit securitisation operations that were not derecognised following the application of IAS 39 - Financial instruments: recognition and measurement. These liabilities are initially recorded at the amount received from the sale of the loans and are subsequently valued at amortised cost, in a manner coherent with the valuation of the corresponding assets and the conditions defined in the securitisation operation.

b.3) <u>Recognition and initial valuation of financial instruments</u>

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) amortised 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) amortised 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 amortised 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 amortised 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) <u>Interest recognition</u>

Interest income and expense on assets and liabilities measured at amortised cost are 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 amortised 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 amortised 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 very less common. 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 liability.

b.7) Modification of loans

Occasionally the Bank renegotiates or modifies contractual cash flows from loans and advances 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 derecognises 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.8) <u>De-recognition that does not result from a modification</u>

Financial assets granted are derecognised 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 derecognised 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 derecognised when the underlying obligation is settled, expires or is cancelled.

b.9) <u>Write-off policy</u>

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.10) <u>Impairment of financial assets</u>

The Bank determines impairment losses of debt instruments that are measured at amortised 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, taking into account all reasonable, reliable and duly substantiated information that is available, including forward-looking information.

Impairment losses of debt instruments that are measured at amortised cost are recognized against a cumulative balance sheet caption, 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 allocations 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 taken into account:

a) <u>Credit losses:</u> 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.

b) <u>Expected credit losses:</u> 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 amortised cost (including Loans and advances to customers, Loans and advances to credit institutions and Other financial assets at amortised cost);
- Financial assets classified as debt instruments at fair value through other comprehensive income;
- Commitments and financial guarantees issued.

Under IFRS 9 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 in accordance with IFRS 9 is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:

- Assessment of the existence of a significant increase in credit risk since 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.

IFRS 9 defines financial assets with signs of impairment in a similar way to how IAS 39 defined impaired financial assets.

b.10.2) Definition of default

In the scope of the application of IFRS 9, 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)

Under IFRS 9, 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).

Under IFRS 9, the identification of a significant increase in credit risk is performed by comparing:

- The remaining lifetime PD at the reporting date, and
- The remaining lifetime PD at this moment, that will have been estimated at the initial moment of the exposure´s recognition.

Banco Montepio identifies the occurrence of a significant increase in credit risk through the comparison of the actual 12-months PD and the 12-months PD estimated at the contract's inception, as a proxy for the comparison between the actual remaining lifetime PD and the remaining lifetime PD calculated at the contract's inception.

When evaluating the significant increase in credit risk, Banco Montepio considers as a backstop the existence of more than 30 days of delay, among others.

b.10.4) Degrees of credit risk

In accordance with the current management of Banco Montepio´s credit risk, each customer, and, consequently, respective exposure, is allocated to a degree of risk of its master scale.

Banco Montepio uses these degrees of risk 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 degrees of risk are highly 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 amortisations 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) Securitised loans not derecognised

Banco Montepio does not derecognise from assets the credits sold in securitisation 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 derecognised 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 securitisation 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 securitisation 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 securitisation operations not derecognised 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, for comparative purposes, financial year 2018 was restated, in note 58.

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.

Hedging derivatives 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 assessed 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.

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 amortised 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 has to 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 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.

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 period to which it relates. Subsequent commissions are recognized in profit or loss in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of one of the parties if one of the parties 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 borrowing and repurchase agreement transactions

Securities borrowing

Securities lent under securities lending arrangements continue to be recognized on the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. The amount received in respect of securities loaned is recognized as a financial liability. Securities borrowed under securities' borrowing agreements are not recognized on-balance sheet. The amount placed 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 on the balance sheet. The amounts paid are recognized in loans and advances to customers or other loans and advances to credit institutions. The receivables are collateralized by the related securities.

Securities sold through repurchase agreements (repos) continue to be recognized on 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 securitisation 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 seize them 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 no control over 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 to have no 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 evaluated whenever there is evidence of impairment. Impairment losses are calculated based on the difference between the recoverable amount of investments in subsidiaries or associated companies and their book value. Identified impairment losses 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 for credit recovery, non-current assets held for sale and discontinued operations

Non-current assets, 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. These assets or disposal groups are subsequently measured at the lower of their cost and their fair value less costs to sell, with the unrealized losses being 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 period 2019 the Bank changed the classification of these assets from non-current assets held for sale to other assets, as they were in the portfolio for more than 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)

As described in note 1 a), Banco Montepio adopted IFRS 16 - Leases on 1 January 2019 to replace IAS 17 - Leases, which was effective until 31 December 2018. Banco Montepio had not early adopted any of the requirements of IFRS 16.

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 period under 12 months or for leases that relate to low-value assets, for which the lessee may opt for the recognition exemption foreseen under 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, less than or equal to one year, and to lease agreements in which the underlying asset has a low value, considering for this purpose the amount of Euro 5 thousand, having also used the option of not applying this standard to intangible asset leases.

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 a retribution.

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 supported 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 depreciation/amortisation according to the lease term of each contract 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 initial 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.

Since 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, and applied to the weighted average term of each lease agreement. For agreements with a termination date, such date is considered the lease termination date, 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 fixed lease payments and the revision of the lease term.

Banco Montepio re-values 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 which case 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, 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 which case 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 periods presented.

Right-of-use assets are depreciated/amortised 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 depreciated/amortised from the date of the agreement's entry into force to the end of the useful life of the underlying asset. Depreciation/amortisation begins on the date of the lease agreement's entry into force.

The adoption of the standard implies changes in Banco Montepio's financial statements, as mentioned in note 55, namely:

- In the income statement:

(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 amortisation of the depreciation cost of right-of-use assets.

- In the balance sheet:

(iii) recording in Other tangible assets of the right-of-use assets recognized; and

(iv) recording in Other liabilities of the amount of the lease liabilities recognized.

- In the statement of cash flows, the caption Cash flows from operating activities - Cash payments to employees and suppliers includes amounts related to short-term and to low-value lease agreements and the caption Decrease in other liability accounts and non-controlling interests includes amounts relating to payments of the capital portion of the lease liabilities, as detailed in the Condensed interim statements 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 that defined in IAS 17, leases were classified as finance leases whenever their terms substantially transferred all the risks and rewards associated with the ownership of the assets to the lessee. The remaining leases were classified as operating. The classification of the leases was 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 an asset and a liability at the fair value of the leased asset, which is equivalent to the present value of the lease rentals not yet due. Lease rentals are composed of the financial charge and the amortisation 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.

From the lessor's perspective, assets held under finance leases are recorded in the balance sheet as lease principal by an amount equal to the net finance lease investment. Lease rentals are composed of the financial income and the amortisation 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 properties and vehicles. The payments made in the scope of these lease agreements are recognized in the caption General and 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 interests 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. 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 is recognized in accordance with the following criteria:

- when earned as the services are provided, they are recognized in income in the period in which the service is provided; or
- when earned on the execution of a service, they are recognized as income when the service is completed; and
- when they are an integral part of the effective interest rate of a financial instrument, they are recognized in net interest income.

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 from same for Banco Montepio. 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

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.

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 employment 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, health-care 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%, where 22.4% is 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, which was published on 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 periods. 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 expected return 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 expected return 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 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 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 30 June 2019 and 31 December 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 the income statement in the period to which it relates.

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. In lieu of the 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/she 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 March 23, 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 profit or loss comprises 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, fact which implies that the recognition of the income tax is also recognized in equity. Deferred taxes arising from the revaluation of financial assets at fair value through other comprehensive income and from cash-flow 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 without a finite life, which is 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 financial period 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”, hereinafter “RETGS”), comprising the companies held in 75% or more and that meet the conditions laid down in article 69 et sec of the IRC Code, which previous dominant company had been Montepio Holding, S.G.P.S., S.A.

Companies included in the RETGS calculate and record income tax as if they were taxed on an individual basis. However, the liabilities calculated are due to the dominant company of the tax group, Banco Montepio, which is responsible for the overall calculation and the self-assessment of the tax. Gains or losses arising from the application of this regime are recorded in each of the companies originating same.

u) Segment 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 the Bank’s 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.

Considering that the separate financial statements are presented together with those of the Group, in light of paragraph 4 of IFRS 8, Banco Montepio is not required to present information on a separate basis for 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, the most likely result for the ongoing processes and 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

Contingent assets are not recognized in the financial statements, being disclosed when a future economic inflow of resources is probable.

Contingent liabilities

If the future expenditure of funds is not probable the liability is contingent.

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 securitised and subordinated debt, capital increases and dividend distributions.

x) Insurance and reinsurance brokerage services

Banco Montepio is duly authorised by the Insurance and Pension Funds Supervisory Authority ("Autoridade de Supervisão de Seguros e Fundos de Pensões" - "ASF") to provide insurance brokerage services, in the Insurance Brokerage services area, 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 area, 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:

- 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 in a monthly basis;
- 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 (by 31 January).

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 - 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, 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) Judgements and accounting 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 amortised 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. It is based on 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 on 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 24.

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 calculated based on the difference between the recoverable value of the investments in subsidiaries or associated companies and their book value. Identified impairment losses 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 the impairment losses recognized and presented in note 27, with the consequent impact on the results of Banco Montepio.

Income taxes

Interpretations and estimates were 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.

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 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.

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, approximating 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 period 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 30 June 2019 and 31 December 2018, the tax rules in force on each date, identical to those in force in 2015, 2016 and 2017, were considered, with these, through Decree-Laws published at the end of each of those years, established that the limits set forth in Bank of Portugal Notice no. 3/95 should be considered for the purpose of determining the maximum amounts of impairment losses accepted for tax purposes.

In 2018, the Bank adopted IFRS 9 - Financial Instruments. Considering that, 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 pension liabilities requires the use of assumptions and estimates, including the use of actuarial and other projections, such as discount rate, pension and salary growth rate and mortality tables, estimated return on investments and other factors that may impact the pension plan's costs and liabilities.

Changes to these assumptions could have a significant impact on the amounts determined and presented in note 48.

Measurement of assets received in recovery of credit, non-current assets held for sale

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. Fair value is determined on the basis of periodic assessments made by external experts registered with the CMVM. Different methodologies and assumptions could have an impact 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 IFRS in force requires a separate disclosure of net interest income, net gains/(loss) arising from 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 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 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:

(Thousands of Euro)

	Jun 2019	Jun 2018
Net interest income	111 725	126 887
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	(644)	(86)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	(2 954)	4 129
	108 127	130 930

3 Net interest income

The amount of this caption has the following breakdown:

	(Thousands of Euro) Jun 2019	Jun 2018
Interest and similar income		
Loans and advances to customers	134 753	161 080
Financial assets at fair value through other profit or loss	16 392	13 580
Financial assets at amortised cost	9 785	15 030
Financial assets held-for-trading	6 407	8 101
Deposits and other short-term investments	4 704	12 529
Hedging derivative	3 254	3 254
Financial assets at fair value through other comprehensive income	709	4 261
Other interest and similar income	56	21
	176 060	217 856
Interest and similar expense		
Deposits from customers	18 820	31 667
Deposits from central banks and other credit institutions	7 848	12 068
Financial liabilities held-for-trading	5 606	6 349
Financial liabilities associated to transferred assets	20 477	28 321
Securities issued	4 647	9 776
Other subordinated debt	4 508	965
Hedging derivative	1 895	1 822
Leases	534	-
Other interest and similar expense	-	1
	64 335	90 969
Net interest income	111 725	126 887

The caption Interest and similar income – Loans and advances to customers includes, respectively, the amount of Euro 8,579 thousand and the amount of Euro 809 thousand (30 June 2018: Euro 9,256 thousand and Euro 1,248 thousand), related to commissions and to other gains/(losses), which are accounted for under the effective interest rate method, as referred in the accounting policy described in note 1 b).

The caption Interest and similar income – Financial assets at fair value through profit or loss includes the amount of Euro 109 thousand (30 June 2018: 131 thousand) related to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

As at 30 June 2019, the caption Interest and similar income – Loans and advances to customers includes the amount of Euro 7,704 thousand (30 June 2018: Euro 15,058 thousand) related to customers classified under stage 3, in accordance with the accounting policy described in note 1 b).

The caption Leases 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

As at 30 June 2019, this caption includes the amount of Euro 6,210 thousand (30 June 2018: Euro 8,293 thousand) in which is included Euro 2,375 thousand (30 June 2018: Euro 2,375 thousand) related to dividends received from the company Almina and Euro 2,672 thousand (30 June 2018: Euro 2,169 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:

(Thousands of Euro)

	Jun 2019	Jun 2018
Fee and commission income		
From banking services	50 121	50 480
From transactions on behalf of third parties	12 170	14 644
From insurance brokerage services	3 419	2 708
Guarrantees provided	2 503	2 902
Other fee and commission income	1 181	122
	69 394	70 856
Fee and commission expense		
From banking services rendered by third parties	8 590	8 197
From transactions with securities	260	629
Other fee and commission expense	2 876	3 659
	11 726	12 485
Net fee and commission income	57 668	58 371

As at 30 June 2019 and 2018, the caption Insurance brokerage services has the following breakdown:

(Thousands of Euro)

	Jun 2019	Jun 2018
Life insurance	1 775	1 544
Non-Life insurance	1 644	1 164
	3 419	2 708

The remuneration of insurance brokerage services were received in full, in cash, and all the commissions resulted from insurance intermediation for Lusitania, Companhia de Seguros, S.A. and 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 is present as follows:

(Thousands of Euro)

	Jun 2019			Jun 2018		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held-for-trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	2 087	732	1 355	3 489	1 779	1 710
Issued by other entities	81	-	81	13	854	(841)
Shares	659	640	19	1 318	1 426	(108)
Investment units	389	9	380	150	387	(237)
	3 216	1 381	1 835	4 970	4 446	524
Derivative financial instruments						
Interest rate contracts	35 042	33 102	1 940	33 270	26 144	7 126
Exchange rate contracts	11 378	11 502	(124)	15 765	16 147	(382)
Futures contracts	1 088	1 942	(854)	3 086	3 222	(136)
Option contracts	1 470	1 868	(398)	831	631	200
Commodities contracts	423	-	423	447	-	447
	49 401	48 414	987	53 399	46 144	7 255
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	3 311	(3 311)	1 324	8 458	(7 134)
Investment units	5 964	3 456	2 508	2 613	3 709	(1 096)
Loans and advances to customers	364	1 667	(1 303)	119	-	119
	6 328	8 434	(2 106)	4 056	12 167	(8 111)
Other financial assets at fair value through profit or loss						
Shares	-	1 742	(1 742)	-	-	-
Loans and advances to customers	143	4	139	13	176	(163)
	6 471	10 180	(3 709)	4 069	12 343	(8 274)
Financial liabilities at fair value through profit or loss						
Deposits from customers	11	-	11	9	-	9
Debt securities issued	901	812	89	58	55	3
	912	812	100	67	55	12
Hedging derivatives						
Interest rate contracts	23 001	14 197	8 804	33 686	29 509	4 177
	23 001	14 197	8 804	33 686	29 509	4 177
Hedged financial liabilities						
Debt securities issued	1 461	10 122	(8 661)	5 835	9 615	(3 780)
	1 461	10 122	(8 661)	5 835	9 615	(3 780)
	84 462	85 106	(644)	102 026	102 112	(86)

In accordance with the accounting policies followed by Banco Montepio, financial instruments are initially recognized at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

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:

(Thousands of Euro)

	Jun 2019			Jun 2018		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Bonds						
Issued by public entities	144	3 223	(3 079)	10 821	6 905	3 916
Issued by other entities	125	-	125	213	-	213
	269	3 223	(2 954)	11 034	6 905	4 129

As at 30 June 2019, the caption Fixed income securities - Bonds – Issued by public entities includes Euro 144 thousand and Euro 3,223 thousand related to capital gains generated on the sale of Spanish public debt bonds and to capital losses of Italian and Greek public debt, respectively. As at 30 June 2018, this caption included the amount of Euro 6,017 thousand related to capital gains generated on the sale of Portuguese public debt bonds and Euro 2,101 thousand related to capital losses of Spanish, Italian and Greek public debt bonds.

8 Net gains/ (losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Thousands of Euro)

	Jun 2019			Jun 2018		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	8 081	7 159	922	12 805	12 031	774

This caption includes the results arising from the foreign exchange revaluation of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 r).

9 Net gains/ (losses) arising from sale of other financial assets

The amount of this caption has the following breakdown:

(Thousands of Euro)

	Jun 2019	Jun 2018
Sale of financial assets at amortised cost	10 024	-
Sale of other assets	6 828	(324)
Sale of loans and advances to customers	(296)	-
Sale of non-current assets held for sale	-	5 484
	16 556	5 160

As at 30 June 2019, the caption Sale of financial assets at amortised cost includes capital gains made on the sale of Portuguese public debt bonds, of Euro 9,983 thousand and of Italian public debt, of Euro 41 thousand

The caption Sale of other assets includes the net gains/(losses) from the sale of properties, resulting from the transfer of the balance of the caption Non-current assets held for sale, in note 28, to the caption Other assets, in note 32. As at 30 June 2018, the result generated by the sale of properties is presented in the caption Sale of non-current assets held for sale.

10 Other operating income/(expense)

The amount of this caption has the following breakdown:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Other operating income		
Profits arising from deposits on demand management	2 830	3 680
Services rendered	2 434	2 845
Reimbursement of expenses	1 166	1 235
Employee assigment	-	6 747
Other	1 914	3 872
	8 344	18 379
Other operating expenses		
Contributions:		
Banking sector	9 330	10 642
Ex-ante for the Single Resolution Fund	6 508	8 051
National Resolution Fund	4 156	2 535
Deposit Guarantee Fund	22	21
Expenses with investment properties	4 392	4 142
Servicing and expenses with the recovery and disposal of loans	1 353	2 146
Expenses with issuances	349	308
Taxes	275	382
Donations and membership	312	326
Other	2 266	2 772
	28 963	31 325
	(20 619)	(12 946)

As at 30 June 2018, the caption Other operating income – Employee assignment includes the amount of Euro 6,653 thousand related to employee assignment from Banco Montepio to MGAM and to entities of Banco Montepio Group. As at 30 June 2019, income associated with employee assignment in the amount of Euro 6,965 thousand was recorded in the caption Staff costs, as referred in note 11.

The caption Contribution of 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 on the balance sheet less the core capital (Tier 1) and the supplementary capital (Tier 2) and the deposits covered by the Deposit 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 Banco de Portugal, in its quality of 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 Mutualisation 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 Banco de Portugal, in its quality of 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, as at 30 June 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, Banco Montepio opted for the settlement of Euro 6,024 thousand (30 June 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. It should be noted that only cash is accepted as collateral for irrevocable payment commitments.

The caption Contribution to the 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.

11 Staff costs

The amount of this caption has the following breakdown:

(Thousands of Euro)

	Jun 2019	**Jun 2018**
Remunerations	52 475	60 196
Mandatory social security charges	15 610	15 421
Charges with the Pension Fund	3 384	3 225
Other staff costs	1 539	1 678
	73 008	80 520

As at 30 June 2019, the caption Staff costs reflects the effect of staff assignments from Banco Montepio to MGAM and to entities of Banco Montepio Group, in the amount of Euro 6,965 thousand. As at 30 June 2018, this amount was Euro 6,653 thousand and was recorded in the caption Other operating income/(expense), as referred in note 10.

As at 30 June 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 office until 20 March 2018, amounted to Euro 1,148 thousand and Euro 455 thousand, respectively.

As at 30 June 2019 and 2018, the members of the Board of Directors 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 members of the Board of Directors, Audit Committee, General Meeting Board and Other key management staff, during the 1st half of 2019, are presented as follows:

(Thousands of Euro)

	Board of Directors	Audit Committee	General Meeting Board	Other key managament staff	Total
Remunerations and other short-term benefits	1 385	150	7	1 517	3 059
Pension costs	11	-	-	50	61
Costs with health-care benefits (SAMS)	8	-	-	26	34
Social Security Charges	300	28	1	331	660
	1 704	178	8	1 924	3 814

The costs with remuneration and other benefits, including the respective social charges, attributed to members of the Board of Directors, Audit Committee, General Meeting Board, previous Executive Board of Directors, previous General and Supervisory Board and to Other key management staff, during the 1st half of 2018, are presented as follows:

(Thousands of Euro)

	Board of Directors	Audit Committee	General Meeting Board	Previous Executive Board of Directors	Previous General and Supervisory Board	Other key managament staff	Total
Remunerations and other short-term benefits	484	72	7	528	284	1 689	3 064
Pension costs	-	-	-	7	-	64	71
Costs with health-care benefits (SAMS)	2	-	-	10	-	28	40
Social Security charges	105	13	2	118	51	372	661
	591	85	9	663	335	2 153	3 836

As at 30 June 2018, the cost with remuneration and other benefits attributed to members of the General and Supervisory Board during the period in which they were in function, amounted to Euro 335 thousand.

As at 30 June 2019, loans granted by Banco Montepio to members of the Board of Directors amounted to Euro 515 thousand (30 June 2018: Euro 345 thousand), to members of the Audit Committee Euro 161 thousand (30 June 2018: Euro 1 thousand), and to Other key management staff Euro 3,740 thousand (30 June 2018: Euro 4.071 thousand). As at 30 June 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) the amount of Euro 132 thousand and to members of the General and Supervisory Board (until 20 March 2018) the amount of Euro 2,034 thousand, as described in note 50.

12 General and administrative expenses

The amount of this caption has the following breakdown:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Rental costs	1 040	5 159
Specialised services		
IT services	5 436	4 066
Independent work	1 274	1 527
Other specialised services	6 387	7 499
Communication costs	2 843	2 591
Maintenance and repair	2 009	2 092
Water, energy and fuel	2 024	2 005
Advertising costs	762	1 182
Transportation	1 304	1 280
Consumables	467	694
Travel, hotel and representation costs	476	457
Insurance	428	496
Training	110	236
Other general and administrative costs	2 551	2 281
	27 111	31 565

The caption Rental costs includes, in the 1st half of 2019, the amount of Euro 838 thousand related to short-term lease agreements. Of this amount, Euro 312 thousand correspond to leasehold rentals and Euro 526 thousand to rentals paid on vehicles, in both cases used by Banco Montepio as lessee. As at 30 June 2018, the caption Rental costs included the amount of Euro 3,897 thousand corresponding to leasehold rentals used by Banco Montepio as lessee.

The caption Other general and administrative costs includes the amount of Euro 1,534 thousand (30 June 2018: Euro 1,411 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

As at 30 June 2018, Banco Montepio has several motor vehicle operating leasing agreements. Payments made under such leasing agreements were recognized in profit or loss over the term of the agreement. The minimum future payments for irrevocable operating lease agreements, by maturity, amounted to Euro 3,944 thousand, of which up to 1 year the amount of Euro 1,260 thousand and from 1 to 5 years the amount of Euro 2,684 thousand.

13 Depreciation and amortisation

The amount of this caption has the following breakdown:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Intangible assets		
Software	7 263	6 347
Property, plant and equipment		
Land and buildings		
For own use	1 541	1 520
Leasehold improvements in rented buildings	315	596
Equipment		
IT equipment	1 676	1 460
Interior installations	762	632
Furniture	117	187
Security equipment	67	102
Machinery and tools	7	5
Operating leases	-	6
Right-of-use assets		
Land and buildings	3 601	-
Vehicles	516	-
Other tangible assets	-	-
	8 602	4 509
	15 865	10 856

As at 30 June 2019, as a result of the application of IFRS 16 as from 1 January 2019, the caption Right-of-use assets correspond, essentially, to Land and buildings (branches and central buildings) and Vehicles, being depreciated according to the term of each leasing agreement, as indicated in accounting policy 1 i) and in note 55.

14 Loans impairment

The amount of this caption has the following breakdown:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Other loans and advances to credit institutions (Note 20)		
Charge for the period net of reversals	85	(88)
	85	(88)
Loans and advances to customers (Note 21)		
Charge for the period net of reversals	44 046	49 615
Recovery of loans and interests charged-off	(2 968)	(2 608)
	41 078	47 007
	41 163	46 919

This caption relates to the estimate of the expected losses determined according to the accounting policy described in note 1 b).

15 Other financial assets impairment

The amount of this caption has the following breakdown:

		(Thousands of Euro)
	Jun 2019	**Jun 2018**
Impairment of financial assets at fair value through other comprehensive income (Note 24)		
Charge for the period net of reversals	689	1 233
Impairment of other financial assets at amortised cost (Note 26)		
Charge for the period net of reversals	2 385	1 364
	3 074	2 597

16 Other assets impairment

The amount of this caption has the following breakdown:

		(Thousands of Euro)
	Jun 2019	**Jun 2018**
Impairment for investments in subsidiaries and associated companies (Note 27)		
Charge for the period	-	322
Write-back for the period	(2 105)	(713)
	(2 105)	(391)
Impairment for non-current assets held for sale (Note 28)		
Charge for the period	-	8 502
Write-back for the period	-	(1 011)
	-	7 491
Impairment for other assets (Note 32)		
Charge for the period	6 481	2 030
Write-back for the period	(2 795)	(1 213)
	3 686	817
	1 581	7 917

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:

	(Thousands of Euro) Jun 2019	Jun 2018
Provisions for guarantess and commitments (Note 38)		
Charge for the period	9 109	5 836
Write-back for the period	(10 324)	(5 060)
	(1 215)	776
Provisions for other risks and charges (Note 38)		
Charge for the period	986	1 138
Write-back for the period	(1 300)	(186)
	(314)	952
	(1 529)	1 728

18 Cash and deposits at central banks

This caption is presented as follows:

	(Thousands of Euro) Jun 2019	Dec 2018
Cash	170 877	194 596
Deposits at central banks		
Bank of Portugal	1 247 137	1 416 038
	1 418 014	1 610 634

As at 30 June 2019, the balance with the Bank of Portugal includes the amount of Euro 90,224 thousand (31 December 2018: Euro 90,286 thousand) to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the amount 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.

As at 30 June 2019 and 31 December 2018, deposits at the Bank of Portugal were remunerated at the rate of -0.4%.

19 Loans and advances to credit institutions repayable on demand

This caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Credit institutions in Portugal	1 221	1 172
Credit institutions abroad	28 604	47 409
Amounts due for collection	23 955	26 991
	53 780	75 572

The caption Amounts due for collection 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:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Loans and advances to credit institutions in Portugal		
Other loans	305 247	268 660
Term deposits	5 557	1 987
Other loans and advances	14 062	10 000
	324 866	280 647
Loans and advances to credit institutions abroad		
CSA's	25 009	27 179
Term deposits	10 366	9 226
Reverse repos	561	2 190
Subordinated deposits	-	701
Other loans and advances	72 206	20 622
	108 142	59 918
	433 008	340 565
Impairment for credit risk over other loans and advances to credit institutions	(3 868)	(3 783)
	429 140	336 782

The caption Other loans and advances, included in Loans and advances to domestic credit institutions, records the financing 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, processed through TARGET2 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 25,009 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 as collateral in the scope of the Contribution ex-ante to the Single Resolution Fund, as described in notes 10 and 56.

The caption Loans and advances to credit institutions abroad – Other loans and advances includes the very short-term applications made at other credit institutions totalling Euro 50,000 thousand as at 30 June 2019, and that mature on 1 July 2019.

Impairment movements for credit risks of Other loans and advances to credit institutions are analysed as follows:

	(Thousands of Euro)	
	Jun 2019	**Jun 2018**
Balance on 1 January	3 783	-
IFRS 9 transition adjustment	-	915
Charge for the period net of reversals	85	(88)
Balance on 30 June	3 868	827

21 Loans and advances to customers

This caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Corporate		
Loans not represented by securities		
Loans	2 590 699	2 697 982
Commercial lines of credit	409 030	447 497
Finance lease	278 137	284 406
Discounted bills	65 587	66 049
Factoring	163 116	175 157
Overdrafts	2 072	7 011
Other loans	568 861	618 267
Loans represented by securities		
Commercial paper	202 856	410 790
Bonds	167 385	169 922
Retail		
Mortgage loans	5 995 813	6 170 438
Finance lease	38 529	38 276
Consumer credit and other loans	691 547	722 549
	11 173 632	11 808 344
Correction value of assets subject to hedge operations	31	(107)
Overdue loans and interests		
Below 90 days	82 643	36 815
Above 90 days	843 867	893 486
	926 510	930 301
	12 100 173	12 738 538
Impairment for credit risks	(903 141)	(942 368)
	11 197 032	11 796 170

As at 30 June 2019, the caption Loans and advances to customers includes de amount of Euro 2,731,326 thousand (31 December 2018: Euro 2,728,028 thousand) related to the issue of covered bonds realized by Banco Montepio, in note 36.

As at 30 June 2019, loans and advances, guarantees and irrevocable credit facilities (excluding interbank and money market transactions) that Banco Montepio granted to its shareholders and to related parties, including companies in the consolidation perimeter, amounted to Euro 85,958 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 amount, is always, under proposal from the commercial network, submitted to deliberation and assessment by the Board of Directors and the Audit Committee, 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 388 thousand as at 30 June 2019 (31 December 2018: Euro 16,348 thousand).

As at 30 June 2019, the caption Loans and advances to customers includes the amount of Euro 2,130,407 thousand (31 December 2018: Euro 2,261,479 thousand) related to loans and advances that were the object of securitisation and that, in accordance with the accounting policy outlined in note 1 b), were not subject to de-recognition, as described in note 51.

In the caption Correction value of assets subject to hedge operations is accounted the fair value of the part of the portfolio that is hedged. This valuation 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 15,137 thousand (31 December 2018: Euro 15,139 thousand).

The fair value adjustment amounted to a negative value Euro 32 thousand (31 December 2018: Euro 107 thousand), and the impact on profit or loss was positive in the amount of Euro 139 thousand (31 December 2018: negative in Euro 106 thousand), in note 22.

The fair value of the Loans and advances to customers' portfolio is disclosed in note 47.

The analysis of the caption Loans and advances to customers, by interest rate type, is as follows:

	(Thousands of Euro)	
	Jun 2019	Dec 2018
Variable interest rate contract	10 752 203	11 116 203
Fixed interest rate contract	1 347 970	1 622 335
	12 100 173	12 738 538

The analysis of Overdue loans and advances and interest, by credit type, is as follows:

	(Thousands of Euro)	
	Jun 2019	Dec 2018
Asset-backed loans	583 373	606 898
Other guarantee loans	202 986	179 388
Financial leases	7 132	7 119
Secured loans	33 000	33 000
Other loans	100 019	103 896
	926 510	930 301

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 30 June 2019, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	170 912	522 792	7 985 050	583 373	9 262 127
Other guarantee loans	434 491	219 823	351 617	202 986	1 208 917
Financial leases	23 473	82 564	210 629	7 132	323 798
Secured loans	285 119	73 602	11 520	33 000	403 241
Other loans	207 217	100 098	494 756	100 019	902 090
	1 121 212	998 879	9 053 572	926 510	12 100 173

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 31 December 2018, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	170 182	509 540	8 290 616	606 898	9 577 236
Other guarantee 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	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 caption Financial leases – not yet due, by residual maturity, as at 30 June 2019, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	57 125	132 986	111 759	301 870
Outstanding interests	(8 839)	(23 149)	(20 085)	(52 073)
Residual values	15 974	9 000	41 895	66 869
	64 260	118 837	133 569	316 666

The caption Financial leases – not yet due, by residual maturity, as at 31 December 2018, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	57 367	136 764	115 037	309 168
Outstanding interests	(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 contracts as Lessor.

The analysis of Overdue loans and advances and interest, by customer type and purpose, is as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Corporate		
Construction/Production	192 651	197 762
Investment	326 611	348 025
Treasury	226 858	187 479
Other loans	22 810	30 297
Retail		
Mortgage loans	84 334	81 513
Consumer credit	36 342	38 941
Other loans	36 904	46 284
	926 510	930 301

Movements in impairment for credit risks are analysed as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Balance on 1 January	942 368	1 008 261
IFRS 9 transition adjustment	-	140 980
Charge for the period net of reversals	44 046	49 615
Impairment charged-off	(83 273)	(124 772)
Balance on 30 June	903 141	1 074 084

During financial period 2018, Banco Montepio sold a portfolio of loans and advances to customers in default, recorded on- and off-balance sheet, which exposure amounted to Euro 239,144 thousand and generated a capital loss of Euro 4,904 thousand.

In December 2018, Banco Montepio sold a non-performing loans and advances to customers' portfolio, recorded on-and off-balance sheet, having used impairment for credit risks in the amount of Euro 139,849 thousand.

If the amount of an impairment loss decreases in a period subsequent to its accounting and that decrease can be objectively associated with an event that occurred after the recognition of that loss, the excess impairment is reversed through profit or loss.

In compliance with the accounting policy described in note 1 b), loans and advances to customers are written off when there are no realistic expectations of recovering the loan amount and, for collateralized loans, when the proceeds from the execution of the respective collaterals have already been received.

The impairment for credit risks, by credit type, is as follows:

	(Thousands of Euro)	
	Jun 2019	Dec 2018
Asset-backed loans	603 675	623 249
Other secured loans	189 704	201 579
Unsecured loans	109 762	117 540
	903 141	942 368

The analysis of loans impairment charged-off, by credit type, is as follows:

	(Thousands of Euro)	
	Jun 2019	Jun 2018
Asset-backed loans	29 471	46 407
Other secured loans	36 123	31 192
Unsecured loans	17 679	47 173
	83 273	124 772

The total amount of loans and advances and interest recovered as at 30 June 2019 amounted to Euro 2,968 thousand (30 June 2018: Euro 2,608 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 934,570 thousand (31 December 2018: Euro 951,835 thousand), which have an impairment of Euro 395,408 thousand (31 December 2018: Euro 398,744 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 within 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.

The restructuring operations performed during the 1st half of 2019 and during financial period 2018 were found to be positive, allowing for the mitigation of the effect of the economic and financial crisis and, in a conjuncture in which some economic recovery signs are observed, adapting the debt service to the disposable income of customers.

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, executed during the 1st half of 2019 and during financial period 2018, by credit type, is as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Corporate		
Loans not represented by securities		
Loans	68 796	55 281
Overdrafts	363	21 288
Financial leases	344	657
Other loans	1 033	3 627
Retail		
Mortgage loans	3 815	9 397
Consumer credit and other loans	4 817	3 607
	79 168	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 also considering the new collaterals presented.

As regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 25,169 thousand (31 December 2018: Euro 24,571 thousand).

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 course of housing loans and mortgages on other types of properties in the course 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:

(Thousand of Euro)

	Jun 2019	Dec 2018
Financial assets held-for-trading		
Securities		
Shares	2 741	-
Bonds	22 520	-
	25 261	-
Derivative instruments		
Derivative financial instruments with positive fair value	17 102	15 660
	42 363	15 660
Financial liabilities held-for-trading		
Securities		
Short sale	76	-
Derivative instruments		
Derivative financial instruments with negative fair value	11 219	12 274
	11 295	12 274

As at 31 December 2017, within an asset sales operation (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 cost as at 31 December 2016 amounted to Euro 12,000 thousand. As at 30 June 2019, the value of this right amounts to Euro 12,637 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:

(Thousands of Euro)

	Jun 2019			
	Level 1	Level 2	Level 3	Total
Financial assets held-for-trading				
Securities				
Shares	2 741	-	-	2 741
Bonds	22 520	-	-	22 520
	25 261	-	-	25 261
Derivative instruments				
Derivative financial instruments with positive fair value	-	9 868	7 234	17 102
	25 261	9 868	7 234	42 363
Financial liabilities held-for-trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	11 219	-	11 219
	-	11 219	-	11 219

(Thousands of Euro)

	Dec 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

The portfolios of financial assets and liabilities held for trading is measured at fair value, in accordance with the accounting policy described in note 1 b). As referred in the accounting policy, securities held for trading are acquired with the purpose of being sold in the short term, regardless of their maturity.

The book value of the Derivative financial instruments as at 30 June 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:

(Thousands of Euro)

		Jun 2019						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	National	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	3 300	117	(184)	(772)	(850)	3 354	3 300
Interest rate swap	Deposits from	-	-	32	-	(11)	-	-
Interest rate swap	Loans and	14 507	(31)	(154)	32	139	15 137	15 120
Interest rate swap	Others	1 918 026	(6 216)	2 734	-	-	-	-
Currency Swap (Short)	-	50 761						
	-		110	148	-	-	-	-
Currency Swap (Long)	-	50 837						
Future options (Short)	-	9 182						
	-		(15)	(15)	-	-	-	-
Future options (Long)	-	-						
Forwards (Short)	-	5 404						
	-		-	-	-	-	-	-
Forwards (Long)	-	5 408						
Options (Short)	-	34 105						
	-		11 918	(64)	-	-	-	-
Options (Long)	-	336 783						
		2 428 313	5 883	2 497	(740)	(722)	18 491	18 420

(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.

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:

(Thousands of Euro)

		Dec 2018						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	National	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	3 300	301	(113)	78	(185)	3 460	3 300
Interest rate swap	Deposits from	14 850	(32)	75	11	(22)	14 597	14 597
Interest rate swap	Loans and	15 257	123	168	(107)	(106)	15 139	15 120
Interest rate swap	Others	2 018 557	(8 950)	1 248	-	-	-	-
Currency Swap (Short)	-	38 811						
	-		(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						
	-		11 982	773	-	-	-	-
Options (Long)	-	353 859						
		2 536 985	3 386	1 813	(18)	(313)	33 196	33 017

(1) Includes the result of derivatives disclosed in note 6.

23 Financial assets at fair value through profit or loss

This caption is analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Variable income securities		
Investment units	733 983	783 538
Securitisation units	108 305	109 498
Loans and advances to customers at fair value		
Loans not represented by securities	20 057	20 370
	862 345	913 406

The caption Variable income securities – Investment units includes, as at 30 June 2019, the amount of Euro 34,327 thousand (31 December 2018: Euro 37,474 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 54.

The securitisation units correspond to the residual bonds acquired by Banco Montepio.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 47, as follows:

(Thousands of Euro)

	Jun 2019			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	7 188	-	726 795	733 983
Securitisation units	-	-	108 305	108 305
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	20 057	20 057
	7 188	-	855 157	862 345

(Thousands of Euro)

	Dec 2018			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	6 556	-	776 982	783 538
Securitisation units	-	-	109 498	109 498
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	20 370	20 370
	6 556	-	906 850	913 406

As at 30 June 2019, the level 3 assets in the caption Variable income securities – Investment units include investments 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, and amount to Euro 726,795 thousand (31 December 2018: Euro 776,982 thousand), of which Euro 669,353 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 30 June 2019, for all securities recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial assets, having been determined an impact of Euro 83,510 thousand (31 December 2018: Euro 88,648 thousand) having been determined.

The movements occurring in the Financial assets at fair value through profit or loss, recorded under level 3, are analysed as follows:

(Thousands of Euro)

	jun 2019	Dec 2018
Opening balance	886 480	829 254
Deconsolidation impact of Valor Prime	398	-
Acquisitions	(1 193)	109 498
Remeasurements	(3 809)	(52 215)
Disposals	(46 776)	(57)
Closing balance	835 100	886 480

The collateral granted in the scope of the loan obtained from the EIB includes a basket of Portuguese, Spanish and Italian sovereign bonds with a nominal value of Euro 2,500 thousand, as described in note 34.

24 Financial assets at fair value through other comprehensive income

This caption is presented as follows:

(Thousands of Euro)

	Jun 2019				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	1 143 692	52 268	-	(2 440)	1 193 520
Foreign	296 459	3 628	(19)	(593)	299 475
Bonds issued by other entities					
Domestic	27 366	269	(1 581)	(103)	25 951
Foreign	164 743	2 100	(408)	(97)	166 338
Variable income securities					
Shares					
Domestic	74 286	6 439	(4 340)	-	76 385
Foreign	71 554	4 678	(15 392)	-	60 840
	1 778 100	69 382	(21 740)	(3 233)	1 822 509

(1) Acquisition cost related to variable income securities and amortised cost by debt securities.

(Thousands of Euro)

	Dec 2018				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
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, which book value is determined based on Banco Montepio's internal models, are as follows:

Almina

Banco Montepio holds 19.0% of Almina. The book value of Almina amounts to Euro 65,631 thousand as at 30 June 2019 and 31 December 2018.

The valuation of Almina made with reference to 31 December 2018 was carried out based on the Almina Holding Group's business plan, as well as other information provided by Almina's management.

The two businesses relevant for Almina's valuation correspond to ore exploitation: zinc and copper. The main assumptions used were: the use of a discount rate between 8.0% and 9.8% and the determination of ore market prices based on international indices.

With reference to 30 June 2019 and 31 December 2018, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(Thousands of Euro)

	Jun 2019				
	Level 1	Level 2	Level 3	Financial instrumets at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	1 193 520	-	-	-	1 193 520
Foreign	299 475	-	-	-	299 475
Bonds issued by other entities					
Domestic	19 100	3 015	3 836	-	25 951
Foreign	158 739	7 599	-	-	166 338
	1 670 834	10 614	3 836	-	1 685 284
Variable income securities					
Shares					
Domestic	-	-	74 161	2 224	76 385
Foreign	49 917	-	10 462	461	60 840
	49 917	-	84 623	2 685	137 225
	1 720 751	10 614	88 459	2 685	1 822 509

(Thousands of Euro)

	Dec 2018				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	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 8,846 thousand as at 30 June 2019 (31 December 2018: Euro 8,723 thousand) having been determined.

Instruments classified under level 3 have associated unrealized gains and losses in the negative amount of Euro 620 thousand (31 December 2018: negative 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 30 June 2019, the impairment recorded for these securities amounted to Euro 65 thousand (31 December 2018: Euro 74 thousand).

The movements occurring in financial assets at fair value through other comprehensive income classified in level 3 are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Opening balance	87 226	988 438
Revaluations	1 233	(13 815)
Transfers from level 3 to level 1	-	(66 673)
Transfers to level 3	-	8 530
Transfers to financial assets at fair value though profit or loss	-	(829 254)
Closing balance	88 459	87 226

The movements occurring in impairment of financial assets at fair value through other comprehensive income are analysed as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Balance on 1 January	571	172 324
IFRS 9 transition adjustment	-	(134 408)
Charge for the period net for reversals	689	1 233
Charge off	(440)	(4 020)
Transfers	2 413	-
Balance on 30 June	3 233	35 129

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 for the purposes of liquidity providing operations amounts, as at 30 June 2019, to Euro 2,653,220 thousand after hair-cut (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 30 June 2019 and 31 December 2018;

- The EIB loan obtained is collateralized by securities of Portuguese, Spanish and Italian sovereign bonds with a nominal amount of Euro 264,738 thousand (31 December 2018: 152,000 thousand), as described in note 34; and

- Securities pledged as collateral to the Deposit Guarantee Fund have a nominal amount of Euro 21,500 thousand (31 December 2018: Euro 22,200 thousand), 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:

	(Thousands of Euro)	
	Jun 2019	Dec 2018
Assets		
Interest rate swaps	18 261	5 666
Liabilities		
Interest rate swaps	706	-
Net value	17 555	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 maturity date, as at 30 June 2019 and 31 December 2018, is as follows:

(Thousands of Euro)

	Jun 2019			
	Notional by maturity date		Fair value	
	Above 1 year	Total	Above 1 year	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	17 555	17 555
	750 000	750 000	17 555	17 555

(Thousands of Euro)

	Dec 2018			
	Notional by maturity date		Fair value	
	Above 1 year	Total	Above 1 year	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 30 June 2019, the fair value hedging operation can be analysed as follows:

(Thousands of Euro)

Jun 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	17 555	11 889	13 077	8 660
			750 000	17 555	11 889	13 077	8 660

[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:

(Thousands of Euro)

			Dec 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 swap	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 amortised cost

This caption is presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Fixed income securities		
Bonds issued by public entities		
Domestic	713 265	1 037 815
Foreign	201 772	220 386
Bonds issued by other entities		
Foreign	2 023 297	2 161 463
	2 938 334	3 419 664
Impairment for other financial assets at amortised cost	(1 812)	(2 550)
	2 936 522	3 417 114

The fair value of the portfolio of Other financial assets at amortised cost is disclosed in note 47.

The caption Other financial assets at amortised cost, as at 30 June 2019, can be analysed as follows:

(Thousands of Euro)

Securities	Issue date	Maturity date	Interest rate	Nominal value	Book value
OT APR21	23 february 2005	15 april 2012	3,850%	120 000	128 792
BONOS 0,750% 30JUL2021	08 march 2016	30 july 2021	0,750%	35 000	35 721
OT 2,200% 17-OCT-2022	09 september 2015	17 october 2022	2,200%	212 500	228 230
BONOS 0,350% 30JUL2023	22 may 2018	30 july 2023	0,350%	166 000	165 761
OT 4,95% 25-OCT-2023	10 june 2008	25 october20 23	4,950%	170 000	205 928
OT 5.65% 15-FEV-2024	14 may 2013	15 february 2024	5,650%	5 000	6 158
OT 2,875% 15-OCT-2025	20 january 2015	15 october 2025	2,875%	65 000	72 420
OT 2,875% 21JUL2026	21 january 2016	21 july 2026	2,875%	25 000	28 240
OT 4,125% 14APR2027	18 january 2017	14 april 2027	4,125%	35 000	41 975
Pelican Mortgages 07/15-09-2054_3_A	30 march 2007	15 september 2054	-	119 867	119 459
Pelican Mortgages 07/15-09-2054_3_B	30 march 2007	15 september 2054	-	4 558	4 481
Pelican Mortgages 07/15-09-2054_3_C	30 march 2007	15 september 2054	0,042%	3 838	3 580
Pelican Mortgages 07/15-09-2054_3_D	30 march 2007	15 september 2054	0,357%	2 039	1 752
Pelican Mortgages 08/15-09-2056_4_A	20 may 2008	15 september 2056	-	415 252	414 531
Pelican Mortgages 08/15-09-2056_4_B	20 may 2008	15 september 2056	0,132%	36 760	36 685
Pelican Mortgages 08/15-09-2056_4_C	20 may 2008	15 september 2056	0,282%	39 740	39 609
Pelican Mortgages 08/15-09-2056_4_D	20 may 2008	15 september 2056	0,582%	16 558	15 647
Pelican Mortgages 07/15-09-2056_4_E	20 may 2008	15 september 2056	0,932%	18 214	17 049
Pelican Mortgages 09/15-12-2061_5_A	15 march 2009	15 december 2061	-	364 754	363 723
Pelican Mortgages 09/15-12-2061_5_B	15 march 2009	15 december 2061	0,182%	127 750	127 161
Pelican Mortgages 09/15-12-2061_5_C	15 march 2009	15 december 2061	0,582%	18 016	17 844
Pelican Mortgages 09/15-12-2061_5_D	15 march 2009	15 december 2061	0,932%	18 016	17 846
Aqua Mortgages 08/15-12-2063_1_A	9 december 2008	15 december 2063	-	70 354	69 398
Aqua Mortgages 08/15-12-2063_1_B	9 december 2008	15 december 2063	-	22 609	22 337
Pelican Mortgages 12/02-12-2063_6_A	2 march 2012	2 december2063	-	395 372	393 119
Pelican Mortgages 12/02-12-2063_6_B	2 march 2012	2 december2063	0,156%	250 000	247 259
Pelican Mortgages 12/15-12-2061_6_S	25 march 2009	2 december2063	-	40 200	23 143
PEL FIN A 12/28	7 may 2014	25 december 2028	-	55 224	55 151
PEL FIN B 12/28	7 may 2014	25 december 2028	-	33 778	33 523
				2 886 399	2 936 522

The caption Other financial assets at amortised cost, as at 31 December 2018, can be analysed as follows:

(Thousands of Euro)

Securities	Issue date	Maturity 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 2018	17 october 2028	2,125%	20 000	20 387
Pelican Mortgages 07/15-09-2054_3_A	30 march 2007	15 september 2054	-	125 710	125 283
Pelican Mortgages 07/15-09-2054_3_B	30 march 2007	15 september 2054	-	4 829	4 749
Pelican Mortgages 07/15-09-2054_3_C	30 march 2007	15 september 2054	0,049%	4 067	3 794
Pelican Mortgages 07/15-09-2054_3_D	30 march 2007	15 september 2054	0,364%	2 161	1 856
Pelican Mortgages 08/15-09-2056_4_A	20 may 2008	15 september 2056	-	438 087	437 325
Pelican Mortgages 08/15-09-2056_4_B	20 may 2008	15 september 2056	0,139%	38 781	38 703
Pelican Mortgages 08/15-09-2056_4_C	20 may 2008	15 september 2056	0,289%	41 925	41 787
Pelican Mortgages 08/15-09-2056_4_D	20 may 2008	15 september 2056	0,589%	17 469	16 508
Pelican Mortgages 07/15-09-2056_4_E	20 may 2008	15 september 2056	0,939%	19 216	17 987
Pelican Mortgages 09/15-12-2061_5_A	15 march 2009	15 december 2061	-	383 337	382 254
Pelican Mortgages 09/15-12-2061_5_B	15 march 2009	15 december 2061	0,189%	134 259	133 640
Pelican Mortgages 09/15-12-2061_5_C	15 march 2009	15 december 2061	0,589%	18 934	18 753
Pelican Mortgages 09/15-12-2061_5_D	15 march 2009	15 december 2061	0,939%	18 934	18 756
Aqua Mortgages 08/15-12-2063_1_A	9 december 2008	15 december 2063	-	75 111	74 090
Aqua Mortgages 08/15-12-2063_1_B	9 december 2008	15 december 2063	-	23 724	20 371
Pelican Mortgages 12/02-12-2063_6_A	2 march 2012	2 december 2063	-	429 752	427 302
Pelican Mortgages 12/02-12-2063_6_B	2 march 2012	2 december 2063	0,190%	250 000	247 259
Pelican Mortgages 12/15-12-2061_6_S	25 march 2009	2 december 2063	-	40 200	39 203
PEL FIN A 12/28	7 may 2014	25 december 2028	-	69 660	69 562
PEL FIN B 12/28	7 may 2014	25 december 2028	-	42 608	42 281
				3 283 764	3 417 114

Other financial assets at amortised cost are recognized in accordance with the accounting policy described in note 1 b).

As at 30 June 2019, the loan obtained from EIB is collateralized, in part, by Portuguese, Spanish and Italian sovereign bonds with a nominal value of Euro 92,300 thousand (31 December 2018: Euro 253,211 thousand), provided as collateral and recorded in the caption Other financial assets at amortised cost, as disclosed in note 34.

As at 30 June 2019, the nominal value of the assets pledged as collateral to the European Central Bank for the purposes of liquidity provision operations amounts to Euro 713,417 thousand (31 December 2018: Euro 675,747 thousand) after hair-cut.

The movements in Impairment of other financial assets at amortised cost are analysed as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Opening balance	2 550	-
Charge for the period	2 385	1 364
Charge-off	(710)	-
Transfers	(2 413)	-
Closing balance	1 812	1 364

27 Investments in subsidiaries and associated companies

This caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 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 - Hóteis, Turismos e Animação dos Açores, S.A.	3 200	3 200
Montepio Gestão de Ativos Imobiliários, ACE	637	637
	426 584	426 584
Impairment of investments in associated companies	(77 756)	(79 861)
	348 828	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 business and the markets in which Banco Montepio's subsidiaries operate, differentiated levels for the discount rate, 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 alteration 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 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 30 June 2019, an impairment in Banco Montepio in the amount of Euro 77,756 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, 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 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 amortised 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 in 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 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:

(Thousands of Euro)

	Jun 2019	Jun 2018
Balance on 1 January	79 861	110 681
Charge for the period	-	322
Reversal for the period	(2 105)	(713)
Balance on 30 June	77 756	110 290

The financial information of the subsidiaries and associated companies is presented in the following tables:

(Thousands of Euro)

	Number of shares	Percentage of direct shares	Unit value Euro	Acquisition cost
30 June 2019				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100,00%	1	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100,00%	91	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20,00%	5	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26,00%	1	637
CESource, ACE	-	18,00%	-	-
				426 584
31 December 2018				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100,00%	1	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100,00%	91	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20,00%	5	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26,00%	1	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)] Quotes

The list of subsidiaries and associated companies of Banco Montepio is presented in note 57.

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 properties and other assets recorded as at 31 December 2018 in Non-current assets held for sale, related to assets received for credit recovery, were transferred to Other assets, as described in note 32.

As at 31 December 2018, this caption is analysed as follows:

	(Thousands of Euro)
	Dec 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 Properties and other assets resulting from the resolution of customer loan agreements includes 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' agreements, which have an associated impairment in the amount of Euro 1,320 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 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 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 includes 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:

	(Thousands of Euro)
	Dec 2018
Balance at the beginning of the period	852 440
Acquisitions	95 898
Disposals	(108 515)
Other movements	167
Balance at the end of the period	839 990

The movements in impairment of non-current assets held for sale is analysed as follows:

	(Thousands of Euro)
	Jun 2018
Balance on beginning of the period	138 307
Charge for the period	8 502
Reversal for the period	(1 011)
Charge-off	(4 880)
Balance on period end	140 918

29 Other tangible assets

This caption is presented as follows:

	Jun 2019	Dec 2018
	(Thousands of Euro)	
Investments		
Land and buildings		
For own use	206 728	206 298
Leasehold improvements in rented buildings	28 851	28 851
Equipment		
IT equipment	92 804	91 481
Interior installations	29 385	29 095
Furniture	18 423	18 445
Security equipment	7 564	7 557
Machinery and tools	2 582	2 568
Transportation	559	559
Other equipment	1	1
Works of art	2 870	2 870
Assets in operating lease	109	109
Right-of-use assets		
Land and buildings	27 093	-
Vehicles	3 032	-
Tangible Assets in Progress	1 764	1 122
Other property, plant and equipment	1 845	1 846
	423 610	390 802
Accumulated depreciation		
Charge for the period	8 602	9 023
Accumulated charge in previous periods	171 880	164 038
	180 482	173 061
	243 128	217 741

The caption Right-of-use assets corresponds, essentially, to Land and buildings (branches and central buildings) and to Vehicles, being depreciated according to the lease term of each agreement, as indicated in notes 1 i) and 55.

30 Intangible assets

This caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	Dec 2018
Investment		
Software	125 165	120 986
Work in progress	1 319	-
Intangible Assets in Progress	4 590	3 838
	131 074	124 824
Accumulated depreciation		
Charge for the period	7 263	12 888
Accumulated charge in previous periods	93 167	80 279
	100 430	93 167
	30 644	31 657

31 Taxes

Deferred tax assets and liabilities, as at 30 June 2019 and 31 December 2018, can be analysed as follows:

						(Thousands of Euro)
	Assets		Liabilities		Net	
	Jun 2019	Dec 2018	Jun 2019	Dec 2018	Jun 2019	Dec 2018
Deferred taxes not dependent on future profitability						
Impairment on loans granted	39 741	42 625	-	-	39 741	42 625
Benefits to employees	19 673	21 114	-	-	19 673	21 114
	59 414	63 739	-	-	59 414	63 739
Deferred taxes dependent on future profitability						
Financial instruments	33 410	34 021	(28 137)	(9 589)	5 273	24 432
Provisions / Impairment						
Impairment on loans granted	169 144	174 452	-	-	169 144	174 452
Other risks and charges	7 219	7 685	-	-	7 219	7 685
Impairment in securities and non-financial assets	7 846	6 613	-	-	7 846	6 613
Impairment in financial assets	1 733	1 931	-	-	1 733	1 931
Benefits to employees	35 070	35 024	-	-	35 070	35 024
Other	86	86	(7)	(7)	79	79
Taxes losses carried forward	171 788	170 192	-	-	171 788	170 192
Net deferred tax assets/ (liabilities)	485 710	493 743	(28 144)	(9 596)	457 566	484 147

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 and 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 densified 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 modified 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 on the balance sheet date.

The caption Post-employment and long-term employment benefits to employees includes the amount of Euro 6,858 thousand (31 December 2018: Euro 8,230 thousand) related to deferred taxes associated with the re-measurements recognized against reserves, as a result of the change in accounting policy made in 2011. As at 30 June 2019, this caption also includes the amount of Euro 5,539 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 re-measurements 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 Banco Montepio's case).

As at 30 June 2019 and 31 December 2018, deferred taxes associated with Post-employment and long-term employment benefits include the amount of Euro 21,853 thousand related to post-employment and long-term employment benefits in excess of the existing limits.

As at 30 June 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 t), 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 latest exercise prepared, based on the 2019 budget that assumes a pre-tax income growth assumption between 2019 and 2026.

Thus, the assessment of the realization of the deferred tax assets, namely those related to tax losses carried forward, is based on Banco Montepio's prospective financial statements, prepared in the scope of the aforementioned budget, which considered the macroeconomic and competitive environment in which Banco Montepio operates as well as the strategic priorities established in the Transformation Plan for the period 2019-2023, which was approved by the Board of Directors on 8 November 2018.

The recovery of the levels of profitability, liquidity and capital recommended in the Transformation Plan for the period 2019-2023 is fundamentally supported by the favourable impacts associated with:

(i) Evolution of the commercial network business, which incorporates the ambition to increase the loan and deposit portfolios. 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 Banco de Empresas Montepio, through the offer of an integrated value proposal. 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. Thus, 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 continued 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" share, leading to the progressive increase of the customer base with a greater transactionality and level of commitment.

(ii) 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.

(iii) 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 30 June 2019 and 31 December 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:

(Thousands of Euro)

Expiry Date	Jun 2019	Dec 2018
2 022	5 553	5 553
2 024	1 520	-
2 027	36 409	36 333
2 028	128 306	128 306
	171 788	170 192

Tax recognized in the income statement and in reserves during the 1st half of 2019 and financial period 2018 originated as follows:

(Thousands of Euro)

	Jun 2019		Dec 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	1 119	(20 278)	(8 670)	40 009
Provisions / Impairment	(7 623)	-	(67 362)	54 695
Employee benefits	(24)	(1 371)	10 064	3 888
Other	-	-	49	-
Tax losses carried forward	623	973	21 898	(30 308)
Deferred taxes/ recognised as profit/ (losses)	(5 905)	(20 676)	(44 021)	68 284
Current taxes	(1 116)	-	(32)	(3 583)
	(7 021)	(20 676)	(44 053)	64 701

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.

The reconciliation of the effective tax rate, as regards the part recognized in the income statement, can be analysed as follows:

(Thousands of Euro)

	Jun 2019		Jun 2018	
	%	Value	%	Value
Profit before income tax		8 591		8 480
Income tax based on the current nominal tax rate	21	(1 804)	(30)	(2 502)
Municipal and state tax	(0)	(2)	-	-
Equity contribution for the banking sector	(23)	(1 959)	(37)	(3 139)
Post-employement benefits and Pension Fund	-	-	66	5 580
Taxable priovisions / impairment	(10)	(852)	(15)	(1 266)
Autonomous taxation	(6)	(499)	(4)	(329)
Corrections to previous periods	(7)	(617)	-	-
Effect of differences in income tax for the period	(14)	(1 197)	-	-
Other	(1)	(91)	8	686
Income tax for the period	(82)	(7 021)	(11)	(970)

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 an inspection by the Tax Authority up to and including the 2015 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.

32 Other assets

This caption is presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Assets received for credit recovery	790 243	-
Sundry debtors	59 574	9 345
Other debtors	215 619	78 118
Other amounts receivable	5 758	3 619
Recoverable grants receivable from the Portuguese Government	5 070	4 907
Deferred costs	4 537	2 544
	1 080 801	98 533
Impairment for assets received for credit recovery	(131 804)	-
Impairment for other assets	(26 980)	(30 115)
	922 017	68 418

On 30 June 2019, non-current assets held for sale were transferred to this asset category, as described in note 28.

The caption Assets received for credit recovery is presented as follows:

(Thousands of Euro)

	Jun 2019
Assets received for credit recovery	790 243
Impairment for assets received for credit recovery	(131 804)
	658 439

The assets included in the caption Assets received for credit recovery are accounted for in accordance with the accounting policy described in note 1 h).

The caption Assets received for credit recovery includes the amount of Euro 1,194 thousand related to equipment resulting from the resolution of loans and advances to customers' agreements, which is fully provided against.

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 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 credit recovery. According to Banco Montepio'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 properties for which promissory contracts to buy and sell, in the amount of Euro 19,036 thousand, have already been celebrated.

The movements, in the 1st half year of 2019, in Assets received in credit recovery are analysed as follows:

(Thousands of Euro)

	Jun 2019
Opening balance	839 990
Acquisitions	13 554
Disposals	(62 979)
Other movements	(322)
Closing balance	790 243

The movement in impairment of Assets received in credit recovery are analysed as follows:

(Thousands of Euro)

	Jun 2019
Opening balance	134 639
Charge of the period	5 102
Reversal of the period	(33)
Charge off	(7 904)
Closing balance	131 804

In addition to the impairment losses observed, Banco Montepio recognized in profit or loss, in the 1st half of 2019, gains in the amount of Euro 7,121 thousand, as referred in note 9.

The evolution of the caption Sundry debtors, in the 1st half of 2019, includes the amount of Euro 50,706 thousand related to stock market operations pending liquidation.

As at 30 June 2019 and 31 December 2018, the caption Other debtors is analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
SilverEquation	29 909	29 909
Supplementary capital contributions	14 910	14 910
Public entities	2 399	6 429
Others	168 401	26 870
	215 619	78 118

The caption Supplementary capital contributions includes the value of supplementary capital contributions subscribed in the scope of a loan sales operation in the amount of Euro 14,910 thousand, loans which are fully provided against.

As at 30 June 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 Others includes, as at 30 June 2019, the amount of Euro 129,877 thousand related to shareholder loans made to the subsidiary Montepio Holding.

The caption Recoverable grants receivable from the Portuguese State corresponds to recoverable grants in respect of 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 30 June 2019 and 31 December 2018, the caption Recoverable grants receivable from the Portuguese State are presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Overdue grants unclaimed	2 580	3 278
Unsettled recoverable grants from the Portuguese Government	2 418	1 516
Unclaimed grants	72	113
	5 070	4 907

The movements in impairment of Other assets are analysed as follows:

(Thousands of Euro)

	Jun 2019	Jun 2018
Opening balance	30 115	25 183
IFRS 9 transition adjustment	-	3 508
Charge for the period	1 379	2 030
Reversal for the period	(2 762)	(1 213)
Charge-off	(1 752)	(4)
Closing balance	26 980	29 504

33 Deposits from central banks

This caption includes the deposits 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 amortised cost, as described in notes 24 and 26.

These deposits are composed of three operations with maturities in July 2020, in the amount of Euro 543,302 thousand, in September 2020, in the amount of Euro 395,534 thousand and in March 2021, in the amount of Euro 453,653 thousand.

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:

(Thousands of Euro)

	Jun 2019			Dec 2018		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	48 265	335	48 600	6 088	-	6 088
Term deposits	-	14 667	14 667	-	837	837
	48 265	15 002	63 267	6 088	837	6 925
Deposits from credit institutions abroad						
BEI loan	-	350 425	350 425	-	350 406	350 406
Deposits repayable on demand	39 141	-	39 141	35 828	-	35 828
Term deposits	-	158 703	158 703	-	177 505	177 505
Sales operations with repurchase agreement	-	870 749	870 749	-	850 317	850 317
Repos collaterals	-	22 850	22 850	-	17 499	17 499
Other deposits	5 187	-	5 187	4 068	-	4 068
	44 328	1 402 727	1 447 055	39 896	1 395 727	1 435 623
	92 593	1 417 729	1 510 322	45 984	1 396 564	1 442 548

The amount of the EIB loan is collateralized by Portuguese, Spanish and Italian sovereign bonds in the amount of Euro 359,538 thousand (31 December 2018: Euro 405,211 thousand), recorded in the captions Financial assets at fair value through profit or loss, Financial assets at fair value through other comprehensive income and Other financial assets at amortised cost, as described in notes 23, 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:

(Thousands of Euro)

	Jun 2019			Dec 2018		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	4 152 136	562 905	4 715 041	3 753 420	398 347	4 151 767
Term deposits	-	7 913 429	7 913 429	-	8 332 065	8 332 065
Saving accounts	-	121 030	121 030	-	118 898	118 898
Other deposits	19 962	-	19 962	23 837	-	23 837
Adjustments arising from fair value option operations	-	-	-	11	-	11
	4 172 098	8 597 364	12 769 462	3 777 268	8 849 310	12 626 578

Ordinance no. 180/94, of 15 December, gave rise to the incorporation of the Deposit 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 evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 14,597 thousand. Thus, in accordance with the hierarchy of valuation sources, as laid down 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 loss having been recognized, as at 30 June 2019, in the amount of Euro 11 thousand (31 December 2018: gain of Euro 22 thousand) related to fair-value variations.

During the 1st half of 2019, deposits from customers were remunerated at the average rate of 0.30% (31 December 2018: 0.44%).

36 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

(Thousands of Euro)

	Jun 2019	Dec 2018
Cash bonds	27 084	124 719
Mortgage bonds	765 818	753 612
	792 902	878 331

The fair value of the debt securities issued is presented in note 47.

The caption Debt securities issued includes issues recognized at fair value through profit or loss, in the amount of Euro 6,537 thousand (31 December 2018: Euro 6,776 thousand), in accordance with internal valuation techniques and considering, mainly, observable market data.

According to the hierarchy of valuation sources, as laid down in IFRS 13, these instruments are categorized in Level 2. The financial liabilities included in this caption are revalued against profit or loss in accordance with the financial policy described in note 1 b), with, as at 30 June 2019, a gain having been recognized in the amount of Euro 89 thousand (31 December 2018: a gain in the amount of Euro 491 thousand) related to fair value changes.

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, Banco Montepio has issues in a total amount of Euro 2,300,000 thousand, at nominal value, as at 30 June 2019 and 31 December 2018.

As at 30 June 2019, the main characteristics of the covered bonds issues in circulation are as follows:

(Thousands of Euro)

Description	Nominal value	Value at amortised cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Mortgage bonds - 5S	500 000	500 133	-	december 2015	december 2020	quarterly	Euribor 3M + 0,80%	A3/AA-/A
Mortgage bonds - 6S	300 000	300 211	-	november 2016	november 2023	quarterly	Euribor 3M + 0,80%	A3/AA-/A
Mortgage bonds - 8S	500 000	500 105	-	december 2016	december 2026	quarterly	Euribor 3M + 0,90%	A3/AA-/A
Mortgage bonds - 9S	250 000	250 145	-	may 2017	may 2024	quarterly	Euribor 3M + 0,85%	A3/AA-/A
Mortgage bonds - 10S	750 000	765 818	765 818	october 2017	october 2022	annual	Fixed at 0,875%	A3/AA-/A
	2 300 000	2 316 412	765 818					

As at 31 December 2018, the main characteristics of the covered bonds issues in circulation are as follows:

(Thousands of Euro)

Description	Nominal value	Value at amortised cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Mortgage bonds - 5S	500 000	500 141	-	december 2015	december 2020	quarterly	Euribor 3M + 0,80%	A3/AA-/A
Mortgage bonds - 6S	300 000	300 209	-	november 2016	november 2023	quarterly	Euribor 3M + 0,80%	A3/AA-/A
Mortgage bonds - 8S	500 000	500 115	-	december 2016	december 2026	quarterly	Euribor 3M + 0,90%	A3/AA-/A
Mortgage bonds - 9S	250 000	250 145	-	may 2017	may 2024	quarterly	Euribor 3M + 0,85%	A3/AA-/A
Mortgage 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					

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.

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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 30 June 2019, the value of the loans collateralizing these issues amounted to Euro 2,731,326 thousand (31 December 2018: Euro 2,728,028 thousand), according to note 21.

The movements in Debt securities issued during the period ended on 30 June 2019, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements [(a)]	Balance on 30 June
Cash bonds	124 719	-	(93 850)	-	(3 785)	27 084
Mortgage bonds	753 612	-	-	-	12 206	765 818
	878 331	-	(93 850)	-	8 421	792 902

(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 period 2018, are analysed as follows:

Thousands of Euro)

	Balance on 1 January	Issues	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.

37 Financial liabilities associated to assets transferred

In the scope of the securitisation operations described in note 51, in respect of which Banco Montepio retained the majority of the risks and rewards associated with the securitised loans, it recorded the financial liabilities associated with the assets transferred, which are detailed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Pelican Mortgages No.3	185 237	196 365
Pelican Mortgages No.4	521 295	551 222
Aqua Mortgages No.1	92 843	109 477
Pelican Mortgages No.5	524 072	551 320
Pelican Mortgages No.6	670 992	707 595
Pelican Finance No.1	87 052	98 215
	2 081 491	2 214 194

38 Provisions

This caption is presented as follows:

	Jun 2019	Dec 2018
	(Thousands of Euro)	
Provisions for guarantess and commitments	14 382	15 597
Provisions for other risks and charges	14 845	15 159
	29 227	30 756

The movements in provisions for guarantees and commitments assumed in the periods ended on 30 June of 2019 and 2018, are analysed as follows:

	Jun 2019	Jun 2018
	(Thousands of Euro)	
Balance on 1 January	15 597	16 147
IFRS 9 transition adjustment	-	944
Charge for the period	9 109	5 836
Reversal for the period	(10 324)	(5 060)
Balance on 30 June	14 382	17 867

The movements in provisions for other risk and charges are analysed as follows:

	Jun 2019	Jun 2018
	(Thousands of Euro)	
Balance on 1 January	15 159	10 060
Charge for the period	986	1 138
Reversal for the period	(1 300)	(186)
Balance on 30 June	14 845	11 012

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 30 June 2019, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Jun 2019	Dec 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	52 027	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%	102 525	-
					154 552	50 044

As at 31 December 2018, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Dec 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

The movements in Other subordinated debt during the 1st half of 2019 and the financial period ended on 31 December 2018, were as follows:

(Thousands of Euro)

	Jun 2019				
	Balance at 1 January	Issued	Refunds	Other movements	Balance at 30 June
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	1 983	52 027
MONTEPIO EMTN SUB 2019/2029	-	100 000	-	2 525	102 525
	50 044	100 000	-	4 508	154 552

(a) Including the accrued interest in the balance.

	Dec 2018				
	Balance at 1 January	Issued	Refunds	Other movements	Balance at 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) Including the movement of accrued interest in the balance.

On 30 June 2019, under the Euro Medium Term Note Program (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.

On 31 December 2018, under the Euro Medium Term Note Program (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 period 2018, Banco Montepio redeemed Euro 235,892 thousand.

40 Other liabilities

This caption is presented as follows:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Domestic and foreign operations pending settlement	313 877	96 696
Sundry liabilities	92 648	45 199
Lease liabilities	26 478	-
Charges with staff expenses	23 087	22 405
Other expenses	10 928	12 320
Suppliers	2 962	4 135
Administrative public sector	2 404	10 329
Deferred income	387	418
	472 771	191 502

The evolution of the caption Domestic and foreign operations pending settlement in the 1st half of 2019 includes the amount of Euro 160,291 thousand related to stock market operations pending financial settlement.

As at 30 June 2019, the caption Sundry debtors includes the amount of Euro 78,742 thousand (31 December 2018: Euro 18,456 thousand) related to net liabilities recognized in the balance sheet and that represent the difference between the pension, health benefits and death subsidy liabilities and the assets, in note 48.

In the 1st half of 2019, the caption Lease liabilities corresponds to the amount of the lease liabilities recognized in the scope of IFRS 16, as described in accounting policy 1 i) and in note 55. As at 30 June 2019, Banco Montepio has various operating lease contracts of real estate and cars.

The minimum future payments in respect of irrevocable operating leases, by maturity, are as follows:

	(Thousands of Euro)
	Jun 2019
Up to 1 year	3 968
Between 1 and 5 years	23 922
More than 5 years	1 157
	29 047
Expenses to be accrued in net interest income	(2 569)
	26 478

As at 30 June 2019, the caption Changes with staff expenses includes the amount of Euro 18,841 thousand (31 December 2018: Euro 19,018 thousand), related to holidays and holyday subsidies. In addition, as at 30 June 2019, this caption also includes the amount of Euro 1,321 thousand (31 December 2018: Euro 1,092 thousand) related to seniority bonus.

41 Share capital

As at 30 June 2019 and 31 December 2018, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

On 30 June 2019, MGAM sold 3,000 (31 December 2018: 158,920) shares of Banco Montepio's share capital, which is now held as follows:

	Jun 2019		Dec 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 occurred in the first quarter of 2010, of Subordinated Perpetual Securities with conditional interest 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, as referred in the accounting policy described in note 1 a).

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.

Banco Montepio repurchased Perpetual Subordinated Securities in the amounts of Euro 6,727 thousand in 2013 and Euro 1,950 thousand in March 2016. After these operations, the caption Other equity instruments amounts to Euro 6,323 thousand.

Remuneration

The Issuer 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.

During the 1st half of 2019, Banco Montepio paid interest on this issue in the amount of Euro 163 thousand (31 December 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).

In the event of the continued occurrence of a disqualifying event as Core Own Funds, even before 5 years have elapsed since their issue, and with the prior agreement of the Bank of Portugal, these Securities are redeemable at the option of the Issuer, at any date.

A disqualifying event such as Core Own Funds (Tier 1) is understood to be the change in any legal document or respective official interpretation that implies that these Securities cease to qualify as Core Own Funds of the Issuer.

Consequently, with reference to 30 June 2019 and 31 December 2018, these securities are considered as a positive element of 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:

(Thousands of Euro)

	Jun 2019	Dec 2018
Fair value reserves		
Fair value reserve		
Financial assets at fair value through other comprehensive income	47 642	(20 669)
Loans and advances to customers	1 491	1 491
Own credit risk	923	143
	50 056	(19 035)
Taxes		
Financial assets at fair value through other comprehensive income	(20 356)	(274)
Loans and advances to customers	(455)	(455)
	(20 811)	(729)
Fair value reserve net of taxes	29 245	(19 764)
Other reserves and retained earnings		
Legal reserve	191 969	191 767
Other reserves and retained earnings	(1 080 177)	(1 022 602)
Earnings with financial instruments	25	243
	(888 183)	(830 592)

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 includes 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.

The movements in the fair value reserve related to financial assets at fair value through other comprehensive income, during the 1st half of 2019, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 30 June
Fixed income securities						
Bonds issued by Portuguese public entities	-	2 440	52 268	-	(2 440)	52 268
Bonds issued by foreign public entities	(5 029)	173	3 520	5 106	(161)	3 609
Bonds issued by other entities:						
Domestic	(1 699)	296	63	35	(7)	(1 312)
Foreign	(737)	1 037	1 410	36	(54)	1 692
	(7 465)	3 946	57 261	5 177	(2 662)	56 257
Variable income securities						
Shares						
Domestic	2 099	-	-	-	-	2 099
Foreign	(15 303)	4 597	(8)	-	-	(10 714)
	(13 204)	4 597	(8)	-	-	(8 615)
	(20 669)	8 543	57 253	5 177	(2 662)	47 642

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:

(Thousands of Euro)

	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:

(Thousands of Euro)

	Jun 2019	Dec 2018
Amortised cost of financial assets at fair value through other comprehensive income	1 778 100	413 829
Recognised accumulated impairment	(3 233)	(571)
Amortised cost of financial assets at fair value through other comprehensive income net of impairment	1 774 867	413 258
Market value of financial assets at fair value through other comprehensive income	1 822 509	392 589
Potential realised gains/ (Losses) recognised in the fair value reserve	47 642	(20 669)

45 Distribution of dividends

In the 1st half of 2019 and during financial period 2018, Banco Montepio did not distribute dividends.

46 Guarantees and other commitments

The balances of this caption are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Guarantees granted	409 651	436 275
Commitments to third parties	1 320 966	1 318 751
Deposit and custody of securities	7 956 601	7 186 315
	9 687 218	8 941 341

The amounts of Guarantees granted and Commitments to third parties are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Garantees granted		
Guarantees	392 015	417 091
Documentary credits	17 636	19 184
	409 651	436 275
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	615 525	648 040
Securities subscription	1 533	1 533
Term liability to the Guarantee Deposits Fund	22 768	22 768
Potential liability with the Investor's Indemnity System	3 023	4 053
Revocable commitments		
Revocable credit facilities	678 117	642 357
	1 320 966	1 318 751

Guarantees granted are banking operations that do not necessarily result in mobilization of 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 changeable 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 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 comply 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, when necessary, that these operations be adequately collateralized. 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 30 June 2019 and 31 December 2018, the caption Term liability to the Guarantee Deposits 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 30 June 2019, under the Guarantee Deposits 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 30 June 2019 and 31 December 2018, the caption Potential liability with the Investors' Indemnity System 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 on the basis of 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, that derivative is still considered in level 3.

Financial instruments recorded in the balance sheet at amortised cost

For financial instruments recorded in the balance sheet at amortised 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 Repurchase agreement assets*

  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 30 June 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 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 period). As at 30 June 2019, the average discount rate was 0.07% (31 December 2018: 0.23%) for Repos and -0.21% (31 December 2018: 0.07%) for the remaining deposits.

  For Other Loans and advances to 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 amortised cost*

  These financial instruments are accounted for at amortised 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 period) and the spread used at the reporting date, calculated based on the average production of the last quarter. The average discount rate was 2.79% for mortgage loans (31 December 2018: 2.88%), 6.26% for individual credit (31 December 2018: 6.27%) and 4.07% 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 rates 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 period) 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 30 June 2019 was 0.24% (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 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, apart from 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 7.63% (31 December 2018: 7.91%). The average discount rate calculated for senior issues placed on the retail market was 0.32% (31 December 2018: 0.47%).

The change in the discount rate for the subordinated issue reflects the issuance conditions verified in 2019 and 2018. It should be noted that Banco Montepio issued subordinated debt in 2019 and 2018.

Issues placed on the institutional market were revalued at the market value available on 30 June 2019 and 31 December 2018.

- *Cash and 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
		Exhange 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 P
Financial assets at fair value through profit or loss	Equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3] Market Observable P
Financial assets at fair value through other comprehensive income	Equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3]
Financial assets at amortised cost	Debt securities Debt representative financial instruments		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 amortised 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 terms, with the CVA by counterparty being calculated through the sum of the various CVA values in 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

(Thousands of Euro)

	Jun 2019	Dec 2018
Adjustment	**715**	**235**
Derivative income	(5)	-

Fair value of assets received for credit recovery

The fair value and impairment constituted for real estate assets received for credit recovery 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 of an *in-situ* valuation;
- 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 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 take into account 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 30 June 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	Serling Pound	Swiss Franc	Japanese Yen
1 day	-0.403000	2.370000	0.750000	-0.795000	-0.114500
7 days	-0.403000	2.375031	0.750000	-0.795000	-0.114500
1 month	-0.388000	2.380000	0.750000	-0.800000	-0.250000
2 months	-0.366148	2.360000	0.780000	-0.750000	-0.320000
3 months	-0.345000	2.310000	0.790000	-0.750000	-0.340000
6 months	-0.311000	2.180000	0.880000	-0.720000	-0.350000
9 months	-0.262500	2.170000	0.950000	-0.680000	-0.290000
1 year	-0.214000	2.150000	0.990000	-0.560000	-0.230000
2 years	-0.370000	2.137643	0.987562	-0.785000	-0.230059
3 years	-0.350000	2.125183	0.987562	-0.757500	-0.230059
5 years	-0.230000	2.100536	0.987562	-0.632500	-0.230059
7 years	-0.070000	2.075821	0.987562	-0.465000	-0.230059
10 years	0.175000	2.038715	0.987562	-0.217500	-0.230059
15 years	0.490000	2.068006	0.987562	0.112500	-0.230059
20 years	0.653000	2.158000	0.987562	0.112500	-0.230059
30 years	0.723000	2.195500	0.987562	0.112500	-0.230059

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:

Exchange rates	Jun 2019	Dec 2018	Volatility (%) 1 month	3 months	6 months	9 months	1 year
EUR/USD	1,1380	1,1450	5,750	5,787	5,975	6,175	6,400
EUR/GBP	0,8966	0,8945	5,475	6,275	8,025	8,400	8,680
EUR/CHF	1,1105	1,1269	5,100	5,052	5,130	5,230	5,325
EUR/JPY	122,60	125,85	6,960	6,950	7,375	7,650	7,800
EUR/BRL	4,3511	4,444	14,025	13,650	13,600	13,675	13,675

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, at 30 June 2019 and 31 December 2018, is presented as follows:

(Thousands of Euro)

Jun 2019	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	-	-	1 418 014	1 418 014	1 418 014
Loans and advances to credit institutions repayable on demand	-	-	53 780	53 780	53 780
Other loans and advances to credit institutions	-	-	429 140	429 140	426 244
Loans and advances to customers	15 137	-	11 181 895	11 197 032	11 120 135
Financial assets held-for-trading	42 363	-	-	42 363	42 363
Financial assets at fair value through profit or loss	862 345	-	-	862 345	862 345
Financial assets at fair value through other comprehensive income	-	1 822 509	-	1 822 509	1 822 509
Hedging derivatives	18 261	-	-	18 261	18 261
Other financial assets at amortised cost	-	-	2 936 522	2 936 522	2 967 710
	938 106	1 822 509	16 019 351	18 779 966	18 731 361
Financial liabilities					
Deposits from central banks	-	-	1 392 489	1 392 489	1 392 489
Deposits from other credit insitutions	-	-	1 532 600	1 532 600	1 516 253
Deposits from customers	-	-	12 769 462	12 769 462	12 783 238
Debt securities issued	6 359	-	786 543	792 902	793 117
Financial liabilities held-for-trading	2 081 491	-	-	2 081 491	2 078 241
Hedging derivatives	11 295	-	-	11 295	11 295
Other subordinated debt	706	-	-	706	706
	-	-	154 552	154 552	165 598
	2 099 851	-	16 635 646	18 735 497	18 740 937

(Thousands of Euro)

Dec 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	-	-	1 610 634	1 610 634	1 610 634
Loans and advances 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	-	11 781 031	11 796 170	11 908 336
Financial assets held-for-trading	15 660	-	-	15 660	15 660
Financial assets at fair value through profit or loss	913 406	-	-	913 406	913 406
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 amortised cost	-	-	3 417 114	3 417 114	3 428 631
	949 871	392 589	17 221 133	18 563 593	18 685 775
Financial liabilities					
Deposits from central banks	-	-	1 395 320	1 395 320	1 395 320
Deposits from other credit insitutions	-	-	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 associated to transfered assets	2 214 194			2 214 194	2 211 433
Financial liabilities held-for-trading	12 274	-	-	12 274	12 274
Other subordinated debt	-	-	50 044	50 044	50 342
	2 247 841	-	16 371 448	18 619 289	18 615 366

The following table summarizes, by valuation levels, the fair value of each group of financial assets and liabilities of Banco Montepio, as at 30 June 2019:

(Thousands of Euro)

	Jun 2019				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 418 014	-	-	-	1 418 014
Loans and advances to credit institutions repayable on demand	53 780	-	-	-	53 780
Other loans and advances to credit institutions	-	-	426 244	-	426 244
Loans and advances to customers	-	15 137	11 104 998	-	11 120 135
Financial assets held-for-trading	25 261	9 868	7 234	-	42 363
Financial assets at fair value through profit or loss	7 188	-	855 157	-	862 345
Financial assets at fair value through other comprehensive income	1 720 751	10 614	88 459	2 685	1 822 509
Hedging derivatives	-	18 261	-	-	18 261
Other financial assets at amortised cost	944 413	-	2 023 297	-	2 967 710
	4 169 407	53 880	14 505 389	2 685	18 731 361
Financial liabilities					
Deposits from central banks	1 392 489	-	-	-	1 392 489
Deposits from other credit insitutions	-	-	1 516 253	-	1 516 253
Deposits from customers	-	-	12 783 238	-	12 783 238
Debt securities issued	-	771 532	21 585	-	793 117
Financial liabilities associated to transfered assets	-	-	2 078 241	-	2 078 241
Financial liabilities held-for-trading	-	11 295	-	-	11 295
Other subordinated debt	-	-	165 598	-	165 598
	1 392 489	783 533	16 564 915	-	18 740 937

The following table summarizes, by valuation levels, the fair value of each group of financial assets and liabilities of Banco Montepio, as at 31 December 2018:

(Thousands of Euro)

	Dec 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 advances 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	11 893 197	-	11 908 336
Financial assets held-for-trading	-	11 525	4 135	-	15 660
Financial assets at fair value through profit or loss	6 556	-	906 850	-	913 406
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 amortised cost	1 267 168	-	2 161 463	-	3 428 631
	3 250 608	44 410	15 388 152	2 605	18 685 775
Financial liabilities					
Deposits from central banks	1 395 320	-	-	-	1 395 320
Deposits from other credit insitutions	-	-	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 associated to transfered 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 employment 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 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.

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	
	Jun 2019	**Dec 2018**
Financial assumptions		
Wage growth rate	0,75%	1,00%
Pension growth rate	0,50%	0,50%
Rate of return of plan assets	1,60%	2,25%
Discount rate	1,60%	2,25%
Revaluation rate		
Wage 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 indexes, for high-quality corporate bonds, and (ii) duration of the liabilities.

As at 30 June 2019, the average duration of the pension liabilities of the employees is 19.8 years (31 December 2018: 19.7 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

	Jun 2019	**Dec 2018**
Active	3 279	3 308
Retirees and survivors	1 309	1 312
	4 588	4 620

The liabilities for pensions and other benefits and respective coverage levels are presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Net assets / (liabilities) recognised in the balance sheet		
Liabilities with pension benefits		
Pensioners	(317 827)	(286 534)
Active	(433 047)	(389 309)
	(750 874)	(675 843)
Liabilities with healthcare benefits		
Pensioners	(22 994)	(21 628)
Active	(41 093)	(33 400)
	(64 087)	(55 028)
Liabilities with death benefits		
Pensioners	(1 864)	(1 673)
Active	(1 625)	(1 300)
	(3 489)	(2 973)
Total liabilities	(818 450)	(733 844)
Coverages		
Pension Fund value	739 113	715 388
Net assets / (liabilities) in the balance sheet	(79 337)	(18 456)
Accumulated actuarial losses recognised in other comprehensive income	272 875	213 996

The evolution of liabilities with retirement pensions, health benefits and death subsidy can be analysed as follows:

	Jun 2019				Dec 2018			
	Pension benefits	Health-care benefits	Death benefits	Total	Pension benefits	Health-care benefits	Death benefits	Total
Liabilities at the beginning of the period	675 843	55 028	2 973	733 844	674 925	54 471	3 159	732 555
Recognition in results (Note 11)								
Current service cost	2 360	707	29	3 096	4 830	1 880	53	6 763
Interest cost	7 603	619	33	8 255	14 173	1 144	66	15 383
Early retirement, mutually agreed termination and others	81	-	-	81	1 802	-	-	1 802
Actuarial gains/ (losses) (Note 43)								
- Changes in assumptions	59 304	8 070	463	67 837	(18 377)	(1 711)	(107)	(20 195)
- Not related to changes in assumptions	15 690	(337)	(9)	15 344	17 947	(756)	(198)	16 993
Others								
Pensions paid by the Fund								
Pensions paid by CEMG	(9 802)	-	-	(9 802)	(17 047)	-	-	(17 047)
Participant contributions	(1 382)	-	-	(1 382)	(4 725)	-	-	(4 725)
Liabilities at the end of the period	1 177	-	-	1 177	2 315	-	-	2 315
	750 874	64 087	3 489	818 450	675 843	55 028	2 973	733 844

The evolution of the Pension Fund's net asset value in the periods ended on 30 June 2019 and 31 December 2018 can be analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Value of Fund at beginning of period	715 388	723 130
Recognized in results (note 11)		
Share of net interest	8 048	15 185
Recognized in equity (note 43)		
Financial deviations	24 302	(38 195)
Others		
Contributions from Banco Montepio	-	30 000
Participant Contributions	1 177	2 315
Pensions paid by the Fund	(9 802)	(17 047)
Value of Fund at end of period	739 113	715 388

As at 30 June 2019 and 31 December 2018, Banco Montepio holds 97.1% of the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

As at 30 June 2019 and 31 December 2018, the assets of the Pension Fund, in function of being quoted or not, can be analysed as follows:

(Thousands of Euros)

	Jun 2019				Dec 2018			
	Assets of the fund	%	Quoted	Unquoted	Assets of the fund	%	Quoted	Unquoted
Variable income securities								
Shares	50 670	7%	50 670	-	58 294	8%	58 294	-
Shares investment fund	96 403	13%	20 037	76 366	82 794	12%	9 602	73 192
Bonds	523 519	71%	469 487	54 032	479 074	67%	446 193	32 881
Real estate	5 359	1%	-	5 359	5 514	1%	-	5 514
Fundos de investimento imobiliário	23 669	3%	674	22 995	23 672	3%	674	22 998
Venture capital funds	5 399	1%	-	5 399	9 343	1%	-	9 343
Investments in banks and other	34 094	4%	-	34 094	56 697	8%	-	56 697
Total	739 113	100%	540 868	198 245	715 388	100%	514 763	200 625

The assets of the Pension Fund related to securities, real estate and loans and advances to banks within the Bank's perimeter are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Investments in banks and other	34 094	56 697
Real estate	5 359	5 514
Bonds	1 701	2 250
	41 154	64 461

The evolution of the re-measurements in the balance sheet are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Re-measurements at the beginning of the period	213 996	179 003
Actuarial gains/ (losses) for the period:		
Changes in financial assumption	96 826	(20 195)
Payroll update	(28 989)	-
Deviation on the Pension Fund return	(24 302)	38 195
Others	15 344	16 993
Actuarial gains/ (losses) in other comprehensive income	272 875	213 996

The costs for the period with retirement pensions, health benefits and death subsidy are analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Current service cost	3 096	6 763
Net interest income/ (expense) in the liabilities coverage balance	207	198
Costs with early retirement, mutually agreed termination and others	81	1 802
Costs for the period	3 384	8 763

The evolution of net assets/ (liabilities) in the balance sheet, in the periods ended on 30 June 2019 and 31 December 2018, is analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
At the beginning of the period	(18 456)	(9 425)
Banco Montepio's contribution	-	30 000
Current service cost	(3 096)	(6 763)
Net interest income/ (expense) in the liabilities coverage balance	(207)	(198)
Actuarial gains/ (losses)	(83 181)	3 202
Financial gains/ (losses)	24 302	(38 195)
Pensions paid by Banco Montepio	1 382	4 725
Early retirement, mutually agreed terminations and other	(81)	(1 802)
At the end of the period	(79 337)	(18 456)

The actuarial assumptions have a significant impact on the liabilities for pensions and other benefits. Considering this impact, 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 impact on the value of pension liabilities, which impact is analysed as follows:

(Thousands of Euro)

	Jun 2019		Dec 2018	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(37 675)	37 067	(30 907)	32 978
Wage growth rate (0.25% change)	25 349	(23 445)	22 728	(21 021)
Pension growth rate (0.25% change)	32 198	(30 793)	28 870	(27 610)
SAMS contribution (0.25% change)	3 598	(3 598)	3 226	(3 226)
Future mortality (1 year change)	(24 945)	24 907	(22 367)	22 333

As a result of the ACT's amendment, as at 30 June 2019 the cost associated with the end-of-career award, which replaced the extinguished seniority bonus, amounted to Euro 229 thousand (31 December 2018: Euro 634 thousand), in accordance with the accounting policy described in note 1 s).

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 30 June 2019 and 31 December 2018, the amount of the funds for which Banco Montepio acts as depository bank is analysed as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Securities investment fund	158 609	137 984
Real estate investment fund	545 124	513 344
Pension fund	237 479	227 963
Bank and insurance	6 239	22 072
	947 451	901 363

The amounts recognized in these captions are measured at fair value determined as at the balance sheet date.

50 Transactions with related parties

As defined in IAS 24, the companies detailed in note 57, the Pension Fund, the members of the Board of Directors, the Supervisory Board and key management personnel are considered related parties of Banco Montepio. In addition to the members of the Board of Directors, the Supervisory Board 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 30 June 2019, the list of related parties considered by Banco Montepio is presented as follows:

Shareholder
Montepio Geral Associação Mutualista

Board of Directors
Chairman of the Board of Directors
Carlos Manuel Tavares da Silva
Non-executive members
Luís Eduardo Henriques Guimarães (*)
Amadeu Ferreira de Paiva
Manuel Ferreira Teixeira
Vítor Manuel do Carmo Martins
Rui Pedro Brás de Matos Heitor
Pedro Jorge Gouveia Alves
Carlos Francisco Ferreira Alves
Executive Committee
Executive Chairman
Dulce Maria Pereira Cardoso Mota Jorge Jacinto
Executive members
Nuno Cardoso Correia da Mota Pinto
José Carlos Sequeira Mateus
Pedro Miguel Nunes Ventaneira
Carlos Miguel López Leiria Pinto
Helena Catarina Gomes Soares de Moura Costa Pina
Leandro Rodrigues da Graça Silva
Audit Committee
Chairman
Luís Eduardo Henriques Guimarães (*)
Members
Amadeu Ferreira de Paiva
Manuel Ferreira Teixeira
Vítor Manuel do Carmo Martins
Carlos Francisco Ferreira Alves

Other Related Parties
Board of Directors
Alfredo Jorge Alves Gomes de Sá
Amândio Manuel Carrilho Coelho
António Manuel de Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
António Tomás Correia
Artur Luís Martins
Carlos Vicente Morais Beato
Edite da Encarnação Paiva Baptista Cheira
Eduardo José da Silva Farinha
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 Ferrão
Isabel Maria Loureiro Alves Brito
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 Manuel Marques Cardoso
Jorge Manuel Santos Oliveira

Other Related Parties
Board of Directors (cont.)
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José António Truta Pinto Rabaça
José Luís Esparteiro da Silva Leitão
Laura Catarina Simões Cardoso Duarte Teodósio
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Gabriel Moreira Maia de Almeida
Luís Miguel Marques Ferreira Cardoso
Luís Paulo da Silva Mendes
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Lúcia Ramos Bica
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
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
António Fernando Figueiredo Lopes
António José Miranda Lopes Coutinho
Daniel Maximino Caçador
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
Jaquelina Maria Almeida Rodrigues Miguens
Joaquim António Canhoto Gonçalves Silva
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Pedro Jorge Ponte Araújo
Pedro Nuno Coelho Pires
Rui Sérgio Carvalho Santos Calheiros Gama
Sandra Maria Santos Gameiro Henriques Jesus Brito Pereira
Tânia Carina Cardoso Madeira
Vasco Francisco Coelho Almeida
Vasco Martins Fernandes Gil
Vitor Fernando Santos Cunha

(*) On 6 September 2019 has resigned as non-executive member of the Board of Directors and Chairman of the Audit Committee

Other Related Parties

Augusto da Silva Carvalho, S.A.
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.
Bem Comum, Sociedade de Capital de Risco, S.A.
Binganimus - Bingos e Animação, S.A.
Bolsimo - Gestão de Activos, S.A.
Carlos Augusto Lança & Filhos, Lda.
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto
Casa da Sorte - Organização Nogueira da Silva, 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.
Finibanco Angola, S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
Herdeiros de Manuel Martins Travassos, Lda.
HTA – 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.
Lusomilhões, 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, S.A.
Montepio Gestão de Activos - S.G.F.I., S.A.
Montepio Gestão de Activos Imobiliários, A.C.E.
Montepio Holding, S.G.P.S., S.A.
Montepio Imóveis – Sociedade Imobiliária, S.A.
Montepio Investimento, S.A.
Montepio Residências para Estudantes, S.A.
Montepio Seguros, S.G.P.S., S.A.
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.
N Seguros, S.A.
Naviser - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
NovaCâmbios - Instituição de Pagamento, S.A.
Pataca da Sorte - Bingos e Animação Unipessoal, Lda.
Polaris - Fundo de Investimento Imobiliário Fechado
Portugal Estates Fund - Fundo de Investimento Imobiliário Fechado
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.
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis S.A.
Torre da Sorte, Lda.

As at 30 June 2019, the assets held by Banco Montepio in respect of related parties, represented or not by securities, included in the captions Loans and advances to credit institutions repayable on demand, Other loans and advances to 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 commitments assumed, are presented as follows:

(Thousands of Euro)

	Jun 2019								
Companies	Loans and advances to credit institutions repayable on demand	Other loans and advances to 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	Provisions for guarantees and commitments assumed	Total
Board of Directors	-	-	515	-	-	-	-	-	515
Audit Committee	-	-	161	-	-	-	-	-	161
Board of Directors of Other Related Parties	-	-	2 455	2	-	-	8	-	2 461
Other Key Management Personnel	-	-	3 740	5	-	-	-	-	3 735
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-	41			41
CESource, ACE		-	-	-	-	95	-	-	95
Finibanco Angola, S.A.	13 977	-	-	-	-	82	4 420	14	18 465
Germont – Empreendimentos Imobiliários, S.A.	-	-	7 108	73	-	-	4 931	4	11 962
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	1 000	1	999
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	1	-	925	-	46	-	972
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	416	-	-	-	416
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	305 247	-	-	-	3	46 760	152	351 858
Montepio Geral Associação Mutualista	-	-	6	4	-	2 630	382	-	3 014
Montepio Gestão de Activos - S.G.F.I., S.A.	-	-	-	-	1	-	-	-	1
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	129 937	-	-	129 937
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	7 627	61	-	-	-	-	7 566
Montepio Investimento, S.A.	-	-	-	-	-	107	181	3	285
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	-	49	-	-	49
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	1 143	56	-	-	1 361	6	2 442
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	200	-	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	1 450	-	-	-	550	1	1 999
Residências Montepio, Serviços de Saúde, S.A.	-	-	312	3	-	-	500	1	808
SAS Apostas Sociais, Jogos e Apostas Online, S.A.	-	-	-	-	-	-	1 100	6	1 100
	13 977	305 247	24 519	204	1 342	132 944	61 439	188	539 082

As at 31 December 2018, the assets held by Banco Montepio in respect of related parties, represented or not by securities, included in the captions Loans and advances to credit institutions repayable on demand, Other loans and advances to 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 commitments assumed, are presented as follows:

(Thousands of Euro)

	Dec 2018								
Companies	Loans and advances to credit institutions repayable on demand	Other loans and advances to 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	Provisions for guarantees and commitments assumed	Total
Board of Directors (after march 20 of 2018)	-	-	337	-	-	-	-	-	337
Audit Committee (after march 20 of 2018)	-	-	163	-	-	-	-	-	163
Executive Board of Directors (until march 20 of 2018)	-	-	132	-	-	-	-	-	132
General and Supervisory Board (until march 20 of 2018)	-	-	2 034	26	-	-	470	11	2 467
Board of Directors of Other Related Parties	-	-	2 582	3	-	-	8	-	2 587
Other Key Management Personnel	-	-	2 944	5	-	-	-	-	2 939
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	701	-	-	-	-	-	-	701
Casa da Sorte - Organização Nogueira da Silva, S.A.	-	-	14 081	15 123	-	-	5 500	842	3 616
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 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 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
	9 525	279 249	201 410	16 348	1 292	2 784	116 696	1 185	593 423

As at 30 June 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, Other subordinated debt and Other liabilities are analysed as follows:

(Thousands of Euro)

Companies	Jun 2019 Deposits from other credit institutions	Deposits from customers	Debt securities issued and Other subordinated debt	Other liabilities	Total
Conselho de Administração	-	909	-	-	909
Comissão de Auditoria	-	1 018	-	-	1 018
Conselho de Administração de Outras Partes Relacionadas	-	5 502	-	-	5 502
Outro Pessoal Chave de Gestão	-	1 752	-	-	1 752
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	158 349	-	-	-	158 349
Banco Terra, S.A.	-	-	-	-	-
Bolsimo - Gestão de Activos, S.A.	-	2 254	-	-	2 254
Casa da Sorte - Organização Nogueira da Silva, S.A.	-	-	-	-	-
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	37 009	-	-	37 009
Clínica CUF Belém, S.A.	-	24	-	-	24
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	8	-	-	8
Empresa Gestora de Imóveis da Rua do Prior S.A	-	124	-	-	124
Finibanco Angola, S.A.	22 306	-	-	5 500	27 806
Fundação Montepio Geral	-	1 310	-	-	1 310
Fundo de Pensões - Montepio Geral	-	36 409	1 700	-	38 109
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	2 401	-	-	2 401
Germont – Empreendimentos Imobiliários, S.A.	-	484	-	-	484
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	87	-	-	87
In Posterum, A.C.E.	-	100	-	-	100
Lusitania Vida, Companhia de Seguros, S.A.	-	20 739	-	-	20 739
Lusitania, Companhia de Seguros, S.A.	-	6 138	-	-	6 138
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	58 680	-	-	58 680
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	52 685	-	-	52 685
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	56 167	-	-	56 167
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	1 511	-	3 059	4 570
Montepio Geral Associação Mutualista	-	168 738	160 244	-	328 982
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	1 728	-	-	1 728
Montepio Gestão de Activos Imobiliários, ACE	-	2 447	-	-	2 447
Montepio Holding, S.G.P.S., S.A.	-	13 764	-	1 972	15 736
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	157	-	-	157
Montepio Investimento, S.A.	29 591	-	-	-	29 591
Montepio Residências para Estudantes, S.A.	-	398	-		398
Montepio Seguros, S.G.P.S., S.A.	-	1 074	-	-	1 074
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	4 530	-	-	4 530
N Seguros, S.A.	-	696	-	-	696
NovaCâmbios - Instituição de Pagamento, S.A.	-	597	-	-	597
PEF - Fundo de Investimento Imobiliário Fechado	-	796	-	-	796
Polaris-Fundo de Investimento Imobiliário Fechado	-	50	-	-	50
Residências Montepio, Serviços de Saúde, S.A.	-	543	-	-	543
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	71	-	-	71
SAS Apostas Sociais, Jogos e Apostas Online, S.A.	-	1 758	-	-	1 758
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 461	-	-	2 461
Sociedade Portuguesa de Administrações, S.A.	-	195	-	-	195
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	13 382	-	151	13 533
	210 246	498 696	161 944	10 682	881 568

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, Other subordinated debt and other liabilities are analysed as follows:

(Thousands of Euro)

	Dec 2018				
Companies	**Deposits from other credit institutions**	**Deposits from customers**	**Debt securities issued and Other subordinated debt**	**Other liabilities**	**Total**
Conselho de Administração (após 20 de março de 2018)	-	594	-	-	594
Comissão de Auditoria (após 20 de março de 2018)	-	946	-	-	946
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 30 June 2019, Banco Montepio's income and expense 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:

(Thousands of Euro)

Companies	Jun 2019					
	Interest and similar income	Interest and similar expense	Net fee and comission income	Other operating income/(expense)	Staff costs	General and administrative expenses
Conselho de Administração	-	-	-	-	-	-
Comissão de Auditoria	-	1	-	-	-	-
Conselho de Administração de Outras Partes Relacionadas	4	5	2	-	-	-
Outro Pessoal Chave de Gestão	10	3	2	-	-	-
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	2	1 211	-	50	(36)	-
Bolsimo - Gestão de Ativos, S.A.	-	-	-	-	(40)	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	76	42	-	-	-
CESource, ACE	-	-	-	-	(289)	-
Finibanco Angola, S.A.	-	-	-	-	(68)	-
Fundação Montepio Geral	-	-	-	-	-	-
Fundo de Pensões - Montepio Geral	-	10	-	-	-	-
Fundo de Capital de Risco Montepio Crescimento	-		-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	5	1 278	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	173	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	14	-		-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	5	2 010	-	-	-
Lestinvest, S.G.P.S., S.A.	-			-	-	-
Lusitania, Companhia de Seguros, S.A.	-	5	1 831	4	-	-
Montepio Arrendamento - F.I.I. Fechado para Arrendamento Habitacional	-	13	102	1	-	-
Montepio Arrendamento II - F.I.I. Fechado para Arrendamento Habitacional	-	13	87	1	-	-
Montepio Arrendamento III - F.I.I. Fechado para Arrendamento Habitacional	-	13	106	1	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	1 597	-	13	1	(67)	234
Montepio Geral Associação Mutualista	1	5 543	1 117	3	(4 678)	2 351
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimentc	-	-	3	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	-	(1 285)	1 534
Montepio Geral Corp.	-	-	-	-	-	
Montepio Holding, S.G.P.S., S.A.	788	-	4	-	-	96
Montepio Imóveis – Sociedade Imobiliária, S.A.	108	1	-	-	-	-
Montepio Investimento, S.A.	6	-	48	208	(282)	-
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.	-	10	177	-	(260)	-
N Seguros, S.A.	-	-	5	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	14	-	31	2	-	-
PEF - Fundo de Investimento Imobiliário Fechado	1	-	6	-	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	25	-	2	-	-	-
Residências Montepio, Serviços de Saúde, S.A.	9	-	10	-	(48)	-
SAS Apostas Sociais, Jogos e Apostas Online, S.A.	15	-	2	-	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	5	-	-	-	-
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	-	-	-	-	-
	2 767	6 920	6 906	271	(7 053)	4 215

The caption Other administrative expenses includes the amount of Euro 1,534 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 expense 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:

(Thousands of Euro)

Companies	Dec 2018					
	Interest and similar income	Interest and similar expense	Net fee and comission income	Other operating income/(expense)	Staff costs	General and administrative expenses
Conselho de Administração (após 20 de março de 2018)	-	-	1	-	-	-
Comissão de Auditoria (após 20 de março de 2018)	-	3	-	-	-	-
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 Investimentc	-	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
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	-	-	-	-	-
	8 646	14 222	11 093	724	(14 303)	6 510

Remunerations and social charges with the members of the Board of Directors, Audit Committee and Other key management personnel are detailed in note 11.

During the 1st half of 2019 and financial period 2018, there were no transactions with Banco Montepio's Pension Fund.

51 Securitisation of assets

As at 30 June 2019, there are six securitisation operations, five of which originated in Banco Montepio, and one in Montepio Investimento, S.A., currently 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 mentioned in the accounting policy described in note 1 a).

The following paragraph present next some additional details of these securitisation operations.

As at 30 March 2007, Banco Montepio celebrated a mortgage loan securitisation 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 securitisation 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 value, with the initial sale process costs representing 0.083% of the par value.

As at 9 December 2008, Montepio Investimento S.A. (then 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 sold this securitisation to Banco Montepio in 2011.

As at 25 March 2009, Banco Montepio celebrated a mortgage loan securitisation 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 value, with the initial sale process costs representing 0.0564% of the par value.

As at 5 March 2012, Banco Montepio celebrated a mortgage loan securitisation 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 value, with the initial sale process costs representing 0.1083% of the Asset Backed Notes.

As at 7 May 2014, Banco Montepio and Montepio Crédito celebrated with Tagus, a contract for the sale of consumer loans originated by same in the scope of a loan securitisation 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 value, 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 securitisation operations is Banco Montepio, assuming the collection of the loans sold and channelling the amounts received to the respective Credit Securitisation Companies (Sociedades 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 period 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 securitisation operations referred above were not derecognised from the balance sheet as the Bank retained most of the risks and benefits associated with the securitised loans. If the Bank substantially transfers the risks and benefits associated with their holding, the securitisation operations are derecognised.

As at 30 June 2019, the securitisation operations realized by Banco Montepio are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit: Initial amount	Credit: Current amount	Liabilities: Initial nominal amount	Liabilities: Current nominal amount	Liabilities: Third party amount *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	187 273	762 375	191 088	56 661
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	527 079	1 028 600	555 124	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	100 088	236 500	96 463	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	529 424	1 027 500	551 536	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	694 882	1 107 000	750 572	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	185 300	91 661	185 300	97 802	-
				4 347 275	2 130 407	4 347 275	2 242 585	56 661

* Includes nominal value, accrued interest and other adjustments.

Additionally, the detail of the securitised loans not derecognised, by securitisation operation and nature of contract, as at 30 June 2019, is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions: 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 credit							
Retail							
Mortgage	186 082	523 972	95 712	526 200	679 310	-	2 011 276
Consumer credit and other	-	-	223	269	255	88 006	88 753
	186 082	523 972	95 935	526 469	679 565	88 006	2 100 029
Overdue loans and interests							
Below 90 days	79	1 001	882	642	3 781	266	6 651
Above 90 days	1 112	2 106	3 271	2 313	11 536	3 389	23 727
	1 191	3 107	4 153	2 955	15 317	3 655	30 378
	187 273	527 079	100 088	529 424	694 882	91 661	2 130 407

As at 31 December 2018, the securitisation operations realized by Banco Montepio are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit: Initial amount	Credit: Current amount	Liabilities: Initial nominal amount	Liabilities: Current nominal amount	Liabilities: Third party amount *
Pelican Mortgages No. 3	March 2007	euro	Mortgage credit	762 375	198 329	762 375	202 235	61 343
Pelican Mortgages No. 4	May 2008	euro	Mortgage credit	1 028 600	556 515	1 028 600	584 078	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage credit	236 500	106 184	236 500	102 335	-
Pelican Mortgages No. 5	March 2009	euro	Mortgage credit	1 027 500	556 280	1 027 500	578 464	-
Pelican Mortgages No. 6	February 2012	euro	Mortgage credit	1 107 000	730 645	1 107 000	784 952	-
Pelican Finance No. 1	May 2014	euro	Consumer credit	185 300	113 526	185 300	121 066	-
				4 347 275	2 261 479	4 347 275	2 373 130	61 343

Additionally, the detail of the securitised loans not derecognised, by securitisation operation and nature of contract, as at 31 December 2018, is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions						
	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 credit							
Retail							
Mortgage	197 170	553 448	101 734	553 090	716 929	-	2 122 371
Consumer credit and other	-	-	-	-	-	110 472	110 472
	197 170	553 448	101 734	553 090	716 929	110 472	2 232 843
Overdue loans and interests							
Below 90 days	74	931	781	908	3 422	184	6 300
Above 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 securitisation vehicles created (*Pelican Mortgages* No. 3, *Pelican Mortgage* 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 bonds, these are recorded as Other financial assets at amortised cost (note 26), while in the case of the residual bonds these are recorded in the caption Financial assets at fair value through profit or loss (note 23), and as at 30 June 2019, these are analysed as follows:

						Rating (initial)				Rating (current)			
Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	CEMG's interest held (nominal amount) Euro	Maturity date	Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	176 527 987	119 867 763	2054	AAA	Aaa	AAA	n.a.	BBB	A2	A	n.a.
	Class B	14 250 000	4 557 703	4 557 703	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	3 838 065	3 838 065	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	2 038 972	2 038 972	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	415 251 488	415 251 488	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AA (h)
	Class B	55 500 000	36 759 617	36 759 617	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	39 740 126	39 740 126	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	16 558 386	17 468 956	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	18 214 225	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	70 354 078	70 354 078	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	22 609 133	22 609 133	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	364 753 643	364 753 643	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	127 750 277	127 750 277	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	18 016 065	18 016 065	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	18 016 065	18 016 065	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	395 372 210	395 372 210	2063	A	n.a.	A-	AA	A+	n.a.	AA	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	55 223 631	55 223 631	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	54 700 000	33 777 864	33 777 864	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.

As at 31 December 2018, the securities issued by the special purpose vehicles, are analysed as follows:

						Rating (initial)				Rating (current)			
Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	CEMG's interest held (nominal amount) Euro	Maturity date	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	17 468 956	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 effected 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 an efficient management of the risks have played 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 a conservative 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 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.

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 its 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, focused on 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 its obligations.

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 supporting 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.

Regarding the analysis methodologies used within the audit risk, 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 and control of the Banco Montepio's risk, 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 segments, 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 receivable, 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;

- ✓ 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 following information 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:

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 signs of impairment:

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 indications, 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 a going concern approach a critical analysis is done to the company's 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 a gone concern approach, 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:

(Thousands of Euro)

	Jun 2019	Dec 2018
Loans and advances to credit institutions repayable on demand	53 780	75 572
Other loans and advances to credit institutions	429 140	336 782
Loans and advances to customers	11 197 032	11 796 170
Financial assets held-for-trading	39 622	15 660
Financial assets at fair value through profit or loss	128 362	129 868
Financial assets at fair value through other comprehensive income	1 685 284	260 032
Hedging derivatives	18 261	5 666
Other financial assets at amortised cost	2 936 522	3 417 114
Other assets	915 369	63 789
Guarantees granted	409 651	436 275
Irrevocable credit facilities	615 525	648 040
	18 428 548	17 184 968

The analysis of the main credit risk exposures by sector of activity, for the 1st half of 2019, can be analysed as follows:

(Thousands of Euro)

Jun 2019

Activity	Loans and advances to other credit institutions repayable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held-for-trading	Financial assets 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 granted	Irrevocable credit facilities	Provisions for off-balance sheet liabilities
	Book value	Book value	Impairment	Book value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry and fishing	-	-	-	71 307	3 415	-	-	-	-	-	-	-	877	3 769	103
Extractive Industries	-	-	-	12 769	379	-	-	-	-	-	-	-	1 391	1 678	71
Manufacturing industries	-	-	-	894 510	72 660	-	2 049	44 087	32	-	-	-	20 467	94 898	960
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	38 562	1 625	-	9 397	40 093	45	-	-	-	1 285	13 218	20
Water supply	-	-	-	76 641	1 708	-	-	-	-	-	-	-	1 863	5 123	51
Construction	-	-	-	706 649	240 590	-	438	2 088	2	-	-	-	99 226	87 633	6 145
Wholesale and retail trade	-	-	-	790 884	89 001	-	4 093	5 544	11	-	-	-	63 989	112 630	3 165
Transport and storage	-	-	-	302 081	35 510	-	16	-	-	-	-	-	7 393	14 778	770
Accommodation and catering activities	-	-	-	426 452	14 268	-	1	-	-	-	-	-	8 530	14 902	232
Information and Communication	-	-	-	60 324	11 853	-	-	7 783	5	-	-	-	2 580	21 568	37
Financial and insurance activities	53 780	433 008	3 868	498 659	48 899	17 102	108 305	89 319	102	18 261	2 023 297	-	130 938	93 825	248
Real estate activities	-	-	-	732 650	117 570	-	73	-	-	-	-	-	16 970	73 713	1 433
Consulting, scientific, technical and similar	-	-	-	284 384	16 796	-	-	-	-	-	-	-	24 219	29 362	437
Administrative and service activities of support	-	-	-	88 403	8 264	-	236	-	-	-	-	-	6 424	11 537	184
Public administration and defense, compulsory social security	-	-	-	35 820	87	22 520	3 554	1 497 031	3 035	-	915 037	1 812	76	7	-
Education	-	-	-	36 558	2 249	-	-	-	-	-	-	-	290	2 158	11
Human Health Services and Activities social action	-	-	-	86 746	3 686	-	-	-	-	-	-	-	3 089	6 646	175
Artistic activities, shows and recreational	-	-	-	44 980	8 935	-	60	-	-	-	-	-	6 754	6 269	27
Other services	-	-	-	28 325	2 112	-	140	-	-	-	-	-	2 886	1 372	20
Private	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage Loan	-	-	-	6 080 147	139 882	-	-	2 572	1	-	-	-	-	-	-
Others	-	-	-	803 322	83 652	-	-	-	-	-	-	-	10 404	20 439	293
	53 780	**433 008**	**3 868**	**12 100 173**	**903 141**	**39 622**	**128 362**	**1 688 517**	**3 233**	**18 261**	**2 938 334**	**1 812**	**409 651**	**615 525**	**14 382**

The analysis of the mains credit risk exposures by sector of activity, for financial period 2018, can be analysed as follows:

(Thousands of Euro)

Activity	Dec 2018														
	Loans and advances to other credit institutions repayable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held-for-trading	Financial assets 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 granted	Irrevocable credir facilities	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	3 492	-	-	-	-	-	-	-	1 049	3 866	114
Extractive Industries	-	-	-	13 457	444	-	-	-	-	-	-	-	1 411	1 474	130
Food, beverage and tobacco industries	-	-	-	201 260	10 233	-	-	-	-	-	-	-	3 009	31 924	108
Textiles and Clothing	-	-	-	84 302	9 740	-	-	-	-	-	-	-	1 398	7 577	13
Leather and shoes	-	-	-	42 228	4 410	-	-	-	-	-	-	-	3	5 708	1
Wood and cork	-	-	-	32 312	4 296	-	728	-	-	-	-	-	463	4 588	28
Paper and graphic industries	-	-	-	33 559	4 657	-	-	2 658	5	-	-	-	387	2 599	30
Oil refining	-	-	-	817	54	-	-	3 447	7	-	-	-	-	-	-
Rubber & Chemicals	-	-	-	90 940	5 292	-	-	3 012	3	-	-	-	5 271	12 887	105
Non-metallic mineral products	-	-	-	139 009	5 611	-	-	-	-	-	-	-	744	4 470	47
Basic metallurgical industries and metal products	-	-	-	160 941	14 637	-	-	-	-	-	-	-	7 471	17 602	113
Machine Manufacturing, Equipment and Electrical Appliances	-	-	-	41 130	3 325	-	623	-	-	-	-	-	1 438	4 281	117
Transportation Material Manufacturing	-	-	-	46 318	1 490	-	-	-		-	-	-	3 142	1 522	172
Other manufacturing industries	-	-	-	47 004	9 103	-	-	-	-	-	-	-	375	3 887	16
Electricity, gas and water	-	-	-	113 949	2 530	-	10 106	17 366	19	-	-	-	3 175	10 717	95
Construction and public works	-	-	-	765 184	271 917	-	250	-	-	-	-	-	113 525	78 969	5 992
Wholesale and retail trade	-	-	-	838 549	91 184	-	4 101	5 109	11	-	-	-	66 944	118 440	2 756
Tourism	-	-	-	429 467	13 762	-	-	-	-	-	-	-	8 737	15 305	274
Transports	-	-	-	316 022	35 837	-	-	-	-	-	-	-	11 242	13 765	778
Information and communication	-	-	-	73 513	6 318	-	-	3 018	3	-	-	-	5 911	24 929	68
Financial activities	75 572	340 565	3 783	706 016	53 937	15 660	109 498	11 623	78	5 666	2 161 463	-	134 567	119 908	382
Real estate activities	-	-	-	746 475	120 616	-	-	3 715	6	-	-	-	19 200	80 781	1 858
Business Services	-	-	-	379 000	23 482	-	-	-	-	-	-	-	31 039	41 639	808
Administration and public services	-	-	-	71 918	3 320	-	4 424	204 158	431	-	1 258 201	2 550	381	2 749	14
Other collective service activities	-	-	-	177 092	26 386	-	138	3 452	7	-	-	-	15 003	12 517	1 566
Others	-	-	-	11 508	450	-	-	-	-	-	-	-	390	3 106	12
Private						-									
Mortgage Loan	-	-	-	6 251 951	135 070	-	-	3 045	1	-	-	-	-	-	-
Others	-	-	-	846 050	80 775	-	-	-	-	-	-	-	-	22 830	-
	75 572	340 565	3 783	12 738 538	942 368	15 660	129 868	260 603	571	5 666	3 419 664	2 550	436 275	648 040	15 597

As regards credit risk, the portfolio of financial assets is dominated by bonds of sovereign issuers, essentially the Portuguese Republic.

In terms of quality of credit, an increase in the average level of the counterparties was observed, due to the improved rating of the Portuguese public debt.

Banco Montepio's total credit portfolio includes, besides the Loans and advances to customers, the guarantees granted and the documentary credits in the aggregate amount of Euro 409,651 thousand (31 December 2018: Euro 436,275 thousand) and the irrevocable credit amounting to Euro 615,525 thousand (31 December 2018: Euro 648,040 thousand) is presented as follows:

(Thousands of Euro)

Stage impacts	Jun 2019			Dec 2018		
	Gross value	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Collective analysis	**8 752 770**	**372 593**	**8 380 177**	**9 021 844**	**377 944**	**8 643 900**
Stage 1	6 049 909	6 943	6 042 966	6 137 273	5 876	6 131 397
Stage 2	2 078 140	37 374	2 040 766	2 230 430	34 877	2 195 553
Stage 3	624 721	328 276	296 445	654 141	337 191	316 950
Individual analysis	**4 372 579**	**544 929**	***3 827 650***	**4 801 009**	**580 021**	***4 220 988***
	13 125 349	**917 522**	**12 207 827**	**13 822 853**	**957 965**	**12 864 888**

(Thousands of Euro)

Segment	Jun 2019 Gross value	Jun 2019 Impairment	Jun 2019 Net value	Dec 2018 Gross value	Dec 2018 Impairment	Dec 2018 Net value
Retail	**6 559 220**	**195 533**	**6 363 687**	**6 756 287**	**200 094**	**6 556 193**
Mortgage loans	*6 060 165*	*133 713*	*5 926 452*	*6 230 191*	*134 635*	*6 095 556*
Stage 1	4 366 302	474	4 365 828	4 415 532	442	4 415 090
Stage 2	1 450 359	16 051	1 434 308	1 545 879	16 662	1 529 217
Stage 3	243 504	117 188	126 316	268 780	117 531	151 249
Consumer credit	*442 050*	*58 309*	*383 741*	*468 272*	*62 589*	*405 683*
Stage 1	246 277	689	245 588	255 812	279	255 533
Stage 2	117 520	6 193	111 327	123 268	3 026	120 242
Stage 3	78 253	51 427	26 826	89 192	59 284	29 908
Credit cards	*57 005*	*3 511*	*53 494*	*57 824*	*2 870*	*54 954*
Stage 1	27 138	302	26 836	26 303	146	26 157
Stage 2	26 053	1 375	24 678	28 024	737	27 287
Stage 3	3 814	1 834	1 980	3 497	1 987	1 510
Corporate	**2 193 549**	**177 061**	**2 016 488**	**2 265 557**	**177 850**	**2 087 707**
Non Construction	*1 968 845*	*138 222*	*1 830 623*	*2 037 172*	*135 700*	*1 901 472*
Stage 1	1 293 473	4 887	1 288 586	1 328 209	4 521	1 323 688
Stage 2	436 263	12 650	423 613	480 855	13 286	467 569
Stage 3	239 109	120 685	118 424	228 108	117 893	110 215
Construction	*224 704*	*38 839*	*185 865*	*228 385*	*42 150*	*186 235*
Stage 1	116 719	591	116 128	111 417	488	110 929
Stage 2	47 945	1 106	46 839	52 404	1 166	51 238
Stage 3	60 040	37 142	22 898	64 564	40 496	24 068
	8 752 769	**372 594**	**8 380 175**	**9 021 844**	**377 944**	**8 643 900**

As at 30 June 2019 and 31 December 2018, impairment is detailed as follows:

(Thousands of Euro)

	Jun 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	4 333 389	538 694	2 193 549	177 061	6 526 938	715 755	5 811 183
Mortgage loans	18 277	463	6 060 166	133 712	6 078 443	134 175	5 944 268
Other loans	20 913	5 773	499 055	61 821	519 968	67 594	452 374
	4 372 579	544 930	8 752 770	372 594	13 125 349	917 524	12 207 825

(Thousands of Euro)

	Dec 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	564 269	2 265 556	177 849	7 018 402	742 118	6 276 284
Mortgage loans	17 894	435	6 230 191	134 636	6 248 085	135 071	6 113 014
Other loans	30 269	15 317	526 097	65 459	556 366	80 776	475 590
	4 801 009	580 021	9 021 844	377 944	13 822 853	957 965	12 864 888

As at 30 June 2019 and 31 December 2018, the fair value analysis of collaterals associated with Banco Montepio's total portfolio, is as follows:

(Thousands of Euro)

Fair value of collaterals	Jun 2019	Dec 2018
Individual analysis		
Securities and other financial assets	*155 466*	*171 486*
Real Estate - Mortgage loans	*33 118*	*28 352*
Real Estate - Construction and CRE	*2 359 731*	*2 440 942*
Other real estate	*600 573*	*1 699 459*
Other guarantees	*509 545*	*513 066*
Collective analysis - Stage 1		
Securities and other financial assets	*230 535*	*201 624*
Real Estate - Mortgage loans	*9 463 450*	*9 461 789*
Real Estate - Construction and CRE	*252 627*	*249 138*
Other real estate	*243 004*	*631 702*
Other guarantees	*35 063*	*32 848*
Collective analysis - Stage 2		
Securities and other financial assets	*41 112*	*59 329*
Real Estate - Mortgage loans	*2 870 553*	*2 981 190*
Real Estate - Construction and CRE	*121 066*	*113 126*
Other real estate	*36 368*	*386 543*
Other guarantees	*5 154*	*8 159*
Collective analysis - Stage 3		
Securities and other financial assets	*9 265*	*5 137*
Real Estate - Mortgage loans	*310 387*	*346 613*
Real Estate - Construction and CRE	*96 111*	*124 892*
Other real estate	*14 381*	*111 817*
Other guarantees	*6 114*	*6 189*
	17 393 623	**19 573 401**

Banco Montepio Group uses physical and financial collaterals as instruments to mitigate credit risk. The physical 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, recorded as at 30 June 2019 and 31 December 2018, is presented as follows:

(Thousands of Euro)

Segment	Jun 2019 Total exposure	Jun 2019 Total impairment	Dec 2018 Total exposure	Dec 2018 Total impairment
Corporate loans	4 474 381	313 387	4 890 631	323 598
Construction and CRE	2 052 556	402 367	2 127 771	418 520
Mortgage loans	6 078 443	134 175	6 248 085	135 071
Other loans	519 969	67 594	556 366	80 776
	13 125 349	917 523	13 822 853	957 965

The loans and advances portfolio, by segment and by production year, as at 30 June 2019, is presented as follows:

(Thousands of Euro)

	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	821	46 736	7 505	12 107	170 352	82 515	2 977	1 607 613	45 641	3 434	12 689	3 966
2005	274	19 601	3 491	935	50 684	31 059	1 939	610 913	16 599	3 534	4 524	706
2006	363	37 218	5 986	247	83 384	40 654	50 084	755 717	21 299	1 956	20 300	4 894
2007	577	39 660	7 446	286	83 511	36 229	12 080	764 077	22 936	23 635	23 277	4 349
2008	2 423	51 774	7 320	376	37 282	9 370	14 618	397 296	12 270	5 856	27 517	4 771
2009	2 724	81 256	6 036	709	77 690	28 985	14 948	243 613	5 640	15 200	25 239	5 980
2010	2 720	126 097	19 964	897	60 737	21 387	7 723	280 070	4 328	43 783	20 178	8 189
2011	3 386	114 918	10 500	701	37 353	13 332	4 210	101 933	1 132	68 699	18 409	8 188
2012	3 880	150 620	24 398	790	43 526	13 499	4 336	65 235	757	54 696	13 431	3 768
2013	7 710	370 203	49 430	680	90 653	13 954	1 600	85 026	928	39 277	23 788	4 619
2014	11 081	505 927	37 739	1 112	176 812	27 296	1 018	104 376	684	32 811	43 648	6 647
2015	11 188	471 308	32 670	2 814	158 534	10 985	1 310	129 771	348	23 593	45 764	3 720
2016	12 534	712 244	38 356	1 833	241 812	32 479	1 556	201 781	514	23 739	66 741	3 329
2017	13 246	521 353	21 961	2 789	369 117	18 846	1 856	284 947	475	28 897	58 742	2 349
2018	13 851	593 395	27 239	2 293	222 492	18 899	2 554	292 150	347	26 749	75 463	1 668
2019	12 107	632 071	13 346	2 977	148 617	2 878	3 434	153 925	277	40 517	40 259	450
	98 885	4 474 381	313 387	31 546	2 052 556	402 367	126 243	6 078 443	134 175	436 376	519 969	67 593

The loans and advances portfolio, by segment and by production year, as at 31 December 2018, is presented as follows:

(Thousands of Euro)

	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	949	55 813	12 038	1 005	176 538	83 468	52 344	1 719 083	47 452	33 786	21 964	4 251
2005	322	21 748	3 870	265	52 883	32 418	12 481	644 410	16 609	3 856	5 747	926
2006	378	38 729	5 482	308	88 132	40 272	15 112	795 464	22 367	5 464	21 067	6 428
2007	620	47 738	9 916	411	88 655	36 060	15 414	802 600	21 798	33 959	33 221	12 455
2008	2 996	56 491	7 612	764	41 993	10 351	7 961	415 717	12 077	46 041	29 794	4 974
2009	2 879	91 113	8 990	934	83 778	29 601	4 349	255 497	5 215	32 823	26 501	6 374
2010	2 966	167 341	22 567	747	63 917	22 224	4 495	294 712	3 954	13 436	22 349	9 790
2011	3 690	122 871	10 824	877	44 965	13 845	1 666	108 034	1 229	15 679	20 250	8 559
2012	4 052	161 790	18 359	779	46 494	12 766	1 066	69 625	939	8 565	17 311	5 894
2013	8 192	446 349	49 532	1 181	102 762	16 900	1 367	90 785	1 024	12 507	26 676	5 771
2014	12 025	572 461	45 815	3 122	193 832	29 900	1 643	111 180	629	19 292	49 640	7 117
2015	14 382	536 845	33 603	2 101	178 799	9 836	1 932	138 474	376	20 009	53 903	3 465
2016	13 423	773 845	37 473	3 052	273 202	39 982	2 658	213 629	560	26 185	77 157	2 475
2017	13 058	590 011	26 966	2 596	406 346	22 665	3 536	295 012	426	18 767	67 510	1 550
2018	20 201	1 207 486	30 551	3 882	285 475	18 232	3 587	293 863	416	26 325	83 276	747
	100 133	4 890 631	323 598	22 024	2 127 771	418 520	129 611	6 248 085	135 071	316 694	556 366	80 776

The gross exposure of loans and advances to customers and impairment amount, individual and collective, by segment, as at 30 June 2019 and 31 December 2018, are analysed as follows:

(Thousansd of Euro)

	Jun 2019									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 746 072	192 645	1 587 316	346 048	18 277	463	20 914	5 773	4 372 579	544 929
Collective	1 728 309	120 742	465 240	56 319	6 060 166	133 712	499 055	61 820	8 752 770	372 593
	4 474 381	313 387	2 052 556	402 367	6 078 443	134 175	519 969	67 593	13 125 349	917 522

(Thousands of Euro)

	Dec 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	205 198	1 651 494	359 071	17 894	435	30 269	15 317	4 801 009	580 021
Collective	1 789 279	118 400	476 277	59 449	6 230 191	134 636	526 097	65 459	9 021 844	377 944
	4 890 631	323 598	2 127 771	418 520	6 248 085	135 071	556 366	80 776	13 822 853	957 965

The gross exposure of loans and advances to customers and impairment amount, individual and collective, by activity sector for companies, as at 30 June 2019 and 31 December 2018, are analysed as follows:

(Thousands of Euro)

	Jun 2019											
	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	693 263	215 362	558 312	39 228	329 721	43 098	713 149	112 623	2 038 943	128 383	4 333 388	538 694
Collective	224 703	38 839	472 407	35 600	685 014	51 940	112 536	8 109	698 889	42 572	2 193 549	177 060
	917 966	254 201	1 030 719	74 828	1 014 735	95 038	825 685	120 732	2 737 832	170 955	6 526 937	715 754

(Thousands of Euro)

	Dec 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	230 994	576 587	38 652	348 432	44 444	736 649	112 774	2 365 647	137 405	4 752 846	564 269
Collective	228 384	42 149	502 102	34 628	704 636	50 276	115 735	7 952	714 699	42 844	2 265 556	177 849
	953 915	273 143	1 078 689	73 280	1 053 068	94 720	852 384	120 726	3 080 346	180 249	7 018 402	742 118

The gross exposure of loans and advances to customers and impairment amount, individual and collective, by activity sector for companies, in the 1st half of 2019 and financial period 2018, is analysed as follows:

(Thousands of Euro)

	Jun 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)	3 006 797	-	-	33 000	33 000	33 000	-	7 448	-	3 576	-	-	-
Other balance sheet credit exposures (	13 605 080	51 338	113 122	1 787 194	1 736 687	1 785 355	817 875	70 140	9 304	830 889	386 021	606 256	381 389
Off-balance sheet exposures (c)	1 703 296	1 682	3 001	136 367	131 544	136 367	7 687	2 744	5	11 638	78	-	-

(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.

(Thousands of Euro)

	Dec 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	-	6 851	-	3 082	-	-	-
Other balance sheet credit exposures (	14 074 108	51 920	98 991	1 827 255	1 735 346	1 824 602	844 364	77 104	4 060	862 183	394 512	666 472	392 491
Off-balance sheet exposures (c)	1 726 679	2 197	2 650	193 401	175 854	193 401	32 744	3 450	7	12 133	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 30 June 2019, is presented as follows:

(Thousands of Euro)

Fair value	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	3 120	374 259	892	53 080	99 467	12 363 977	334	9 869
>= 0,5 M€ and <1M€	218	153 232	33	20 189	380	236 481	1	500
>= 1 M€ and <5M€	203	425 875	17	30 912	44	64 934	-	-
>= 5 M€ and <10M€	33	232 984	6	46 177	-	12 116	-	-
>= 10 M€ and <20M€	22	292 717	-	-	2	-	-	-
>= 20 M€ and <50M€	10	344 395	2	66 000	-	-	-	-
>= 50M€	6	1 006 072	-	-	-	-	-	-
	3 612	2 829 534	950	216 358	99 893	12 677 508	335	10 369

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:

(Thousands of Euro)

Fair Value	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
	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€ and <1M€	212	147 318	33	21 204	367	227 914	1	500
>= 1 M€ and <5M€	196	409 124	16	29 878	44	65 025	-	-
>= 5 M€ and <10M€	33	232 911	6	44 830	-	5 099	-	-
>= 10 M€ and <20M€	27	366 295	1	13 491	1	-	-	-
>= 20 M€ and <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 30 June 2019 and 31 December 2018, is presented as follows:

(Thousands of Euro)

Segment/ Ratio	Jun 2019			Dec 2018		
	No. of real estate	Total exposure	Impairment	No. of real estate	Total exposure	Impairment
Corporate						
Without real estate (*	-	3 433 457	208 586	-	3 798 257	211 422
< 60%	2 048	379 411	32 882	2 146	368 389	24 647
>= 60% and < 80	877	449 872	26 034	820	466 678	27 331
>= 80% and < 10	811	172 142	23 023	885	211 817	33 717
>= 100%	38	39 500	22 863	21	45 490	26 481
Construction and CRE						
Without real estate (*	-	888 654	149 489	-	939 562	161 135
< 60%	1 429	526 592	109 481	1 401	511 869	109 767
>= 60% and < 80	759	351 461	54 632	906	349 903	54 658
>= 80% and < 10	1 071	203 060	40 195	1 068	216 969	40 695
>= 100%	353	82 790	48 570	397	109 468	52 265
Mortgage						
Without real estate (*	-	508 681	36 915	-	527 085	34 500
< 60%	63 916	2 556 118	28 607	64 492	2 576 393	29 004
>= 60% and < 80	25 504	2 076 416	23 152	26 024	2 121 153	24 825
>= 80% and < 10	9 659	866 610	22 782	10 536	946 844	23 945
>= 100%	814	70 617	22 718	870	76 610	22 797

(*) 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 30 June 2019 and 31 December 2018, are presented as follows:

(Thousands of Euro)

Assets	Jun 2019		
	No. of real estate	Fair value	Book value
Land	**1 754**	**354 905**	**317 898**
Urban	1 508	302 991	269 348
Rural	246	51 914	48 550
Buildings under construction	**559**	**89 337**	**82 508**
Commercial	64	4 355	4 203
Housing	401	84 328	77 675
Other	94	654	630
Constructed buildings	**2 346**	**288 419**	**258 033**
Commercial	847	116 756	104 741
Housing	986	164 595	147 195
Other	513	7 068	6 097
	4 659	732 661	658 439

(Thousands of Euro)

Assets	Dec 2018		
	No. of real estate	Fair value	Book value
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 of properties, as at 30 June 2019 and 31 December 2018, is presented as follows:

(Thousands of Euro)

Elapsed time since transfer/ execution	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
	Jun 2019				
Land	**8 289**	**78 659**	**64 946**	**166 004**	**317 898**
Urban	6 830	70 734	51 126	140 658	269 348
Rural	1 459	7 925	13 820	25 346	48 550
Buildings under const	**15 396**	**23 157**	**20 245**	**23 710**	**82 508**
Commercial	-	713	1 163	2 327	4 203
Housing	15 396	22 353	19 050	20 876	77 675
Other	-	91	32	507	630
Constructed buildings	**16 844**	**37 405**	**92 906**	**110 878**	**258 033**
Commercial	5 124	18 038	34 264	47 315	104 741
Housing	11 354	18 524	56 025	61 292	147 195
Other	366	843	2 617	2 271	6 097
	40 529	139 221	178 097	300 592	658 439

(Thousands of Euro)

Elapsed time since transfer/ execution	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
	Dec 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 const	**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. In 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 way, with regular monitoring of the concentration indexes 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, both 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 in bonds, and as at 30 June 2019 it represented 75.0% (31 December 2018: 62.4%) of the total portfolio, with the dominant position being held by bonds of sovereign issuers, essentially the Portuguese Republic.

Concerning the credit derivatives, Banco Montepio held no position in these instruments as at 30 June 2019 and 31 December 2018.

Regarding the credit quality of debt securities, approximately 98.6% of the portfolio is investment grade (98.7% in December 2018). Most of the Portuguese and Italian sovereign bonds with a rating of BBB, representing 82.7% of the portfolio. Concerning the composition of the portfolio, it was verified an increase in Portuguese sovereign debt exposure and a decrease in sovereign debt exposure.

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 bonds of own securitisations held) and Other financial assets at amortised cost, is presented as follows:

(Thousands of Euros)

Rating	Jun 2019		Dec 2018		Change	
	Amount	%	Amount	%	Amount	%
AAA	4 528	0	-	-	4 528	-
AA+	1 003	-	1 091	0	(88)	(8)
AA	7 854	0	-	-	7 854	-
AA-	16 095	1	-	-	16 095	-
A+	18 386	1	1 718	0	16 668	970
A	20 946	1	-	-	20 946	-
A-	34 502	1	2 024	0	32 478	1 605
BBB+	270 208	10	211 026	14	59 182	28
BBB	44 930	2	12 452	1	32 478	261
BBB-	2 168 462	83	1 267 919	84	900 543	71
B+	4 525	0	234	-	4 291	1 834
NR	27 590	1	19 219	1	8 371	44
Total	2 621 029	100	1 515 683	100	1 105 346	73

The amount of securities recognized in the portfolio of Financial assets at fair value through other comprehensive income (excluding bonds of own securitisations held) amounts to Euro 1,685,284 thousand

(31 December 2018: Euro 260,032 thousand), the position in Other financial assets at amortised cost amounts to Euro 913,225 thousand (31 December 2018: Euro 1,255,651 thousand), and the position in Financial assets held-for-trading amounts to Euro 22,520 thousand.

Regarding the trading portfolio, as at 30 June 2019 the main VaR indicators are as follows:

(Thousands of Euros)

	Jun 2019	Average	Minimum	Maximum	Dec 2018
Market VaR	509	415	5	590	5
Interest rate risk	71	46	5	35	5
Exchange risk	52	79	-	104	-
Price risk	324	295	-	551	-
Spread Risk	324	392	-	498	-
Diversification effect	*(262)*	*(397)*	-	*(598)*	-

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 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 indexes 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 in the 1st half of 2019 and in financial period 2018:

(Thousands of Euro)

	Below 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years
30 June 2019					
Assets					
Debt securities	266 968	49 463	21 720	1 185 445	1 052 478
Loans	7 340 483	2 963 386	833 619	403 157	153 722
Others	128 497	32 587	-	-	20 209
Off-balance sheet	21 003	-	4 640	1 130 417	-
Total	7 756 951	3 045 436	859 979	2 719 019	1 226 409
Liabilities					
Debt securities issued	6 824	76 875	105 046	772 380	23 826
Defined maturity deposits	2 204 318	1 335 902	2 169 008	2 377 114	-
Others	960 643	12 205	541 495	1 046 275	(22 377)
Off-balance sheet	767 969	-	122	487	1 930
Total	3 939 754	1 424 982	2 815 671	4 196 256	3 379
GAP (Assets - Liabilities)	3 817 197	1 620 454	(1 955 692)	(1 477 237)	1 223 030
31 December 2018					
Assets	9 125 649	2 993 924	742 143	1 267 688	850 588
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	3 026 605	1 696 200	1 945 611	5 261 574	51 245
Off-balance sheet	758 300	9 850	13 920	-	1 200
Total	3 784 905	1 706 050	1 959 531	5 261 574	52 445
GAP (Assets - Liabilities)	5 346 944	1 297 724	(1 203 468)	(3 240 586)	798 143

The sensitivity of the interest rate gaps during the 1st half of 2019 and financial period 2018 is as follows:

(Thousands of Euros)

	Jun 2019				Dec 2018			
	june	Annual	Maximum	Minimum	december	Annual	Maximum	Minimum
Interest Rate Gap	3 227 752	3 113 210	3 227 752	2 998 668	2 998 668	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 30 June 2019, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a negative change in the economic value expected from the banking portfolio of approximately Euro 63,890 thousand (31 December 2018: negative change 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 the 1st half of 2019 and financial period 2018, as well as the respective average balances and interest for the period:

(Thousands of Euros)

	Jun 2019			Dec 2018		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest assets generators						
Deposits at central banks and OCI	1 269 434	0,44	2 834	1 378 707	1,00	14 033
Loans and advances to OCI	418 868	0,89	1 870	450 188	0,86	3 905
Loans and advances to customers	12 423 978	2,16	134 753	13 375 771	2,21	299 353
Other assets at fair value	4 228 185	1,27	26 960	3 942 435	1,59	63 685
Securities portfolio	20 417	1,06	109	11 443	2,16	251
Other (includes derivatives)	-	-	9 534			19 238
	18 360 882	**1,91**	**176 060**	**19 158 544**	**2,06**	**400 465**
Interest liabilities generators						
Deposits from ECB	1 393 908	0,30	2 085	1 539 715	0,32	5 001
Deposits from OCI	1 447 017	0,79	5 763	1 849 183	0,98	18 420
Deposits from customers	12 640 978	0,30	18 820	12 405 170	0,44	54 713
Senior debt	2 971 256	1,68	25 124	3 285 600	2,12	70 471
Subordinated debt	108 885	8,23	4 508	91 438	1,24	1 152
Other (includes derivatives)	-	0,00	8 035			16 182
	18 562 044	**0,69**	**64 335**	**19 171 106**	**0,85**	**165 939**
Net interest income						
		1,21	**111 725**		**1,21**	**234 526**

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 30 June 2019 and 31 December 2018, is analysed as follows:

(Thousands of Euro)

	Jun 2019							
	Euro	United States Dollar	Sterling Pound	Canadian Dollar	Swiss franc	Brazilian Real	Other foreign currencies	Total
Assets by currency								
Cash and deposits at central banks	1 404 999	8 950	1 129	1 045	1 250	-	641	1 418 014
Loans and advances to credit institutions repayable on demand	31 487	20 429	205	419	969	-	271	53 780
Other loans and advances to credit institutions	414 835	14 305	-	-	-	-	-	429 140
Loans and advances to customers	11 110 935	86 013	12	-	72	-	-	11 197 032
Financial assets held-for-trading	41 256	915	63	-	129	-	-	42 363
Financial assets at fair value through profit or loss	862 345	-	-	-	-	-	-	862 345
Financial assets at fair value through other comprehensive income	1 772 592	-	-	-	-	49 917	-	1 822 509
Hedging derivatives	18 261	-	-	-	-	-	-	18 261
Other financial assets at amortised cost	2 936 522	-	-	-	-	-	-	2 936 522
Repurchase agreement assets	13	-	-	-	-	-	-	13
Investments in subsidiaries and associated companies	348 828	-	-	-	-	-	-	348 828
Other tangible assets	243 128	-	-	-	-	-	-	243 128
Intangible assets	30 644	-	-	-	-	-	-	30 644
Current tax assets	2 509	-	-	-	-	-	-	2 509
Deferred Tax Assets	457 566	-	-	-	-	-	-	457 566
Other assets	891 030	30 980	1	-	6	-	-	922 017
Total Assets	20 566 950	161 592	1 410	1 464	2 426	49 917	912	20 784 671
Liabilities by currency								
Deposits from central banks	1 392 489	-	-	-	-	-	-	1 392 489
Deposits from other credit institutions	1 431 751	50 356	4 058	23 873	179	-	105	1 510 322
Deposits from customers	12 660 891	83 946	6 736	12 913	1 663	-	3 313	12 769 462
Debt securities issued	792 902	-	-	-	-	-	-	792 902
Financial liabilities associated to transfered assets	2 081 491	-	-	-	-	-	-	2 081 491
Financial liabilities held-for-trading	11 285	10	-	-	-	-	-	11 295
Hedging derivatives	706	-	-	-	-	-	-	706
Provisions	29 227	-	-	-	-	-	-	29 227
Current tax liabilities	499	-	-	-	-	-	-	499
Other subordinated debt	154 552	-	-	-	-	-	-	154 552
Other liabilities	468 775	3 311	598	13	72	-	2	472 771
Total Liabilities	19 024 568	137 623	11 392	36 799	1 914	-	3 420	19 215 716
Exchange forward transactions	19 024 568	(48 292)	9 815	35 856	(1 153)	-	2 998	
Exchange gap		(24 323)	(167)	521	(641)	49 917	490	
Stress Test		4 865	33	(104)	128	(9 983)	(98)	

(Thousands of Euro)

	Dec 2018							
	Euro	United States 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	11 680 245	114 837	1 069	-	19	-	-	11 796 170
Financial assets held-for-trading	15 648	12	-	-	-	-	-	15 660
Financial assets at fair value through profit or loss	913 406	-	-	-	-	-	-	913 406
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 amortised cost	3 417 114	-	-	-	-	-	-	3 417 114
Investments in subsidiaries and associated companies	346 723	-	-	-	-	-	-	346 723
Non-current assets held for sale	705 351	-	-	-	-	-	-	705 351
Other tangible assets	217 741	-	-	-	-	-	-	217 741
Intangible assets	31 657	-	-	-	-	-	-	31 657
Current tax assets	6 144	-	-	-	-	-	-	6 144
Deferred Tax Assets	484 147	-	-	-	-	-	-	484 147
Other assets	68 085	174	1	-	-	-	158	68 418
Total Assets	20 210 328	147 957	8 148	2 108	3 710	47 310	4 213	20 423 774
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 associated to transfered assets	2 214 194	-	-	-	-	-	-	2 214 194
Financial liabilities held-for-trading	12 264	10	-	-	-	-	-	12 274
Provisions	30 756	-	-	-	-	-	-	30 756
Current tax liabilities	4 241	-	-	-	-	-	-	4 241
Other subordinated debt	50 044	-	-	-	-	-	-	50 044
Other liabilities	187 888	1 447	296	52	1 770	-	49	191 502
Total Liabilities	18 657 274	132 887	10 530	37 874	3 705	-	3 518	18 845 788
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% 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 weekly 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 weekly basis.

As at 30 June 2019, the LCR amount was 185.8% (31 December 2018: 154.1%).

As at 30 June 2019, Banco Montepio’s financing structure was as follows:

(Thousands of Euro)

	Jun 2019	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 392 489	-	-	-	-	1 392 489
Deposits from other credit institutions	1 510 322	-	412 095	731 479	10 288	356 460
Deposits from customers	12 769 462	-	5 428 488	2 043 806	2 022 367	3 274 801
Debt securities issued	792 902	-	1	22 970	6 302	763 629
Financial liabilities associated to transfered assets	2 081 491	-	-	-	-	2 081 491
Financial liabilities held-for-trading	11 295	-	123	-	49	11 123
Other subordinated debt	154 552	-	-	2 027	2 525	150 000
Other liabilities	472 771	472 771	-	-	-	-
Total Liabilities	**19 185 284**	**472 771**	**5 840 707**	**2 800 282**	**2 041 531**	**8 029 993**

As at 31 December 2018, Banco Montepio’s financing structure was as follows:

(Thousands of Euro)

	Dec 2018	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 associated to transfered assets	2 214 194	-	-	-	-	2 214 194
Financial liabilities held-for trading	12 274	-	100	10	152	12 012
Other subordinated debt	50 044	-	-	-	44	50 000
Other liabilities	191 502	191 502	-	-	-	-
Total Liabilities	**18 810 791**	**191 502**	**5 275 486**	**3 072 098**	**2 517 361**	**7 754 344**

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 30 June 2019 and 31 December 2018, on the assets and related collaterals:

(Thousands of Euro)

Assets	Jun 2019			
	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	3 900 028	-	14 861 904	-
Equity instruments	-	-	873 949	873 949
Debt securities	804 626	721 495	2 213 666	2 471 568
Other assets	-	-	2 165 641	-

(Thousands of Euro)

Assets	Dec 2018			
	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	-

(Thousands of Euro)

Collateral received	Jun 2019	
	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		
Equity instruments	46 398	-
Debt securities	-	-
Other collateral received	46 398	-
Own securities issued that are not	-	-
own covered bonds or ABS	-	-

(Thousands of Euro)

Collateral received	Dec 2018	
	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		
Equity instruments	46 398	-
Debt securities	-	-
Other collateral received	46 398	-
Own securities issued that are not	-	-
own covered bonds or ABS	-	-

(Thousands of Euro)

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2019	Dec 2018
	Carrying amount of selected financial liabilities	Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	2 620 930	2 609 154
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	3 918 788	4 015 260

The encumbered assets are mostly related to Banco Montepio's financing operations, namely of the ECB, of repo operations, of the issuance of covered bonds and of securitisation programs. The type of assets used as collateral for securitisation 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 securitisation programs, of which Banco Montepio is the originator, and by securitised credit operations.

The amounts presented in the previous tables correspond to the position as at 30 June 2019 and 31 December 2018 and reflect the high level of collateralization of the wholesale funding of Banco Montepio. The buffer of eligible assets for the purpose of obtaining finance from the ECB, after haircuts, uncommitted and available for use in new operations, as at 30 June 2019 amounts to Euro 2,015,888 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 30 June 2019 amounts to Euro 3,366,637 thousand (31 December 2018: Euro 2,586,660 thousand) with a usage of Euro 1,409,820 thousand (31 December 2018: Euro 1,395,320 thousand):

(Thousands of Euro)

	Jun 2019	Dec 2018
Total eligible collateral	**4 697 668**	**3 865 925**
Total collateral in the pool	3 366 637	2 586 660
Collateral outside the pool	1 331 031	1 279 265
Used collateral	**2 681 780**	**2 627 755**
Collateral used for ECB	1 409 820	1 395 320
Collateral committed to other financing operations	1 271 960	1 232 435
Collateral available for ECB	**1 956 817**	**1 191 340**
Total available collateral	**2 015 888**	**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 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 needed for the definition of the real estate risk management policy.

As at 30 June 2019 and 31 December 2018, the exposure to real estate and investment units in real estate funds presented the following values:

	(Thousands of Euro)	
	Jun 2019	**Dec 2018**
Real estate received as loan guarantee	658 469	705 092
Real estate investment funds units	669 353	676 521
	1 327 822	1 381 613
Stress test	(132 782)	(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 in real estate funds units.

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 from 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 operating risk.

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 that includes the analysis of all the aspects and instruments inherent to operating risk management.

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.

The regular analysis and monitoring of the management of Banco Montepio’s Pension Fund is the responsibility of the Pension Fund Monitoring Committee. In addition, the Risk Department assures the production of monthly reports with the evolution of the market value of the Pension Fund’s portfolio and the associated risk indicators.

Subsequently, the Risk Department monitors the effect of the 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 decided to strengthen 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. In the case of shares, this analysis is done based on the number of days to settle, 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 amortisations 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 against with the objectives/limits established, 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 are assured depending on the cases, either by statistical and computerised methods or by review or revaluation of the valuation amount by an expert appraiser.

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 lower to the prior's.

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.

With regard to the banking portfolio, interest rate and foreign exchange risk mitigation techniques correspond to the negotiation of hedging operations with derivatives and closing exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of Banco Montepio are established 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 any 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 that allows 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, on the balance sheet as at 1 January 2014, is the transitional cumulative recognition plan maintained on a 10.0% annual basis, with, in 2018, this having attained 40.0%;

- *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, if these exist, relating to additional own funds' minimum requirements of the institutions in which Banco Montepio 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 Regulation No. 575/2013 of the European Union and that have been approved by the Bank of Portugal. Non-controlling interests, if these exist, relating to the own fund's minimum requirements of the institutions in which Banco Montepio 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 250.0% 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, reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions) are applied, 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%. According to these provisions, as at 31 December 2018 the minimum regulatory ratios of Common Equity Tier 1, Tier 1 and Total were 7.0%, 8.5% and 10.5%, respectively, including the previously referred own funds’ reserves.

The summary of the calculation of Banco Montepio's capital requirements as at 30 June 2019 and 31 December 2018, under phasing-in, is presented as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 420 000
Net profit, reserves and retained earnings	(857 368)	(848 337)
Other regulatory adjustments	(405 177)	(383 917)
	1 157 455	1 187 746
Capital Tier 1	1 157 455	1 187 746
Capital Tier 2		
Subordinated loans	156 323	56 323
Regulatory adjustments	-	(700)
	156 323	55 623
Total own funds	1 313 778	1 243 369
Own funds requirements		
Credit risk	690 436	697 765
Market risk	5 261	3 851
Operating risk	50 484	50 484
Other requirements	49 377	50 416
	795 558	802 516
Prudential Ratios		
Common Equity Tier 1 Ratio	11,64%	11,84%
Tier 1 Ratio	11,64%	11,84%
Total Capital Ratio	13,21%	12,39%

It should be noted that the ratios, as at 30 June 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 IFRS 9, Banco Montepio's prudential ratios as at 30 June 2019 and 31 December 2018 would be:

(Thousands of Euro)

	Jun 2019	Dec 2018
Capital Common Equity Tier 1	1 016 032	1 031 289
Capital Tier 1	1 016 032	1 031 289
Total own funds	1 172 355	1 086 912
Own funds requirements	782 453	787 997
Prudential Ratios		
Common Equity Tier 1 Ratio	10,39%	10,47%
Tier 1 Ratio	10,39%	10,47%
Total Capital Ratio	11,99%	11,03%

53 Accounting standards recently issued

The new standards, amendments to the standards and interpretations that became effective on 1 January 2019 and which Banco Montepio has already incorporated in the interim financial statements as at 30 June 2019 are:

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”. This new standard may be applied retrospectively or a modified retrospective approach may be followed. The impact of adopting this standard is presented in note 55 to this report.

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 amortised cost, provided that specific conditions are fulfilled, rather than being stated at fair value through profit or loss. These changes 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 after the amendment, reduction 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 associates and joint ventures”. This amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investment in associates and joint ventures), which are not being measured under the equity method, are accounted for under IFRS 9 – “Financial instruments”. Long-term investments in associates and joint ventures are subject to the expected credit loss model prior to being added, for impairment testing purposes, to the whole investment in an associates 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. 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 is uncertainly to 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.

The new standards and amendments to published standards, the application of which is mandatory for annual periods beginning on or after 1 January 2020, but which the European Union has not yet endorsed, are as follows:

g) 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, as well as a substantial process that jointly generate outputs. Outputs are now defined as goods and services rendered to customers, which generate investment income and other income, and exclude 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.

h) IAS 1 and IAS 8 (amendment), "Definition of material" (effective for annual periods beginning on or after 1 January 2020). This amendment is still subject to endorsement by the European Union. 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 "existing or potential investors, lenders and creditors" that rely on the financial statements to obtain a significant part of the information they need. Banco Montepio does not anticipate any significant impact on the application of these changes to its financial statements.

i) Conceptual Framework, "Amendments in References to Other IFRS" (effective for annual periods beginning on or after 1 January 2020). These amendments are still subject to endorsement by the European Union. 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, in addition to some of the characteristics of the financial information. These amendments are retrospective, except if impracticable. Banco Montepio does not anticipate any significant impact on the application of these changes to its financial statements.

j) 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 is different 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 a number of 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 derecognised 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 on the assets.

The specialized funds that acquired financial assets from Banco Montepio are closed funds, in respect of which the holders have no possibility of requesting the reimbursement of their investment units throughout the useful life of the fund.

These investment units are held by several banks in the market, which are the sellers of 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 establishment of the funds.

The management structure of the funds has as its main responsibilities:

- 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, provide 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 give rise to their recovery arise mainly from a broad set of assets transferred from 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 market value, as disclosed by the funds and audited at each year end; and
- Junior bonds (with a higher subordination level), issued by the Portuguese-law companies controlled by the funds and which are fully provided against to reflect the best estimate of the impairment of the financial assets transferred.

Within this context, of not holding control but maintaining some exposure to certain risks and rewards, Banco Montepio, in accordance with IAS 39.21, 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 IAS 39.20 c (i), derecognised the assets transferred and recognized the assets received in return as follows:

(Thousands of Euro)

	Jun 2019			Dec 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 30 June 2019 and 31 December 2018, the assets received under these operations are as follows:

(Thousands of Euro)

	Jun 2019	Dec 2018
	Senior securities	
Fundo Vega, FCR	25 734	26 008
Fundo de Reestruturação Empresarial, FCR	8 593	11 466
	34 327	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 settled 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 holding of shares and investment units in the funds acquired in the scope of the operations (designated in the table as senior bonds).

55 Application of 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, less than or equal to one year, and to lease agreements in which the underlying asset has little 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 an inventory of all existing contracts on that date 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.

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 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 case-by-case. In 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 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 and 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 amortisation for the period, 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, the caption Cash flows from operating activities – (Cash) payments to employees and suppliers includes amounts related to short-term and low-value asset lease agreements and the caption Decrease in other liability accounts and non-controlling interests includes amounts relating to payments of the capital portion of lease liabilities, as detailed in the Condensed interim statements 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 adoption of IFRS 16 had no impact on Banco Montepio’s net cash flows.

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:

(thousands of Euro)

	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	11 796 170	-	11 796 170
Financial assets held-for-trading	15 660	-	15 660
Financial assets at fair value through profit or loss	913 406	-	913 406
Financial assets at fair value through other comprehensive income	392 589	-	392 589
Hedging derivatives	5 666	-	5 666
Other financial assets at amortised cost	3 417 114	-	3 417 114
Investments in subsidiaries and associated companies	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	484 147	-	484 147
Other assets	68 418	-	68 418
Total Assets	20 423 774	30 740	20 454 514
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 held-for-trading	2 214 194	-	2 214 194
Financial liabilities associated to transfered liabilities	12 274	-	12 274
Hedging derivatives	-	-	-
Provisions	30 756	-	30 756
Current tax liabilities	4 241	-	4 241
Other subordinated debt	50 044	-	50 044
Other liabilities	191 502	30 740	222 242
Total Liabilities	18 845 788	30 740	18 876 528
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	(830 592)	-	(830 592)
Net profit/ (loss) for the period	2 019	-	2 019
Total Equity	1 577 986	-	1 577 986
Total Liabilities and Equity	20 423 774	30 740	20 454 514

56 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, essentially, on the amount of its liabilities. In the 1st half of 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 (approximately 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 on 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.

According to the results for financial period 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 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 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

On 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 was 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 line with many other institutions targeted that have publicly announced this intention, Banco Montepio will challenge this Decision. Based on the relevant circumstances, it is considered that there is a serious and significant likelihood that the administrative fine will not become effective following the legal remedies that come to be lodged against the Decision.

We are not aware, until the present date, of any claim for damages related to the Decision or to the related facts. Taking into consideration 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

57 Subsidiary and associated companies of Banco Montepio

As at 30 June 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 efective part	% of direct participation
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.	Lisboa	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 30 June 2019, Banco Montepio held investment units in the following special purpose entities and investment funds:

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

58 Impact of the change in accounting policies

In the 1st half of 2019, Banco Montepio changed the accounting for credit securitisation operations not derecognised 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.

Until financial period 2018, the Bank deducted the acquired bonds of these securitisation operations from the liabilities that had been originated by the non-de-recognition of the securitised credits. In the 1st half of 2019, the Bank began to recognize in its assets the acquired bonds issued by the securitisation vehicles, as opposed to the previous accounting policy, having also recorded under the caption Financial liabilities associated with transferred assets the amount of the net credits transferred to the securitisation vehicles so as to reflect the Bank's responsibility to deliver the cash flows originated by these. Credit impairment associated with the credits transferred under these securitisation operations is recognized as a reduction from the caption Financial liabilities associated with transferred assets, so as to reflect, at any time, the liability assumed by the Bank.

As regards the securities acquired under the securitisation operations above, these were classified in accordance with the accounting policy for the recognition of financial assets described in note 1 b). Securities relating to the most senior bond classes were classified in the category of “Other financial assets at amortised cost”, with the securities relating to the residual bond class being classified in the category “Financial assets at fair value through profit or loss”.

Similarly, the assets and liabilities previously recognized in the Bank's balance sheet through the integration of the securitisation vehicles in the Bank's separate financial statements were likewise reversed and derecognised. These positions corresponded to loans and advances to credit institutions and to derivatives, which were recognized in the captions of Financial assets and liabilities held for trading.

As this corresponded to a change in the accounting understanding regarding the recognition of securitisation operations in the balance sheet, the Bank applied this accounting with retroactive effect to 1 January 2018, giving rise to the following impacts:

(Thousands of Euro)

	Dec 2018	Adjustment	Dec 2018 Restated
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
Financial assets held-for-trading	23 739	(8 079)	15 660
Financial assets at fair value through profit or loss	803 908	109 498	913 406
Financial assets at fair value through other comprehensive income	392 589	-	392 589
Other loans and advances to credit institutions	448 035	(111 253)	336 782
Loans and advances to customers	11 796 170	-	11 796 170
Other financial assets at amortised cost	1 255 651	2 161 463	3 417 114
Hedging derivatives	5 666	-	5 666
Non current assets held-for-sale	705 351	-	705 351
Other tangible assets	217 741	-	217 741
Intangible assets	31 657	-	31 657
Investments in subsidiaries and associated companies	346 723	-	346 723
Current tax assets	6 144	-	6 144
Deferred Tax Assets	484 147	-	484 147
Other assets	68 418	-	68 418
Total Assets	**18 272 145**	**2 151 629**	**20 423 774**
Deposits from central banks	1 395 320	-	1 395 320
Financial liabilities held-for-trading	13 496	(1 222)	12 274
Deposits from other credit institutions	1 442 548	-	1 442 548
Deposits from customers	12 626 578	-	12 626 578
Debt securities issued	939 674	(61 343)	878 331
Financial liabilities associated to transfered assets	-	2 214 194	2 214 194
Hedging derivatives	-	-	-
Provisions	30 756	-	30 756
Current tax liabilities	4 241	-	4 241
Deferred tax liabilities	-	-	-
Other subordinated debt	50 044	-	50 044
Other liabilities	191 502	-	191 502
Total Liabilities	**16 694 159**	**2 151 629**	**18 845 788**
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	(830 592)	-	(830 592)
Net profit/ (loss) for the period	2 019	-	2 019
Total Equity	**1 577 986**	**-**	**1 577 986**
Total Liabilities + Equity	**18 272 145**	**2 151 629**	**20 423 774**

(Thousands of Euro)

	Jun 2018	Adjustment	Jun 2018 Restated
Interest and similar income	189 535	28 321	217 856
Interest and similar expense	62 648	28 321	90 969
Net interest income	126 887	-	126 887
Dividends from equity instruments	8 293	-	8 293
Net fee and commission income	58 371	-	58 371
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	(86)	-	(86)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	4 129	-	4 129
Net gains/ (losses) arising from exchange differences	774	-	774
Net gains/ (losses) arising from sale of other financial assets	5 160	-	5 160
Other operating income/ (expense)	(12 946)	-	(12 946)
Total operating income	190 582	-	190 582
Staff costs	80 520	-	80 520
General and administrative expenses	31 565	-	31 565
Depreciation and amortisation	10 856	-	10 856
	122 941	-	122 941
Loans impairment	46 919	-	46 919
Other financial assets impairment	2 597	-	2 597
Other assets impairment	7 917	-	7 917
Other provisions	1 728	-	1 728
Profit before income tax	8 480	-	8 480
Income tax			
Current	(329)	-	(329)
Deferred	(641)	-	(641)
Net profit/ (loss) for the period	7 510	-	7 510

59 Relevant facts

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 Banco Montepio’s strategy of the continued reduction of non-productive assets.

Brick

Caixa Económica Montepio Geral, Caixa económica bancária, S.A. and Banco Montepio Group’s real estate funds have disposed of real estate assets, on 11 July 2019, to the company Façanha Cristalina, S.A. in the gross total value of Euro 105 million, with the associated deed execution process being in progress.

Resignation from the office of director

Mr. Luís Eduardo Henriques Guimarães submitted his resignation from the office of non-executive member of the Board of Directors of Banco Montepio, as well as from the office of President of the Audit Committee.

60 Subsequent events

Banco Montepio 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 authorised 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.

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 pursuant to paragraph c) of No. 1 of article 246 of the Securities Code approved by Decree-Law no. 486/99, dated 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. (CEMG), 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 30 June 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 gives a true account of the evolution of the business, the performance and the position of the institution and of the companies included in the consolidation perimeter.

BOARD OF DIRECTORS

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

Lisbon, 27 September 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 27, Transformation Plan, page 23
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 23
3.	Description of the importance of the activities developed and their contribution to the business (including in quantitative terms).	**MR –** Business Segments, page 27, Financial analysis, page 51, **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 27, Financial analysis, page 51, Risk Management, page 75 **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)
5.	Description of the objective and extent of the involvement of the institution (i.e. commitments and obligations assumed) relative to each activity developed.	
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 75 **FSNO** – Risk Management (NOTE 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 75 **FSNO** – Risk Management (NOTE 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 51

		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 51, Risk Management, page 75 **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 51
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 51 **FSNO** – Financial Statements, page 96
12.	Breakdown of write-downs between realised and unrealised amounts.	**MR** – Financial Analysis, page 51 **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 75 **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 51 **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 75 **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 75 **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 51 **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 75 **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.

ALTERNATIVE PERFORMANCE MEASURES

ALTERNATIVE PERFORMANCE MEASURES

On October 5, 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.

The aforementioned guidelines aim to promote transparency and clarify the relevance of the indicators disclosed by those entities to measure their performance – Alternative Performance Measures (APM) – contributing to improve comparability, credibility and understanding of the APM.

This chapter serves the purpose of complying with the ESMA guidelines on APM related to the first half of 2019 financial reporting, with references to the various chapters of this Report.

BALANCE SHEET AND EXTRAPATRIMONIALS

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS (PAGE 55, 58, 59)

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 97, (notes 23, 25, 27, 24)
Components and calculus	

(thousand euros)

		Jun-18	Dec-18	Jun-19
(a)	Financial assets held for trading	52 450	23 739	47 766
(b)	Financial assets at fair value through other comprehensive income	992 361	444 073	1848 006
(c)	Other financial assets at amortised cost	620 891	1255 651	913 225
(d)	Financial assets at fair value through profit or loss*	488 926	492 594	437 396
(e)	Securities portfolio and other financial assets* (a+b+c+d)	2 154 628	2 216 057	3 246 393
(f)	Total net assets	19 249 242	18 351327	18 694 613
	% Securities portfolio and other financial assets (e / f)	**11.2%**	**12.1%**	**17.4%**

* 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 55)

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 97, (notes 22, 23, 25, 27, 24)
Components and calculus	

(thousand euros)

		Jun-18	Dec-18	Jun-19
(a)	Total net assets	19 249 242	18 351327	18 694 613
(b)	Cash and deposits at central banks and loans and advances to credit institutions	2 092 215	1898 655	1709 922
(c)	Net loans to customers	12 625 830	12 123 212	11660 223
(d)	Financial assets held for trading	52 450	23 739	47 766
(e)	Financial assets at fair value through other comprehensive income	992 361	444 073	1848 006
(f)	Other financial assets at amortised cost	620 891	1255 651	913 225
(g)	Financial assets at fair value through profit or loss	488 926	492 594	437 396
(h)	Other investments(a - b - c - d - e -f - g)	2 376 569	2 113 403	2 078 075
	% of Other investments (h / a)	**12.3%**	**11.5%**	**11.1%**

ISSUED DEBT (PAGE 55, 61, 63)

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 97, (notes 38, 40)
Components and calculus	

(thousand euros)

		Jun-18	Dec-18	Jun-19
(a)	Debt securities issued	1236 072	1093 934	960 618
(b)	Other subordinated debt	120 662	50 044	154 552
(c)	Issued debt (a +b)	1356 734	1143 978	1115 170
(d)	Total liabilities	17 619 716	16 814 394	17 171418
	% of Issued debt (c / d)	**7.7%**	**6.8%**	**6.5%**

COMPLEMENTARY RESOURCES (PAGE 61)

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 97, (notes 35, 36, 37, 38, 40)
Components and calculus	

(thousand euros)

	Jun-18	Dec-18	Jun-19
(a) Total liabilities	17 619 716	16 814 394	17 171 418
(b) Central bank resources and OCI	3 262 711	2 640 755	2 692 664
(c) Customers' resources	12 482 708	12 575 224	12 680 242
(d) Debt securities issued	1 236 072	1 093 934	960 618
(e) Other subordinated debt	120 662	50 044	154 552
(f) Complementary resources (a - b - c - d - e)	517 563	454 437	683 342
% of Complementary resources (f / a)	**2.9%**	**2.7%**	**4.0%**

OFF-BALANCE SHEET RESOURCES (PAGE 62, 63)

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)

	Jun-18	Dec-18	Jun-19
(a) Securities investment funds	164 032	137 984	158 609
(b) Real estate investment funds	279 195	294 536	329 836
(c) Pension funds	223 444	227 964	237 478
(d) Capitalization Insurance	22 319	22 072	6 239
Off-balance sheet resources (a + b + c + d)	**688 990**	**682 556**	**732 162**

INCOME STATEMENT

COMMERCIAL NET INTEREST INCOME (PAGE 65)

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)

	Jun-18	Dec-18	Jun-19
(a) Interest received from loans to customers	167 402	313 856	143 374
(b) Interest paid on customers' deposits	32 872	56 912	19 636
Commercial net interest income (a - b)	**134 530**	**256 944**	**123 738**

OPERATING COSTS (PAGE 69, 70)

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 96, (notes 11, 12, 13)
Components and calculus	

(thousand euros)

	Jun-18	Dec-18	Jun-19
(a) Staff costs	84 218	156 004	77 854
(b) General and administrative expenses	36 381	77 726	31 206
(c) Depreciation and amortisation	12 099	25 897	16 379
Operating costs (a + b + c)	**132 698**	**259 627**	**125 439**

RESULTS FROM THE COMMERCIAL ACTIVITY (PAGE 65)

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 96, (notes 3, 5, 11, 12, 13)
Components and calculus	

(thousand euros)

	Jun-18	Dec-18	Jun-19
(a) Commercial net banking income	134 530	256 944	123 738
(b) Net commissions	57 399	118 399	57 689
(c) Operating costs	132 698	259 627	125 439
Results from the commercial activity (a + b - c)	**59 231**	**115 716**	**55 988**

RATIOS

CTD RATIO: NET LOANS TO CUSTOMERS / ON-BALANCE SHEET CUSTOMERS' RESOURCES (PAGE 8, 52, 53)

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 97, (notes 22, 37, 38)
Components and calculus	

(thousand euros)

	Jun-18	Dec-18	Jun-19
(a) Net loans to customers	12 625 830	12 123 212	11 660 223
(b) Customers' resources	12 482 708	12 575 224	12 680 242
(c) Debt securities issued	1 236 072	1 093 934	960 618
Net loans to customers / On-balance sheet customers' resources (a / (b + c))	**92.0%**	**88.7%**	**85.5%**

EFFICIENCY RATIO: COST TO INCOME, WITHOUT SPECIFIC IMPACTS (PAGE 8, 70)

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 96, (notes 6, 7, 8, 9, 10, 11, 12, 13)
Components and calculus	

(thousand euros)

		Jun-18	Dec-18	Jun-19
(a)	Total operating income	200 678	377 352	182 228
(b)	Results from financial operations (i + ii + iii)	5 164	10 899	(372)
(i)	Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	1956	12 273	2 260
(ii)	Net gains / (losses) from financial assets at fair value through other comprehensive income	4 001	5 626	(2 902)
(iii)	Net gains / (losses) from foreign exchange differences	(793)	(7 000)	270
(c)	Other income (i + ii)	(4 058)	(8 130)	(1350)
(i)	Net gains / (losses) arising from the sale of other financial assets	5 499	9 075	16 714
(ii)	Other operating income / (expenses)	(9 557)	(17 205)	(18 064)
(d)	Operating costs	132 698	259 627	125 439
	Cost-to-Income, excluding specific impacts ((d) / (a - b - c))	**66.5%**	**69.3%**	**68.2%**

COST OF CREDIT RISK (PAGE 8, 70)

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)

		Jun-18	Dec-18	Jun-19
(a)	Loan impairments (annualized[1])	92 445	73 191	84 697
(b)	Average gross loans to customers[2]	13 944 009	13 709 146	12 834 021
	Cost of credit risk (a / b)	**0.7%**	**0.5%**	**0.7%**

1) Annualized values considering the total number of days elapsed and total days of the year.
2) Average balance for period (Jun-18: 365 days / Dec-18: 365 days / Jun-19: 365 days).

RATIO OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS (PAGE 8, 82, 83)

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)

	Jun-18	Dec-18	Jun-19
(a) Loans and interest overdue by more than 90 days	1 024 725	913 885	862 843
(b) Gross loans to customers	13 726 895	13 067 788	12 578 096
Ratio of loans and interest overdue by more than 90 days (a / b)	**7.5%**	**7.0%**	**6.9%**

COVERAGE OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS BY IMPAIRMENT FOR BALANCE SHEET LOANS (PAGE 8, 82, 83)

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)

	Jun-18	Dec-18	Jun-19
(a) Impairment for balance sheet loans	1 101 065	944 576	917 873
(b) Loans and interest overdue by more than 90 days	1 024 725	913 885	862 843
Coverage of loans and interest overdue by more than 90 days (a / b)	**107.4%**	**103.4%**	**106.4%**

NON-PERFORMING EXPOSURES / GROSS LOANS TO CUSTOMERS (PAGE 8, 82, 83)

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)

	Jun-18	Dec-18	Jun-19
(a) Stock of Non-performing exposures	2 168 302	1 879 079	1 848 601
(b) Gross customer loans	13 726 895	13 067 788	12 578 096
Non-performing exposures / Gross loans to customers (a / b)	**15.8%**	**14.4%**	**14.7%**

Coverage of Non-performing exposures by Impairment for balance sheet loans (Page 8, 57, 81, 82)

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)

	Jun-18	Dec-18	Jun-19
(a) Impairment for balance sheet loans	1 101 065	944 576	917 873
(b) Stock of Non-performing exposures	2 168 302	1 879 079	1 848 601
Coverage of Non-performing exposures by Impairment for balance sheet loans (a / b)	**50.8%**	**50.3%**	**49.7%**

Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees (Page 8, 57, 81, 82)

Definition	Ratio that measures the proportion between the sum of the impairment for loans accumulated on the balance sheet and associated collaterals and financial guarantees in relation to the balance of non-performing exposures (NPE, according to EBA's definition).
Relevance	Assess the institution’s capacity to absorb the potential losses arising from the NPE portfolio.
Reference to FSNO	(note 55)
Components and calculus	

(thousand euros)

	Jun-18	Dec-18	Jun-19
(a) Impairment for balance sheet loans	1 101 065	944 576	917 873
(b) Associated collaterals and financial guarantees	813 822	675 440	614 594
(c) Stock of Non-performing exposures	2 168 302	1 879 079	1 848 601
Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees ((a + b) / c)	**88.3%**	**86.2%**	**82.9%**

Forborne exposures / Gross customer loans (Page 8, 57, 81, 82)

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)

	Jun-18	Dec-18	Jun-19
(a) Stock of Forborne exposures	1 044 004	941 589	941 698
(b) Gross customer loans	13 726 895	13 067 788	12 578 096
Forborne exposures / Gross loans to customers (a / b)	**7.6%**	**7.2%**	**7.5%**

EXTERNAL AUDITOR LIMITED REVIEW REPORTS

Review Report on the Interim Condensed Consolidated Financial Statements

(Free translation from the original in Portuguese)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("Banco Montepio"), which comprise the interim condensed consolidated balance sheet as at 30 June 2019 (which shows total assets of Euros 18.694.613 thousand and total shareholder's equity of Euros 1.523.195 thousand, including non-controlling interests of Euros 14.541 thousand and a net profit of Euros 3.603 thousand), the interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and the accompanying explanatory notes to these condensed consolidated financial statements.

Management's responsibility

The Management is responsible for the preparation of the condensed consolidated financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union, as well as to create and maintain appropriate systems of internal control to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the accompanying condensed consolidated financial statements. We conducted our review in accordance with ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Those standards require that we conduct the review in order to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

A review of financial statements is a limited assurance engagement. The procedures performed mainly consist of making inquiries and applying analytical procedures, and evaluating the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs). Accordingly, we do not express an opinion on these consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that accompanying condensed consolidated financial statements of Caixa Económica Montepio Geral, caixa económica bancária, S.A. as at 30 June 2019 are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

30 September 2019

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
representada por:

José Manuel Henriques Bernardo, R.O.C.

(This is a translation, not to be signed)

Review Report on the Interim Condensed Financial Statements

(Free translation from the original in Portuguese)

Introduction

We have reviewed the accompanying interim condensed financial statements of Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("Banco Montepio"), which comprise the interim condensed individual balance sheet as at 30 June 2019 (which shows total assets of Euros 20.784.671 thousand and total shareholder's equity of Euros 1.568.955 thousand, including a net profit of Euros 1.570 thousand), the interim condensed individual statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and the accompanying explanatory notes to these condensed financial statements.

Management's responsibility

The Management is responsible for the preparation of the condensed financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union, as well as to create and maintain appropriate systems of internal control to enable the preparation of condensed financial statements that are free from material misstatement, whether due to fraud or error.

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30 September 2019

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