31 JULY 2020

First Half 2020: Activity and Results[1]

Banco Montepio's activity in the first half of 2020 was influenced by the impact of the exceptional measures adopted to address the constraints caused by the Covid-19 pandemic and by the adjustment process, currently underway, aiming at accelerating the digital transition, adjusting the service model and increasing the Bank's efficiency.

As a result of 176 years serving households, companies and third sector entities, Banco Montepio, a private banking institution, 100% owned by Portuguese capital, which has never been supported by public funds, maintains a specific division to develop the activity in the Social Economy area, which goal is to be increasingly closer to and make the difference in the lives of all Portuguese.

In this context, on the day the confinement regime was announced, Banco Montepio launched the "*Conta Acordo*", a treasury support line in the Covid-19 context targeted at social economy institutions, through which it has already supported more than 200 entities. It is also important to mention that at a moment volunteering played an important role in the economy and in society, Banco Montepio once again took action and immediately presented all private social solidarity institutions with a new insurance solution – "*Seguro Voluntários Por Todos*" - aiming at safeguarding and protecting all those who stand in the front line of the fight against the pandemic.

[1] The financial statements for the first half of 2020 are unaudited

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Given the situation the country was facing in March, Banco Montepio immediately made available a set of emergency support for households, such as doubling the salary account facility ceiling and increasing the credit card limit for private customers, and a short-term credit line for companies, with a maturity of up to six months, even before the government guaranteed lines were made available.

At the same time Banco Montepio's teams worked continuously in order to make it available to all its customers, on the first working day after the confinement decree, an innovative and fully digital solution that allowed to apply to the loan moratorium, safely and without having to visit a branch, through four steps only: formal request to apply to the moratorium, documents delivery through web portal, electronic signature and automatic activation of the moratorium.

Between 27 March and 30 June, Banco Montepio granted 34,000 moratoriums (in a total outstanding amount of €3Bn), of which 20,500 were granted to households and 13,500 to companies.

The support to the Portuguese businesses and companies is part of the foundations of Banco Montepio. Between April and June of the current year, five specific government guaranteed lines were created to support companies: (i) *Apoio à economia*; (ii) *Capitalizar 2018 Covid-19*; (iii) *Investe RAM*; (iv) *Capitalizar 2018*; (v) *Açores Covid-19*. We have supported more than 1,250 national companies through these credit lines.

Banco Montepio is proud to have been at the forefront in supporting all Portuguese, both through the digital channels and the branch network, having always kept at least one open branch in all municipalities where it is established. This initiative was only possible thanks to the dedication, delivery and resilience of the more than 3,600 employees that constantly supported all Banco Montepio's clients.

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In order to preserve the safety of all Banco Montepio employees, more than 1,400 people started teleworking and the bank made an investment of more than €2Mn in individual protection kits and in promoting the required workstations adjustments.

In the first half of 2020, Banco Montepio recorded €109.4Mn of loan impairments resulting from the increase in credit risk due to the Covid-19 pandemic and from the reinforcement of the levels of impairment. This was the driver for the negative net income of €51.3Mn.

Profitability and efficiency

- Negative consolidated net income of €51.3Mn, reflecting the impairment reinforcement for credit risks determined by the adverse impact of the Covid-19 pandemic on economic agents;
- Core operating income[2] of €178.3Mn;
- Operating costs of €127.5Mn;
- Digital transition acceleration and service model adjustment in order to increase efficiency.

Asset quality

- The non-performing exposures (NPE) on total gross loans stood at 11.9%, comparing favourably with the ratio for the same period in 2019;
- Cost of risk of 1.8%, reflecting the reinforcement of impairments in the context of the Covid-19 pandemic, with the NPE coverage by impairments increasing to 58.4%, and to 89.8% if related collaterals are also considered.

[2] Core operating income: net interest income and commissions, excluding the impact of subordinated debt interest.

Capital

- Total capital ratio of 13.5%, benefitting from the issue of €50Mn of subordinated debt and from the decrease in RWAs, but penalised by the effects of Covid-19.

Core business performs at a good pace

- Gross loans to customers of €12.4Bn, increasing 1.4% compared to the end of 2019, reversing the trend recorded in previous quarters, benefiting from the rise in the corporate segment loans;
- Customer deposits totalled €12.4Bn, benefiting from the evolution of sight deposits, which increased 10.3% in comparison to the same period of 2019 due to the contribution of households' deposits.

Net Income

The **consolidated net income** for the first half of 2020 was -€51.3Mn, compared with €3.6Mn recorded in the same period of 2019. The net income for the first half of 2020 was determined by the higher level of impairments and provisions following the downward revision of the macroeconomic scenario due to the impact of Covid-19 on economic agents, both on individuals and on companies.

In what regards **core operating income**, taking into consideration the net interest income and commissions and excluding the interest on subordinated debt issued, there was a moderate decrease of 2.2% from €182.3Mn in the first half of 2019 to €178.3Mn in the first half of 2020, despite the strong reduction in the economic activity levels observed during the second quarter of 2020.

Net interest income amounted to €114.7Mn in the first half of 2020, compared to €120.1Mn in the same period of the previous year, reflecting the unfavourable effects from exogenous factors related to the Covid-19 pandemic, which led to lower levels of activity in households and corporate customers, and also from market interest rates remaining at very low levels. Nevertheless, the evolution of **net interest income** in the first half of 2020 benefited from the households and institutional customers' deposits pricing systematic management, which resulted, in both cases, in a reduction in the cost of these resources when comparing with the same period of 2019.

Net commissions accounted in the first half of 2020 decreased from €57.7Mn in the first half of 2019 to €56.1Mn in the first half of 2020, as they incorporated the effect of the reduction in the economic activity in the second quarter of this year.

Results from financial operations totalled €7.2Mn in the first half of 2020, evolving favourably from the negative amount of €0.4Mn recorded in the same period of 2019, and reflecting the gains on the sale of sovereign and private debt bonds realised during the first quarter of 2020, among others.

Other operating results changed from -€1.4Mn in the first half of 2019 to -€10.8Mn recorded in the first half of 2020, showing, mainly, the effect of the recognition of €9.7Mn of gains accounted in the first half of 2019 from the sale of assets recorded at the amortised cost portfolio.

Operating costs amounted to €127.5Mn in the first half of 2020 in comparison to €124.5Mn in the same period of 2019, showing the impacts of salary updating and investments made in renovation and technological modernisation within the scope of the digital transformation that Banco Montepio has underway, despite the synergies obtained in the renegotiation of some contracts, particularly in consultancy and in property conservation and repair.

The **loan impairments** recorded in the first half of 2020 reached €109.4Mn, revealing an increase of €67.4Mn when compared to the same period of 2019, as a result of the increase in credit risk determined by the Covid-19 pandemic and of the increase in impairment levels for some defaulted credit exposures.

The aggregate of **other impairments and provisions**, related to other financial assets, other assets and provisions, amounted to €12.8Mn in the first half of 2020 and compare with the amount of €5.2Mn recorded in the same period of 2019, as a result of the increase in credit risk, including debt instruments and real estate received in foreclosures.

Total current and deferred taxes for the first half of 2020 and 2019 was assessed by taking into consideration the elements that contributed to the formation of results and the relevant tax framework, namely in what regards the constitution and reversal of temporary differences and the identification of permanent differences, with emphasis on the contribution of the banking sector as it is not accepted for tax purposes as a cost.

The contribution of **discontinuing operations** in the first half of 2020, after deducting non-controlling interests, stood at €5.0Mn, an increase when comparing to the €4.7Mn accounted in the same period of 2019, reflecting the good performance recorded by Finibanco Angola in the period under review.

Balance sheet

On 30 June 2020, **total assets** stood at €17,882Mn, which compares to €18,695Mn recorded on the same date of 2019, reflecting the decrease in the loan portfolio and in cash and deposits at central banks, and the increase in investments in securities.

Net **loans to customers** stood at €11,554Mn at the end of the first half of 2020, showing an increase of €90Mn when compared with the amount recorded at the end of 2019 and maintaining the reversal of the downward trend seen in previous quarters. In the first half of 2020, credit granted to companies rose by €329Mn, fulfilling the envisaged target of increasing the SMEs and "middle market" companies business volume through the Group's dedicated structures: Banco Montepio's branch network and Banco Empresas Montepio (BEM).

The favourable evolution of loans to customers in the first half of 2020 was achieved in compliance with a prudent credit risk underwriting policy, which, together with a set of measures that were implemented in the areas of monitoring and credit recovery, contributed to an improvement in the credit portfolio quality indicators.

Regarding the quality of the loan portfolio (assessed by the weight of non-performing exposures (NPE) over total gross loans), there was a favourable evolution of the **NPE ratio** from 12.2% on 31 December 2019 to 11.9% at the end of the first half of 2020.

In the first half of 2020, as a result of the update of macroeconomic scenarios due to the pandemic determined by Covid-19, a significant reinforcement of impairments related to the loan portfolio was carried out, which contributed to the strengthening of the NPE coverage by impairments.

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As a result, the **NPE coverage by impairments** evolved from 52.1% at the end of 2019 to 58.4% on 30 June 2020. However, the coverage of NPE reached 89.8% at the end of the first half of 2020 if we consider, in addition to impairments, the collaterals and associated financial guarantees.

Customer deposits amounted to €12,422Mn as at 30 June 2020, compared with €12,680Mn on the same date of 2019, being the evolution driven by the decrease recorded in some institutional customers and the increase observed in the individual and SME segments.

Customers' deposits also benefited from the sensible management of the price component, which, together with the increase in the amount of sight deposits, contributed favourably to the performance of net interest income in the first six months of 2020, despite interest rate benchmarks being at their lowest historically levels.

The change recorded in **equity** also shows the impact from exogenous factors, namely the foreign exchange and the fair value reserves evolution, the latter due to the realisation of gains with the sale of securities, which together caused a decrease of €39.9Mn in the first half of 2020.

Equity changed from €1,452Mn at the end of 2019 to €1,359Mn at 30 June 2020, reflecting, in addition to the effects described above, the accounting of negative net income for the first half of 2020 in the amount of €51.3Mn. Not as material, it was recorded a Pension Fund positive actuarial deviation of €5.3Mn, and the domestic issue "Finibanco Valor Invest 2010" in the amount of €6.3Mn was reclassified as subordinated liabilities, following the deliberation of the General Assembly held on 30 June 2020.

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Capital

The **total capital ratio** at the end of the first half of 2020 stood at 13.5% benefiting from the positive effects of the €50Mn subordinated debt issue and of the entry into force of Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, which more than offset the net income reduction recorded in the second quarter.

Risk weighted assets (RWA) recorded a decrease of €125Mn at the end of the first half of 2020, when compared to the value recorded on 31 March 2020, as a result of the ongoing balance sheet management and also due to the entry into force of the above-mentioned Regulation, namely at the level of the adjustment factor related to exposures to small and medium-sized companies.

The capital ratios at 30 June 2020 also include the exogenous adverse effects brought about by the Covid-19 pandemic that produced unfavourable impacts through the Angolan Kwanza and the Brazilian Real devaluation, as well as the negative effect determined by the evolution of deferred tax assets.

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Key Indicators

	Jun-19	Jun-20	Change
ACTIVITY AND RESULTS (€ million)			
Total assets	18,695	17,882	(4.3%)
Loans to customers (gross)	12,578	12,417	(1.3%)
Customers' deposits	12,680	12,422	(2.0%)
Net income	3.6	(51.3)	(<-100%)
SOLVENCY (a)			
Common Equity Tier 1 ratio	13.7%	11.5%	(2.2 p.p.)
Total Capital ratio	15.2%	13.5%	(1.7 p.p.)
Risk weighted assets (€ million)	10,429	10,154	(2.6%)
LIQUIDITY RATIOS			
Loans to customers (net) / Customers' deposits (b)	92.0%	93.0%	1.0 p.p.
Loans to customers (net) / On-balance sheet customers' resources (c)	86.5%	84.4%	(2.1 p.p.)
ASSET QUALITY			
Cost of credit risk	0.7%	1.8%	1.1 p.p.
Non-performing exposures (NPE) (d) / Gross Loans to customers	14.7%	11.9%	(2.8 p.p.)
NPE (d) coverage by balance sheet loan Impairments	49.7%	58.4%	8.7 p.p.
NPE (d) coverage by balance sheet loan Impairments and associated collaterals and financial guarantees	82.9%	89.8%	6.9 p.p.
PROFITABILITY AND EFFICIENCY			
Total operating income / Average total assets (b)	2.0%	1.9%	(0.1 p.p.)
Net income before income tax / Average total assets (b)	0.2%	0.9%	0.7 p.p.
Net income before income tax / Average total equity (b)	1.9%	(10.7%)	(12.6 p.p.)
Cost-to-income (Operating costs / Total operating income) (b)	68.8%	75.5%	6.7 p.p.
Cost-to-Income, excluding specific impacts (e)	68.2%	73.9%	5.7 p.p.
Staff costs / Total operating income (b)	42.7%	46.7%	4.0 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)			
Employees			
Group Banco Montepio total	3,937	3,962	25
Banco Montepio	3,552	3,563	11
Branches			
Domestic network - Banco Montepio	329	328	(1)
International Network (f)	24	24	0
Representation Offices - Banco Montepio	5	5	0

(a) Pursuant to CRD IV / CRR (phasing-in). The ratios include the net income of 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.

(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.

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Consolidated Income Statement

(million euro)	Jun-19	Jun-20	Change €	Change %
Interest and similar income	164.5	146.2	-18.3	-11.1%
Interest and similar expense	44.4	31.5	-13.0	-29.2%
NET INTEREST INCOME	**120.1**	**114.7**	**-5.4**	**-4.5%**
Dividends from equity instruments	6.2	1.7	-4.5	-72.5%
Net fee and commission income	57.7	56.1	-1.6	-2.7%
Net gains/(losses) from financial operations	-0.4	7.2	7.5	>100%
Other operating results	-1.4	-10.8	-9.5	<-100%
TOTAL OPERATING INCOME	**182.2**	**168.9**	**-13.4**	**-7.3%**
Staff Costs	77.9	78.8	1.0	1.2%
General and administrative expenses	31.2	32.5	1.3	4.1%
Depreciation and amortization	16.4	16.2	-0.2	-1.3%
OPERATING COSTS	**125.4**	**127.5**	**2.1**	**1.6%**
Loan impairments	42.0	109.4	67.4	>100%
Other financial assets impairments	3.1	5.6	2.5	81.5%
Other assets impairments	3.4	5.5	2.1	62.6%
Provisions net of reversals and annulments	-1.3	1.8	3.1	>100%
Share of profit of associates under the equity method	0.0	-0.3	-0.3	<-100%
EARNINGS BEFORE TAX AND NON-CONTROLLING INTERESTS	**9.6**	**-81.2**	**-90.8**	**<-100%**
Tax	10.7	-24.9	-35.6	<-100%
Non-controlling interests	1.2	1.2	0.1	6.2%
Profit/(loss) from discontinuing operations	5.9	6.2	0.4	6.4%
NET INCOME	**3.6**	**-51.3**	**-54.9**	**<-100%**

Caixa Económica Montepio Geral, Savings Bank, Public Limited Liability Company, Head Office: Rua Castilho, 5, 1250-066 Lisboa
Share Capital: 2.420,000,000 Euros, Registered with the Lisbon Commercial Registry Office under the sole commercial registration and taxpayer number: 500 792 615

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Consolidated Balance Sheet

(million euro)	Dec-19	Jun-20	Change €	Change %
Cash and deposits at central banks	1,004	915	-89	-8.8%
Loans and advances to credit institutions repayable on demand	29	49	20	66.4%
Other loans and advances to credit institutions	276	287	11	4.1%
Loans and advances to customers	11,465	11,554	89	0.8%
Financial assets held for trading	36	44	8	22.5%
Financial assets at fair value through profit or loss (FVPL)	385	372	-13	-3.3%
Financial assets at fair value through other comprehensive income (FVOCI)	1,860	1,199	-661	-35.5%
Hedging derivatives	11	15	4	34.6%
Other financial assets at amortised cost	899	1,704	805	89.5%
Investments in associates	4	4	0	-9.9%
Non-current assets held for sale - Discontinuing operations	217	179	-38	-17.3%
Investment properties	145	135	-10	-6.8%
Property and equipment	248	243	-5	-2.2%
Intangible assets	34	34	0	0.5%
Current tax assets	15	12	-3	-21.5%
Deferred tax assets	435	466	31	7.2%
Other Assets	678	670	-8	-1.2%
TOTAL NET ASSETS	**17,740**	**17,882**	**142**	**0.8%**
Deposits from central banks	1,291	1,637	346	26.8%
Deposits from other financial institutions	522	535	13	2.5%
Deposits from customers	12,525	12,422	-103	-0.8%
Debt securities issued	1,390	1,327	-63	-4.5%
Financial liabilities held for trading	13	13	0	-2.8%
Hedging derivatives	1	1	0	82.8%
Non-current liabilities held for sale – Discontinuing operations	134	96	-38	-28.6%
Provisions	32	33	1	4.3%
Current tax liabilities	2	2	0	12.2%
Other subordinated debt	158	211	53	33.7%
Other liabilities	221	246	25	11.5%
TOTAL LIABILITIES	**16,288**	**16,523**	**235**	**1.4%**
Share Capital	2,420	2,420	0	0.0%
Other equity instruments	6	0	-6	-100.0%
Other reserves and retained earnings	-1,008	-1,021	-13	-1.3%
Consolidated net profit/ (loss) for the period attributable to the shareholders	22	-51	-73	-335.2%
Total equity attributable to the shareholders	1,440	1,348	-92	-6.4%
Non-controlling interests	12	11	-1	-4.8%
TOTAL EQUITY	**1,452**	**1,359**	**-93**	**-6.4%**
TOTAL LIABILITIES AND EQUITY	**17,740**	**17,882**	**142**	**0.8%**

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Disclaimer

The financial information contained in this document was prepared in accordance with the national and international financial reporting standards ("IFRS") of Banco Montepio, as part of the preparation of the consolidated financial statements.

The information contained in this document is merely informative and should be read in conjunction with all other information Banco Montepio has made public.

The figures presented do not constitute any kind of commitment on the part of Banco Montepio with regard to future results.

The figures and financial information now disclosed are unaudited.

Additional information: https://www.bancomontepio.pt/investor-relations

Contacts:

Banco Montepio

Gabinete do Conselho de Administração
Investor Relations
T. +351 210 002 520
E. investors@montepio.pt
https://www.bancomontepio.pt/investor-relations

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